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Update

Robins wins appellate court OK of reorganization plan, trust fund

RICHMOND, Va.—A.H. Robins Co.'s reorganization plan and a $2.38 billion trust fund to pay women injured by the company's Dalkon Shield intrauterine device were approved late last week by the 4th U.S. Circuit Court of Appeals.

In addition, the federal appellate court upheld a huge class-action settlement involving Aetna Casualty & Surety Co., Robins' insurer, a Robins spokesman said. As a result of the settlement, Aetna will contribute more than $300

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Retiree health care accounting rules to cut profits: Study

By STACY ADLER

MORRISTOWN, N.J.—Proposed accounting rules for retiree health care benefits will cut net income by less than 10% for most of the 24 companies examined by a benefit consultant.

However, some companies can expect the proposed Financial Accounting Standards Board rules to trim their profits by 20% or more, according to the report.

In addition, the analysis of 24 actual and two hypothetical companies shows that the FASB proposal would take a bigger bite of profits from companies with a high ratio of active employees to retirees than from companies with many current retirees.

The study, "Retiree Health Benefits: Field Test of the FASB Proposal," was conducted by five executives of the accounting firm Coopers & Lybrand and was sponsored by the Financial Executives Research Foundation of Morristown, N.J.

The 24 major U.S. corporations that participated in the study each reported revenues exceeding $250 million in 1988.

"The issues of FASB are complex. Companies should start now to address not only the accounting aspects but the broader business issues," said Richard Poccia, a partner with Coopers & Lybrand in New York and a contributor to the report.

"Since virtually every employer sponsoring a retiree health benefit plan would be affected, companies should weigh the consequences of the FASB proposal and consider taking positive steps to control health care costs," Mr. Poccia said.

Currently, employers typically report their retiree health care expenses on a "pay-as-you-go" basis. But, beginning in fiscal years after Dec. 15, 1991, the proposed FASB regulations would require employers to accrue as an expense against corporate earnings all retiree health care liabilities from the date an employee is hired until the retiree is eligible for post-employment health care cover-

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Senate panel OKs Section 89 reform

By JERRY GEISEL

WASHINGTON—The drive to repeal Section 89 has reached the Senate floor after clearing a Senate committee last week.

In the first congressional vote on Section 89 since the much-assailed law was added to the tax code in 1986, the Senate Finance Committee last week approved a Section 89 reform package sponsored by Committee Chairman Lloyd Bentsen, D-Texas, and introduced just two weeks ago (*BI*, June 12).

The Bentsen bill, among other things, would delay compliance with Section 89 until Jan. 1 and includes a non-discrimination test that would be much easier for employer-sponsored health care plans to pass.

And, an amendment attached to the bill last week would sharply reduce the number of part-time employees that are subject to the non-discrimination tests, a provision favorable to employers.

The approval of Sen. Bentsen's Section 89 reform legislation June 13 by a 17-3 vote came after the panel attached the bill to an unrelated measure that would provide new federal tax credits to help low-income workers with children purchase health insurance and modify dependent care tax credits.

"This is lightning-fast action. No one expected things to move this fast," said James Klein, deputy executive director of the Assn. of Private Pension & Welfare Plans in Washington, D.C.

"This is a tremendous victory," said Stuart Brahs, vp-federal affairs in the Washington, D.C., office of The Principal Financial Group, a diversified financial services organization.

"There is a lot of momentum going," Mr. Brahs added.

The full Senate could vote this week on the Section 89 reform provisions as part of the child care legislation.

At the same time, the House Ways and Means Committee is expected to begin debate on a Section 89 reform bill, H.R. 1864, introduced in April by Committee Chairman Daniel Rostenkowski, D-Ill. The Rostenkowski bill will likely be attached to so-called budget reconciliation legislation that the committee now is drafting.

And, some experts believe that if the current momentum continues, Congress could complete action on a final Section 89 reform package before its summer recess in August.

"Members will want to go home before the summer recess begins and say to their constituents: 'We did something decisive on Section 89,' " noted Frank

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Regulators question assets of Savoy Re

By DOUGLAS McLEOD

Insurance regulators in California and Illinois are warning brokers not to produce business for Savoy Reinsurance Co. Ltd. after questioning the value of $50 million in assets purportedly backed by valuable ore in a New Mexico slag pile.

The California Insurance Department last month directed the state's Surplus Line Assn. to warn its members against placing business with the Turks & Caicos-domiciled company.

The Illinois Insurance Department issued a similar directive to the state's surplus lines producers in March after reviewing Savoy Re's Sept. 30, 1988, audited financial statement.

That statement reported $55.1 million in assets, including a $50 million trust certificate issued by First Dominion Trust Corp. of Austin, Texas. The First Dominion certificate was purportedly backed by gold and platinum ore contained in a slag pile in Deming, N.M.

However, First Dominion was declared insolvent last September by the Texas Department of Banking. In cease-and-desist orders issued Feb. 28, the Texas Securities Board labeled First Dominion's operations a fraud, noting that the slag pile does not contain enough valuable ore to collateralize the dozens of trust certificates First Dominion sold to various companies.

Donald S. Robson, Savoy Re's secretary and treasurer, said in an interview that the company that provided Savoy Re with the trust certificate—Pasadena, Calif.-based Avatara Holdings Corp.—was duped by First Dominion.

Savoy Re later issued a year-end 1988 financial statement reporting that the trust certificate has been replaced by $50 million in certificates of deposit.

The financial statement, however, does not provide any details about the 10 $5 million CDs. Michael M. Hepburn, Savoy Re's Bahamas-based auditor, reported in a Jan. 20 letter to Savoy Re that he verified the CDs were being held in a storage vault at the Raleigh, N.C., office of Brinks Inc.

Mr. Robson—who said the CDs have since been transferred from the Brinks office to Mr. Hepburn—added that Savoy Re is now preparing a first-quarter 1989 financial statement and will provide detailed information about the CDs, including who issued them.

Mr. Robson said the CDs were also contributed by Avatara in return for Savoy Re preferred stock. The CDs were issued by banks, he said, but added that he did not know the names of the banks.

Officials of Avatara, meanwhile, said in an interview last week that they are uncertain about whether Ava-

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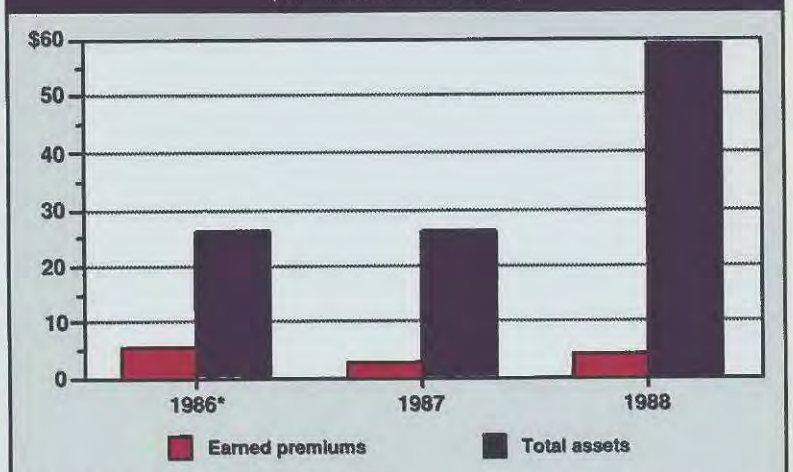
Savoy Re's ballooning assets draw regulators' attention

(In millions of dollars)



*Earned premiums Jan. 17, 1985, to Dec. 31, 1986
Source: Savoy Re audited financial statements
Chart: Holly Seguine

Court blocks states' attempt to rehabilitate Maxicare units Page 2

NAIC establishes standards for state insurance regulators Page 3

APPWP plan would simplify pension plan regulations Page 3

Update

Robins reorganization upheld

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million to the trust fund, boosting its size to $2.68 billion.

U.S. District Judge Robert R. Merhige Jr. had approved the Robins reorganization plan on July 26, 1988 (*BI*, Aug. 1, 1988).

The federal appellate court also upheld Judge Merhige's removal last December of three of the trustees administering the Dalkon Shield Trust.

If the ruling stands, Robins will be able to emerge from its seven-year bankruptcy proceeding.

Robins in 1982 sought Chapter 11 bankruptcy protection from mounting IUD claims. Currently, the company faces claims from 196,000 women who say they were injured by the Dalkon Shield.

"This ruling means the maximum number of women injured by the Dalkon Shield will now be able to receive compensation," said Aetna attorney John G. Hawkins Jr. of Pepper, Hamilton & Scheetz in Philadelphia.

To date, the Dalkon Shield Trust has been paying claims of only $725 or less.

Massive CU-7 settlement eyed

SKOKIE, Ill.—G.D. Searle & Co. says it believes it has "adequate reserves to handle the costs" associated with a proposed settlement with approximately 130 plaintiffs who claim they were injured by the company's Copper-7 intrauterine birth control device.

A spokeswoman for the Skokie, Ill.-based firm declined to reveal terms of the settlement. She noted that Searle, a subsidiary of St. Louis-based Monsanto Co., and the Minneapolis law firm that represented the plaintiffs agreed to keep the terms confidential.

Michael Ciresi, a partner in the law firm Robins, Kaplan, Miller & Ciresi, stressed that the proposed settlement would not provide each plaintiff with an equal amount. He added that each plaintiff must approve her share of the proposed settlement.

If the proposed settlement is accepted, approximately 350 CU-7 cases would still be unresolved, the Searle spokeswoman said.

Searle has won 15 of 19 CU-7 cases that have been decided in court. It also is appealing two of the cases it has lost.

Searle withdrew the CU-7 from the market in 1986.

COBRA coverage expanded

WASHINGTON—The Health Subcommittee of the House Ways and Means Committee last week approved budget reconciliation legislation that would expand COBRA health care continuation coverage for certain beneficiaries.

Under the measure, individuals who receive Social Security disability benefits would be eligible for COBRA coverage for up to 29 months, up from the current 18-month maximum.

The beneficiaries would continue to pay 102% of the group rate for the first 18 months of coverage, but they would be required to pay 150% for the remaining 11 months of coverage.

Ex-Home officials plead guilty

NEW YORK—Two former Home Insurance Co. officials pleaded guilty in federal court in New York last week to charges they defrauded the insurer of more than $5.5 million between 1983 and 1988, said a spokeswoman for the U.S. Attorney's office.

Robert H. Wedinger, a former vp, and David E. Kennedy, a former assistant vp, each pleaded guilty to one count of wire fraud and one count of interstate transportation of stolen property, the spokeswoman said.

The two men, who are scheduled to be sentenced Aug. 7, each face up to 15 years in prison and $500,000 in fines. They were accused of submitting false insurance claims to Home, then depositing the funds into an account controlled by Mr. Kennedy.

Berkley to buy Unigard Security

GREENWICH, Conn.—W.R. Berkley Corp. has agreed to purchase the assets of Unigard Security Insurance Co. for $130 million from John Hancock Mutual Insurance Co.

Berkley will acquire Seattle-based Unigard Security's assets, including its current business, by purchasing the company's Unigard Inc. unit, which consists of three companies: Unigard Insurance Co., Unigard Indemnity Co. and a group of premium financing companies called Unigard Service Co., according to Berkley Executive Vp Bob Mendelsohn. Hancock will retain all discontinued business.

Mr. Mendelsohn said Berkley pursued the transaction to "expand its regional insurance group to an area where we don't currently have interests."

He said the Unigard addition would bring Berkley at least $200 million in direct premiums written, primarily in the Pacific Northwest, where Unigard does the bulk of its business.

In 1988, Unigard Security reported $260 million in written premiums and wrote most lines of commercial property/casualty insurance.

The estimated $130 million purchase price is subject to approval by John Hancock's board of directors and is contingent on Unigard's June 30 fiscal year-end results.

Paul Sweeney, vp and chief financial officer for John Hancock's property/casualty division, said the sale of Unigard is a "continuation of our effort to maintain a regional focus, primarily in the Northeast."

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Errors and omissions

• A story in the May 29 issue incorrectly identified companies that provide insurer rating services. Insurance Solvency International of America Inc. of Hartford, Conn., should have been included among these companies, while ISI Systems Inc. of Braintree, Mass., should not have been listed.

Court blocks states' attempt to rehabilitate Maxicare units

By DONNA DiBLASE

ATLANTA—A global reorganization under federal bankruptcy law of the entire Maxicare Health Plans Inc. network of HMOs is the best way to protect all Maxicare enrollees and creditors nationwide, according to a federal bankruptcy judge.

Rejecting three state regulators' attempts to take control of the reorganization of Maxicare health maintenance organizations operating in their states, Judge John J. Wilson in Santa Ana, Calif., said that allowing each state to pursue its own rehabilitation strategy for individual Maxicare HMOs would result in preferential treatment of one state's enrollees and creditors over those of another state.

Following the judge's ruling, Maxicare's top executives say they are confident that future rulings on similar motions by other states will favor Maxicare and that the company will recover financially.

Maxicare plans to file its reorganization plan with the bankruptcy court in July.

"The duty we have to this industry is that we have to protect the interests of the consumer, which we have done so far. If we continue to do this, I think the judge will continue to rule in Maxicare's favor," asserted Peter Ratican, chairman and chief executive officer of Los Angeles-based Maxicare, at an annual meeting of HMO executives in Atlanta last week.

Judge Wilson of the U.S. Bankruptcy Court in Santa Ana, Calif., on June 9 denied three state insurance departments' motions to dismiss the federal bankruptcy proceedings of Maxicare HMOs in their states and return regulatory authority to the respective insurance departments in Arizona, Louisiana and Texas.

Several other state insurance departments have filed similar motions, including Illinois, Indiana, Michigan and Ohio (*BI*, April 10).

While the judge has not ruled on these motions, "we are hopeful that the decisions made in these (Arizona, Louisiana and Texas) motions will apply to the others," said Alan Bloom, Maxicare's general counsel.

Patrick Cantilo, the attorney representing the state of Texas in the case, said he would not be surprised if similar rulings are issued on the remaining motions.

Messrs. Ratican and Bloom discussed Judge Wilson's decisions, the conditions leading up to Maxicare's March 15 voluntary filing for Chapter 11 protection and the restructuring of the company at the 39th Annual Group Health Institute, sponsored by the Group Health Assn. of America, June 11-14 in Atlanta.

Since Maxicare voluntarily sought Chapter 11 protection on March 15 for all of its subsidiaries—an action that caught most regulators by surprise—insurance regulators in several states have argued that HMOs are health insurers and therefore regulatory authority and rehabilitation of Maxicare HMOs should rest with the state insurance departments (*BI*, March 27).

In ruling against this argument, Judge Wilson said that HMOs are different from insurers in that they actually arrange for the delivery of health care, while insurers indemnify policyholders for health care services delivered by providers selected by the policyholder.

The Texas Board of Insurance most likely will appeal

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Deadlines nearing for 3 *BI* directories

Business Insurance for the first time will publish a directory of 401(k) plan administrators in its Aug. 7 issue.

Companies that provide 401(k) enrollment services, daily maintenance of participants' accounts, account manipulation and similar services (regardless of whether the company is responsible for investment management) are eligible to be included.

Companies must return a *BI* questionnaire by July 5 to be included.

In addition, *Business Insurance* will publish its annual spotlight report on the surplus lines market in the Aug. 14 issue. The issue will include a directory of underwriting managers, managing general agents and surplus lines brokers as well as a directory of surplus lines insurance companies and insurers that specialize in writing excess coverages.

The deadline for returning questionnaires to be listed in the Aug. 14 issue is July 5.

If your company is a 401(k) plan administrator, an underwriting manager, managing general agent, surplus lines broker or excess or surplus lines insurer, and you have not yet received a questionnaire for the appropriate directory, please request one immediately by calling Marilou Jones, Directory Editor, 312-649-5279.

LUI considering plan to satisfy shareholders

By STACY SHAPIRO

LONDON—London United Investments P.L.C. may adopt a three-point plan to restore shareholders' confidence in the company's management.

At LUI's stormy annual meeting last week, shareholders and a dissident LUI director reacted with anger to the disclosure last month that two LUI directors and a former director did not disclose their interest in a Michigan-based underwriting agency for 12 years.

The three men transferred their ownership in the agency to LUI in December without accepting any payment.

The agency, Russell Reinsurance Services Inc. of Southfield, Mich., wrote business for three U.S. insurers and arranged substantial reinsurance for these programs with a London-based LUI subsidiary (*BI*, May 22).

London-based LUI owns H.S. Weavers (Underwriting Agencies) Ltd., the largest U.S. liability insurance market in London, as well as Weavers' lead underwriter, Walbrook Insurance Co. Ltd.

At LUI's annual meeting, a group of shareholders holding 7.1% of LUI's stock unsuccessfully attempted to block the approval of LUI's 1988 financial accounts.

In addition, LUI's largest shareholder—Govett Strategic Investment Trust, which holds another 7% of the company's stock—suggested that LUI accept a three-part plan to restore shareholders' confidence in LUI's management.

LUI Chairman Ronnie Driver said he agreed with Govett that LUI should:

• Organize a shareholders committee to meet with LUI directors to discuss Russell Re, as well as the reasons for the decline in LUI's profits (*BI*, May 8).

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Inside

✓ The scramble for political risk insurance following the turmoil in China stands as a harsh reminder that risk must be anticipated, says this week's editorial. **PAGE 8**

✓ Small companies in Oregon that do not provide health insurance to their workers could be forced to do so beginning in 1994 under legislation Gov. Neil Goldschmidt is expected to sign. **PAGE 11**

✓ The soft commercial property/casualty insurance market is presenting an insurer with an opportunity to develop a specially manuscripted catastrophe insurance policy for a vacation timeshare resort in conjunction with a broader financial deal. **PAGE 13**

✓ Corporations should consult an experienced reinsurance broker when lining up reinsurance for a captive insurer, says a speaker at the Cayman Islands Insurance Conference. **PAGE 14**

✓ Judging by annual reports' content, we perceive no letup in the process of enhancing professionalism and competitive positions among public brokers, says stock analyst Leonard Wilson. **PAGE 35**

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APPWP proposal would simplify pension rules

By JERRY GEISEL

WASHINGTON—An employee benefits lobbying organization this month will ask Congress to adopt a package of proposals to simplify pension plan administration by eliminating or modifying many complex and often redundant rules.

"It is a clearing out of the undergrowth," said Howard Weizmann, executive director of the Assn. of Private Pension & Welfare Plans, a Washington, D.C.-based benefits group that is making the recommendations.

"We are trying to make the rules more palatable and understandable," Mr. Weizmann explained.

Recommendations that the APPWP will make include:

- The elimination of the average deferral percentage test that employers must run on their 401(k) salary reduction plans. The test is used to compare pretax contributions by highly compensated employees with those made by lower-paid workers.
- The modification of rules that limit the maximum tax-deductible contributions employers can make to their defined benefit pension plans.
- The elimination of certain pension plan reporting requirements, including the summary annual report, and the simplification of annual report requirements.
- The elimination of the special excise tax on so-called excess distributions from pension plans.
- The elimination of "half-year" provisions in the Internal Revenue Code. Under those provisions, pension plan participants are penalized if they, for example, withdraw contributions from their 401(k) plans before they are age 59½ or fail to withdraw contributions from their Individual Retirement Account after they reach age 70½.

Mr. Weizmann describes the changes proposed by the APPWP as "do-able." The benefit trade group will be looking for congressional support later this month when its proposals are formally unveiled.

Enactment of the rules would be a dramatic reversal of a trend that began in the early 1980s when Congress passed a slew of laws that have greatly complicated the administration of the nation's pension plans.

In fact, since October 1986 alone, four laws have been enacted that have had a substantial impact on pension plan administration. Those laws are the Tax Reform Act of 1986, the Omnibus Budget Reconciliation Act of 1986, the Omnibus Budget Reconciliation Act of 1987 and the Technical and Miscellaneous Revenue Act of 1988.

"This plethora of legislation has led to a mass of confusion due to the additive effect of new laws, passed at a tremendous pace, and the detail in each set of amendments," the APPWP says in its 54-page policy paper.

"There has been no concern for simplicity or logical structure of the law when the changes are made. Often, several provisions will address the same concern because, in the development of a substantive legislative proposal, previously adopted provisions are not re-examined or modified to reflect the later change," the paper says.

"As a result of this failure to consider overall structure, well-intentioned efforts to strengthen the laws have simply led to a patchwork of overlapping, duplicative or inconsistent provisions creating an environment in which compliance is nearly impossible and in which penalties for failure to comply with all of the rules are substantial," the APPWP says.

Both employers and employees are the victims of needless, costly complex pension rules, Mr. Weizmann notes.

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Photo: Greater Cincinnati Chamber of Commerce

Insurance regulators from across the country held their summer meeting in downtown Cincinnati.

NAIC action

Standards set for state insurance departments

By MEG FLETCHER

CINCINNATI—In a revolutionary move, the National Assn. of Insurance Commissioners is establishing voluntary standards that state insurance departments can use to regulate insurer solvency.

The NAIC expects that state departments by December 1990 will voluntarily comply or have a plan to comply with the standards.

The program, adopted by the NAIC at its summer meeting in Cincinnati June 4-8 and outlined in a nine-page policy statement, also lays the groundwork for the organization to consider accrediting each state's insurance departments.

If the NAIC establishes an accreditation process, states would be required to comply with the standards to receive accreditation.

However, accreditation would be adopted only if the NAIC concludes that it is "appropriate and feasible," according to the policy statement.

Establishment of insurance department standards for solvency regulation is "unprecedented" and very important, said NAIC President and Nevada Insurance Commissioner David Gates.

"Solvency surveillance is probably the most important function of each state insurance department," he said.

The NAIC hopes the standards "will strengthen state regulation and improve the solvency surveillance process through self-evaluation against a rigorous national standard," Mr. Gates said.

The standards should "improve the efficiency of state regulation by eliminating duplicative procedures and activities and unnecessary state-by-state variations," the policy statement notes.

In addition, "with the standards and regulatory functions delineated as completely as they are in this document, regulators will be able to demonstrate to their state legislators what it takes to do the job properly," Mr. Gates said.

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Lloyd's names attorney to assist in Outhwaite dispute settlements

By CAROLYN ALDRED

LONDON—An attorney hired by Lloyd's of London will attempt to help settle ongoing disputes between underwriter Richard Outhwaite and about 20 Lloyd's syndicates over hundreds of millions of dollars in unpaid claims.

The Council of Lloyd's last week announced the appointment of trial attorney Mark Littman to "act as an independent conciliator in an initiative to achieve settlement of certain disputed reinsurance contracts written by syndicates 317/661 managed by R.H.M. Outhwaite (Underwriting Agencies) Ltd."

The decision to hire Mr. Littman follows a decision by the council to reject a rescue plan for the Outhwaite syndicate that called for Lloyd's to assume responsibility for a portion of the syndicate's losses.

The disputes stem from 51 runoff reinsurance policies Mr. Outhwaite wrote for insurance companies and other Lloyd's syndicates in the early 1980s providing excess-of-loss reinsurance—often on an unlimited basis—for the ceding insurers' past underwriting years.

Mr. Outhwaite is disputing at least 16 of the policies, claiming the cedants did not fully disclose information about the underlying risks.

Earlier this month, Mr. Outhwaite revealed that outstanding liabilities and incurred-but-not-reported losses from syndicate 317/661's still-open 1982 underwriting year had escalated during 1988 to an estimated 304 million pounds ($464.5 million). Most of the deterioration in the account's results stems from revised estimates of liabilities from U.S. pollution and asbestos losses the ceding underwriters claim are covered by the runoff policies (*BI*, June 5).

The syndicate's 1,614 members in the 1982 underwriting

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Insurers stress underwriting principles

Photo: Stan Miskiewicz

By JAMES M. BURCKE

Insurance and reinsurance company executives are reassuring shareholders in 1988 annual reports that their companies will adhere to sound underwriting principles despite cutthroat competition in the commercial property/casualty insurance market.

Many executives warn shareholders that while such strategies will imperil premium volume growth, refusing to compete is the best way to defend the corporate bottom lines.

In fact, many insurance company chief executive officers are making the commitment to prudent underwriting the centerpiece of their message to shareholders.

"Fireman's Fund will continue to stay the course although we have already lost almost 20% of our business. We will avoid pricing business unless we can price it at a reasonable return," wrote John J. Byrne, chairman of Fireman's Fund Corp., in the Novato, Calif.-based insurer's annual report.

"The results of our strategy of maintaining pricing integrity and underwriting discipline are continuing," said Jack Moseley, chairman and president of USF&G Corp. in Baltimore.

"In the midst of today's soft market, we are holding to our underwriting guidelines and resisting pressures to achieve an established premium target at the expense of future profitability," he said.

"Our strict adherence to underwriting guidelines in the face of increased competition and unfavorable regulation in certain markets were the primary causes" of a 0.5% decrease in premium volume, noted Joseph L. Marcum, chairman and chief executive officer of Ohio Casualty Corp., and William L. Woodall, president and chief operating officer of the Hamilton, Ohio-based company.

Maurice R. Greenberg, chairman and president of American International Group Inc. in New York, noted that "In both our domestic and foreign property/casualty markets, disciplined underwriting is a bedrock principle that guides our operations. We believe that an underwriting profit is essential and measure ourselves against that standard.

"At AIG, disciplined underwriting consists of two basic elements. One is to properly manage risks and the risk selection process to achieve the correct price-to-exposure ratios. The second is an unwavering attention to controlling expenses," Mr. Greenberg told shareholders.

"With regard to competition, it is important to

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Section 89 bill

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McArdle, a consultant in the Washington, D.C., office of Hewitt Associates.

Aside from taking fast action, the Finance Committee added an amendment to the Bentsen bill to further reduce the compliance burden of Section 89.

The amendment, proposed by Sen. John Heinz, R-Pa., would allow employers to exclude part-time employees working fewer than 30 hours a week when running the non-discrimination tests.

The current Section 89 statute requires employers to include part-time employees working as few as 17.5 hours a week to be included in running the non-discrimination tests, while the Bentsen bill initially proposed a threshold of 25 hours a week.

This new 30-hour a week standard will make it much easier for companies that employ many part-time employees to pass the non-discrimination tests.

While liberalizing the testing standard for part-time employees, the Finance Committee informally rejected suggestions circulating in the business community that the effective date of Section 89 be delayed until the Internal Revenue Service issues regulations needed to help employers comply with the law.

Sen. Bentsen, referring not just to Section 89, said tying the effective date of legislation to the promulgation of IRS rules could put a roadblock in the legislative process.

For example, if the executive branch did not like a piece of legislation enacted by Congress, it could put pressure on the regulatory agencies not to issue the needed rules and, thus, frustrate the will of Congress, Sen. Bentsen said.

And, if Congress passes a major Section 89 simplification bill, voluminous IRS regulations will be unnecessary, Sen. Bentsen suggested.

During the Finance Committee debate last week on the Bentsen bill, panel members indicated their disgust with the hopelessly complex current Section 89 statute.

"Let's never again call it Section 89," said Sen. David Pryor, D-Ark.

Indeed, the fact that senators are taking a direct role in the debate and shaping of Section 89 legislation is in sharp contrast to the aura of secrecy in which the current Section 89 statute was crafted.

Section 89, drafted by a handful of congressional and administration staffers, was tacked on to the Tax Reform Act of 1986 without any public hearings and virtually no input from employers.

While legislators supported the general concept of non-discrimination rules for welfare plans, it is unlikely any member of Congress had any idea of the complexity of the statute congressional staff developed.

Today, though, because of employers' uproar, congressmen are deeply involved in Section 89 reform.

"The issue has been elevated from a staff to a member issue," said Mr. McArdle of Hewitt Associates.

While Section 89 reform legislation has a good head of steam, it still must clear many hurdles.

For example, because it is possible that Section 89 reform provisions could be passed by the House and Senate as part of different bills—a child care proposal in the Senate and budget reconciliation legislation in the House—legislators will need to find a common legislative vehicle to work out differences in the House and Senate Section 89 proposals.

It is possible the Senate Finance Committee could take a House-passed budget reconciliation bill and add its Section 89 provisions to the legislation. Then, after the Finance Committee and full Senate pass budget reconciliation legislation, the differences in the two bills, including Section 89 reform provisions, could be worked out by a House-Senate conference committee.

"While the odds are high we will see Section 89 reform, there still are a lot of open issues to be resolved before reform is law," Mr. McArdle said.

And, there are plenty of differences between the Bentsen and Rostenkowski Section 89 reform bills.

For example, the Rostenkowski bill would give employers the choice—in 1989 only—of complying with the current Section 89 statute or the rules contained in the Rostenkowski bill.

The Bentsen bill, though, would put off compliance until Jan. 1. And, through 1991, employers would have a choice of complying with the Section 89 rules in the Bentsen bill or those in the current Section 89 law.

Both measures require health care plans to pass two tests to be considered non-discriminatory. If a plan fails the first test, known as the eligibility test, highly compensated employees would be taxed on the cost of all their health care benefits.

But, the mechanics of running the eligibility test differ substantially.

The Rostenkowski bill says that a health care plan, consisting primarily of "core" medical and hospital benefits, must be offered to 90% of non-highly compensated employees in order to pass the eligibility test.

In addition, employee contributions for individual coverage could not exceed $10 a week for individual coverage and $25 a week for family coverage for a plan to pass this test. These maximum contribution levels would be indexed to the annual increase in national wages.

However, under the Bentsen bill, core health care coverage would have to be available to 90% of all employees—not just non-highly compensated employees.

In addition, employee premium contributions could not exceed 40% of the total premium under the Bentsen bill. And, if an employer limits employee contributions for individual coverage to less than 40% of the total premium, it can require employees to pay more than 40% of the premium for family coverage.

Both the Rostenkowski and the Bentsen measures also include a second test known as the benefits test.

Under this test, a plan that is available only to a limited group of employees would be considered non-discriminatory if the cost of coverage is no greater than 133% of the cost of coverage for a core health plan available to at least 90% of non-highly compensated employees under the Rostenkowski bill, or 90% of all employees under the Bentsen bill.

The cost of coverage that exceeds this 133% threshold would be included as taxable income to highly compensated employees.

However, the two bills differ significantly in the way they treat employees' pretax contributions toward health care premiums—under certain conditions—in running the 133% benefits test, with the Bentsen bill more favorable to highly compensated employees.

For example, under the Rostenkowski bill, employees' pretax contributions toward a health insurance premium are treated as employer contributions for highly compensated employees but as employee contributions for non-highly compensated employees. This increases the odds that a plan will flunk the 133% test and that highly compensated employees will be taxed on a portion of their health care benefits.

Under the Bentsen bill, however, pretax contributions for highly and non-highly compensated employees are treated as employer contributions in running the 133% test, as long as those contributions are matched dollar for dollar by the employer.

Also, employers with flexible benefit plans that allow unused flex dollars or credits to be taken in cash are more likely to pass the non-discrimination tests under the Bentsen bill than under the Rostenkowski bill.

The Bentsen bill "contains welcome news for companies that sponsor flexible benefit plans," said Steve Fein, a consultant with TPF&C, the benefits consulting division of Towers, Perrin, Forster & Crosby Inc. in New York. ■

SEK-Exact & Grey

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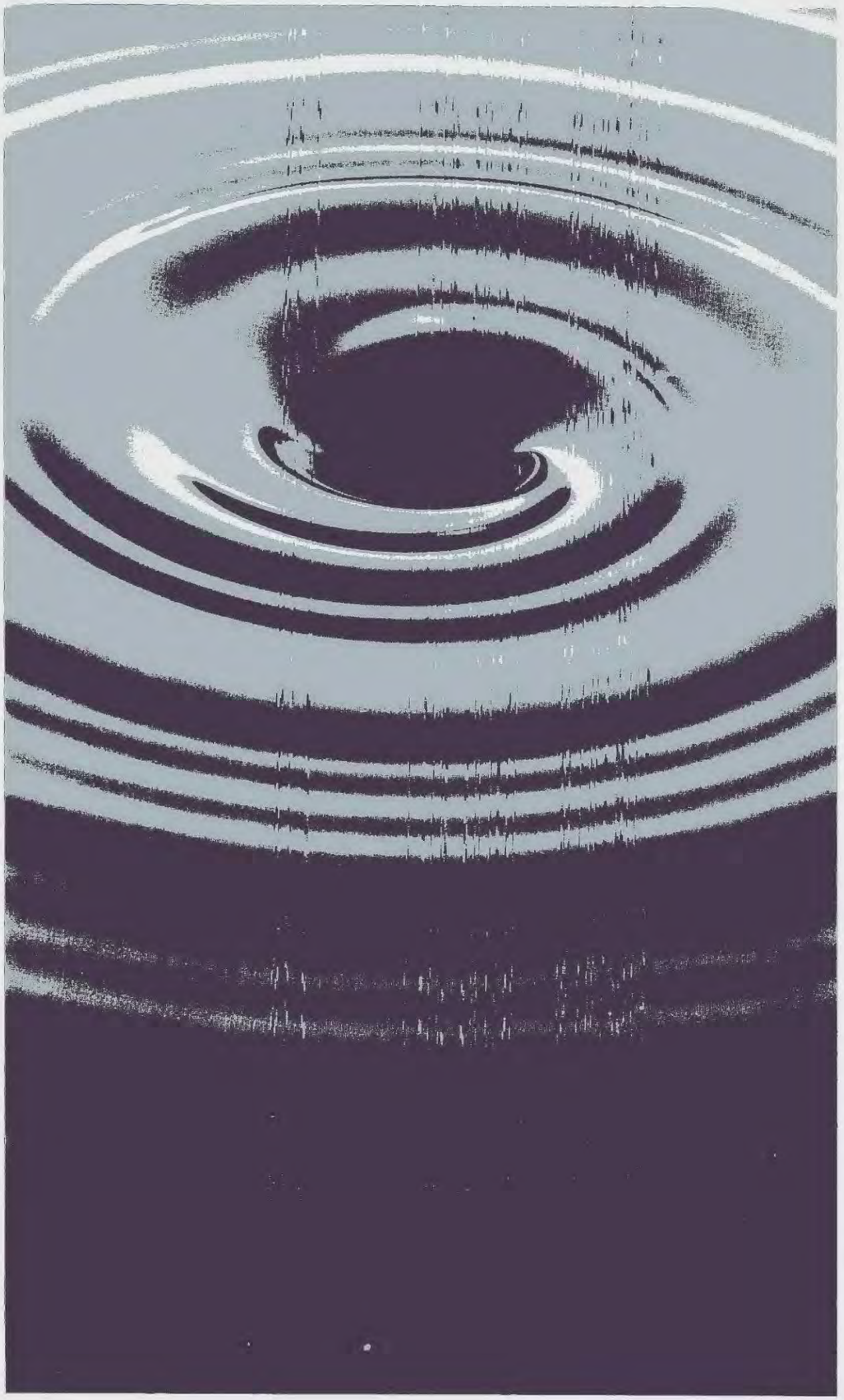

Down the never-ending drain?

