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update

New Jersey petitions court for liquidation of Integrity

PARAMUS, N.J.—The New Jersey Insurance Department last week moved to liquidate Integrity Insurance Co.

A spokesman said a show cause order as to why the insurer should not be liquidated is due in New Jersey Superior Court March 21.

Integrity, which had $130 million in assets, was insolvent by at least $50 million, and possibly by as

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Job stress cases mounting: Experts

By CAROL M. CAIN

The number of workers compensation claims related to job stress is climbing, and experts are predicting that these cases will dominate the occupational disease field during the next few years.

Some 60% to 80% of all industrial accidents are related to stress, according the the National Institute for Occupational Safety and Health in Washington, D.C.

These include all three of the major categories for stress claims (*BI*, Jan. 14, 1985):

- Physical-mental, in which a mental disorder, like nervousness or depression, is the result of physical injury, such as a back injury from falling off a ladder.
- Mental-physical, in which a physical injury, such as a heart attack, is caused by a mental trauma, like a stressful relationship with a supervisor at work.
- Mental-mental, in which a mental disorder, like depression, is a result of mental trauma, like a stressful job environment or fear of unemployment.

Although the percentage of claims for mental disorders has remained relatively stable since 1979—about 0.2% of all workers compensation claims—mental disorder claims amounted to 14% of all occupational disease claims in 1984, up from 11% two years earlier, said Michael Camilleri, senior vp and general counsel of the National Council on Compensation Insurance in New York.

However, because each state categorizes stress-related claims differently and some don't even keep separate statistics on stress claims, the numbers for these types of claims vary greatly.

For instance, California reported 5,380 stress-related claims in 1985—1.3% of the total workers compensation claims filed, said Alan Tebb, general manager for the California Workers' Compensation Institute in San Francisco. This compares with 1982 statistics of 2,644 claims, or 0.8% of total claims filed.

The CWCI is in the middle of a more extensive study of stress claims and expects to publish its results later this year.

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California court orders Mission into liquidation

By STEVE TARAVELLA

LOS ANGELES—Ending more than a year of resuscitation efforts, Mission Insurance Co. and four of its subsidiaries succumbed quietly and without fanfare last Tuesday.

At two separate hearings, Los Angeles Superior Court did what no longer could be avoided: It gave the California Insurance Department permission to liquidate MIC, Mission Reinsurance Corp., Mission National Insurance Co., Enterprise Insurance Co. and Holland-America Insurance Co.

The five orders, which were issued by Judges Ricardo Torres and Jerry K. Fields, pave the way for the Insurance Department to officially initiate liquidation proceedings, for insurance policyholders to turn to state guaranty funds for claims payments and for these funds to levy assessments on admitted insurance companies to cover claims payments.

However, guaranty funds may need as long as four months to gather the needed information before they will start paying claims filed by policyholders of the five companies.

And, so far, few states have been able to estimate how much they will need to assess admitted insurers to cover these claims. However, at least two states —California and Florida—predict they will assess the maximum they are permitted by law, which is 1% of written premiums.

The insolvency of the five companies totals $520 million, according to most recent statistics. It probably is the largest insurance company insolvency in history.

Guaranty funds, however, will not have to cover the entire insolvency because much of it is related to reinsurance, which guaranty funds do not cover. In addition, guaranty funds limit claim payments to varying maximums.

The liquidation orders against MIC and its four subsidiaries end more than a year of what was sometimes dramatic, often confusing, but always frenzied attempts to keep the insurers and Mission American Insurance Co., their immediate parent, afloat. It proved impossible.

Mission American, which stopped issuing policies Jan. 30, remains under state control. It was placed in conservation Feb. 2, the same day the California Insurance Department requested a liquidation order for the other Mission Insurance Group units and one day before MIG itself agreed to enter Chapter 11 bankruptcy proceedings (*BI*, Feb. 9).

Mission American also is insolvent, according to a financial analysis conducted by Texas regulators. California regulators now are conducting their own investigation to determine the financial solvency of Mission American.

At the hearings Feb. 24, which combined took less than half an hour, the Mission units did not protest liquidation. The companies were represented by John C. Holmes, a Los Angeles attorney with Barger & Wolen, and the California department was represented by Deputy Attorney General Raymond B. Jue.

Observers included Joseph A. Morton, chief of liquidation and conservation for the California department; Edward F. Kubala, director of conservation for the Texas Board of Insurance; Dana C. Brooks, one of 30 court-approved liquidation attorneys, of Hennigan & Mercer in Los Angeles; and Michael Cherry, a Nevada attorney serving as special master to supervise subrogation claims MIC is pursuing involving the 1981

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Coverage famine eases in time for Fat Tuesday

By MICHAEL BRADFORD

NEW ORLEANS—Some Mardi Gras krewes may have more beads and doubloons for their members to toss to outstretched hands on Fat Tuesday because the carnival clubs didn't have to spend as much for liability insurance this year.

And, nearly all carnival krewes, or clubs that parade during the annual pre-Lenten Mardi Gras festival, have had an easier time this year finding the $500,000 of liability coverage required by the city, despite the fact that at least one of the major markets for the coverage in the past did not write it this year.

The availability of coverage from several insurers that previously had not written insurance for krewes is easing the capacity shortage that threatened to wash out several krewes' parades last year. Some krewes are even paying premiums that are 25% lower than those charged in 1935, according to one insurer that first offered the coverage this year, although at least one krewe is paying the same premium for coverage this year as it paid in 1985.

The return of capacity, however, has not benefited one krewe that cannot find coverage that would allow it to continue its longstanding tradition of tossing gold-painted coconuts, in addition to beads and doubloons, to parade revelers.

Each year, as many as 1 million spectators jam the city's streets on Fat Tuesday.

