

Business Insurance

Court rejects claim AIG unfairly winning Golden Eagle clients

SAN FRANCISCO—American International Group Inc. is not using insider information it obtained in bidding for Golden Eagle Insurance Co. to compete for business written by the troubled insurer, a California judge has ruled.

San Francisco Superior Court Judge William Cahill rejected a June 11 motion filed by the California Insurance Department and Liberty Mutual Insurance Co. seeking to stop AIG from soliciting small and middle-market business using Golden Eagle pro-

See Updates on next page

Reporting Weekly on Corporate Risk, Employee Benefit and Managed Health Care News / \$4

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California OKs new standard on ergonomics

By ROBERTO CENICEROS

SACRAMENTO, Calif.—While some employers are poised for a court fight to block the nation's first ergonomics standards from taking effect July 3 in California, other companies are not getting worked up over the new rules.

The California Occupational Safety and Health Standards Board regulations cleared a final hurdle on June 3, when the state Office of Administrative Law granted its approval. But the new rules still face a Sept. 5 court hearing in which labor and employers plan to contest their implementation.

Some employers that have made worksite improvements to reduce ergonomic-related injuries believe they already are in compliance with the standards. But other employers that have ergonomic programs are unhappy about potentially having to bolster their existing programs to comply with vague, untested regulations, risk managers said. Still others don't see a need for regulations on ergonomics.

The regulations apply to all employers that have operations within the state. Employers nationwide also are watching the regulations because the federal

Occupational Safety and Health Administration is monitoring what happens in California before proceeding with its own ergonomics efforts.

However, the federal agency is stalled on the issue. If OSHA takes anything from California, it probably will wait to see if anything evolves that is palatable to labor and industry, said Lance Ewing, loss control administrator for the School District of Philadelphia and chairman of the Risk & Insurance Management Society Inc.'s Health and Safety Committee.

California's new regulations apply to any job or operation where a repetitive motion injury has occurred in at least two employees performing identical activities. The injuries must be reported within 12 months of each other, and a licensed physician must have "objectively identified and diagnosed" them as musculoskeletal-related.

All federal agencies and companies with nine or fewer employees are exempted. Injuries occurring before July 3, 1997, are excluded.

The regulations require employers whose workers have such injuries to implement a

See Ergonomics on page 33

SAFECO bids \$2.8 billion for American States

By JUDY GREENWALD

SEATTLE—SAFECO Corp.'s \$2.8 billion acquisition of Indianapolis-based American States Financial Corp., announced last week, will create the 12th largest property/casualty insurer in the United States.

The acquisition will give SAFECO its desired stake in small to medium-sized commercial business and extend its geographic strength from the West to the Midwest.

Fort Wayne, Ind.-based Lincoln National Corp., which now owns 83.3% of American States' common stock, will use the proceeds of the sale to focus on life insurance and its other asset accumulation businesses.

Combined, SAFECO and American States had 1996 revenues of \$5.9 billion. The deal is expected to

See SAFECO on page 34

By the numbers

1996	SAFECO Corp.	American States Financial Corp.
Net premiums:	\$2.31 billion	\$1.6 billion*
Policyholder surplus:	\$2.14 billion	\$966 million
Net income:	\$439 million	\$169.7 million
Combined ratio:	98.3%	105.8%*

* Statutory
Source: BI survey

GRAPHIC BY ADAM DOI

Restructuring liabilities NAIC white paper urges protections for policyholders

By MEG FLETCHER

CHICAGO—States should only approve liability-based restructurings of insurers that protect policyholders' rights—including requiring prior consent and preserving guaranty fund protection—a panel of the National Assn. of Insurance Commissioners recommends.

Although the NAIC white paper discussing the issue does not specifically address the controversy surrounding recent restructurings by CIGNA Corp. and The Home Insurance Co., some observers say the deals would have run afoul of some of the paper's recommendations.

Protecting policyholders is one of several goals that regulators must weigh as they evaluate the pros and cons of liability-based

restructurings, notes the final draft of a 29-page paper released last week at the NAIC's summer meeting in Chicago.

Regulators also must evaluate the goals and rights of insurers

NAIC

that support or oppose any liability-based restructuring. In addition, they must consider the impact on guaranty funds to properly assess the broad regulatory, legal and public policy issues that arise when a property/casualty insurer proposes such a restructuring, the final draft concludes.

Regulators have adequate authority to do this job, so no new model laws are needed at this

time, the white paper says.

However, the NAIC should review existing model laws on guaranty funds, assumption reinsurance and holding companies to determine whether they need to be modified to respond to liability-based restructurings, or LBRs, as they are called in the white paper.

The final version of the white paper, authored by a panel of insurance commissioners or their staff representatives, was adopted unanimously last week by both its drafting group and the NAIC's Financial Condition Subcommittee. It is scheduled to be approved by the NAIC's Executive Committee in September and by the organization's entire membership in December.

"We feel very strongly that this

See NAIC on page 31

Law panel offers new rule for design defect cases

Plaintiffs attorneys fear product liability harder to prove

By MICHAEL PRINCE

NEW YORK—A new standard for product liability suits adopted by a prominent legal scholars' group could make it more difficult for plaintiffs to win their suits in some states.

The American Law Institute voted last month to grant final approval to the "Restatement Third of Torts: Products Liability," the first revision of the seminal work on tort law in more than 30 years.

The ALI is a Philadelphia-based organization of lawyers, judges

and law professors. The institute publishes restatements, which are treatises on various areas of the law that judges and lawyers often cite as authoritative documents on a given subject.

Under the Restatement, plaintiffs would be required to show that an alternative design would not only have been reasonable but also would have made the product safer overall.

The authors of the restatement say this standard is already in effect in most states.

But if adopted by states that

have a lesser standard, "it will be a more difficult test to meet," said Alan Lazarus, a partner with Preuss, Walker & Shanagher L.L.P. in San Francisco who represents defendants in product liability suits.

However, some plaintiffs attorneys and legal scholars contend that the restatement will make it excessively difficult for plaintiffs in many states to win their suits claiming a product suffers from a design defect.

According to its critics, the rea-

See Restatement on page 33

Safety standards

California's ergonomics standards will apply to companies* where more than one employee has suffered a repetitive motion injury. Employers will have to:

- Design and implement a program to minimize RMIs.
- Evaluate each job, process or work activity for RMI exposures.
- Correct or minimize all RMI exposures in a "timely manner."
- Educate employees on typical RMI exposures, symptoms and injuries and also on how the employer is minimizing those risks.
- Demonstrate that no other measures are available that would provide a greater reduction in RMI injuries without "unreasonable" costs.

Source: California Occupational Safety and Health Standards Board
* Companies with fewer than 10 workers are exempt.

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Updates

Injunction against AIG denied

Continued from previous page
ducer lists.

AIG obtained the lists after it won a sealed bid for Golden Eagle in April. However, the New York-based insurer has yet to return those lists to the department since the court turned Golden Eagle over to Liberty Mutual last month, the motion said. AIG has not returned the documents nor informed the commissioner of its intent to destroy them, according to the motion.

But AIG claimed in a counter-motion that it did not use the Golden Eagle documents but had solicited business using Kirschner's, a commercial marketing service that compiles, maintains and publishes lists of independent agents. AIG further argued that the motion to stop it is "nothing but an attempt to enjoin open and fair competition."

Insurance Department officials were not available for comment.

Pension reform plans offered

WASHINGTON—Two pension plan reform proposals were unveiled last week.

A bipartisan group of senators introduced The Retirement Security for the 21st Century Act, S. 889. It includes provisions that would: reduce the maximum vesting period for matching employer contributions to defined contribution plans to three years from the current five; allow employees granted unpaid maternity or paternity leave to make up any 401(k) contributions missed during their leave without affecting the plan's qualified status; encourage small businesses to set up 401(k) plans; encourage rollovers when employees change jobs; eliminate certain reporting requirements; and expand the Pension Benefit Guaranty Corp.'s missing participant program.

The measure also calls for requiring annual benefit statements to be distributed to participants in a defined contribution plan while participants in defined benefit plans would be entitled to a statement at least once every three years.

The measure is expected to be offered as an amendment to a tax reduction package scheduled to be considered this week by the Senate Finance Committee.

Also last week, Labor Secretary Alexis Herman unveiled the Labor Department's pension reform agenda, which includes: repealing "limited scope audits" for pension plans with 100 or more participants; requiring quality control reviews for auditors; requiring direct reporting by plan administrators of "egregious" violations; eliminating some reporting requirements; and expanding the PBGC's program to find missing beneficiaries.

Currently plan administrators can exclude assets held by financial institutions such as banks and insurers from the mandatory annual audit by choosing the so-called "limited scope audit." When this is done, "the department, plan sponsors and participants cannot tell whether plan assets are secure," Ms. Herman said. About half of the largest 65,000 plans currently undergo the limited audit, she noted.

N.J. Blues, Anthem merger fails

NEWARK, N.J.—Blue Cross & Blue Shield of New Jersey will continue trying to shed its non-profit status despite the collapse last week of its merger with for-profit Anthem Inc.

The New Jersey plan had sought to become a mutual health insurer and to merge with Anthem's vast managed health care network.

Indianapolis-based Anthem and the New Jersey BC/BS plan announced last year that they would merge to create a company with \$9 billion in revenues and 7 million subscribers in New Jersey, Indiana, Kentucky and Ohio.

But legal action by New Jersey officials, who claim the plan owes residents for years of special tax exemptions and other concessions as a non-profit entity, delayed the merger.

"Right now the company is committed to mutualizing, and the company will continue to pursue that," a New Jersey plan spokesman said. However, the merger agreement with Anthem was to expire June 30 and could not have been consummated in time.

A merger with the New Jersey Blues, even if regulators can be persuaded, could take two or three years, an Anthem spokesman said. "At this time, the fight is not an Anthem fight," he said. "They have to mutualize before they can merge with us."

Riscorp shakes up operations

SARASOTA, Fla.—Beleaguered workers compensation insurer Riscorp Inc. is closing offices, restricting underwriting, reducing its workforce and has named new top managers.

Riscorp, a holding company for several managed care workers comp underwriting and service units, is closing offices in Fort Lauderdale, Fla.; Montgomery, Ala.; Oklahoma City; Kansas City, Kan.; Atlanta; and Richmond, Va. Operations will be consolidated in regional offices in Sarasota, serving Florida; Birmingham, serving Alabama; and Charlotte, serving North Carolina, South Carolina and Georgia.

Riscorp will stop writing new business in Oklahoma, Kansas, Missouri and Virginia, although it will maintain its licenses. The business will be run off by its Birmingham and Charlotte offices.

Riscorp also is laying off 141 of its 836 employees, a 17% staff reduction that will cut payroll 28% because many of the jobs eliminated are executive positions, the company said.

Frederick M. Dawson, who joined the company as chief executive officer in May, also assumes the title of president. James A. Malone has resigned as president and chief operating officer.

Richard B. Franz, who also joined Riscorp in May as senior vp and chief financial officer, resigned and has been replaced by Stephen C. Rece, a Riscorp senior vp who also oversees the company's reinsurance programs.

In addition, Walter E. Riehemann, former acting general counsel, has been named general counsel; and Gregory P. Kuzma, senior vp, has been

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Malpractice reforms clear House panel

By MARK A. HOFMANN

WASHINGTON—Medical malpractice reform advocates are looking to a Medicare funding bill as a means to provide broad-ranging liability relief for medical practitioners.

The measure, which enjoys bipartisan support in the House,

won the approval of the Ways & Means Committee last week. The liability reforms are part of a series of initiatives designed to keep Medicare solvent for at least another decade.

But in spite of the broad House support for the reform measure, the head of a coalition of medical providers, insurance companies

and other reform backers warns that the going could be rougher in the Senate.

The measure would set uniform standards for health care liability actions regardless of whether Medicare payments are involved or not. Under the bill—put together by Rep. Bill Thomas, R-

See Reforms on page 4

Asbestos, environmental costs plunge for insurers in '96: ISO

By DAVE LENCKUS

NEW YORK—A 47.1% drop in property/casualty insurers' incurred losses and loss adjustment expenses for environmental and asbestos liabilities in 1996 likely signals a trend for the next several years, an insurer rating agency official says.

Because of new reporting requirements and improvements in actuarial methods for estimating such liabilities, the half dozen in-

surers with the greatest exposures boosted their reserves substantially in 1995, according to Eric Simpson, a senior vp with insurer rating agency A.M. Best Co. of Oldwick, N.J.

Those insurers beefed up reserves either to their ultimate liabilities or enough to bring them in line with the prevailing 9- or 10-to-1 survival ratio in the insurance market, he said. The survival ratio, which Mr. Simpson called "crude," measures how long an

insurer's reserves will last based on the company's claims payment history.

In addition, insurers' cleanup liability estimates for sites on the national priority cleanup list have stabilized because the number of sites has remained constant at about 1,300 during recent years, Mr. Simpson said.

Even though Best estimates that insurers remain at least \$40 billion to \$50 billion underreserved

See ISO on page 34

Quarter reflects 1997 rate increases

HMO profitability rising

By JUDY GREENWALD

While higher rates may be unpleasant medicine for employers, they are restoring HMOs to healthier profits.

First-quarter earnings at health maintenance organizations suggest they are beginning to emerge from the trough of the competitive pricing cycle as rate hikes take hold, with profitability expected to continue improving into next year. HMOs this year introduced rate hikes of 1% to 6%, depending on the region.

Meanwhile, merger and acquisi-



tion activity in the managed care industry is expected to continue, despite a diminishing number of acquisition candidates.

HMO analysts were cheered by first-quarter results and expect even better results as the year continues.

"Generally, the first quarter was better than it has been, but

the outlook for the second half is a lot better than for the first half, particularly when compared with last year," said Mary O'Connell, an HMO analyst with Louis Nicaud & Associates in San Francisco.

"First-quarter results were very good, obviously a lot better than last year," agreed Todd Richter, an analyst with Morgan Stanley & Co. in New York. "The pricing trends are the real difference," he said.

Noting that HMOs renew most of their accounts in January, Mr.

See HMOS on page 35

A new use for voice mail
Project helps workers keep tabs on kids' schoolwork

By SALLY ROBERTS

Implementing an interactive voice mail system that allows teachers to leave daily messages for working parents about their children's school work could be well worthwhile for employers.

Employees using such systems reported reduced stress, improved productivity and more positive feelings toward their employers.

These are the findings of the

first report card on a national pilot project, dubbed the Bridge Project, designed to allow working parents to be more involved with their children's education while still being productive at work.

The Bridge Project was funded by the American Business Collaboration for Quality Dependent Care, a national coalition of 22 major corporations seeking to enhance the quality and number of

child care, school-age and elder care programs in the 68 communities across the country where their employees live and work (BI, Sept. 18, 1995).

Eleven Collaboration companies helped fund the \$1.4 million pilot project, which provided 102 urban and suburban elementary, middle and high schools in seven states with computer hardware and software, teacher training and techni-

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Inside

• California's handling of Golden Eagle Insurance Co.'s sale gives state insurance regulation a black eye, this week's editorial says. **PAGE 8**

• Hong Kong will benefit from China's agreement to adopt a policy of "one country, two systems," according to Perspective columnist George F. Lazovsky. **PAGE 21**

• A recent kidnapping is prompting Australian risk managers to investigate the need for kidnap, ransom and extortion insurance. **PAGE 25**

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Special coverage for actor ensures the show will go on

By ROBERTO CENICEROS

LOS ANGELES—Arrests of U.S. Marshals are unusual and so is insurance covering the risk of incarceration.

But not on a Hollywood movie set, where an unusual production insurance policy will protect a studio in the event that a star of the movie "U.S. Marshals" should wind up in jail.

The actor, Robert Downey Jr., has had several scrapes with the law, stemming from his alleged abuse of heroin and cocaine. As a result, he was considered a high risk for filmmakers, which could lose hundreds of thousands of dollars daily should Mr. Downey get into more trouble while a movie is being made.

"You have to be insurable to be employable and he was ending up being uninsurable," said Donna Smith, president of Entertainment Coalition, a managing general agent that is a joint venture of Aon Group

Inc. and CNA Insurance Cos. "So we made a way for him to be insurable to be employable," she said.

The "lock down and incarceration" coverage that Entertainment Coalition created will allow Mr. Downey to work on the Warner Bros. movie.

The MGA and underwriter declined to discuss how the coverage is structured or how it coordinates with any completion bond that may cover the film.

The coverage was underwritten by CNA and placed by entertainment specialist broker Aon/Albert G. Reuben Insurance Services in Los Angeles.

CNA referred calls to Entertainment Coalition, while Warner Bros. declined comment. Shel Bachrach, president in Los Angeles of Aon/Albert G. Reuben, could not be reached for comment.

"U.S. Marshals" is a spinoff of the movie "The Fugitive" and also stars Tommy Lee

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AP/WIDE WORLD PHOTOS

Robert Downey Jr. arrives at the courthouse in Malibu, Calif., in July 1996, where he pled innocent to drug and weapons charges.

High Court to hear same-sex bias case

Plaintiff alleges harassment was gender-based discrimination

WASHINGTON—The U.S. Supreme Court will decide whether a 1964 civil rights law covers instances of same-sex harassment as well as gender discrimination.

The case, *Joseph Oncale vs. Sundowner Offshore Services Inc. et. al*, which the court is expected to hear in the term that begins next October, has drawn the attention of the Clinton administration. The government filed a brief asking the high court to review the matter to settle whether same-sex harassment is covered under Title VII of the Civil Rights Act of 1964.

The Equal Employment Opportunities Commission, which is responsible for enforcing Title VII, has long held that the act does provide recourse for such actions. In *Oncale*, however, a three-judge panel of the 5th U.S. Circuit Court of Appeals held that it did not, adding to a split among federal courts on how the law should be interpreted with regard to same-sex harassment.

Title VII prohibits employers from discriminating on the basis of race, color, religion,

sex or national origin. Courts differ on whether this covers same-gender sexual harassment as well.

The current case began with a series of incidents upon an offshore oil drilling platform operated by employees of Houston-based Sundowner. Joseph Oncale, a roustabout, claimed that his supervisor and two other employees routinely harassed him, in some cases touching him with their genitals, threatening homosexual rape and in one case, assaulting him in the shower. Mr. Oncale quit his job in November 1991 after several months on the platform.

He later sued Sundowner and three of its employees, charging that his rights under the civil rights act had been violated. He said that he had complained to the proper managers, yet nothing had been done and that he feared he would be raped by his fellow employees. The U.S. District Court for the Eastern District of Louisiana ruled that he had no recourse under the 1964 law, a decision the 5th Circuit upheld in 1996.

"Neither a man nor a woman can be required, as Joseph Oncale was required, to run a gauntlet of sexual abuse, as a condition of employment," reads Mr. Oncale's brief.

Sundowner's brief argues that Mr. Oncale "confuses sexual harassment and gender discrimination" and further argues that Congress "has never passed a law specifically outlawing sexual harassment."

Sundowner also argues that Mr. Oncale could have sought relief under Louisiana law. "To hold that Title VII encompasses same gender conduct would take the judiciary out of the traditional role of interpreting and reviewing a statute and into the role of legislating."

The EEOC disagrees with that interpretation. "In our view, the court of appeals erred" in its decision, according to the government's brief.

"If Congress had meant to limit the reach of Title VII to discrimination against the opposite sex, it easily could have said so."

—By Mark A. Hofmann

Insurers' funds put the sting on crime rings

By GAVIN SOUTER

The Federal Bureau of Investigation and local law enforcement agencies increasingly are approaching insurers to contribute money and other resources needed to bust crime rings.

Cash, in both large and small amounts, often is needed by undercover agents to buy stolen goods from thieves, or at least show them that the purchasers have the money to make a buy.

But budget constraints can mean that law enforcement agencies don't have the needed cash.

Insurers often are willing to supply the money because it can help them retrieve stolen goods for significantly less than it costs to replace the merchandise.

And, it can help insurers forge a relationship with police that can later prove valuable in efforts to recover stolen property.

It's a win-win case for the insurers and the law enforcers, says Robert F. DeBellis, a special agent of the FBI in Newark, N.J., who regularly works with insurers to recover stolen goods.

"If you have a claim of \$500,000 and you

See *Stings* on page 6



PHOTO: COURTESY OF KEMPER INSURANCE CO.

Kemper loaned \$60,000 in front money to help police recover stolen tires.

Hurricane forecasters see 11 named storms in 1997

By BRUCE KELLY

FORT COLLINS, Colo.—Up to 11 tropical storms—three of which could be major hurricanes—could form in the Atlantic, Gulf and Caribbean region over the next five months, warns a team of scientists.

The number of tropical storms expected this hurricane season, which typically runs from June 1 through Nov. 30, is up slightly from forecasts a year ago, though it trails the actual number of storms in 1996.

Underwriters and risk managers watch for and respect the hurricane forecasts, which are made throughout the year by a team of scientists led by Colorado State University Professor William Gray.

But the forecasts typically don't catch underwriters unprepared, since most insurers and reinsurers have been bracing for severe windstorms since 1992, when Hurricane Andrew caused an estimated \$15.5 billion in insured losses in Florida and

Louisiana.

"We put some degree of credibility in what Professor Gray does, but it doesn't affect what we do," said Michael Burke, vp and chief engineer of Allendale Mutual Insurance Co. of Johnston, R.I. Hurricane preparation

is "not a seasonal thing for us. It's a long-term commitment."

If the prediction is accurate, the 11 tropical storms this year will mark the third consecutive above-average hurricane season, making the period between 1995

See *Storms* on page 32

A finger to the wind

This year's storm predictions are up only slightly over 1996's June forecast. However, actual 1996 storms blew past those predictions.

	June 1997 predictions	June 1996 predictions	1996 actual
Hurricanes ¹	7	6	9
Intense hurricanes ²	3	2	6
Named tropical storms ³	11	10	13

1-winds from 74 to 130 mph, 2-winds above 130 mph, 3-winds from 39 to 73 mph

Source: Colorado State University

GRAPHIC BY TCNY BUCCINI

Reforms

Continued from page 2

Calif., and chairman of the House Ways and Means Committee's Health Subcommittee—non-economic damages in medical malpractice cases would be limited to \$250,000, regardless of the number of defendants named in the case.

In addition, the proposed reforms would make defendants liable only for their proportion of damages rather than jointly and severally liable for any damages awarded.

The measure would also limit punitive damages in medical malpractice cases to the greater of three times economic loss or \$250,000.

Punitive damages could not be awarded against manufacturers or sellers of medical devices that

had received premarket approval from the Food and Drug Administration under most circumstances.

The reform measure also would require:

- Structured settlements when

rules.

- Promotion of the use of alternative dispute resolution mechanisms.

Wayne Sinclair, chairman of the executive committee of the Washington-based Health Care Liabili-

'As health care costs rise and the insurance market continues to be not the most stable in the world. . .we're trying to level the playing field,' says Wayne Sinclair.

combined economic and non-economic damages exceed \$50,000.

- An absolute statute of limitations of five years for bringing medical liability actions.

- A prohibition on double recovery by reforming collateral source

ty Alliance, said the proposed medical malpractice liability reforms are necessary "to bring some sense to the lottery mentality" surrounding medical malpractice awards.

"As health care costs rise and

the insurance market continues to be not the most stable in the world due to uncertainty in medical malpractice market, we're trying to level the playing field," he said.

"At some point I think it's going to happen," Mr. Sinclair said.

"Our problem right now is the Senate," he said. If the reforms can be kept in budget reconciliation legislation, only 51 votes will be needed to approve them. But as a stand-alone measure, the liability reforms would have to draw the support of at least 60 senators to invoke cloture—an end to debate—and bring the matter to a vote.

In addition, even if reforms pass both houses, the measure would still be the subject of negotiations with the White House, which has taken a generally skeptical view of uniform liability codes of any kind. **BI**

BI makes editorial staff changes

CHICAGO—*Business Insurance* has made several changes to its Chicago editorial staff.

Richard M. Trout has been named assistant copy editor, while Matthew T.C. Scroggins has joined the staff as assistant directory editor and Amanda L. Milligan has joined as editorial assistant.

Mr. Trout is moving from the directory department to the copy desk, replacing Lee Velker, who resigned to pursue a journalism career in Maine.



Mr. Trout

Mr. Trout, 28, joined *BI* in August 1994 as assistant directory editor. Prior to that, he had worked for Crain Communications Inc., the publisher of *BI*, since November 1993.

Mr. Trout graduated cum laude from Knox College in Galesburg, Ill., with a bachelor of arts degree in English. He received a master of arts degree in professional writing from Illinois State University in Bloomington. Mr. Trout currently is pursuing a master of science degree in journalism at Roosevelt University in Chicago.

He can be reached at 312-649-5283.

Mr. Scroggins, 23, replaces Mr. Trout on the directory staff. Mr. Scroggins



Mr. Scroggins

previously worked as an assistant in the human resources office of Crain Communications, and previously served as a part-time

researcher for *BI* and *Advertising Age*.

He graduated summa cum laude from Millikin University in Decatur, Ill., with a bachelor of arts degree in philosophy.

Mr. Scroggins can be reached at 312-649-5483.

Ms. Milligan, 21, joins *BI* following her recent graduation from the University of Alabama in Tuscaloosa with a bachelor of arts



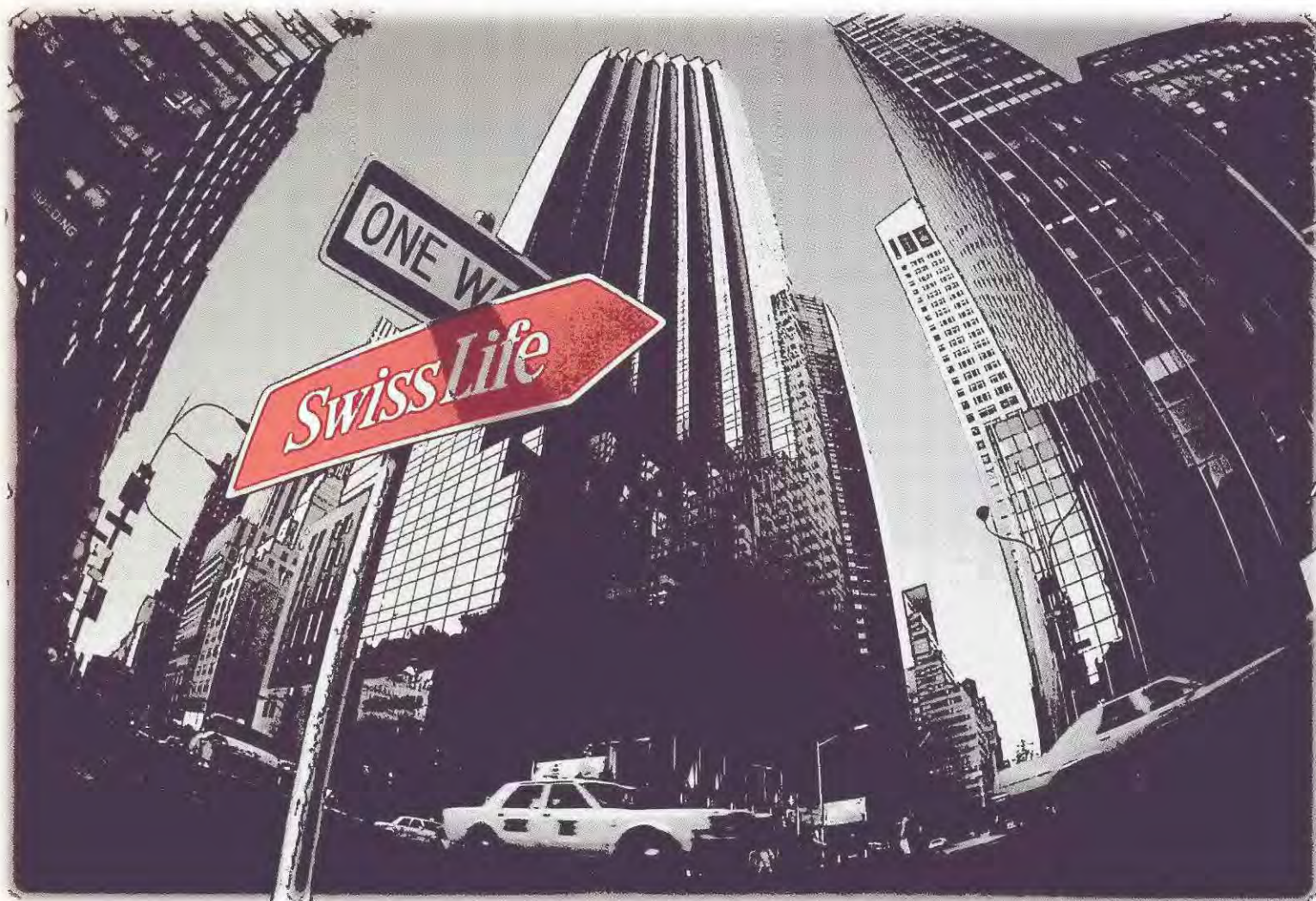
Ms. Milligan

degree in journalism.

In addition to assisting the editorial staff, she will oversee administration of *BI*'s Web page.

She served as an intern with *Crain's Chicago Business* in 1996 and 1995.

Ms. Milligan can be reached at 312-649-5398.



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THE BUSINESS
INSURANCE EXPERTS.



Stings

Continued from page 3

can buy it back for a third of that, then it's an easy decision to make," Mr. DeBellis said.

In addition, the FBI gets more evidence against "the bad guys," he said.

And policyholders benefit as fewer claims can lead to lower premiums and the publicity on the sting operations can deter criminals from future thefts, said Donald Siegrist, home office fraud manager at Chubb Corp. in Warren, N.J.

"When word gets around that sting operations are in effect, it lessens the chance of hijackings happening," he said.