You have every reason to feel that way. After all, health care is often one of your biggest single expenses. Yet the costs seem out of your control.

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*"Health Benefits Survey: 1988," A. Foster Higgins & Co. Inc.

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Association institutes case management

By MICHAEL SCHACHNER

Benefit beat

One of the nation's largest association health care plans is turning to case management as a means of trimming health care costs for its 45,000 members, according to the association's claims manager.

The National Rural Electric Cooperative Assn. introduced a health care management program designed to better manage costs for all hospital admissions, especially for alcohol- and stress-related conditions.

The NRECA is composed of about 1,000 individual cooperatives in all 50 states, representing some 45,000 active and retired power, transmission and distribution employees.

The association has contracted with Intracorp of Wayne, Pa., to perform inpatient and outpatient review services at the physician level to curtail abuses in charges and referrals, said Geoff Deutsch, national program consultant with Intracorp in Towson, Md.

The association, which paid $110 million toward member benefits last year, predicts that the case management services will save it between 2% and 4% in overall benefit expenditures during the first year of the program.

The NRECA will receive on-site case management for patients suffering from catastrophic and chronic illnesses, he added.

Such cases will be referred to a local nurse within 24 hours so that the best possible treatment can be arranged based on medical, emotional and cost factors, he explained.

The NRECA ran a test of the case management portion of the program last year and found that the referral service was successful in channeling patients to centers of excellence with tremendous cost savings results, according to the NRECA.

Based on projected claims, more than $100,000 was saved on one case, the NRECA reported.

"We know we can save through case management," said Duncan Macdonald, claims manager for the association.

"Although we don't have an exact dollar figure we wish to save, we do want to pay only for necessary medical procedures," Mr. Macdonald observed.

On an outpatient basis, NRECA members have access to a registered nurse hot line. Through a single two- to three-minute phone call, members can obtain a quick referral based on their medical condition or they can receive answers to a broad range of medical questions, including medical terminology and prescription details.

In addition, the nurse can also recommend important questions to ask physicians.

The program will cost the NRECA $1.67 per employee per month.

The NRECA opted for the program because, in the past, members did not receive adequate information about their health care plans. "Our previous administrator just didn't communicate with our members like we wanted. After the sale there was no contact at all," he said.

The NRECA health care plan is self-insured and self-administered with claims processed out of its claims operation in Lincoln, Neb. Prudential Insurance Co. of America in Newark, N.J., provides life insurance coverage for association members as well as stop-loss coverage for the NRECA's dental and medical claims.

Mr. Macdonald said he hopes the case management program will entice electrical co-ops to join the association.

"Ultimately, we feel we can save the co-ops money. If that creates more business for the NRECA, that's fine. They need every cost control avenue to be open," he said, explaining that coverage on the commercial insurance market isn't always cost-efficient.

New ESOP

Employees of Parker-Hannifin Corp. will receive shares in the company through the addition of a new leveraged employee stock ownership plan to their existing 401(k) savings plan.

The ESOP will borrow $70 million over the next seven years to purchase between 2.3 million and 2.5 million shares of the Cleveland-based manufacturer's 48.7 million shares of outstanding common stock, giving employees approximately 5% ownership, said Ruth Lovett, employee benefits counsel.

The loan, obtained from "six or seven" insurance companies and at least one banking interest, was coordinated by Salomon Bros. Inc., she said.

In addition to attaching the ESOP to the existing 401(k) plan, the current employee contribution/company match formula for the 401(k) plan will change, said Ms. Lovett.

Under the new plan, the company will match 100% of the employee's first 2% of salary contributed to the savings plan and 25% on the next 3% to 5%, according to Ms. Lovett.

Under the old 401(k) plan, Parker-Hannifin fully matched the first 1% of salary contributed by an employee. It then contributed 25% for each additional 1% an employee put into the 401(k), up to 5% of an employee's salary.

Initially, all of the company's contributions to the 401(k) plan will be allocated to the ESOP to pay back the loan, Ms. Lovett said. After the loan is repaid, employer contributions will be used to purchase additional shares for the ESOP.

In the meantime, stock will be held in an ESOP "suspense account" and, as the loan is paid off, securities will be released to employees by the ESOP trust, she explained.

The plan was created to "provide a larger employee stake in the financial success of the company," according to Parker-Hannifin President and Chief Executive Officer Paul G. Schloemer.

However, the corporate board is still determining the duration of the stock purchase program, Ms. Lovett noted.

The company's 401(k) plan is co-administered by Parker-Hannifin and the Washington, D.C., office of The Wyatt Co.

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Made any benefit changes? Write Michael Schachner, Associate Editor, Business Insurance, 220 E. 42nd St., New York, N.Y. 10017-5806; 212-210-0143.

Protection . . .

HealthCare COMPARE to acquire Cost Care

HealthCare COMPARE Corp. of Downers Grove, Ill., plans to acquire Huntington Beach, Calif.-based Cost Care Inc. for $6.7 million.

Currently, both independent utilization review companies are among the largest in the nation and the merger entity could become one of the two largest UR firms.

According to *Business Insurance*'s rankings of the largest U.S. health care cost management firms by number of lives serviced, HealthCare COMPARE was the second-largest UE firm in 1988 with 5 million lives, while Cost Care was No. 6 with 2.9 million lives. Had the lives serviced been combined, the companies together would have ranked as the second-largest UR firm last year, ahead of Corporate Health Strategies, a unit of Metropolitan Life Insurance Co., and behind Intracorp, a CIGNA Corp. unit (*BI*, Feb 20).

"The combination of our two companies will create the largest independent health care cost management concern in the nation," said Lawrence Goelman, president and chief executive officer of Cost Care.

The agreement, which is contingent upon approval by HealthCare COMPARE's board and the shareholders of Cost Care Inc., is expected to be finalized by July 18, said Robert J. Becker, chairman of HealthCare COMPARE.

After the acquisition, Cost Care will be operated as a subsidiary of HealthCare COMPARE but will retain its name, current management and headquarters in California, Dr. Becker said.

"The proposed acquisition reflects our confidence in Cost Care's management and future business prospects. We believe that a combination with HealthCare COMPARE will facilitate Cost Care's future growth by providing it with increased financial strength and resources," said James C. Smith, president and CEO of HealthCare Compare.

PPO expands to Iowa

HealthNetwork Inc. of Oak Brook, Ill., has expanded its preferred provider organization network to Iowa by contracting with Mercy Hospital in Davenport.

The addition of the hospital in Iowa brings to four the number of states participating in the HealthNetwork PPO, which has more than 450 employer subscribers and covers more than 90,000 lives.

The other states that are part of the HealthNetwork PPO—which maintains contracts with 62 hospitals and 3,100 physicians—are Illinois, Indiana and Wisconsin.

For more information, contact Mitchell Wasserman at HealthNetwork PPO, 1420 Kensington Road, Oak Brook, Ill. 60521-2106; 312-954-2900.

Markets

New J&H unit

Johnson & Higgins of New York has formed a new health care industry risk management consulting unit.

Dynamark Inc. will offer "quality control, claims administration, claims investigation and related consulting services to the health care industry on a national basis," J&H said.

The new unit will be located in J&H's Houston office.

"The creation of Dynamark represents a major expansion of our strategy to offer the health care industry the broadest possible range of professional consulting and broking services," said David A. Olsen, president and chief operating officer of Johnson & Higgins.

Earl Silverstein, a vp and manager at J&H's Houston office since 1987, will head Dynamark.

For more information, contact William Remington, Manager, Johnson & Higgins, 1400 M Corp. Plaza, 333 Clay, Houston, Texas 77002; 713-651-1900.

Name changes

Transamerica Insurance Co. of Woodland Hills, Calif., has named its recently reorganized workers compensation operations **Transamerica Workers' Compensation.** The new name reflects the merger of all Transamerica work comp units with the company's specialty work comp subsidiary, **Fairmont Insurance Co.**

Broker **ABI Management Inc.** of San Francisco has changed its name to **American Business Insurance Inc.**

Carson, Luebbehusen & Burk Inc. of Fort Worth, Texas, has changed its name to **Burk, Luebbehusen, Ray & Co.**

Mergers/acquisitions

The management of **Sullivan Co. Inc.** of Greenville, S.C., has purchased the independent agency from Greenville, S.C.-based U.S. Shelter Corp. for $3.3 million.

Los Angeles-based **Facilities & Services Corp.** intends to acquire **Insurance Rating Dynamics** of Laguna Hills, Calif.

Broker **Hilb, Rogal & Hamilton Co.** of Richmond, Va., has acquired **Moore & Canion Insurance Agency** of Port Lavaca, Texas.

Lindsey & Newsom Claim Services Inc. of Tyler, Texas, has acquired **Acadiana Claims Service Inc.** of Lafayette, La.

J.W. Terrill of Colorado, a subsidiary of St. Louis-based J.W. Terrill Inc., has acquired **Richard V. Alexander Ltd.** of Denver.

TEI Medical L.P. of Washington, D.C., is purchasing **Republic-RSB Cos. Inc.** of Naperville, Ill.

Laadt & Co. of Oak Park, Ill., has acquired **Hugo J. Kralovec & Co.** of Berwyn, Ill.

New offices

Corroon & Black/The Flamer Cos. of San Jose, Calif., has moved its office to 1735 Technology Drive, Suite 500, San Jose, Calif. 95110; 408-452-7555.

Quantex Corp. of Iselin, N.J., has opened a new office at 10500 N.W. Eighth St., The Seafirst Building, Suite 1602, Bellevue, Wash. 98004-4332; 206-451-1700.

New York-based **Martin E. Segal Co.** has moved its Cleveland office to 820 Superior Ave., West Cleveland, Ohio 44113-1800; 216-621-8864.

Third Party Administrators Inc. has moved its Wheaton, Ill., corporate headquarters to 1733 Park St., Suite 300, Naperville, Ill. 60540; 312-416-1111.

The FPE Group of Los Angeles has opened a new office at 3868 Carson St., Suite 218, Torrance, Calif. 90503; 213-316-6519. ■

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Opinions

China turmoil offers lesson

RISK MANAGERS' VAIN scramble to obtain political risk insurance for operations involving China following the recent Chinese government suppression of student protests stands as an important lesson:

Risks must be anticipated.

That simple risk management tenet apparently was overlooked by many risk managers who did not investigate, let alone purchase, political risk insurance to cover their operations involving China before the student protests erupted.

Once the government tanks rolled in to Tiananmen Square and machine guns cut down student protesters, however, many risk managers began to call their brokers seeking political risk insurance (*BI*, June 12).

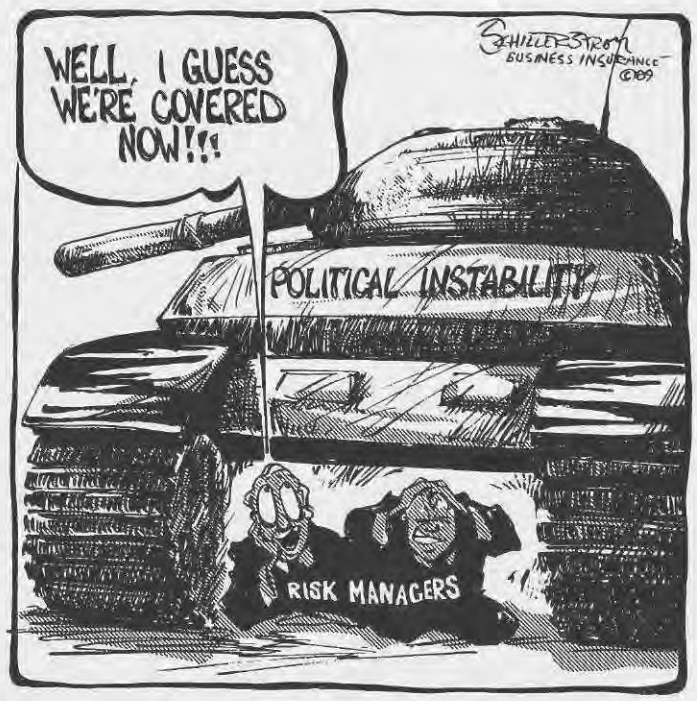
Political risk insurance underwriters, of course, were not writing new political risk coverage in China with the prospects of loss so greatly increased by the political crisis.

Risk managers whose companies do business with the Chinese or have operations in China had missed real bargains to insure their risks. As one underwriter told us, the rates for insuring political risks associated with China had dropped so low that he had quit underwriting the business.

We are not saying that all companies with political risk exposures due to the turmoil in China should have purchased political risk insurance. If the risk manager had analyzed the risk and decided that the company preferred to self-fund the risk rather than insure it, so be it. And perhaps that was the case with a fair number of the risk managers who sought political risk insurance once the violence exploded.

They could have been simply doing what any savvy risk manager would do: checking what the insurance market would do in the face of greatly increased risk.

We suspect, however, that there are some risk managers who wish today that they had purchased



insurance a couple of months ago but did not because they did not imagine that political violence would erupt in China.

We hope this is not an expensive lesson for them and that the losses for foreign business associated with the political upheaval in China remain few, not only for the sake of the foreign investors but also for the Chinese people.

Whether or not foreign businesses suffer losses because of the crisis in China, the events of the past several weeks should remind risk managers that even the most apparently stable political environment for investment can overnight be thrown into upheaval. Political risks have to be assessed and the possibility of loss anticipated.

Furthermore, even risk managers without foreign operations should see the events in China in a broader context: The horrifying and conventionally unthinkable can happen.

Letters

EAPs' goal is to solve employees' problems

To the editor: Dr. Walter E. Afield in his article "Running Amok: Employers Losing Control of EAP Costs, Management" confuses employee assistance programs and the problems of the health care system (*BI*, May 29).

In the article he states: "Early (EAPs). . .did everything possible to keep valued workers on the job while helping to solve the problem." This has always been the objective of EAPs and is the goal of EAPs administered by the nearly 6,000 members of the Employee Assistance Professionals Assn.

EAPs are specifically designed to identify employees who are not performing satisfactorily because of the effect of personal problems and to assist management and labor in correcting these problems. Often the problem can be corrected by the use of "corrective confrontation" only, and the unacceptable behavior will be changed.

Other times, an employee will respond to a referral to a self-help group such as Alcoholics Anonymous or outpatient care. Only the most acute cases will require inpatient services.

Dr. Afield suggests that EAPs "need to. . .incorporate the managed care concept." In many companies, EAPs are managed care but where there is separate responsibility for managed care the two work together, saving costs by reducing problems due to poor performance and monitoring the types and costs of treatment.

For example, Hughes Aircraft Co. asked its EAP to do the managed health care for alcoholism and drug abuse because the managed health care vendor was unable to learn the unique employee needs in that area. The UAW/General Motors Corp. EAP is an integral part of the human resource team, which designed the company's managed health care program.

The UAW/GM example illustrates how two components work together for the common goal of improved productivity through employee rehabilitation.

Managed health care advocates—including Dr. Afield, I suspect—and EAP professionals share a common concern that there needs to be careful placement of employees at the appropriate level of care. With the national obsession that neo-prohibitionists are causing between drinking and alcoholism, employers, labor representatives and the public are increasingly susceptible to appeals for "quick fixes" for their addicted employees.

Neither a program to do urine testing for all employees nor an automatic referral to a drug or alcoholism treatment program will help with productivity or health care costs. There needs to be a comprehensive program to identify and deal with addictions that are causing job problems. That is exactly what an EAP is!

Dr. Afield criticizes the fact that EAPs differ from one industry to another. However, that is one of their major strengths. There is no cookie cutter for an EAP. A comprehensive program to deal with job problems has to be uniquely designed for each workforce, whether it be part of safety, fringe benefits, occupational health, training or EAPs.

The design of an EAP includes consideration of all the factors Dr. Afield mentions, including analysis of insurance claims, tracking of referrals, monitoring of treatment and assurances about unethical procedures, especially kickbacks and payoffs.

The Employee Assistance Professionals Assn. has a code of ethics and I invite Dr. Arnold to utilize it if he knows of any EAP practitioners specifically taking payoffs, kickbacks or otherwise making referrals for their own benefit. The association also has a professional designation, the Certified Employee Assistance Professional certificate, to provide employers with assistance in recruiting qualified EAP practitioners who adhere to the CEAP code of conduct.

Thomas J. Delaney Jr.
Executive Director
Employee Assistance Professionals Assn. Inc.
Arlington, Va.

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Oregon governor pushes comp reform

SALEM, Ore.—Gov. Neil Goldschmidt has called for comprehensive workers compensation reforms in the wake of mounting losses suffered under Oregon's existing system.

State legislators, Insurance Department officials and labor leaders were attempting to hammer out a compromise reform package last week in time for review and possible passage by lawmakers before the regular session closes at the end of June.

The workers compensation reforms will expand H.B. 2195, legislation that calls for employers to contract with managed care providers for medical services administered to injured workers.

As originally proposed by Theodore R. Kulongoski, director of the state Department of Insurance and Finance, H.B. 2195 would permit employees to select a physician of their choice within a managed health care network. Under the current work comp system, injured workers in Oregon can receive care from any provider of their choice.

The legislation also would eliminate work comp benefits for maintenance care such as continued physical therapy and medication, and would require use of generic medications when available.

Gov. Goldschmidt has asked legislators to reconsider the medical cost containment provisions of H.B. 2195, which had been "watered down" through numerous amendments since its introduction in March, a spokesman said.

The governor also has proposed that a $72 million trust fund be established to provide increased benefits to the most severely injured workers and that a registry of physicians be set up to determine the extent of disabilities.

To help gain support from labor groups, the legislation also would require employers to hold open injured workers' jobs for a specific period of time, which has not yet been determined. Current Oregon law provides no guarantee that injured workers will be returned to their former jobs.

Details of the governor's proposals were being drafted last week, and legislative committees were preparing to review them, officials said.

Gov. Goldschmidt said he will order state lawmakers back into special session if they do not approve significant work comp reform legislation by the end of the current regular session, a spokesman said.

The insistence on reform has emerged with a growing crisis in Oregon's work comp system, said Mark Gaede, the Insurance Department's legislative aide.

The Salem, Ore.-based State Accident Insurance Fund Corp., the state-run work comp insurer, recently reported its surplus had declined by $49.9 million in 1988 and that it expects a similar decrease this year (*BI*, May 29).

SAIF Corp., which was authorized by the Legislature in 1980 to succeed the State Accident Insurance Fund, provides workers compensation insurance to 48,000 employees in the state. Oregon employers can purchase coverage from SAIF Corp., self-insure or obtain work comp insurance from a private insurer.

The SAIF Corp. board of directors recently announced it would be forced to drop 15,000 small employers and raise premiums by about 15% unless substantial changes in the Oregon system were made soon.

The board's announced intentions are "not just idle threats," Mr. Gaede said. "The governor is taking this very seriously." State officials were aware that SAIF Corp. was experiencing losses, but "we didn't realize they were hemorrhaging so badly," he said.

Escalating medical costs were identified as the major factor causing the increase in overall workers compensation costs in recent years, Mr. Gaede said. Medical costs for the Oregon work comp system have increased 111.4% since 1981, he said.

Work comp premiums in Oregon averaged $4.86 per $100 of payroll last year, the eighth-highest in the nation.

—By Glenn Huntley

Around the states

Insurance degree

TERRE HAUTE, Ind.—The Indiana Commission for Higher Education last week granted Indiana State University in Terre Haute permission to launch an undergraduate program in insurance this September.

Under the program, 11 insurance courses will be offered covering life, health, property, liability and business insurance, leading to a bachelor of science degree in insurance.

Courses in financial planning, estate planning, employee benefits, and other insurance-related topics also will be offered and will be taught by three full-time teachers who are also insurance professionals.

"We have had a demand by our students for these courses," said Larry D. Coleman, an ISU professor of management who heads the new program. Mr. Coleman estimates that the program's enrollment will reach 150 in three years.

Although the university currently offers a minor in insurance, student interest and projections that insurance-related jobs will increase 25% in Indiana over the next decade were the impetus behind the new program, he added.

The university will be the first school in the state to offer an insurance degree. Purdue University in West Lafayette, Ball State University in Muncie and Indiana University in Bloomington offer undergraduate courses in insurance.

The program's curriculum was developed in part by an insurance advisory council, composed of industry professionals, which also developed internships for students and has raised $400,000 in scholarship pledges, said Mr. Coleman.

The state will provide an undetermined amount of additional funding to launch the program, Mr. Coleman said.

—By Laura Mazzuca

Commission election

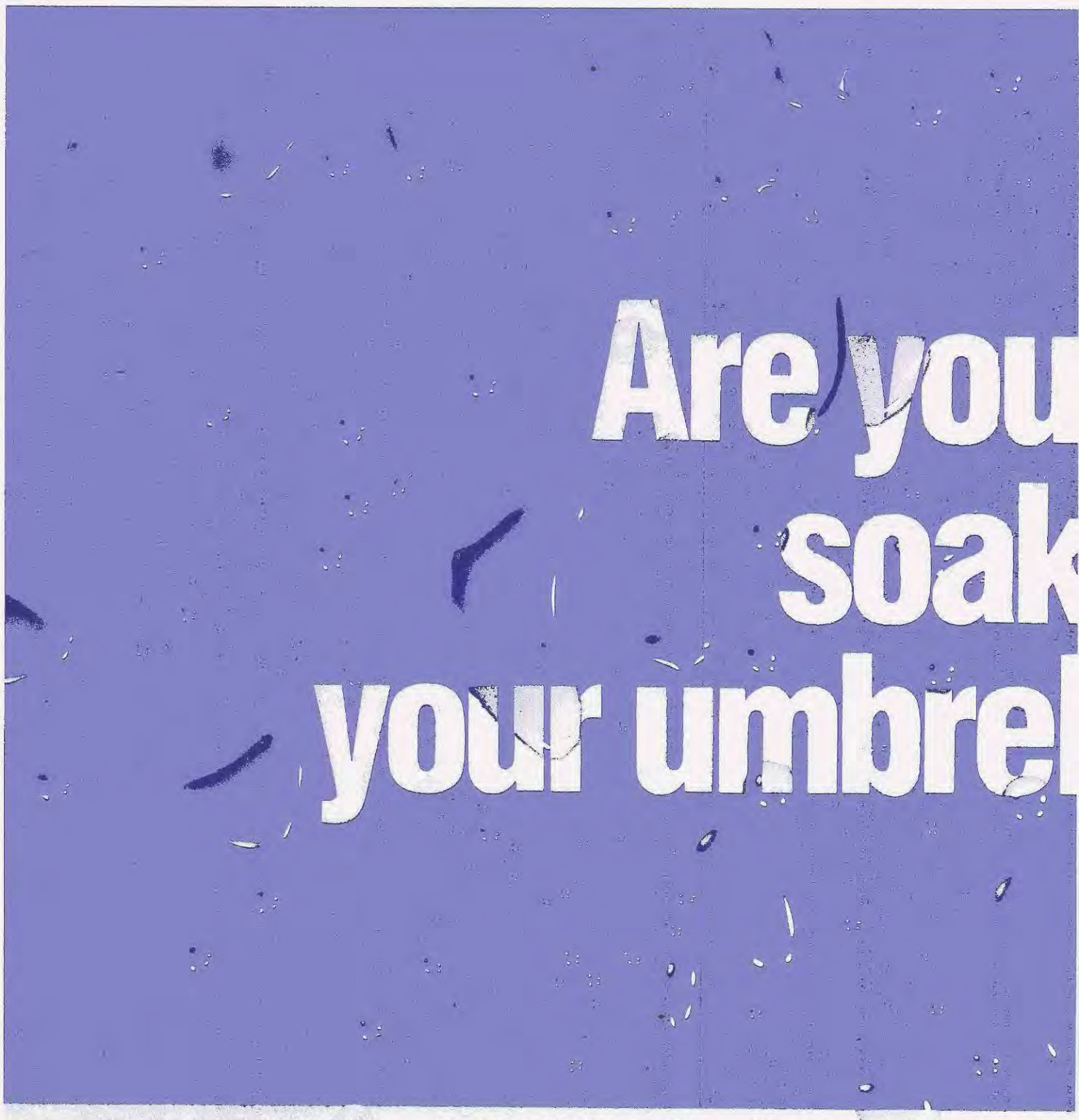
COLUMBIA, S.C.—Stonewall M. Richburg, a retired official of the Richland County, S.C., school system, was elected chairman of the seven-member South Carolina Insurance Commission earlier this month.

Mr. Richburg, formerly the commission's vice chairman, succeeded Edward K. Pritchard Jr. of Charleston, who remains on the board.

Connie R. Morton, a former banker and newspaper executive from Rock Hill, S.C., succeeds Mr. Richburg as vice chairman.

The commission's officers generally hold their position for one year, according to Joe P. Barnett, assistant to Chief Commissioner John G. Richards. Commission members serve six-year terms, he said.

—By Mark A. Hofmann



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At issue

What can state insurance regulators do to prevent insurer insolvencies?

James Drake
risk manager
Price Communications Corp.,
New York

Premium taxes represent a major source of state revenues. Insurance departments in many states are not funded in line with their responsibilities. Increased funding for these necessary monitoring efforts is needed for them to do the job.

R. Kemper Smith Jr.
manager-insurance administration
Reynolds Metals Co.,
Richmond, Va.

State governments need to adequately staff insurance regulatory organizations with competent professionals. It would seem uniform stringent financial requirements among the states, as well as more involvement in reinsurance activities, would help. I believe the thing to be avoided now by regulators is the spread of Prop. 103-type action.

Virginia F. Tormey
director-risk management
Pacific Telesis Group,
San Francisco

I am not convinced that additional regulation is either practical or desirable. It is noteworthy that the Surplus Lines Assn. in California performs a kind of self-regulation with excellent results. While this would probably not be practical for admitted companies, it does illustrate that knowledgeable monitoring with trained and adequate staff is effective.

Paul J. West
assistant vp-risk management
Mayflower Group Inc.,
Indianapolis

More effort needs to be made by the states to review annual statements for problem areas and not just to ensure the data is presented properly. Also, it is vital that insurance companies be examined at least once a year, not on an "as needed" basis. These actions should help quickly identify companies that require immediate regulatory action.

Compiled by Christine Woolsey

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Oregon eyes mandatory health cover

By GLENN HUNTLEY

SALEM, Ore.—Small companies in Oregon that do not provide health insurance to their workers could be forced to do so beginning in 1994 under legislation Gov. Neil Goldschmidt is expected to sign.

S.B. 935 would require employers with 25 or fewer employees to purchase health insurance on their own or to buy coverage through the state's catastrophic health care insurance pool (*BI*, Feb. 1).

The bill, sponsored by Sen. John Kitzhaber, D-Salem, passed the House May 31 and was awaiting the governor's signature last week.

However, employers would not be required to participate in the pool if they voluntarily extend health care coverage to an additional 150,000 employees in the state by 1994, according to the bill. State officials estimate that about 75% of the state's 400,000 uninsured residents are employed.

The state-run insurance pool, authorized in 1987, began operating last month, offering six different plans underwritten by commercial health insurers. The plans offer catastrophic health care coverages with varying deductibles and copayments depending on the insured group, said Mike McCracken, administrator of the Senate Insurance Committee.

In addition, S.B. 935 gradually phases out tax incentives that had been provided to employers that offer insurance to previously uninsured employee groups.

The new legislation also will allow larger employers in the state to purchase coverage through the state pool beginning in 1991.

While larger employers are not eligible for the tax credits, they can escape state-mandated benefit requirements such as mental health care by purchasing coverage through the pool.

Under the bill, if the goal of 150,000 additional insured workers is not reached by 1994, assessments by the pool on employers not offering health care coverage would amount to 75% of the total premium for employee health care coverage, up to $40 per month per employee, and 50% of the total premium for dependent coverage. There is no cap on premiums for dependent coverage.

In addition, the legislation permits employers to require employees to contribute up to $15 per month toward the individual premium under the plan. Employees would pay the 50% balance for dependent coverage.

The National Federation of Independent Business/Oregon, which represents 14,000 members, is urging the governor to veto the bill.

"This bill will force employers out of business, result in a high number of layoffs, stifle planned business expansion and will eliminate new entry-level jobs for young individuals," said Jim Bernau, director of NFIB/Oregon.

Two other insurance-related measures also are awaiting approval in the Oregon Legislature.

S.B. 27 would extend health care coverage to all residents with incomes under the federal poverty level who do not have access to health insurance. Coverage would be provided through prepaid managed care services contracts and would be funded by the state's federal Medicaid appropriations.

And, S.B. 1124 calls for an evaluation of the costs of current Oregon benefit mandates. Oregon law requires insurers to include a minimum of 26 specific benefits in all group health plans. ■

Annual reports

Continued from page 3

stress that market share has no relevance at AIG. If writing a class of business requires cutting prices to an unacceptable level, we are willing to leave it to others," he said later in his letter.

In addition, mutual insurers are promising their policyholders that their companies will not risk surplus to match competitors' low prices.

"Sentry will not jeopardize its hard-earned policyholder surplus by competing with unrealistic prices or improper underwriting," pointed out Larry C. Ballard, chairman of Sentry Insurance, a mutual insurer based in Stevens Point, Wis.

"We will not take measures that irrationally benefit a minority of insureds at the risk of jeopardizing a stable market, fair price and quality service for the majority of our policyholders," Mr. Ballard told policyholders.

"Instead, Sentry will continue to price its product with the objective of having a reasonable chance of generating a modest profit for the risk accepted. Only by doing so can Sentry assure its policyholders a consistently priced product supported by the quality service they deserve," Mr. Ballard said.

Reinsurance companies also are using their annual reports to stress their commitment to sound underwriting standards.

"Premiums written may remain stable or even decline during competitive periods as a higher proportion of opportunities does not meet our underwriting standards," said a letter to shareholders attributed to the staff of NAC Re Corp. in Greenwich, Conn. "We seek to attain underwriting profitability and will not lower our standards simply for premium growth."

In addition, the letter later pointed out: "NAC Re underwriters are not directed to produce premium but to produce opportunities and quote business consistent with our underwriting standards."

At General Re Corp. of Stamford, Conn., 'Underwriting discipline, with a goal of underwriting profit, is the linchpin of our operating strategy and corporate culture," noted Chairman and President Ronald E. Ferguson.

"In our view, an unrelenting commitment to underwriting discipline and profit is the only way we can properly serve the long-term interests of all of General Re's constituents—stockholders, clients and employees," Mr. Ferguson said.

To control the impact of the competitive market on their companies while maximizing profits, some executives point out that their companies are focusing on distinct market niches as well as holding the line on price reductions.

"We continued to emphasize those specialized markets in which we have been best able to serve our customers by providing innovative product and exceptional service to meet their particular needs," noted the shareholder letter from three Chubb Corp. executives: Chairman Dean R. O'Hare, Vice Chairman Percy Chubb III and President Richard D. Smith.

"Where we grew, it was not at the expense of profitability. We remain committed to making an underwriting profit, and in 1988 we achieved that goal," the Chubb officials said, pointing to the insurer's 99.8% combined ratio in 1988.

"Specialty provides balance to help us weather the cycles in traditional and personal insurance. We proved that in 1988," said Gerald A. Isom, president of Transamerica Insurance Group in Woodland Hills, Calif., in the insurer's annual report.