Despite the loss of American International Group Inc. and possibly the Insurance Exchange of the Americas as markets for the liability coverage, generally "the story on the street is competition is driving down premiums," noted John Browne, Louisiana's deputy commissioner of insurance.

He said industry sources told him that one krewe eventually paid $4,000 less than the original quote it was given for the coverage because insurers were competing for the business.

A spokeswoman for New York-based AIG said the insurer is not writing any Mardi Gras-related coverage this year.

In addition, the Insurance Exchange of the

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Photo: AP/Wide World

Nearly all krewes that parade during the Mardi Gras festival have had an easier time this year finding the required $500,000 in liability coverage.

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update

N.J. moves to liquidate Integrity

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much as $75 million, he said. The company has been in rehabilitation since Dec. 30, 1986.

An Integrity official has said the insurer's biggest problem was an estimated $25 million in reinsurance recoverables from Mission Insurance Co., which is also now in liquidation (See story, page 1).

Integrity had 2,000 policyholders in New Jersey and 20,000 nationwide. Because the insurer was licensed in all states and the District of Columbia, claims filed by direct policyholders will be covered by guaranty funds after the liquidation is ordered. Integrity wrote primarily general liability and commercial auto policies.

E.F. Hutton's D&O cover tapped

NEW YORK—E.F. Hutton & Co.'s directors and officers liability insurer will pay the brokerage $2.5 million to compensate for funds paid as a result of its guilty plea in a check-overdrafting scheme in 1985, under a settlement reached in a shareholder suit.

According to an informed source, Hutton's D&O insurer is National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc. An E.F. Hutton spokesman had no comment; an AIG spokesman could not be reached for comment.

Shareholders had sued Hutton's directors and officers on behalf of the company after Hutton paid a $2 million fine plus $750,000 in prosecution costs in connection with its guilty plea.

The settlement also provides that Hutton must pay an additional $600,000 in plaintiffs' attorneys' fees and expenses, giving the company a net benefit of $1.9 million.

The agreement must be approved by a federal district court judge following a public hearing that is scheduled for April 24.

New Arizona law limits liability

PHOENIX, Ariz.—Arizona is the most recent state to abolish joint and several liability, making defendants responsible only for damages equal to their percentage of fault.

While applicable to both economic and non-economic damages, the new law does not apply to cases involving hazardous waste, says Senate Judiciary Committee Chairman Peter Kay, R-Phoenix.

The law, which was signed Feb. 12 by new Gov. Evan Mecham, will take effect Jan. 1, 1988.

Gov. Mecham's predecessor, Bruce Babbit, vetoed a four-bill tort reform package last year that, among other things, would have repealed joint and several liability for defendants found liable for less than 50% of a personal injury (*BI*, Aug. 18, 1986).

Insurers seek LOCs from IEA

MIAMI—Two insurers are demanding that The Insurance Exchange of the Americas and 12 IEA syndicates obtain $5.1 million in letters of credit to cover reinsurance claims.

Cadillac Insurance Co. of Detroit and United Fire Insurance Co. of Des Plaines, Ill., also are seeking $5 million in punitive damages in a joint suit filed in U.S. District Court for the Southern District of Florida in Miami. The suit also names Daum Management Co. and IEA guaranty fund.

The insurers charge the syndicates with breach of fiduciary duty and argue they would become financially impaired if the syndicates did not immediately obtain the LOCs.

The two insurers ceded business involving 875 property and liability policies written for taxi companies to 12 IEA syndicates. Court papers say 620 claims totaling more than $5 million have been filed on the business since Jan. 31, 1987. The syndicates reinsured 95% of the first $100,000 in property/casualty coverages written for the cab companies and 100% of the $250,000 in excess liability insurance.

Because of potential heavy losses connected with the contracts, at least 10 IEA syndicates are seeking rehabilitation orders and the exchange has ceased underwriting indefinitely (*BI*, Feb. 23).

Tort suit awards rising: Study

The average jury award in tort lawsuits rose dramatically from the late 1970s to the early 1980s in two U.S. jurisdictions—increasing 83% to $252,000 from $138,000 in Cook County, Ill., and 69% to $302,000 from $179,000 in San Francisco.

But, while the number of million-dollar awards nearly doubled in Cook County, they rose only slightly in San Francisco during that same period, the Rand Corp.'s Institute for Civil Justice reported last week in a study of jury verdicts from federal and state courts between 1975-1979 and 1980-1984.

The institute also found that the average malpractice award tripled in Cook County between the late 1970s and the early 1980s, and almost doubled in San Francisco during that period.

And, product liability awards were up 300% in San Francisco during the same period, but increased only 40% in Cook County.

Briefly noted

A New York State Supreme Court justice ordered **Constellation Reinsurance Co.** liquidated over the reinsurer's objections last week. Constellation, which reported a policyholder surplus deficit of $28.7 million as of Dec. 31, 1985, has written no new or renewal business since 1985. . . .Ontario Superintendent of Insurance John P. Weir has decided not to invoke any license restrictions against **York Fire & Casualty Insurance Co.** of Concord, Ontario because the insurer has transferred $3 million Canadian ($2.25 million U.S.) from an escrow account set up by American Mutual Reinsurance Co. of Lisle, Ill. The funds can be used to pay claims on business that had been ceded to AMRECO. Superintendent Weir had been concerned because AMRECO has suspended claims payments while it prepares a commutation plan (*BI*, Feb. 23).

Texas claims study identifies non-economic damage costs

By MICHAEL BRADFORD

AUSTIN, Texas—In one of the first closed liability claims studies spurred by the recent insurance crisis, a Texas insurance department study shows that non-economic and punitive damages paid under Texas law represent more than half of insurers claims payments during the periods examined.

The study by the Texas State Board of Insurance reports that non-economic and punitive damages represented 51%, or approximately $248.9 million, of $488 million of claim payments made by 162 insurers during five periods between November 1983 and October 1986. The figures are based on 3,367 liability claims closed under Texas law.