Chubb is one insurer that has taken advantage of the ability to redeem stolen goods at a knock-down price by funding a sting.

In 1993, a hijacker stole from a Chubb policyholder in San Diego a trailer full of clothes imported from the Far East worth about \$100,000.

The California State Police officers working undercover were offered the clothes for about \$30,000. The police wanted to buy the clothes to obtain more evidence against the criminal organization they had infiltrated and approached Chubb to fund the sting, Mr. Siegrist said.

Chubb decided in less than 48 hours to fund the sting.

"We got the clothes back and they got some more evidence," Mr. Siegrist said.

Chubb is seldom approached to fund the stings but, when it is, the insurer likes to get involved, he said.

"The frequency is few and far between, but we have let the police know that we are amenable to it and that we would like to participate," Mr. Siegrist said.

The FBI also needs outside funding because its budget for stings also is limited, hampering its ability to collect the most evidence possible, Mr. DeBellis said.

In Newark, the FBI has a budget of around \$55,000 every six months to buy stolen property in sting operations, but that can easily be spent in one or two stings, said Mr. DeBellis.

"If you buy two loads of VCRs at \$30,000 a load, you've used up your whole budget," he said.

To obtain this "third-party funding," the FBI turns to trucking companies that are key targets of thieves and their insurers, Mr. DeBellis said.

The insurers normally are told that a stolen load is being offered for sale to FBI agents working undercover. The insurers then have, at most, two to three days to decide whether to fund the sting and come up with the cash to buy the stolen goods, he said.

The insurers benefit by retrieving merchandise they insured at a heavily discounted price, Mr. DeBellis said.

"You might have a load worth \$100,000 or \$200,000 and you buy it back for about a third of that value," he said.

The FBI runs sting operations sometimes for more than a year and typically several transactions are made to ensure that the bureau has sufficient evidence to make as many arrests as possible, Mr. DeBellis said.

"If we have a couple of loads and we buy one but we can't get third-party funding for the second one, we don't lose out, but it's better if we can get the second load, too," he said.

When more loads of stolen cargo are bought, it also helps increase the stature of the agents working undercover within the crime networks. In Newark, the FBI currently has about 10 agents working undercover, Mr. DeBellis said.

The FBI will usually keep about \$100 worth of merchandise for evi-

dence and return the remainder to the insurer, he said.

"We'll work to get the loads back to the trucking company or its insurers as soon as possible. That's especially true for loads of clothing because they don't want to get it back after the clothes have gone out of style," Mr. DeBellis said.

Other insurers that have supplied money to fund stings include CIGNA Corp. In 1993, the insurer paid out a \$2 million claim for stolen computer equipment and then funded a \$100,000 sting operation through which local law enforcement officers recovered the goods (BI, June 13, 1994).

It doesn't always take large amounts of money to help the police, and insurers can get their money back. Insurers can help police make arrests by, for example, supplying "show money" to lure thieves into stings.

Kemper Insurance Cos., for example, paid a claim from a New York policyholder for 980 tires stolen from an enclosed lot. The value of the tires was \$84,194 and the deductible on the policy was \$25,000.

About a year later, Kemper had the opportunity to get the tires back, said Charles E. Blossfield, manager of the special investigations unit at Kemper.

"We got a telephone call from the New York police saying that they were aware of the fact that the tires were intact and for sale. They said they needed \$60,000 to draw the thieves out," he said.

Kemper agreed to supply the funds, which were used as show money in the sting, Mr. Blossfield said.

"They arrested six people, who were all convicted, and they recovered all but 10 of the tires," he said.

The \$60,000 was returned to Kemper and the insurer subsequently recouped \$52,109 from the sale of the tires, Mr. Blossfield said.

In other cases, insurers supply po-

lice with money to help purchase surveillance and radio equipment to help them in their operations, said Tom Christo, nationwide claims manager at Fireman's Fund Insurance Cos. in Novato, Calif.

The money may be contributed on an annual basis or in response to individual operations as a reward for recovering goods stolen from policyholders.

For example, last year a \$50,000 shipment of men's jeans was stolen from a warehouse in Monterey, Calif. The police discovered the jeans in a raid in New York a few months later, Mr. Christo said.

Continued on next page



Continued from previous page

While the police were able to recover the goods using their own resources, Fireman's Fund paid \$5,500 to a police fund used to buy extra equipment, he said.

"Although the police can't show any favoritism, we wanted to do something that would help them know who we are when we contact them," Mr. Christo said.

Payments to set up sting operations can also help improve relations between insurers and police, said Jack Ford, assistant vp of special investigations at Reliance National Insurance Co., who works with police authorities to recover policyholders

stolen property.

For example, Reliance National gave New York police \$5,000 to set up a sting operation buying stolen cars in the New York borough of Queens, he said.

The police used the money, along with donations from other insurers, to rent a garage and buy video cameras to set up the sting, Mr. Ford said.

Over the course of several days the police made 18 arrests and recovered 61 stolen cars.

As Reliance National only writes commercial auto insurance, there was little chance it would recover vehicles owned by its policyholders,

but it was still a good investment for the insurer, Mr. Ford said.

"The benefit is the relationship you form with the law enforcement community. I need contacts within the police to help me do my job, and when you do something like this you facilitate that," he said.

Insurers can also help law enforcement authorities by supplying equipment to carry out undercover work.

For example, in 1995 Chubb provided the Connecticut State Police with a 1992 BMWf to help the police set up an operation to expose an auto theft organization, Mr. Siegrist said.

"They infiltrated an auto theft ring and used the car to go in and sell it to the people involved," he said.

Operation Beacon ran for 18 months, during which the police recovered 66 stolen cars and made 40 arrests, Mr. Siegrist said.

Chubb also benefited from the operation, he said.

"It helps us develop a good relationship with local law enforcement and it helps reduce the number of claims," Mr. Siegrist said.

And the publicity surrounding the successful sting operations acts as a deterrent to would-be car thieves, he said.

In another case, Chubb gave a damaged car to FBI agents operating in Westchester County, N.Y. The agents used the car to build evidence against body shops that were padding bills.

In one case, a body shop operator charged an extra \$1,300 for repairs that were not necessary. He was later arrested and given a 10-month sentence, Mr. Siegrist said. **BI**

Insurable

Continued from page 3

Jones and Wesley Snipes. It is scheduled for release early next year and is being filmed in Chicago.

Ms. Smith compared the production insurance for Mr. Downey to coverage that was obtained for Courtney Love, the rock star who co-starred in "The People vs. Larry Flynt."

When Ms. Love announced that she had used heroin while pregnant, it made movie-makers nervous that a drug binge might keep her from showing up to work on the filming of "Larry Flynt," Ms. Smith said.

So getting her insured required some "special things to happen," Ms. Smith said.

"I had a production rep on the show with Courtney who hung out with her all day long," Ms. Smith said. Ms. Love was subject to random drug testing during the movie's production.

Mr. Downey will also be required to undergo random drug tests.

His troubles began two years ago with his first arrest, followed by a second arrest a short time later for suspicion of drug possession and trespassing.

In July 1996, he was arrested

'There are few bad girls and boys out there,' Donna Smith says of actors who habitually get into trouble.

three times in a single month, the last occurring after he walked away from a drug rehabilitation facility, according to the Associated Press. In November 1996, he was sentenced to three years probation for drug and weapon charges and ordered to remain in a locked rehab facility for three months. He currently is in a court-ordered drug monitoring program.

"There are a few bad girls and boys out there," Ms. Smith said. "But I don't expect this to happen frequently. My motto has always been, 'We will tell you how instead of telling you no.' So we figured out how to get Courtney insured and now we have figured out how to get Robert insured."

The November 1993 death of actor River Phoenix of a drug overdose created insured losses of nearly \$6 million for filmmakers. The insurers, two units of CNA Insurance Cos., later sued the actor's estate, charging breach of service agreements and misrepresented medical certificates (*BI*, July 25, 1994).

One of the movies, "Dark Blood," had to be scrapped after Mr. Phoenix's death, costing CNA International Reinsurance Co. Ltd. an estimated \$5.5 million. In the other, "Interview with a Vampire," Mr. Phoenix was replaced by Christian Slater, costing American Casualty Co. an anticipated \$185,000. **BI**

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Opinions

Who's in charge in California?

ON THE SURFACE, it would appear that policyholders of Golden Eagle Insurance Co. would be well served by either of the two insurers vying for control of the troubled workers compensation insurer. But in reality, the poor handling of the company's transfer by California regulators—and the ensuing legal battle for control of the company—guarantees more uncertainty for policyholders.

Insurance Commissioner Chuck Quackenbush acted decisively enough when his department seized Golden Eagle in January after determining the insurer was underreserved by nearly \$140 million. But when it came to finding a buyer for the company, the commissioner suffered a failure of resolve.

As we reported last week, Liberty Mutual Insurance Co. was granted control of Golden Eagle by a California judge overseeing the company's conservatorship. The problem is, the California Insurance Department in May signed a deal with American International Group Inc. to take over Golden Eagle. AIG says it has invested considerable resources in managing the insurer and ensuring an orderly transition for its policyholders. Now, however, all that is on hold as litigation and appeals follow Liberty Mutual's successful challenge to AIG's winning bid.

The whole imbroglio casts state insurance regulators in a poor light, at a time when they already are under fire on several fronts for the quality of their oversight.

In looking at the Golden Eagle case, one has to wonder what Commissioner Quackenbush intended to accomplish.

After backing away from an early deal with Zurich Centre Group in January, the commissioner initiated a sealed bidding process for Golden Eagle that resulted in his awarding the insurer to AIG. When the court, which all along had the authority to approve any Golden Eagle rehabilitation plan, rejected the AIG deal, Commissioner Quackenbush quickly threw up his hands and said, "All the proceedings were under the control of (the judge). It was his decision."

If that is so, why did he put everyone through the trouble of submitting bids to the Insurance Department in the first place? Why not instead tell bidders to submit their offers directly to the court and let the judge decide, with or without a recommendation from the commissioner?

Conversely, if Commissioner Quackenbush believes he has the ability and authority to manage this process—and if he thinks his wishes carry any weight with the court—why is it he did nothing to defend the bid the department picked as the winner?

His hasty retreat leaves him open to questions about the integrity of the process he initiated. We wonder, for example, whether he recognized the



court approval step as an additional opportunity to play bidders off against one another, and whether this or some other reason explains his quick acquiescence to the Liberty Mutual victory.

This is not to say that we believe policyholders would be better off with one insurer over the other. Nor do we oppose the concept of insurers competing to acquire Golden Eagle or other companies in rehabilitation. But to allow bidding in two separate forums is absurd.

This mess will only prolong the uncertainty for those companies with unpaid claims against Golden Eagle and those whose policies are soon to expire and must now wonder whether to renew or seek coverage elsewhere.

Policyholders also have been harmed because the ability of state regulators to oversee the conservation of troubled companies with minimal disruption to policyholders is now in doubt, not only in California but also in other states. Sadly, the battle for Golden Eagle serves as a poor example for regulators in other states seeking buyers for a company in rehabilitation.

We believe that if troubled insurers are to be transferred in an orderly and efficient manner to new owners—without excessive litigation or turmoil for policyholders—then clearer guidelines are needed for how this process should be handled.

State insurance regulators and the insurance industry should work together to come up with guidelines to be followed when such situations arise in the future. Doing so will help both remove some of the tarnish left on them by the mess in California.

Letters

Client scrutiny vital for accountants

To the editor: The June 9 article, "Accounting Firms Choose Clients More Carefully," identifies a key component of the underwriting philosophy and risk management approach to accountants' business today.

In managing the professional liability programs for the American Institute of Certified Public Accountants, one of the things we stress is the importance of scrutinizing

clients. The group B accounting firms—those just below the Big Six in size—are especially susceptible to class-action suits and have been very aggressive in managing this aspect of their risk exposure.

Scrutiny of clients and prospects becomes ever more important as competition for clients heats up. Like the insurance industry, the accounting profession is in a period of consolidation, and we in the in-

urance industry must continue to heighten the sensitivities of our accounting clients to the importance of managing their own risk exposure while expanding their client base.

I commend *Business Insurance* and author Michael Prince for the article.

James R. Eisenmann
President
Aon Insurance Services Inc.
Chicago

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Robert Caldwell, left, with John Seibert, General Re

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As if fraud weren't expensive enough

Suspects may sue insurers for defamation

By DOUGLAS McLEOD

CHICAGO—Insurers looking to report suspected fraudulent claims to prosecutors or regulators can find themselves between a rock and a hard place.

While insurers don't want to ignore potential fraud, they may also worry that such reports can trigger policyholder lawsuits for defamation or malicious prosecution.

In fact, though, many states offer at least qualified immunity from such actions, and insurers that ob-

serve some simple guidelines can avoid disastrous legal headaches, said Sheila J. Carpenter, a lawyer with Jordan Burt Berenson & Johnson L.L.P. in Washington.

Immunity statutes are the good news for insurers, Ms. Carpenter told an audience at the recent annual meeting in Chicago of the International Assn. of Insurance Fraud Agencies.

The bad news is that fighting policyholder suits can be expensive even if insurers win summary judgments dismissing the complaints.

"Your field report on a \$10,000 claim can cost you \$100,000 in legal fees even if you win on summary judgment," she said.

Losing a case can be far worse: "One bad verdict can wipe out all of your savings on fighting fraud," Ms. Carpenter noted.

Still, the problem of claims fraud is so rampant that several states require insurers to report suspicious cases to law enforcement or regulatory authorities.

Minnesota law, for example, requires insurers to report when they have "reason to believe" a fraud has occurred, according to Ms. Carpenter. Maryland law, mean-

while, requires reporting when insurers "in good faith have cause to believe" a claim is bogus.

To protect insurers making these reports, most states have some form of immunity statute. As of last year, roughly 40 states had laws granting at least qualified immunity to insurers passing information to law enforcement agencies. Sixteen states had laws protecting insurers that share information with each other, according to Ms. Carpenter.

In nearly all states, the key for maintaining the immunity privilege is for insurers to act in "good faith," she said.

An appeals court in one state—California—has ruled that insurers have absolute immunity in reporting insurance fraud, even when they act in bad faith. That court concluded that the public benefit of reporting fraud outweighs the "occasional harm that might befall a defamed individual," according to Ms. Carpenter.

An insurer should assume, though, that it must act without malice or bad faith to preserve its immunity from policyholder suits, she said. It can do this by using "practices and procedures that make it easy to demonstrate that it acted in good faith."

As an example of how not to act, Ms. Carpenter cited the example of an insurance company

See Defamed on page 14

Fraud

Continued from page 3

relatively small piece of overall economic crime in the United States, generating an estimated \$140 billion in losses, including \$110 billion in health care fraud, \$20 billion in property/casualty-related scams and \$10 billion in workers compensation fraud, according to Mr. Vaules.

Other categories produce bigger losses, he said. These include:

- Financial crimes, generating \$375 billion in losses and including money laundering—the biggest contributor with \$300 billion in costs—loan fraud, check forgery and credit card scams.

- Corporate fraud, generating nearly \$500 billion in losses and comprising telemarketing, retail and cellular telephone fraud and other technology-related crimes.

Law enforcement agencies and corporate victims would make a mistake to attack these scams by industry, treating insurance fraud as separate from loan fraud or cell

phone schemes, Mr. Vaules warned.

In fact, many scams are connected, as the same con artists typically move from one industry to another, switching, for example, from insurance fraud to cell phone scams, Mr. Vaules said.

Law enforcement may target one type of fraud, forcing those con artists to "expand into other areas," he said. "They are going to the target of least resistance."

"We don't think you should attack fraud by industry," Mr. Vaules said, noting that Trans Union has built a database with information on frauds broken down into about 200 categories that can be cross-referenced.

Phony insurance companies, several of which Mr. Vaules investigated as an undercover FBI agent, can be strikingly similar, partly because of the coaching that con artists give one another in operating the scams.

"It's a student/teacher arrangement, and a lot of the elements of the fraud will occur over and over again," he said.

"There are only 100 of these

guys out there," he added, referring to practiced operators of bogus insurance companies. "If each law enforcement group would take one, we would put them out

capital base, he added: "Without exception in the cases I worked, the fraud involved a phony financial statement" that included worthless or near-worthless as-

Many scams are connected, as con artists typically move from one industry to another, switching, for example, from insurance fraud to cell phone scams, says James Vaules.

of business."

Policyholders concerned about a particular insurer should focus on the people running the company and their background, Mr. Vaules said. For example, he said, have they been named in civil suits for fraud or been involved in the past with failed companies?

"Don't worry about the name of the company. Worry about the people behind the company," he advised.

Also worry about the insurer's

sets, he said.

The con artists themselves also share some characteristics, Mr. Vaules added.

In researching cases handled by the FBI, agents found that large numbers of the targeted con men shared certain attributes that should serve as red flags to potential victims.

The FBI found, for example, that con men frequently: have been involved in failed real estate transactions; boast of uncon-

firmable international business connections; brag about unconfirmable abilities to raise venture capital; have only high school educations but claim to hold advanced degrees; produce resumes with gaps, unconfirmable prior employment or false entries; have civil judgments pending against them; frequently use post office boxes or mail drops; and cannot provide banking references other than basic depository relationships.

Mr. Vaules added that con men commonly lease cars, houses and apartments, preferring not to own assets that later could be attached by their victims in civil cases.

Even jail terms can amount to only a minor inconvenience to committed con artists, he suggested. In working undercover, Mr. Vaules said he completed fraudulent deals with convicted felons in the dayrooms of the prisons where they were serving their terms.

"Rehabilitation is not going on for these kinds of folks," he noted dryly.

In a separate presentation, Richard Marston, vice consul with the British Consulate in Miami, sharply criticized offshore jurisdictions that advertise themselves as tax havens while maintaining secrecy laws designed to conceal information about insurers based there.

Mr. Marston, formerly a white-collar crime investigator with Scotland Yard, was involved in cleaning up banking and insurance frauds in Montserrat and other British dependencies in the Caribbean.

While secrecy laws may be fine for personal business, "where it strays into the area of public trust or where it strays into the area of criminal activity, there should be no secrecy," he said.

Insurers and other companies operating as public trusts "should be entirely transparent," Mr. Marston said.

Banks must play a role in policing offshore clients, he added. He cited a case in which a Cayman Islands insurance company that received 30,000 premium checks in a single day deposited them in a local bank, transferred the money to a bank in Liechtenstein and converted it to certificates of deposit for the benefit of a family trust of the insurer's operator.

"It is the responsibility of a bank to know what a client company is doing with its money," Mr. Marston said.

Islands holding themselves out as tax havens also have a heightened duty to know where the money they attract is coming from and to guard against criminal activity. "Otherwise, you're going to attract every crook in Christendom to your jurisdiction," he warned.

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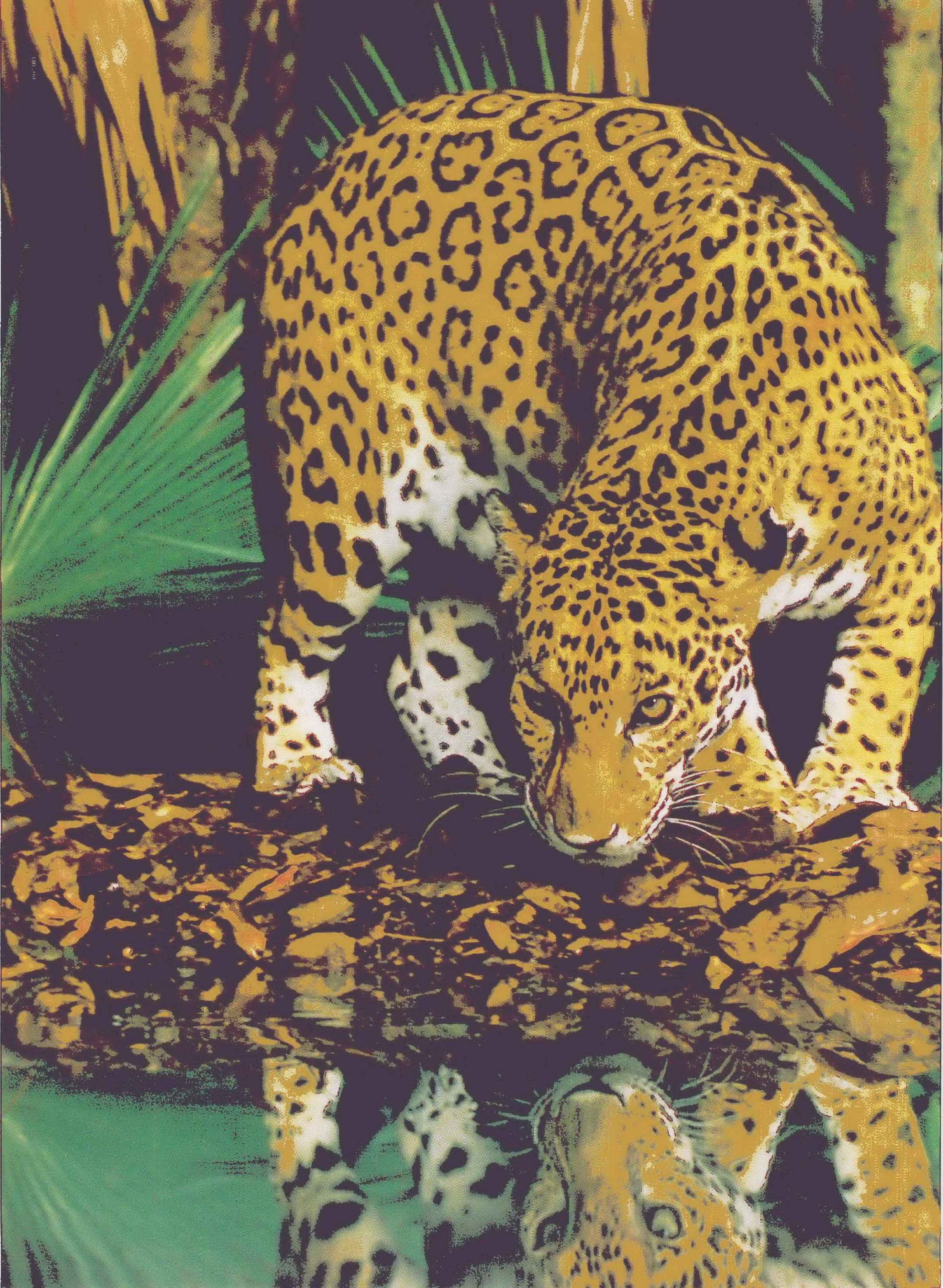
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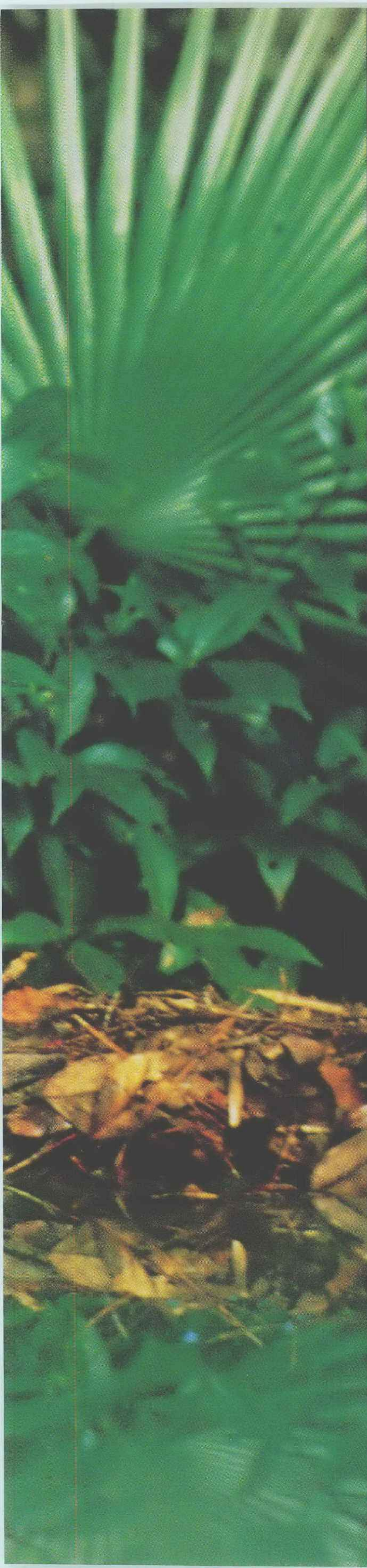


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Defamed

Continued from page 10

that denied the claim of a homeowner whose house burned, referring the case to local prosecutors. The homeowner was acquitted of arson charges, sued the insurer and won \$7.5 million in compensatory and punitive damages.

The insurer in this case made several severe mistakes, she said. Among other things, the insurer:

- Was represented by a claims investigator who arrived at the scene of the fire and announced that his job was to put people in jail.

- Stuck with its arson charge in the face of overwhelming evidence to the contrary.

- Failed to tell prosecutors about exculpatory evidence even when the prosecutors asked directly.

- Paid for a prosecution expert witness at the criminal trial.

- Sent the policyholder several lengthy claim denial letters citing "frivolous" reasons for denying

Insurers can lose their immunity privilege in several ways, according to Ms. Carpenter. They can, for example, pass along defamatory material they know to

to intimidate a policyholder or justify firing an employee or agent.

- "Excessive" reporting to parties that have no interest in the case.

- Reporting damaging information that is not relevant to the suspected fraud.

Insurers can avoid these pitfalls by following a few procedures that will ensure they are found to be acting in good faith, Ms. Carpenter advised.

For example, insurers should distribute information only to those who can help with a fraud investigation or who need to know about the inquiry.

Investigators generally should not be too talkative about their work, she said.

"I'm not sure that the fraud unit is not a place for the introverts in your company," she said. "One of the ways you can waive your priv-

ilege is to spread information further than it needs to go."

Insurers also should develop procedures to ensure the accuracy of collected information and should not report any information they can't easily defend as true. They also should have procedures to protect against inadvertent disclosures and should behave like prosecutors, taking into account both incriminating and exculpatory information, Ms. Carpenter advised. **BI**

One way insurers can waive their immunity privilege in reporting fraud is by spreading information 'further than it needs to go,' says Sheila J. Carpenter.

the claim in addition to the alleged arson.

"I hope (this insurer) has a really good anti-fraud program, because it's going to take them a long time to make up what this case cost them ultimately," Ms. Carpenter observed.

be false, meeting the legal standard of "malice" in a defamation action.

Insurers also can lose their privilege by:

- Reporting information for a purpose not intended to be covered by the immunity law, such as

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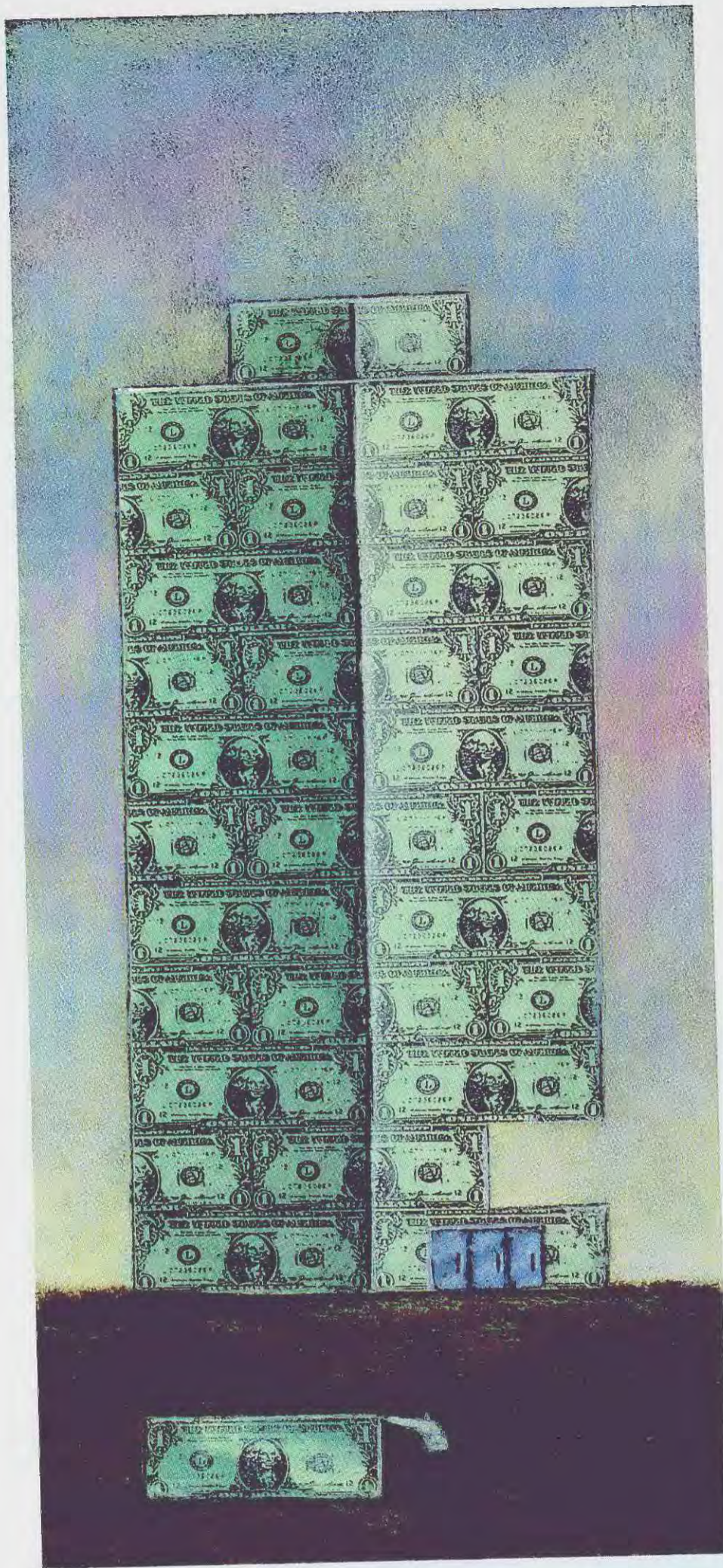
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MIDYEAR MARKET REPORT

Publishing — July 7, 1997
Ad Closing — June 24, 1997

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CNA launches employer services unit

CHICAGO—CNA Financial Corp. has formed an employer services organization, CNA UniSource Inc. The new company has reached an agreement with Elkhart, Ind.-based Interlogic Systems Inc. under which ISI will serve as CNA UniSource's payroll services provider.