"The specialty market is driven by factors other than price: Service, expertise and capacity are critical. That arena can be very desirable if you have people who know how to identify profitable segments and control the business you write. We are fortunate to have such people," Mr. Isom said.

As they have for the past few years, insurance and reinsurance company executives this year are again warning shareholders about the potential impact of the Tax Reform Act of 1986 on the property/casualty insurance industry.

'We must reckon with a most coveted value—consumer trust,' USF&G's Mr. Moseley says.

While some executives point out that the additional tax burden applied to insurers by the law has not stopped companies from cutting prices, they say that the tax act will eventually force insurers to control their competitive urges.

"During 1988 there was little evidence of the tax act having triggered a renewed commitment to pricing integrity or a reduction in competition for commercial casualty business," noted Maurice W. Slayton, chairman of Re Capital Corp. in Stamford, Conn., and Donald E. Chisholm, Re Capital's president.

"We expect to see the tax act precipitate some improvement in these areas in 1989, as the increasingly negative effect on insurers' cash flow is felt, and continuing into 1990 when the impact of the act's alternative minimum tax provisions become more severe," the Re Capital executives said.

"In 1988, Sentry felt the full impact of the 1986 Tax Reform Act with a federal tax burden of $26 million. This compares to a $9 million tax in 1987, when Sentry was able to fully utilize tax loss carryforwards which are no longer available," explained Mr. Ballard.

"The ever-increasing impact of the 1986 Tax Reform Act will have a permanent, dramatic effect on industry pricing and profitability," he said.

Most insurance industry executives' shareholder letters are not complete this year without a discussion of the challenges the insurance industry faces, especially the approval of Proposition 103 by California voters and the antitrust litigation filed against insurance industry defendants by state attorneys general.

Both of the events show that the insurance business is misunderstood by the public and politicians, many insurance executives state, adding that it is up to the industry to dispel any misconceptions that the public may harbor about insurers.

"The very first order of business for the entire industry is to restore our credibility," said Transamerica's Mr. Isom. "We won't get far on securing legislative support until we have the public trusting us again."

"The consumer revolt in California in response to high personal automobile insurance rates exemplifies the political climate our industry faces today," wrote Messrs. Marcum and Woodall of Ohio Casualty.

"We need to intensify our efforts to help the public understand how the insurance mechanism works. The industry has not had an underwriting profit since 1979, yet the public perception is that insurance companies are making exorbitant profits. We are doing everything we can to improve the image and understanding of our industry—an industry vital to the economy of our country," Messrs. Marcum and Woodall explained.

"We must do everything we can do to control the cost of insurance, improve the efficiency and cost-effectiveness of our own operations, promote competition among financially viable insurers and help the public better understand how insurance operates," said John A. Pollock, president and chief operating officer of General Casualty Cos. in Sun Prairie, Wis., a unit of Reliance Group Holdings Inc.

"Both Proposition 103 and the attorneys general's suit highlight the large gap that exists between reality and the public's perception of the workings of the insurance mechanism. The industry must close this schism if it hopes to avoid spending many more millions of dollars defending itself against such attacks," said Messrs. Slayton and Chisholm of Re Capital.

USF&G's Mr. Moseley noted that in dealing with challenges like Proposition 103, "we must reckon with a most coveted value—consumer trust."

"We know how vital property/casualty coverage is to the American economy. We also understand the frustration that builds between consumers and politicians as costs climb. We will continue to defend ourselves in Congress, the courts and statehouses across the nation, trying to seek a balance between public hazard, personal coverage and corporate earnings," Mr. Moseley said.

In closing their letters, many insurance and reinsurance company executives are telling shareholders to be prepared for tough times in 1989 and possibly beyond.

"The year ahead will be another difficult one for the industry," according to the NAC Re annual report. "In the primary markets, where the insurance companies we provide with reinsurance coverage conduct business, we expect that 1989 will evolve as a continuation of the cyclical downturn which began in 1987.

"As a result of the expected primary insurance industry environment, we believe the domestic reinsurance marketplace will be increasingly difficult in 1989 and into 1990-91," the NAC Re report says.

Wilson H. Taylor, president of CIGNA Corp. in Philadelphia, also warned the company's shareholders of tough times ahead in the property/casualty insurance industry.

"Although our special risk and reinsurance businesses should provide some stability, the small to medium-sized commercial business, which has been most affected by the down cycle, comprises about half of our property and casualty volume. Consequently, we expect a continued reduction in property and casualty operating income in 1989," Mr. Taylor said, though he pointed out that CIGNA expects its group health insurance business to post a strong recovery this year.

Others, though, see opportunities despite the soft commercial property/casualty insurance market.

"Currently most. . .experts are predicting down earnings for property-liability insurers in 1989," reported Robert J. Haugh, chairman of The St. Paul Cos. Inc. in St. Paul, Minn. However, "we do not accept down earnings as preordained, at least not for The St. Paul.

"Barring major catastrophes or other unusual events, we are optimistic about the trends in our major enterprises, and we believe that our 1989 financial results should be as good as or better than 1988," Mr. Haugh said.

Adopting a similar theme, Gerald L. Maatman, president of Kemper National Property & Casualty Cos. in Long Grove, Ill., said, "Barring major catastrophes, I believe there is no reason our (1989) results shouldn't be better than 1988's.

"We have some of the best employees in the industry, our prices are generally competitive and we have the internal structure now to make the best of our opportunities," Mr. Maatman said. "1989 could be one of our best years ever." ■

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Policy integral part of timeshare deal

By JUDY GREENWALD

LAKE BUENA VISTA, Fla.—The soft commercial property/casualty insurance market is presenting an insurer with an opportunity to develop a specially manuscripted catastrophe insurance policy for a vacation timeshare resort in conjunction with a broader financial deal.

The $24 million policy underwritten by Transamerica Insurance Co. of Los Angeles covers the Vistana Resort Development, a subsidiary of General Development Corp. that operates a 126-acre, 560-unit condominium resort near Walt Disney World.

The Transamerica policy was an integral part of a complex financial transaction that also involved another insurer, Financial Security Assurance, a New York-based financial guarantee insurer that specializes in corporate debt.

FSA had asked that a catastrophe policy that insured continuing mortgage payments by the timeshare resort's users be obtained before it agreed to insure securities that were to be backed by the resort's mortgages.

Transamerica officials say the property insurance policy would not have been written had market conditions not been soft.

The soft market gives Transamerica "better capacity, pricewise, on some of the more unusual risks" that are not "tracked down" by other insurers, said Glenn Thomas, vp-property underwriting.

On the other hand, in a hard market, surplus "tends to be minimal" while reinsurance capacity "dries up quite a bit," Mr. Thomas said. As a result, insurers tend to stay with Main Street business that is "reasonably well-understood."

The need for the Transamerica policy was created when Vistana sought to issue securities backed by its $56 million in mortgage receivables, said Jeffrey Adler, Vistana's executive vp and chief operating officer.

Generally, when FSA guarantees securities backed by mortgages, the properties are in a variety of locations, explained Jeffrey Kramer, an assistant vp at FSA.

FSA was concerned that only one location was involved in the Vistana deal. If a catastrophe did occur, "we would be at risk for substantial losses because of the single-site coverage of the policy," he said. Mr. Kramer noted that this was especially of concern in a timeshare development. Timeshare owners hold a warranty deed that conveys a partial interest in a specific condominium and entitles them to spend one week annually in the unit.

In the event of a catastrophe that destroys the unit, mortgage holders who cannot use the property for the one week they would normally live there are more likely to default than mortgage holders on properties used year round.

Mr. Kramer added that more than a "normal" property insurance policy is needed because such policies cover only the replacement value of the property, and more resources have been invested in a timeshare resort, including sales and marketing costs. "Replacement costs would not cover our liability," said Mr. Kramer.

Transamerica, which already writes Vistana's property and general liability policy, at first resisted the idea of the catastrophe policy, said Bob Hilliard, Transamerica's marine products manager.

"We kind of recoiled from it." It was only after the insurer took a closer look, he said, that it decided to write the policy.

Transamerica's policy was based on the special commercial inland marine conditions policy form, said Keith Kingman, underwriting manager for Transamerica's Atlanta region. He noted that the policy itself is similar to a renters' policy.

The policy, with an annual premium of $39,178, responds if 36 or more units become uninhabitable because of a catastrophe. It provides for perpetuation of the mortgage payments for up to 15 months.

In underwriting the catastrophe policy, said Mr. Kingman, Transamerica considered four possible catastrophes: tornadoes, fire, sinkholes and hurricanes.

Tornadoes were considered the most likely, said Mr. Kingman. A fire, he said, is unlikely to spread to a large number of the condominium units, and the area around the resort has already been well-tested for sinkholes. Hurricanes are unlikely to affect the resort because it is inland.

Transamerica at first resisted the idea of the catastrophe policy, says Mr. Hilliard.

But tornadoes can occur in conjunction with hurricanes, said Mr. Kingman. However, "Historically, the tornadoes in Florida have not been all that severe" and Transamerica considers it "very unlikely" it will ever have to respond to the policy, he noted.

Transamerica was also careful to underwrite the policy so that it was liable only in the event of a catastrophe, and not for any normal mortgage defaults, he said, adding that Transamerica did not want its coverage to become a mortgage insurance policy.

The policy, for instance, states that "we will not pay for loss of "Mortgage Income" that results directly from "Covered Property" that is not rendered by a "Casualty Event."

Transamerica was wary, said Mr. Kingman, of subsequently finding the policy "full of loopholes we didn't count on." The insurer worded the policy "so we all agreed what we wanted to provide, we did provide."

Transamerica's treaty reinsurers agreed to reinsure the coverage under its regular treaty, he said.

Transamerica would be willing to issue similar additional policies, noted Mr. Thomas. "I suspect there's more of these out there."

Meanwhile, with the Transamerica policy in place, FSA agreed to insure the mortgage securities issue. Vistana formed a trust, General Development 1988-A Timeshare Mortgage Trust, which issued about $56 million of seven-year, fixed-rate, pass-through certificates collateralized by the timeshare mortgages.

The certificates, which were privately placed, were sold through Paine Webber Inc. and Merrill Lynch Capital Markets. They pay principal and interest monthly as the mortgage holders make their payments. ■

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Captives must carefully place reinsurance

By MICHAEL BRADFORD

GRAND CAYMAN, B.W.I.—Corporations should consult an experienced reinsurance broker when lining up reinsurance for a captive insurer, says a broker who specializes in reinsurance.

"One of the mistakes often made by corporate insurance buyers and their retail brokers, when setting up a captive, is to endeavor to arrange the reinsurance program" without assistance, said Derek G. Bayley, director of reinsurance with broker Bain Clarkson Ltd. in London.

"Most insurance brokers and insurance companies are good at putting together an insurance program, but they often struggle with the structuring of a reinsurance program due to their lack of experience and exposure to the reinsurance market," Mr. Bayley told attendees of the Cayman Islands Captive Insurance Conference sponsored by the Cayman Insurance Manager's Assn. in Grand Cayman late last month.

He stressed that "it is important to consult a reinsurance broker. They are much more experienced at designing a program that protects a company—be it conventional or captive—than a traditional insurance broker or company.

"It is also true to say that while insurance companies prefer doing business with insurance brokers, reinsurance underwriters—be they at Lloyd's (of London), in reinsurance companies or in the reinsurance departments of insurance companies—prefer to do business with reinsurance brokers."

Cayman Islands Captive Insurance Conference

Mr. Bayley advised owners of captives shopping for reinsurance to allow enough lead time to analyze the "full market" of reinsurance companies.

"Plan to make a submission to (reinsurance) underwriters, if possible, at least three months in advance," said Mr. Bayley.

The reinsurance broker needs approximately two weeks to review the submission and request any additional information, he added.

"Respond to the broker's questions in writing," said Mr. Bayley, "so there can be no misunderstandings."

He said captive owners should schedule a "one-day strategy session" with the reinsurance broker to plan for meetings with reinsurance underwriters.

The session should be an attempt to anticipate and formulate answers to questions a reinsurance underwriter might ask.

Mr. Bayley said reinsurers are particularly interested in several types of information when reviewing a submission and evaluating the strength of a captive. He said a reinsurer wants a captive to show:

- A long-term commitment from its parent.

Equally important is evidence of a commitment by the captive to the reinsurer, said Mr. Bayley.

- Adequate capital and competent management.
- Independent claims handling and underwriting according to accepted insurance industry practices.
- A positive attitude toward risk management.

Mr. Bayley also mentioned that "a captive that accepts all its parent's business with no policy of selectivity is a poorer candidate for reinsurance than one that underwrites selectively and bases its pricing on exposures."

And, he noted, a captive will not impress reinsurers if it cuts rates or offers broader coverage than is available in the conventional insurance market in an effort to provide short-term solutions to the parent's insurance coverage problems.

Reinsurers are much more likely to reinsure captives that are formed with the intention of meeting the parent's insurance needs over the long term "rather than to muddle through a short-term insurance crisis," Mr. Bayley emphasized.

"And they believe the worst possible reason for forming a captive is to provide cheap insurance," he added.

Reinsurers are likely to support captives that have been formed to provide "consistent capacity with consistent pricing over the long term," he said.

Mr. Bayley urged potential captive owners to "be flexible as to your requirements, and listen to advice from potential underwriters as to their ideas for changes in the protection you are proposing."

Once a quote is secured from a reinsurer, there are several criteria that can be used to determine whether it is a good one and if the reinsurance underwriter will be a worthy business ally, Mr. Bayley noted.

"The cost of the reinsurance program must leave the captive with sufficient income to pay its anticipated claims costs," he noted, adding that there should also be enough money after paying the reinsurer to create a fund that can be used to weather a particularly stormy period of losses.

"It should be remembered that when reinsurers price a risk, they separate loss-sensitive business from catastrophic exposures and price them accordingly," he said.

Mr. Bayley pointed out that "it is important that those being used as leading underwriters have a good reputation in the market and are well-supported by the so-called 'following' markets," to ensure that "the captive is not left with any shortfalls or gaps in its reinsurance protection."

The reinsurance market "is a small place," he reminded his audience, and reinsurers should have similar terms and conditions in coverage regardless of where they are located.

Captives should insist on seeing a full list of the reinsurers being used on their program and the captive's manager should insist on complete information regarding any unfamiliar names on the list, he said.

The reinsurer's reputation for paying losses should be examined, according to Mr. Bayley.

"The only thing worse than a financially defective reinsurer is the one who attempts to deny liability at the slightest provocation," he said.

"The reinsurer who is easily provoked into denying liability and delays decisions on every small deviation is obviously not the type of reinsurer that is suitable for a captive reinsurance program," Mr. Bayley said. ■

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*Employee Benefit Plan Review, April 1988.

4 types of feasibility studies can be used

By MICHAEL BRADFORD

GRAND CAYMAN, B.W.I.—There are four types of feasibility studies companies use when considering the formation of a captive or evaluating the performance of a captive already in place, an expert says.

The first type, the "pre-feasibility study," is the one many potential captive owners choose, said D. Hugh Rosenbaum, a principal with the Tillinghast division of Towers, Perrin, Forster & Crosby Inc. in Stamford, Conn.

The pre-feasibility study is for potential captive owners who are asking, "Why should we have the captive insurance company?" Mr. Rosenbaum told attendees of the Cayman Islands Captive Insurance Conference, held May 24-26 in Grand Cayman.

This preliminary type of study looks at "the basic facts, numbers and reasons" an owner should address when considering the formation of a captive, he noted.

Some potential captive owners come to a rude awakening when learning the amount of capital that will be needed to form the insurer, he added.

"Do you realize for the risky business you're talking about you will need a lot of capital?" Mr. Rosenbaum asked the audience.

However, the pre-feasibility study is not as popular as it once was because "people have gotten more intelligent about captives," he pointed out. "They've gotten to the point where they can crunch some numbers" and start with another type of study: the comparative analysis.

Cayman Islands Captive Insurance Conference

The "comparative analysis" is a type of feasibility study that attempts to determine whether a captive is the best method for assuming risk once the potential owner is satisfied that there is sufficient need for some form of alternative risk financing, he said.

"It answers the question, 'Why should we do a captive insurance company?' " he explained. "And I submit to you that the only answer to 'why?' is 'because it is better than anything else we can do.' "

The other alternatives make a short list, and include buying insurance in the traditional commercial market, going without coverage "or you can find some other way of self-insuring," he said.

Another type of feasibility study is called the "implementation" study and is the "old-fashioned, full-scale, inches-thick" report that is used to convince lawyers, financiers and regulators that forming a captive is a viable concept, according to Mr. Rosenbaum.

"It's really the document that says, 'Here's what we're doing and here's how we're doing it.' "

The fourth type of feasibility study, known as the "re-feasibility" study, is undertaken by companies that already have a captive insurer in place, he explained.

The re-feasibility study "starts all over again," and asks fundamental questions like: "Should we be in this captive insurance company? Does it make sense? Is there any better alternative?" he added.

Such a study gives the captive's owners and participants an opportunity to determine whether any changes should be made to the way the insurer currently operates, he said.

However, Mr. Rosenbaum added a caveat to potential captive owners considering conducting a feasibility study: "There comes a point. . .when those doing a feasibility study begin to influence it, duly or unduly."

Many times within an organization conducting a feasibility study, "there is a moving force that really would like to get a captive insurance company in place," Mr. Rosenbaum said.

In addition, insurers, captive managers or consultants that conduct feasibility studies for potential owners may have a stake in the outcome, and that can become evident in a comparative analysis, he remarked.

To ensure the validity of a feasibility study, Mr. Rosenbaum urged potential captive owners to pay particular attention to:

- Loss estimates.

"Where did those loss estimates come from?" he asked. "Who made them? Based on what?"

- The amount of capital called for to begin writing coverage and where the investment will come from.

The re-feasibility study 'starts all over again,' says Tillinghast's Mr. Rosenbaum.

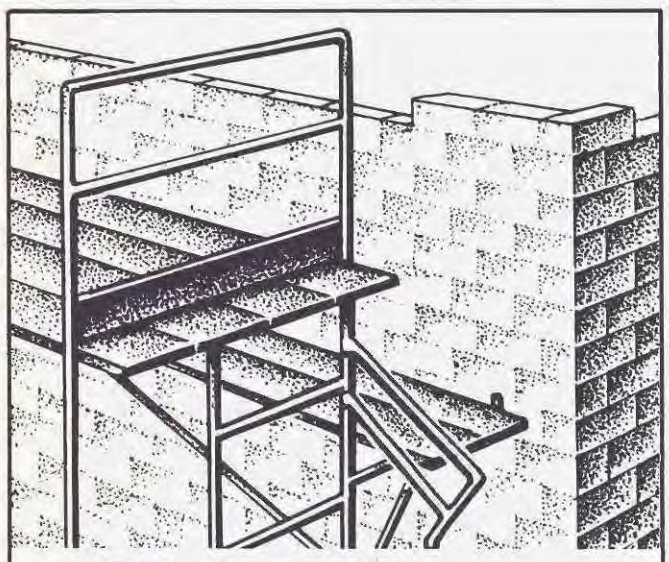
"The amount of capital is not there just to please the regulators of Cayman or any other insurance supervisory authority," said Mr. Rosenbaum. "That capital is there to absorb the variations in the business itself; in other words, the possibility that you might be wrong and the losses are a lot more than you expected."

- Reinsurance.

"Reinsurance is a commodity which comes and goes with the financial fortunes of the insurance world," said Mr. Rosenbaum. A feasibility study has to show how much that commodity will cost and how much of it will be needed by the captive, he added.

Timothy Ridley, an attorney with the Cayman firm of Maples & Calder, pointed out that while a feasibility study is "expensive. . .it's money well-spent and will save you money down the road."

Costs for the studies range from "a few thousand dollars" to around $150,000, depending on the type of study conducted, Mr. Rosenbaum estimated. ■



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Conference on Cayman is success

GRAND CAYMAN, B.W.I.—Things were going so well at the Cayman Islands Captive Insurance Conference last month that some were wondering what would happen to spoil it all.

On the last day of the conference, Costas Takkas, managing director of Cayman captive manager Delta Management Ltd., voiced his apprehension: "I'm just waiting to see what will go wrong."

Mr. Takkas, who headed up planning of the May 24-26 conference sponsored by the Cayman Insurance Manager's Assn., should not have worried. The event came off without a hitch. It didn't even rain at a time of the year usually punctuated with showers in the Caribbean domicile.

Mr. Takkas and other Cayman captive managers were pleased with the number of registrants that made the trip to hear speakers from the United States, Europe and Cayman. Approximately 85 attendees gathered at the conference for sessions that included discussions on placing reinsurance for captives, carrying out feasibility studies and Europe's interest in Cayman as a domicile.

The domicile stresses the insurance industry's relationship with the Cayman government and, to emphasize that, Cayman Gov. Alan J. Scott, Financial Secretary Thomas C. Jefferson and Insurance Superintendent Gilbert Connolly were speakers at the conference.

The island's beaches were a big draw, too, and there was a healthy turnout for the golf tournament at the Jack Nicklaus-designed course, where players can hit balls that float in the water hazards.

For information on Cayman Islands as a captive insurance domicile, call the Superintendent of Insurance office at 809-949-7900.

—By Michael Bradford

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John Trumbull: *The Declaration of Independence* (detail) ©Yale University Art Gallery

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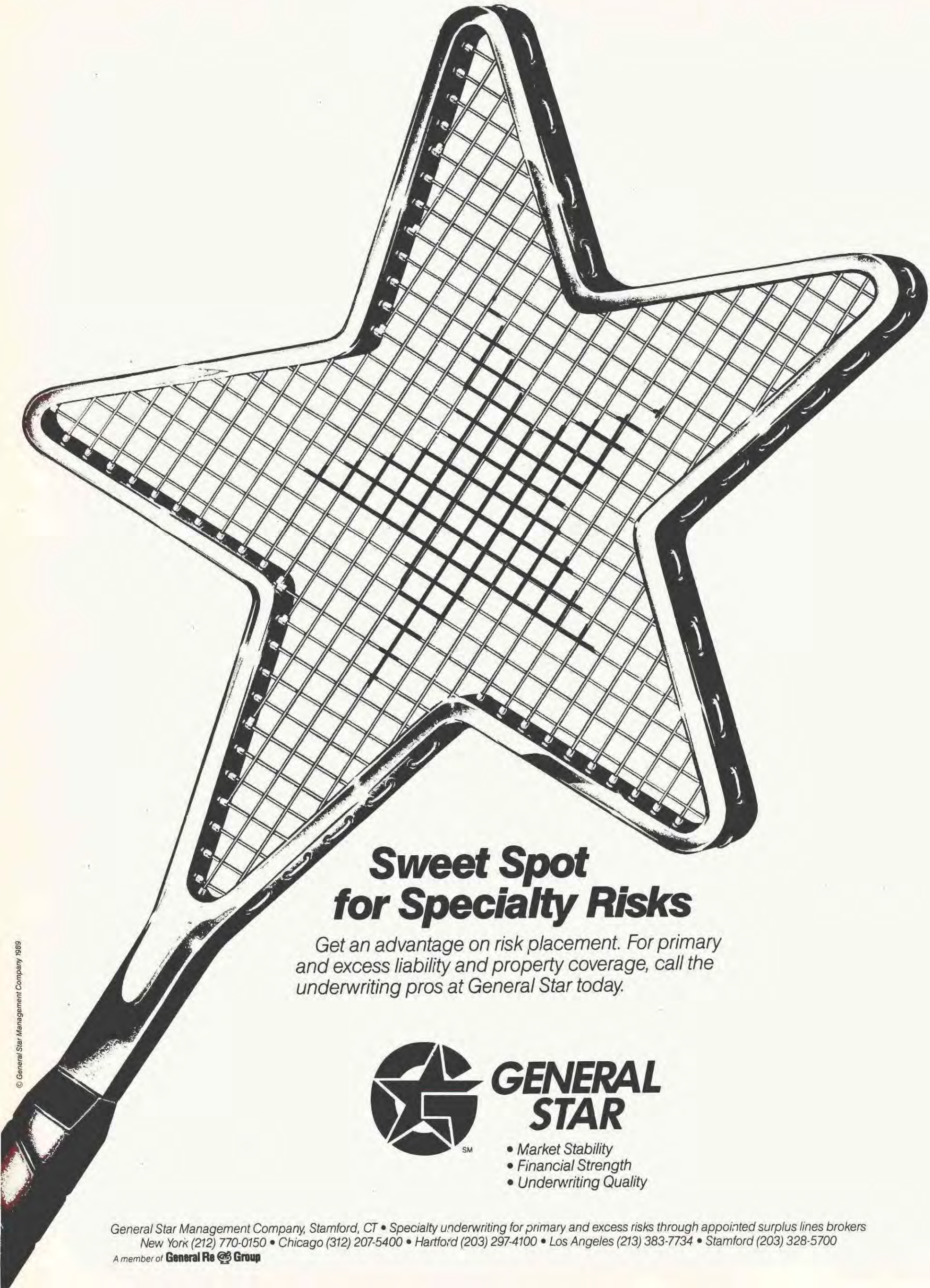

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ASK A RISK MANAGER

Use of consultants an individual choice

Q **I am evaluating whether to hire a safety manager or use a consulting firm to administer our loss control program. Can you offer some suggestions on the pros and cons of each approach?**

A I understand your dilemma in attempting to explore all of the alternatives as you begin to structure your loss control program. There are many competent risk control firms that can provide you with a vast menu of services. Likewise, there are advantages in retaining the administration of the safety program "in-house."

To assist you in making the best choice for your organization, I would recommend considering the following questions:

- What is your organization's position regarding the use of outside consultants?
- What is your organization's philosophy regarding loss prevention?
- What is the anticipated return on investment in a loss prevention program in terms of dollars and time?

Although these issues appear to be elementary, your response will impact your final decision.

Let's examine the first question. While drawing upon internal resources is normally the unanimous initial approach to implementing any new program, there are occasions when the expertise obtained from an independent source adds clarity and definition to management objectives. The size of your organization will also have a definite impact in deciding whether or not an outside consultant should be retained to administer the loss control program.

I have found in the majority of companies the risk management department functions with a relatively small staff. In other words, empire building is considered passe.

Businesses, generally speaking, have come to rely more consistently on the use of computer technology and outside services instead of increasing employee head count.

Therefore, when following this rationale, the question of how to most economically execute a loss prevention program is answered by purchasing outside services.

Risk control consultants can offer an expansive range of valuable resources on a multitude of loss prevention issues.

Safety issues have become so complex it is often difficult for one individual to keep abreast of all the pertinent topics. Programs involving pollution control, Occupational Safety and Health Administration regulations and ergonomic studies are but a few.

Perhaps the blending of outside services with an in-house safety program will provide you with the most effective approach. This is the method I have personally found beneficial.

The next step is to evaluate your organization's philosophy regarding loss prevention.

Does your organization listen and positively react to suggestions from outside service providers?

This is indeed a critical issue since your response will provide insight as to the effectiveness of an outside firm executing the loss prevention program, rather than having the responsibility retained internally.

I know of instances where management appeared to value the opinion of an independent consultant over that of its own personnel.

In such instances, the consultant was viewed as being a neutral party when addressing issues that involved politically sensitive issues within the organization.

Continued on next page

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

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

Ms. Werner

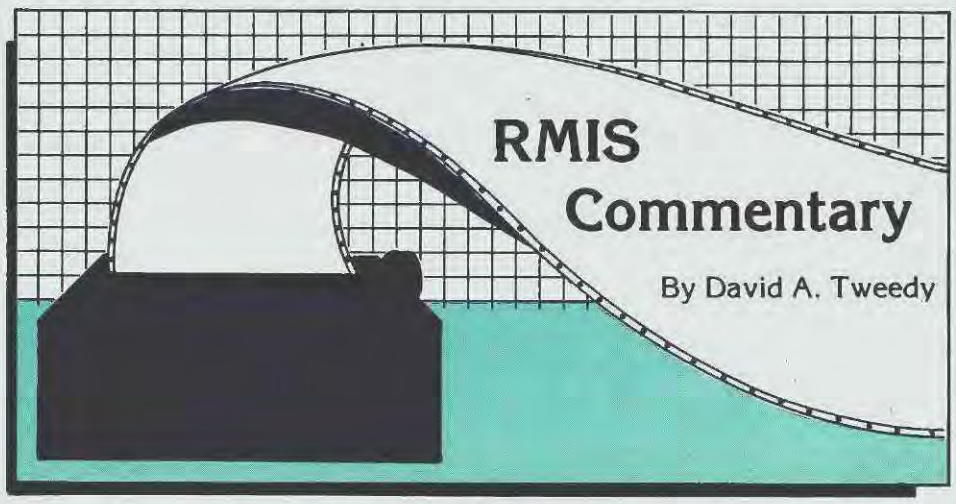
This month's column on risk management issues is written by Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C. Joseph W. Duva, director of employee benefits at Allied-Signal Inc. in Morristown, N.J., answers benefits management questions. William J. Miner, an actuary with The Wyatt Co. in Chicago, answers actuarial questions on benefits issues. And, Richard E. Sherman, a principal with Coopers & Lybrand in San Francisco, answers actuarial questions in the casualty field.

Mr. Duva's and Ms. Werner's columns appear alternately on the second Monday of each month. Mr. Miner's and Mr. Sherman's columns appear alternately on the first Monday of each month.

Ms. Werner's next column will appear in August.

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.

Networks boost value of micro RMIS



DURING THE PAST FEW YEARS, the microcomputer-based risk management information system has emerged as the most popular system solution choice of the risk management community. Lower cost, total control by the user and impressive flexibility are often-cited reasons for the micro system's popularity when compared against its larger hardware competitors—mainframes and minicomputers.

Yet critics of the microcomputer solution pointed to its Achilles heel: the inability to service multiple locations or users seeking simultaneous access. Mainframes and minicomputers, on the other hand, did not have this problem.

Rapid technological advances, however, are changing that picture. Improvements in chip technology (i.e., 386 chips), increasingly sophisticated micro software packages, combined with reasonable prices (as compared against the larger hardware competitors) make the microcomputer a logical choice for a majority of potential users.

One of the principal tools enabling this direct competition is the increasing usage and development of the local area network, or LAN. Especially with the advent of the more powerful 386 chip, LANs are being used more and more by RMIS vendors. The ability to link several personal computers together, providing multiple access to a number of users in a risk management department, with greater storage capacity and speed of processing, is a tremendous advance. Some microcomputer RMIS vendors are more frequently using LANs in competition against the larger computer vendor/systems with great success.

This month, I will briefly discuss local area networks, what they are and their importance to the RMIS and the system user. To do this, I have interviewed two micro-based RMIS vendors that utilize LANs: DAVID Corp. in San Francisco and Seligman Information Systems of Roslyn Heights, N.Y.

An LAN is an effective blending of hardware and software enabling a microcomputer system to provide simultaneous, multiple access to several users while retaining the desirable features (and applications software) of the PC. Up to hundreds of PCs, depending on the LAN, can be linked. Essentially, it allows the microcomputer to act like a minicomputer or mainframe without sacrificing the familiarity of the microenvironment, especially in using popular software packages, such as Lotus, d-Base and others.

Basically, there are two types of LANs: undedicated LANs and dedicated LANs.

Thomas Seligman, president of Seligman Information Systems, utilizes an undedicated LAN. In his product line, a network can be established for as low as $200 per computer, he said. Each computer has access to the other computers' hard disks, as well as monitor and printer. Therefore, computer A can print off computer B's printer as well as access its hard drive, and vice versa. Mr. Seligman also commented that the peer-to-peer network can go as high as 130 linked computers, though the cost of the network at this level is considerably more per computer.

The other type of LAN—the dedicated LAN—uses a file server, which is a specialized microcomputer that functions as the base computer in the network. It houses the specialized operating system and applications software involved in the LAN. The number of users on this type of LAN is similar to the peer-to-peer, or undedicated LAN.

DAVID Corp. typically uses the dedicated LAN in its client installations. David Duden, director of sales and marketing, commented that the size of the LAN is strictly based on the number of users and the type of applications sought. It provides "tremendous flexibility" to the user in the proper configuration of the RMIS, according to Mr. Duden..

The file server is the core of the dedicated LAN. One manufacturer recently announced a 320-megabyte drive for its 401 file server, which is

Continued on next page

Using consultants

Continued from previous page
On the other hand, some organizations strictly adhere to the practice of performing all management functions internally. If safety is perceived to be an integral part of daily operations, a company may prefer to assume direct accountability for the design, implementation, management and monitoring of a loss prevention program.

Understanding your company's philosophy regarding the opinions of consultants will facilitate your decision regarding the "best" program.

Lastly, you must ascertain your company's desired return on investment.

When finances enter the picture, the issues become more complex.

Factors to consider are the funds available to adequately staff a safety department and, since time is money, the period of time required to make the department fully operational. Salaries, the cost of employee benefits, travel expenses and ongoing employee education programs comprise the major items in your in-house safety departmental budget. The diversity and geographic spread of your organization's operations will influence the total cash outlay required to effectively administer the program internally. The time factor must be considered when several simultaneous projects have common deadlines.