Although more than half of the loss payments resulted from non-economic and punitive damages, a group pushing for tort and insurance reform in the state questions the study's validity because the state board did not examine closed claims during any one 12-month period.

But legislators in Texas hope that poring through the voluminous study of closed liability claims submitted by 162 insurers licensed in Texas will help lawmakers determine whether there is a need for new insurance and tort reform regulations.

Legislators are using the 200-page survey as a reference tool to help them decide how to act on tort reform and insurance bills being introduced into the 70th session of the state's Legislature (*BI*, Feb. 9). The bills are based on the 50 tort and insurance reform proposals recommended earlier this year by the House-Senate Joint Committee on Liability and Tort Law Procedure.

For example, one of the joint committee's recommendations is that the Legislature enact a $250,000 cap on non-economic damage awards and award punitive damages only if there is "clear and convincing evidence of fraud, malice or total absence of care." Punitive damages would be divided among the plaintiff, the plaintiff's attorney and the state, if the recommendations become law.

The joint committee also is recommending that prejudgment interest be abolished.

Although it was responsible for only 2% of loss payments, the state board's study noted that prejudgment interest first became a significant factor in the last two time periods examined because it was first allowed in 1985.

The state board said it did not undertake the study to gather rate-making information or to draw specific conclusions, but conducted the survey "in response to the expressed desires of legislators and other interested parties, as well as to meet its own needs for information. . . ."

But at least one group pressing for tort and insurance reform doubts whether the study will contribute much meaningful information to the debate.

"I think both sides in the tort law struggle are having trouble finding anything in it," said George Christian, spokesman for the Texas Civil Justice League.

While Mr. Christian said he plans to use the study's figures regarding non-economic and punitive damages in his group's push for tort reform, he said he questions the validity of the survey because it analyzes "pieces of years and doesn't go back far enough."

However, he commended the state board for under-

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Foreign firm not subject to state law

By STEPHEN TARNOFF

WASHINGTON—In a decision with significant implications for business, the U.S. Supreme Court ruled that a Japanese manufacturer with limited involvement in California is not subject to court jurisdiction in that state.

The high court ruled unanimously on Feb. 24 that it was "unreasonable and unfair" for Asahi Metal Industry Co. Ltd., a Japanese manufacturer of tire valve assemblies, to face a product liability suit in California brought by a Taiwanese tire manufacturer.

However, the high court split 4-4 on the broader issue of whether Asahi's contact with California, which was solely an awareness that its component parts would be sold in the state, was sufficient for establishing court jurisdiction.

The Supreme Court has found in prior cases that for jurisdiction to be established under the Due Process clause of the 14th Amendment, a defendant must have

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Georgia Legislature passes tort reform

By LINDA J. COLLINS

ATLANTA—Georgia Gov. Joe Frank Harris is expected to sign significant tort reform and medical malpractice reform measures passed by the Legislature late last month.

The Tort Reform Act of 1987 and the Medical Malpractice Reform Act of 1987 were approved by a House and Senate joint conference committee on Feb. 20.

The tort reform bill, among other things, would limit when punitive damages can be awarded and cap most punitive damage awards at $250,000, limit the liability of directors and officers of non-profit organizations, and allow judges to apportion joint and several liability awards when it is established that the plaintiff contributed to an injury or damages.

The medical malpractice bill, among other things, would shorten the statute of limitations during which minors and legal incompetents must file malpractice claims, limit the liability of both health care providers who volunteer their services and the facilities where those services are performed, and, in what some observers say is an unusually worded provision, require that a plaintiff who files a "professional" malpractice claim submit an affidavit from an expert substantiating a negligent act or omission on the part of the defendant.

The governor has said he will sign the measures. The governor has 30 days after the Legislature adjourns to sign bills into law. The Legislature's target date for adjournment is March 12.

Now the Legislature is focusing on insurance reform legislation. A joint legislative committee is hammering out an insurance reform bill that contains a provision requiring insurers to obtain approval from the insurance commissioner for rate hikes exceeding 25% in a 12-month period.

Another provision contained in the House version of the insurance

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inside

✔ Too few insurers will seriously contemplate the warnings delivered by John Bogardus, chairman of Alexander & Alexander Services Inc., at a recent meeting in London, says this week's editorial. Mr. Bogardus cautioned commercial insurers that buyers that now are turning to self-insurance and captive insurance companies may never go back to purchasing commercial insurance. **PAGE 8**

✔ In International Issues, Jerome Karter, vp and manager of Johnson & Higgins' New York international department, observes that while many U.S. multinationals have successfully adopted a global approach to banking, accounting and advertising, they get cold feet at the thought of wedding their domestic and foreign insurance exposures under one global program. **PAGE 23**

✔ Looking at the fourth-quarter results of property/casualty insurers, Myron Picoult, senior vp at Oppenheimer & Co. in New York, notes that managements are making good use of their "windfall profits" and reserving is being viewed in a more intelligible light. **PAGE 35**

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Brokers' revenue growth starts to wane

By LINDA J. COLLINS

New business, not rate increases, will fuel insurance brokers' future revenue growth.

The third quarter of 1986 was the last of an almost two-year stretch of big revenue gains for brokers buoyed by insurance price hikes. In the fourth quarter of 1986, the publicly traded insurance brokers generally reported significantly less revenue growth for the first time since the first quarter of 1985.

The effect of stabilizing property/casualty insurance premiums in the fourth quarter, however, was slightly offset by an increase in insurance purchased due to improved availability, financial analysts say.

"We clearly saw the effects of premium stabilization in everybody's growth," said Samuel J. Weinhoff, first vp at Shearson Lehman Bros. in New York. But, "we are starting to see some more capacity in the property/casualty industry, and that means revenues will grow somewhat," he added.