Michael W. Kookan has been named president of Chicago-based CNA UniSource, and Daniel A. Caccione has been named senior vp of marketing. CNA UniSource services will be sold through CNA agents and ISI representatives across the country.

CNA UniSource will offer businesses a comprehensive package of services, with client employers and CNA UniSource sharing the employment responsibilities for clients' employees. The new CNA unit will provide administrative support services such as payroll, human resources and risk management.

For more information, call Daniel Caccione at 312-822-3984.

Insurers form alliance

WALTHAM, Mass.—Arkwright Mutual Insurance Co. and Liberty Mutual Group have formed an alliance to deliver property insurance and related risk management services to the commercial insurance market.

To provide the services, Waltham, Mass.-based Arkwright has formed a wholly owned subsidiary, ALM Services Inc., which will deliver risk assessment, loss prevention engineering, claims management and supporting information services. Boston-based Liberty Mutual will sell the ALM pro-

Markets

gram through its existing sales force and national network of commercial insurance offices.

ALM is expected to be fully functional by July 1. Wolfgang F. Friedel will be president and chief executive officer of the new unit.

For more information, call Teresa Schenk at 617-890-9300, ext. 3630.

Swiss Re to move

ARMONK, N.Y.—Swiss Re America broke ground June 4 for the construction of its new \$100 million headquarters in Armonk, N.Y. Swiss Re America, currently based in New York, plans to build a 300,000-square-foot multistory building on the 27-acre site near the Connecticut border.

Approximately 650 employees from Swiss Re's casualty, holding and life divisions will work in Armonk. The company anticipates opening the new facility early in 1999. After the move, Swiss Re plans to maintain a corporate presence in New York City.

Adjuster network

LONDON—A group of 15 loss adjusters headed by Ellis & Buckle of Reading, England, has formed a global network to better serve multinational clients.

The partners, which together have more than 200 offices in 32 countries, plan further expansion of their network, particularly in Europe and

Asia, over the coming months.

Gerry Loughney, Ellis & Buckle's managing director, said he expects to soon enlist partners in Spain and Belgium.

He said the network of independent loss adjusters enables the creation of a global network quickly and cheaply, allowing members to bypass the need to invest in overseas offices.

Each network partner will do work for clients of the others in their respective geographic areas. Mr. Loughney explained that the primary aim is to generate additional business opportunities by allowing companies participating in the network to handle large international claims and catastrophes anywhere in the world.

He said the combined revenues of the network participants this year are expected to reach \$100 million.

Apart from Ellis & Buckle, companies participating in the network are: Axis (USA) Inc., Axis (Latin America) USA Inc., Texa Expertise Pres Les Societes d'Assurances of France, EMN Expertise B.V. of The Netherlands, Lercari S.r.l. of Italy, Ellis & Buckle (Nordic) A.B., Maurice W. Panas & Associates of Greece and Zektser Assessors & Surveyors Ltd. of Israel.

Also, Dilas International Loss Adjusters & Surveyors in the United Arab Emirates, CWB Adjusters Gauteng (Pty.) Ltd. of South Africa, A.K. Govil & Associates in India, Pierre Leong & Co Ltd. in Hong Kong, PT Japanansi Nusantara in Indonesia, Toplis & Harding (Singapore) Pte. Ltd., Freemans Australia, and American Appraisal Associates Inc., which

has more than 50 offices globally.

THESCO acquisition

NEW YORK—THESCO Benefits L.L.C., a regional group benefits consulting company, has acquired the group insurance practice of New York-based Bartmon, Shapiro & Associates Inc.

The newly acquired division will be known as Bartmon, Shapiro & Vellis and will be headed by Ann E. Vellis. She has been appointed president of the subsidiary and senior vp of New York-based THESCO Benefits.

Among the services the companies provide are annual review and analyses of employee benefit products, insurance and administrative contract negotiations and benefits-related human resource support. Through an affiliate, THESCO Consultants Inc., they also provide retirement plan consulting and actuarial services.

New York-based THESCO Benefits was created in April when broker Tanenbaum-Harber Co. Inc. spun off its group benefits division.

Zurich Re to move

NEW YORK—Zurich Reinsurance Centre Holdings Inc. will move its headquarters to Stamford, Conn., from New York.

According to the company's agreement with the state, which will provide Zurich tax incentives under a state law aimed at attracting insurers to Connecticut, the reinsurer is looking to make the move from New York in 2000.

Frontier acquisition

ROCK HILL, N.Y.—Frontier Insurance Group Inc. has acquired Lyndon Property Insurance Co. and its subsidiaries from Mercury Finance Co. for \$92 million.

Lyndon, which provides such insurance programs as credit-related insurance, residual value, extended service contracts and collateral protection coverages, will remain based in St. Louis under Chief Executive Roland Anderson.

Through its subsidiaries, Rock Hill, N.Y.-based insurance holding company Frontier is a national underwriter and creator of specialty insurance products serving niche markets.

Risk Capital Re stake

GREENWICH, Conn.—Risk Capital Reinsurance Co., a subsidiary of Risk Capital Holdings Inc., has acquired a minority interest in Brentwood, Tenn.-based Providers' Assurance Corp. for \$4 million cash.

Providers' Assurance develops and markets workers comp insurance programs through joint operating arrangements with community-based health care providers and offers other workers compensation consulting services to the health care community.

Greenwich, Conn.-based Risk Capital Re funded the purchase through its existing surplus. Under the agreement with Providers' Assurance, Risk Capital Re has the right to provide reinsurance on insurance programs developed by Providers' over designated time periods.

Marsh & McLennan Risk Capital Corp. assisted Risk Capital Re in negotiating and structuring the investment. **B**

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Willis Corroon names new CEO for wholesale unit

Gary H. Cooper was named president and chief executive officer of Willis Corroon Group P.L.C.'s U.S. wholesale operations and will be relocating to Nashville, Tenn., from Houston, where he was regional director of Willis Corroon's Texas operations and president and CEO of its Houston retail office. Mr. Cooper succeeds **Kenneth H. Pinkston**, chairman and CEO of the brokerage, who was acting president and CEO of the wholesale operation. And, **Elliott M. Jones** was named president and CEO of Stewart Smith Mid America Inc., one of Willis Corroon's wholesale operations in Chicago.

Also at Willis Corroon, **Richard Chappell** recently was named to the new position of president of Willis Corroon Construction and will have offices in Nashville and Phoenix. Mr. Chappell was previously national director of Alexander & Alexander Services Inc.'s U.S. construction practice.

In other brokerage changes:

Charles Bretz joined Near North Insurance Brokerage Inc. as a vp in its national health care practice in Chicago. Previously, Mr. Bretz was president of Boockford & Co., which was acquired by Mesirow Financial.

Frank Katz joined the Charlotte, N.C., office of Palmer & Cay as vp in the firm's commercial insurance division. For the past 11 years, Mr. Katz held management positions with Marsh & McLennan Cos. Inc. and Johnson & Higgins.

Michael B. Mattox named senior vp in the Nashville, Tenn., office of Sedgwick James of Tennessee Inc.

Michael Pokora joined Itasca, Ill.-based Arthur J. Gallagher & Co.'s global national accounts division as vp-production.

Reinsurance

W. Preston Hutchings named senior vp and chief investment officer of Hamilton, Bermuda-based Mid Ocean Reinsurance Co. Ltd.

Bruce Sundquist joined American Re-Insurance Co. in Princeton, N.J., as vp-health care claims with responsibilities for American Re's workers compensation and massive injury claims unit. Previously, Mr. Sundquist was vp and chief operating officer of CNA Cost Management Division of CNA Risk Management.

Valerie Butt joined Centre Reinsurance Cos. in San Francisco as vp. Previously, Ms. Butt was a risk management consultant with Hewlett-Packard Co.

James C. Franson joined Odyssey Reinsurance Corp. in New York as vp-professional liability/corporate products. Most recently, Mr. Franson was vp-financial services at Minet Inc.

HMOs/PPOs

John W. Bisbee named vp-sales and marketing for Consumer Health Network, a Piscataway, N.J.-based preferred provider organization. Also, **Robert L. Cafone** named vp-network development.

David J. Randall, who served as deputy director for The Ohio Department of Insurance since 1991, is now senior vp at The Emerald Health Network Inc. in Cleveland.

Dr. Rene Lerer named senior vp of Newark, N.J.-based Prudential HealthCare, with responsibilities for all health plan operations and network development across the

Comings & Goings: Industry

country.

Robert Glaser named vp-corporate development for WellPoint Health Networks Inc. in Woodland Hills, Calif.

Tom Taylor joined United HealthCare of California Inc. as vp-sales and marketing in San Francisco.

Joseph Tomaselli named vp-commercial account sales for the Northeast region of Green Spring Health Services Inc., the Columbia, Md.-based mental health and substance abuse benefit management company.

Catherine B. Campbell named vp-marketing.

Joseph Rampone named senior vp-operations at NYLCare Health Plans Inc. in New York.

Scott Navarro joined Delta Dental Plan of New Jersey Inc. as vp-professional services and dental director in Parsippany, N.J.

Other suppliers

John Moreno named executive vp and national director of client development for Sedgwick Noble Lowndes in Memphis, Tenn.

Matthew W. Kaplan named president and CEO of U.S. Care Inc., a Santa Monica, Calif.-based long-term care management com-

pany.

Pamela Kehaly named vp-sales support, large group, for Blue Cross of California in Woodland Hills, and **Scott Henick** named vp-national accounts.

Ralph Bohannon named principal and systems consultant, and **John McGlone** named principal and administrative consultant, for Buck Consultants Inc. in Secaucus, N.J.

Randy Dulin named chief marketing and sales officer for FutureHealth Corp., a Timonium, Md.-based patient risk management firm.

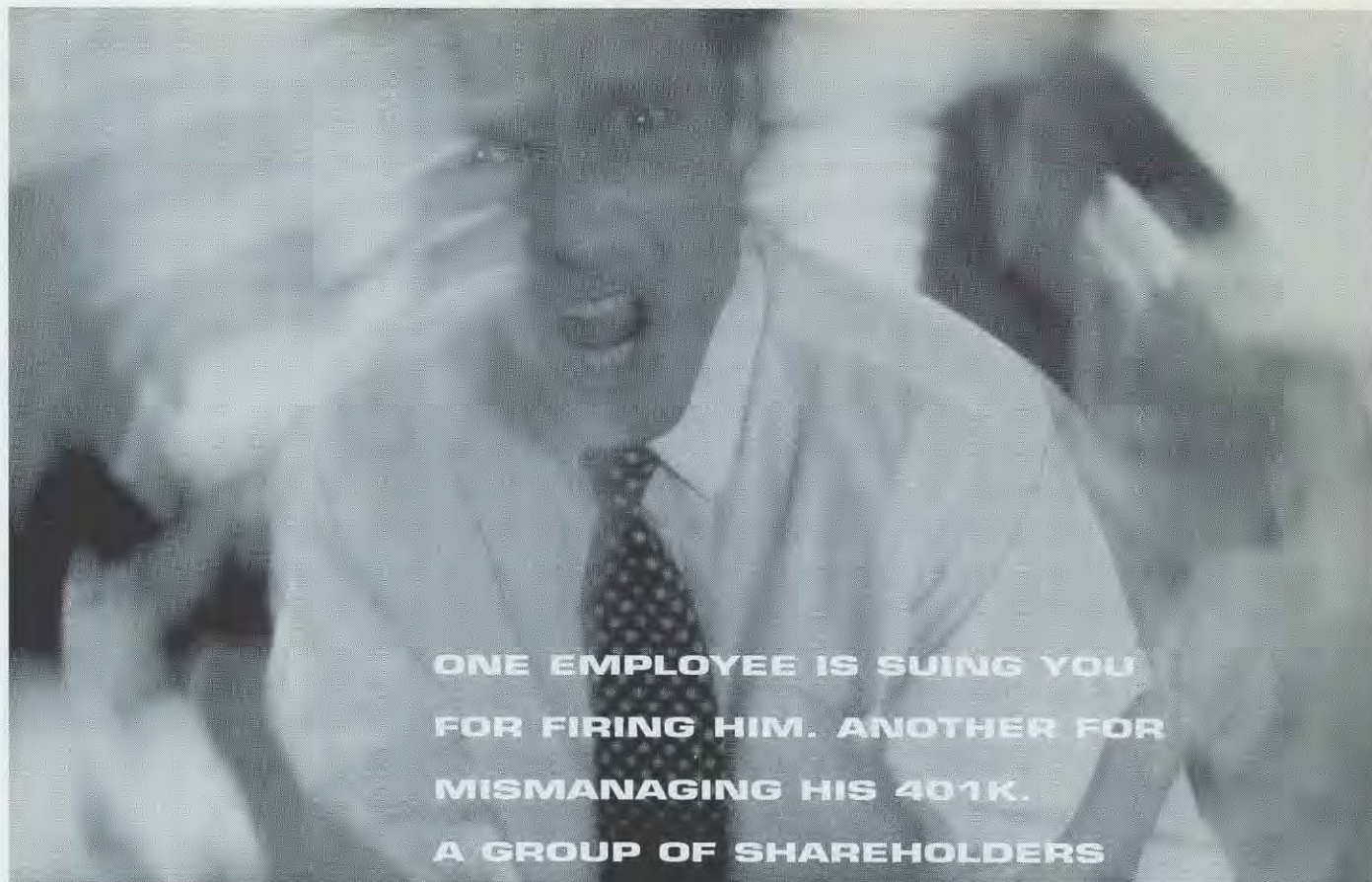
Pam Lockowitz named president of MMI Risk Management Resources Inc., a Deerfield, Ill.-based health care risk management consulting company. **Rich**

Linden named senior vp-information systems and services at the parent company, MMI Cos. Inc., and **Merrilee Hepler** named senior vp-human resources.

Alan Routhenstein joined Tillinghast-Towers Perrin and will lead the actuarial and risk management consulting firm's new investment risk and derivative strategy practice in New York.

Elizabeth Propp named vp of the Healthcare Financial Management Assn.'s Washington office. Previously, Ms. Propp was CFO of Baylor Medical Center in Irving, Texas.

Mort Gitelis named president of USA Medical Services, a Miami-based third-party administrator. **Yolanda Shea** named vp-group sales. **Bl**



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Datebook

JUNE

JUNE 23. 1997 Human Resources and Benefits Forum in Dallas, sponsored by American Payroll Assn.; \$290 for members, \$330 for non-members. Also **June 24** in Denver, **June 25** in Las Vegas, **June 26** in Los Angeles, and **June 27** in San Francisco. American Payroll Assn.; 711 Navarro St., Suite 100, San Antonio, Texas 78205-1721; 210-224-6406.

JUNE 23-24. Health Care Stop Loss: Innovative Strategies for Risk Contracting and Carve-Out Negotiation conference in Chicago, sponsored by Infoline; \$1,295. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

JUNE 23-25. Selling Physical Therapy and Occupational Rehabilitation Services in the Workers' Compensation Market: An

Executive Seminar in Strategic Planning, Service Differentiation and Building Relationships in San Antonio, sponsored by Work Injury Management News & Digest and Advantage Health Systems Inc. Also **July 21-23** in Chicago. \$695; \$595 if received 30 days prior to seminar. Work Injury Management, 8704 Bourgade, Lenexa, Kansas 66219-1400; 888-621-2382.

JUNE 23-27. Managing Operations: The College of Insurance Management Program seminar in New York, sponsored by The College of Insurance Center for Professional Education; \$1,995. NMHCC, 101 Murray Street, Room 426, New York, N.Y. 10007; 212-815-9201.

JUNE 23-27. Fundamentals of Industrial Hygiene conference in Atlanta, sponsored by American Industrial Hygiene Assn.; \$955 for members, \$1,095 for non-members. Also **Oct. 6-10** in Seattle. AIHA, Continuing Education Department, 2700 Prosperity Ave., Suite 250, Fairfax, Va. 22031; 703-849-8888.

JUNE 24. Insurance Industry Secondary Market Research in New York, sponsored by The College of Insurance; \$350. The College of Insurance, 101 Murray St., Room 436, New York, N.Y. 10007; 212-815-9201.

JUNE 24. Insurance Industry Secondary Market Research in New York, sponsored by The College of Insurance; \$350. The College of Insurance, 101 Murray St., Room 436, New York, N.Y. 10007; 212-815-9201.

JUNE 24. Retiree Health Care Coverage: How Payors Are Developing Options to Reduce the Cost of Providing Retiree Health Care in Columbus, Ohio, sponsored by The Health Coalition; \$35 for members, \$55 for non-members. The Health Coalition of Central Ohio, 261 E. Livingston Ave., Columbus, Ohio 43215.

JUNE 24-25. The Seventh International Conference on Catastrophe Exposure: Alternative Risk Transfer Including Securitization in London, sponsored by IQPC Ltd.; £945. IQPC Limited, 1st Floor, West Wing,

Chancery House, 53-64 Chancery Lane, London WC2A 1QU, U.K.; 171-831-9249 (outside of U.K.), 0500-821057 (within the U.K.).

JUNE 25. The Pension Seminars Series: ERISA Update in Chicago, sponsored by Accountant's Education Services; \$200. Also **June 26** in St. Louis, **Aug. 7** in Honolulu, **Oct. 20** in Tampa, Fla., **Nov. 6** in Washington, **Nov. 20** in Minneapolis, **Dec. 8** in Denver. AES, 1900 Olive St. #F-102, Denver, Colo. 80220; 800-426-8802.

JUNE 25-27. The ERISA Basics: A Primer on ERISA Issues program in New York, sponsored by the American Bar Assn.; \$700 for ABA members, \$800 for non-members; Diane L. Nickolson, American Bar Assn., Center for Continuing Legal Education, 541 N. Fairbanks Court, Chicago, Ill. 60611; 312-988-6205.

JUNE 25-28. The 57th Annual National Assn. of Insurance Women Convention in San Antonio, sponsored by NAIW; \$300 for

members; \$350 for guests. National Assn. of Insurance Women, P.O. Box 4410, Tulsa, Okla. 74159; 800-766-6249.

JUNE 26-27. Insurance Coverage and Practice Seminar in San Francisco, sponsored by Defense Research Institute Inc.; \$535 for members, \$585 for non-members. DRI, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

JUNE 26-27. Professional Liability Management: Explore Emerging E&O Product Opportunities and Minimize Costly Exposures conference in New York, sponsored by the Institute for International Research Risk Management Division; \$1,295. IIR, 708 Third Ave., 4th Floor, New York, N.Y. 10017-4103; 800-999-3123.

JUNE 26-27. Global Risk Management Solutions: Advanced Risk Financing Strategies for Canadian and U.S. Companies conference in Toronto, Ontario, sponsored by International Business Communications; \$1,813.65 Canadian. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

JUNE 27. The Pension Seminars Series: 401(k) Seminar in St. Louis, sponsored by Accountant's Education Services; \$200. Also **Aug. 8** in Honolulu, **Sept. 26** in Chicago, **Oct. 21** in Tampa, Fla., **Nov. 7** in Washington, **Nov. 21** in Minneapolis, **Dec. 9** in Denver. AES, 1900 Olive St. #F-102, Denver, Colo. 80220; 800-426-8802.

JUNE 29-JULY 3. 1997 Annual National Institute seminar in Orlando, Fla., sponsored by Healthcare Financial Management Assn.; \$185 for members, \$285 for non-members. HFMA/EF, Dept. 77-6063, Chicago, Ill. 60678-6063; 708-531-0032.

JULY

JULY 9. Capitalising & Funding Insurance Risk conference in London, sponsored by IBC UK Conferences Ltd.; £550 plus £96.25 VAT. Bookings Department, IBC UK Conferences Ltd., 57-61 Mortimer St., London, England WIN 8JX.

JULY 9. Employment Practices Liability Insurance (EPLI) seminar in Westmont, Ill., sponsored by the Insurance School of Chicago; \$110. Insurance School of Chicago; \$110. Insurance School of Chicago, 175 W. Jackson Blvd., Suite 2200, Chicago, Ill. 60604; 312-427-2520.

JULY 9-10. New York Health Care Reform Act and Multiemployer Plan Mergers one-day seminars in Bolton Landing, N.Y., sponsored by the International Foundation of Employee Benefit Plans; \$225 for members, \$275 for non-members. IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710, ext. 8257.

JULY 10-11. Developing Strategic Risk Management Solutions Through Innovative Uses of Health Care Captives conference in Hamilton, Bermuda, sponsored by Cambridge Health Resources; \$1,395. Cambridge Health Resources, 1037 Chestnut St., Newton, Mass. 02164; 617-630-1330.

JULY 13-17. Strategies for Growth seminar in Mexico City, sponsored by International Insurance Society Inc.; \$1,450 for members, \$1,750 for non-members; \$600 for academic or government. International Insurance Society Inc., Box 870223, Tuscaloosa, Ala. 35487-0223; 205-348-8974.

JULY 14-18. Fundamentals of Employee Benefits Management course in Brookfield, Wis. sponsored by The International Foundation of Employee Benefit Plans; \$1,375 for members, \$1,625 for non-members. Also **August 18-22** and **September 22-26**. Registrations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710, ext. 8257.

JULY 16. Professional Liability—Healthcare seminar in Orland Park, Ill., sponsored by the Insurance School of Chicago; \$110. Insurance School of Chicago, 175 W. Jackson

Continued on next page

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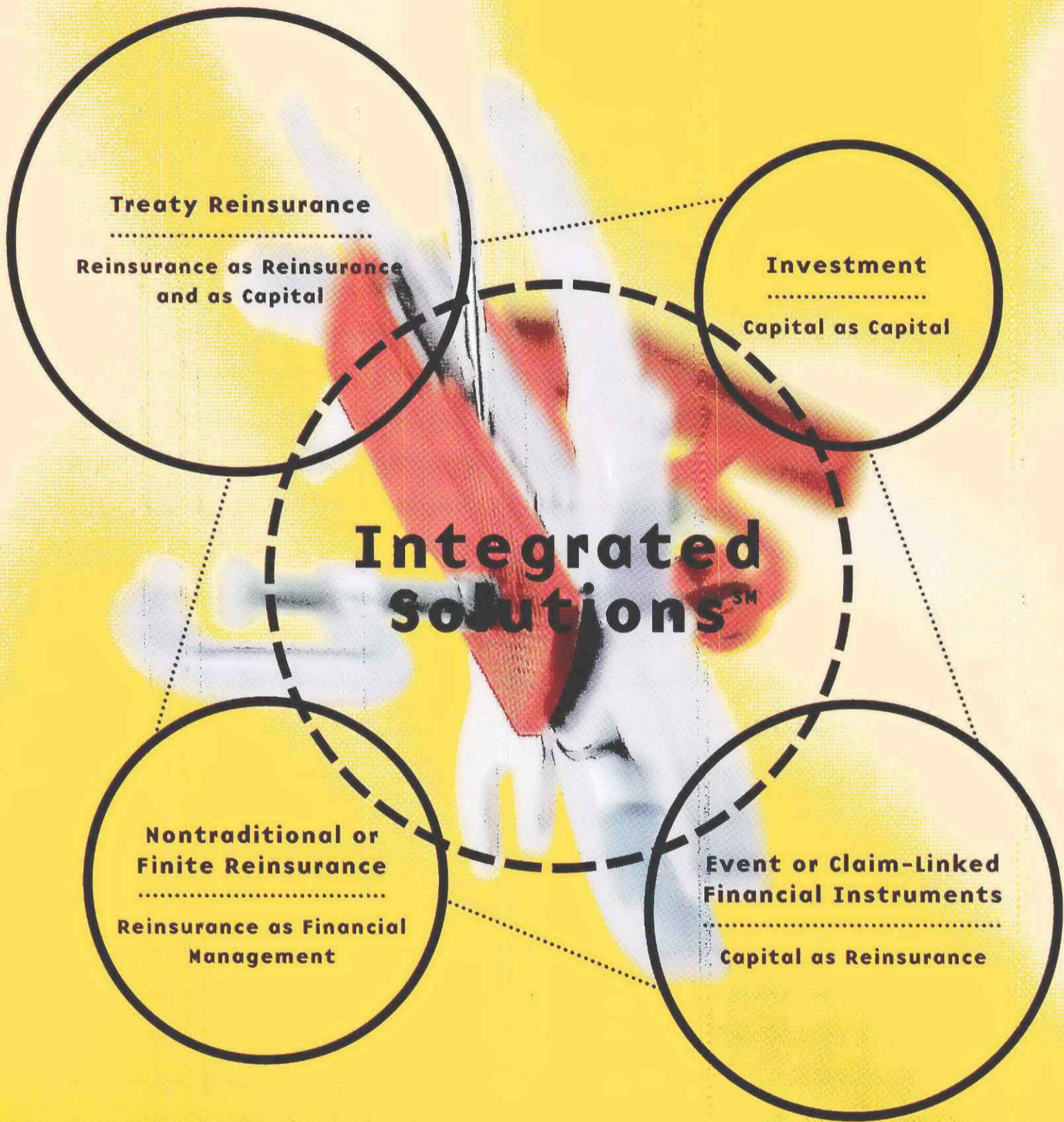
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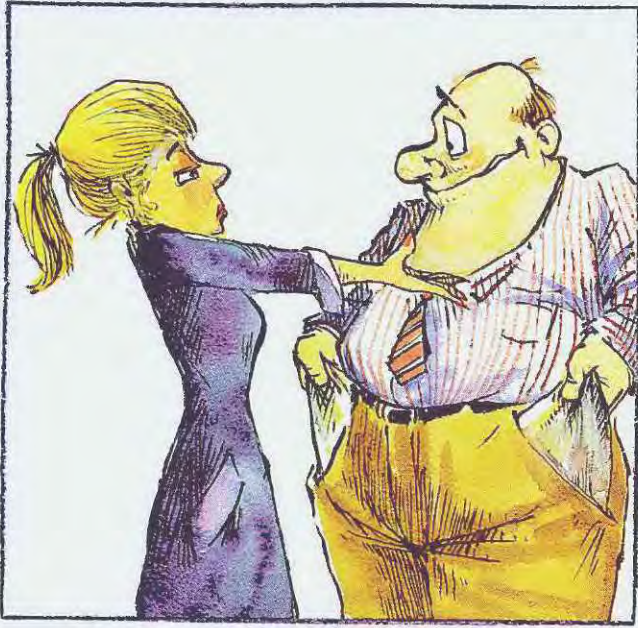

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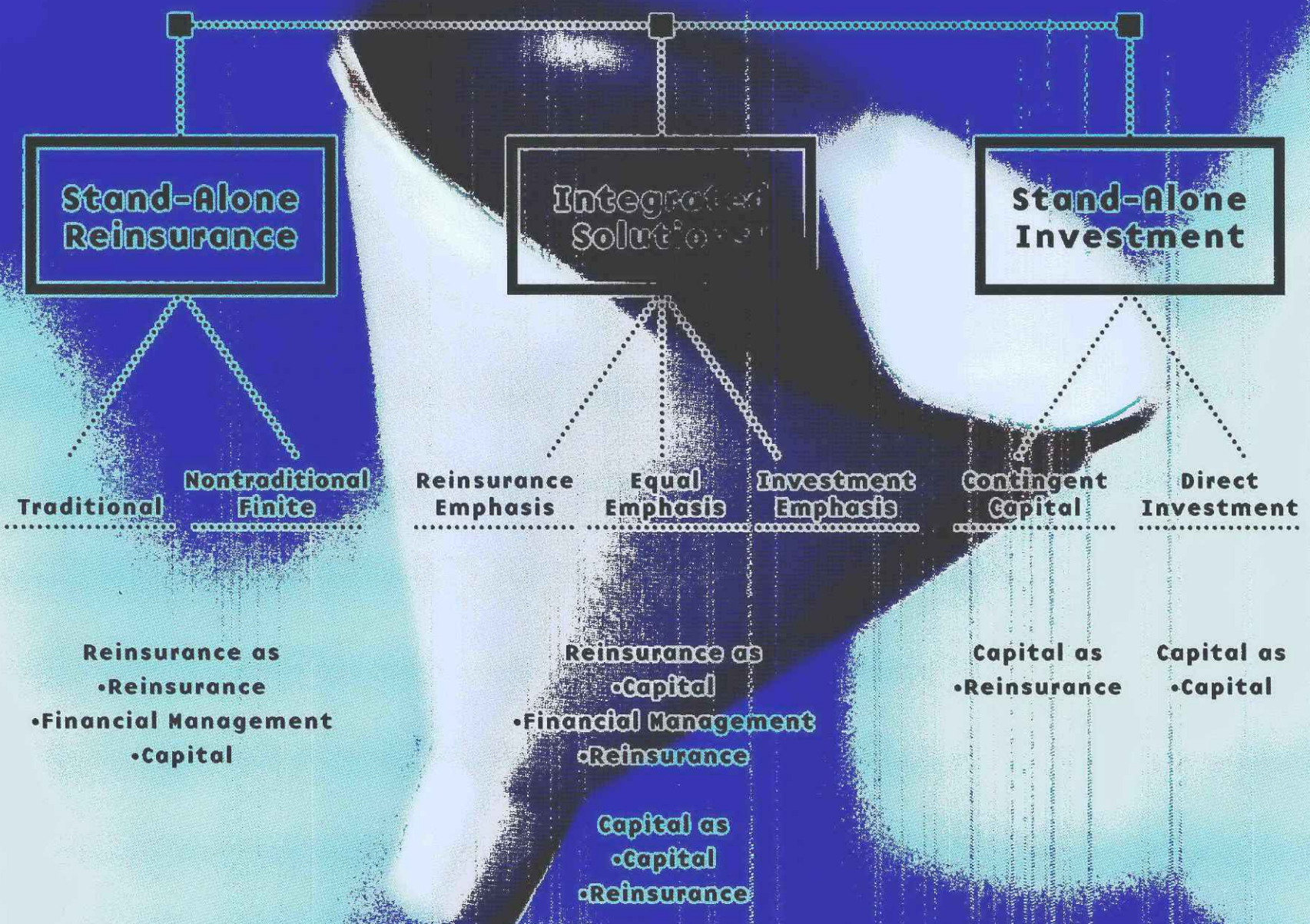


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Reinsurance available at prices difficult to turn down

By REGIS COCCIA

As competition continues throughout the primary and reinsurance markets, ceding insurers not only are finding reinsurance more affordable, but some also are beginning to buy more of it.