When evaluating the advantages of purchasing outside risk control services, you should be careful not to buy exclusively on price. Sometimes a small difference in cost can equal a significant difference in results.

Establish your program objectives carefully and avoid buying the characteristics of the service without consideration of the consequences.

You will find that a monitoring program is essential to determine if funds are being wisely spent. When evaluating various consulting firms, you should expend the same degree of diligence as you would when hiring a key employee.

Too frequently, loss prevention activities are limited to auditing, training, machine guarding, personal protective equipment and employee medical care.

When designing your program you should carefully consider "activity standards" and "results standards."

The quality of your safety program should not be measured by the number of ongoing projects undertaken within a certain period of time. Rather, it should center on an in-depth investigation into management and business practices that lead to actual or potential losses.

Setting realistic goals for the program and selecting the most effective means to administer responsibilities will enable loss prevention to become an integral part of your organization's standard operating procedures.

Local area networks

Continued from previous page
more than double the current maximum of 150 megabytes per drive. Utilizing multiple drives on a single LAN, the maximum can now exceed 1,000 megabytes.

When are LANs necessary? Whenever there is a need for simultaneous access to the microcomputer-based RMIS by several users, there is a need for an LAN. This has been the big advantage that the mainframe and the minicomputer have had over the microcomputer RMIS. Yet, the LAN provides the risk management department with the capability of several users accessing the micro system.

Secondly, an LAN allows geographical connectivity not only between different micros (i.e., between Chicago, Los Angeles and New York branches) but also between different networks as well as through modems. In this fashion, the microcomputer-based RMIS can realistically compete against timeshare systems, providing on-line access despite different geographical locations involved in the system.

Thirdly, and perhaps most importantly, LAN technology can allow integration with other internal systems. Although this technology is still being developed, I know of installations where the claims management system, through an LAN, communicates with the financial department's payroll mainframe.

Such developments can further enhance the value of the RMIS, as it can obtain and transmit valuable data to other parts of the company as well as to and from appropriate external sources (i.e., brokers, insurers, third party administrators, etc.). The RMIS, through an LAN, is the information circulatory system, connecting all the vital parts of the risk management process. Therefore, the LAN is of value to all RMIS vendors and not just to microcomputer vendors, though they are the ones utilizing it the most at this point.

However, it is the risk managers who have the most to gain from developing technology.

Faster and more powerful chips and the further development of LANs will only increase the ability of the RMIS to share, receive and transmit vital data to an increasing number of recipients.

The LAN is an important tool in the well-designed microcomputer-based RMIS. It makes the microcomputer-based RMIS a more attractive and plausible system solution for a wider range of potential users in the risk management community.

David A. Tweedy is a senior consultant for D.A. Betterley Risk Consultants Inc. in Worcester, Mass. He is the editor of Betterley Risk Management Commentary and the author of RMIS Update, a yearly publication analyzing major risk management information systems and vendors. Mr. Tweedy's column on risk management information systems appears the third Monday of the month.

Assaulted waitress must seek work comp

A waitress, who sustained injuries when abducted from her employer's parking lot at night, was injured in the course of her employment and, therefore, her exclusive remedy against her employer was under the workers compensation law rather than a personal injury action, an Indiana appellate court ruled.

Sharon Lawrence was employed as a waitress at a Steak 'n' Shake restaurant owned by Consolidated Products Inc. The restaurant was open 24 hours a day. On the day of her abduction, Ms. Lawrence agreed to work a fellow employee's shift ending at 4 a.m., provided that the employee would drive her home. The co-employee did meet Ms. Lawrence and, before departing the restaurant, they ordered milk shakes. Thereafter, when entering the co-employee's car in the parking lot, a man abducted, robbed and raped both employees. Ms. Lawrence sued her employer seeking damages for her personal injuries. Her employer sought to have the suit dismissed, arguing that her exclusive remedy was through workers comp. The trial court ruled for Ms. Lawrence.

The appellate court said that there was no question that Ms. Lawrence's injuries occurred by accident. The court also said that Ms. Lawrence's injuries arose out of her employment.

"It is reasonable to conclude that Sharon, a female who had to enter a parking lot in the early morning hours in a relatively unsafe location in order to go home, was exposed to a greater risk than those not working the late night shift," the court said. Thus, the court said the risk of harm from the assault was incidental to Ms. Lawrence's employment. The court concluded that the purchase of a milk shake after working hours was insufficient to remove Ms. Lawrence from her employee status. *Consolidated Products Inc. vs. Lawrence*, Court of Appeals of Indiana, April 25, 1988 (*BI*/04/April-$10).

Legal briefs

Glass design flaw not covered by CGL

Neither design alterations nor alleged dimunition in value came within a glass window manufacturer's comprehensive general liability insurance policy coverage provision for property damage, an Oregon appellate court ruled.

Milgard Manufacturing Inc. agreed to produce tempered glass windows for Herzog Glass Inc. to install in an office building. The building owner sued the general contractor, Dillingham Corp., alleging that the windows were improperly tempered. It asserted this caused delay in the completion and occupancy of the building, resulting in dimunition of value.

Dillingham, in turn, sued Herzog and the latter, in turn, sued Milgard. Milgard was insured under a CGL policy issued by Continental Insurance Co. covering property damage defined as physical injury or destruction of tangible property or loss of use of tangible property not physically injured or destroyed, providing such loss was caused by an occurrence. Continental initially accepted defense of the suit against Milgard, but later rejected it. Milgard then brought this suit. The trial court ruled for the insurer.

On appeal, the insurer argued that none of the damages alleged in the underlying suits resulted from *physical* injury to the building. The court agreed. The court said that neither the design alteration necessary because of the windows supplied nor the dimunition in value came within the "physical injury" provision of the coverage for property damage. The court also found that the delay damages came within a policy exclusion. The trial court decision was affirmed. *Milgard Manufacturing Inc. vs. Continental Insurance Co.*, Court of Appeals of Oregon, Aug. 24, 1988 (*BI*/01/March-$10).

Benefits coordination not excess cover

Coordination of benefits provisions in a group medical insurance policy did not constitute excess insurance, a Florida appellate court ruled.

Samuel and Amy Jones were covered under a group medical health policy issued by Central Life Assurance Co. The Jonases were in an accident and received payment of their medical expenses under the personal injury protection benefits of their automobile insurance. They then demanded duplicate payment from Central.

Central's policy provided for the payment of 80% of the first $5,000 of covered expenses and 100% of covered expenses in excess of $5,000. Central denied the claim except to the extent, if any, that the expenses were not paid by the auto insurer. The Jonases sued Central. The trial court ruled for the insurer.

On appeal, the Jonases argued that a coordination of benefits provision in the Central policy was, in effect, a provision for excess coverage. The court disagreed and said that the clause cited by the Jonases was a "coordination" and not an "excess" provision. The trial court decision was affirmed. *Jonas vs. Central Life Assurance Co.*, District Court of Appeal of Florida, July 13, 1988 *certiorari and clarification denied* Aug. 11, 1988 (*BI*/03/April-$10).

These abstracts were prepared by Cases Unlimited Inc. Copies of these decisions are available by sending a $10 check payable to Cases Unlimited to Business Insurance, *740 N. Rush St., Chicago, Ill. 60611-2590. List the number for each opinion.*

Stability attracts captives to Cayman

By MICHAEL BRADFORD

GRAND CAYMAN, B.W.I.—A stable regulatory environment and attractive geographic location are advantages Swedish companies see for locating captive insurance companies in the Cayman Islands, according to an executive of a major insurer in Sweden.

And, other areas of Europe—particularly the south—could prove fertile for attracting captives to the Caribbean domicile, according to speakers at the Cayman Islands Captive Insurance Conference, held May 24-26 in Grand Cayman.

Just as Swedish companies are eyeing the Caymans, the Caribbean domicile is looking to Scandinavia for new captives.

Superintendent of Insurance Gilbert Connolly, who last month made a trip to Sweden to attend a seminar and promote Cayman as a captive domicile, has indicated that Scandinavian companies are attractive because captives from that part of the world have a track record of staying in place for the long term (*BI*, April 10).

Cayman is the third-most-popular captive domicile among Swedish companies, following Bermuda and Luxembourg, according to Lars-Goran Nilsson, executive vp of Hansa Commercial & Industrial Insurance Co. in Stockholm.

Cayman Islands Captive Insurance Conference

Captives set up by Swedish companies were first attracted to Bermuda because it was already established as a captive domicile, he explained.

Swedish companies have incorporated 12 captives in Bermuda, second only to Luxembourg, where approximately 28 insurers are domiciled by Sweden-based companies, he noted.

Later, as Cayman became a more established domicile, it "became the next most interesting point," Mr. Nilsson said.

The islands' insurance law was attractive to business, he explained.

"When we are asked by our clients for our opinion, we say that as far as we can judge, the insurance operations in the Cayman Islands are well-supervised," Mr. Nilsson said.

Wilbur M. Otto, an attorney with the Pittsburgh firm of Dickie, McCamey & Chilcote, agreed that the regulatory environment in Cayman is a strong plus for the domicile.

"You do not want to go to an island that has no regulation," he remarked.

"You don't want fly-by-nighters, short-termers; you don't want anybody that's got any kind of purposes other than legitimate business purposes in your domicile. Because that affects everybody, it can taint everybody.

"So you want good regulation. You just don't want onerous, ridiculous, burdensome" regulation, Mr. Otto advised.

Mr. Nilsson also said the growing interest of Swedish industry in doing business with the United States and South America is a further impetus for the incorporation of captives in Cayman.

"Of course that means the Cayman Islands are quite well located" for companies with business ties in that part of the world, said Mr. Nilsson.

Cayman's infrastructure of accountants, attorneys and captive managers is "as good as any place there is," Mr. Otto agreed.

Mr. Otto, who helped form a Cayman-based captive for the University of Pittsburgh, said other domiciles have professional talent but don't measure up in terms of friendliness or personality.

"But Cayman has remarkable folks," he said, "folks that have been here for the long term. . . .They do stay here, and they're good, solid people."

Both speakers also agreed on a "rather obvious" reason that captives from any part of the world would want to incorporate in Cayman: "It's a nice place to be around," remarked Mr. Nilsson.

Indeed, it's "a real attraction" for directors of the University of Pittsburgh's captive to travel to Cayman for board meetings, Mr. Otto said.

The captive, which does not pay its directors, has been able to attract "chairmen of the boards of Fortune 500 companies" and others to serve on the insurer's board partly because of the attractiveness of the domicile, said Mr. Otto.

'You don't want anybody that's got any kind of purposes other than legitimate business purposes in your domicile,' says attorney Wilbur M. Otto. 'So you want good regulation. You just don't want onerous, ridiculous, burdensome' regulation.'

"They come because they like the place," he emphasized. "I think that's a terribly important thing."

Another conference speaker, Gerald Dickinson, director of the Centre for Insurance and Investment Studies at City University Business School in London, advised officials in Cayman to look toward southern Europe to attract new captives to the domicile.

Spain, Portugal and Italy are part of the southern European region that is "a very fast-growing part of the European economy," said Mr. Dickinson.

And, he said, Cayman should continue to pursue clients from the United Kingdom and promote its dealings with that area.

"To stress the U.K. connection is a very good line to push within the (European) community as a whole," Mr. Dickinson remarked, because other countries will be influenced by British businesses that show faith in the domicile.

If Cayman is to remain an attractive domicile, it "has to keep its liberal regulatory environment and zero-tax status," Mr. Dickinson said. He also warned that the islands must avoid any scandals that could affect the domicile's credibility in the eyes of conservative European businesses.

"It can't afford to have a scandal," said Mr. Dickinson. "You've got to make sure there is no hint of a potential scandal, either on the insurance or the banking side." ■

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Cayman officials tout domicile's growth

By MICHAEL BRADFORD

Cayman Islands Captive Insurance Conference

GRAND CAYMAN, B.W.I.—The Cayman Islands "has good reason to be proud" of its stature as an international finance and insurance center, says the governor of the Caribbean nation.

Caymanians are "proud of the way in which, over the past 25 years, a small, isolated community has grasped—indeed made—its opportunities and brought itself into the forefront of international financial activities and high quality tourism," said Gov. Alan J. Scott speaking to a group at the Cayman Islands Captive Insurance Conference last month in Grand Cayman.

While the history of banking in Cayman is relatively brief in comparison with other financial centers, the island nation has seen tremendous growth since its first international bank, Barclay's Bank International, arrived in Grand Cayman in 1953, said Eric Crutchley, country manager at Barclay's.

And, although the banking industry in Cayman began with the establishment of Barclay's, substantial banking growth began when institutions took advantage of the island's status as a tax haven.

The Bank of Nova Scotia was the first to do so when it set up operations in 1966.

Today, 526 banks have operations in Cayman.

Grand Cayman, already recognized as "a top choice for banking in this part of the world," also has developed as an alternative to Bermuda as a captive insurance company domicile, said Cayman Islands Financial Secretary Thomas C. Jefferson.

In fewer than 10 years, the domicile has made "significant progress" in its development as a center for captive insurers, he said, adding that Cayman has "the potential of at least doubling" the number of its captives during the next 10 years.

In fewer than 10 years, the domicile has made 'significant progress' as a captive center, says Financial Secretary Thomas Jefferson, adding that Cayman has 'the potential of at least doubling' the number of its captives during the next 10 years.

"Cayman, in the face of growing competition, is maintaining its position as the No. 2 captive domicile in the world," remarked Gov. Scott.

"We believe in providing the right framework in terms of the law, the regulations. . .and the infrastructure to support the activities" of captives, he said.

"We offer stability in political, economic and social terms, which frankly is more and more difficult to find nowadays," he said.

And Cayman Islands Insurance Superintendent Gilbert Connolly said the contribution of the Cayman insurance industry to the island's economy is growing because the number of captives is increasing.

Through May, 11 new captive licenses had been granted in Cayman this year and 22 others were approved in principal, he said.

Government statistics show the entire Cayman insurance industry is responsible for about 5% of the country's gross national product, Mr. Connolly said, though he added that figure may be a little low.

"I have some questions about that" because captives generate other spending in Cayman, like money spent by parent company executives when a Cayman captive insurer holds annual meetings and business meetings on the island, he said.

"They do come down in large groups, and they make significant contributions to the economy," said Mr. Connolly. "And, I think that contribution is counted in under tourism rather than insurance, so I have a gripe about that."

Despite Cayman's growth, Gov. Scott acknowledged that the island's meteoric rise as a financial and insurance center has brought problems.

"Like all societies, Cayman has some problems," he said. "With ours, the problems are mainly with prosperity and too-rapid growth, perhaps, and the strains these can put on a small community. But the problems are well-recognized, and they are subject to much immediate deliberation and concern." ■

Columbia Gas promotes risk manager to vp

Joseph V. Yandoli, 59, promoted to vp at Columbia Gas System Service Corp. in Wilmington, Del. In this newly created position, he continues to oversee risk management for the natural gas utility, and he now serves on the company's environmental and crisis planning committees. He reports to Robert A. Oswald, senior vp and chief financial officer. Mr. Yandoli joined Columbia Gas in 1949 in its service department and has since held various positions in the company's accounting, treasury, methods and credit departments. He was named director of insurance in 1973. Mr. Yandoli received a bachelor of science degree in management and finance from Rutgers University in New Brunswick, N.J., and attended Dartmouth University's Graduate School of Credit and Financial Management in Hanover, N.H., and The College of Insurance in New York. He is a member of the Insurance Society of Philadelphia, the Delaware Valley Chapter of the Risk & Insurance Management Society and the Pipeline Insurance Managers Society. Mr. Yandoli is past chairman of the American Gas Assn.'s risk management committee and last year received an AGA award for extraordinary service to the association's financial and administrative section. He also serves on the underwriting committee of Associated Electric & Gas Insurance Services Ltd., the public utility mutual insurer; the risk advisory board of Arkwright Mutual Insurance Co.; and the advisory board of Energy Insurance Mutual Ltd.

Mr. Yandoli

Comings & goings: buyers

* * *

Angelo J. Anello named director of risk management at Instrument Systems Corp. in Jericho, N.Y. In this position he is responsible for property/casualty insurance, safety and loss prevention, claims administration, workers compensation and employee benefits. He replaces **Edward F. McKiernan**, who left the company, and reports to Patrick Alesia, treasurer. Previously Mr. Anello was director of risk management at JWP Inc. in Purchase, N.Y. He also served as safety director for the Statute of Liberty and Ellis Island restoration projects. Mr. Anello holds a bachelor of science degree in economics and psychology from Lehman College in New York and a master's degree in occupational safety and health from New York University. In addition, he holds the Associate in Risk Management designation and is working toward the Chartered Property & Casualty Underwriter designation. Mr. Anello is a member of the American Society of Safety Engineers and the National Fire Protection Assn. and a deputy member of the Risk & Insurance Management Society.

* * *

William Trask, 34, named manager-personnel services at James River Corp. in Old Town, Maine. In this newly created position, he oversees workers compensation, employee benefits, recruitment and compliance with federal hiring regulations at James River's Old Town Mill. He reports to Alan Van Vleet, manager-human resources. Previously, Mr. Trask was workers compensation and benefits administrator. Prior to joining James River, he was a claims administrator with Gallagher Bassett Services Inc. in Portland, Maine, and prior to that he was a claims administrator for Liberty Mutual Insurance Co. Mr. Trask received a bachelor of arts degree in political science from Nasson College in Springvale, Maine. In addition, he is vp of the Northern Maine Adjusters Assn. and a member of the Maine Council of Self-Insurers.

* * *

Rudy Zappa named vp-insurance at Continental Grain Co. in New York. In this position he oversees property/casualty insurance for the worldwide grain marketer. He replaces **Lisa Belcher**, who left the company, and reports to Thomas Dean, senior vp-corporate development and administration. Mr. Zappa, who was a member of Continental Grain's insurance department from 1968 and 1979, most recently was a vp and account executive with Alexander & Alexander Inc. Mr. Zappa is a deputy member of the Risk & Insurance Management Society.

●

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Business Insurance

InsurerTopics

A special editorial section
sent exclusively
to insurers and reinsurers

Aiming at the consumer

Insurers embark on new, sophisticated marketing campaigns

By MARK A. HOFMANN

Just as there is not a "best" insurance product, there is no "best" way to market insurance products, property/casualty insurers and marketing experts say.

What works for one insurer may not be of much use to another, they explain.

For example, while some insurers' marketing plans are as low-key as relying solely on word-of-mouth, other high-profile companies bolster their visibility through network and cable television advertising campaigns.

However, the passage of Proposition 103 in California and ensuing consumer movements in other states have forced insurers to look beyond traditional marketing efforts that were aimed solely at their agents and now also market their products and services directly to the consumer, agree insurance marketing experts (see story, page 24G).

The ultimate result of this shift is an increasingly sophisticated marketing approach, both in terms of the message and the means in which it is delivered, experts agree.

Insurance companies "are for the first time honestly beginning to recognize that there is a customer out there," said Kimberley Paterson, president and founder of Creative Insurance Marketing in Red Bank, N.J.

Insurers will have to reach out to the public more than they have done before, said Steven Fine, director of advertising for Long Grove, Ill.-based Kemper Group.

He predicted that no matter what vehicle insurers use to promote themselves, the message that property/casualty insurers do care about consumers will be a paramount theme during the next few years.

"It's no secret that Proposition 103 in California turned a lot of minds in the insurance industry to consumers who are dissatisfied," Mr. Fine said.

"What needs to be projected is a kinder, gentler insurance environment," said Lyle Roth, an independent agent who is a vp of Koelbel & Co. in Denver.

"I think the person on the street is looking for responsiveness," and insurers need to accept greater responsibility for their public image, Mr. Roth said.

Frederick Baker, assistant vp and director of communications for Harleysville, Pa.-based Harleysville Mutual Insurance Co., agreed that Proposition 103 will affect insurers' efforts to reach the public.

Mr. Baker, who is also president-elect of the Wellesley, Mass.-based Insurance Marketing Communications Assn., which represents property/casualty insurance company marketing officers, said that IMCA should perhaps be more active in coordinating insurance industry public relations (*BI*, Jan. 30) and encouraging industrywide cooperation to create a more favorable industry image (see story, page 24D).

Two threads that run through most insurance company marketing plans, according to Ms. Paterson, are sharper target marketing (see story, page 24B) and greater creativity in advertisements (see story, page 24E).

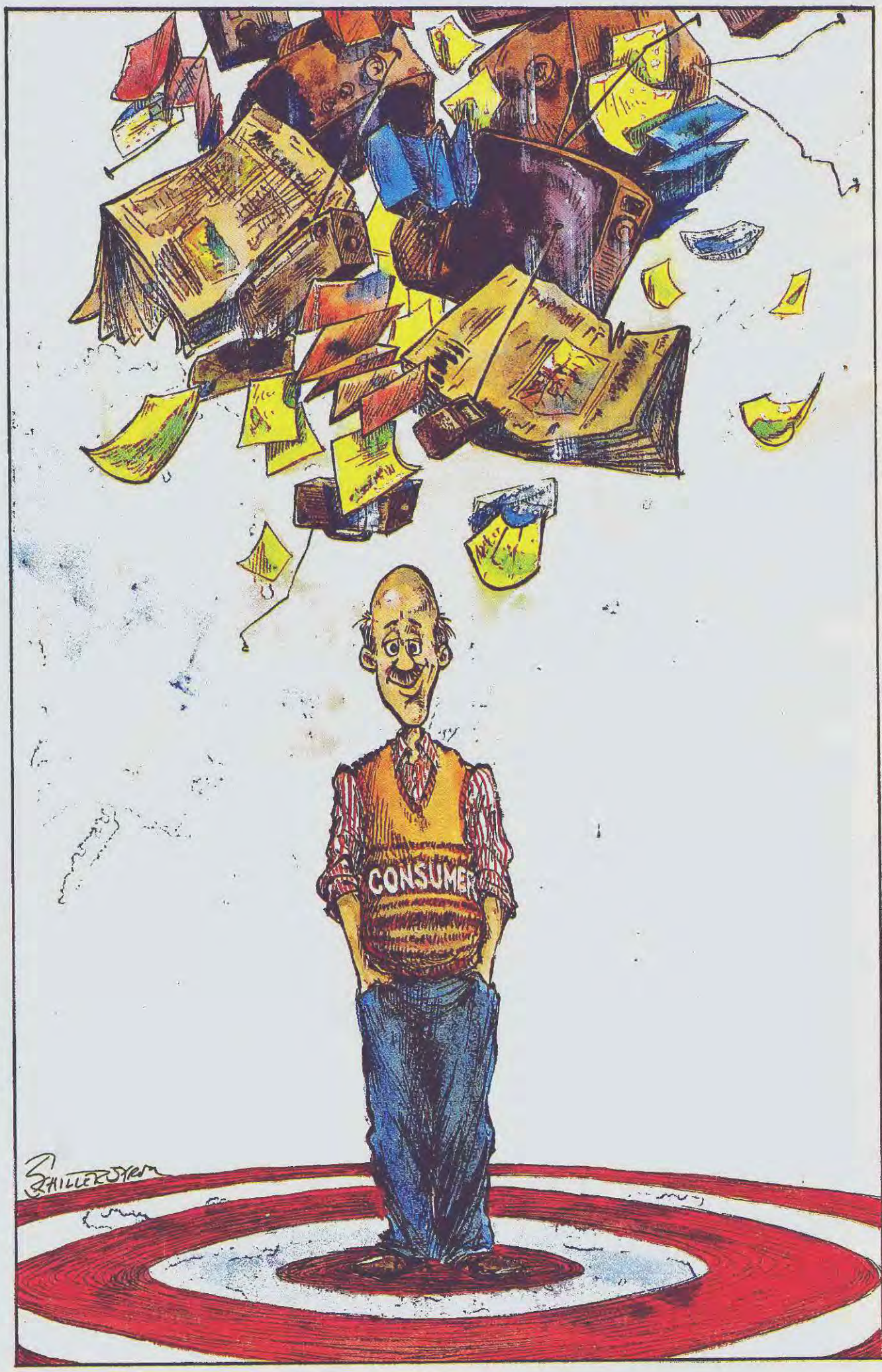
But the marketing techniques that insurers are employing to get their message across are as varied as the insurers that use them.

However, one of the media most often tapped by insurers is television.

An awareness of the needs of consumers led Travelers Corp. of Hartford, Conn., to launch a new series of television commercials earlier this year, pointed out Edward A. Faruolo, director of corporate advertising and promotion. "We're trying to get closer to the consumer."

The commercials, which feature athletes engaged in solitary sports—such as skiing and diving—attempt to promote the benefit of relying on the services Travelers offers to its clients, Mr. Faruolo explained.

Continued on next page



Insurer topics

Life/health insurers target messages

By ALISON KITTRELL

Like their property/casualty insurance counterparts, many life and health insurance companies have abandoned a shotgun approach to marketing in favor of more sophisticated target marketing techniques.

For example, direct-marketing life insurers are being more selective about the people they contact. And, companies that rely on agents are stressing the personal attention available through the agency system, as well as defining target markets of their own.

"We're seeing a more dedicated or specialized approach to marketing," said Richard Schmidt, a consultant with the Life Insurance Marketing Research Assn. in Farmington, Conn.

And, the move away from trying to be all things to all people is especially evident in direct-response marketing, he said.

"Direct-response historically has been product-driven," he said, explaining that insurers with a particular product to sell simply sent out thousands of offers or bought ads featuring a toll-free telephone number and then waited for responses to trickle in.

"But that has pretty much come to a head, because—well, look at your own mailbox," Mr. Schmidt says. Ever-increasing numbers of direct-response solicitations are showing up in mailboxes, dropping from between the pages of magazines, filling the airwaves and phone lines.

"There are companies that realize that marketing on a pure product basis is working less well, and will continue to work even less well," Mr. Schmidt said.

Affinity marketing—the pairing of companies or organizations for marketing purposes—also is becoming less effective, he said. In an example of affinity marketing, holders of a certain type of credit card would receive an offer to buy life insurance from a specific insurer.

The problem with this techniques, Mr. Schmidt said, is that most of the workable pairings already have been made. And, affinity marketing only works well in the very beginning of the campaign, he said.

Using the above example, when the affinity marketing program begins and all the credit-card holders are contacted, there is a large pool of potential customers from which to draw. But, once all the credit card holders have been contacted, the pool dries up, leaving only those people who sign up for the cards after the initial pairing as fresh prospects.

"Direct marketing is a study in large numbers," Mr. Schmidt noted. "You have to have lots and lots of people to make it work."

So what is working? Mr. Schmidt and other experts say that the key to successful marketing—whether through direct marketing or through the agency system—lies in target marketing, in which a company carefully defines the consumers it wants to reach.

A major direct marketer, the United Services Automobile Assn. group of insurance companies based in San Antonio, Texas, says that it has been narrowing its target markets dramatically during the last several years.

"We don't view mailing more stuff as intrinsically desirable. In fact, we'd like to mail less and less as time goes on," said Jim Center, director of marketing for USAA Life Insurance Co.

USAA already works from a specific target base: To buy insurance from a USAA affiliate, one must be or have been a member of the U.S. armed forces. But, that base is very large: USAA companies serve 1.8 million policyholders, he said.

USAA uses the data it collects on those policyholders and the policies they already purchase to develop a data base for selling additional business, he explained.

For example, 95% of USAA policyholders purchase auto insurance with the company. When an auto policyholder calls up to add a new spouse or dependent to his auto coverage, a USAA life insurance company contacts him about life insurance.

Mr. Center said USAA, which carries an A+ rating from A.M. Best Co., has a history of providing reliable products at competitive prices. "We are very vigilant about not blowing smoke," he said. "We don't exaggerate."

"Through direct marketing, I don't think that you can create a need for life insurance products," Mr. Center said. "Life events create a need. But if we can keep the mail at a reasonable and non-tacky level, people will respond when that need arrives."

The key to USAA's success, Mr. Center said. is that "we really have a fairly narrow sense of who we are and what we are trying to do."

And that sense of its target market is important to the success of any insurer, experts agree.

"Companies must know their markets and define them well," said Mike McNelis, vp of marketing for The Equitable Life Assurance Society of the United States in New York. "Being the absolute generalist, having all 52 cards in the deck, just doesn't work."

Direct-writing insurers, like Equitable, use direct-response solicitations to help their exclusive agents find leads. But these companies basically expect their agents to define their own markets and meet their clients needs.

Ron Horton, second vp in life product marketing for John Hancock Mutual Life Insurance Co. in Boston, said, "John Hancock has a career agency distribution system, and we really believe that is the most effective way to reach people."

Direct writers do advertise, of course. But most of their advertising is designed primarily to promote company name recognition.

In the case of Equitable, Mr. McNelis said, "The vast majority of our 'advertising' dollars are spent on the Equitable Old-Timers (baseball) Game and the Equitable Family Tennis Challenge."

John Hancock takes a more traditional approach to advertising. Its recent "Real Life, Real Answers" advertising campaign features people encountering common financial situations and matches those situations with appropriate solutions from John Hancock.

In the case of the campaign's television ads, "the main purpose is corporate awareness," Mr. Horton said. The print ads stress more product awareness and include response cards or toll-free telephone numbers for people interested in more information, he said. But any responses from those ads are turned over to John Hancock agents, he noted.

That is in keeping with the philosophy held by most insurers that rely on the agency system; namely, that the agent can provide the highest level of personal service and advice to help people meet their actual needs.

However, Mr. Schmidt of LIMRA says that the agency system tends to cater to upscale people.

"I think there is a 'forgotten middle market,' a group of people with very real needs in life and health insurance that are not being reached by the agent system and can be reached efficiently by direct-response marketing," Mr. Schmidt said. ■

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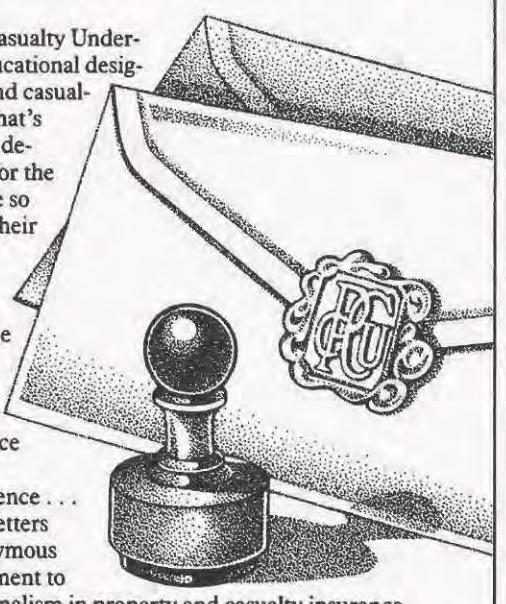

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Membership building in IMCA

WELLESLEY, Mass.—The Insurance Marketing Communications Assn. is reporting continued growth as it prepares for its summer meeting in San Francisco next week.

Last month alone, the number of company members grew by 11 to 94 and associate members now total 61, according to IMCA President W. Douglas Hager, who is also director of marketing for PMA Group of Philadelphia.

In addition, the Wellesley, Mass.-based IMCA is continuing to push for establishment of a professional designation for property/casualty insurance marketers, Mr. Hager said (*BI*, Jan. 30).

However, while discussions with the Malvern, Pa.-based Insurance Institute of America continue in the hopes of establishing the designation, the conferral of any such designation is at least several years away, Mr. Hager said.

For instance, the curriculum for the proposed designation has not yet been determined, Mr. Hager noted. And, once the designation is established, determination of prerequisites, preparation of texts and scheduling of tests will take time, he added.

Consideration of a professional designation is just one aspect of the group's commitment to professional education, said Mr. Hager, whose term as president comes to an end next week. IMCA also holds two meetings each year, during which marketing experts exchange ideas and discuss trends in their profession, he said.

In addition, IMCA sponsors research projects on such subjects as insurer spending on advertising.

The group's commitment to education extends beyond the marketing professionals it represents, Mr. Hager said. "We've got to do a better job of educating customers, too," said Mr. Hager.

Frederick W. Baker, assistant vp and director of communications for Harleysville Insurance Co. of Harleysville, Pa., and IMCA's president-elect, agreed.

Given the diversity of viewpoints represented by IMCA members, the group could conceivably foster cooperation among various insurance groups in working to overcome the industry's negative public image, Mr. Baker said.

IMCA, which was founded 66 years ago as the Insurance Advertising Council, offers two types of memberships: company and associate. The latter category includes publications like *Business Insurance*, as well as advertising agencies.

Dues for both types of membership are $440 per year.

Further information on IMCA is available by writing William T. Hadley, Executive Director, Insurance Marketing Communications Assn., 61 Northgate Road, Wellesley, Mass. 02181.

—By Mark A. Hofmann

Insurer topics

TV ads bring insurer's services to life

By MARK A. HOFMANN

BOSTON—Insurance poses a marketing problem that many other consumer goods do not: "How do you show a product that you can't see?"

Liberty Mutual Insurance Co. grappled with this dilemma in creating a new national television advertising campaign, said Whitney C. Lancaster, assistant vp and manager of advertising and public relations for the Boston-based insurer.