"Fourth quarters are generally weak anyway," said John E. Keefe, financial analyst at Drexel Burnham Lambert Inc. in New York. Comparing fourth-quarter 1986 to fourth-quarter 1985 is particularly difficult, since "the fourth quarter of 1985 was really strong because of premium prices," he explained.

Thomas G. Rosencrants, chief financial analyst at Johnson Lane Space Smith & Co. Inc. in Atlanta, however, pointed out that "in the past eight quarters, brokers' earnings surpassed earnings predictions by fairly large numbers," which could make the slowdown look more dramatic to investors.

Of the six publicly traded insurance brokers, only Briarcliff Manor, N.Y.-based Frank B. Hall & Co. Inc. has yet to announce its results.

Marsh & McLennan Cos. Inc. in New York produced the strongest fourth-quarter revenue and net income gains of the five brokerages that have reported their results.

M&M, the world's largest insurance broker, reported gross revenues of $1.8 billion in 1986, a 31.9% jump from $1.37 billion in 1985. The brokerage's 1986 net income jumped 49.3% to $243.2 million from $162.9 million in 1985.

In the fourth quarter of 1986, M&M's revenues rose 23% to $444.7 million from $361.7 million in 1985. Net income increased 34.3% to $49.3 million from $36.7 million in fourth-quarter 1985.

While growth was strong in all of M&M's operations—insurance and reinsurance brokerage, group insurance, consulting and investment management—its revenues from subsidiary The Putnam Cos. showed the largest gains. The investment manager's revenues surged 104% for the quarter and 101% for the year, according to an M&M spokesman.

Most of the growth in its insurance services divisions was "due to new business development," the spokesman added.

M&M's rate of revenue growth slowed from more than 30% gains in the first three quarters for three reasons.

"There is a seasonality of revenues in the brokerage business, and typically the fourth quarter is the slowest," the spokesman explained. Second, in November 1985, Marsh & McLennan launched A.C.E. Insurance Co. Ltd., an offshore excess insurer, which boosted the brokerage's revenues in that quarter.

Third: "We expected to see a downward trend in insurance brokerage operations in the U.S. There was some moderation in the year-over-year increase in prices," which became noticeable in the third quarter of 1986 and more obvious in the fourth quarter, the spokesman explained.

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Union insurers to pay the bulk of settlement

By STEPHEN TARNOFF

CORPUS CHRISTI, Texas—Union Oil Co. of California and its liability insurers will pay the bulk of a $21.85 million settlement for damage to an oil refinery in an explosion and fire more than six years ago.

Under the settlement, which was finalized last month, Quintana Refining Co. and its property insurers will recover about half the cost of the damages. Los Angeles-based Union Oil and its liability insurers will pay $20 million, and co-defendant Bechtel Corp. of San Francisco will pay $1.75 million, according to attorneys for Quintana.

Attorneys for Union Oil and Bechtel would not comment on the settlement.

In addition, a third-party defendant settled earlier with Quintana's insurers for $100,000.

According to a defense counsel in the litigation, who asked not to be identified, the settlement was "almost the epitome of the liability insurance crisis." The amount of the settlement was based on the total unpredictability of jury verdicts in Texas, the attorney said.

Houston-based Quintana filed suit against Union Oil and Bechtel in 1982 on behalf of its property and business interruption insurers, which had paid more than $41 million to Quintana to cover the Dec. 31, 1980, loss at the refinery.

At the time of the explosion and fire, Quintana and Houston-based Howell Corp. jointly owned the refinery and were operating a petrochemical-producing unit at the facility with technology purchased from Union Oil. In addition, Union Oil, along with subcontractor Bechtel, were responsible for inspecting the unit and recommending necessary modifications in equipment and operations, Quintana alleged.

After the explosion and fire at the facility, Quintana subsequently bought out Howell's interest and filed suit against the defendants. Quintana eventually sold the refinery.

Union Oil had $150 million in liability insurance at the time of the fire under policies written for the Nov. 1, 1979, to March 31, 1981, policy period.

Union Oil had a $1 million self-insured retention, and Granite State Insurance Co., a unit of American International Group Inc., wrote a $4 million layer excess of the self-insured retention, according to court papers.

In a $5 million layer excess of $5 million above Granite State, Lloyd's underwriters wrote $1.75 million and National Union Fire Insurance Co. of Pittsburgh, Pa., also an AIG unit, wrote $3.25 million.

Insurers on the next layer of $15 million excess of $10 million included Lloyd's underwriters, which wrote $4.5 million; Landmark Insurance Co., an AIG unit, which wrote $1 million; American Centennial Insurance Co., a unit of Beneficial Insurance Group, which wrote $3.5 million; Allianz Insurance Co., which wrote $4.5 million; Bermuda Fire & Marine Insurance Ltd., which wrote $500,000; and Integrity Insurance Co., which wrote $1 million.

Integrity was recently placed in voluntary rehabilitation by a New Jersey state court judge. Union Oil has agreed to pay Integrity's share of the settlement to Quintana's insurers and was assigned the right to pursue recovery against Integrity, according to Charles R. Tuffley, an attorney for Quintana, with the Southfield, Mich. firm of Denenberg, Tuffley, Bocan,

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'Whole person' asthma therapy may trim employer health tabs

By DONNA DiBLASE

DENVER—A "whole person approach" to treating asthma patients could help employers with asthmatic employees breathe a sigh of relief from the costs associated with treating the chronic illness.

Average annual hospital costs for a study group of 34 adult asthmatics who underwent intensive whole person therapy at the National Jewish Center for Immunology and Respiratory Medicine in Denver were reduced by 49%, while hospital admissions were cut by 44%.

And, the center says the cost of the whole person program can be recovered through these cost savings within two years.

The center's treatment approach emphasizes patient education and self-management of asthma, a chronic respiratory disease characterized by contraction of the bronchial passageways in response to irritation by various factors.

Along with producing cost savings, the therapy also improves patients' overall health, the center contends.