Several factors are causing a reversal of the trend toward high retentions on some lines of business.

"As reinsurance continues to get cheaper, some companies may be starting to buy down their retentions," particularly on property risks, said Craig Elkind, a director at Standard & Poor's Insurance Rating Services in New York.

The past several years have shown that "minor catastrophes," those causing \$500 million to \$5 billion in marketwide losses, don't penetrate traditional reinsurance programs, Mr. Elkind said.

Reinsurers' results have benefited from low cat losses, and ceding companies now are rethinking their exposures.

"What companies are looking to do is carve out their hot zones," he said. For example, an insurer writing property risks in Massachusetts is likely to have a greater cat exposure in coastal areas than it would in inland states, he said. As a result, Mr. Elkind said he is seeing more demand for tailored reinsurance, allowing insurers to keep retentions high in less-exposed areas and "buy down where they need the coverage."

Not every ceding company is following that path, however. While midsize and small insurers are in some cases lowering the amount of risk they retain, larger companies in fact may be cutting back on the amount of reinsurance they buy, said Steven Bolland, senior vp at reinsurance intermediary Gill & Roeser Inc. in New York.

Larger insurers are looking for growth and to

cut costs, which for them includes reinsurance, he said. "As a rule, they're looking for less and less reinsurance," he said.

But, "for middle- and small-range companies, it's a mixed bag," Mr. Bolland said. "We've seen them buy reinsurance when the price is attractive," which currently is the case. "We'd view it as opportunistic."

Sal Zaffino, chairman and chief executive officer of intermediary Sedgwick Re in Hartford, Conn., agreed. "In general, (large stock insurers) are buying less."

"Regional and specialty companies are not buying less, but they are buying differently," Mr. Zaffino said. For example, many of these companies are looking to raise capital, a trend he expects to continue over the next several years.

"In the past, intermediaries used to take orders on buying reinsurance," Mr. Zaffino said. Now, however, ceding companies are looking more closely at how to build "a better program at a better price."

"It's an interesting market," said Mr. Bolland of Gill & Roeser. "Everybody has their own theory on it."

If there is a major trend, it is the consolidation taking place in the primary market, according to Mr. Bolland.

In 1996, a record 382 industry mergers and acquisitions were completed, totaling \$41 billion, according to a recent study by Conning & Co. of Hartford, Conn. (BI, June 9).

"One of the reasons for doing the mergers is to cut overhead," Mr. Bolland noted. As a result, there is less need for merging insurers to buy reinsurance to smooth out their balance sheets.

"Eventually, it will reduce their recoverables, but not immediately," he said.

Consolidation ultimately will take business out of the reinsurance industry, Mr. Bolland said.

While publicly traded cedents long have

used reinsurance arrangements, more privately held companies also are turning to reinsurance as a financial tool, Mr. Bolland said.

Publicly traded insurers, which are answerable to shareholders, often are pressured to keep their balance sheets on an even keel, Mr. Elkind pointed out.

"Public companies want a constant flow of earnings," Mr. Elkind said. These companies tend to buy more finite-risk reinsurance for lower layers and spread losses over several years, he said, which reduces the peaks and valleys that otherwise could plague their financial results.

Reinsurance-buying habits also remain mixed for casualty risks. While some ceding companies are raising their retentions on certain liability business, others are taking advantage of lower pricing.

"On the casualty side, I'm seeing a movement of buying less" reinsurance, said Lennart Barking, president of Carlson Consulting Inc., a reinsurance consulting firm in Westmont, Ill.

"I see many (primary) casualty lines producing pretty good results. Several clients have moved their retentions upwards," he said. "We used to say retentions fell between 3% and 5% of surplus. Now, in many cases, it's over 5%."

But Sedgwick Re's Mr. Zaffino said he has seen some large, publicly traded insurers buying more reinsurance on casualty lines, particularly on lower layers.

He views that as a function of lower rates on casualty reinsurance. "There's no sign that the decline is slowing down," Mr. Zaffino said. "The question is, if this doesn't slow down, do companies start buying based on pricing?



Some already are."

Competition is making reinsurance prices more attractive, but financial security is no longer a major worry for cedents.

"Consolidation among reinsurers has improved the credit quality of the market as a whole," he said.

"In this market, buyers have become more security-conscious," said Mr. Elkind. "Companies are willing to pay for security."

Insolvencies in the 1980s made both insurers and reinsurers more aware of the need for security, Mr. Elkind said. Most companies are willing to get letters of credit and get banks to stand behind them, he said.

"Right now, the market—in terms of well-capitalized companies—we've never been in better shape," said Mr. Zaffino.

"Everyone has very stringent requirements for the reinsurers they deal with, but everyone is comfortable with security as it stands now," he said.

Merger mania likely to continue as reinsurers fight for business

By MICHAEL BRADFORD

Consolidations that have left the reinsurance industry with a handful of direct writers and a dwindling number of broker-market reinsurers aren't over yet, a reinsurance company executive says.

But just because mergers and acquisitions are continuing doesn't mean they are a good idea, said Kaj Ahlmann, president and chief executive officer of Employers Reinsurance Corp. in Overland Park, Kan.

He is often asked whether consolidation among reinsurers has ended, Mr. Ahlmann said.

"I think it will continue. But for the wrong reasons," he said. Speaking as a panelist last month at the Seventh Canadian Insurance Congress in Charlottetown, Prince Edward Island, Mr. Ahlmann suggested that the largest reinsurers already are well-positioned throughout the world and have little need to expand. "So it doesn't make strategic sense to buy more."

And when it doesn't make strategic sense, reinsurers have no good reason to pay the high prices acquisitions command, he warned.

Still, said Mr. Ahlmann, observers can expect more buyouts at premium prices as reinsurers continue to battle for international business and expand their global reach.

Another panelist agreed that the trend of mergers and acquisitions hasn't yet run out of steam.

Edwin M. Millette, president and chief operating officer of TIG Reinsurance Co. in Stamford, Conn., pointed out that the top M&A deals in 1996 among insurers and reinsurers involved reinsurance companies. "They will continue."

Mr. Ahlmann described the consolidation among reinsurers as dramatic in recent years.

"Ten years ago, the 10 biggest companies wrote something like 25% of the market," Mr. Ahlmann noted. "And now worldwide, the four biggest companies are getting something like 50%. It's the most dramatic consolidation you've ever seen in any business."

Shareholder value is one of the driving forces behind the mergers and acquisitions, he explained, as reinsurers strive to make the 15% to 20% returns their investors are looking for.

Reinsurers are spreading across the globe because that's where the business is, he told conference attendees. "You have global insurance needs, and we have to be there to support them."

Consolidation also has occurred because it's cost-efficient, Mr. Ahlmann noted. Merging gives companies the "critical mass" of a large operation that can produce sufficient revenue to sustain a foreign subsidiary, he said.

And, buying companies allows reinsurers to grow

Improving workflow leads to big savings

By MICHAEL BRADFORD

A project aimed at improving agents' and insurers' workflow processes shows that "getting it right the first time" can mean big cost savings.

The project, dubbed "Mapping the Future," was a joint effort of ACORD and the Independent Insurance Agents of America, conducted in the fourth quarter of 1996.

"The overall goal of the study was to find methodologies and solutions to improve the entire workflow process" related to new business between insurers and agents, said Jo Conway Roberts, vp of marketing and membership at ACORD.

The aim of that effort was to reduce expenses, eliminate duplication and improve customer service, Ms. Roberts said during a general session at ACORD's Technology Conference in Lake Buena Vista, Fla., last month.

Taking part in the project, which focused on personal lines and small commercial lines business, were six insurers and 16 independent agencies.

During the three-month period, agents and insurers remapped a number of workflows that enabled them to "eliminate duplica-

ACORD

tion, drive down costs and improve customer satisfaction," reported Vernell H. Hogan, agency management consultant at the Alexandria, Va.-based IIAA.

"All of the participants are in the process of implementing their improved new business workflows now," she said.

"The study reinforced the understanding that agencies and companies need to work together to overcome inertia and bring about change to the current business model. Our processes are lengthy, inefficient and costly," said Ms. Hogan of IIAA.

See **Workflow** on page 18H



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Reinsurers

Continued from page 18A

quickly in a new market. "If you're not in Germany and want to get into the German market, the best way to get in is to buy a company as opposed to building it, which takes an awful long time."

And, while some reinsurers are "truly going for global scope" as part of their acquisition plan, others want to diversify their risks, said Hans Rohlf, senior vp at Hannover Reinsurance Co. in Hannover, Germany.

Because mergers and acquisitions have left only four direct reinsurance writers—General Re Corp., Employers Re, Swiss Reinsurance Co. and Munich Reinsurance Co.—future M&A activity likely will be limited to the broker-market companies.

Mr. Millette suggested that there will be an increase in reinsurers purchasing portfolios of business instead of entire companies.

"I believe that the future holds acquisitions for broker-market companies; however, I also believe there will be significant acquisitions of people with portfolios who have been disenfranchised, even on a global basis," he said.

As consolidations change the face of the reinsurance business, companies are finding that technology continues to shape how business is conducted, Mr. Ahlmann pointed out.

Some reinsurers, however, are in danger of falling behind as technology continues its rapid advancement, Mr. Ahlmann noted, adding that many companies aren't getting their money's worth from their automated systems.

Mr. Ahlmann referred to a comment by an executive with a major U.S. corporation who observed that his company spent millions of dollars on technology only to end up with "faster paper."

Insurers and reinsurers are spending a lot of money on technology, "but have you really used it strategically yet?" Mr. Ahlmann asked.

Use of the Internet for conducting business "is going to be a landslide," and most insurers and reinsurers aren't ready to tap into the capabilities of electronic commerce, he said.

Falling behind technologically could leave insurance companies and reinsurance companies a step behind other financial services companies, Mr. Ahlmann predicted.

"I guarantee you the banks will find a way to use" technology, he said.

Also on the panel was Jean-Paul Lasserre, managing director of SOREMA in Paris. Ken Mead, managing director of reinsurance intermediary Guy Carpenter & Co. in New York, moderated the discussion. **BI**

Insurers attribute success to doing the basics well

Hiring and keeping good employees leads to stability and success

By MICHAEL BRADFORD

Hire the best employees available, pay them well and concentrate on underwriting.

Those are a few of the keys to success for a couple of insurance companies that are among the Top 50 property/casualty insurers identified by Cincinnati-based Ward Financial Group (*BI*, Aug. 26, 1996).

Ward's annual benchmarking of insurers provides performance comparisons among companies and gives insurers an idea of best practices that can be utilized to improve operations.

"The lesson learned from this analysis," said John Ward, chairman of Ward Financial Group, "is that companies that focus on the fundamentals... are more likely than not the top performers."

Mr. Ward was moderator of a panel discussion at the Seventh Canadian Insurance Congress last month in Charlottetown, Prince Edward Island. He emphasized that the "overall message" delivered by the annual ranking is that any company can become a high performer by working on business fundamentals.

Executives from Erie Insurance Group and AVEMCO Insurance Cos., two insurers that

ranked among the Top 50 last year, joined Mr. Ward at the session.

"I believe the key reason for our success is centered around our stability, our consistency and our culture," said Stephen Milne, president and chief executive officer of Erie Insurance Group in Erie, Pa.

"We've understood our basic mission, and we've stuck to it, through thick and thin, through all the underwriting cycles, even

Continued on next page



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Continued from previous page
this 10-year cycle that seems it will never end," he said.

For the most part, change at Erie has been "very conservative and slow," he emphasized. However, in 1990 the primarily personal lines underwriter instituted a reinsurance department.

"We write \$68 million in reinsurance; it's been extremely profitable. But that was a major change for us," he said.

Mr. Milne maintains the insurer has not changed its underwriting philosophy much since he joined the company in 1973.

"Our idea of a good risk—*notwithstanding things like pollution and lead and things of that*

nature—is the same today as it was back then."

Ray Hall, president of Frederick, Md.-based AVEMCO, said there is

AVEMCO, a direct writer, depends on its force of "sales underwriters," stationed throughout the United States and Canada, to pro-

'Our idea of a good risk—*notwithstanding things like pollution and lead and things of that nature—is the same today as it was' in 1973, says Stephen Milne.*

no compromise when it comes to underwriting at his company.

"Underwriting profitability is a given at AVEMCO," he said. "We rarely discuss it. It goes without saying."

duce business, Mr. Hall explained. The network of underwriters is supported through computer technology that ties them into the home office.

Erie depends on independent

agents for business. Those agents know they can count on the insurer's stability, a quality that's becoming rare in the current marketplace, Mr. Milne said.

In return, the insurer wants a stellar underwriting effort from agents, who have binding authority. "We stress underwriting to the extreme," Mr. Milne said.

He pointed out that Erie picks its agents carefully, just as it does employees.

"When we went into New York state in 1995, we interviewed over 300 agencies to appoint 30," he said. "We're extremely selective relative to our agents' appointments."

When an agent is selected, gen-

erally after five interviews and six months of gathering and checking references, Erie wants a commitment that it will be the top insurer in that agency within a "reasonably short period of time. If they're not open to that, then we won't appoint the agency," Mr. Milne said.

Agents who turn in sub par underwriting results are required to go through Erie's "agency review process" that is held each March to determine how such results can be reversed.

Mr. Milne pointed out that in-house relations also are an important part of maintaining a successful culture for an insurance company.

In its 72-year history, the insurer has never had a layoff. "That's an internal corporate guideline that I think is critical to our success," Mr. Milne stated.

Erie's workers are paid well, about 13% more than they would get at a competitor, he pointed out. "If you pay good people, if you get good people, you win."

Erie's culture is "extremely people-oriented," according to Mr. Milne. "That includes all three of our constituencies, which are our policyholders, our employees and our independent agents."

Another key to success for insurers, according to AVEMCO's Mr. Hall, is speedy claims handling.

"All of our claims are handled as expeditiously and liberally as humanly possible," he said. "It's really the only way to go."

A weekly claims review looks at claims that aren't closed quickly, Mr. Hall said. "We've found that claims rarely get better with age," he noted, so an ongoing effort is under way to put them to rest.

Also on the panel was Peter R. Kensicki, professor of insurance at Eastern Kentucky University in Richmond, Ky. **BI**

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Insurer Topics

Insider hosts are key to the Insurance Broadcast System

By **MICHAEL PRINCE**

Music lovers have MTV. For sports, one can tune into ESPN. And now for insurance, viewers can watch IBS.

Starting today, the Insurance Broadcast System—a new satellite television network devoted to insurance programming—beams its way into the insurance community.

The brainchild of Dennis Richard, the chairman and chief executive officer of IBS, the new network will be divided into two segments: the Property/Casualty Television Network and the Life/Health Television Network.

Mr. Richard, who was the producer and co-creator of the insurance industry cable television show "The Premium Dollar Today," thought of the idea for IBS and spent the past three years putting the project together.

"This is worldwide, quality television presented to the insurance industry," he said at a news conference launching the network.

Shows appearing on the Prop-

erty/Casualty Television Network include: "Who's Who in Insurance" hosted by Joseph Decaminada; "Insurance Issues with Herb Goodfriend"; "Broker's World," hosted by Ken Crerar, president of the Council of Insurance Agents & Brokers; "Managing Catastrophic Risk," hosted by William Bailey; "Business of Insurance" with Sean Mooney, senior vp of the Insurance Information Institute; and "Reinsurance" hosted by Franklin Nutter, president of Reinsurance Assn. of America.

On the Life/Health Television Network, shows will include: "Health Insurance Today," with Susan Van Gelder, vp of Health Insurance Assn. of America; and "Increasing Your Income," hosted by Joel Littman of Equitable Life Assurance Society of the United States.

Mr. Richard said IBS executives decided to have the shows hosted by insurance industry people and teach them television techniques rather than hire television people and teach them about insurance. This way the shows' hosts can contribute their knowledge of the industry in creating story topics and adding insight, he said.

IBS's time will be split between the two networks, with LHTN programs appearing on Mondays and Wednesdays, and PCTN programs on Tuesdays and Thursdays. Each day, two hours of original programs will be shown and then repeated throughout the day.

In addition to the shows hosted by industry personalities, each morning's programming will begin with a 15 minute news show.

Mr. Richard said the network also will have the ability to cover major news events with onsite

reporters and cover industry conferences and meetings.

The programs are sent via satellite to subscribers who pay \$595 a month for a computer dish with a decoder allowing them to receive the signal.

To date, some of the largest insurers in the United States along with many large brokers have signed up for the network, said Mr. Richard, who declined to give a specific number or identify the subscribers.

Mark Epstein, president and chief operating officer of IBS, said the network has received a

tremendous response from insurers, many of which will use the network to help train employees.

Mr. Epstein added that in the future, continuing education programming might be added to the network's daily program lineup.

IBS also maintains a companion Web site on the Internet. Its Web site is at www.ibstv.com, and if you would like to begin a subscription to IBS, please call Andrew Witt, vp-sales and marketing, at 888-918-3300, ext. 204. **BI**

Shand Morahan named top finalist in Best Intranet Solution award

By **REGIS COCCIA**

Intranets are becoming popular tools for disseminating information within a company, and one company has attracted attention as a model of efficiency.

Shand Morahan & Co., an Evanston, Ill.-based underwriting manager, recently implemented an internal network project that Microsoft Solution Providers named one of five finalists this year for its Best Intranet Solution award.

Developed by Zeal Inc., a software company in Northbrook, Ill., the intranet enabled Shand Morahan's underwriting department to dramatically increase its level of productivity, according to Tony Pierce, vp-management information systems at Shand Morahan.

Before creating the intranet, Shand Morahan's underwriters were divided into camps by product line. The company writes 12 lines, including directors and officers liability and various errors and omissions coverages. Surplus lines brokers often had to deal with different people for each type of product, Mr. Pierce explained.

In addition, underwriters lacked easy access to rating and policy guidelines, which were kept in three-ring binders and not uniformly organized. When

a question arose, finding the answer could require tracking down a variety of people, he said.

Shand Morahan changed all that by updating the underwriting guidelines and putting them online.

"Now there's one point of contact. We've changed our way of business from product line-oriented to customer-oriented," Mr. Pierce said.

"Producers love it. They have one contact, they're building a relationship with that person and they don't have to remember who to deal with at Shand," he said.

Following flat premium growth over the past three or four years, Shand Morahan formed a strategic planning committee to find ways to increase the company's efficiency, he said.

Among the goals were building relationships between producers and underwriters and establishing a system under which one person could "automatically know the status of everything," Mr. Pierce said.

"That was the business problem we were trying to solve. We also wanted to improve workflow," he said. Greater access to underwriting guidelines was needed, and the committee wondered, "Is there some way to get this online?" he said.

Shand Morahan hired Zeal to explore the options and the software company recommended an intranet.

Intranets are in essence the Internet in miniature. They run on the same kind of equipment as the Internet, utilizing a network server and browser software. A company with Internet access already has the tools needed to establish an intranet.

"Some business was slipping through the cracks" at Shand Morahan, according to Steven Zeal, the software company's president. "There was very dispersed information, no central knowledge base." Mitch Greenwald, technical di-

rector at Zeal, said, "There's a lot of practicality in sharing information in an electronic environment."

By providing access to pricing information, for example, Shand Morahan can improve its customer service, he said.

Zeal Inc. spent six weeks implementing the project, Mr. Zeal said. The initial phase involved putting one Shand Morahan product on the Web server and gathering feedback from the underwriters every few days.

"The hardest part was getting all the information from the different binders," Mr. Zeal explained. "We scanned in documents with OCR (optical character recognition) and converted online documents to HTML," or hypertext markup language, the programming language used to communicate on the Internet's World Wide Web.

Shand Morahan's underwriters now "can look up rules and regulations of different states very easily," Mr. Greenwald said.

The system gives the company's employees "random access and sequential access" to pages of information on the intranet, Mr. Greenwald explained.

The project was so successful that Shand Morahan's parent company, Markel Corp. of Glen Allen, Va., asked Zeal Inc. to create a similar system, Mr. Zeal said.

Besides the underwriting guidelines, Shand Morahan also put guidelines on claims, benefits and employee travel on the intranet. There even is an online help desk that employees can visit to solve simple computer problems.

"Anything documentation-oriented, we've started filling the intranet with," Mr. Pierce said. The number of uses for the intranet "just exploded. We've just created pages and published them."

One area Shand Morahan is looking at now is bringing its brokers online and providing password-protected access to its intranet, Mr. Pierce said. **BI**

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IT/Briefs

Reforms opposed

WASHINGTON—Several groups have complained that a recent proposal for financial services reform puts too much power in the hands of federal regulators and favors banks.

"The Treasury proposal heavily favors banks and their current favorite regulator, the comptroller," said Pam Allen, vp of federal affairs for the National Assn. of Mutual Insurance Companies, in a statement.

Both the Schaumburg, Ill.-based

Alliance of American Insurers and the Alexandria, Va.-based National Assn. of Professional Insurance Agents also issued releases opposing the expansion of federal regulation.

"The Treasury legislation is an affront to the concept of functional state regulation of insurance," Dean Sackett, PIA assistant vp for government affairs, said in his group's statement.

Mark-up on the bill is expected to take place this week.

NAMIC listed three "significant areas of concern" in its statement:

- The measure does not define insurance. NAMIC says it is concerned that federal bank regulators would continue to be able to rede-

fine insurance. A definition would protect banks and the insurance industry, NAMIC says.

- The Treasury proposal allows the Office of the Comptroller of the Currency "wide latitude in preempting state insurance laws," NAMIC says, adding that is "not consistent with functional regulation."

- Membership of the National Council on Financial Services is weighted heavily in favor of banks, NAMIC says. NAMIC says it does support the goals of the council: to resolve disputes among banking, insurance and securities regulators.

"NAMIC anticipates that the banking committee will address the insurance industry's concerns

as it creates a starting point for the legislation," Ms. Allen said in the NAMIC statement.

Involvement key

Employees working in an insurance company with a strong culture of employee involvement will be more satisfied and committed, among other benefits, research shows.

A new report from LOMA, an international association of more than 900 life and health insurance and financial services companies, outlines the research findings, which are based on a survey completed by about 10,000 insurance company employees in the

United States and Canada.

Along with more satisfied and committed employees, the study shows that the stronger the culture of involvement, the more likely employees are to rate management as effective, the lower the turnover rates and the better the company performs financially.

The report provides guidelines to help evaluate whether your organization's practices promote such involvement, and it provides examples of how companies are promoting it.

The report, "Employee Involvement: A Source of Competitive Advantage," is available for \$75 to LOMA members by calling 800-275-5662, then pressing 2. The cost is \$375 for non-members. Shipping and handling charges are not included; all major credit cards are accepted.

Professor named

CHARLOTTE, N.C.—A professor and former regulator will join the University of North Carolina-Charlotte in July to fill the James J. Harris Chair of Risk Management & Insurance.

Claude C. Lilly III will head the risk management and insurance area within the Department of Finance and Business Law. Mr. Lilly will be responsible for developing the risk management and insurance curriculum for undergraduates, the development of insurance industry seminars and management of risk management and insurance research activity.

Mr. Lilly has a doctoral degree from Georgia State University in Atlanta. He has taught at Texas Tech University in Lubbock, the University of Southern California in Los Angeles and Florida State University in Tallahassee.

He also has been an assistant deputy insurance commissioner in Georgia and an assistant regional manager for Germantown Insurance Co. of Philadelphia.

The chair Mr. Lilly will assume was made possible by gifts from Sara Harris Bissell, Cameron M. Harris and John W. Harris, in memory of their father, James J. Harris, and gifts from the James J. Harris and Angela M. Harris Foundation. Cameron Harris is president of Cameron M. Harris & Co., a Charlotte-based insurance agency.

The Harris family also has helped raise money for a distinguished professorship in risk management and insurance that is to be filled in fall 1998.

NAMIC members

INDIANAPOLIS—Three property/casualty insurers have joined the National Assn. of Mutual Insurance Cos.

Lumbermens Mutual Casualty Co. in Long Grove, Ill., a unit of Kemper Insurance Cos.; Eagle Insurance Co. of Uniondale, N.Y.; and Farmer's Mutual Fire Insurance Co. of Huron County, Mich., have been admitted by the board of directors of Indianapolis-based NAMIC. **BI**

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Continued from previous page
son Blvd., Suite 2200, Chicago, Ill. 60604;
312-427-2520.

JULY 20-23. National Symposium on Workers' Compensation in New Brunswick, N.J., sponsored by the Center for Management Development of Rutgers University; \$595. Center for Management Development, Rutgers, P.O. Box 5062, New Brunswick, N.J. 08903-5062; 908-445-5639.

JULY 22-24. The 17th Annual National Workers' Compensation and Occupational Medicine Seminar in Cape Cod, Mass., sponsored by S.E.A.K. Inc.; \$525. Steve Babitsky, S.E.A.K. Inc., P.O. Box 729, Falmouth, Mass. 02541; 508-540-8304.

JULY 24-25. Policies and Controls to Ensure Effective Risk Management conference in New York, sponsored by the International Business Communications Group P.L.C.; \$1,295. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

JULY 27-30. Professional Insurance Marketing Assn. 1997 summer conference in Napa Valley, Calif., sponsored by PIMA; Before June 24: \$625 for member and family, \$775 for prospective member and family; after June 24: \$675 for member and family, \$825 for prospective member and family. PIMA, 4733 Bethesda Ave., Suite 300, Bethesda, Md. 20814-5228; 301-951-1260.

JULY 28-30. The 3rd Annual Catastrophe Protection Summit in New York, sponsored by Insurance Advisory Council: A division of International Quality & Productivity Center; \$1,295. International Quality & Productivity Center, 150 Clove Road, P.O. Box 401, Little Falls, N.J. 07424-0401; 800-882-8684.

JULY 28-31. Essentials of Public Sector Benefits Management seminar in Brookfield, Wis., sponsored by International Foundation of Employee Benefit Plans; \$1,100 for members, \$1,300 for non-members. Registrations Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 888-334-3327 or 414-786-6710, ext. 8257.

JULY 29-30. Quantifying Savings in Integrating Disability Management in Workers' Compensation and Group Health conference in Chicago, sponsored by National Managed Workers' Compensation Institute; \$1,295. Conference Administrator, Global Business Research Ltd., 151 W. 19th St., 8th Floor, New York, N.Y. 10011; 212-645-4226.

JULY 31-AUG. 1. Integrating Risk Management & Workplace Safety conference in Boston, Mass., sponsored by Executive Risk Institute/Institute for International Research; \$895. IIR, 708 Third Ave., 4th Floor, New York, N.Y. 10017-4103; 800-999-3123.

AUGUST

AUG. 3-6, 7-9. Ergonomic Analysis of the Workplace workshop in Las Vegas, sponsored by Work Injury Management News & Digest and Advantage Health Systems Inc.; Before July 3: \$695 for section one, Aug. 3-6; \$395 for section two, Aug. 7-9; \$995 for both sections. After July 3: \$795 for section one, \$495 for section two, \$1,095 for both sections. Prerequisite required for section two. Work Injury Management, 8704 Bourgade, Lenexa, Kan. 66219-1400; 888-621-2382.

AUG. 10-13. American Risk & Insurance Assn. annual meeting in San Diego., sponsored by the ARIA; Before Aug. 1: \$145 for members, \$180 for non-members, \$72.50 for students or retirees; after Aug. 1: \$170 for members, \$205 for non-members, \$102.50 for students or retirees. ARIA, c/o Chase Communications, P.O. Box 9001, Mount Vernon, N.Y. 10552; 800-951-2020 or 914-699-2020.

AUG. 12-13. Understanding the Annual Statement: Life/Health seminar in Philadelphia, sponsored by the Fells Road Group Inc./Michael Conn Associates Inc.; \$550. Fells Road Group Inc./Michael Conn Associates Inc., 271 Route 46 West, Suite D-207, Fairfield, N.J. 07004; 201-227-5955.

AUG. 16-30. The International Capital Markets Summer Program in London

U.K., sponsored by Euromoney Training; £7,030. Also November 15-29. Hilary McCann, Euromoney Training, Nestor House, Playhouse Yard, London ED4V 5EX, UK; 44-171-779-8753.

AUG. 18-20. The Benefit Communication Institute in Coronado, Calif., sponsored by the International Foundation of Employee Benefit Plans; Before July 7: \$675 for members, \$750 for non-members; after July 7: \$825 for members, \$900 for non-members. Registrations Department, IFEBP, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008; 414-786-6710, ext. 8257.

SEPTEMBER

SEPT. 7-10. Risk It '97 conference in Toronto, sponsored by the Canadian Risk & Insurance Management Society; Before

Aug. 1: \$450 for members, \$500 for non-members; after Aug. 1: \$510 for members, \$560 for non-members. Risk It Information Center, 416-253-1888.