Liberty Mutual's advertising agency—New York-based Wells, Rich, Greene—approached the problem in four television commercials that stress how the insurer's commitment to loss prevention can save both lives and property.

Each of the 30-second commercials features an accident filmed using reverse photography to present the theme that accidents can "unhappen" because of the services, including loss control, that Liberty Mutual provides.

The commercials feature an accident filmed in reverse to show that accidents can 'unhappen.'

In one of the more dramatic spots, a worker flies up from the river into which he has fallen, spins through the air and ends up on his feet atop the arch of a suspension bridge where he's working.

The other spots show a house fire in reverse, a car untangling itself from a train and a warehouse becoming "undamaged" by smoke.

The insurer and the agency wanted a breakthrough concept, explained Bob Wilvers, a creative consultant under contract with the advertising agency.

Liberty Mutual's two most recent ad campaigns—each of which ran for two years—stressed that some of the biggest corporations in America are among the insurer's 100,000 policyholders, Mr. Lancaster said.

The company wanted to take a new approach but wasn't sure exactly what course to take, he said. Nonetheless, Mr. Lancaster had an idea of what he *didn't* want.

"A lot of insurance commercials have cats, horses and kids," he said. Instead of that, Liberty Mutual wanted something "different and dramatic," he said.

"You have to have clutterbusters," Mr. Lancaster said, referring to commercials that stand out in a crowd. He added that the average American contends with about 2,000 commercial images a day—beginning with the logo on the toothpaste tube.

The idea of creating an eye-catching campaign stressing the insurer's creed that it exists to help prevent accidents led to thinking about the accident that never happened, Mr. Wilvers said. But, he added, "We didn't want to make it gimmicky."

Mr. Wilvers, along with two agency employees—copywriter Michael Chappell and producer John Whitaker—designed the commercials in a way deemed sufficiently serious for the insurer.

The actual shooting of the commercials was done in California. It took about seven weeks to film all four spots, Mr. Wilvers said.

Mike Butler, an independent director, oversaw the project. Because of the nature of commercials featuring such events as a worker flying through the air and an accident involving a car and a train, stunt people were cast rather than actors.

In addition, putting the sets together was no easy process, Mr. Wilvers said.

For example, the train accident sequence took place within a Burbank, Calif., hangar. A length of two-lane highway and railroad tracks actually had to be laid inside the building to give the set authenticity, Mr. Wilvers said.

Although part of the bridge sequence required having a stunt man fall more than 50 feet from atop a span in San Pedro, Calif., the initial shot of the man emerging from the water had to be filmed at a different site to achieve what Mr. Wilvers called "a perfect opening" for that ad.

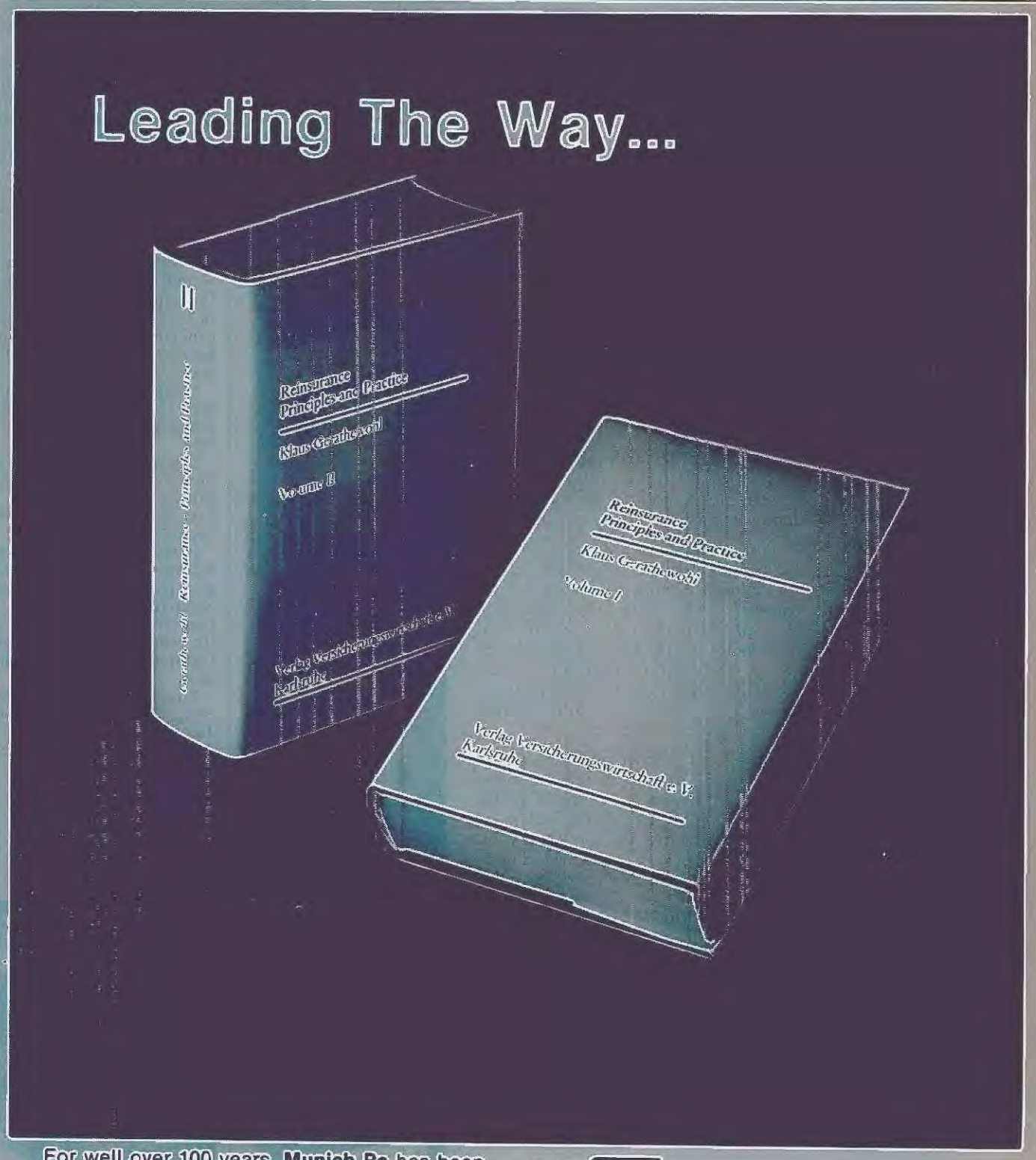
The potential dangers of the advertising shoot gave the insurer a chance to practice what it preached in its advertisements, Liberty Mutual's Mr. Lancaster said.

"We had our loss control department on-site" throughout the filming, he said.

Mr. Lancaster would not say how much the commercials cost. He also declined to reveal Liberty Mutual's annual advertising budget, which he said is proprietary. ■

Liberty Mutual Insurance Co.

One ad shows a man flying up from a river into which he has fallen.



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Insurer Topics

Insurer topics

1901 railway depot still in style as centerpiece of Wausau's ads

By MARK A. HOFMANN

WAUSAU, Wis.—A railway depot constructed in 1901 is the focal point of a highly praised 35-year-old insurance company advertising campaign—one of the longest-running campaigns in history.

And, the message that has accompanied the now-familiar picture of the Milwaukee Road railway depot in Wausau, Wis., is that an insurer from a small city in the North Woods—Employers Insurance of Wausau—can meet the business needs of sophisticated customers nationwide.

The continuing success of the insurer's advertising approach begun in 1954 has been recognized with dozens of advertising industry awards, including several Clios, the advertising industry's highest recognition of excellence.

The chief reason the campaign has worked so well for so long is that it combines consistency and honesty, explains Robert Gunderson, vp-corporate advertising for Wausau, which now is a unit of Nationwide Mutual Insurance Co. of Columbus, Ohio.

Using the train depot in the ads was the idea of Chicago artist Everett McNeer, Mr. Gunderson says.

Mr. Gunderson said the campaign began to take shape in 1953, four years after he joined Wausau.

After World War II, Wausau—then known as Employers Mutual Liability Insurance Co. of Wisconsin—advertised in magazines and on radio, but those spots did not help set the company apart from its competitors, he explained.

In an attempt to gain more recognition, the company in June 1953 hired J. Walter Thompson Co.—then the world's largest advertising agency—to create a new national advertising campaign, Mr. Gunderson said.

"Homing in on the word 'Wausau' was a good idea," because it gave the Wisconsin insurer a unique identity to stress in its advertising, he said. For example, one would uncover quickly thumbing through a Chicago telephone book in 1953 at least 18 other insurance companies with names similar to Employers Mutual Liability Insurance Co., he noted.

Using the train depot in the ads was the idea of Chicago artist Everett McNeer, Mr. Gunderson said.

The train depot was not initially intended as a corporate logo but rather as an illustration for the first print advertisement, Mr. Gunderson explained.

In fact, it would be several years before that image was adopted as a corporate logo for the insurance company because Hans Hagge, then Wausau's president, favored the company's existing logo, which featured an eagle and a shield, he said.

The first of many "Wausau Story" advertisements appeared in January 1954 in such national publications as Time, U.S. News and World Report and The Saturday Evening Post.

The ads initially depicted Wausau scenes and featured such prominent policyholders as George Romney, then president of American Motors Corp. and a future Michigan governor and presidential aspirant. In the ad, Mr. Romney talked about the city of Wausau and why an insurer located there "just had to be the one you trusted with your business insurance."

"After establishing the campaign and the Wausau identity, we went on the road to cities where we had regional offices," Mr. Gunderson said. "There followed a whole series with headlines like, 'A Little Bit of Wausau in New York,' 'A Little Bit of Wausau Deep in the Heart of Texas' and 'A Little Bit of Wausau in Sunny California.'

"After we had firmly established the theme, we moved to the case study format with satisfied policyholders talking about the benefits of their relationship with our company, and we've been doing that ever since."

The case study advertisements give the audience a "kind of a vicarious sampling of our services through the words of others," he said.

Mr. Gunderson stressed that the clients quoted in the advertisements are using their own words. "We won't fake any quote from a policyholder," he said.

Mr. Gunderson said he thinks the case study approach has proved popular because "honesty and straightforwardness is appreciated."

In addition, "business people have an inherent interest in other companies and products they've heard of," he said.

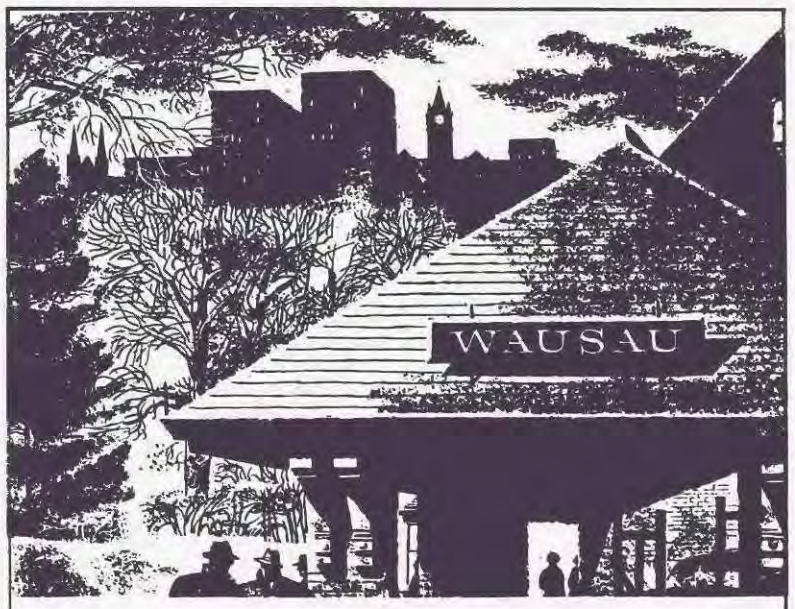
Mr. Gunderson noted that case study ads are not easy to make. Putting each one together takes three to four months, a period that includes getting clearance from clients to use their stories.

But it is time well-spent, he added.

After more than a decade of concentrating on magazine advertising, Wausau found itself seeking a new outlet when The Saturday Evening Post folded in 1968, Mr. Gunderson said. "We were trying to replace a 6½ million circulation," and the only possible substitute appeared to be the paperback sized Reader's Digest, he said. But the insurer did not like the magazine's small pages.

Wausau really did not like the idea of turning to television, either, but a new CBS program looked

Continued on next page



Employers of Wausau

The first Employers of Wausau advertisement featuring the familiar image of a railroad station appeared in magazines in 1954.

Insurers, agents differ on role of ads

By MARK A. HOFMANN

While some independent agents complain they are not mentioned frequently enough in insurance company advertising campaigns, insurers maintain they are actually making agents' jobs easier by focusing on the product, rather than the producer.

However, at least one national insurer has stressed its relationship with independent agents in its television advertising since 1974.

And, other insurers are offering their marketing expertise to help independent agents develop their own advertising campaigns.

"I think (insurers) have neglected using (independent) agents" in company promotions, said Lyle Roth, chairman of the National Assn. of Professional Insurance Agents' company relations committee. "It seems to me that marketing is still the agency's role."

While some insurers put the symbols of the PIA or the Independent Insurance Agents of America in the final frames of commercials or advise viewers to contact a local agent, generally "companies overall do a poor job of marketing," asserts Patrick W. Stainsby, chairman of the IIAA's communications committee.

Many insurers like to see their own corporate logos flash across the television screen, "but very few times do you see the companies telling anyone where to buy their product," said Mr. Stainsby, president of the Independent Insurance Offices agency in Saginaw, Mich.

In contrast, Bloomington, Ill.-based State Farm Insurance Co. has highlighted its own agency force in television spots since the 1960s, said the PIA's Mr. Roth, who also is vp of Koelbel & Co., an independent agency in Denver.

Mr. Hall

State Farm's advertising, which uses the slogan, "Like a good neighbor, State Farm is there," stresses the fact that its product must be purchased through the insurer's exclusive agents.

"I think agency companies might be able to learn something from companies such as State Farm," said Eric Hall, director of industry affairs for the PIA.

The producer can make more of an impression on a customer than the policy itself does, stressed Mr. Hall, who formerly was an independent agent and a marketing director for a small insurance company.

For example, an agent's handling of a delicate situation can preserve an insurer's account, while an inept or abrupt agent may end up costing the companies he or she represents business even if the insurers are offering attractive terms, he explained.

"The most important benefit of the insurance product is the producer. How something gets accomplished is often more important than what gets accomplished," said Mr. Hall.

However, many insurers maintain that the name recognition their corporate advertising provides bolsters agents' marketing efforts.

Mr. Fine

"We're trying to help agents' efforts," said Edward A. Faruolo, director of corporate advertising and promotion for Hartford, Conn.-based Travelers Corp., whose new advertising campaign is targeted at consumers rather than agents.

By emphasizing the Travelers name, its products and services, the company's efforts should increase business opportunities for its agents, he said.

"The intent is to pave the way. It's really a win/win situation," said Mr. Faruolo.

One reason that independent agency insurers don't focus on agents as frequently as do insurers that use exclusive agents is the size of their advertising budgets, explained Steven Fine, advertising director for Long Grove, Ill.-based Kemper Corp.

"Direct writers, which pay lower commissions, have more money to spend on ads," he said.

However, Mr. Fine said that "it was a natural for us to feature independent agents" since Kemper has stressed the role of the agent in the sale of its products since it launched its "Kemper cavalry" ad campaign in January 1974. In those television advertisements, a buckskin-clad scout, symbolizing the independent agent, rode with the cavalry.

Kemper's new advertisements, which feature settings in late 20th century urban and suburban America rather the 19th century West, "bring communications up to date," said Mr. Fine. "They stress the role of agent as professional adviser and counselor."

The aim of the ads is to replicate the interaction between "real agents" and their clients, he said.

"If our advertising makes it easier for our agents to sell, which we're told it does, then our advertising is doing its job," Mr. Fine stressed. "What we're trying to do as a primary activity is to support the activities of our agents and brokers."

And, since company studies have shown that consumers view Kemper as a "well-established" insurer, "hopefully, our being a brand-name is a big plus for our agents," he said.

Even though most insurer advertising doesn't mention independent agents, many insurers are making more readily available to agents marketing materials like computer programs and prospect lists, according to the PIA's Mr. Roth.

For example, Harleysville Insurance Co., a regional insurer based in Harleysville, Pa., has provided its "Honors Agents" with a marketing communications service, said Frederick W. Baker, the insurer's assistant vp and director of communications.

As part of the service, the honors agents—who number among the insurer's best producers—can purchase the services of selected outside advertising agencies on a bulk-buy discount, Mr. Baker said.

The biggest problem agents face is finding an advertising agency that knows "anything about insurance," Mr. Baker said. There are only a handful of agencies that specialize in insurance accounts, he said, adding that one of the tasks facing insurance company marketers was finding those sources and matching them with their agents. ■

Kemper's new ads depict agents as advisers to policyholders.

Wausau's campaign

Continued from previous page

like a potentially suitable vehicle for the insurer, Mr. Gunderson said.

The program, "60 Minutes," seemed to be reaching the right audience, he said. Viewers tended to be "upscale and well-educated"—the type of people who would buy business insurance, he said.

In addition to advertising on "60 Minutes" for the last 20 years, Wausau has branched out to other broadcast outlets—notably the Cable News Network and CNN Headline News on cable television, according to Mr. Gunderson.

He does not rank one medium above the other. The TV commercials "are strictly for awareness," Mr. Gunderson said. Television allows Wausau to impress its name and corporate identity on a large number of people who may not be aware of the insurer's existence, he said.

The print ads, meanwhile, are designed to give readers more detail about the company and its services. "We can tell a case history effectively in magazines that we couldn't possibly do in 30 seconds," he explained.

Wausau's $7.5 million advertising budget is split about evenly between magazine and television ads, according to Mr. Gunderson, who noted that Wausau's total budget for advertising in 1954 was about $300,000.

With its current advertising budget, Wausau launches one or two new television commercials annually, Mr. Gunderson said.

He pointed out that 30 seconds of air time during "60 Minutes," for example, costs $180,000 and that Wausau broadcasts 18 commercials during the show every year.

Wausau also produces a minimum of 13 new print ads annually, he noted.

"We think the mix is right," he said.

The approach taken in the ads has remained consistent even though the insurer has "tried to keep a contemporary look" in its presentations.

Mr. Gunderson credited that consistency in part to Wausau's refusal to jump repeatedly from one advertising agency to another.

He pointed out that the company has changed agencies only once during the life of the campaign, moving the account to The Cramer-Krasselt Co. of Milwaukee in 1971 from J. Walter Thompson.

Mr. Gunderson pointed out that because Wausau is committed to sticking with the familiar railway station as its symbol, the insurer has taken steps to ensure the preservation of the structure.

"We bought the depot from Milwaukee Road about 10 years ago" and donated it to a local Boy Scout council for a headquarters building, he said.

The insurer also built an exact replica of the depot, drawn from the original turn-of-the-century blueprint. The building on the Wausau grounds serves as a hospitality center.

Over the years, Wausau has received countless requests for prints of the depot, he said. Mr. Gunderson said he thinks the depot's continued popularity can be attributed to "the nostalgia people have for simpler times."

But, Mr. Gunderson stressed that the strength of the insurer's ad campaign lies in telling a straightforward message in a consistent way.

"The ads are very believable," he said. ■

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Insurer topics

Insurance marketers get 1st certification program

The certification program will be open to all qualified insurance marketing professionals regardless of whether they hold DMA membership, stresses Richard Montesi, the Direct Marketing Assn.'s senior vp-education.

NEW YORK—The first certification program for insurance marketing professionals has been created by the New York-based Direct Marketing Assn.

The program, designed for marketing life, health and property/casualty insurance products, will be open to all qualified insurance marketing professionals regardless of whether they hold DMA membership, stressed Richard Montesi, the DMA's senior vp-education.

"We're in the process of putting it (the program) together now," though all of the program's particulars have not been determined, Mr. Montesi said.

"We haven't gotten down all the gory details of how to price and package the program," he continued.

The certification program is "kind of a test" in that if it succeeds, special marketing certification programs for other industries will be considered, according to Mr. Montesi.

Slated to begin this October, the insurance marketing certification program requires the completion of two mandatory courses and three elective courses, he said.

"The key is a new course" that is designed specifically for insurance marketers, pointed out Mr. Montesi.

The Insurance Direct Marketing course revolves around a two-day seminar addressing the use of direct-response techniques in the marketing of insurance, he commented.

The seminar will be offered six times a year at various locations around the country.

Completion of the new insurance course is mandatory for certification.

The other mandatory course for certification is the DMA's Basic Direct Marketing Institute, Mr. Montesi explained.

Candidates also must complete three of six elective courses. Among the electives offered are direct marketing math and finance; data base marketing; managing the telephone marketing and sales operation; statistics and modeling for direct marketers; beyond the basics of direct marketing; and the law and direct marketing.

The six courses were chosen from among the 20 or so courses the DMA offers because they seemed the most applicable to the insurance industry, according to Mr. Montesi.

Insurance marketing professionals seeking the certification must have at least one year's experience in direct marketing before entering the program.

The required course work must be completed within two years, and candidates must pass a final examination before receiving their certificate, according to Mr. Montesi.

However, not all candidates for an insurance marketing certificate will have to complete all of the course work to receive the recognition, he said.

Those with at least five years' worth of insurance direct marketing experience may achieve certification through an accelerated program by completing the insurance direct marketing seminar and passing the final exam, Mr. Montesi said.

The DMA's Direct Marketing Insurance Council formed a steering committee to manage, market and promote the new certificate program.

Establishing such a program had been under consideration for four or five years, pointed out James Benson, vp-direct marketing for Guarantee Trust Life Insurance Co. in Glenview, Ill., and chairman of the Direct Marketing Insurance Council.

Insurance direct marketers wanted to create a program that would establish a recognized level of professionalism for their occupation, which included a certification, Mr. Benson said.

For further information on the insurance marketing certification program, write or call Richard Montesi, Senior Vp-Education, Direct Marketing Assn., 6 E. 43rd St., New York, N.Y. 10017; 212-689-4977.

—By Mark A. Hofmann

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Ad close: August 23

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Business Insurance

Principal Mutual offers flex plan options

Principal Mutual Life Insurance Co. has introduced a defined cost flexible benefits plan.

Rather than taking the traditional "defined benefit" approach, in which employers promise to provide a specific level of benefits to employees, FLEX 3 allows employers to take a "defined cost" approach, in which employers promise to pledge a certain dollar amount toward benefits that employees select, according to Roger Rowland, Principal's associate director of underwriting.

FLEX 3, which is available to plan sponsors with 100 or more workers, lets employers "get a better handle on costs and benefits," Mr. Rowland said.

Employers also have the option to choose among optional support services like administration and benefit communications, he pointed out.

With FLEX 3, employees can use the flex dollars allocated by their employers to purchase medical, dental, life and disability coverages on a pretax basis.

In addition, employees can purchase universal life, group auto and/or homeowners coverage through the FLEX 3 program on an aftertax basis.

Principal Mutual Life also offers FLEX 1 and FLEX 2 programs.

Under FLEX 1, employees can pay their share of premiums for group health insurance plans on a pretax basis. FLEX 2—a flexible spending account—allows employees to use pretax dollars to pay for additional medical and dependent health care benefits not covered under the group health plan.

The cost of the three flex plan programs varies based on the number of employees enrolled and other factors.

For more information, contact Roger Rowland, Principal Mutual Life Insurance Co., 711 High St., Des Moines, Iowa 50309; 515-247-6827.

Bad weather cover

A new insurance program that indemnifies against financial losses incurred because of inclement weather is available from Worldwide Weather Inc.

The newly formed agency's program may be used to insure events such as concerts, fairs/festivals and parades, marketing promotions, film production and vacations.

The program will pay business interruption, event cancellation or other financial losses resulting from excessive snow, wind and/or temperature, plus the following four basic programs for excessive rainfall:

- Cumulative rainfall policies, which indemnify sponsors if more than a specified amount of rain falls during a one-day event.
- Consecutive dry hours policies, which indemnify sponsors if a specified number of dry hours do not occur consecutively during a one-day event.
- Non-Consecutive Dry Hours policies, which indemnify sponsors if a specified number of dry hours do not occur at anytime during a one-day event.
- Extended Period coverage, which is available for events lasting more than one day.

The weather insurance program also can be used as a marketing tool, according to Worldwide Weather.

For example, manufacturers of weather-sensitive products such as snow blowers, snowmobiles, snow tires and batteries can purchase coverage to insure a rebate program wherein customers cash in on the inability to use the product because of weather conditions.

Products & services

Worldwide Weather also has designed Named-Peril Crop Insurance that indemnifies farmers whose crops are damaged by scorching or fatally low temperatures and/or excessive winds or rain. In addition, Worldwide Weather is seeking approval to write drought coverage for farmers in some states.

Great American Insurance Co. of Cincinnati underwrites all of the weather insurance programs.

The policies can provide limits of up to $1 million per policyholder for special event and agriculture risks, and up to $3 million for the marketing programs. Premiums start at $250.

And, the policies contain no exclusions since "we only cover the weather," said President Harold Mollin.

For more information, contact Frank E. Parkhurst IV, Worldwide Weather Inc., 488 Great Neck Road, Great Neck, N.Y. 11021; 516-466-5757.

New D&O policy

A directors and officers liability policy designed for directors, officers and partners of small to medium-sized stock brokerages is now available from Shand, Morahan & Co. Inc.

"This program addresses the needs of directors and officers of smaller broker/dealers who are rarely the primary focus of D&O programs," said Hedda Ritter, assistant vp and mutual funds department manager at Shand Morahan in Evanston, Ill. Shand Morahan is a professional liability and specialty lines underwriting manager.

Because most D&O policies target large operations and usually contain numerous exclusions, "it becomes difficult to figure out what is covered," Ms. Ritter pointed out.

"Our policy is unique in that it specifically covers areas of concern to stockbrokers with $1 million to $50 million in revenues," she said.

The policy is the "first of its kind to offer coverage on a specified perils basis," Ms. Ritter said, adding that these include:

- Failure to register any security pursuant to "Blue Sky" laws, which are state statutes designed to protect investors from securities fraud.
- Lack of supervision alleged by the Securities and Exchange Commission.
- Breach of duty alleged in a shareholder derivative action.
- Breach of duty in the purchase/sale of the policyholder's own stock.
- Alleged acts of unfair competition or unfair trade practices.
- Breach of an employment contract.
- Acts of discrimination and reverse discrimination.

Issued through the Evanston Insurance Co. on a claims-made and reported basis, the policy's "exclusions are geared to reinforce the fact that it is not an E&O policy," said Ms. Ritter, adding that exclusions include trading errors and suits against securities underwriters.

The D&O policy, which offers limits of $1 million per claim/$1 million aggregate, has deductibles ranging from $25,000 to $50,000, depending on the size of the stock brokerage and other underwriting factors, said Ms. Ritter.

Premiums start at $20,000, she said.

For more information about the policy contact Hedda Ritter, Shand Morahan & Co. Inc., Shand Morahan Plaza, Evanston, Ill. 60201; 312-866-2800.

Umbrella software

A new software package that lets commercial agents, brokers and consultants analyze umbrella policies is available from International Risk Management Institute Inc.

The CoveragePro Umbrella Analyzer software allows users to:

- Compare different insurers' commercial umbrella/excess policies.
- Analyze the effects of endorsements on coverage.
- Identify coverage gaps between any two umbrella coverages or between an umbrella and its underlying CGL policy.

The software pinpoints changes necessary to improve liability programs. "If (users) can persuade underwriters to modify accounts to sell coverage over price, that's the biggest sales tool," said Paul Murray, an IMRI vp.

CoveragePro, which sells for $498 including supplemental disks for one year, has 75 umbrella policies in its data base. The software requires a 100% IBM PC/AT or compatible computer.

For more information contact Paul Murray, International Risk Management Institute Inc., 12222 Merit Drive, Suite 1660, Dallas, Texas 75251-2217; 800-527-2580 or 214-960-7693.

Books, videos

The Employee Benefit Plan Reporting Guide, published by William M. Mercer Meidinger Hansen Inc., is a two-volume reference that helps **employers comply with more than 100 separate welfare benefit plan reporting and disclosure requirements**. The reference, updated from a previous version, deals solely with reporting and disclosure requirements affecting employee benefit plans. For example, the guide includes COBRA notices, sample letters to employees, and benefit statements. The initial two-volume set—in binder form—plus one year's update costs $500. Subsequent updates, which can be inserted in the binder, will cost $200 per year. To receive the reference, write William M. Mercer Meidinger Hansen Inc., Corporate Publications Department, 1500 Meidinger Tower, Louisville, Ky. 40002; or call 502-561-4500.

A new book that reveals **how insurance companies evaluate and negotiate claims** is available from the Cross Publishing Division of James Publishing Group. "How Insurance Companies Settle Cases" is designed to help readers obtain fair settlements faster by developing a plan and theme to sell a case rather than litigate it; determining what and when to tell the adjuster for maximum impact. The book, which costs $79.98, is available for a 30-day trial period. To order, contact Cross Publishing, P.O. Box 27670, Santa Ana, Calif. 92799; 714-556-0960. ■

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The employee who is honored will receive a handsome engraved plaque and $1,000. The employing firm will receive a similar plaque, and a $5,000 donation will be given, in their name, to the American Society for Industrial Security (ASIS) Foundation on its annual dinner during the convention in September. The insurance broker providing the firm's insurance will also be recognized.

Why the awards?

Radio, TV and the Press always seem to portray security guards in a negative light. They never seem to notice the lives they save, the fires they prevent, the crimes they uncover. We at the Brownyard Group have insured the security guard industry for over a quarter century and during that time, we have seen countless examples of security guards performing above and beyond the call of duty protecting life and property. The purpose of this Brownyard Award is to try to help improve in some small measure the security guards' image by recognizing some of their wonderful deeds that oftentimes go unnoticed.

All letters describing the actions of security guards must contain the name of the individual, the security guard agency for which he or she worked, as well as dates. They should be forwarded to the attention of Bryan Brownyard.

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Savoy Re

Continued from page 1

tara's deal to contribute the CDs to Savoy Re was ever actually consummated.

Etta Mae Credi, supervising insurance deputy with the Illinois Insurance Department, said that the department's ban on Savoy Re will remain in force until the insurer shows that it holds assets acceptable to the department.

The Illinois department issued its bulletin March 14 after confirming that First Dominion had been shut down by Texas banking and securities regulators, Mrs. Credi said.

A California Insurance Department spokeswoman refused to disclose the reasons the department issued its warning against Savoy Re last month.

Savoy Re's problems with the California and Illinois departments are not the insurer's first regulatory difficulties. The Texas Insurance Board placed Savoy Re on a list of unsuitable surplus lines insurers in 1987, while the Alabama Insurance Department has had a cease-and-desist order in effect against the insurer for more than two years (*BI*, Jan. 19, 1987).

Savoy Re's use of a First Dominion trust certificate also is not the first time First Dominion instruments have shown up in the assets of an insurance company. Minnesota-domiciled Diversified Insurers Co. was placed in rehabilitation last year after the Minnesota Commerce Department concluded that the bulk of its assets were collateralized by First Dominion trust receipts (*BI*, Jan. 2, 1989).

Savoy Re was incorporated in the Turks & Caicos in January 1985 under the name Wellington Reinsurance Co. Ltd., and changed its name to Savoy Re in November 1985, according to the insurer's financial statements.

Savoy Re is a subsidiary of Copy Co. S.A. of Panama, which, in turn, is owned by Maria Cristina De Espinosa, a Panama resident, according to Mr. Robson.

Financial statements prepared by Mr. Hepburn in accordance with generally accepted accounting principles show that Savoy Re's premium volume and asset base have fluctuated widely since its formation.

Savoy Re reported earned premiums of $5.4 million—including direct premiums of $1.4 million and reinsurance premiums of $4 million—between January 1985 and Dec. 31, 1986. This volume dropped to $2.8 million in 1987, including $2.7 million in direct premiums and $147,481 in reinsurance premiums.

Volume in 1988, meanwhile, jumped to $4.3 million, including $3.6 million in direct premiums and $758,212 in reinsurance premiums.

Roughly 25% to 30% of Savoy Re's direct business last year consisted of trucking risks, with the remainder composed of commercial general liability, property and auto physical damage risks, according to Mr. Robson.

Although Savoy Re has never produced a statutory financial statement—which would show the breakdown if its writings by state—Illinois and California risks represented a significant part of the insurer's direct business, he said.

About 60% of Savoy Re's business is produced through John. A. England, an Atlanta-based insurance agent and official of International Business Consulting Ltd., Mr. Robson said.

Mr. England—who has corresponded with the Illinois department in an attempt to clear up Savoy Re's difficulties—did not return phone calls for comment on this story.

Initially capitalized with $11.8 million, Savoy Re's assets grew to $25.7 million by year-end 1986 and $25.8 million by year-end 1987, its financial statements show.