Benefit consultants agree that patient self-management treatment programs, such as the National Jewish Center's asthma program, can be cost-effective and assure quality in treating chronic illnesses. But, they say, these programs are largely untapped by employers as a cost-containment tool.

About 10 million Americans have asthma. The disease is expensive for employers not only in terms of actual health care claims dollars, but also in terms of absenteeism and reduced productivity, explained Michael Schonbrun, president of the National Jewish Center.

"Employers, insurers and the federal government should be looking at this type of chronic illness study—which evaluates the outcomes of medical treatment—instead of just looking at treatment on a short-term, per-cost basis," he said.

"Since there is not an injection or pill that cures asthma, the disease must be controlled through long-term management" by the patient and physician to control costs, he added.

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Photo: Mike Marcotte

Educational materials used by patients in National Jewish Center's 'whole person' therapy include a 'Pride' notebook, pamphlets and a peak flow meter, which measures an asthma patient's breathing efficiency.

25th RIMS confronts hot issues

By JOANNE WOJCIK

This year's silver anniversary Risk & Insurance Management Society Conference is more current-event-oriented than ever, its organizers say.

For instance, risk and benefit managers attending the 25th Annual Risk Management and Employee Benefits Conference in Las Vegas from March 29 through April 3 can attend a group of sessions that will focus on how to choose alternatives to the traditional insurance market.

In addition, a special seminar—introduced this year—will deal with the risk management and legal ramifications of on-the-job drug testing—a subject now being bandied about corporate board rooms in response to an increasing awareness of substance abuse nationwide.

"This really is going to be one of the best (conferences) ever," said Denis Julien, director of risk management for Florida Progress Corp. in St. Petersburg, Fla., and coordinator of one of the two track programs scheduled for this year's RIMS conference, "Alternatives to the Traditional Insurance Market."

"Our track program is designed to give an accurate update of where new insurance facilities are, what the repercussions will be and where these changes will probably lead us," Mr. Julien explained.

"Without a doubt, we have never had this many different concerns plaguing us at the same time and may never see the like again," he added.

Track programs, which were introduced at the 1985 RIMS conference in New Orleans, are related sessions on specific areas of risk management that are taught at various experience levels.

While the track program on alternative insurance facilities is geared toward more sophisticated risk managers, another track program, "Risk Management Basics," is "designed to accommodate those professionals who find their responsibilities broadening into all facets of risk management—insurance, employee benefits and finance," explains coordinator Florence Larcamp, corporate insurance manager for United Jersey Banks in Princeton, N.J.

Conference attendees can take all of the seminars in a specific track or customize a course from among both track programs' offerings.

Seminars on captive insurance companies have been offered at previous RIMS conferences, but they've never been approached in the manner in which they will be presented in the track program on insurance alternatives, according to Kathy Dupree, risk manager at MetroVision in Atlanta and a RIMS conference committee member.

Indeed, one of the track program seminars will focus specifically on the new large liability insurance facilities, including American Excess Insurance Assn., A.C.E. Insurance Co. Ltd., X.L. Insurance Co. Ltd. and Tortuga Casualty Co. Ltd.

During that session, experts on alternative markets will give a brief history of each facility and discuss "the kind of

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Jurisdiction

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"minimum contacts" with the state, and that the exercise of jurisdiction must be "fair and reasonable."

The unanimous decision reversed a ruling by the California Supreme Court that held Asahi was subject to jurisdiction in California.

The case has attracted considerable attention from business groups, some of which argue that permitting jurisdiction would hurt foreign and perhaps even domestic businesses—potentially increasing lawsuits, legal costs and insurance rates for manufacturers.

Other business groups contend that if state courts don't have such jurisdiction, domestic companies sued in product liability actions would be deprived of recoveries from foreign component parts manufacturers that may be liable for injuries. They also contend this could result in higher legal costs and insurance rates for domestic companies (*BI*, Sept. 8, 1986).

The Asahi case stems from a 1978 motorcycle accident in California in which a passenger was killed and the driver severely injured, allegedly because a sudden loss of air and an explosion in the motorcycle's rear tire caused the driver to lose control.

In 1979, the driver brought a product liability action in Solano County Superior Court against various defendants including Cheng Shin Rubber Industrial Co. Ltd., the Taiwan manufacturer of the tire tube. This suit was subsequently settled.

Cheng Shin, meanwhile, sought to bring Asahi Metal Industry Co. Ltd., the Japanese manufacturer of the tube's valves, into the litigation. According to court papers, Asahi had done business with Cheng Shin for about 10 years and sold 1.35 million valves to Cheng Shin between 1978 and 1982, with all sales occurring in Taiwan.

However, Asahi had no officers, property or agents in California, solicited no business there and made no direct sales there. But it knew some valve assemblies sold to Cheng Shin would be used in tubes sold in California.

Following a July 1985 California Supreme Court decision upholding jurisdiction, Asahi then sought review from the U.S. Supreme Court, which was granted last year.

In its Feb. 24 opinion written by Justice Sandra O'Connor, the high court reversed the lower court's decision, unanimously finding only that it would be "unreasonable and unfair" to subject Asahi to jurisdiction.

Among the factors for determining whether jurisdiction is reasonable are the burden it places on the defendant, the interests of the state seeking to impose jurisdiction, and the plaintiff's interest in obtaining relief, Justice O'Connor noted.

"A consideration of these factors in the present case clearly reveals the unreasonableness of the assertion of jurisdiction over Asahi," she said.

Justice O'Connor noted that the burden on Asahi is severe because it would have to travel between Japan and California and because it would have to submit to a foreign judicial system.

In addition, "Cheng Shin has not demonstrated that it is more convenient for it to litigate its indemnification claim against Asahi in California rather than Taiwan or Japan," she said. And because Cheng Shin is not a California resident, California's interest in the dispute is slight, she added.