SEPT. 8-11. American Society for Industrial Security's 43rd Annual Seminar and Exhibits in St. Louis, sponsored by ASIS; \$525 for members, \$655 for non-members. Customer Services Department, ASIS, 1655 N. Fort Myer Drive, Suite 1200, Arlington, Va. 22209; 703-522-5800.

SEPT. 8-13. Monte Carlo Rendez-Vous de Septembre conference in Monte Carlo, Monaco, sponsored by Centre de Congres Auditorium de Monaco; \$87. CCAM, Boulevard Louis II, MC 98000, Monaco; 377-92-16-60-51.

SEPT. 10-13. Self-Insurance Institute of

America Inc. 17th Annual National Educational Conference & Exposition in Atlanta, sponsored by SIIA, \$595 for members, \$795 for non-members; SIIA, P.O. Box 15466, Santa Ana, Calif. 92735-0466; 714-261-2553.

SEPT. 13-17. IAA's 102nd Annual Convention and Trade Show in Kamuela, Hawaii; sponsored by Independent Insurance Agents of America Inc.; \$425. IAA, Dept. 844, Alexandria, Va. 22334-0844, 800-221-7917.

SEPT. 14-17. National Assn. of Mutual Insurance Cos. annual convention in Denver, sponsored by NAMIC; Before July 15: \$340 for members, \$460 for non-members; after July 15: \$365 for members, \$485 for non-members. National Assn. of Mutual Insurance Cos., 3601 Vincennes Road, P.O. Box

68700, Indianapolis, Ind. 46268-0700; 317-875-5250.

SEPT. 15-19. International Union of Marine Insurance conference in Paris, sponsored by the IUMI; 5,600 French francs. Organizing Committee, AFSAT, 20 rue Vivienne, F-75082 Paris Cedex 02; 33-1-42-96-12-13.

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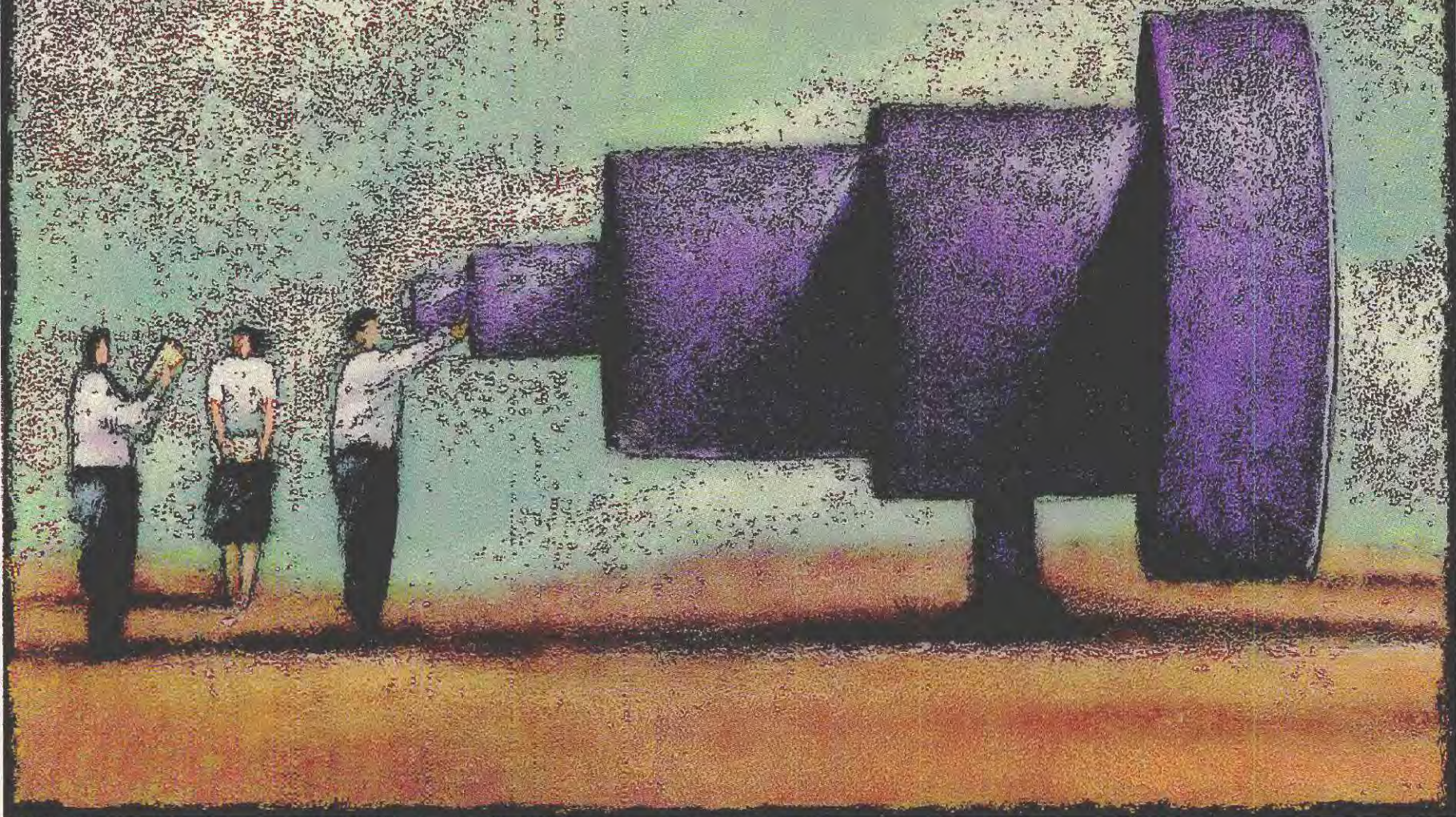
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Legal changes for Hong Kong ahead

By George F. Lazovsky

AT MIDNIGHT on June 30, Hong Kong will be the site of an historic event: British sovereignty over the British Crown Colony of Hong Kong and the New Territories will transfer to the People's Republic of China.

After a dignified and solemn ceremony, the last colonial governor, Christopher Patten, will depart on Queen Elizabeth's royal yacht. And as Governor Patten is piped aboard the Britannia, Mr. Tung Chee-Hwa will assume the duties, responsibilities and authorities of chief executive of the Special Administrative Region of Hong Kong, People's Republic of China.

Recognizing the unique political and economic challenges of a change of sovereignty, Britain and China agreed in 1984—in the Joint Declaration they registered with the United Nations—that China would adopt a policy of "one country, two systems." For the next 50 years, Hong Kong will enjoy substantial autonomy as a special administrative region, or SAR, within China. Hong Kong's stability and prosperity is to be preserved by Hong Kong people ruling Hong Kong in all matters except national security and foreign affairs. Every expectation is that the capitalist system pursued so successfully by Hong Kong will be preserved—perhaps even nurtured as a model for reforms and modernizations of China's socialist-market economy. Nevertheless, despite the structures and frameworks devised by Britain and China to preserve Hong Kong's unique attributes, certain changes will occur.

Under the Joint Declaration, Hong Kong retains its own legal system based on English Common Law and its mechanisms for appeal and judicial review. This differs from Chinese law, which is based on a Confucian tradition and has its own mechanisms for application, appeal and review. Instead of judicial appeal to the Privy Council in the United Kingdom, a practice the Crown Colony of Hong Kong had in common with most Commonwealth nations, Hong Kong will have a new Court of Final Appeals. Virtually all commercial and civil matters will be adjudicated on the precedents of common law. The Court of Final Appeals will have the existing body of Hong Kong law and precedence to guide it.

That Hong Kong common law will evolve and change is inevitable. It will grow in new directions and take on characteristics unique to Hong Kong, just as U.S., Canadian, and Australian common law evolved in directions quite different than the parent English Common Law. Although skeptics say it's not practical for one sovereign nation to have two legal systems, there are precedents: Louisiana law continues to be governed in significant respects by the Napoleonic Code, as does the provincial law of Quebec in Canada.

Reliance on common law, with its transparency of application and relative predictability of issues, should be expected to continue to provide a framework for commercial affairs.

Under the Joint Declaration, Hong Kong SAR will remain a separate commercial entity; all agreements and memberships in global organizations and commercial associations will continue. The accounting principles that regulate commercial practice are expected to continue and be governed by professional practitioners, particularly with respect to tax accounting.

The Joint Declaration provides for Hong Kong SAR taxation to remain separate and distinct from the tax authorities of China. A separate budget will be determined solely by the SAR government. The authority to raise revenue by taxation also is specified at the sole discretion of the SAR government.

The relative practices of Hong Kong accounting also are expected to endure. Generally accepted accounting principles for Hong Kong historically have been based on the United Kingdom's rules of chartered accountancy.

Alternatively, accounting rules in China have developed in recent years as the private sector has developed and privatization has emerged as a driving force of the market-oriented economy. Accounting practices are not so clear as in Hong Kong; professional regulation of accounting practices is in the early stages of development.

In general, Hong Kong's commerce, including the

insurance sector, should work well under "one country, two systems." The differences between Chinese regulation of insurance and the Hong Kong SAR's relative lack of insurance regulation undoubtedly will remain.

Hong Kong insurance regulators are considering ordinances and regulations that will be even more hospitable to captive insurance companies than current regulations. And many think the most likely source of new interest in captives will be from China.

China currently has granted licenses to 11 insurers; Hong Kong has 276 insurers. China's insurance company capitalization requirements are about \$100 million; in Hong Kong, an insurer can be capitalized with about \$2 million.

China has currency exchange controls, and the renminbi is a non-exportable currency; Hong Kong is a top-five currency trading center, and the Hong Kong dollar is a freely convertible currency. China has one licensed reinsurance company, PICC Re; Hong Kong has more than 30 such companies or branches of multinational reinsurers.

Overriding all these points and counterpoints is the fact that the Joint Declaration will preserve the commercial affairs of the Hong Kong SAR with provisions for separate

insurance regulation, distinct commercial practices, and separate laws, taxation, dispute resolution mechanisms and contractual interpretation precedents.

Over the centuries, China has been one of the more volatile areas of the world, but the last 20 years have proved relatively stable and remarkably prosperous. Though no one can know for sure what lies ahead, it appears at least in the near future, the "new" Hong Kong will continue to offer significant opportunities as one of the world's great commercial centers. **BI**



George F. Lazovsky is chairman of J&H Marsh & McLennan-China.

Insurance after transfer

Here are answers to frequent questions asked about insurance in Hong Kong and in China after the transfer of sovereignty:

• In which language will insurance policy interpretations and ambiguities be resolved in case of a dispute?

In Hong Kong, any language can be used for insurance policies, though it is safe to say that all but a handful of policies are in English. In the event of a dispute or ambiguity, common law precedents about the interpretation of English usage will prevail.

In China, foreign investors can have standardized insurance policies written in English, but a Chinese-language policy also will be issued. In case of a dispute, reference to "international practice" generally is the starting point of discussions. If ambiguity remains at issue, the Chinese-language policy will govern.

• How will the regulations about admitted and non-admitted insurance operate in the future?

In the Hong Kong SAR, non-admitted insurance will continue to be permitted except for automobile liability and employees' compensation; these have always been governed by admitted insurance requirements.

China's insurance regulation provides for admitted insurance only. All domestic or foreign-owned companies and all joint ventures licensed to operate in China must purchase any insurance from insurers licensed to do business in China. Hong Kong's 276 insurers are not licensed; a policy issued in the Hong Kong SAR will not be considered admitted insurance.

• What is the best technique for insuring property or goods that are shipped between plants, warehouses or other locations in China and the Hong Kong SAR?

Marine and air cargo insurance will continue to be specified in the documentation between consignor and consignee, as is the case in international commercial practice. C.I.F. (cost, insurance, freight) shipping terms allow a Hong Kong consignor to provide insurance of a shipment to China without breaching the insurance regulations of China. Similarly, a Chinese consignor can agree to C&F shipping terms that allow the Hong Kong consignee to arrange the insurance, and Chinese insurance regulation will not be breached.

• How will export credit covers be affected by sole sovereignty?

The Hong Kong SAR has a separate membership in the World Trade Organization and has a separate credit rating from China. The SAR will remain a separate commercial entity in most legal aspects. Even bilateral issues such as American most favored nation status distinguishes between the Hong Kong SAR and

China. All this supports the current expectation that export credit insurance for Hong Kong will be unaffected by the transfer of sovereignty.

• Will underwriters treat Hong Kong property risks the same as property risks in China after the transfer? Will rates change?

As a developed economy, Hong Kong SAR enjoys a superior infrastructure, such as time-tested building standards and one of the best fire departments in the world. Discerning underwriters have recognized this and provide competitive and unregulated pricing for property insurance.

China is an emerging economy; underwriters have reflected their views in relatively higher pricing for the reinsurance capacity that supports China's continuing modernization.

The distinct insurance regulations of the Hong Kong SAR and China can be expected to permit a continuing difference between insurance costs.

• If an insurance policy has an exclusion for China, will Hong Kong also be excluded after the transfer?

This is an ambiguity that needs to be resolved outside of Hong Kong SAR or China. Exclusions applying to China typically are found on global policies issued outside of China or Hong Kong. Therefore, questions of interpretation will be determined in jurisdictions not party to the Joint Declaration. The safest course is to check all global policies—excess/umbrellas, difference in conditions, directors and officers liability, etc.—and delete all exclusions or territorial limitations that apply to China.

These questions and answers illustrate how insurance is likely to operate in "one country, two systems." Many other issues will not have such clear-cut answers.

For example, both Hong Kong SAR and China require admitted auto liability insurance as a condition of vehicle licensing. So, vehicles traveling between the two jurisdictions require distinct registrations and insurance.

Such was precisely the case between the United States and Canada earlier in this century. Now, a single policy can respond to liability that might arise in either jurisdiction. In the not too distant future, the U.S.-Canadian model, which facilitated cross-border travel and commerce, may well find a practical application in Hong Kong and China.

Similar issues arising from differences in employees' compensation, employers liability and marine liabilities policies also can be expected to find a practical solution under the "two systems" concept.

ASK A CASUALTY ACTUARY

Q

As a spreadsheet user, have you encountered any bugs of consequence?

A

Not long ago I was reviewing an exhibit for a report to a client. A key number seemed much smaller than I had expected. That number was the total of a column of numbers—hardly a heavy-duty calculation. One didn't have to be a math whiz to see that the total should have been about twice as big as it was.

In the past when that had happened, the problem was that the range of cell references was inaccurate. I checked the formula in the cell; it was correct. We had instructed the computer via our software to add the correct range of numbers.

Why wasn't it doing what it was told to do? My next thought was to see if somehow the calculation mode was not "automatic," as manual recalculation is a mode one can select for the spreadsheet. It was in automatic recalculation mode.

How could this be? Was it possible that there was some invisible character in the cell formula that was causing the computer to not add up the proper range of numbers? I retyped the formula that was already in the cell. Immediately, the correct sum appeared in the cell. Was it an invisible character that had caused the problem?

We called the help line—from a speakerphone, so we could keep working while being put on hold for a long time until someone was available to speak. After advising the long-awaited respondent of the problem,

he told us this kind of situation could arise from a bug in the software. If we inadvertently had activated this bug in our use of the spreadsheet, it would not leave any tracks. It simply would prevent the spreadsheet from updating automatically or consistently.

The respondent advised us to visit the software's technical support Web site, where we got a printout on this bug's anatomy and behavioral tendencies. To our surprise, the advisory on this had been on the Web site for the last year and a half! Despite the fact that we were registered owners of the software during that entire time, we did not receive any letter advising us of the problem and offering us a way to exterminate the bug.

I became dizzy and nearly tottered out of my chair onto the floor. My faith in the accuracy of my spreadsheet software had been openly challenged. In my queasy state, I contemplated the fact that, as a consulting actuary, I make a living by selling the results of spreadsheet calculations.

Next, visions of the sweeping product disclaimer of the typical software maker flashed in my mind. I grabbed the license agreement. The software had been provided "as is." All warranties, either express or implied, had been disclaimed.

The agreement further advised me that under no circumstances would the software maker be liable for any damages of any kind. The only comfort I found were in the closing words, which noted that in certain states, liability for certain kinds of damages could not be excluded or limited. Not surprisingly, those states were not listed.

I was now ready to add another caveat to my reports. In spite of all our best efforts to nab errant bugs in the spreadsheet software we had used, some still could remain. I felt an obligation to warn our clients that our reports should be received "as is," much like the rusting, dented used car on the corner sales lot. I felt even more ill.

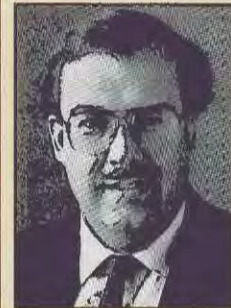
A more sane approach popped into my head: I again visited the Web site. Were there other bugs inhabiting our software? Yes. I considered writing about these bugs but stopped after I read a "statement of confidentiality" that told me I couldn't disseminate such information. All I can say is, visit your software manufacturer's Web site and hunt for patches, noting what they are intended to fix. If there is even the remotest chance you need the patch, get it off the Web site or order it. **BI**

Would you like advice from an experienced colleague on a risk management, benefit management or actuarial problem? Four quarterly features in the Perspective section of Business Insurance can give you some answers.

Ask A Casualty Actuary, Ask A Benefit Actuary, Ask A Benefit Manager and Ask A Risk Manager answer written questions from readers on risk and benefit management issues and actuarial problems.

This month's column on actuarial issues in the casualty field is written by Richard E. Sherman, president of Richard E. Sherman & Associates Inc. in Ashland, Ore. William J. Miner, an actuary with Watson Wyatt Worldwide in Chicago, answers actuarial questions in the benefits field. Christopher E. Mandel, director-risk management at PepsiCo Restaurant Services in Louisville, Ky., answers risk management questions. And Dennis J. Nirtaut, managing director of compensation and benefits for Andersen Worldwide S.C. in Chicago, answers questions on employee benefit plans.

Address your questions to ASK, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.



Mr. Sherman

Decreasing the risk of sexual abuse suits

By Robert Krall

SCHOOL DISTRICTS, police departments, municipalities and other public entities are facing an increasing risk of lawsuits over sexual abuse.

Although this topic was seldom discussed in public and rarely in open court until a few years ago, the exposure to such suits is growing and may be greater than public entities are prepared to face.

Because of the sensitive nature of the subject, reliable statistics on the number of sexual molestation lawsuits filed each year are difficult, if not impossible, to determine.

For example, the U.S. Department of Health and Human Services says that there were an estimated 139,000 substantiated cases of sexual molestation in 1993. Yet in 1996, there were 3 million allegations of improper contact, and 900,000 of these allegations are being investigated or tried in court, according to the U.S. Department of Justice.

News reports indicate that the number of lawsuits is increasing, as are the sizes of monetary damage awards to plaintiffs. Consider three cases that had a tremendous impact in Los Angeles:

- Last August, a Los Angeles County Superior Court jury awarded an eight-year-old boy and his family \$1.2 million, finding that the Los Angeles Unified School District was negligent for failing to protect the boy from being molested by an 11-year-old boy who had a history of psychological problems.

During the course of the trial, the district's lawyers waged a vigorous defense, blaming the victim and his parents for overreacting to the assault. The district not only faced one of the highest damage awards ever for an

assault by a student, but also a major public relations problem, with the Los Angeles Times calling for the ouster of the school principal "and those primarily responsible for the district's legal defense" in the case.

- In 1992, a mother and daughter successfully sued the city of Los Angeles and its police department for failing to adequately investigate a complaint that the girl, then 13 years old, was sexually molested by an off-duty police officer.

A Los Angeles County Superior Court jury awarded the plaintiffs \$9.4 million, one of the largest verdicts ever against a municipality in a police misconduct suit. The city later agreed to a post-verdict settlement of approximately \$4.6 million.

- In 1990, the Los Angeles Unified School District agreed to a \$6 million settlement with the parents and guardians of more than a dozen young girls who were sexually abused by an elementary school teacher, who was sentenced to 44 years in prison for the crimes.

Subsequently, a district regional administrator was prosecuted for failing to comply with a California law that requires those entrusted with the care of children to report suspected child abuse within 36 hours to a child protective agency. The administrator's misdemeanor conviction later was overturned on appeal, but the case prompted the state legislature to revise its child abuse reporting law to specifically state that school police departments are not considered child protection agencies.

It is clear that juries are increasingly willing to award substantial compensatory and punitive damages against public entities for failing to adequately protect children from the threat of sexual molestation. Because the topic is no longer taboo, and because we live in an increasingly litigious society, it is likely that these

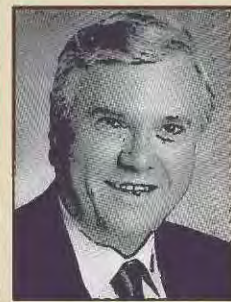
lawsuits will increase.

Sexual abuse cases are affecting a broad range of institutions—schools, police departments and municipalities—in nearly every state. Furthermore, these cases can include a variety of litigants: students, teachers, school administrators, police officers, juveniles and adults.

To reduce an organization's exposure to sexual abuse allegations, risk managers must adopt a strict set of rules and procedures. In situations as sensitive as sexual molestation, it is imperative that managers' actions be beyond reproach—clear, comprehensive and sympathetic.

Proactive risk control plans should include measures for background checks, employee training, complaint investigation, a policy statement and management action. Rules and procedures then need to be reviewed by appropriate legal counsel and insurance representatives.

Only by instituting these types of controls can our public agencies minimize the possibility of sexual abuse lawsuits and establish a credible defense should such an allegation be made. **BI**



Robert Krall is loss control coordinator of Coregis Insurance Co. in Chicago.

Rep. Fawell advances legislation to allow small business to avoid benefit mandates

By PAUL MERRION
Crain News Service

WASHINGTON—All Rep. Harris Fawell, R-Ill., wants to do is level the health insurance playing field for small businesses.

Critics—namely consumer groups, health insurers and state insurance regulators—say he's going to bulldoze it.

The thrust of Rep. Fawell's bill would be to allow groups of related small companies to set up insured and self-insured multiple employer welfare arrangements, which are generally exempt from state regulation under the Employee Retirement Income Security Act. That would offer small companies the same protections from state regulation enjoyed by larger employers that can afford to self-insure their health care risks.

That would save money for smaller companies by allowing them to escape expensive state-mandated benefits.

"We're asking for precisely what big companies have," said Rep. Fawell, chairman of the House Subcommittee on Employer-Employee Relations, which has jurisdiction over employee benefit plans.

As one of the business community's top priorities, it's shaping up to be one of this year's biggest federal health policy battles, too.

"We're going to oppose strongly a number of (the bill's) components," said Don Peterson, chairman and chief executive officer of Lake Forest, Ill.-based Trustmark Insurance Co., who is also incoming chairman of the Washington-based Health Insurance Assn. of America.

Rep. Fawell's proposal was stripped from health care reform legislation passed by Congress last year (BI, June 17, 1996).

Rep. Fawell last week attached the measure to the must-pass budget-reconciliation bill pending in the House.

With 140 co-sponsors in the House and support from Senate Majority Leader Trent Lott of Mississippi, the Fawell bill is on a fast track through Congress, but a similar House-passed bill ran into strong White House opposition last year.

The issue goes to the heart of the country's health care prob-

lem—the unaffordability of health insurance for many small companies and individuals.

Republicans want to increase coverage by private business rather than resorting to the kind of guaranteed, federally administered coverage that the Clinton administration proposed in 1993.

Rep. Fawell changed last year's version of the bill to address criticism that there was little to prevent such small business group plans from going bust. The new bill would require plans to set aside reserves and buy termination insurance in case a plan folds.

Critics "don't have any arguments left, so they bring up the

old ones that aren't accurate anymore," said Alan Mertz, Rep. Fawell's chief of staff.

Republicans aren't in any mood to listen to White House objections this time around. "They don't want to solve the problem" of the uninsured, said Scott Palmer, chief of staff for Deputy Majority Whip Dennis Hastert, R-Ill., the GOP leadership's point man on health policy issues. "They want to keep the problem so they can get a federal takeover" of the health insurance industry, he charged.

But health insurers question whether Rep. Fawell's proposal would reduce costs in the short

run while driving them up over the long run.

The fear is that the existing insurance market would be fragmented as the companies most able to achieve lower health care costs—such as an association of high-tech companies with lots of young employees—would be the first to band together and form their own MEWA, leaving the rest of the small-business insurance pool with relatively higher-cost members.

"Instead of helping small businesses, this will completely undermine the insurance market for small business," said Christina Nyquist, Washington-based direc-

tor of health policy for the Blue Cross & Blue Shield Assn., which is leading the insurance industry opposition.

The Fawell bill would allow trade associations or groups of small employers to obtain health insurance collectively through the MEWA, giving them the kind of purchasing power and administrative savings that make health care costs as much as 30% lower for large companies.

To some extent, employer groups can already do that, depending on the law in individual states. But the bill would foster the practice by making it clear that such group arrangements would be covered by ERISA's pre-emption of state laws pertaining to benefits.

"It's clearly a step in the right direction," says Larry Boress, vp of the Midwest Business Group on Health. "We know there's power in numbers." **BI**



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Right incentives can lead to real changes in some employees' wellness behavior

By LAURA KOSS-FEDER
Crain News Service

NEW YORK—For \$15 to \$35 a month, employees at Deutsche Bank North America can work out at the Manhattan company's 5,500-square-foot fitness center, using a variety of weight and exercise machines and services.

Available free to participating employees are personal trainers, fitness assessments, headphones and the use of exercise clothing and footwear, services that most health clubs charge for. About one-third of the bank's 2,000 local employees use the center; 80% of them go at least twice a week.

"While the price is very reasonable, it's the high quality and total convenience that motivate employees to join," said Alex Sullivan, the program's director. "These incentives will keep people coming back."

The idea of giving employees incentives to partake in wellness options is catching on. Offered either by employers or health insurance providers, incentives come in many forms—from cash bonuses, discounts and free merchandise to company recognition of achieved goals. There is no consensus as to which are the best incentives, but experts agree they can only work if they fit employees' lifestyles.

"You need to offer incentives that are easy to take advantage of and that suit your employees," said Henry Moyer Jr., a partner with

Hirschfeld Stern Moyer & Ross Inc., a Manhattan benefits consulting firm. "While it may be hard to measure the results of these programs in terms of actual claims reductions, having healthier and happier employees can only help your company."

The incentives need to be flexible enough to meet different employees'

'Having healthier and happier employees can only help your company,' says benefit consultant Henry Moyer Jr.

needs, noted Eileen Settineri, a consultant at Manhattan-based Buck Consultants.

For instance, cash reimbursement for health initiatives is a strong incentive. But a company might find that employees with young children may be more interested in using reimbursements to pay for home exercise equipment, rather than for health club memberships.

"Working families with young children may not have the time to go out to a health club, and might find it easier to exercise out of their homes," said Ms. Settineri. "Examine your employee mix, and be willing to alter your incentives if you need to."

The Wellness Councils of America, a non-profit organization for promoting corporate health initiatives, assists companies in setting up wellness programs. For \$65 per company, the Omaha, Neb., organization provides handouts that can be used to structure wellness programs. They promote aerobic exercise, recreational activity and even simple movements like walking, washing a car, etc., according to a spokeswoman.

"Incentives for wellness can vary, from recognition to special prizes to an extra afternoon off," she adds. "You want to try to make them fun."

The Segal Co., a Manhattan-based employee benefit consulting firm, last year created a wellness incentive program for its employees. The program includes a \$300 annual reimbursement allowance that can be used toward a host of health-related benefits, such as part of a gym membership, nutritional counseling or exercise equipment.

Carolyn Harding, manager of employee benefits for Segal, said that in the first nine months of the program's existence, one-third of the consulting company's 800 eligible employees submitted reimbursement claims.

"This is a way of both helping employees with some expenses, and changing behavior in a positive way," said Ms. Harding.

Some believe that wellness program incentives need to be especially creative in order to encourage

healthier behavior.

Vytra Healthcare, a Melville, N.Y.-based health maintenance organization, in January launched a rewards program for its subscribers patterned after hotels' frequent-guest programs, says John Kaegi, senior vp of marketing.

All of Vytra's 150,000 eligible plan members are automatically enrolled in the program, called The Constellation Club. There are 29 ways of earning points, which can be redeemed for about 50 sports-and-health-related items.

Immunizing a child earns 100 points, joining a fitness center has a reward of 100 points, and completing a smoking cessation program garners 1,000 points. Even giving birth has a reward of 100 points, since Vytra's philosophy is to include in the wellness program life events that make its members feel better. Prizes range from tennis rackets to one-hour massages to treadmills.

Mr. Kaegi estimates that an average health plan member will earn about 3,200 points a year. He believes that the company's health care costs will fall 10% this year as a result of the program.

"Traditional incentives like cash and discounts are not enough to get people to change their habits," Mr. Kaegi says. "You need to make the incentives high enough and different enough. We're trying to reward people for doing what they should be doing."