At Dec. 31, 1987, Savoy Re's reported assets included:

- $19.5 million in CDs that the financial statement said were held by the asset management division of First American Corp.
- $1.5 million in over-the-counter stocks contributed by Leman Trust Co. S.A. of Panama. The stocks consisted of common shares of Pacific Eastern Corp., Megatron Holdings and S.A.F.E. Business Management.
- $1 million in investment loans.
- $1.8 million in reinsurance premiums receivable.
- $246,119 in cash.

On Sept. 24, 1988, Savoy Re was recapitalized, according to a Sept. 30, 1988, financial statement. The statement showed that the $19.5 million in CDs and $1.5 million in over-the-counter stocks were replaced by the $50 million First Dominion trust certificate that has drawn the attention of California and Illinois regulators.

The California department acted shortly after receiving a complaint about the Savoy Re financial statement from an official of U.S. Portfolio Leasing Inc., a San Francisco-based unit of Ford Motor Co.

Gerald Davis, senior vp with U.S. Portfolio Leasing, said in an interview that he wrote to Insurance Commissioner Roxani Gillespie on April 24 to complain about a note in the Savoy Re statement. The note described the First Dominion trust certificate as being "guaranteed by H.C.G. Financial Services Inc., a division of U.S. Leasing and Ford Motor Co. This guarantee is irrevocable and unconditional."

H.C.G.—an affiliate of Inverness, Ill.-based Hartford Computer Group Inc.—has never been a division of U.S. Portfolio Leasing or Ford, Mr. Davis said. U.S. Portfolio Leasing formerly owned 50% of Hartford Financial Corp., a holding company for Hartford Computer Group, but sold its shares back to the company earlier this year and no longer has any connection with the firm, Mr. Davis said.

He added that H.C.G. had informed U.S. Portfolio Leasing that it never issued a guarantee on the First Dominion certificate and that any purported guarantee would not be honored.

Earlier this year, Savoy Re produced a year-end 1988 financial statement that deleted any reference to the First Dominion trust certificate. Instead, the insurer reported total assets of $59 million, including $50 million in CDs.

In an interview, Savoy Re's Mr. Robson said the First Dominion certificate was contributed by Avatara, which he described as a Swiss investment company with a California branch office.

After Avatara contributed the trust certificate, Savoy Re was contacted by the Minnesota Commerce Department—which was then investigating Diversified—and told that the certificates were not acceptable assets, according to Mr. Robson.

Avatara then took back the First Dominion certificate and contributed the $50 million in CDs, Mr. Robson said. In return for its investment, Avatara received preferred shares in Savoy Re—though not a controlling interest in the insurer—and the right to obtain surety bonds from Savoy, Mr. Robson confirmed.

Savoy Re has written two performance bonds for Avatara to date, he said.

Avatara, he added, told Savoy Re it had been "duped" by First Dominion on the value of the trust certificate.

Asked if Savoy Re had done anything to independently verify the value of the investment, Mr. Robson replied: "Obviously not enough. We had turned them over to a set of lawyers who we thought checked them, but obviously not enough."

Barbara Cleland, an Avatara official based in Pasadena, said last week that Avatara was introduced to First Dominion representatives by Paul W. Graffia, an H.C.G. vp.

Avatara was looking for an insurance company from which it could obtain surety bonds, and struck a deal with Savoy Re in return for contributing the First Dominion trust certificate, Ms. Cleland explained.

Avatara and Mr. Graffia later discovered to their surprise that the First Dominion assets were of questionable value, at which point Avatara took back the certificate from Savoy Re, she said.

Searching for assets to replace the trust certificate, Avatara obtained the $50 million in CDs from Mr. Graffia, who, in turn, had obtained them from a third party, Ms. Cleland said.

Avatara then offered the CDs to Savoy, and they were delivered to the Brinks vault in Raleigh, where Mr. Hepburn—Savoy's auditor—examined them, she explained.

However, Ms. Cleland and Diarmid McAtamney, another Avatara official, said they are uncertain about whether the deal described by Mr. Robson—in which Avatara contributed the CDs in exchange for preferred stock and the right to obtain surety bonds—was ever actually consummated.

"I don't know what happened with this transaction," Ms. Cleland said.

Mr. Graffia did not return several phone messages for comment on this story.

Mr. Robson said Savoy Re hopes to have an audited first quarter 1989 financial statement and more information on the CDs ready for U.S. insurance regulators before the end of this month.

He added that Savoy Re will be preparing a statutory financial statement for the first time this year.

Savoy Re is also planning to move from Turks & Caicos, which has a "certain stigma" attached to it as an insurance company domicile, Mr. Robson said, noting that the insurer is considering Barbados, Bermuda, the Cayman Islands and one U.S. state.

"The biggest concern of Savoy right now is the serious questions raised by insurance commissioners in the U.S. as regards jurisdiction in the Turks & Caicos," Mr. Robson said. ■

Insco appoints onshore claims manager

Insco Ltd. has hired Devonshire Services Group Inc. of Orange County, Calif., to take over the management of its runoff.

The Gulf Oil Corp. captive was once Bermuda's fourth-largest captive but has been running off its business since 1984.

Insco officials announced last month that they would be moving claims administration work onshore and would hire an outside firm to manage it (*BI*, May 29).

Devonshire Services is a privately owned runoff services company started recently by Insco's former claims Vp Garry Nelson, said Insco President Paul Booth. Mr. Nelson left Insco in early 1985 and later served as president and chief operating officer of Calsurance Associates Inc. of Anaheim, Calif.

The decision to move the runoff administration onshore reflects the fact that the bulk of Insco's non-related risks is made up of North American casualty business, said Mr. Booth.

Insco's last published set of financial results covered the year ended Dec. 31, 1983, and showed underwriting losses of $54.9 million, investment income of $41 million and a net loss of $16.1 million.

The company, which will be cutting 28 jobs from its staff of 40 in Bermuda, plans to complete the move onshore by next March but will continue to manage a $200 million investment portfolio from the island.

—By Roger Scotton

Case Study

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NAIC seeks comment on policy proposals

CINCINNATI—The National Assn. of Insurance Regulators is seeking comments regarding proposed model laws and policies discussed at its summer meeting in Cincinnati earlier this month.

Before it takes further action, the NAIC seeks comments on its proposals regarding:

• Managing General Agents.

The NAIC is accepting written comments through July 1 on its proposal to strengthen scrutiny of managing general agents by the MGAs' insurers and state insurance regulators (*BI*, March 13).

The proposal, which was the subject of a public hearing at the NAIC meeting, calls for insurers, among other things, to annually audit their MGAs, certify MGAs' loss reserving practices and monitor claims-handling procedures.

"We think licensing procedures must be defined and that MGA company arrangements must have reporting procedures to ensure that they and we, the commissioners, can estimate the impact of MGA-written business on the financial condition of the insurance company," said Illinois Insurance Director John Washburn, who chairs the NAIC working group studying the issue.

Other provisions of the proposal would prohibit MGAs from binding reinsurance, independently appointing or removing subagents or serving as an officer of the insurer.

Several insurance industry groups testified at the hearing. While some endorsed the working group's effort, many expressed concern about specific language and provisions contained in the proposal.

Representatives of the National Assn. of Professional Surplus Lines Offices Ltd. said the proposed model act's definition of an MGA did not sufficiently denote an MGA's autonomous managerial functions.

Louis Williams, president of the American Assn. of Managing General Agents, said that while "well-intentioned," the draft contained "impractical" provisions that would create additional costs and "will inhibit insurance availability for the consumers who need it most."

Patricia Borowski, vp of government and industry affairs for the National Assn. of Professional Insurance Agents, which represents independent agents, said the definition, in effect, "applies universally to our membership and their insurance business and transactions."

"This is a particularly difficult issue," Illinois' Mr. Washburn said. "We do not want to undo a distribution system that, to a large degree, seems to be working. But, we simply cannot allow insurance consumers to be left holding the bag because of sloppy business practices on the part of insurance companies or MGAs," he said.

The NAIC is considering increasing the scrutiny of MGAs because MGAs have been involved in several recent insurer insolvencies.

• Rental car insurance coverages.

An NAIC subgroup intends to prohibit car rental companies from selling supplementary insurance coverages unless the car rental industry can show that a public good is served by their sale.

The coverages include additional liability insurance, theft of personal items, and life and health insurance.

"In most instances, this coverage is duplicative of other coverages," according to a report presented by Richard Rogers, deputy director of the consumer division of the Illinois Insurance Department.

The NAIC previously adopted a model law that outlaws rental car companies from selling collision damage waivers (*BI*, July 18, 1988).

• HMO guaranty funds.

Representatives of health maintenance organizations were urged to comment as soon as possible about a proposed model law to establish guidelines for guaranty funds for health maintenance organizations (*BI*, April 3).

Regulators warned that they intend to consider adopting a model law at their next regular meeting Sept. 10-13 in Wilmington, Del.

Comments on the model law proposals may be sent to the National Assn. of Insurance Commissioners, 120 W. 12th St., Suite 1100, Kansas City, Mo. 64105.

—By Meg Fletcher

NAIC solvency standards

Continued from page 3

The policy statement broadly outlines "an effective structure and system for financial surveillance and regulation."

The standards are broken into three categories:

• Laws and regulations.

The policy statement outlines 16 NAIC-endorsed practices relating to evaluating insurer solvency that a state department should have the authority to perform. For example, the statement says a department should have authority to examine companies and to establish minimum capital and surplus requirements.

• Regulatory practices and procedures, primarily relating to financial analysis and financial examinations.

For example, these practices require that a department's internal financial analysis include multiple levels of review.

• Proper organization and personnel practices.

This section is broken down into six areas that, among other things, recommend that departments establish minimum educational and experience requirements for professional staff and require that staff salaries be competitive with private industry.

"I'm not sure that any state can meet all these standards right now," said Illinois Insurance Director and past NAIC President John Washburn, who is spearheading the project.

For example, Illinois would—at the minimum—be required to adopt the NAIC model act addressing insolvencies of producer-controlled insurers in order to comply with the voluntary standards, he said.

Several factors—including passage of 1986 amendments to the federal Risk Retention Act—prompted the NAIC to launch the regulatory standards project, said Mr. Washburn.

The act underscores the interdependence of different states' regulatory oversight, Mr. Washburn said.

The Risk Retention Act amendments have generated several regulatory controversies, including a dispute over which state should be responsible for regulating risk purchasing groups.

Another factor that led the NAIC to establish standards was the effort to repeal the McCarran-Ferguson Act, which gives primary regulatory control of the insurance industry to states, said Mr. Gates.

Insurers applaud the standards, saying it will result in more uniform regulation.

"We support more than anything uniformity and simplification in financial examinations and financial reporting," said Richard Heffernan, vp-tax and finance for the Alliance of American Insurers in Schaumburg, Ill.

Insurers are interested in seeing that the regulatory system has no weak links, he said, referring to states with inadequate regulatory standards. "The system is only as good as its weakest link," he said.

"They have recognized the need to do something and have done a good job of filling that need," said Phillip Schwartz, vp-financial reporting and associate general counsel in the Washington, D.C., office of the American Insurance Assn.

Each state department will have until June 1990 to evaluate how it oversees insurer solvency. If a department does not meet the standards, it would have to propose a compliance program.

The NAIC's Financial Condition Subcommittee will review these evaluations and then help states develop plans for compliance through December 1990.

Each state's self-evaluation report and the NAIC committee's response to it "will be done on a confidential basis," the policy statement says.

But, NAIC Vp and North Dakota Insurance Commissioner Earl Pomeroy said he thinks that the NAIC's self-evaluation guidelines for insurance departments should be public.

While NAIC members overwhelmingly supported adopting the NAIC solvency standards, they were more divided over the fate of an accreditation program for state departments.

"It's a ticklish thing to deal with," Mr. Gates said.

For example, the NAIC would have to decide how to sanction non-accredited states, he pointed out.

Yet, the NAIC's goal is to create an incentive for states to comply with the standards and not isolate states that cannot, especially if non-compliance is due to conflicting state statues or budget limitations, he said.

Insurers also predicted that some states would oppose any type of accreditation program.

"Some states will be reluctant to agree to that (accreditation) for fear of giving up autonomy," said the AIA's Mr. Schwartz.

"It may not be a reflection that they couldn't pass, just that they think it is not a proper thing for the NAIC to do," he said.

In addition, "there will be resistance from some states because they know they won't be accredited," predicted a spokesman for an insurer.

However, Mr. Washburn said: "We will really try and work hard for the accreditation program."

Department accreditation could prove beneficial to corporate insurance buyers.

For example, "if an insurer is domiciled in a non-accredited state, then the risk manager may scrutinize the insurer more carefully," said Robert Esenberg, risk management administrator for the city of Virginia Beach, Va.

If insurers are put at a competitive disadvantage because they are domiciled in a non-accredited state, they may have an incentive to support stronger regulatory standards, said Richard Heydinger, risk management director of Hallmark Cards Inc. in Kansas City, Mo.

Insurers might benefit from an accreditation program if an insurer domiciled in an accredited state would be eligible for a streamlined approval process when seeking authority to write business in another state, explained James Schacht, chief deputy director of the Illinois Insurance Department. ■

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NAIC mulls non-U.S. insurer rules

By MEG FLETCHER

CINCINNATI—Most non-U.S. insurers seeking a listing by a National Assn. of Insurance Commissioners unit will have to meet higher capital and surplus requirements beginning next year under amendments to non-admitted insurer regulations approved by the NAIC.

In addition, these alien insurers will have to increase amounts they have deposited in their respective trust funds held in U.S. banks. Regulators can tap an alien insurer's trust fund to help pay claims if the insurer becomes insolvent.

At their summer meeting June 4-8 in Cincinnati, state regulators agreed to increase minimum capital and surplus requirements to $15 million from $6 million for alien insurers seeking an NAIC-sponsored listing. The change amends the NAIC's Non-Admitted Insurers Information Office operational plan and the NAIC's model surplus lines law.

The increase becomes effective Jan. 1 for new applicants but will be phased in through 1992 for insurers currently listed in the NAIIO quarterly listing of approved alien insurers.

The NAIC adopted the change because regulators agreed that $6 million of capital and surplus is "insufficient" to write business in this country, especially because of the limited jurisdiction that regulators have over alien insurers, explained Stewart Keir, chief of the New York Insurance Department's Excess Line Bureau.

Unincorporated individual insurers, like Lloyd's of London, are exempted from the requirement, though Lloyd's is still required to maintain a U.S. trust account.

Most incorporated alien insurers also must deposit $2.5 million in a U.S. trust fund—up from from $1.5 million—beginning Jan. 1.

"The goal is to protect U.S. policyholders in the event that an alien company becomes insolvent," Mr. Keir said.

In addition, the NAIC adopted a standard agreement for alien insurers to use in establishing trust accounts with banks in the United States.

The agreement improves state regulators' access to the money in the event that the alien insurer has stopped paying claims, according to David Simmons, the NAIC's general counsel.

In related action, the NAIC approved a disclaimer for the cover page of the NAIC's listing of approved alien insurers that cautions: "the NAIC does not attempt to analyze or consider either the political stability of the domiciliary company or its diplomatic relationship with the United States."

Among other developments:

Offset action postponed

The NAIC postponed action on four proposals to amend a model offset law by altering when insurers and reinsurers may reduce the amount of funds they owe an insolvent insurer by the amount the insolvent insurer owes them.

Members of the Rehabilitators and Liquidators Task Force voted 10-9 to ask the NAIC's Accounting Practices and Procedures Task Force to evaluate the various proposals to amend Section 30 of the Insurer's Supervision, Rehabilitation and Liquidation Model Act, which deals with the way insurers are allowed to reduce the amount of funds they owe an insolvent insurer by the amount the insolvent insurer owes them.

The Rehabilitators and Liquidators Task Force sought the evaluation to assess the impact of the proposals, especially on the solvency of ongoing insurers.

However, Norris Clark, chairman of the accounting subgroup and chief of the California Insurance Department's financial analysis division, warned commissioners that it will be difficult to analyze the financial impact of the offset proposals because necessary data is not readily available and it may require surveying insurers.

Section 30 currently allows most insurers and reinsurers to offset mutual debts and credits with insolvent insurers.

The changes included in the four proposals range from minor alterations to the model law to restricting a reinsurer's offset rights in cases when it also ceded business to the insolvent insurer. However, the proposed amendments also would expand offset rights in some cases (*BI*, June 5).

The NAIC is reviewing a total of four separate proposals representing the views of regulators and various industry segments.

Mr. Clark said he plans to have at least a preliminary report available at the NAIC's next meeting Sept. 10-13 in Wilmington, Del.

Pollution coverage

Risk managers, surplus lines brokers and at least one regulator say coverage for pollution incidents under both commercial general liability insurance policies and environmental impairment liability insurance policies still is difficult to find.

"The elimination of pollution coverage from the general liability form has created a lack of availability of such coverage for small manufacturers and small to medium-sized commercial businesses," noted the National Assn. of Professional Surplus Lines Offices Ltd. at the NAIC summer meeting.

Many "Main Street" businesses have trouble finding pollution coverage, Richard Hsia, deputy superintendent of the New York Insurance Department, told the NAIC's Commercial Lines-Property and Casualty Insurance Committee.

Businesses want to be able to obtain coverage for sudden and accidental pollution through standard policy forms rather than through special endorsements, according to a spokesman for the Risk & Insurance Management Society Inc.

RIMS is working with a subgroup of the American Bar Assn. to draft such sample policy language, said Robert Esenberg, RIMS' vp-government affairs.

The current CGL policy contains a pollution exclusion, though limited pollution coverage is available for product liability and completed operations exposures, nor does it preclude coverage for certain contracting operations.

The Insurance Services Office Inc., which drafts standard policy forms, is continuing to review pollution coverage options, said Carole Banfield, vp-government relations for the New York-based organization.

ISO currently offers an endorsement to the CGL form that deletes the pollution exclusion, with the exception of the exclusion pertaining to cleanup costs.

The issue of pollution coverage is a "particularly difficult" area for both buyers and sellers, Ms. Banfield said.

Meanwhile, surveys of both admitted and surplus lines insurers, which were requested by the NAIC property/casualty insurance committee, found that dozens of companies are writing environmental impairment liability insurance for various types of general and specialized risks.

A NAPSLO survey of its members found that 43 surplus lines insurers, including a few risk retention and purchasing groups, offer types of EIL insurance, which covers gradual pollution incidents, said Richard Bouhan, executive director of the Kansas City, Mo.-based association.

In addition, an ISO survey of admitted insurers found that 59 companies offer pollution coverage either through the CGL form or more specialized contracts.

Other action

The NAIC also:

- Amended its Accounting Practices and Procedures Manual to restrict the ability of affiliated insurance companies to transfer assets among one another to produce "paper" surplus rather than actually increasing an insurer's financial worth.

  Effective immediately, insurers must better reflect on their financial statements their actual assets, which will result in greater consistency in the way all insurers value assets, said Robert Solitro, chief examiner of the New Hampshire Insurance Department.
- Expanded the size and function of its Washington, D.C., office. Kevin Cronin, the NAIC's current Washington counsel, also has been named the NAIC's director of governmental relations. ■

Case Study

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New regulators to fill top posts in Maryland, Missouri, Colorado

New insurance regulators are assuming duties in Maryland and Missouri, while Colorado is establishing a search committee to find one.

The two new appointees are replacing insurance regulators who resigned their posts for personal reasons.

In Maryland, John A. Donaho, a private consultant, was sworn in as the state's insurance commissioner earlier this month. Mr. Donaho, 71, replaced E. Susan Kellogg, who resigned after less than 11 months in the post.

Mr. Donaho, a graduate of the University of Chicago, has been a longtime consultant to Maryland governors and Baltimore mayors on insurance-related issues and is a former state budget director. He also designed and installed budget and accounting systems in Maryland, North Carolina, South Dakota and Washington, and has lectured at several universities on budget and public finance.

In addition, he previously was employed as city manager of Richmond, Va., and as a member of the White House staffs of Franklin D. Roosevelt and Harry S. Truman.

In Missouri, Lewis Melahn is expected to assume the post of director of the Division of Insurance, effective July 1.

The director's duties currently are being performed on a temporary basis by Larry Call, the division's deputy director of operations. Mr. Call assumed those duties after William Bennett resigned May 22 (*BI*, May 29).

Mr. Melahn, 38, is an attorney with Fenlon & Melahn and president of Melahn Insurance Agency Inc., both in Mexico, Mo. The family-run, independent agency primarily sells personal lines coverage, according to a spokesman for the state's Department of Economic Development, which oversees the Insurance Division.

Mr. Melahn plans to relinquish his agent's license and his financial interest in the agency, which his father founded, the spokesman said.

Meanwhile, Colorado Insurance Commissioner John Kezer announced plans to resign at the end of July to pursue interests in the private sector.

Mr. Kezer, who has served as insurance commissioner for 4½ years, formerly was director of the Colorado Division of Employment and Training.

A representative group of persons from the insurance industry and state consumer groups is being assembled to encourage qualified individuals to apply, and to review and recommend applicants to the governor, who will appoint Mr. Kezer's replacement.

"This approach has been taken with other really important jobs, and we have found that it is a helpful way to go about it," said Steven Berson, executive director of the state's Department of Regulatory Agencies, which oversees the state's Insurance Division.

—By Meg Fletcher

1992's effects will be global: Experts

By MEG FLETCHER

CINCINNATI—Efforts to harmonize the insurance laws of most Western European countries by 1992 pose challenges for the insurance industry worldwide, experts say.

For example, while the deadline approaches, final regulations in each European Community nation are not expected soon, said Stephen Lewis, an attorney with Clifford Chance, a London-based law firm, at the International Conference of Insurance Regulatory Officials held June 4-8 in Cincinnati.

The National Assn. of Insurance Commissioners hosted the fourth annual conference—which attracted 37 insurance regulators from 30 countries—concurrently with its own summer meeting.

Mr. Lewis pointed out that the European Commission's 1992 target date for removing trade barriers in the 12 EC countries is "somewhat misleading."

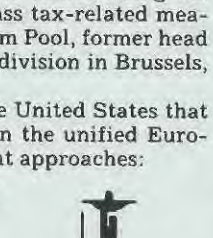
An EC directive to remove trade barriers of non-life insurance services is intended to be implemented by the majority of member nations by July 1, 1990, Mr. Lewis pointed out.

However, Greece, Ireland, Spain and Portugal have until 1999 to comply with the directive, he said.

But, it is "unlikely" that insurance-related regulations will be finalized soon in other EC nations because of delays caused by litigation and other difficulties in mustering the unanimous support of EC members to pass tax-related measures involving life insurance, said William Pool, former head of the European Community's insurance division in Brussels, Belgium.

Mr. Pool said that insurers based in the United States that want to obtain insurance business within the unified European Community can adopt three different approaches:

- By using a base outside the EC to directly cover a risk inside an EC member nation.



However, the nation in which the risk is located can individually decide whether to allow this.

- By using a branch or agency inside the community.

The EC member nation where the branch or agency is located can individually decide whether to allow this. The authorization procedure followed, though, generally must be "not less onerous" than that applied to insurers based in member states.

- By acquiring or establishing a subsidiary company inside the community.

Again, an individual member nation can decide whether it will allow a subsidiary company to be formed.

However, once an insurer is approved, the EC nation is required to treat it in the same way as insurance companies from other EC-member nations, he said.

U.S.-based insurers that want to operate within the EC should begin making operational arrangements before 1992 because there is a possibility that regulations adopted later may restrict their options, Mr. Lewis said.

U.S.-based insurance regulators also have a role to play in the post-1992 environment, said New York Insurance Superintendent James Corcoran.

They must demonstrate that foreign insurers are accepted in the U.S. market, so that U.S. insurers are not discriminated against by European regulators, he explained.

Consequently, state regulators must address such issues as multistate licensing procedures, solvency standards that vary from state to state and limitations on foreign governments' investment in insurers, he said. And, that may have to be accomplished through some type of national licensing process, according to Mr. Corcoran.

However, it will be "a while" before any major changes are made in insurer licensing rules, said John Washburn, Director of the Illinois Insurance Department. ■

BC/BS of Kentucky names new chief

Stephen T. Bow has joined Blue Cross & Blue Shield of Kentucky in Louisville—the state's largest health insurer—as president and chief executive officer.

Most recently, Mr. Bow was senior vp and officer-in-charge of Metropolitan Life Insurance Co.'s Western headquarters in San Francisco.

Mr. Bow joined Metropolitan Life in 1953 as an agent. After serving in a variety of positions both in the United States and Canada, Mr. Bow was promoted to senior vp in 1978.

At Blue Cross/Blue Shield, Mr. Bow succeeds **G. Douglas Sutherland**, who resigned.

In other insurer changes:

I. Davis Jessup II joined Aegis Insurance Services Inc. in New York. Most recently, Mr. Jessup was vp-facultative of MONY Reinsurance Corp. in New York.

Joseph T. Laudadio named vp-underwriting at Provident Mutual Life Insurance Co. of Philadelphia.

George W. Moore appointed vp-Dallas region of North River Insurance Co. in Dallas.

George M. Albany promoted to president-branch operations of Maryland Casualty Co. of Baltimore.

Michael S. Martin named president of Equitable Insurance Cos.' Northeastern region in Edison, N.J. Mr. Martin will continue in his position as senior vp of The Equitable Life Assurance Society of the United States, the parent company of Equitable Insurance Cos.

J. David McDonald joined Royal Insurance of Charlotte, N.C., as senior vp and chief underwriting officer. Most recently, Mr. McDonald was senior vp-underwriting at Crum & Forster Inc.

K. Pearl Harrison promoted to vp-claims and health care relations of American Heritage Life Insurance Co. of Jacksonville, Fla.

Comings & goings: industry

Agents/brokers

Salvatore R. Tobacco appointed vp-marine insurance of Croland Coverages Inc. of New York.

L.K. Lloyd & Associates of San Francisco announced the following promotions: **Jo Aranda** and **Sherree Tyszkiewicz** to senior vps; and **Marilyn Bentley**, **Ilene Levinson**, **Ruth Norton** and **Lannie Staniford** to vps.

David W. Myer appointed senior vp of Dawson Insurance Inc. of Cleveland.

Also at Dawson Insurance, **William J. Healy** joined as vp. In his most recent position, Mr. Healy was vp and director of J.J. Balaguer & Co. Inc.

William H. Glisson appointed president of Lawrence Risk Services Corp. in Schenectady, N.Y.

Robert S. Barrett joined Marsh & McLennan Inc. in Tulsa, Okla., as vp. Previously, Mr. Barrett was director-corporate risk management for National Gypsum Co.

Fred S. James & Co. of Georgia Inc. in Atlanta announced the following promotions: **Donald H. Diffenderfer** to senior executive vp; **Shirley R. Gazaway** to senior vp; and **Joe A. Coombs Jr.** and **Richard W. Hanselman** to vps.

Mark J. McPike promoted to vp of Fred S. James & Co. of Portland, Ore.

Albert E. Lietzau III appointed president of Tongue Brooks & Co. Inc. of Baltimore.

Excess/surplus

Sherwood Insurance Services in Los Angeles, a wholesale brokerage and managing general agent, announced the following promotions: **Casey Hamlin** to senior vp; **Fran Maliszewski** to vp-property; and **Bob Stein** to vp-casualty.

Angelo J. Gioia joined AVRECO Inc. of Chicago, a surplus lines broker, as vp. Most recently, Mr. Gioia was vp-market research and development for Kirke-Van Orsdel Inc.

Wayne N. Sanders joined Repath Associates Inc. of Nashville, Tenn., as senior vp. Previously, Mr. Sanders was business development/marketing manager with Fireman's Fund Insurance Co.

Robert B. Linn named vp and product manager for underwriting manager Shand Morahan & Co. Inc. in Evanston, Ill.

Reinsurance

Christopher P. Henson promoted to vp of General Reinsurance Corp. in Seattle.

Barry M. Anderson and **Harry Tipper III** promoted to vps at Genesis Underwriting Management Co. of Stamford, Conn.

Philip G. Smith appointed vp of Constitution State Management Co. of Hartford, Conn.

Anthony J. Grosso and **Stephen G. Tirney** promoted to senior vps at PMA Reinsurance Corp. of Philadelphia.

Patrick Meagher joined RFC Intermediaries Inc. of Atlanta as vp and branch manager of the Chicago office. Most recently, Mr. Meagher was vp and chief operating officer with Nova Reinsurance Brokers Inc.

Roger Adam promoted to vp-underwriting management services of American Re-Insurance Co. in Princeton, N.J.

Other suppliers

Thomas C. Wohlford joined Milliman & Robertson Inc. in Seattle as senior consultant-health care provider consulting, a newly created position. Previously, Mr. Wohlford was vp of The Travelers Health Network. ■

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Outhwaite dispute resolution

Continued from page 3

year were asked to pay a total of 64.8 million pounds ($99 million) by July 14 and face additional cash calls of 76 million pounds ($116.1 million) to cover the losses.

However, Mr. Outhwaite contends the syndicate's liabilities may be reduced if he wins his disputes with the 16 ceding underwriters.

Meanwhile, several syndicates that purchased runoff policies from the Outhwaite syndicate have been unable to close underwriting accounts because of Mr. Outhwaite's refusal to pay claims. In addition, many cedants that have not yet filed claims with syndicate 317/661 do not know whether Mr. Outhwaite will pay their claims in full.

In a report commissioned by 102 Lloyd's members' agencies last year, the accounting firm Coopers & Lybrand recommended that Lloyd's take measures to limit the uncertainty surrounding syndicate 317/661's 1982 account, pointing out that lack of communication and information between the ceding underwriters and the Outhwaite syndicate made it "extremely difficult to arrive at reasonable estimates of reserve requirements" (*BI*, Aug. 29, 1988).

In announcing the appointment of Mr. Littman, Lloyd's said it hopes "a speedy resolution of these disputes will help reduce uncertainty in the marketplace over the liabilities."

Although Mr. Littman, whose fees will be paid by Lloyd's, will have no power to actually arbitrate disputes, he will act as a conciliator to promote an environment in which the disputing parties may reach agreement, according to Lloyd's.

In addition, four external members of the Council of Lloyd's—persons who serve on the council but who are not Lloyd's names—will assist Mr. Littman in trying to settle the disputes.

All four "have no financial interest in Lloyd's and are, therefore, totally independent," Lloyd's said.

The appointment of the four external council members to oversee the reconciliation attempt will help appease concerns in the marketplace that several of the elected council members—who work in the market—are themselves involved in runoff disputes with Mr. Outhwaite.

For example, Lloyd's Chairman Murray Lawrence ceded part of his own syndicate's past liabilities to syndicate 317/661.

Syndicate 362, managed by Murray Lawrence & Partners, purchased an unlimited stop-loss policy excess of $55 million to cover risks underwritten in 1978 and prior years, 66% of which is reinsured by syndicate 317/661.

Estimated recoveries under the runoff reinsurance policy total about $62 million, according to syndicate 362's annual report.

So far, however, "there is no dispute on this policy and, indeed, the syndicate is some years away from claiming on it," the report said.

Mr. Littman and three of the four Council members met with Mr. Outhwaite and 20 Lloyd's syndicates last week to discuss the proposed settlement negotiations. Representatives of all the affected syndicates soon will be invited to attend individual meetings, according to Lloyd's.

The Outhwaite agency "welcomes" the initiative, said an Outhwaite spokesman.

In a British television interview last week, Mr. Lawrence explained that Lloyd's first attempted to reconcile the disputed policies about 12 months ago, and "from that about five or six settlements were reached."

Several syndicates last year accepted payments from syndicate 317/661 to cover outstanding liabilities and a portion of IBNR losses but also agreed to reassume the unlimited policies (*BI*, Oct. 17, 1988; April 25, 1988).

However, even if further settlements can be reached, the Outhwaite syndicate's current estimated liabilities are unlikely to fall—leaving members on the 1982 account facing massive losses, members' agents note.

A group representing more than 500 of the Outhwaite syndicate's members already has contacted London law firm Richards Butler to determine whether they can legally avoid paying this year's cash call and future losses, confirmed a spokesman from the law firm.

In addition, members of the Outhwaite Names Assn. currently are investigating whether they have grounds to sue their members' agents, alleging that Mr. Outhwaite acted negligently when he wrote the runoff policies, said ONA Chairman Peter Nutting.

Meanwhile, the association also has instructed lawyers to determine whether they can obtain injunctions to prevent Lloyd's and members' agents from seizing members' reserves to pay for the current cash call, he added.

Mr. Nutting said he hopes the members can stop the cash call because it is "unnecessary." The cash call was made "to bolster reserves" in light of recent changes in Lloyd's regulations governing solvency, Mr. Nutting contends.

Lloyd's announced in late April that it would not support any new letters of credit used to cover syndicate members' outstanding U.S. liabilities and ruled that, beginning in 1990, syndicates cannot use LOCs to cover members' liabilities in the Lloyd's American Trust Fund (*BI*, May 29; May 15).

Meanwhile, the Council of Lloyd's earlier this month rejected a plan advanced by the Outhwaite agency that called for Lloyd's to assume responsibility for future losses faced by members of syndicate 317/661's 1982 account above a certain level (*BI*, June 12).

Such a provision would undermine Lloyd's principles of unlimited liability and members' responsibilities for their individual losses, said Alan Lord, Lloyd's chief executive.