Justice O'Connor also rejected the position that a finding of jurisdiction in California would protect consumers by forcing foreign manufacturers to comply with that state's safety standards.

While all nine justices agreed with Justice O'Connor's conclusion, the court split 4-4 on the issue of whether Asahi's knowledge that the components it manufactured would be sold in California was sufficient to be considered "minimum contact."

Justice O'Connor, joined by Chief Justice William Rehnquist and Justices Lewis Powell and Antonin Scalia, found that this awareness by itself was not sufficient contact with the state to subject it to jurisdiction.

Instead, the four justices emphasized that the defendant's action must be "purposefully directed" toward the state seeking to impose jurisdiction. "The placement of a product into the stream of commerce, without more, is not an act of the defendant purposefully directed toward the forum state," Justice O'Connor wrote.

Asahi does no business in California, has no office, agents, employees, or property there and does not advertise or solicit business there. Moreover, it did not create, control or employ the distribution system that brought its valves to California, and there is no evidence it designed its product in anticipation of sales in the state, the opinion said.

"On the basis of these facts, the exertion of personal jurisdiction over Asahi by the Superior Court of California exceeds the limit of Due Process," Justice O'Connor wrote.

Justice William Brennan, who was joined by Justices Byron White, Thurgood Marshall and Harry Blackmun, disagreed that Asahi did not purposely avail itself of the California market.

"As long as participant in this process is aware that the final product is being marketed in the forum state, the possibility of a lawsuit there cannot come as a surprise," Justice Brennan wrote.

"Most courts and commentators have found that jurisdiction premised on the placement of a product into the stream of commerce is consistent with the Due Process Clause, and have not required a showing of additional conduct."

However, Justice John Stevens, joined by Justices White and Blackmun, said it was unnecessary for the court to address the minimum contacts issue. The sole basis for denying jurisdiction should have been because it was "unreasonable and unfair," he wrote.

According to Asahi's attorney, the tie vote on the contacts issue makes the implications of the decision uncertain.

"There will be some instances in which an American corporation trying to bring in a foreign corporation may fail on the ground of fairness and reasonableness," said Graydon S. Staring, with the San Francisco firm of Lillick, McHose & Charles.

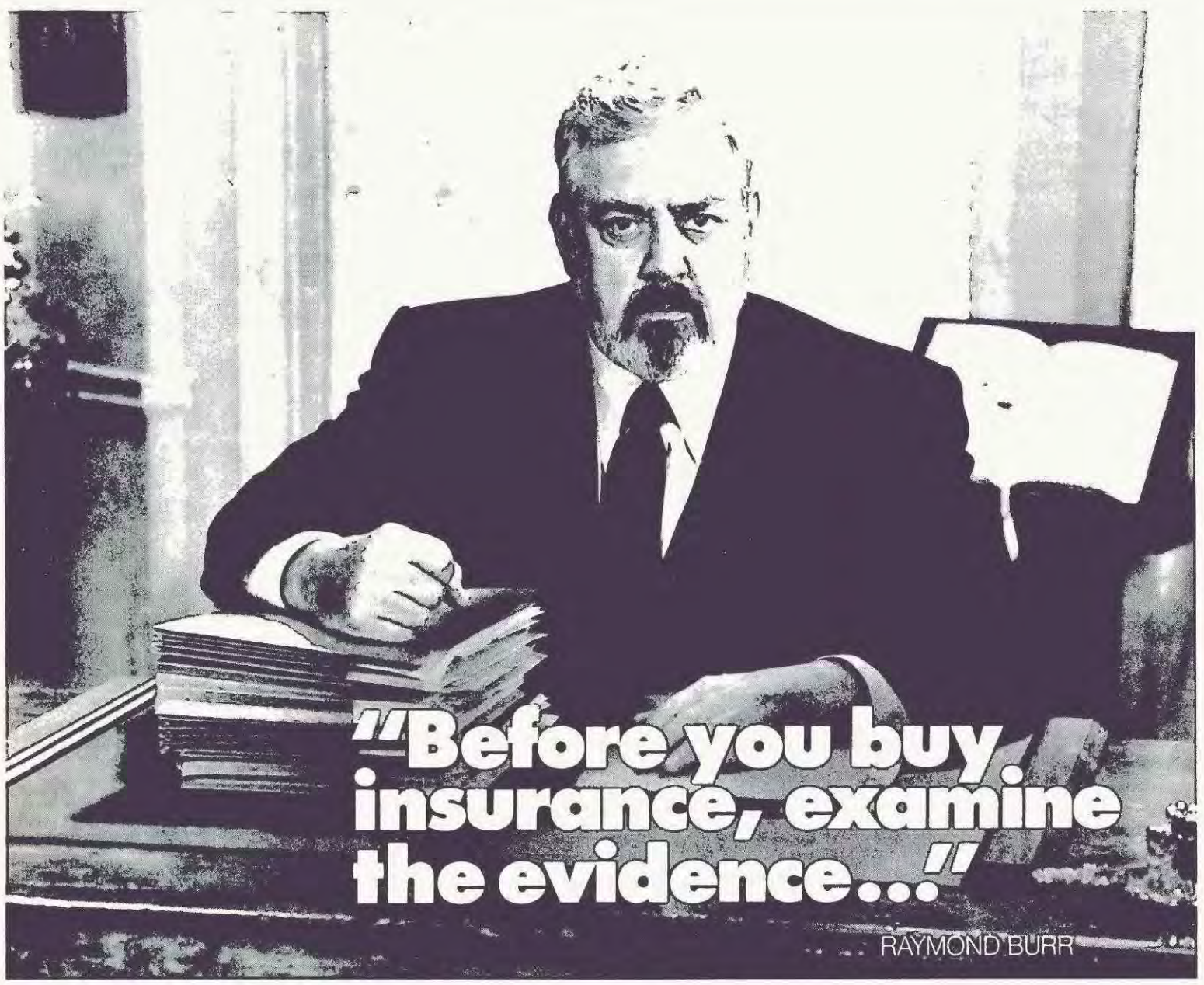
But, Mr. Staring said the issue of foreign corporations' contacts with the states remains unresolved, leaving lower courts little guidance. "I think the decision is not going to have a very wide or frequent impact," he said.