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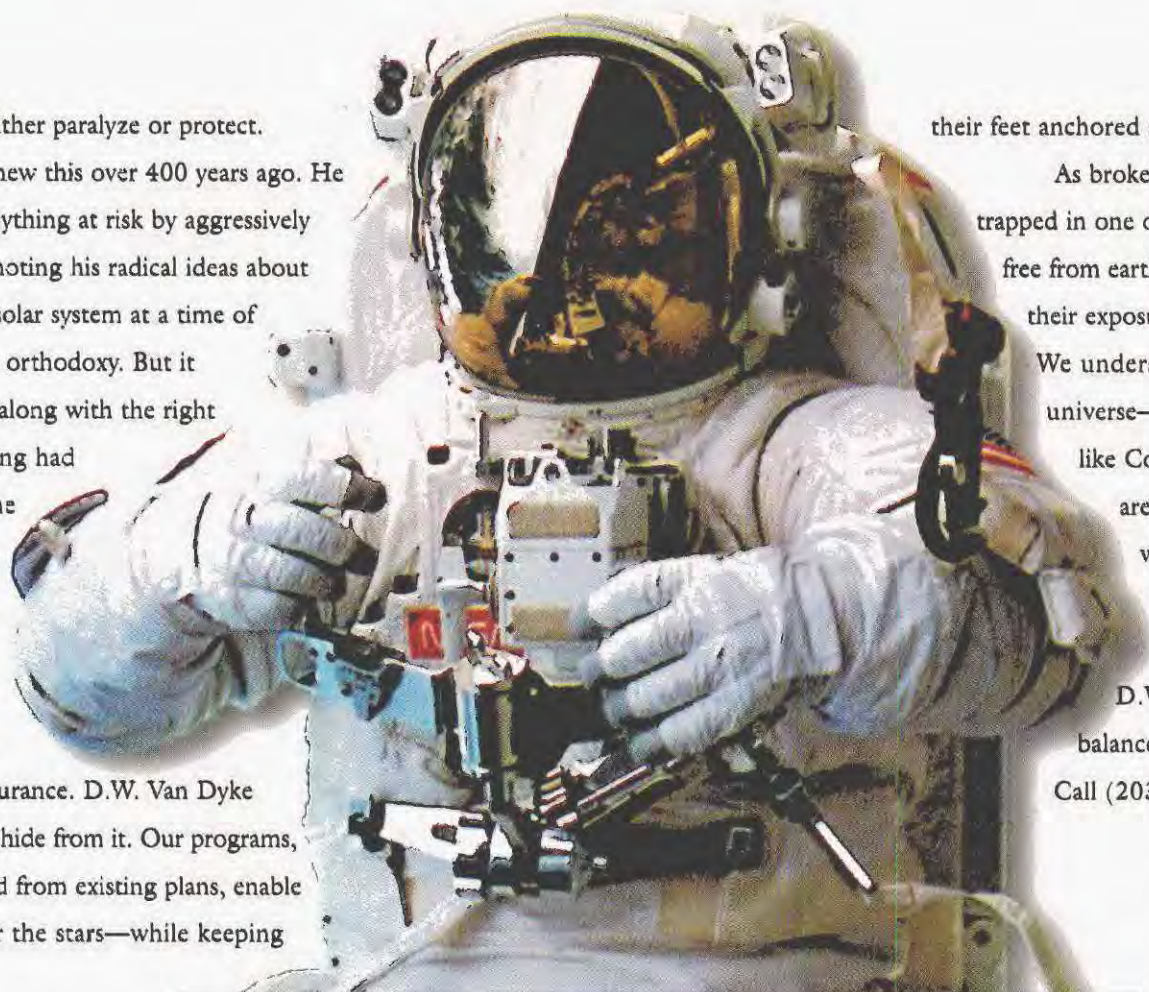
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Global Briefs

Ron Forrest will succeed Dennis Mahoney as chairman of the World Insurance Network. Mr. Forrest, who is chairman and chief executive officer of Aon Risk Services Cos. Inc., with responsibility for operations in North and South America, takes up the post July 1, the same day that WINconnect, WIN's global online communications services for the commercial insurance industry, goes live. WIN is owned by five of the world's major insurance brokers. . . . David Griffiths is resigning from the board of Lambert Fenchurch Group P.L.C. as of June 30. He was finance director of Fenchurch P.L.C. prior to its merger with Lowndes Lambert Holdings P.L.C. in February 1997. His successor to the board has not been named. . . . Zurich Insurance Co.'s shareholders last week approved its plan to increase its share capital by up to 25 million Swiss francs (\$17.4 million). Zurich said it will give it "the necessary flexibility to issue shares or raise equity in order to take timely advantage of opportunities for business expansion as and when they should arise" . . . Standard & Poor's has assigned a BBB-claims-paying ability rating to Hiscox Insurance Co. Ltd., a wholly owned subsidiary since July 1996 of Hiscox P.L.C. It said the rating reflects the insurer's "good capital position offset by a very modest business position and disappointing operating performance in the past six years when trading under the name of Economic Insurance." S&P said the acquisition by Hiscox has given the insurance company the advantages of new capital, a "well-respected" trading name and access to Lloyd's of London. . . . Aon Group Ltd., a London-based unit of Aon Group Inc., has centralized its global captive management operations under a new unit, Aon Insurance Managers. AIM will have more than 450 captives under management writing annual premiums of more than \$2 billion. Philip Stamp, AIM's chief executive, will be based in the Isle of Man. . . . French reinsurers have reported strong earnings for 1996, with profits up 37.5% to 2.399 billion French francs (\$461.3 million) last year, according to figures released by the Assn. des Reassureurs Francais. . . . European insurance and reinsurance brokers hope a European Union directive expected to be proposed later this year will remove restrictions that prevent intermediaries from freely transacting business within all member countries. In the meantime, the European Union has said it will use infringement proceedings against member states that try to place obstacles to brokers seeking to service clients across borders. Those proceedings would include a request to a member country to comply and could be followed by court action. . . . Bermuda-based EXEL Ltd. now owns more than 90% of property catastrophe reinsurer GCR Holdings Ltd. after its offer to buy GCR shares expired June 11. EXEL announced its intention to buy GCR for \$637 million in May (BI, May 12).

Lloyd's AGM a fairly tame affair compared with recent meetings

By SARAH GODDARD

LONDON—Lloyd's of London's annual general meeting earlier this month could not have differed more from the market's meetings in recent years.

Of course, much has changed in the past 12 months. Since last year's meeting, Lloyd's has ceded its pre-1993 liabilities into reinsurer Equitas Ltd.; ended most of the litigation brought by members alleging negligence or fraud for their losses; re-examined its regulatory and administration structures; and witnessed a shift toward greater limited liability investment in the market.

Many names who once were stuck on open syndicates and exposed to unlimited liability for long-tail claims have wound up their underwriting and have left Lloyd's.



'Our vision of the future must be rooted in serving our customers, not in nostalgia about our past,' says Lloyd's Chairman Sir David Rowland.

As a result, fewer than 600 members attended the annual general meeting at London's Barbican Centre earlier this month. In contrast, more than 3,000 members were at the Royal Festival Hall last year, ostensibly to hear about and ratify proposals to restructure Lloyd's finances (BI, July 22, 1996).

However, some names remain stuck on open years—54 syndicates still have not been able to close their books, mostly because they have no successor to reinsure their liabilities—and others continue their refusal to pay their Lloyd's bills. Outside the Barbican Centre, some unhappy names carried banners proclaiming that Lloyd's was fraudulent and had stolen money from them.

Inside, however, the meeting generally was calm. The tirades and pleas from names desperate to put an end to their Lloyd's connections, typical of recent years, were replaced with questions posed to Chairman David Rowland, Chief Executive Ron Sandier and the Council of Lloyd's on technical issues. Some disquiet did underpin various questions posed by members—particularly a worry by some

See Lloyd's on next page

Aon to buy Sodarcac

By GAVIN SOUTER

MONTREAL—Aon Corp.'s buying machine is rolling into Canada with the proposed \$39.7 million Canadian (\$28.9 million) purchase of loss-making insurance broker Sodarcac Inc.

The acquisition by Aon will give Sodarcac clients access to the international capabilities of the world's second-largest commercial insurance brokerage, said Robert Parizeau, chairman of Montreal-based Sodarcac.

In turn, Aon will strengthen its regional office network in Canada and take on a portfolio of mainly middle-market commercial insurance accounts, said James S. Horrick, president and chief executive officer of Aon Reed Stenhouse Inc. in Toronto, the Aon company that is making the purchase.

Although Sodarcac previously stated its intent to remain an independent Canadian insurance brokerage, the recent consolidation in the insurance brokerage business, which has been led by Aon, as well as the increasing globalization of all business, made the sale the best option for Sodarcac, Mr. Parizeau said.

"We have had more and more difficulty in serving clients that are operating on a worldwide basis," Mr. Parizeau said.

Sodarcac, which is the largest Canadian-owned insurance brokerage, has watched its gross revenues dwindle in recent years.

In 1990, when Sodarcac was still one of the 20 largest worldwide insurance brokerages, it had gross revenues of \$102.9 million Canadian (\$88.7 million). At year-end 1996, it had gross revenues of \$97 million Canadian (\$70.5 million). Those revenues have fallen further this year to about \$77 million Canadian (\$55.5 million) due to the sale of some business units—including the sale

See Sodarcac on page 29

Australian kidnapping leads to greater interest in coverage

By YVETTE HIGGINS and KATE TILLEY

SYDNEY, Australia—Insurance policies covering kidnap, ransom and extortion for corporate executives and their families are taking on new importance for Australian companies after the alleged kidnapping of a Sydney business executive's wife.

New South Wales police are still searching for Kerry Whelan, 39, wife of Bernard Whelan, managing director of Sydney-based Crown Equipment Pty. Ltd., which supplies fork lifts, pallets and other heavy moving equipment.

Ms. Whelan has been missing since May 6, when she failed to show up for an appointment with her husband at his business.

The next day, her husband received a ransom demand for \$1 million Australian (\$761,600). There has been no further communication from the kidnapers, nor has Ms. Whelan been found.

Australian kidnap, ransom and extortion underwriters have confirmed that Ms. Whelan is covered for up to \$1 million under her husband's company policy, but they will not say who the underwriter is.

KR&E underwriters say the incident has prompted risk managers whose corporations have no coverage, or coverage only for incidents outside Australia, to ask for premium quotes.

A Melbourne-based spokeswoman for Chubb Insurance Co. of Australia Ltd. said the Whelan case is raising risk managers'

awareness of kidnap risks.

"A lot of people don't think about KR&E insurance, but recent cases, including the Whelan case, have created more awareness about the incidence of KR&E in Australia," she said.

Kevin Toll, Australian manager of the crisis management division of Melbourne-based American Home Assurance Co., a unit of American International Group Inc., said the incidence of kidnap and ransom cases have increased in Australia over the past two years.

Geoff Wegg, New South Wales Police Service superintendent, said the number of kidnap incidents has increased, and that those involved are more likely to report them to police.

See Kidnap on page 29

Insurers may try to exclude cover for 'Year 2000' liabilities

By STACY SHAPIRO

LONDON—Underwriters may begin to exclude coverage for losses caused by the "Year 2000 problem" from insurance and reinsurance policies as they come up for renewal to avoid potentially massive insurance claims following the turn of the century.

At least two insurance products are being marketed that could offer alternative coverage, including a program launched last week by J&H Marsh & McLennan Cos. Inc.

However, the market is so soft now that it's hard to imagine many underwriters imposing Year 2000 exclusions unless all underwriters agree to exclude the coverage, executives say. The exclusions also may not hold up in court.

And the millennium problem may be so enormous that it would be uninsurable anyway, some risk managers say.

The Year 2000 problem is on everyone's lips at the moment, though the exposure was first recognized in the 1980s. Compa-

nies are spending millions to be "Year 2000 compliant" and are making sure their suppliers and service providers also are compliant.

Warranties also are being included in U.K. purchase orders to guarantee that products a company buys will be free from problems caused by the millennium time bomb. Such a warranty recently was included in the purchase order agreement of the Legal & General Assurance Society Ltd. in London.

The Year 2000 problem arises in computer hardware and software, as well as in microprocessors used in all sorts of equipment, from street-lighting and air conditioning to medical devices.

Observers are concerned that at 12 a.m. on Jan. 1, 2000, the clocks in most computers and microprocessors will go awry because they are programmed with a two-digit date field for the year. So the clocks will read "00" and time-sensitive programs may as-

sume that it is 1900 and not 2000.

"This is a real problem and not a figment of someone's imagination or dreamt up by computer companies," said Margaret Joachim, assistant director of Task Force 2000 in London. "It's not a U.K. problem or a U.S. problem but everybody's problem."

The problem is so important that Task Force 2000 was set up a year ago by the British De-

See Millennium on page 28



Lloyd's

Continued from previous page
individual members with unlimited liability that they are being pushed out of the market in favor of limited liability corporate capital.

Sir David's consistent response to this concern was that a recent move to increase the minimum total assets required for unlimited liability members to underwrite at Lloyd's was made to protect the market's policyholders and to en-

sure fairness between different types of Lloyd's capital (BI, June 9).

In Sir David's final address to an annual general meeting as Lloyd's chairman—he is retiring at the end of the year—he noted that recent annual meetings have focused on the needs and rights of capacity providers, rather than policyholders.

"Our vision of the future... must be rooted... in serving our customers, not in nostalgia about our past or our success in

dealing with our complex problems," Sir David said. "As we look ahead to Lloyd's future, we must be driven by the changing needs of our customers," a point he set against "rather poor market conditions" facing the insurance market.

That vision of the future has been encapsulated in a nine-point document, "Principles for the Future Development of Lloyd's." Policyholder rights are a strong theme of the document, which was released at the AGM.

"Lloyd's future strategy will con-

tinue to be determined by the need to provide clients with a secure, expert and efficient marketplace for

and resurrected for the next trading year, will be continued.

Some market executives have ex-

'Now that it is possible to convert to other forms of membership, the Council believes it timely to remind members of the risks associated with unlimited liability,' says Sir David Rowland.

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risk, aiming to earn good returns for its members," reads the first point.

Policyholders are also championed in the second point: Regulation will provide "reasonable safeguards" for protecting policyholders, it says, as well as protecting members and component businesses, and will aim to introduce external accountability for Lloyd's regulators (BI, May 26).

Lloyd's will maintain its "special features of the diverse... marketplace, which make it attractive to its clients and brokers," promises the document. Controls will be in place to curb threats to these "special features," such as "undue dominance."

Costs also will be controlled through "efficient provision of central services," which will be charged on a user-pays basis rather than the current system of levies based on a percentage of the underwriting commitments of members.

In addition, the principles commit Lloyd's to simplifying its reporting processes.

On the capital structure side, the document addresses five issues.

- The Central Fund will continue to be used as a fund of last resort backing policies issued by Lloyd's.

- Lloyd's capital backing will remain a melting pot of limited and unlimited liability sources. The document assures unlimited liability members their rights will not be withdrawn, forcing them out of the market.

- The annual joint venture system, which effectively means that each year-end Lloyd's is dissolved

pressed their concern that this form of trading limits their ability to commit underwriting capacity to multi-year policies.

- Market forces will be allowed to determine Lloyd's capital structure in the future, though the document says these forces will operate "within a fair and consistent framework."

Moves are already underway to equalize the assets required of unlimited and limited liability members (BI, June 9).

- Lloyd's is committed to providing names with a "free and efficient market" for selling and buying syndicate participations, as well as a greater range of options for conversion into limited liability status.

Earlier in the month, Lloyd's regulatory division issued a bulletin asking for views on "bilateral deals." It proposes to allow trades between agents and members, or between members, to exchange syndicate capacity for cash, for a place on different syndicates, or for shares in a corporate member, outside of the auction process.

Sir David signaled the direction he sees the market capital base traveling when he announced to the meeting that he will be converting his underwriting participation in the market to limited liability status when he retires. Currently, he is underwriting through a members agency pooling arrangement, which invests in multiple syndicates, a decision he made because he believed that he should not be seen to favor certain underwriters.

"Now that it is possible to convert to other forms of membership, the Council believes it timely to remind members of the risks associated with unlimited liability trading," Sir David said at the meeting. To this end, he assured members that if their losses were unpaid in the future, the Council "will not hesitate to draw on such guarantees if members' insurance obligations require it."

In fact, the day he made the statement, Lloyd's obtained a bankruptcy order against a name who had refused to pay £62,000 (\$101,587) in dues. Brian Rowlands, the owner of three betting shops in the north of England, was forced into bankruptcy because Lloyd's "believed he had the ability to pay his losses but refused to," said a Lloyd's spokesman. "Several more" bankruptcy orders are expected to come through this week, said the spokesman, adding that measures such as this will be taken against "everybody who has a debt to Lloyd's and who has assets to meet all or part of that debt."

From Sir David's point of view, while the risk of a member losing everything in the future is unlikely, it still remains a possibility. "Unlimited personal liability has been shown to mean exactly what it says," he said, "and I no longer believe that the substantial advantages of that method of trading should blind us to the reality of its possible consequences for the individual."



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Millennium

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partment of Trade and Industry, the Confederation of British Industry and the Computer Services & Software Assn. to raise businesses' awareness. The aim of the task force is "to ensure that companies understand the Year 2000 problem and are doing something about it," Ms. Joachim said.

The financial services industry generally and insurance companies in particular were some of the first organizations to become aware of a potential crisis, said Ms. Joachim. They realized that they had elderly core mainframe systems that needed to be Year 2000 compliant, she said.

But, aside from having the problem in-house, insurers also may face significant claims under property and casualty policies should a Year 2000 bug arise. That's why some underwriters are considering excluding the coverage from policies, particularly those covering business interruption and professional liability.

"Some insurance companies have said that they won't cover the problem from the Year 2000 and some are talking about it with clients during renewals," said Ms. Joachim.

So far, only a handful of exclusions are known, such as on professional liability policies for computer services companies, London market executives said. But as this year unfolds, more exclusions may crop up.

A spokeswoman for the Assn. of British Insurers denied rumors in the London market that the ABI has

drafted a Year 2000 exclusion to be used by British underwriters, though the association is reviewing its all-risks policy wording to see if there is an exposure.

"Where the existing policy may have a Year 2000 exposure, we may exclude it at renewals but there would be a potential to buy it back," said Nick Golden, group underwriting and reinsurance manager for Royal & Sun Alliance Insurance P.L.C. in London. Although such an exclusion has not been imposed as yet, "it may during the course of the year."

New York-based law firm LeBoeuf, Lamb, Greene & MacRae also has drafted Year 2000 exclusions for treaty reinsurers in the United States, said Christopher Gooding, partner for the firm in London.

In broad terms, he said, the Year 2000 exclusion would exclude losses arising from the inability of computer hardware and software "to differentiate between years in different centuries that end with the same two digits; and other data processing problems associated with the inability to accurately process data involving dates on or after January 2000."

The exclusion would cover equipment that is owned, leased and/or licensed by a policyholder and/or the policyholder's service providers.

Year 2000 exclusions may become a bigger issue during year-end renewals, said Mr. Gooding, because both U.K. and U.S. accountants may qualify accounts of companies that are not Year 2000 compliant or have not estimated their costs to correct the problem.

Exclusions would be difficult to impose in such a soft market, however, said Peter Cottrell, Lloyd's underwriter for syndicate 1173 managed by Cottrell & Maguire.

There is a general feeling that it would be better to encourage clients to become Year 2000 compliant rather than impose an exclusion, he said. As a result, for the past month Mr. Cottrell's syndicate has been asking clients to fill out a questionnaire to identify any problems they might have. If a problem is discovered, then the underwriters contact the client to see how it can be rectified.

Some Year 2000 exclusions, though, may not stand up in court, said Rosalind Jones, partner for London law firm Elborne Mitchell.

She has seen some exclusions in the London market but has not been impressed by their drafting. "Legally, they have had a few holes," she said. "Some are good and some are bad and could be taken apart in the courts."

Any new exclusions will have to be watertight, and the definition of the Year 2000 problem very succinct or they will be dissected. If policyholders do have losses, they probably would try to claim on older policies that did not have the exclusions, she said.

But it's "highly unlikely" that existing policies would cover the Year 2000 risk, said David Molyneux, vp of Minet Risk Services division in London, now part of Aon Group Inc. For example, the Year 2000 risk can now be seen as a foreseeable event that is excluded under most directors and officers liability policies, he said.

For some major companies, the huge losses that could accumulate from the Year 2000 risk probably are uninsurable anyway.

"If we feel that there is a risk, then I feel that there should be insurance" to cover the exposure, said Jerry Whit-

marsh, millennium program director for National Westminster Bank P.L.C. But the level of coverage needed may not be worth the premium, he said.

"I doubt Nat West would find it economical to insure against" a Year 2000 loss, he said. "But if you're a small company and not as dependent on information technology as we are, then it might well be a good idea."

Later this year, Nat West will review the bank's options if it suffers losses from the millennium problem. "But you really don't want problems to happen in the first place," Mr. Whitmarsh said.

The review is part of Nat West's millennium program set up last year to make sure the bank and its suppliers were Year 2000 compliant. Altogether, the program will cost £90 million (\$147.5 million) and take 750 man-hours to complete, he said.

The Year 2000 problem "is not particularly insurable for us," said Paul Dorey, group operational risk director for major U.K. bank Barclays P.L.C. in London. Barclays is "extremely big," so when one looks at the insurance coverage available, it probably would not be priced effectively. "If you were a small company, it might be worthwhile to insure," he said.

Barclays has been focusing on the Year 2000 problem since last year, but its home-built computer systems that were installed in the 1980s had to be made Year 2000 compliant.

Meanwhile, two insurance products have been developed to cover the Year 2000 risk.

New York-based J&H Marsh & McLennan Inc. last week launched its "2000 Secure" insurance program, which will provide both risk assessment and insurance coverage up to £100 million (\$163.9 million). Initial computer system and legal audits would be conducted to ascertain

whether a company qualifies for the program.

Audits would be repeated at regular intervals to ensure that the changing risk is understood by both policyholder and insurer. The audits would be provided by the 2000 Secure Audit Co. L.L.C., a joint venture of systems engineer Ascent Logic Corp. of San Jose, Calif.; and LeBoeuf Computing Technologies of New York, a unit of the LeBoeuf, Lamb law firm.

Depending on the size and complexity of the client's organization, the audits would cost between £25,000 and several hundred thousand pounds. In addition to preventing a crisis, the audits would "serve to provide a strong defense for management against subsequent allegations of failure to act with due diligence," J&H/M&M said in a statement.

Coverage for legal liability and business interruption of up to £100 million is being arranged by J&H/M&M. This will be subject to "a substantial self-insured retention" relevant to the magnitude of the risk and exposure concerned.

Earlier this year, the Minet Group and AIG Global Risks launched its Millennium Insurance Policy, with limits of up to \$100 million (BI, April 7). The custom-made policy protects against disrupted business or third-party lawsuits relating to computer system failure.

Two clients so far have said they will sign up for the coverage, said Minet's Mr. Molyneux.

However, "the interest level is blooming. We've had calls from lots of other brokers and from all continents," said Brian Casey, vp of Minet Risk Services in New York. "Maybe we introduced the policy before the market was really there" and the interest level rose both in the United States and worldwide. **BI**

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CU to reorganize operations

LONDON—Commercial Union P.L.C. is planning to reorganize its non-life insurance operations in a move designed to save £100 million a year by 1999.

The proposed changes will restructure CU's head office operations around nine new "trading units," each of which will focus on a specific market sector: industrial; personal lines; global risks; corporate partnerships; construction; small businesses; services; real estate; and retail.

Each unit will have the ability to handle all aspects of product development, underwriting, marketing

and delivery and will work with CU's distribution channels and business partners to better meet the needs of customers within their area, according to the insurer.

Earlier pilot studies of this approach in some of CU's branch offices showed that customer-focused teams generated two-thirds more quotes, while business written by those teams was up by one-third, compared with other offices.

Some of the intended savings will also come from greater use of new technology, some from streamlining branch management, and some from an anticipated reduction in

claims handling costs.

Measures would include consolidating the handling of litigation down to three centers rather than handling it separately at all branches, as at present, and dealing with fewer loss adjusters.

"The restructure of our general insurance operation will enable us to focus on end customer groups and distribution channels. In turn, we will become more market focused and responsive," said Cees Schrauwers, managing director of non-life insurance for Commercial Union.

—By Edwin Unsworth

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INTERNATIONAL

Gibraltar approved as E.U. gateway

By SARAH GODDARD

COLOGNE, Germany—Gibraltar's popularity as a captive insurance company domicile just received a shot in the arm.

Insurers, reinsurers and captive insurance companies based in Gibraltar can now write business across the European Union.

Gibraltar passed legislation governing cross-border trading in insurance business in February, but as a British territory had to wait for the U.K. Department of Trade and Industry to rule on the competence of its supervisory body, the Financial Services Commission.

The DTI last week said that it was satisfied that Gibraltar's regulatory system meets U.K. standards and Gibraltar could start accepting "single passport" insurance business.

Now, an insurance operation with its headquarters in Gibraltar can write direct insurance business in any E.U. country, under the supervision of the FSC, as long as it complies with the local insurance rules of the countries it is trading in. Furthermore, Gibraltar-based insurers can now establish branch operations in any of

the E.U. member countries.

In an interview between sessions at last week's Risk Management & Risk Financing in Europe Conference in Cologne, sponsored by London-based Risk & Insurance Research Group Ltd., Gibraltar's Minister for Trade and Industry Peter Montegriffo said he anticipates that the new single passport option will strengthen the territory's financial services sector, one of its most important industries.

"Gibraltar has been regarded as a successful finance location for 30 years" for wealthy individuals, Mr. Montegriffo said. "We are now moving to the next phase—institutional work."

Because it has catered to individual clients, Gibraltar has no double taxation agreements with other countries.

Despite the current soft market conditions in the worldwide insurance sector, Mr. Montegriffo said Gibraltar will thrive as an insurance location. "I am intensely aware of the fact that it is an extremely competitive market," he said. "But there is still a need for insurance incorporations and captive insurance locations."

"There is a commitment on the part

of the Gibraltar government that the standard of regulation in Gibraltar will be equal to U.K. standards, though it doesn't mean the methodology will follow the U.K.'s," said Mr. Montegriffo.

He disputed Gibraltar's reputation in recent years as a center for money laundering. In the 1980s and early '90s, financial scandals involving funds diverted through Gibraltar attracted attention (*BI*, April 14).

"Most of the criticisms were entirely unjustified," Mr. Montegriffo said.

In addition, relations with Spain, strained by a long dispute between Spain and the United Kingdom about Gibraltar's sovereignty—a potential stumbling block for some insurers—are "less antagonistic than people believe," he said, adding the issue is political rather than commercial. "The actual temperature on the ground is very friendly, with a lot of commercial interchange," he said.

Currently, 12 insurers and six captives operate from Gibraltar, where captive insurers are exempt from local taxation. As long as the company has no Gibraltarian shareholders or policyholders, the captive merely pays a flat annual fee of £1,000 (\$1,638).

tario and Halifax, Nova Scotia.

The retail operations of Sodarcen will be integrated in Aon Reed Stenhouse, and its reinsurance and consulting arms will be absorbed by other Aon companies in Canada, Mr. Horrick said.

Aon Reed Stenhouse will establish a subsidiary unit in Montreal, Aon Parizeau, to service French-speaking clients. Mr. Parizeau will be non-executive chairman of the unit, Mr. Horrick said.

The purchase comes on the heels of several others by Aon over the past year, including the purchase of Bain Hogg Group, Alexander & Alexander Services Inc. and Minet P.L.C. **BI**

Sodarcen

Continued from page 25

of its Vancouver retail portfolio to Aon Reed Stenhouse for \$3.5 million Canadian (\$2.5 million).

The profits have dwindled, too. In 1996, Sodarcen posted a net loss of \$4.9 million Canadian (\$3.6 million), compared with a net profit of \$1.03 million Canadian (\$754,900) in 1995.

Aon will pay \$3.85 Canadian (\$2.58) a share for Sodarcen's 10.3 million shares. Mr. Parizeau owns 25% of the equity in Sodarcen and has 75% of the voting rights. The offer for the shares will close July 3.

Purchasing Sodarcen will strengthen Aon's already extensive operations in Canada, said Mr. Horrick. Aon Reed Stenhouse, which is Aon's Canadian retail arm, had 1996 gross revenues of \$135 million Canadian (\$98.1 million) in 1996.

"Sodarcen had been a very solid competitor of ours and we had been looking at them for several years, but they had always wanted to remain 100% Canadian," Mr. Horrick said.

Sodarcen will increase Aon Reed Stenhouse's size in Montreal, where it already has an office, and give it two local offices in Quebec, he said.

In addition, Sodarcen has local offices in Toronto, southwestern On-

Kidnap

Continued from page 25

He said the increase could be partly attributed to copycat crimes.

Ken MacGregor, a senior executive with the Sydney office of Sedgwick Ltd., said he expects more corporations to buy KR&E coverage now, but added it is already common for major corporations to buy the insurance.

"It is very common...especially when the corporation is a multinational," he said. Coverage for expatriates is frequently purchased, especially for employees working in South America and southeast Asia.

AIG's Mr. Toll said there were 600 kidnappings reported in southeast Asia in 1995 alone.

Chubb doubled KR&E insurance sales each year over the past two years, according to the insurer's spokeswoman, but she would not say how many policies the company has.

While there are no statistics on the number of major Australian companies that have purchased KR&E coverage, the Chubb spokeswoman said: "There are still a lot of uninsured, publicly listed organizations."

She said the increase in policies is partly because more Australian companies now have operations in the Asia-Pacific region.

Risk managers based in the United States are far more aware of the potential risk, she noted. "A lot more policies are purchased in the United States than in Australia because United States companies are more aware of their exposure."

Mr. Toll said that while most corpo-

rate KR&E policies give company directors, officers and their employees 24-hour coverage when traveling, he expects corporate risk managers to consider wider coverage for incidents occurring in Australia.

"What we have seen will cause corporations to look at the cover they have in place," Mr. Toll said.

Many "corporations have limited cover for kidnap and ransom under travel insurance, but I think some companies will consider taking on a broader cover."

Until the Whelan kidnapping, Australian risk managers perceived kidnap, ransom and extortion as a relatively low risk, Mr. Toll said.

In May, a Sydney man was jailed for six years for an attempted kidnapping of a 6-year-old boy.

Last November, Melbourne-based shopping center owner John Gandel, a multimillionaire, was the intended victim of a kidnapping attempt. Mr. Gandel was not home, but his home's caretaker was temporarily abducted.