However, the Council has "taken steps to ameliorate the impact of the (Outhwaite) cash call on members," according to Lloyd's. These steps include:

- Allowing members an extension of 14 days to make appropriate arrangements before paying the cash call.
- Discussions with "senior figures in the personal stop-loss (insurance) market to enable claims made under such policies to be available to meet the cash call."
- Discussions with the British Inland Revenue to ensure members who are entitled to tax refunds "receive them as soon as possible." Members can receive a tax break equaling up to 60% of their losses, according to Lloyd's.

Lloyd's also pointed out that "many members of the syndicate are expected to receive good profits deriving from their participation in syndicates for the 1986" underwriting year, due to be closed this year. ■

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Secretaries, Treasurers, controllers and other Financial Personnel	4,446
Risk/Employee Benefits:	
Vice-presidents, directors, managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations	10,687
Sub-total	**23,959**
Associations	548
Government, Unions and Educational Institutions	1,299
Commercial Consumers	
Sub-total	**25,806**
Insurance Agents and Brokers	10,745
Insurance Companies	7,557
Actuaries, Consultants, Attorneys, Adjusters, Appraisers and Third Party Administrators	3,580
Others Allied to the Field	2,688
TOTAL	**50,376**

* Source Business/Occupational breakdown of qualified circulation, November 28, 1988 issue, as submitted to BPA for December 1988 BPA Publisher's Statement.

Banks accept political risk settlement

By CAROLYN ALDRED

LONDON—Five banks that had sued dozens of Lloyd's of London syndicates and a broker for payment of a $34 million political risk insurance claim have settled out of court for $8.3 million.

The settlement calls for the banks to be paid $4.3 million by the underwriters and $4 million by Willis Faber & Dumas, which placed the coverage, *Business Insurance* has learned.

The banks, led by Morgan Grenfell & Co. Ltd., had sued at least 46 syndicates in London's High Court.

The named syndicates were led by syndicate 662, underwritten by Chris Rome, and syndicate 33, underwritten by Ian Thomson. Lloyd's broker Willis Faber also was named for alleged breach of duty in placing the policy.

The claim stemmed from the default by the Republic of Palau, an island nation in Micronesia, on loans for the construction of a power plant. The banks guaranteed repayment of the loans made by various lending institutions and then purchased insurance guaranteeing the loans' repayment.

But, the underwriters refused to pay claims after Palau defaulted, contending that the banks had not disclosed pertinent information that suggested Palau would not have the funds to repay the loans (*BI*, May 1).

A trial began late in April, but the proceedings were canceled only a few weeks later when the parties decided to settle.

Willis Faber and the lead underwriters were not available for comment on the settlement.

Corporation of Lloyd's expenses

Controlling expenses is the most important challenge facing Lloyd's of London's ability to underwrite profitably in the "intensely competitive world market," Lloyd's chairman says in the Corporation of Lloyd's 1988 annual report.

To address this concern, Chairman Murray Lawrence notes that the Council of Lloyd's last November approved a 1989 corporation budget that "was no higher in money terms than that for 1988."

The Corporation of Lloyd's expenses comprise about 20% of the total overhead costs of Lloyd's underwriters, so "the reduction in real expenditure which this represents will constitute an important contribution to the market's competitiveness," Mr. Lawrence said.

And, Chief Executive Alan Lord points out in the report that to trim expenses further, "213 posts in the corporation—or about 9% of the total—will disappear during 1989."

This will partly be achieved by "stringent controls" on recruiting new workers imposed last summer, the report notes.

"It is important that the overhead costs of Lloyd's. . .should be restrained in the interest of the membership of Lloyd's and their reward for the risks they bear," said Mr. Lord.

The council's decision to freeze the corporation's spending was "discussed with 30 committees and market associations before the 1989 budget was approved. It has been no small achievement to find the savings to ensure this result," he said.

However, the Corporation of Lloyd's costs "are but one component of total overheads: The agency and broking communities recognize that they, too, must examine rigorously the contribution they can make," Mr. Lawrence pointed out.

The corporation's total operating expenditures increased 9.2% to 123.9 million pounds in 1988 ($224.3 million at year-end 1988 exchange rate) from 113.5 million pounds in 1987 ($213.4 million at year-end 1987 exchange rate). Meanwhile, total premium revenues written by Lloyd's underwriters fell 10.2% to 4.4 billion pounds last year ($7.9 billion) from 4.9 billion pounds in 1987 ($9.2 billion).

According to a five-year summary contained in the report, the corporation's expenses per pound of premium income have increased by 55% in two years to 2.82 pence per pound of premium revenues in 1988, from 2.33 pence in 1987, 1.82 pence in 1986, 1.72 pence in 1985 and 1.69 pence in 1984.

Concern about increased costs in the Lloyd's market is widespread. In 1985—the most recent year closed under Lloyd's three-year accounting system—the expense ratio for Lloyd's underwriters—defined as the ratio of syndicate, corporation and brokerage expenses to net premiums—was more than 30%, exceeding the expense ratios reported by many U.S. and U.K. insurance companies, according to a confidential report prepared by a Lloyd's working party last year (*BI*, Feb. 27).

Meanwhile, the corporation's aftertax profit for 1988 increased 8.1% to 21.4 million pounds last year ($38.7 million) from 19.8 million pounds in 1987 ($37.2 million).

The corporation's revenues—including members' subscription and entrance fees, market charges and underwriters' rents—increased 9.2% to 153.7 million pounds ($278.2 million) from 140.7 million pounds ($264.5 million).

However, while members' subscription revenues increased 16% to 83.8 million pounds ($151.7 million) last year, members' entrance-fee revenues dropped 64.7% to 2.4 million pounds ($4.3 million) in 1988 from 6.8 million pounds ($12.8 million) in 1987, due to a reduction in the number of new members who commenced underwriting in January 1989.

Last year, only 951 new members began underwriting at Lloyd's compared with 2,572 new members in 1987.

Direct dealing opposed

The Lloyd's Insurance Brokers Committee will oppose any proposals to allow Lloyd's of London underwriters to deal directly with non-Lloyd's brokers or corporate clients, the

London

LIBC warns in the 1989 annual report of the British Insurance & Investment Brokers' Assn.

"LIBC remains firmly of the conviction that the requirement and regulations of being a Lloyd's broker, and the cost of compliance, are such that they cannot support a general move whereby Lloyd's underwriters are able to trade directly with those who are not required to operate to the same degree of conformity to those standards," the group says.

A growing number of Lloyd's underwriters want to deal directly with policyholders and non-Lloyd's brokers to expand the amount of business they write.

Underwriters argue that the cost of dealing exclusively through Lloyd's brokers makes high-volume, low-premium risks, like small commercial lines, unprofitable to write. They also note that the establishment of more sophisticated computer link-ups within the insurance industry will make direct-dealing more viable (*BI*, Feb. 27).

Already, several Lloyd's underwriters have established offices outside of London to obtain additional commercial business from non-Lloyd's brokers and policyholders, which then is channelled back into Lloyd's through a Lloyd's broker.

However, the LIBC says, "We are opposed to Lloyd's operations dealing with non-Lloyd's brokers where the only involvement in the chain by a Lloyd's broker, beyond personal lines and motor (automobile insurance), is by guaranteeing premium; in other words, to cosmetically comply with present Lloyd's regulations.

"We support the use of new technology and we support the principle of Lloyd's underwriters and brokers trading together in the provinces but we are not able to agree to a two-tier broker basis," the LIBC adds.

Meanwhile, Lloyd's Chairman Murray Lawrence emphasizes in the Corporation of Lloyd's 1988 annual report the importance of Lloyd's continued reliance on Lloyd's brokers.

"In our efforts to develop profitable business, we shall continue to rely extensively on the worldwide skill and expertise of Lloyd's brokers," Mr. Lawrence states.

Piper Alpha reinsurance

At least two Lloyd's of London syndicates have purchased additional reinsurance protection to cover the risk that claims from the Piper Alpha oil platform loss may burn through their existing reinsurance protection.

Marine syndicate 1084, managed by Cuthbert Heath Underwriting Ltd., which only began underwriting last year, has paid $584,496 for additional reinsurance protection even though the syndicate's net premium revenue for 1988 totaled only 192,505 pounds ($348,434 at year-end 1988 exchange rate), according to the syndicate's annual report.

Syndicate 1084, whose previous underwriter Graham Naish resigned earlier this year, was established to write middle- to high-layer London market catastrophe excess-of-loss reinsurance.

The syndicate's 1988 year of account, which is not due to close until 1991 under Lloyd's three-year accounting system, already is showing a loss of 91,389 pounds ($139,642 at current exchange rates).

Meanwhile, syndicate 1084's reinsurance protection to cover Piper Alpha claims "does not equal the syndicate's total liabilities. In consequence, there is an area of unprotected exposure which is vulnerable in the event that the ultimate settlement of this loss proves greater than anticipated," said the syndicate's new underwriter, H.H. Hayward, in its annual report.

"In light of this, we have effected additional reinsurance protection. . .which will help mitigate this situation," he wrote.

Marine syndicate 401, also managed by Cuthbert Heath, has purchased additional reinsurance, according to underwriter M.A.C. Scott.

"As there is so much uncertainty surrounding the Piper Alpha reinsurance loss it is difficult to assess the degree of exposure relating to the unprotected portion of the account. In the light of this dilemma we have deemed it prudent to purchase some additional reinsurance protection to mitigate the effects of potential losses from this source," said Mr. Scott in the syndicate's annual report.

Meanwhile, several Lloyd's underwriters are predicting a radical restructuring of the excess-of-loss reinsurance market in London as claims from last July's North Sea oil platform explosion continue to spiral through Lloyd's.

Several underwriters warn that capacity in the London excess-of-loss reinsurance market will diminish as syndicates begin to run out of reinsurance covering the estimated $1.2 billion-$1.5 billion Piper Alpha loss.

Already several syndicates have reduced the amount of excess-of-loss reinsurance business they write.

For example, marine syndicate 209, managed by R.W. Sturge & Co. is reducing "many of its peak exposures, particularly in the drilling rig and excess-of-loss accounts," said underwriter Bruce Adams.

"This is because it is my firm belief that the London market excess-of-loss reinsurance market has suffered sufficient sizeable catastrophic losses recently to determine that it cannot continue for much longer to be the final resting place for every insured disaster," Mr. Adams noted in Sturge's annual report.

"If this is to be the case, and I believe that Piper Alpha will be the catalyst for change, I intend to ensure that we never find ourselves in a position of being reliant upon reinsurance which is incapable of being purchased," he added.

Losses from Piper Alpha "will unquestionably exhaust many reinsurance programs in the Lloyd's and London company market and become a net liability to those syndicates," said Mr. Adams, adding that "this should not happen" to syndicate 209.

"It is our belief that the London reinsurance market will inevitably contract as a result of Piper Alpha. Many reinsurance programs will be totally exhausted, leaving a net retained liability of some considerable size to syndicates and companies in the London market," agreed leading marine underwriter Michael Maughan.

"As a consequence, reinsurance will, in the future, be less easy to purchase to protect our own writings, we are taking action now to put ourselves in a position of not being too reliant upon reinsurance coverage from others," he added, in the annual report of syndicate 206, also managed by Sturge.

Syndicate 202 cash call

Lloyd's of London marine syndicate 202, managed by Lambert Brothers (Underwriting Agencies) Ltd., is making a cash call of about 1 million pounds ($1.5 million) to cover costs of running the syndicate.

The syndicate is calling on members of its 1987 and 1988 underwriting years to pay a total of 5% of the syndicate's premium capacity on each underwriting year to "cover syndicate expenses," said Lambert Managing Director Peter Daniels.

The cash call is unusual because it is being made on underwriting accounts that are not yet due to be closed under Lloyd's three-year accounting system. In addition the cash is required to pay operating expenses and not to cover claims.

Dispute with Merrett

Lloyd's of London syndicate 544, managed by A.J. Archer Holdings P.L.C., is keeping open its 1986 underwriting account because of a legal dispute with Lloyd's underwriter Stephen Merrett over a runoff reinsurance policy underwritten by Mr. Merrett's syndicate.

"It has been necessary to hold open the 1986 underwriting account of non-marine syndicate 544 in view of the Merrett syndicates'. . .purported avoidance of a reinsurance policy," said Chairman Jimmy Archer.

"However, I am confident that the legal action we are taking will eventually be successful, and then the 1986 underwriting account will be profitably closed," he said.

Meanwhile, A.J. Archer Holdings, one of only two Lloyd's underwriting agencies with a full listing on the London stock exchange, reported pretax profits of 382,000 pounds ($645,580) for the six months ended March 31, 1989.

This represents a 165% increase compared with pretax profits of 144,000 pounds ($271,872) for the six months to March 31, 1988, and pretax profits of 6.1 million pounds ($10.3 million) for the 12 months ended Sept. 30, 1988.

Meanwhile, since March 31, the group has received profit commission on its managed syndicates of 5.4 million pounds ($9.8 million) for the 1986 underwriting account, the account just closed under Lloyd's three-year accounting system.

Revenues for the first six months to March 31, 1989, totaled just more than 1 million pounds ($1.7 million) compared with 933,000 pounds ($176,150) to March 31, 1988.

Life insurance venture

Seven Lloyd's of London syndicates are opening the first jointly owned company to service life insurance policies outside the Lime Street market.

Following the path of other Lloyd's syndicates opening underwriting agencies outside of the market, the life insurance syndicates opened Lutine Assurance Services Ltd. in Birmingham last month to channel personal and group life insurance business back to the seven syndicates that own the company.

Until recently, the business has "been too large for single syndicates to accept and/or too costly for Lloyd's brokers to place," Lutine announced.

Christopher Harris, underwriter for Lloyd's life syndicate Sackville & Others, is chairman of the company. David Houghton, formerly life reassurance manager and specialist underwriter with Gerling Global General & Reinsurance Co. Ltd., has been appointed Lutine's managing director.

Nicholson Chamberlain Colls

Lloyd's of London broker Nicholson Chamberlain Colls Ltd. reported brokerage revenues of more than 10 million pounds ($18.1 million) in its first year of operation.

NCC—which began last year as a group of aviation and non-marine executives and independent companies that had left Stewart Wrightson Holdings P.L.C. when the company merged with Willis Faber P.L.C.—also reported a pretax profit of 2.5 million pounds ($4.5 million) for the year ended Dec. 31, 1988, according to the company's annual report.

NCC's reported revenues were similar to that of well-established Lloyd's broker Steel Burrill Jones Group P.L.C., which also reported revenues of just more than 10 million pounds for the year ended Dec. 31, 1988.

NCC is believed to be just over 30% owned by Chicago-based Aon Corp., which also owns broker Rollins Burdick Hunter Group. RBH recently announced plans to merge with Bayly, Martin & Fay International Inc. (*BI*, May 29). ■

Pension proposal

Continued from page 3

The growing cost of administering plans is discouraging employers from establishing new pension plans, he said. And, additional record-keeping expenses may lead to a reduction in benefits to participants, Mr. Weizmann added.

Rather than keep adding rules, "The time has come to stop adding layer upon layer of special provisions to a private regulatory structure, which is already hamstrung by complicated rules. Instead, an effort must be made to simplify the law and regulations," according to the paper, which was prepared by the APPWP's retirement and savings committee. That committee is chaired by Howard Golden, a partner at Kwasha Lipton, a benefit consulting firm in Fort Lee, N.J.

One way that pension law should be simplified is the elimination of the 401(k) average deferral percentage tests, the AAPWP says.

The tests "are too complex and are unnecessary as well as unfair to those at the low end of the group of highly compensated employees. Accordingly, these tests should be eliminated," the APPWP says.

Under the 401(k) non-discrimination testing rules, the average percentage of salary deferred to a plan by highly compensated employees—generally those currently earning more than $54,000 a year—cannot exceed the greater of these two amounts:

- 125% of the ADP of the lower-paid employees.
- The lesser of either 200% of the ADP of the lower-paid employees or the ADP of the lower-paid employees plus 2%.

In order to pass these tests, employers often have been forced to reduce pretax contributions by highly compensated employees, which can hurt those employees just above the threshold separating highly and lower-paid employees, the APPWP says.

For example, assume an employer placed a ceiling of 3.5% of salary on contributions by highly compensated employees. With such a ceiling, a "highly compensated" manager earning $55,000 could defer up to only $1,925 to his or her company's 401(k) plan, while a "lower-paid" manager earning $48,000 could defer $7,627, which is the current maximum annual contribution that can be made to a 401(k) plan.

At the same time, Mr. Weizmann questions whether ADP tests are needed in view of the low maximum contribution allowed to a 401(k) plan. The Tax Reform Act of 1986 slashed the maximum annual pretax contribution to a 401(k) plan to $7,000 (adjusted annually for inflation) from $30,000.

Indeed, the APPWP paper notes that when the federal government several years ago established a 401(k)-type plan for its employees, it successfully lobbied Congress for an exemption from the ADP tests, arguing that the $7,000 limit on pretax contributions would adequately limit participation by highly compensated employees.

"The tests were found unnecessary for the Federal Employees Thrift Plan and, therefore, should not be required for private sector plans," the paper says.

Another rule that should be axed is a provision in the Omnibus Budget Reconciliation Act of 1987 that limits employers' annual maximum tax-deductible contributions to their pension plans to 150% of the plans' current liabilities.

Prior to the change, employers could make contributions to their pension plans until assets equaled 100% of the plan's "accrued liability."

Accrued liability includes benefits that would be due if the plan were terminated immediately as well as anticipated pension benefits based on workers' projected salary increases.

Under the old law, for example, an employer sponsoring a final average pay plan could set aside money anticipating salary increases that younger workers will earn in years to come. That funding level would be substantially higher than needed to fund the current liability for younger employees.

By funding for anticipated pension benefits based on projected salary increases, employers did not suddenly face the need to make large contributions in the future when workers neared retirement age and became entitled to larger benefits.

In addition, the pension plan had a cushion that helped ensure there would be enough money to pay promised benefits if the value of plan assets dropped and the company terminated the plan.

"In effect, current law inappropriately mortgages benefit promises by prohibiting the level funding that is the reasonable way for plan sponsors to fulfill their benefit obligations and, instead, requires plans to be funded with payments which escalate in later years," says the APPWP, which recommends that funding limits be based on a plan's projected liabilities, not its termination liability.

In the reporting area, the APPWP recommends that employers no longer be required to distribute summary annual reports to plan participants.

"The SAR is widely regarded as a document with more form than substance. It tells a participant virtually nothing of value, and serves only as a reminder that there is a plan, the details of which must be found elsewhere," the APPWP says.

In addition, the APPWP recommends that the amount of information required in a pension plan's full annual report, known as Form 5500 and filed with the Labor Department, should be cut back.

Much of the required information, such as the detailed listing of plan investments, is of little use to the government or to participants and is rarely scrutinized by the Department of Labor, the APPWP says.

"The annual report should contain only information useful to participants and necessary to the agencies in identifying problem areas. The government should determine which items it actually uses and eliminate all others from" the annual report, the APPWP says.

The APPWP also is proposing the elimination of the 15% excise tax that pension plan participants must pay on large lump-sum distributions and annuities. The tax applies—in certain situations—to annuities in excess of $150,000 and lump-sum distributions exceeding $750,000.

While the intent of the excise tax was to eliminate the tax-favored treatment of jumbo payouts to a high-paid individual employed by several unrelated employers, "The situation is so rare that the imposition of the excise tax only to cover it is completely unwarranted," the paper says.

In addition, since the excise tax is imposed on the dollar value of retirement distributions, it effectively penalizes successful investment strategies, according to the APPWP.

The association also recommends the elimination of one of the more bizarre provisions in the tax code—the so-called half-year provisions that govern the age at which employees must make certain benefit decisions.

For example, employees are required to begin withdrawals from their IRAs in the year in which they are 70½.

"If an individual turns age 70 on July 1, 1989, he or she must pour through voluminous regulations to determine if he or she is 70½ in 1989 or 1990. In contrast, everyone knows his or her birthdate, and this date already is included in plan and employer records. Basing rules on half birthdays requires additional records and confusion," the APPWP says.

In short, all half-year requirements should be eliminated, the group recommends. ■

1 2 3 RISK MANAGEMENT

July 10
Mid-Year Property/Casualty Renewal Report

The status and outlook of property/casualty renewals is a hot mid-year topic. In the first of three risk management issues this summer, BI editors will measure the impact of market conditions as well as analyze trends.

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Datebook

JUNE 21. Merging Primary Cover With the Umbrella/Excess Cover—How to Prevent the E&O Claim seminar in Atlanta, sponsored by Professional Liability Risk Managers Inc.; $15. PLRM, 2814 New Spring Road, Suite 304, Atlanta, Ga. 30339; 404-436-5241.

JUNE 21-22. The Global Restructuring of the Insurance Industry conference in New York City, sponsored by KPMG Peat Marwick; $895 for first attendee; $795 for each additional attendee from the same organization. Chris Chandonnet, KPMG Peat Marwick, 3 Chestnut Ridge Road, Montvale, N.J. 07645; 201-307-7289.

JUNE 22. Illinois Insurance Exchange Brokers Assn. Seminar in Fort Lauderdale, Fla.; no charge. **Also July 20** in Pittsburgh. Terry Ryan, Illinois Insurance Exchange, 175 W. Jackson Blvd., Chicago, Ill. 60604; 312-939-2400.

JUNE 22-23. Developments in Offshore Insurance conference in the Isle of Man, co-sponsored by Manx Insurance Assn., and the Risk and Insurance Research Group Ltd.; 350 pounds ($525). RIRG Ltd., 4 Henrietta St., Covent Garden, London WC2F 8PS; 01-8360614.

JUNE 23. Expert Systems in Underwriting symposium in Houston, sponsored by The Society of Chartered Property & Casualty Underwriters; $85 for Society of CPCU members; $115 for non-members. Bonnie Kinsley, The Society of CPCU, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355; 215-251-2735.

JUNE 23-24. The ABCs of Pension Administration course in Marina del Rey, Calif., sponsored by the National Institute of Pension Administrators; $170 for regular and associate members; $195 for non-members. NIPA, 145 W. First St., Suite A, Tustin, Calif. 92680-3209; 714-731-3524.

JUNE 25-27. Insurance Regulatory Examiners Society Workshop in Kansas City, Mo.; $35. Insurance Regulatory Examiners Society, 6811 W. 63rd St., Suite 208, Overland Park, Kan. 66202; 913-831-0080.

JUNE 25-28. Annual Society of Insurance Trainers and Educators conference in Lake Lanier, Ga., sponsored by SITE; $395 for SITE members; $450 for non-members; $150 for guests. Hank Drewes, Box 513, Cary, Ill. 60013; 312-516-1921.

JUNE 26-28. Reinsurance Accounting & Auditing course in Kansas City, Mo., sponsored by The College of Insurance; $795 for College sponsors; $895 for non-sponsors. **Also Sept. 25-27** in Chicago and **Nov. 1-3** in San Francisco. Professional Programs, The College of Insurance, 101 Murray St., New York, N.Y. 10007-2132; 212-962-4111.

JUNE 26-28. Inspecting Buildings for Asbestos-Containing Materials course in Los Angeles, sponsored by the University of Southern California's Institute of Safety and Systems Management; $490. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6383.

JUNE 26-28. 1989 Trustees and Administrators Institute in Lake Tahoe, Nev., sponsored by the International Foundation of Employee Benefit Plans; $525 for IFEBP members; $600 for non-members. Registration Department, International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

JUNE 26-28. 1989 Benefit Plan Professional Institute in Lake Tahoe, Nev., sponsored by the International Foundation of Employee Benefit Plans; $570 for IFEBP members; $645 for non-members. Registration Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

JUNE 26-30. Environmental Litigation course in Boulder, Colo., sponsored by the American Law Institute-American Bar Assn. Committee on Continuing Professional Education; $725. Registrar, American Law Institute-American Bar Assn., 4025 Chestnut St., Philadelphia, Pa. 19104; 800-253-6397; 215-243-1661.

JUNE 27-29. Hazard Communication for the Industrial Hygienist seminar in Los Angeles, co-sponsored by the National Center for Hazard Communication, the University of Maryland's Center for Professional Development and the American Industrial Hygiene Assn.; $595. Registration Clerk, University of Maryland Center for Professional Development, University Boulevard at Adelphi Road, College Park, Md. 20742.

JUNE 29-30. Management Planning for Asbestos course in Los Angeles, sponsored by the University of Southern California's Institute of Safety and Systems Management; $300. University of Southern California, Institute of Safety and Systems Management, Office of Extension and In-Service Programs, 3500 S. Figueroa St., Suite 202, Los Angeles, Calif. 90007; 213-743-6383.

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Update

Bhopal attorneys' plea rejected

NEW YORK—A federal judge last week rejected a request for compensation from lawyers who had represented victims of the Bhopal gas disaster in U.S. courts.

U.S. District Judge John F. Keenan said that he no longer has jurisdiction in the case, which was moved to India in January 1987.

In February, a five-member panel of the Indian Supreme Court directed a $470 million settlement between Danbury, Conn.-based Union Carbide Corp., which owned the Bhopal plant, and the Indian government (*BI*, Feb. 20). The settlement has not yet been distributed, pending additional legal motions (*BI*, April 10).

Lionel Alan Marks, one of the attorneys seeking compensation, said he plans to appeal the decision to a federal appellate court in New York. He said plaintiffs' attorneys had $754,000 in expenses alone and also want compensation for their services.

Briefly noted

State governments can be sued for damages under the federal **Superfund** law, the Supreme Court ruled last week, affirming a 3rd U.S. Circuit Court of Appeals ruling. Both the 1980 Superfund law and 1986 amendments made clear that states may be sued for their share of cleanup costs, the justices said. . . .Reps. Tom Lantos, D-Calif., and John Porter, R-Ill., introduced a bill last week that would bar the Overseas Private Investment Corp. from issuing new **political risk insurance** policies for companies investing in China until China protects human rights. . . .Three June storms in the South caused **$170 million** in insured damages, according to the American Insurance Services Group.

LUI plan

Continued from page 2

• Appoint one or two new non-executive directors to the LUI board.

• Appoint a new chief executive from outside the company. Mr. Driver has announced his retirement as LUI's chief executive, though he remains chairman of the company.

The shareholders' outrage was triggered last month when LUI announced that Mr. Driver, Deputy Chairman Peter Wilson and former Director H.S. Weavers did not disclose for 12 years that they owned 66.7% of Russell Re.

Although the company had been set up in 1977, the directors did not tell the LUI board that they owned 500 of Russell Re's 800 shares until last December, when the three men transferred their shares to LUI without taking any payment.

According to LUI's annual report, the value of the shares at year-end 1988 was 525,000 pounds ($950,250) after deducting a loss for 1988 of 111,000 pounds ($200,910).

The directors also transferred to LUI a dividend of $300,000 that was paid by Russell Re in 1986.

Mr. Driver told the more than 100 shareholders attending the LUI annual meeting that "disproportionate attention" had been focused on Russell Re.

According to Mr. Driver, Russell Re was formed in 1977 to enable LUI to benefit from U.S. business for which a U.S. intermediary was necessary.

He explained that it was intended that other purchasers eventually would buy the 500 shares held by the directors so "it was considered more convenient to leave the 500 shares in the nominee name of Russell Re's U.S. attorney," he said, rather than in the names of the LUI directors.

"I have to say also that Russell Re was primarily regarded as a means of securing business for Weavers; we did not envisage that it would grow as it did and the whole matter was therefore regarded at the time as being de minimis," said Mr. Driver.

'The whole question comes down to one of disclosure,' says LUI Director Colin Forsyth.

However, Mr. Driver's lengthy explanation was not good enough for some major shareholders or for dissident LUI Director Colin Forsyth.

Mr. Forsyth told shareholders that late last year, before Messrs. Driver, Wilson and Weavers transferred their Russell Re shares, that LUI was offered an opportunity to purchase 80% of Russell Re for $1.6 million.

In addition, Mr. Forsyth said he demanded the resignations of Mr. Driver and Mr. Wilson in February, but the resignations were rejected by the rest of the board in April.

The LUI directors kept the $300,000 dividend from Russell Re for three years at a time when LUI could have used the money, said Mr. Forsyth.

In addition, he disputed what value Russell Re will bring to LUI. LUI will now have to run off business once written by Russell Re, he said, noting that Russell Re currently writes for only one company, The First Reinsurance Co. of Hartford, an LUI subsidiary.

"We are more or less the undertakers" of the insurance industry, he said.

"The whole question comes down to one of disclosure," said Mr. Forsyth. "The directors involved had ample opportunity to disclose information. . . .You've been handed something which will be a further liability (to LUI)."

However, Mr. Driver told shareholders that he had already heard Mr. Forsyth's criticisms and that the board had rejected them.

Meanwhile, during a debate in which shareholders demanded a poll count of shares to pass the accounts, Peter Leonard, a representative of Gartmore Fund Management, which he said owns 5.2% of LUI's total stock, asked whether Russell Re "is a poison chalice or the golden purchase that the company would like us to believe. . . .I believe it's the poison chalice."

Geoff Kettlewell, who represented Lucas Industries' pension fund, which owns 150,000 LUI shares, demanded an extensive investigation into the ownership of Russell Re and its business.

However, Mr. Driver noted that LUI auditor Peat Marwick McLintock already has conducted an extensive investigation, which led to the disclosure in the annual report.

But when Mr. Kettlewell asked if he could have a copy of the auditor's report, Mr. Driver told him "no" because the report was confidential. ■

Maxicare ruling

Continued from page 2

Judge Wilson's decision, said Mr. Cantilo, who is with the Austin, Texas, office of Rubinstein & Perry.

"We have not made a formal decision, but I would expect to file an appeal within 10 to 12 days," he said.

Likewise, the Arizona Department of Insurance probably will appeal the decision, though it, too, has not yet made a final decision, said Joseph Hennelly, deputy director with the department.

The Louisiana Insurance Department also has not yet decided whether to appeal the decision.

Despite the Chapter 11 filing and the reorganization of the company, Mr. Ratican stressed in his remarks at the GHAA conference that "Maxicare has always stood for quality managed care and we reaffirm that commitment."

"I want to personally apologize to this industry for the black eye" caused by the financial turmoil and bankruptcy filing by Maxicare, Mr. Ratican said.

He and Mr. Bloom noted that several factors led to the financial decline and eventual bankruptcy filing by Maxicare.

"Maxicare was well-established and profitable in the mid-1980s. It was considered a premier HMO because of its emphasis on quality care. In short, it was a consumer-oriented company," Mr. Ratican explained.

However, it was the highly leveraged acquisitions of two HMO firms in the fall of 1986 that significantly contributed to Maxicare's financial woes.

The company acquired Nashville, Tenn.-based HealthAmerica Corp. and Orange, Calif.-based HealthCare USA, two multistate HMOs that "doubled our enrollment, but quadrupled our debt," he said.

"Nearly all of the acquired properties turned out to be flawed, and those acquisitions just did not work out for us. I don't believe that the Maxicare managers at the time knew how sick some of those HMOs were," he said.

At the same time Maxicare acquired the two HMO firms, it faced severe price competition from other HMOs and indemnity insurers, as well as the staggering health care cost inflation that hit all HMOs and insurers, he said.

As a result, by mid-1988, Maxicare was "severely weakened by losses and was losing money to the tune of about $50 million a quarter. It was overburdened by debt and was basically in need of financial restructuring," Mr. Ratican explained.

Maxicare had reported losses of more than $500 million since the beginning of 1987. So, in late 1988, the company adopted a restructuring plan that included replacing top management, divesting non-profitable operations and raising premiums, he said (*BI*, Sept. 5, 1988).

The company's board of directors decided to replace the top two officers after "we were constantly told that 'next quarter, the problems will be fixed' and the problems weren't fixed," said Mr. Ratican. Last August, Chairman Fred W. Wasserman and President Pamela K. Anderson, founders of the company, were replaced by Mr. Ratican, a longtime board member.

"At times I cursed that decision by the board for the day-to-day problems I have encountered. But, I am more enthusiastic about the company today," he said.

In addition, Maxicare divested itself of 25 HMOs, most of which it had acquired in 1986. The company also raised premiums beginning Jan. 1, 1989, an average of 32%.

While these activities helped, Maxicare was still in deep financial trouble. Maxicare filed for Chapter 11 because it was unable to obtain necessary financing to continue rehabilitating the company, he said. Specifically, New York-based Bankers Trust Co., with which Maxicare had a revolving line of credit, blocked any attempts by the HMO company to obtain further financing.

Also, "at the same time, we were having trouble with Illinois," he said, referring to negotiations between Illinois regulators and Maxicare to rehabilitate the Illinois plan.

It was then that a few of Maxicare's officers decided it was in the company's and its enrollees' best interests to file a voluntary petition for Chapter 11 protection and reorganization, said Mr. Bloom.

This action took most state insurance regulators and many others concerned completely by surprise.

If the company had not voluntarily filed under bankruptcy law, it would have taken only three Maxicare creditors to force the company into involuntary bankruptcy.

Under an involuntary bankruptcy filing, the creditors would have been able to select the venue of the court proceedings as well as direct the reorganization of the company, he explained.