However, the attorney for Cheng Shin said it is uncertain what impact the decision will have on domestic manufacturers that use foreign component parts later proved to be defective.

"What recourse do we have" in trying to gain indemnity?, asked Ronald R. Haven with the Sacramento, Calif., firm of Shepard and Haven.

As manufacturers increasingly rely on foreign products, a decision that would deny them recourse to foreign manufacturers could reduce availability and increase the price of liability insurance, Mr. Haven said.

But, he noted it was significant that four justices found mere knowledge that the product would be sold in California was enough for minimum contact, because prior to this decision, tangible contact with the state had been required. ■



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Product liability bill introduced in House

By DEBORAH SHALOWITZ

WASHINGTON—Supporters of federal product liability reform legislation are lining up new, bipartisan support in Congress.

After months of searching, business groups have found a member of the House of Representatives to introduce legislation that would create a uniform nationwide product liability law.

And, unlike previous years when product liability reform proposals were sponsored by Republicans, this year a Democrat is leading the fight.

Rep. William Richardson, D-N.M., late last month introduced a bill, H.R. 1115, similar to the product liability reform proposal passed by the Senate Commerce Committee last year, though Rep. Richardson's proposal differs from last year's legislation in two ways.

First, Rep. Richardson's bill would establish uniform standards of liability for manufacturers in all states.

This is "the most important thing" for federal product liability legislation to address, said Liberty Mahshigian, co-counsel of the Product Liability Alliance, who noted that the bill passed by the Senate committee last year would not have established uniform liability standards.

And, Rep. Richardson's bill does not propose a cap on non-economic damages. Under the bill passed by the Senate Commerce Committee last year, non-economic damages would have been capped at $250,000 if a plaintiff rejected certain settlement offers.

Rep. Richardson's bill also would:

- Abolish joint and several liability for non-economic damages.
- Establish state-of-the-art and government standards defenses. Under the state-of-the-art defense, a manufacturer cannot be held responsible for product defects if it was unable to foresee the defects using technology available at the time of manufacture. Under the government standards defense, a manufacturer cannot be held liable if the product met government specifications.
- Establish a defense for manufacturers if an equipment operator is under the influence of drugs or alcohol.
- Establish a statute of repose shielding manufacturers from product liability lawsuits stemming from accidents involving capital goods products that are more than 25 years old.

The bill, however, would not establish a statute of repose for consumer goods.

- Offset product liability awards by workers comp benefits received by an injured party.
- Eliminate most punitive damage awards against manufacturers whose products were approved by certain federal agencies, except if the manufacturer withheld relevant information from the agency.
- Require product liability lawsuits to be filed within two years of the discovery of the injury.
- Eliminate liability for wholesalers and retailers except in cases in which they are proved to be at fault or in which the product manufacturer is bankrupt.
- Call for a study of alternative dispute resolution procedures.

Sharon Spigelmyer, director of loss prevention and control for the National Assn. of Manufacturers in Washington, noted that bipartisan support of federal product liability reform is strong. She said she has received calls from more than half a dozen House members—from both parties—concerning federal product liability legislation.

Rep. John Dingell, D-Mich., chairman of the House Energy and Commerce Committee, which will consider the Richardson proposal, "has been supportive of the issue for years," although he has not yet taken a formal position on Rep. Richardson's bill, according to an aide to Rep. Dingell.

Rep. Dan Glickman, D-Kan., is "sympathetic to the provisions" of the bill, according to one of his staff members. The staffer added that Rep. Glickman and Rep. Hal Daub, R-Neb., co-chairmen of the Liability Insurance and Tort Reform Task Force, a coalition of House members formed last year, plan to continue holding hearings on the subject this year.

It is significant that Rep. Richardson's bill was referred solely to the Energy and Commerce Committee, noted Tom O'Day, associate vp of the Alliance of American Insurers.

Mr. O'Day explained that by directing the bill to that committee alone, Rep. Peter Rodino, D-N.J., an opponent of federal product liability reform legislation, will be prevented from concurrently blocking action in the Judiciary Committee, which Rep. Rodino heads.

Besides opposition in the House, product liability reform also faces new obstacles in the Senate.

Last summer, the Senate Commerce Committee approved by a vote of 10-7 a federal product liability bill, but the legislation was withdrawn from the Senate floor after opponents, including Sen. Ernest Hollings, D-S.C., threatened a filibuster (*BI*, Oct. 6, 1986; June 30, 1986).

Now that Sen. Hollings has succeeded Sen. John Danforth, R-Mo., as chairman of the Senate Commerce Committee, Senate action on a product liability reform bill is unlikely and supporters are now concentrating on the House.