Underwriters say many other incidents are never publicized.

Some companies prefer to deal with kidnappers' demands themselves to avoid adverse publicity, even though that can leave them open to further extortion, Mr. Wegg said.

"We try to reinforce to companies that they need to implement crisis management measures," he said. "They should have them in place and keep them up-to-date."

Companies with sound risk management policies are better equipped to deal with kidnaps and can manage a crisis more effectively, he said.

The policies, which usually do not

carry a deductible, are relatively inexpensive.

A policy that provides \$1 million in coverage would only cost about \$8,000 Australian (\$6,093), according to Sedgwick's Mr. MacGregor.

AIG's policy indemnifies the insured against the loss or disappearance of ransom money in-transit, covers extortion or ransom money paid, consultants' costs, some legal costs, and death or dismemberment benefits, Mr. Toll said.

Some legal costs that can be paid result from a claim for damages against the insured corporation from a covered executive, relative, or guest, who alleges negligence or incompetence of the company arising from a kidnapping, extortion or wrongful detention, he said. Details of AIG's policies, including the fact that a company purchases them, must remain confidential to avoid encouraging KR&E risks, said Mr. Toll.

Some underwriters of KR&E coverage, in fact, will cancel coverage if a policyholder publicly discloses that it is insured for the risk.

However, Chubb's spokeswoman said Chubb does not use confidentiality clauses, nor would the insurer refuse to pay if the policy became public knowledge and a kidnap or extortion attempt resulted. But she said it would be "rare to find anyone, bar the highest management echelon, who would know if a company had cover."

AIG extends its benefits to "guests and family" of the policyholder, which Mr. Toll admits is unusual. "The amount of cover comes down to what the company perceives the level of risk to be," he said. **BI**

sector has created a strong professional infrastructure of accountants and legal firms, which Mr. Montegriffo sees as an attraction for new operations.

Already, "three or four" organizations have applied to set up single passport operations in Gibraltar, two as direct-writing captives and one as a reinsurer. These applications were made in hopes that the DTI would approve Gibraltar's regulatory system.

Paul Savignon, managing director of Norwich Union Fire Insurance Society (Gibraltar) Ltd., said the applications had come from Germany, Italy and Luxembourg, the last one as a proposed redomiciliation of a current captive.

Redomiciliation is a potential source of new activity. Several mechanisms are being identified to smooth the redomiciliation process, with captives anticipated to be moving from locations around the world, particularly the Caribbean and Europe. Also, because most people in Gibraltar speak both English and Spanish, he anticipated a lot of interest from South America.

Already, Gibraltar has an established South American offshore financial services brokerage, and a reinsurance operation is "in the pipeline."

In the long-term, Gibraltar also will target United States and South Africa for new business. **BI**

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NAIC prepares to defend its turf

By MEG FLETCHER

CHICAGO—State insurance regulators are stepping up their efforts to protect their turf from federal authorities who envision closer ties between banks and insurance as the future of financial services.

The state regulators are pursuing recognition and a role in financial services talks in Washington by marching under a banner of consumer protection.

However, at least two consumer representatives would rather see insurance regulators focus on helping with urban needs.

Signs of regulators' anti-federal campaign were evident throughout the summer quarterly meeting of the National Assn. of Insurance Commissioners last week in Chicago. The

most visible sign of this were round, red-edged stickers the NAIC distributed urging registrants to stop federal insurance regulation.

The stickers were part of a broad campaign outlined by a Washington, D.C., public relations—but not lobbying—firm the NAIC has hired to help it get its message across, NAIC President Josephine Musser of Wisconsin said in an interview.

The perceived federal threat comes in the form of several proposals pending in the U.S. Congress, specifically House Resolutions 10, 268, 669 and a Department of Treasury proposal that contain provisions pre-empting state regulation of bank's insurance activities. In addition, the Comptroller of the Currency has proposed separate federal regulatory oversight of bank's insur-

ance activities.

The NAIC's message is a simple one, Ms. Musser said in an NAIC newsletter: "State insurance regulators have been successfully safeguarding consumers and meeting the needs of the ever-changing market conditions for over 125 years. With such expertise and ability, there is no doubt that states—not the federal government—should regulate the business of insurance. States do it best, so let the states continue to do it!"

In her opening speech, she reiterated state regulators' support for the integration of financial services as long as states retain a key role in solvency oversight of entities providing insurance.

Wisconsin Gov. Tommy G. Thompson, who appointed Ms.

Musser, repeated the theme during a speech he delivered at a meeting of the NAIC's Special Committee on Banks and Insurance. "The states have the skills," he said. "We must work to preserve the laws and the regulations designed to keep consumers safe from unscrupulous operators."

The federal proposals would violate the constitution's guarantees of states' rights and powers, Mr. Musser added.

Kentucky Insurance Commissioner George Nichols III, who chairs the NAIC's banking committee, said he also voiced that theme during testimony last month before a U.S. House Committee.

The NAIC supports functional regulation and opposes the pre-emption of state laws, he said. "We must deliver the message to the Comptroller of the Currency that it is not right to pre-empt state law. Our laws are enacted by legislatures and signed by governors, duly elected representatives of the people."

State insurance regulators are particularly concerned about the Department of Treasury bill that would establish a National Council on Financial Services with rule-making power, according to a letter sent to the secretary of the Treasury and chairman of the House Banking Committee by the NAIC, the National Conference of Insurance Legislators and the National Conference of State Legislatures.

In related action at the summer meeting, state regulators moved up consideration of the need for a mutual insurance company model act and related proposals, spurred apparently by Congress's interest in the topic.

However, two consumer spokeswomen, whose attendance at the meeting was funded by the NAIC, voiced their concerns at the meeting about the insurance industry's general lack of involvement in helping solve urban needs, in contrast to banks' greater participation under the federal Community Reinvestment Act.

Sonia Alleyne of the Massachusetts Affordable Housing Alliance in Dorchester, Mass., expressed concern about a lack of insurer investment in communities and urged support for a bill pending in her state that would require greater insurer involvement.

Selwyn Whitehead of The Economic Empowerment Foundation in Oakland, Calif., said she, too, was concerned with an inadequate response by state regulators to allegations of insurance red-lining in urban areas.

The NAIC is likely to solicit support from such consumer groups in its fight against federal regulation. "We must mobilize and coordinate our allies," including consumers, insurers and related organizations, Ms. Musser said in her opening speech.

"If we fail to secure a seat at the table when these decisions on what the road of financial modernization should look like are made, if we neglect to be heard at every significant step in the process, we will lose and more importantly, consumers will lose," Ms. Musser said.

"State regulators may face the biggest threat of federal pre-emption of state regulation than they have since the early 1990s when Rep. John Dingell took on state regulation on the issue of solvency surveillance," said Lenore Marema, vp-legal and regulatory affairs for the Alliance of American Insurers in Schaumburg, Ill.

In other action at the meeting, state regulators:



- Approved on a 35 to 15 vote, with one abstention, several changes to its budget policy, which the NAIC has already begun implementing.

The NAIC, which now has about a \$40 million annual budget, will incorporate a program-based approach to budgeting, rather than a lump-sum approach. It also will identify and minimize instances in which insurer-provided database fees subsidize NAIC programs that are not related to solvency regulation, according to the one-page resolution.

In addition, the NAIC agreed that by the 1998 fiscal year it would move away from its extensive, multi-tiered fee schedule based on insurer premium volume toward a more traditional, cost-of-service-based fee schedule.

The changes, which insurer critics have pushed for several years, are designed to rein in the growth of the NAIC and focus its efforts primarily on solvency.

- Recertified four state insurance departments—Colorado, Minnesota, North Dakota and Virginia—for maintaining high financial solvency standards required under the NAIC's accreditation program. Recertification, which is good for five years, was previously approved for Iowa, Kansas, North Carolina, Ohio and South Carolina.

- Voted to formally approve two new model acts that would allow states adopting them to prohibit life and disability insurers from using information about spousal abuse to discriminate in underwriting the subjects of abuse. The NAIC last year protected such persons from discrimination by health insurers and is considering extending those protections to property/casualty insurers.

- Delayed a formal vote on adopting a white paper on the use of credit reports in underwriting.

- Gave interim Executive Committee approval to a new risk-based capital formula for health-related organizations, such as certain managed care entities.

The formula is designed to safeguard consumers by assuring that such an organization has minimum amounts of capital necessary to provide an adequate cushion to protect its financial stability, given its size and type of risk. The NAIC previously adopted a similar RBC approach for property/casualty and life/health insurers.

- Learned that a new New Hampshire law rescinds that state's participation in the Interstate Insurance Receivership Compact, which began in 1995. New Hampshire Gov. Jeanne Shaheen explained the decision by saying that it was in the best interest of her state. The remaining compact members are Illinois, Michigan and Nebraska.

- Released an alternative, prudent person-type model investment law for insurers and set a Sept. 10 deadline for comments.

- Continued work on proposals that would deregulate commercial lines of insurance and would establish "seamless" trans-border insurance transactions primarily for truckers traveling between the borders of Mexico, the United States and Canada.

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NAIC

Continued from page 1
is an important subject that needed attention and careful review, but it also needed a timely response," said Robert G. Lange of Nebraska. He succeeded former Utah Insurance Commissioner Bob Wilcox as chairman of the drafting group, which was established 15 months ago.

The most recent examples of LBRs involved CIGNA and The Home, which each split into ongoing and discontinued operations, primarily because of material exposures to asbestos, pollution and health hazard claims and other long-tail liabilities.

CIGNA currently is appealing a Pennsylvania appellate court ruling in March that vacated the Pennsylvania insurance commissioner's 1996 approval of the insurer's reorganization and called for CIGNA policyholders to have a greater voice in the proceedings (BI, March 10).

Meanwhile, worse-than-expected losses during runoff prompted New Hampshire regulators in March to put the runoff operations of The Home under formal state supervision after it fell far short of minimum capital requirements (BI, March 10).

Although the white paper summarizes but does not examine these deals, it does address some of the issues the restructurings have raised.

For example, the white paper states that: "From the viewpoint of the insurance consumer, absent express consent, guaranty fund coverage should not be reduced or eliminated by an LBR." However, "if it is concluded that an LBR places the availability of guaranty fund coverage in serious question, the structure of the proposed transaction or questionable component should be modified before approval."

The National Council of Insurance Guaranty Funds in December 1995 took the position that state guaranty funds likely would not respond to claims by CIGNA's runoff facility if it were to fail because the companies absorbing the liabilities either were not licensed or did not originally write the coverage (BI, Dec. 11, 1995).

CIGNA, though, has disputed the guaranty funds' position, arguing that its restructuring would be no

a novation, and therefore did not require prior policyholder approval.

The white paper also addresses issues that were raised in The Home's restructuring. The paper says that "an LBR is not an acceptable alternative to appropriate regulatory action, such as the rehabilitation or liquidation of insurers in hazardous financial condition, unless the hazardous financial condition is corrected by the LBR."

Rating agencies in late 1995 down-

graded The Home's ratings, citing

worsening long-tail liability exposures. To preserve the company, New Hampshire regulators in 1995 approved a controversial deal in which the poorly performing business of The Home was placed in runoff, while Zurich Insurance Group took the insurer's better business, providing the runoff company with a \$1.3 billion reinsurance contract (BI, June 5, 1995).

"Regulators in Pennsylvania and New Hampshire probably would not have allowed a restructuring to take place in either case," if they had followed the white paper's guidance, said Peter Lefkin, senior vp of government and industry affairs for Fireman's Fund Insurance Co. in Novato, Calif.

That is, there was a lack of policyholder comment and a lack of evaluation of guaranty fund coverage, especially in The Home's case, he said. "I support the regulators' conclusion that any restructuring should have the consent of the insured and should also ascertain the potential exposure of guaranty funds," he said.

"CIGNA didn't follow the white paper's guidance for evaluating guaranty fund coverage, requiring a novation and holding a hearing that allowed for full participation by all affected parties, including policyholders," said James Schacht, who is national director of the insurance regulatory practice of Coopers & Lybrand L.L.P. in Chicago. Mr. Schacht formerly was chief deputy director of the Illinois Insurance Department.

"If CIGNA's restructuring had the effect of a novation, then it should have been treated as one and followed the procedures for a novation," said Nebraska's Mr. Lange, who chaired the NAIC drafting panel. However, he added, "that is still being disputed."

Mr. Lange also cautioned people from reading too much into the white paper. The white paper is designed to deal with future LBRs and "defers to state regulators to make their own decision," Mr. Lange emphasized. "It's advice and recommendations. Whether it has authoritative value remains to be seen, but it doesn't have the authoritative value of a model law."

The final draft of the white paper, which includes checklists of essential pre-approval information and post-approval oversight issues, has received a favorable reception among regulators and the industry. "You have covered an extraordinary amount of subject matter in a most open and deliberative way," said NAIC President Josephine Musser, who chairs the Financial Condition Subcommittee. "It's a

great example of how we can do things here and do them well."

"The white paper is a road map for regulators which provides a balanced discussion of restructuring issues. CIGNA strongly supports an emphasis on financial solvency," said Carole Olson Gates, a regional vp-state government relations for CIGNA, who is based in Kansas City, Mo.

"The American Insurance Assn. believes that the LBR white paper is a thoughtful, balanced document that stresses the need for regulatory discretion in evaluating each unique LBR transaction," said Phillip Schwartz, AIA vp-financial reporting and associate general counsel.

"The key to an LBR white paper, from an industry perspective, has always been the definition of an LBR transaction. It is critical that the scope of the paper excludes ordinary transactions such as changes in pooling percentages and standard runoffs of business," he added.

"I think members of the working group should be commended for avoiding a dogmatic, cookie-cutter response and in recognizing these restructurings need to be evaluated on a case-by-case basis," said Richard G. Liskov, at attorney with Chadbourne & Parke in New York. He serves as special counsel to the New Hampshire Insurance Department concerning Zurich Insurance Group's acquisition of The Home's business.

Messrs. Schwartz and Liskov said they look forward to the NAIC reviewing other model laws to determine if they need to be expanded to respond to LBRs.

"The NAIC's white paper embodies a reasonable approach," said a spokesman for CNA Insurance Cos. in Chicago. However, he added, CNA would support NAIC development of a formal model law on LBRs. BI

Restructurings of CIGNA and The Home probably would not have been allowed to take place if regulators had followed the white paper's guidance, says Peter Lefkin.

different from policies shifted to a legal successor in a merger or division. The insurer also maintains that capitalization of the runoff entity makes it unlikely it will become insolvent.

The white paper also states: "If the effect of the LBR is intended to extinguish an insurer's obligation to its insureds, consent of the insureds should be required. Such transactions result in a novation or have the same effect on insureds as a novation and therefore should satisfy the procedural and legal requirements of a novation."

Several critics of the CIGNA deal have said the restructuring resembles a novation, a process whereby policyholders are moved to a new insurance company, which typically requires their prior consent.

However, CIGNA has consistently maintained that its restructuring involved a merger of CIGNA units, not

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Storms

Continued from page 3

and 1997 the most active three-year hurricane period in the last 120 years.

On average, Mr. Gray's team reported, a hurricane season has close to nine tropical storms, of which six are hurricanes and two are major hurricanes.

Tropical storms are cyclones in which maximum sustained winds reach 39 to 73 mph. Hurricanes range in intensity from those with sustained winds of 40 mph to more than 155 mph, though major hurricanes are ones with wind speeds in excess of 111 mph.

The CSU scientists said the trend toward increased frequency supports their theory that the Atlantic Basin, which encompasses the Atlantic Ocean, the Caribbean Sea and the Gulf of Mexico, is entering a new era of tropical storms and hurricanes.

From the 1970s to the early 1990s, hurricanes were fewer and less intense than in previous decades, Mr. Gray said. "Now it appears we are entering a period of increased hurricane activity similar to the late 1940s to the late 1960s," said Mr. Gray.

Mr. Gray's forecasts, however, do not predict whether or where a hurricane will make landfall.

Jim Welsh, senior claims consultant for American Insurance Services Group Inc. of Rahway, N.J., called landfall "the X factor, the great unknown."

The predictions by Mr. Gray's scientists at Colorado State are highly regarded.

In 1995, the team predicted 12 tropical storms and said it could shape up as the most active seasons for tropical storms in 25 years (BI, July 10, 1995); 19 named storms actually formed, the highest total in half a century. The team underestimated in 1996, predicting two or three in-

tense hurricanes when six actually formed.

An above-average hurricane season does not automatically mean above-average losses.

"When he's talking active, he's not

'After Andrew, we found 80% of losses were preventable,' says Allendale's Michael Burke.

talking dollars," said Mr. Welsh said of Mr. Gray's forecasts.

"Seven hurricanes made landfall in '95 and '96, and caused \$5.2 billion in damages. That's one-third of what Andrew cost in insured damage," said Mr. Welsh.

In response to Andrew's devasta-

tion, insurers fundamentally changed the way they do business.

"After Andrew, we found 80% of losses were preventable," said Mr. Burke of Allendale. "Andrew opened our eyes."

Allendale's loss control engineers saw, for example, that more firmly securing a building's roof, windows and glass walls could prevent property damage in a windstorm. In August 1992, Mr. Burke and four engineers went to Florida to assess the storm's damage and then compared the damage with the losses from more than 1,000 past storms.

"The truth is, 99 out of 100 individual buildings such as hotels and office buildings weathered the storm structurally," he said. "But if the roof comes off and the windows break, the real damage is water damage inside the building."

Within a year of Andrew, Allendale hired more than 100 engineers specifically trained to inspect roofs,

roof coverings and the intensity of wind they could withstand, Mr. Burke said.

Another property insurer also learned valuable lessons from Andrew's destruction.

Due to loss prevention measures implemented in recent years, Arkwright Mutual Insurance Co. of Waltham, Mass., estimates it prevented up to \$5 million in losses during last year's Hurricane Fran. Using the Internet and other sources, Arkwright's engineers track storms and then fax its clients a list of 20 to 25 details to check.

"Twenty-four to 48 hours before landfall, we send out an abbreviated fax," said Frank Suppe, vp and manager of engineering risk information at Arkwright. At that time, he said, the weather services know where the storm will hit.

This allows Arkwright to focus on its clients in the storm's path. "We don't send information to Philadelphia when the hurricane is going to Charleston," he added. "We don't cry wolf."

The checklist for last September's Hurricane Hortense, for example, included such advice as "protect/relocate vital records," and "have cash on hand for post-hurricane needs such as buying food and supplies, or paying employees and contractors."

"Today, you know much better than several years ago the direction a hurricane is going to take," said Charlotte Humphrey, director of risk management for Golden Corral Corp. of Raleigh, N.C., which has more than 440 company-owned and franchised restaurants in 38 states. "Now we know not only the specific state or states the storm will hit but cities."

This information is key to Golden Corral's ability to get through a storm. Hours before Hurricane Fran hit North Carolina last September, Ms. Humphrey said, she phoned Golden Corral's restaurants in Wilmington, near where Fran came ashore.

She reviewed closing procedures, advising the managers to fill sinks with water, and pack freezers and coolers with ice. "We made sure co-workers were going to safe areas," she added. **BI**



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Ergonomics

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worksite evaluation program and control their occurrence. Although the regulations do not recommend a specific fine for non-compliance, customary penalties of up to \$7,000 per violation are apt to apply, while willful acts could bring 10 times the amount, according to Cal-OSHA sources.

Exposures that cause repetitive motion injuries "shall, in a timely manner, be corrected or, if not capable of being corrected, have the exposure minimized to the extent feasible," the regulations state. "The employer shall consider engineering controls, such as workstation redesign, adjustable fixtures or tool redesign, and administrative controls, such as job rotation, work pacing or work breaks."

California courts and even Cal-OSHA enforcement inspectors likely will have latitude in enforcing the regulations, Mr. Ewing said.

Many risk managers at Fortune 500 companies with whom Mr. Ewing has spoken believe their companies are taking steps to address ergonomics. The risk managers are doing so at their facilities nationwide, not just in California, he said.

"They recognize it's a problem and they don't want their employees out on work comp nor do they want to pay disability benefits," Mr. Ewing said. "They are taking a more proactive approach."

Yet even employers that already are purchasing ergonomically designed machines or implementing required rest breaks don't want regulations rammed down their throats, Mr. Ewing added. Employers with existing programs likely will have to modify them, which will raise their costs, he said.

But some employers have enough confidence in their existing efforts that opposition to the Cal-OSHA standards has been muted.

For example, the California Manufacturers Assn. has not opposed the regulations, mainly because of mixed opinions among

its members. Some members oppose the new standards, but others think they will be able to comply, said Willie Washington, director of workers compensation for the Sacramento-based association.

"They are already complying with it in many instances," Mr. Washington said. "Some of them think they can pretty much handle it without it being that burdensome."

Diana Jeanne Rich, workers compensation manager for Freedom Communications Inc. in Irvine, Calif., is among those who are not taking umbrage at the regulations. Freedom Communi-

'The costs are substantial without any real evidence that anything that would be done would actually prevent' an injury, says Lynda Mounts.

cations began tackling ergonomics problems several years ago to address employee productivity.

"Now that we are finally faced with the regulation, it's a regulation that makes sense," she said.

For one thing, there has been enough recognition that repetitive motion injuries are going to happen to anyone working on a computer, so the computer and office equipment now being produced is better designed than in the past, Ms. Rich said.

The medical community also has more experience with recognizing and treating the injuries, which is reducing injury costs and speeding up return to work, Ms. Rich said.

In many cases, manufacturers have moved more quickly than employers with office environments in their attempts to improve worksites, said Pam Simonian, assistant vp-risk control consulting for Sedgwick James of California in Orange.

But there are still plenty of employers that are avoiding the issue rather than dealing with it. Employers that have had ergonomic evaluations or have them in the future but do not take recommended action may be subject to stiffer Cal-OSHA sanctions, she warned.

Among employers that oppose the regulations, the American Trucking Assn. has taken the lead.

The association will file a complaint and briefs this week in Sacramento Superior Court, said Lynda Mounts, vp and deputy chief counsel for the trucking association's litigation center in Alexandria, Va.

The ATA will argue that the regulations violate a state administrative procedure act because the Cal-OSHA Standards Board that created them has not evaluated their cost impact.

"Our concern is the costs are substantial without any real evidence that anything that would be done would actually prevent a repetitive motion injury," Ms. Mounts said. "There is no sound science that actually indicates any causation between activities in the workplace and injury or that there is anything that can be done to remedy any of this."

The ATA also will argue that the regulations violate due process because they are vague, leaving employers uncertain about how to comply with them. The organization has not ruled out seeking an injunction.

"We could, but we haven't done that yet, and we don't know if we will," Ms. Mounts said.

The trucking industry is concerned that the regulations will force costly changes and encourage new claims related to things such as the shifting of gears, the sorting of freight and the loading of trucks, a spokesman for the California Trucking Assn. said.

The Sacramento-based California Labor Federation will also present arguments Sept. 5 before the same judge. The group will argue that the 1993 workers compensation reform law, which mandated the adoption of regulations, did not give OSHA the authority to exempt small employers or require two worksite injuries before being triggered. **BI**

Voice mail

Continued from page 2

cal assistance. The project, which began in the 1995 school year and cost on average \$15,000 per school, provided individual voice mailboxes for teachers to leave daily messages for parents regarding school activities. Parents also could leave messages for teachers.

The Betty Phillips Center for Parenthood Education at Vanderbilt University, which conducted the study, found that 43% of the surveyed parents used the voice messaging system regularly, calling to listen to daily messages from their child's teacher at least

once per week.

As a result of the project, 34% of the surveyed parents reported feeling less stress at work because they felt more comfortable knowing what their children were doing in class.

In addition, almost 75% of the employees reported feeling more positive about their employers; 30% reported spending less time at work worrying about family issues; 21% reported that their work productivity improved; 14% reported taking off fewer days from work; and 16% reported being late less often.

"We've had very, very positive feedback" from the pilot project, noted Janine Rouson, manager of compensation and benefit pro-

grams for GE Capital Services Inc. in Stamford, Conn., and one of the participating employers.

Employees had expressed con-

It allows 'parents to feel they are in touch with their children's school and still be productive at work,' says Janine Rouson.

cern over their ability to be involved and connected to their children's education due to their work schedules and positions, Ms. Rouson said.

The voice-mail system "is a great way for parents to feel they are in touch with their children's school and still be productive at work," she said.

GE Capital Services participated in three communities and plans to expand the voice-mail project to two additional cities in Ohio where it has large employee populations, Ms. Rouson said.

Amoco Corp. also is considering expanding its involvement with the Bridge Project, noted Pat Massucci, director of policy and work/family programs for the Chicago-based oil giant.

"It is one of the most popular programs we've supported," she said. "It affects about 200 of our employees' children." **BI**

Amoco was involved in the project in the Chicago and Atlanta areas.

In addition to GE Capital Services and Amoco, the other nine participating Collaboration employers are Aetna Life & Casualty Co., Allstate Insurance Co., Bank of America, Deloitte & Touche L.L.P., Hewlett-Packard Co., IBM Corp., Johnson & Johnson, NYNEX Corp. and Xerox Corp.

Plans are underway to expand the Bridge Project into seven new communities and to other American Business Collaboration employers, said Leanne Barrett, director of the Bridge Project for WFD, a Boston-based work/family consulting firm that is coordinating the project. **BI**

Restatement

Continued from page 1

reasonable alternative design theory is different from the law that exists in the majority of states. Rather than the reasonable alternative design theory, critics said that either the consumer expectations test, which looks at what a reasonable consumer would expect from a product, or the risk utility test, which examines the risks of the product against its overall value to the user, are more common and should have been adopted by the Restatement.

Under Section 2(b) of the Restatement, a product is "defective in design when the foreseeable risks of harm posed by the product could have been reduced or avoided by the adoption of a reasonable alternative design... and the omission of the alternative design renders the product not reasonably safe."

"It's a joke," said John Vargo, an attorney with the Indianapolis firm of Pardieck, Gill & Vargo, who represents plaintiffs and who last year published a 472-page law review article critical of the Restatement. "It has no academic integrity whatsoever if they want to follow what the states say," he said, disagreeing that a majority of the states already follow this rule.

"This was written to protect corporations and insurance companies and prevent consumers from recovering in suits," Mr. Vargo charged. He maintains that only a few states have adopted the reasonable alternative design theory.

"It's not a consumer-oriented test," said Jerry Phillips, a professor at the University of Tennessee Law School who has written on the new Restatement provisions. "It's an attempt to change the law in a regressive fashion."

Others disagree. "It's a refinement of the law and not a changing of the law," said M. Stuart Madden, professor at Pace University School of Law in White Plains, N.Y., and author of a two-volume work on product liability.

One of the Restatement's authors, James Henderson, a professor at Cornell Law School in Ithaca, N.Y., says the restatement represents the law in the overwhelming major-

ity of states. He read Mr. Vargo's work and investigated its results, but "it is wrong," he said. "Flat-out wrong."

"We looked at the cases, spent several years altogether, and we decided between us what's the right thing, the sensible thing, and also the majority position," Mr. Henderson added.

As in reading tea leaves, where two people can reach different conclusions, both sides have read the cases and drawn different results.

"Both the reporters and plaintiffs' bar are reading the same cases and finding among these cases support for different conclusions," said Mr. Madden. "This happens fre-

'We looked at the cases, spent several years altogether, and we decided between us what's the right thing,' says James Henderson.

quently in law."

Into the confusion on determining the current state of the law stepped the Connecticut Supreme Court.

In a May 27 decision, a week after the adoption of the Restatement by the ALI, the court rejected the rule adopted by the ALI, saying its own analysis "reveals that the majority of jurisdictions do not impose upon plaintiffs an absolute requirement to prove a feasible alternative design."

"In our view," the court continued, "the feasible alternative design requirement imposes an undue burden on plaintiffs that might preclude otherwise valid claims from jury consideration."

And the prospect of having suits dismissed because of the new rule is perhaps what most concerns the critics.

They contend that to present an alternative design will mean proving it is in fact a valid alternative. And this contention, they say, is based not on conjecture but on the comments that follow Section 2(b). **BI**

Comment (f) says that a number of factors can be considered in determining whether the proposed alternative design is indeed reasonable. These include "the likely effects of the alternative design on production costs; the effects of the alternative design on product longevity, maintenance, repair and esthetics; and the range of consumer choice among products."

"That means we have to show it would have been out on the market," Mr. Vargo said.

Mr. Phillips of the University of Tennessee said that if a state adopts the new Restatement's theory, the trial judge has the discretion of forcing the plaintiff to bring in a prototype of the new design to support the contention that the new design is indeed a reasonable alternative, despite Comment (f) further stating no prototype is required.

"These are just factors and are not ironclad," counters Victor Schwartz, a member of the advisory board that helped draft the Restatement. "They are just considerations."

Drafters of the Restatement say the adoption of the reasonable alternative design theory is a more practical method of trying cases.

Aaron Twerski, the other author of the Restatement and professor at Brooklyn Law School, said the newly adopted standard means a plaintiff simply may present an expert witness to testify about the alternative design. "If you can't do that, you don't have a design case," he said.

"The reason they do this is that otherwise the juror is left in neverland," Mr. Schwartz said. "All this does is track what good plaintiffs lawyers do in actual practice."

It's too early to tell how many states will adopt the new rule, but Mr. Madden said that one state, Georgia, has already done so and at least one, Connecticut, has rejected it.

Mr. Vargo said the rule "is so far out and so corporate-oriented, I don't think states will follow it," he said.

Despite the sometimes heated and lengthy objections, the drafters stand by their work.

"In the long term, the rule will wear well because it's sensible and reasonable and in fact it reflects the reality of practice," said Mr. Twerski. "It reflects the reality of how products liability cases are tried and how they have to be tried." **BI**

SAFECO

Continued from page 1

close by the end of September.