"We were worried that if this happened, the company would be pulled apart by many forces. We were first concerned that our providers and creditors would attach our assets and we felt that this scenario would lead to the destruction of the company and an inequitable distribution of the assets," Mr. Bloom said.

So, "once the decision was made that a voluntary filing would be our action, we decided that secrecy and speed were necessary. In fact, only a few Maxicare officers knew of the intention to file. Otherwise, the creditors would be there with an involuntary filing," Mr. Bloom said.

Maxicare filed its petition late in the afternoon on March 15 in Santa Ana. "The decision wasn't made until 2 p.m. that day," he noted.

In its Chapter 11 filing, the company reported $498.8 million in assets, and liabilities of $535.8 million. Debts as of December 1988 totaled $150 million in bank loans and $295 million in bonds.

The Chapter 11 protection has provided Maxicare with "breathing space, and our reorganization is directed at preserving quality health care services for our members," Mr. Bloom said.

Currently, Maxicare has more than $50 million in unrestricted cash, up from only $6 million on March 15, Mr. Ratican said. Another $90 million in restricted cash currently is held by state regulators.

"We really don't know how long we'll be in Chapter 11, but we know it is in our best interest to get out as soon as possible," he said.

While creditors also can file their own reorganization plans for Maxicare, Messrs. Ratican and Bloom say they are confident the company's own plan will be accepted.

"I believe we have turned this company around," Mr. Ratican asserted. ■

AMBAC's capital questioned by insurer

By JUDY GREENWALD

WASHINGTON—A New York-based financial guarantee insurer is charging that a Citicorp subsidiary and the subsidiary's financial guarantee insurance company unit are using the same capital to fulfill banking industry and insurance industry capital regulatory requirements.

Officials of FGIC Corp. say they plan to ask the Federal Reserve Board this week to rule whether Citicorp subsidiary Citibank and AMBAC Indemnity Corp. are double counting $554 million in capital to meet their respective industry capital requirements.

AMBAC is 97% owned by Citibank.

Meanwhile, the Fed has set Tuesday as a deadline for accepting additional information concerning bank holding company Fleet/Norstar Financial Corp.'s application to obtain a 35% interest in Capital Guaranty Corp., the San Francisco-based parent company of financial guarantee insurer Capital Guaranty Insurance Co. (*BI*, May 22).

Insurance trade groups oppose Fleet/Norstar's efforts and have requested a hearing on the issue.

The Fed's decision in this case is expected to affect a similar effort by insurance groups to force Citicorp to sever its AMBAC ties (*BI*, Jan. 23; Sept. 5, 1988).

FGIC officials contend that as a result of the alleged double counting of capital by AMBAC and Citibank, AMBAC's return on equity is boosted, which encourages the insurer to cut prices in the municipal bond insurance market.

However, this is only a "by-product" of the main issue, said Peter J. Schmitt, executive vp and chief operating officer at FGIC. "The real issue is protecting policyholders and bank depositors with adequate capital," he said.

FGIC officials say that the alleged double counting of capital means that in the event of a major AMBAC loss, funds used to satisfy AMBAC policyholders will no longer be available to Citibank depositors.

"Citibank is playing the seam between the insurance regulations and the bank regulations," Mr. Schmitt said. "I think they're doing it very cleverly. They're in effect double-counting their capital reserves, and in effect they're playing this advantage and putting their bank depositors at risk in the bargain."

AMBAC Senior Executive Vp Robert Genader vigorously denied that AMBAC and Citibank are using the same capital to satisfy their respective capital regulations.

Mr. Genader explained that AMBAC's and Citibank's respective capital is not reported as a separate item in Citicorp's balance sheet because subsidiaries' capital is not listed separately on consolidated balance sheets. "There is no double-counting. It is a myth," he said. "Citibank is in compliance with all federal reserve requirements. They always are and always will be."

"They're confusing regulation with accounting," Mr. Genader said of FGIC's complaint.

In addition, double counting is prohibited under Generally Accepted Accounting Principles, pointed out AMBAC Chief Financial Officer Frank Bivona.

Mr. Genader added that AMBAC adequately prices its business.

Referring to FGIC officials, Mr. Genader said: "I'm not sure what their issues are outside of the fact they tend to like to talk a lot and go off on tangents that really are not beneficial to the industry."

He also suggested that AMBAC has been more successful than FGIC in serving the small municipal bond issuers that now dominate the marketplace.

Meanwhile, the Federal Reserve Bank of Boston, which received Fleet/Norstar's original application, has asked the bank holding company to supply additional financial information on Capital Guaranty. The information requested includes up-to-date data on the average term of its obligations; a list of insured issues; the types of corporate obligations it insures; annual results; and reinsurance arrangements.

It is also seeking other information on Fleet/Norstar's capital and verification that none of Fleet/Norstar's bank subsidiaries provided letters of credit to any bond issuers insured by Capital Guaranty.

Fleet/Norstar attorney Robert J. Dilworth, of New York-based Clearly, Gottlieb, Steen & Hamilton, said the letter does not supply enough information "to give any indication of which way they're leaning" on the issue overall or "how they're leaning on the request for a hearing."

Mr. Dilworth noted that the board is not required to make any decision in the case until 90 days after it deems Fleet/Norstar's application is complete.

Michael Lovendusky, counsel for the American Insurance Assn., one of the groups opposing Fleet/Norstar's application, said the request for additional information is a good sign because it indicates the Federal Reserve Board has become "sensitized" to the additional risks inherent in the financial guarantee business.

However, "I hope this will not obviate the need for a hearing," he said.

He noted that the trade group will not pursue the issue of Citicorp's ownership of AMBAC until the Federal Reserve Board returns its decision in the Fleet/Norstar case. ■

FASB proposal

Continued from page 1

age (*BI*, Feb. 20).

Another provision of the proposed standard would require all employers to begin recognizing on their balance sheets a minimum liability for retiree health care beginning in fiscal years after Dec. 15, 1996.

"Immature" companies—those with more than six active employees per retiree—would be the hardest hit by the proposed FASB rules, because these companies currently pay very little for retiree health care under the pay-as-go method, the study said.

Therefore, expensing the cost of future retiree health care obligations will have a startling effect on their profits, the study showed.

For example, applying the proposed FASB rules to a hypothetical immature company showed that net income would drop 12% following the rules' implementation, according to the study.

But, highly "mature" companies—those with fewer than two active employees per retiree—already are spending a lot to provide health care to their existing retirees. The proposed rules, therefore, will have less impact on their income statements, the study showed.

For example, applying the proposed FASB rules to a hypothetical highly mature company showed that net income would dip only 4%, the study showed.

In analyzing the impact of the proposed FASB rules on the income statements of the 24 actual companies, which consist of both mature and immature firms, the study found that net income would drop:

- Less than 2% at three companies.
- 2% to 4.9% at nine companies.
- 5% to 9.9% at another three companies.
- 10% to 19.9% at six companies.
- More than 20% at three companies.

The report did not identify the companies analyzed.

In developing these statistics, the study compared the projected cost of providing health care to current employees when they retire with the cost of providing health care to existing retirees.

The study showed that for the hypothetical immature company, the current value of benefits expected to be paid to existing employees after retirement is $22.6 million annually.

This company currently spends only $700,000 annually for the health care of its existing retirees.

This means that under the proposed FASB rules, this company's estimated obligation for future retiree health care expenditures would be 32.3 times the current benefit payment.

For a hypothetical highly mature company, the estimated future retiree health care cost is $98 million, or 15.8 times the current annual cost of $6.2 million, the study showed.

The results for the actual companies surveyed were similar.

Most of the immature companies surveyed had an estimated future retiree health care cost obligation that was more than 32 times their current retiree health care costs.

For all of the highly mature companies surveyed, future retiree health care obligations were less than 32 times the current annual cost, with most falling between 17 and 32 times their current retiree health care costs.

The study also compared employers' expense for retiree health care benefits to be reported on income statements before and after applying the proposed FASB rules.

For the hypothetical immature company, the accrued expense for retiree health care costs reported under the proposed FASB rules in the first year of compliance is $4.4 million, or 6.3 times greater than the current expense of $700,000, the study said.

For the hypothetical highly mature company, the accrued expense for retiree health care costs under the proposed FASB rules is $16.2 million in the first year of compliance, or only 2.6 times greater than the current expense of $6.2 million, according to the study.

Again, the study yielded similar results when the FASB proposals were applied to actual companies.

Under the FASB rules, all of the immature companies would record an expense for future retiree health care that is at least five times greater than their current expense for retiree health care benefits, the study said.

However, all but one of the highly mature companies would record an expense for future retiree health care that is less than five times their current expense for retiree health care benefits, the study found.

The study authors caution that the expense reported for companies under the proposed FASB rules would vary greatly depending on a wide variety of demographic factors at each company. And, the level of retiree health care benefits offered also will affect the reported expense, they note.

In addition, in determining the expense to be reported under the proposed FASB rules, employers would be forced to make various assumptions, including the future cost of health care benefits.

The surveyed companies estimated long-term health care inflation, otherwise known as the health care cost trend, would increase at an annual rate of between 6.2% to 11.3%, with a median rate of 7.9%.

"Because immature companies have relatively more active employees, with a longer period to apply the trend rate assumption, the immature companies will be somewhat more sensitive to changes in the cost trend assumption than mature companies," the study authors explain.

In addition to estimating the future cost of health care, employers also must take into account a discount rate when applying the proposed FASB rules. The discount rate is the cost today of buying a long-term bond to meet future retiree health care obligations.

The surveyed companies estimated a discount rate that would cause the value of their retiree health obligations to drop 7.5% to 11% per year.

"The assumed discount rate tends to counterbalance the effect of the health care cost trend assumption," the study authors point out.

In addition to its effect on net income, the proposed FASB standard would reduce stockholders' equity because it requires companies to report a minimum liability on their balance sheets for retiree health care liabilities, the study shows.

"Because companies have not funded for these benefits, the FASB proposal will require companies to report a liability for these benefits," explained Mr. Poccia.

For example, a hypothetical immature company currently expensing $700,000 of existing retiree health care costs would have to expense $4.4 million to take into account future retiree expenses, creating a previously unreported $3.7 million liability.

Assuming this liability is fully tax-affected, the employer would report a $2 million liability on its balance sheet, thus lowering shareholders' equity by that amount.

A hypothetical mature company currently expensing only $6.2 million annually for existing retiree health care costs would have to expense $16.2 million annually for future retiree health care obligations under the FASB proposal, creating a $10 million previously unreported liability.

Assuming this liability is fully tax-affected, the employer would report a $6 million liability on its balance sheet.

Since application of the proposed FASB rules affects liabilities and stockholders' equity, a company's debt-to-equity ratio also would suffer to some degree, the study authors explain.

"In general, the impact of the FASB rules on the debt-to-equity ratio will depend on the size and financial strength of the company," the authors say. "The debt-to-equity ratios of smaller companies may be changed to a greater extent than those of larger companies."

●

For copies of "Retiree Health Benefits: Field Test of the FASB Proposal" send $12 to Financial Executives Research Foundation, 10 Madison Ave., Box 1938, Morristown, N.J. 07962-1938.

Insurance services guide

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Brokers' annual reports stress global orientation

By LEONARD M. WILSON

Special to Business Insurance

INSURANCE BROKERAGE ANNUAL reports began to cross our desk late in March. These reports to shareholders are useful in conveying a sense of management priorities and focus. Judging by their content, we perceive no letup in the process of enhancing professionalism and competitive positions. Rueful expectations of a continuing soft market in 1989 struck us as one common denominator in the 1988 crop of annuals (see related story, page 3).

Mr. Wilson

Marsh & McLennan Cos. Inc. noted an ever-increasing need to deal with the global perspective of insurance brokerage. Clients demand global brokerage and placing expertise.

By way of example, the insurance program of a leading energy company in Spain required the coordination of insurance brokerage professionals on an international scale and insurance placements in a number of national insurance markets.

Benefits consulting also demands an international scope for some multinational clients seeking a global approach to employee benefits despite the variation from one country to another.

Because of its broad geographic spread, William M. Mercer Meidinger Hansen Inc. has moved to accommodate clients with operations in many countries. The trend to cross-border professional benefits consulting seems likely to gather momentum.

M&M also has addressed the issue of managing and coordinating a worldwide service business through integration and realignment of direct insurance brokerage operations into three entities.

Our review suggests that for public brokers, there is not much diminution in their drive to grow and maintain competitiveness.

Alexander & Alexander Services Inc. too stressed its worldwide orientation. The company now operates 300 offices with fully one-third of revenues derived from non-U.S. activities. This international vantage is keynoted through the slogan "think global, act local."

Professional development was a dominating theme within A&A in 1988. A record number of professionals completed training programs aimed at advancing client service. These programs were sustained notwithstanding the soft market and tighter cost controls.

The annual highlighted the company's balanced position with strong representation in direct, wholesale, U.S. and London reinsurance brokerage, risk management and human resources. Underwriting activities have been divested, and brokerage is clearly now the focus for the future.

Corroon & Black Corp. noted an ongoing program of acquisitions with eight in 1988 that together generated annualized revenues of $34 million. Acquisitions provided entry into new geographic areas within the United States and added specialized capabilities.

Benefits activities were bolstered through the formation of Corroon & Black Consulting, which linked nine offices with important critical mass. Acquisitions also contributed to greater penetration within the benefits area.

Corroon & Black continues to expand PENCo, its specialized subsidiary that provides brokerage and risk management services to a large number of public entities. This is an example of niche building and differentiation.

The annual report of Frank B. Hall & Co. Inc. exudes confidence in prospects for revitalization. A three-year program rests upon cost reduction, new business production, account retention, and automation. Staff training and motivation rank high as well on the list of important priorities.

Traditional strengths in aviation and marine brokerage are now being complemented by a focus on other specialities including health care, energy, financial and environmental.

Worldwide benefits consulting has been placed under the aegis of a single entity, Godwins International Holdings Inc.

Arthur J. Gallagher & Co. reiterates a dedication to the alternative solution, self-insurance. Through creative techniques, the firm has made self-insurance, usually associated with large accounts, accessible to the middle market. An on-line information system for risk management is a cornerstone of Gallagher's strategy to differentiate itself in this segment.

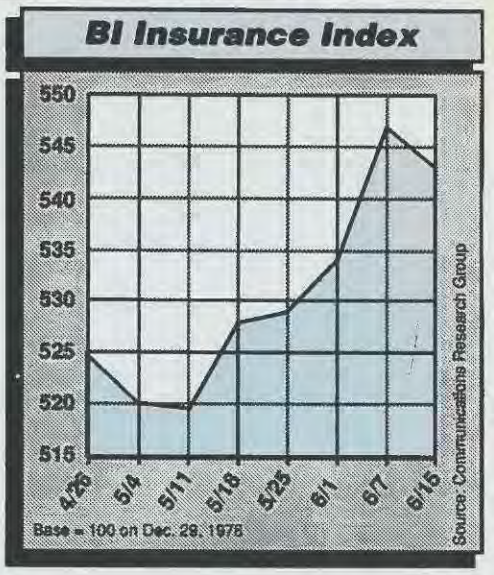
A wider participation in the international realm is under way through the marshaling of London-based wholesale brokerage, domestic resources, and newly formed Gallagher-Bassett International for risk management services.

Acquisitions continue to serve as an avenue for geographic expansion. The company gained entry into Houston and greater Boston in 1988 through the acquisition route. Future growth will be fostered through selective merger partners.

Soft markets force brokers to shave expenses, a process which in turn often results in the deferral of meritorious programs. But our kaleidoscopic review via 1988 annuals suggests that for the public brokers, there is not much diminution in their drive to grow and maintain competitiveness. This dynamism is good for the client, good for each of the public brokers, and good for the competition.

In the long run, it does well for the investor. ■

Leonard M. Wilson is a senior vp with Lazard Asset Management Inc. He is a member of the New York Society of Security Analysts.



Insurance industry stocks ended their ascent last week, as the *Business Insurance Index* fell 4.3 points to 543.4 on June 15, from 547.7 on June 8. Advancing issues were led by Sierra Health Services, up 19.6%; Statesman Group Inc., up 9.9%; and Fremont General Corp., up 9.7%. Declining issues followed Chandler Insurance Co., down 28.3%; Western Health Plans Inc., down 10.7%; and Frontier Insurance Group, down 10.6%. The most active issue was: Sears, Roebuck & Co. (Allstate), 2.4 million shares traded. The *BI Index* dropped 0.8% for the period; the Standard & Poor's 500 fell 2.0%; the New York Stock Exchange Composite lost 1.9%; and the Dow Jones 30 Industrials dropped 1.7%.

British Issues

June 15 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence pence
Comml Union	364	12.6	25.3	7.0	366—364
Genl Accident	933	8.7	58.7	6.3	933—930
Gdn Royal Exch	194	10.0	13.3	6.9	196—193
Royal	390	12.1	30.0	7.7	391—388
Sun Alliance	1085	8.5	54.7	5.0	1099-1080
Brokers					
Bradstock	210	11.9	9.0	4.3	220—210
CE Health	493	15.6	34.5	7.0	493—485
Hogg Robinson	133	11.8	8.7	6.5	135—133
Lloyd Thompson	219	16.8	8.0	3.7	220—219
PWS Holdings	49	13.2	4.6	9.5	50—49
Sedgwick Grp	251	20.7	16.0	6.4	252—250
Steel Burt Jones	234	20.0	13.3	5.7	234—234
Willis Faber	227	16.8	15.3	6.8	227—224

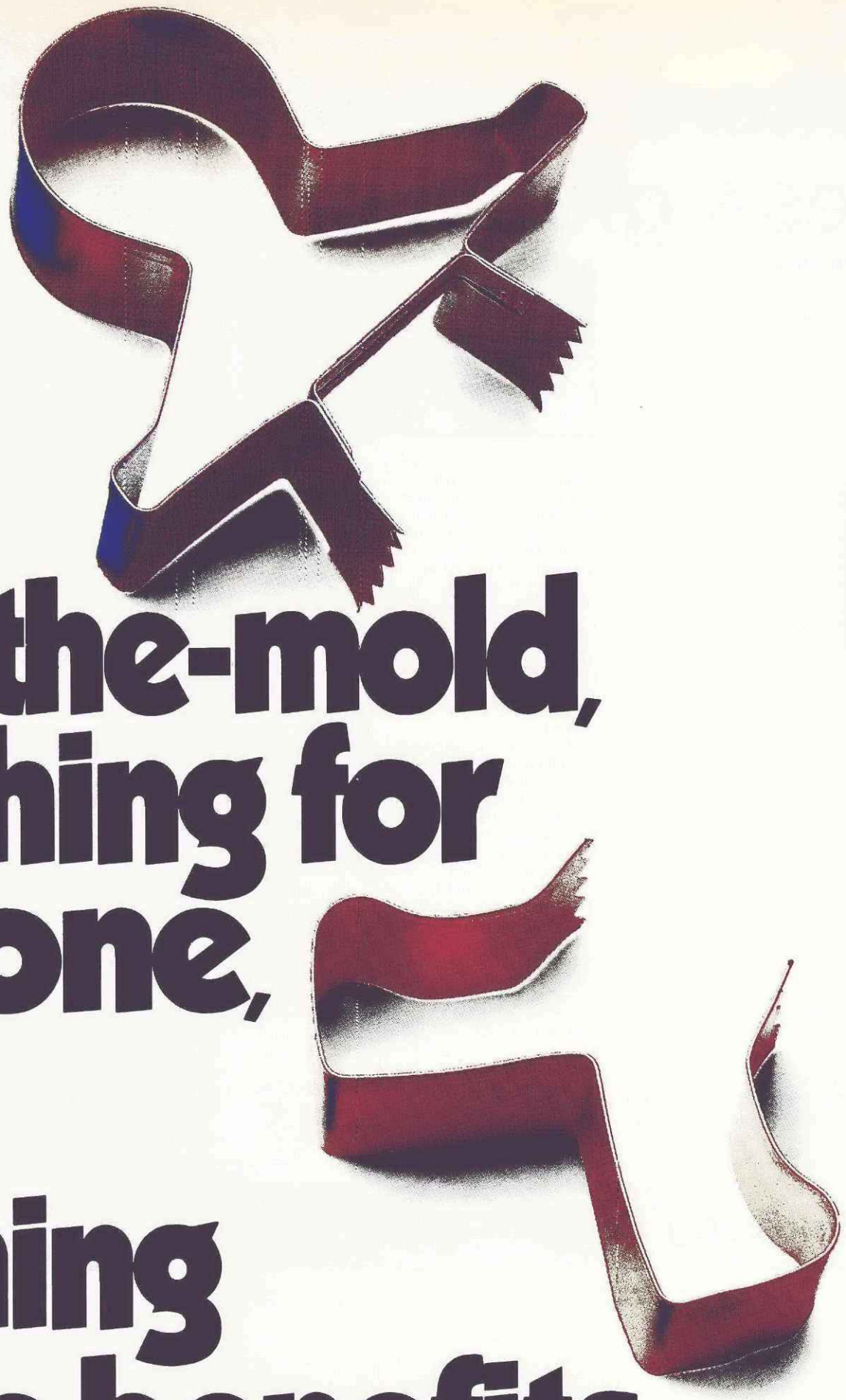
Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

BI Industry Stock Report

JUNE 15, 1989 — 6/9/89 THRU 6/15/89

		Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
BROKERS												
Alexander & Alexander Svcs	NYSE	25.63	1.0	9.1	26.50	22.63	266	1.00	3.9	17.3	2.90	8.84
Corroon & Black Corp	NYSE	34.88	-1.4	12.0	35.75	30.75	74	1.24	3.6	13.6	7.62	4.58
Gallagher Arthur J. & Co	NYSE	19.88	1.9	18.7	20.00	16.13	39	0.52	2.6	14.1	5.33	3.73
Hall Frank B. & Co.	NYSE	3.88	-8.7	34.7	4.63	2.50	104	0.00	0.0	-1.9	0.00	N/A
Hilb, Rogal & Hamilton	OTC	14.50	0.0	-4.9	15.75	13.75	127	0.20	1.4	13.1	4.60	3.15
Marsh & McLennan Cos. Inc	NYSE	63.13	-.7	12.2	64.63	55.13	232	2.50	4.0	15.6	6.48	9.74
Poe & Assoc Inc.	OTC	8.75	0.0	6.1	8.75	8.25	3	0.40	4.6	9.5	0.27	32.41
BROKERS	AVERAGE		-.3	12.6					2.9	11.6		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W R Corp	OTC	31.25	-1.2	5.9	34.00	29.25	113	0.40	1.3	6.6	21.28	1.47
Berkshire Hathaway Inc. DEL	NYSE	6610.00	0.2	40.6	6990.00	5948.00	149	0.00	0.0	-23.4	2468.63	7.61
ITT (Hartford Group)	NYSE	58.50	-1.5	16.7	60.75	49.75	2072	1.48	2.5	10.0	56.33	1.04
Sears Roebuck & Co. (Allstate)	NYSE	46.00	-2.6	12.5	48.00	40.13	2384	2.00	4.3	17.2	36.09	1.27
CONGLOMERATES	AVERAGE		-1.3	18.9					2.0	2.6		
INSURERS/REINSURERS												
Aetna Life & Cas Co.	NYSE	54.38	-3.1	15.1	56.25	46.75	629	2.76	5.1	8.4	58.11	0.94
AmBase Corp.	NYSE	13.13	-0.9	19.4	14.50	11.00	570	0.20	1.5	4.9	18.66	0.70
American General Corp.	NYSE	35.63	-4.7	19.2	37.75	29.50	631	1.50	4.2	10.8	28.04	1.27
Amer Heritage Life Invt	NYSE	26.50	-2.3	2.9	27.88	25.00	4	1.20	4.5	10.4	22.47	1.18
Amer Indty Fin'l Corp.	OTC	12.25	0.0	16.7	13.00	9.50	1	0.56	4.6	7.9	17.38	0.70
American Int'l Group	NYSE	82.00	-4.9	21.0	87.38	66.25	885	0.48	0.6	11.5	33.55	2.44
Aon Corp.	NYSE	34.75	0.0	24.1	34.75	27.00	181	1.40	4.0	12.1	16.67	2.08
Argonaut Group	OTC	56.25	-0.4	28.6	57.25	43.50	44	0.00	0.0	7.8	36.83	1.53
AVEMCO Corp	NYSE	23.13	0.6	-10.6	26.13	22.63	35	0.40	1.7	12.2	9.20	2.51
Baldwin & Lyons Inc	OTC	17.88	0.0	20.2	18.25	14.50	5	0.20	1.1	6.3	17.57	1.02
Belvedere Corp	AMEX	5.25	7.6	16.7	6.50	4.50	5	0.04	0.8	8.0	8.43	0.62
Chandler Insurance	OTC	9.50	-28.3	28.4	10.88	7.00	90	0.00	0.0	5.5	5.32	1.79
Chubb Corp.	NYSE	70.13	-4.4	20.9	73.50	57.63	382	2.32	3.3	8.2	53.50	1.31
CIGNA Corp	NYSE	55.63	-3.9	18.0	58.00	45.88	531	2.96	5.3	9.7	53.08	1.05
CNA Fin'l Corp	NYSE	75.63	-1.6	25.0	79.25	57.63	214	0.00	0.0	11.8	54.52	1.39
Continental Corp.	NYSE	33.88	-3.9	4.6	36.00	31.50	426	2.60	7.7	23.0	42.10	0.80
Durham Corp.	OTC	32.50	-0.8	-1.5	33.75	30.00	11	0.92	2.8	18.8	26.32	1.23
Fireman's Fund Corp.	NYSE	34.75	-2.1	18.8	36.00	29.00	311	0.60	1.7	8.6	32.74	1.06
Forum Re (Bermuda)	OTC	1.13	-9.6	-30.7	1.75	1.13	9	0.00	0.0	-8.7	2.53	0.45
Fremont Gen Corp.	OTC	17.00	9.7	27.1	18.25	12.13	120	0.60	3.5	13.1	17.61	0.97
Frontier Insurance Group	OTC	17.88	-10.6	43.0	20.25	12.25	76	0.00	0.0	8.6	7.53	2.37
General Re Corp.	NYSE	66.75	0.2	20.3	68.63	54.38	1247	1.36	2.0	12.5	29.04	2.30
Hanover Ins Co	OTC	28.25	-1.7	5.6	30.25	25.75	175	0.44	1.6	5.8	31.47	0.90
Harleysville Group Inc.	OTC	21.00	-2.9	16.7	22.50	17.75	43	0.48	2.3	7.3	18.94	1.11
Hartford Steam Boiler	OTC	41.38	-0.3	12.6	42.50	34.75	287	1.40	3.4	11.4	13.04	3.17
Kans City Life Ins	OTC	35.25	0.0	2.2	36.00	32.75	4	0.00	0.0	12.6	39.22	0.90
Kemper Corp	NYSE	37.00	-1.7	54.2	38.25	35.63	734	0.84	2.3	9.8	28.91	1.28
Lawrence Ins. Group	AMEX	7.00	1.7	-11.2	8.50	6.63	2	0.24	3.4	14.9	3.19	2.19
Liberty Corp. S. C.	NYSE	35.25	0.7	-2.1	38.00	32.50	13	0.80	2.3	20.0	21.17	1.67
Lincoln Nat'l Corp.	NYSE	50.00	-0.5	13.6	50.75	42.75	175	2.48	5.0	12.4	39.21	1.28
NAC Re Corp.	OTC	37.50	-3.8	18.1	39.75	31.00	167	0.30	0.8	13.4	22.81	1.64
Navigators Group	OTC	26.50	-2.8	32.5	27.25	20.50	29	0.00	0.0	11.3	15.22	1.74
Nobel Ins Ltd	OTC	2.38	5.8	-49.9	5.00	1.50	36	0.42	7.6	-9.2	7.76	0.31
Northwestern Nat'l Life	OTC	35.13	0.4	12.8	35.50	26.88	397	1.20	3.4	12.7	37.50	0.94
Ohio Cas Corp.	OTC	45.00	1.7	25.9	45.25	35.50	288	2.08	4.6	6.5	33.30	1.35
Old Rep Int'l Corp.	OTC	24.50	1.0	2.1	28.88	23.38	434	0.74	3.0	13.7	26.50	0.92
Orion Cap Corp.	NYSE	22.50	4.7	46.3	22.75	15.38	172	0.84	3.7	7.3	12.93	1.74
Phoenix Re Corp.	OTC	9.50	1.3	0.0	11.00	8.75	44	0.00	0.0	5.2	12.99	0.73
Protective Life Corp.	OTC	15.63	-3.8	18.0	16.25	12.88	53	0.70	4.5	78.2	14.54	1.07
Re Capital Corp.	AMEX	12.13	1.1	32.9	12.38	9.13	6	0.00	0.0	12.1	12.60	0.96
RLI Corp.	NYSE	7.50	-1.7	-1.7	9.25	7.13	23	0.36	4.8	7.4	10.71	0.70
Provident Life & Acc Ins Co.	OTC	22.88	-2.1	18.9	24.75	19.13	159	0.68	3.0	9.7	23.24	0.98
St. Paul Cos. Inc.	OTC	52.50	1.0	20.7	53.00	43.00	818	2.20	4.2	7.1	32.00	1.64
SAFECO Corp.	OTC	30.75	-1.2	30.1	32.00	23.13	1323	1.20	3.9	7.6	24.88	1.24
SCOR U.S. Corp.	NYSE	8.75	1.4	-4.2	9.50	7.50	22	0.20	2.3	6.6	10.35	0.85
Seibels Bruce Group Inc.	OTC	13.25	0.9	16.4	13.38	10.25	130	0.80	6.0	11.0	13.42	0.99
Selective Ins Group Inc.	OTC	25.25	-1.9	9.8	26.00	21.75	118	1.40	5.5	5.5	22.33	1.13
Statesman Group Inc.	OTC	3.44	9.9	9.9	2.00	1.19	398	0.05	1.5	86.0	3.48	0.99
Tokio Marine & Fire Ins	OTC	68.50	-3.9	-25.0	95.50	67.13	24	0.22	0.3	41.5	0.00	N/A
Torchmark Corp.	NYSE	40.00	0.3	31.1	40.13	30.00	161	1.20	3.0	12.6	12.24	3.27
Transamerica Corp.	NYSE	35.13	-5.1	3.7	37.00	32.75	518	1.88	5.4	7.9	30.70	1.14
Travelers Corp.	NYSE	41.75	-0.9	20.1	42.75	34.50	647	2.40	5.7	32.6	44.85	0.93
Trenwick Group Inc.	OTC	16.25	-1.5	12.1	17.75	13.75	234	0.24	1.5	9.2	16.91	0.96
United Fire & Cas Co.	OTC	31.88	0.4	4.5	32.25	29.00	21	1.20	3.8	5.8	22.56	1.41
United States Fid & Gty	NYSE	33.13	-1.5	16.2	34.00	28.50	510	2.80	8.5	12.3	22.57	1.47
UNUM Corp.	NYSE	34.25	1.5	26.9	34.88	26.63	333	0.60	1.8	11.3	30.64	1.12
USLIFE Corp.	NYSE	44.00	-2.8	26.1	45.50	34.13	146	1.40	3.2	10.7	54.27	0.81
Washington Nat'l Corp.	NYSE	27.00	1.9	0.0	27.63	24.00	27	1.08	4.0	-19.3	32.33	0.84
Zenith Nat'l Ins Corp.	NYSE	18.88	2.7	7.9	19.75	16.75	96	0.84	4.4	8.8	13.61	1.39
INSURERS/REINSURERS	AVERAGE		-1.1	13.6					3.1	12.3		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International Corp.	OTC	26.50	-0.5	118.5	29.00	11.75	148	0.00	0.0	13.5	3.54	7.49
HMO America Inc.	OTC	7.75	1.6	1.6	8.50	0.88	1194	0.00	0.0	-6.8	1.12	6.92
Pacificare Health Systems	OTC	29.75	0.0	142.9	32.50	12.25	5	0.00	0.0	23.8	6.35	4.69
Safeguard Health Ent.	OTC	7.88	3.3	43.3	8.00	4.75	185	0.00	0.0	13.4	2.99	2.64
Sierra Health Services	AMEX	5.38	19.6	230.1	5.75	1.50	180	0.00	0.0	-4.4	1.59	3.38
United HealthCare Corp.	OTC	8.75	0.0	99.8	9.25	4.13	1502	0.00	0.0	-4.0	0.31	28.23
United Medical Corp.	AMEX	5.75	-2.2	9.5	6.75	5.13	13	0.00	0.0	1.7	4.11	1.40
U.S. Healthcare	OTC	11.25	3.4	93.6	13.00	5.25	1032	0.20	1.8	160.7	2.87	3.92
Western Health Plans Inc.	AMEX	0.50	-10.7	-27.5	1.13	0.44	10	0.00	0.0	-0.2	0.82	0.61
HMOs	AVERAGE			1.6	79.1				0.2	21.9		
ALL COMPANIES	AVERAGE			-0.8	21.2				2.7	12.9		

System design: Communications Research Group



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