For American States' policyholders, the sale will be neutral to positive, as they could benefit from SAFECO's expertise in commercial lines.

SAFECO is not getting a bargain, analysts say. The \$2.8 billion SAFECO plans to pay for American States, which amounts to more than two times book value, is a "full price" and one that could raise the stakes on future deals, analysts warn. But they also note that unlike some other deals, American States is a strong, well-managed company with no significant problems.

There is relatively little overlap in their operations, which means SAFECO will not be able to introduce significant economies of scale. But, in addition to extending its geographic reach, the deal will enable SAFECO to almost double its sales force. There is an overlap of only about 800 agents between American States' 4,800 agents and SAFECO's 4,200.

The deal is a case of "one plus one equals three," said George Yonker, SAFECO's vp-finance. It "will enable us to achieve the three strategic goals," he said. They are to:

- Expand and diversify geographically.
- Diversify product line.
- Become a "premier" independent insurance agency company.

"SAFECO is probably already the premier personal lines independent insurance agency company, and American States is certainly a premier small commercial independent insurance company," said Mr. Yonker.

"When you combine those two, it gives us a lot of synergies that should be beneficial both to our agents and to their customers, which should enhance our ability to grow and grow with profit," he said.

Although the deal is not expected to impact earnings per share in 1998, it should mean a 7% boost in 1999, an 11% increase in 2000 and about 15% in 2001, and "that should continue to increase as well as we go forward," he said.

Mr. Yonker noted commercial business now represents about 25% of SAFECO's total business, and 20% of that is small commercial business. Plans call for moving SAFECO's small commercial business to American States. "We think that they have better systems and better support for that type of operation," said Mr. Yonker.

SAFECO's medium to large com-

mercial business will be retained at its Seattle headquarters.

American States' policyholders "have a more experienced management team in charge of their company, with a better record, so they should be better off in the long run," commented Russell R. Miller, chairman of Russell Miller Corporate Finance Inc., a San Francisco-based insurance industry specialty banker. "Usually that translates into lower operating expense and eventually lower premiums to the policyholders," he added.

Analysts praise the deal as beneficial to both SAFECO and Lincoln National.

The industry is overcapitalized and commercial lines is a mature business, so "it makes a lot of sense strategically for SAFECO to think about ways to increase its presence and market share," said John Hall, senior insurance analyst with Alex. Brown & Sons in Baltimore.

"From the point of view of Lincoln, you have company that did not have a lot of synergies between property/casualty and its growing life and asset accumulation business, a company that was suffering earnings volatility from its property/casualty business and that was affecting the overall valuation of the enterprise," said Mr. Hall.

Others agree the deal makes strategic sense. "For SAFECO, strategically, it's exactly what they wanted, more commercial business and more Midwestern," said Gary Ransom, an analyst with Conning & Co. in Hartford, Conn. "For Lincoln, they got a great price, a price that was higher than most people would have anticipated."

"I think it's a good fit, maybe a better fit with SAFECO than almost any other company" because of their similar cultures, said Gloria Vogel, senior vp at Advest Inc. in New York.

One reason SAFECO paid as high a price as it did for American States was that many others were interested, too, including USF&G Corp., Travelers Property Casualty Corp., Liberty Mutual Insurance Co. and the Hartford Group Inc. A spokeswoman for Hartford would say only the insurer had "considered the business opportunity presented by American States" while spokesmen for the remaining insurers had no comment.

"I think American States is an excellent operation, and I'm not surprised there were so many parties interested in being considered as suitors," said John L. Ward of the Cincinnati-based Ward Financial Group.

"They're a good performer. They

have good relations with a number of the independent agencies. And they have a good, balanced book of business. And all those adjectives I just used about American States I would apply equally to SAFECO. And for that reason, I think it's an excellent acquisition and combination." The price paid is "well justified," Mr. Ward added.

Ms. Vogel agreed. "It's rare to see a company of that ilk being put on the market, and perhaps that accounts for the large number of bidders and the quality of those bidders and the high price that was paid."

"I think this is the kind of business it's almost impossible to build these days without a significant amount of expense, and it was just worth more to SAFECO than it was to other companies," said Craig Elkind, a director at rating agency Standard & Poor's Corp. in New York.

Rating agencies including S&P, Moody's Investors Service and A.M. Best Co. have all placed SAFECO's ratings under review for possible downgrades citing the debt that will be incurred as a result of the deal.

Best notes that SAFECO, in addition to paying \$2.8 billion for American States, will assume \$300 million of debt.

Initially SAFECO will finance the deal with \$2.5 billion of short and intermediate bank debt and a \$600 million extraordinary dividend from the SAFECO Insurance Cos.

"We see this as a good strategic opportunity for the company... albeit an aggressively financed one," commented Alan Murray, vp and senior credit officer at Moody's Insurance Group.

Mr. Yonker said: "As you know, you get what you pay for, and we believe we paid a fair value for American States. It's a well-managed and well-positioned company. This merger is going to really enhance SAFECO's long-term revenue and earnings growth."

However, Michael Smith, an analyst with Salomon Bros. in New York, questioned SAFECO's earnings per share projections. "In order for those numbers to work... many things have to go right. Nothing's permitted to go wrong," he said.

Michael Lewis, senior insurance analyst at Dillon Read & Co. in New York, agreed. "A lot has to go right to produce those kinds of results, and the margin for error, I guess, is relatively thin when you're paying what appears to be over two times book," he said.

But Mr. Yonker said, "We were very conservative in our estimate in what we felt we could do." **BI**

Updates

Riscorp shakes up operations

Continued from page 2

named treasurer, replacing L. Scott Merritt, who resigned.

Riscorp has been battered by problems since its \$128 million initial public offering last year. These have included a racketeering suit by former policyholders, a grand jury probe of its political campaign contributions and shareholder suits that followed a huge drop in Riscorp's stock price (BI, Feb. 3). The racketeering and shareholder suits are still pending.

Bad faith award overturned

SANTA ANA, Calif.—Units of CIGNA Corp. do not have to pay \$2.6 million in punitive damages for refusing to pay more than a \$10,000 off-premises policy limit to a computer chip manufacturer following a robbery, a judge has ruled.

The state court judge struck down the jury award, ruling the insurer did not act in bad faith.

The June 2 decision by Orange County Superior Court Judge Floyd H. Schenk involved an August 1995 robbery of memory chips from a driver for Santa Ana, Calif.-based Lifetime Memory Products Inc. After CIGNA units Insurance Co. of North America and Century Indemnity Co. refused to pay more than the \$10,000 limit for "off premises" loss of personal property, the policyholder sued, stating the chips were part of its stock, which was covered up to \$8 million.

The CIGNA units' refusal to pay more than \$10,000 "was reasonable in light of the terms of the policy," said Judge Schenk, adding that "clear and convincing evidence" needed to grant punitive damages was not there. But the CIGNA units were ordered to pay \$131,600 in policy benefits plus interest.

Paul Columbus, Lifetime's president, said he plans to appeal the decision. "We feel our chances are very high," he said.

Deadline set for HMO

TALLAHASSEE, Fla.—A Florida health maintenance organization is facing receivership if it can't come up with a plan to get out of financial trouble by Aug. 27.

A Leon County Circuit Court judge set the date for operators of Sunrise Healthcare Plan Inc. of Fort Lauderdale to indicate whether the HMO can make up liabilities that exceeded assets by \$583,000 as of March 31.

The HMO, which serves around 15,000 members, has acknowledged it is insolvent and has been ordered to not write new or renewal business.

If the HMO cannot pay claims, Florida law protects subscribers from liability for making those payments.

Computer model questioned

TALLAHASSEE—A computer model for calculating potential losses from Florida hurricanes could lead to drastically higher property rates and should not be used, State Treasurer and Insurance Commissioner Bill Nelson charged in legal action earlier this month.

The commissioner's petition asks an administrative law judge to block use of the model developed by Applied Insurance Research Inc. of Boston to project hurricane losses. The Florida Commission on Hurricane Loss Projection Methodology has approved the model, which means insurers can use the data in rate-making.

Mr. Nelson contends the loss projection panel erred in approving the model, which the Insurance Department says could lead to homeowners' rates for hurricane coverage increasing by more than ten fold in some areas.

Briefly noted

French broker **Gras Savoye S.A.** and German broker **Jauch & Huebener KGaA** both declined to comment on rumors circulating in Europe last week that they are in merger talks with other brokers. Both companies are key members of the UNISON brokerage network, which lost its largest partner when Johnson & Higgins was acquired by Marsh & McLennan Cos. Inc. earlier this year. . . . **Ward-THG Inc., Swiss Reinsurance Co. and Thomas Howell Group (Americas) Inc.** have settled a lawsuit brought by Ward-THG against Swiss Re and Thomas Howell (BI, Nov. 4, 1996). Also settled was an additional suit brought by GT Holding Corp. against Ward-THG. The lawsuits arose out of Swiss Re's sale of Thomas Howell to Ward-THG competitor Crawford & Co. . . . A brief impasse in the negotiations between the tobacco industry and state attorneys general apparently has been resolved as **Brown & Williamson Tobacco Co.** is back at the table after reportedly balking at proposed nicotine reduction guidelines. Meanwhile, California last week joined dozens of other states in suing the tobacco industry to recover health care costs. . . . Vermont Gov. Howard Dean has signed a measure into law that requires health insurers to provide the same level of **benefits for mental illnesses** as for physical ailments. The law includes alcohol and drug addictions among the range of mental illnesses. It bars insurers from setting lower lifetime coverage caps for mental illnesses than for physical conditions. . . . The Arizona Supreme Court last week refused to step into the middle of a pollution coverage dispute in which a trial court has ruled the **sudden and accidental pollution exclusion** bars coverage for losses that did not occur abruptly. The lower court refused to consider the exclusion's regulatory history. . . . The revised budget reconciliation tax package offered by House Ways & Means Committee Chairman Bill Archer, R-Texas, does not reimpose the special taxes that pay for the **federal Superfund program**. Rep Archer had earlier pledged not to reinstate the taxes without an overhaul of Superfund's liability system (BI, Feb. 10). . . . An appeal of the **HIV-tainted blood products settlement** has been filed by two members of the settling class. As a result, the payments of \$100,000 to each of more than 6,000 claimants, originally scheduled to be made in early July, have been put on hold.

ISO

Continued from page 2

for their environmental and asbestos liabilities, those factors mean the single biggest round of reserve boosting likely is over for awhile, Mr. Simpson said.

As a result, the industry's annual incurred losses and loss adjustment expenses, which represent additions to reserves as well as the losses insurers paid during the year, likely will continue to decrease even as the amount of paid losses rise.

Both occurred in 1996, according to the Insurance Services Office Inc. of New York.

Insurers' total incurred losses and loss adjustment expenses for environmental and asbestos liability claims in 1996 plunged to \$5.8 billion from a restated \$11 billion in 1995, according to ISO. ISO's 1995 study, which comprised a slightly smaller sampling of insurers, found that the industry's losses that year totaled \$10 billion.

The 1996 figures mark the first time those losses have fallen for the past six calendar years, according to

ISO.

Beginning with the 1995 annual statements, regulators have required insurers to report their incurred losses and loss adjustment expenses for environmental and asbestos liabilities over a rolling five-year period. In 1995, the period was 1991 through 1995. Insurers in their 1996 annual reports included the loss figures for 1992 through 1996.

The \$5.8 billion loss figure represents \$3.5 billion of environmental losses and \$2.3 billion of asbestos losses. Insurers' environmental losses fell 56% from \$7.9 billion in 1995, and their asbestos losses dropped 26% from \$3.2 billion a year earlier.

The 1996 drop is fully attributable to a 79.2% reduction in reserve increases for environmental and asbestos liabilities. Insurers last year added \$1.6 billion to those reserves, compared with \$7.7 billion in 1995.

The bulk—81%—of the 1996 reserve increase was for environmental claims.

Insurers added \$1.3 billion to reserves for those claims. The remaining \$300 million reserve increase was for asbestos claims.

The 1996 increase brings total re-

serves for reported and incurred-but-not-reported claims to \$23.4 billion—\$17.4 billion for environmental claims and \$11 billion for asbestos claims.

At the same time, paid losses jumped 29% to \$4.2 billion from \$3.3 billion a year earlier. Paid environmental losses rose 11% to \$2.2 billion from about \$2 billion. Paid asbestos losses jumped 58% to \$2 billion from \$1.3 billion.

ISO estimates that 2.3 points of the industry's 105.9% combined ratio in 1996 was attributable to incurred losses and loss adjustment expenses for environmental and asbestos claims. From 1991 through 1996, those losses have increased insurers' combined ratio annually by 2.5 points on average, according to ISO.

Best estimates that those losses will total about \$4 billion in 1997. That would contribute about 1.8 points to the 108.8% combined ratio the rating agency projects for the industry this year.

The environmental and asbestos loss information is contained in ISO's most recent quarterly report on property/casualty insurers' financial results. **BI**

HMOs

Continued from page 2
 observed that "when you've got a good, strong first quarter, you're going to have a good, strong year."

The soft pricing cycle has turned, analysts say. "We're on the upswing of the cycle," said Mark Jamilkowski, an HMO analyst with Conning & Co. in Hartford, Conn. "In other words, we're digging ourselves out of the trough."

"It's increasingly apparent that the pricing cycle has turned, and that the leading HMOs are obtaining rate increases of 3% to 6%, depending on where they are in the country," which foretells sustained or rising margins, said Clifford Hewitt, an analyst with Sanford Bernstein & Co. in New York.

The first quarter was "one of the first where we did not have a deluge of disappointments," said Gary Frazier, an HMO analyst with Bear Stearns in New York.

The results were "definite confirmation of pricing relief within all segments, and the medical cost side still seems relatively under control, despite recent data that shows early signs of upticks in medical cost inflation in different segments of the system," said Mr. Frazier.

Individual company results for the first quarter included:

- Norwalk, Conn.-based Oxford Health Plans Inc. reported an 85.7% increase in net earnings to \$34.4 million.

- Cypress, Calif.-based PacifiCare Health Systems Inc. reported \$43.5 million in net income, up 36.5%. Results reflect the company's acquisition of FHP International, effective Feb. 14.

- Los Angeles-based Maxicare Health Plans Inc. reported \$6.1 million in earnings before a \$16 million charge for litigation stemming from a Medicaid managed care program in Pennsylvania. Earnings before the charge are up 7% over the first quarter of 1996.

- Woodland Hills, Calif.-based WellPoint Health Networks Inc. reported \$50.8 million in net income, down 15.6%.

- St. Louis-based RightCHOICE Managed Care Inc. reported \$6.2 million in net income for the first quarter, down 24.7%, which the company attributed to competition and cost trends.

- Louisville, Ky.-based Humana Inc. posted \$39 million in net income, down 26.4% from a year earlier, which it blamed on medical and administrative costs.

- Foundation Health Systems in Los Angeles, which was formed by the April merger of Foundation Health Corp. and Health Systems International Inc., reported \$58.5 million in net in-

come, down 6.1% from 1996, which the company attributed to higher than anticipated medical costs, especially pharmacy costs.

"I think 1997 continues to be a year of dealing with very thin margins and looking toward 1998, when more of the books will be priced at better rates," said an FHS spokesman.

Greg Baird, senior vp of group sales for Woodland Hills, Calif.-based Blue Cross of California, a subsidiary of WellPoint Health Networks Inc., said that in light of increasing cost pressures, particularly in the prescription drug area, the 3% to 5% rate increases he has seen "will maintain the industry's margins. I don't think it's going to increase the industry's margins."

"The HMOs will continue to perform well in 1997 and improve into 1998," Conning's Mr. Jamilkowski predicted.

Other analysts also are optimistic about the rest of the year and beyond.

Michael LeConey, an analyst with National Securities Inc. in New York, observed that

'It will probably be the first year in a couple of years where the companies report profits, albeit probably quite modest,' says Michael LeConey.

HMOs "increased their reserves generally in the fourth quarter to account for pricing and cost problems and tried to set the stage for a recovery year in terms of earnings."

"Certainly it will not be a record year, but it will probably be the first year in a couple of years where generally the companies report profits, albeit probably quite modest," said Mr. LeConey.

"I think 1997 will be a better year than 1996," said Manfred Nowacki, vp with A.M. Best Co. in Oldwick, N.J. The industry has been successful in getting 3% or 4% rate increases, though "that's come at some cost and that cost has been flat enrollment."

"As the companies price the business to be more profitable, there's been a willingness of some employers to go around to some other managed care companies to deal with. But clearly the industry is very interested in returning to profitability in 1997, and we see that in the rate increases that have been put in place," he said.

HMOs will "see pricing relief continue through the remainder of this year," said Mr. Frazier, who also anticipates the medical cost management strategies that HMOs have adopt-

ed will gain momentum.

Meanwhile, analysts expect more mergers and acquisitions.

A good example is Humana's plan to acquire Miami-based Physician Corp. of America for \$400 million in cash and debt and ChoiceCare Corp. of Cincinnati for \$250 million in cash (BI, June 9), said Mr. LeConey. "I think we've seen a good deal already. I wouldn't be surprised to see additional consolidation," though, he said.

The M&A activity will continue, predicted Mr. Baird. "I don't think there's any let-up in sight on that in California or nationally. I think that the economies that can be achieved with those mergers are going to drive it."

"Employers are still very demanding about cost structure and value and quality, and you can do a lot more as a larger company than you can as a smaller company," he said. Mr. Baird added he believes this activity will happen across the whole spectrum of the health care industry.

There are smaller, regional plans that might be interested in selling, said Louis Nicaud's Ms. O'Connell. "It's been a theme in the industry and it's going to continue to be a theme in the industry," she said.

Mergers and acquisitions occurred even when industry conditions were fairly weak, she said. And now that they have improved, "some of the buying companies feel more comfortable about their own prospects so they can take on someone else's problems," she said.

"When you see overall industry conditions improving, it helps the argument to take on other companies. With price increases, there's a wind at your back," she added.

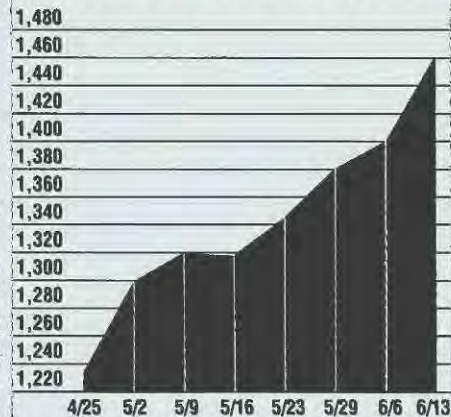
Noting that "a lot of the companies that were available have been bought," A.M. Best's Mr. Nowacki said. "I think you're still going to see some selective acquisitions," especially "with some of the larger companies" that "truly want to be national players" yet have weak positions in some parts of the country.

"In general, we'll continue to see some of the regional HMOs being consolidated, particularly those that have had trouble achieving a dominant market position and need the infrastructure of a larger partner," said Mr. Hewitt.

In addition, "we'll continue to see indemnity insurance companies selling out to HMOs with the potential for converting those enrollees or covered lives to HMOs, so the pace of consolidation really shouldn't slow down," said Mr. Hewitt.

Multiline, indemnity insurers will continue to acquire managed care expertise by buying out entrepreneurial managed care companies, said Bear Stearns' Mr. Frazier. Other possibilities, he said, include a resurgence of "megamergers," or mergers of equals, and a diminishing number of smaller companies being bought out. **BI**

BI Insurance Index



Base=100 on Dec. 29, 1978
 Source: Nordby International Inc.

PCS catastrophe options

As of June 13		Call spread		Price bid/ask	
Eastern September 1997					
40/60	3.2/3.8				
60/80	2.0/3.3				
80/100	1.5/1.9				
National Annual 1997					
80/100	3.5/6.0				
120/140	-/4.5				
June Midwestern 1997					
10/20	1/1.3				
California Annual 1997					
50/70	-/2.2				
70/90	4/1.5				
Western Annual 1997					
40/60	1.0/3.0				
70/90	6/1.6				
Total volume: 426 Total open interest: 12,665					
For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.					
Source: Chicago Board of Trade					

British Issues

June 13	Price	P/E	Div. Yield	1 week	
Companies	pence	pence	%	high-low	
Comm Union	709	11.1	30.3	5.3	764-550
Genl Accident	948	6.8	34.3	4.5	978-614
Gdn Royal Exch	285	5.8	10.0	4.4	311-227
Independent	804	10.0	13.3	2.1	809-456
Royal & Sun	499	14.8	19.0	4.8	529-357
Brokers					
Bradstock	88	12.5	6.4	9.4	89-54
CE Heath	130	15.8	4.5	4.3	135-74
Lmbt Fen	110	12.7	8.4	9.6	145-101
Lloyd Thompson	170	-	10.0	7.4	206-163
Nelson Hurst	136	12.4	8.6	7.9	206-121
Sedgwick Grp	126	10.8	8.9	7.0	146-115
Steel Bri Jones	31	10.8	1.5	6.0	46-22
Willis Corroon	134	11.5	6.6	6.2	168-117
Source: Nordby International Inc.					

BI Industry Stock Report

JUNE 9, 1997, THROUGH JUNE 13, 1997

BROKERS

Company	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)	
Accordia Inc.	NYS	40.00	0.63	37.93	40.00	27.25	86
E.W. Blanch Holdings Inc.	NYS	26.88	5.91	33.54	26.88	17.75	131
Gallagher Arthur J. & Co.	NYS	33.00	4.76	6.45	35.00	29.13	261
Hilb, Rogal & Hamilton	NYS	15.50	2.48	16.98	15.63	11.38	54
Kaye Group Inc.	NDQ	4.94	-1.25	-5.95	7.00	4.38	170
Marsh & McLennan	NYS	139.25	3.24	33.89	139.25	88.00	1164
Poe & Brown	NDQ	36.50	16.80	37.74	36.50	23.50	149
AVERAGE			4.65	22.94			

INSURERS/REINSURERS

Company	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)	
ACE Ltd.	NYS	69.00	5.95	14.76	69.00	40.88	1926
Acceptance Insurance Cos.	NYS	22.75	5.81	15.19	23.13	16.63	60
AEGON N.V.	NYS	72.50	-3.49	14.62	76.63	42.25	3324
Aetna Life & Casualty	NYS	112.63	7.01	40.78	112.63	55.38	3400
AFAC Inc.	NYS	50.13	0.00	17.25	51.38	28.25	976
Allied Group Inc.	NYS	40.13	-0.62	22.99	41.25	22.38	95
Allmerica Prop. & Casualty	NYS	32.63	1.16	7.41	32.75	25.50	239
Allstate Corp.	NYS	75.13	5.81	29.81	76.38	40.88	4523
AMBAC Indemnity Corp.	NYS	79.25	2.59	19.40	79.50	47.00	307
American Bankers Ins.	NDQ	62.25	7.21	21.76	62.25	39.50	460
American Financial Group	NYS	40.13	1.26	6.29	40.50	28.63	864
American General	NYS	47.25	6.48	15.60	47.50	34.00	5609
American Heritage Life Ins.	NYS	29.25	1.30	11.43	29.38	19.00	48
American Indemnity/Fin'l	NDQ	12.63	0.00	23.17	14.00	9.50	9
American International	NYS	144.38	3.77	33.37	147.25	90.13	3947
Aon Corp.	NYS	49.88	1.79	20.42	50.63	31.75	869
Argonaut Group	NDQ	30.00	7.14	-2.44	32.25	26.75	110
AVEMCO Corp.	NYS	27.00	1.41	72.80	27.38	11.75	313
Baldwin & Lyons Inc.	NDQ	19.00	7.80	3.40	20.75	17.38	15
Berkley W.R. Corp.	NDQ	55.75	1.36	9.85	56.63	40.25	474
Berkshire Hathaway Inc.	NYS	48600.00	7.05	42.52	48600.00	30100.00	2
Capital RE Corporation	NYS	48.50	1.84	4.02	48.75	32.50	74
Capital Transamerica Corp.	NAS	22.50	3.45	-26.83	27.38	12.13	35
CapMac Holdings Ltd.	NYS	33.75	11.57	1.69	36.88	22.50	376
Capsure Holdings Corp.	NYS	12.50	-0.99	8.70	18.88	8.00	122
Centris Group Inc.	NYS	20.38	1.24	3.82	20.63	14.88	24
Charwell Re	NYS	27.88	1.83	4.21	28.50	20.75	806
Chubb Corp.	NYS	67.00	9.16	24.65	67.63	40.88	3741
CIGNA Corp.	NYS	184.75	4.08	35.22	185.13	105.50	804
CNA Financial Corp.	NYS	101.88	-1.57	-4.79	114.75	95.88	294

Company	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)	
EMC Insurance Group Inc.	NDQ	12.50	2.04	4.17	13.50	10.13	293
Enhance Financial Services	NYS	43.00	3.61	17.81	45.00	26.13	261
Everest Reinsurance	NYS	34.75	2.58	20.67	35.25	22.50	969
Executive Risk Inc.	NYS	55.25	2.31	49.32	55.25	33.38	41
EXEL Ltd.	NYS	48.00	6.67	26.73	48.00	31.75	444
Fremont General Corp.	NYS	38.00	7.42	22.58	38.75	21.50	558
Frontier Insurance Group	NYS	60.88	1.67	59.15	60.88	32.63	483
Gaisco Inc.	NYS	9.13	2.82	-5.19	10.88	8.13	146
GCR Holding Ltd.	NDQ	26.88	0.23	20.79	27.38	20.25	210
General RE Corp.	NYS	186.63	5.29	18.30	188.00	140.75	1003
Gryphon Holdings	NDQ	15.13	-0.82	7.08	18.50	12.00	224
Guaranty National Corp.	NYS	25.38	9.73	51.49	25.38	13.50	149
Harleysville Group	NDQ	37.63	1.52	23.36	38.75	24.50	167
Hartford Steam Boiler	NYS	53.50	2.64	15.36	53.50	42.75	213
HCC Insurance Holdings	NYS	27.13	2.36	13.02	32.75	19.13	428
IPC Holdings Ltd.	NDQ	26.13	2.45	16.76	26.50	19.50	143
ITT Hartford Group	NYS	85.25	9.29	26.30	85.25	50.50	2595
LaSalle Re Ltd.	NDQ	28.50	2.24	-2.56	29.50	21.00	750
Lincoln National	NYS	67.00	6.56	27.62	68.63	40.75	3659
MAIC Holdings Inc.	NYS	40.38	2.22	19.19	40.38	28.25	36
Market Corp.	NDQ	122.00	0.83	35.56	125.00	83.00	1
MBIA Insurance Group	NYS	115.75	5.23	14.32	117.25	73.00	420
Meadowbrook Insur. Group	NYS	25.50	6.25	21.43	34.13	15.25	37
Mid Ocean Ltd.	NYS	54.63	7.11	4.05	55.38	38.13	556
MMI Cos. Inc.	NYS	27.50	14.58	-14.73	33.38	20.75	129
Mutual Risk Mgmt. Ltd.	NYS	42.75	1.18	15.54	43.25	26.88	162
NAC Re Corp.	NYS	44.75	7.51	32.10	44.75	30.25	266
Navigators Group	NDQ	17.50	-2.10	-4.11	20.25	15.75	29
Nobel Insurance Ltd.	NDQ	14.25	12.32	13.43	15.13	10.88	210
NYMagic Inc.	NYS	20.75	3.75	15.28	21.13	17.00	7
Ohio Casualty Corp.	NDQ	46.50	17.17	30.99	47.50	30.00	1230
Old Republic Int'l	NYS	29.88	1.27	11.68	30.38	20.63	1209
Orion Capital Corp.	NYS	73.88	4.60	20.86	73.88	46.63	96
Partner Re Ltd.	NYS	38.75	17.87	13.97	38.75	25.63	711
Penn-America Group Inc.	NDQ	14.50	-3.33	34.88	15.38	9.63	35
Philadelphia Cons. Holding	NDQ	34.38	-1.08	47.85	35.25	16.75	14
PXRE Corp.	NYS	28.75	2.88	16.16	29.00	22.25	282
Reliance Group Holdings	NYS	12.38	3.13	35.62	12.75	6.50	1284
Reliastar Financial Corp.	NYS	69.63	3.15	20.56	73.50	40.00	1001
Renaissance Holdings Ltd.	NYS	38.38	0.99	16.29	41.25	26.75	57

HEALTH MAINTENANCE ORGANIZATIONS

Company	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)	
Healthsource Inc.	NYS	21.63	0.58	64.76	21.63	9.75	419
Humana Inc.	NYS	24.25	4.86	27.63	24.75	15.00	5985
Oxford Health Plans	NDQ	70.88	0.18	21.02	74.63	27.69	6530
PacifiCare Health Sys.	NDQ	81.63	6.01	0.46	86.25	59.63	50

Apartment
hunting

Moscow

18 March
1500 hrs



**THE GOOD NEWS IS THERE'S MORE CHOICE THAN EVER IN RUSSIA.
THE BAD NEWS IS THERE'S MORE CHOICE THAN EVER IN RUSSIA.**

Capitalizing on the pent-up demand for consumer goods and services in emerging economies promises high rewards, but it also carries high risks. Often these markets don't have the communications or distribution infrastructures businesses take for granted. For companies who want to succeed in overseas markets, a partner familiar with the political, business, regulatory and cultural climate of the target country is a necessity.

Fortunately, AIG is uniquely positioned to help companies guard against the many risks entailed in doing business abroad. If you are investing in

overseas markets, AIG can help you protect your employees, your operations and your balance sheet on a local, regional and global basis through its unmatched breadth of insurance and financial services. Services like directors and officers coverage, employee benefit plans, foreign exchange management and travel accident coverages. And we've got the top financial ratings to back us up. So your company won't be left wondering which way to turn next.



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