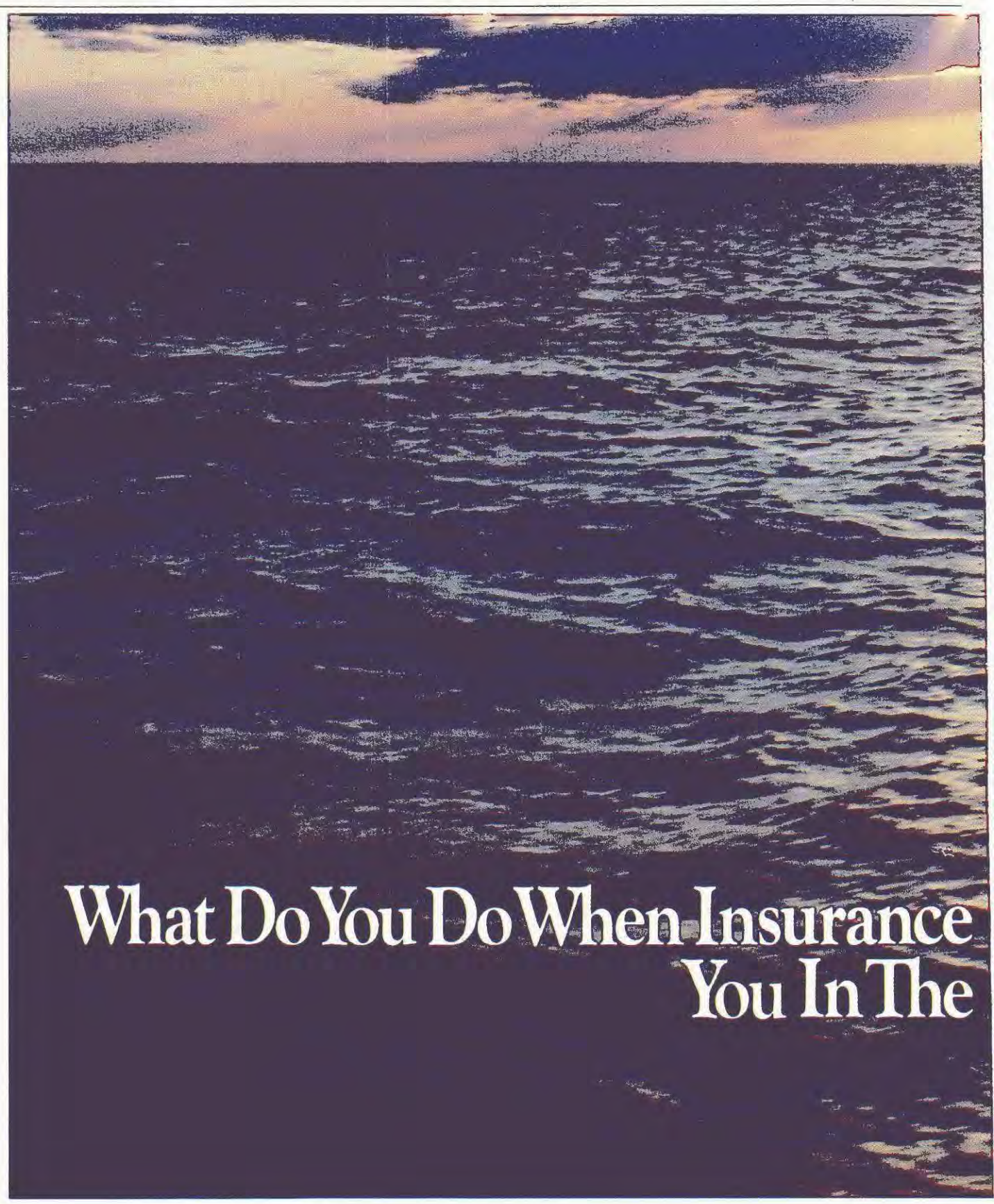
Meanwhile, the Reagan administration is proposing federal product liability reform as part of its comprehensive trade competitiveness package released last month.

The main difference between the latest administration proposal and a proposal drafted by the administration last year is an increase to $200,000 from $100,000 in the cap on non-economic damages, including punitive damages (*BI*, April 7, 1986).

Other elements of the administration's proposal include:

- The return to a fault-based standard of liability for product liability cases, compared with the negligence standard used for non-product lawsuits.
- Elimination of joint and several liability, except in cases were defendants acted in concert.
- Offsetting awards by collateral sources of income, including workers compensation benefits.
- Allowing the use of periodic payments for awards exceeding $100,000 for future medical care or lost income.
- Limiting plaintiffs' attorneys' contingent fees according to a sliding scale.

Under the scale, fees would be limited to 25% of the first $100,000 of an award, 20% of the next $100,000, 15% of the succeeding $100,000 and 10% of any amount exceeding $300,000. ■



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PanFinancial sees growth in political risks

By CAROLYN ALDRED

london

LONDON—PanFinancial Insurance Co. Ltd. is predicting growth in its political risk insurance business after reporting net income of 327,000 pounds ($497,000) in its first full year of operation.

PanFinancial, which specializes in credit and political risk underwriting, reported gross premium volume of 6.8 million pounds ($10.34 million) in 1986.

Eighty percent of the insurer's 1986 business came from credit insurance and 20% was derived from political risk insurance coverage, according to Arthur Mannings, PanFinancial's marketing director.

But, Mr. Mannings expects political risk business to grow faster than credit insurance business in the coming year.

"Although reinsurance support for political risk has declined in the market overall in the last couple of years, we have actually increased our reinsurance capacity," he said.

As a result, PanFinancial can now offer a maximum political risk coverage capacity of 4 million pounds ($6.08 million), compared with 3 million pounds ($4.56 million) formerly offered.

PanFinancial was formed in March 1985 by Skandia International of Sweden, Continental Insurance Co. Ltd. and Yasuda Fire & Marine Insurance Co. Ltd. to write coverage for political and credit risks for the three insurers' larger clients.

The three insurance companies are equal shareholders in PanFinancial, each contributing 3 million pounds ($4.56 million) of capital into the venture, according to Mr. Mannings.

Meanwhile, the company's founder and former managing director, Alastair Malcolm, has formed a consulting firm specializing in "financial insurance."

The consulting firm, Alastair Malcolm Associates Ltd., acts as a consultant to brokers and underwriters that are involved in providing credit and contingency insurance for financial institutions.

Brokers' growth

London insurance brokers' growth will be stymied by smaller rate increases for commercial risks and additional pressure on brokers' commission rates, according to Wood Mackenzie & Co. Ltd., a British securities broker.

In an annual review of five Lloyd's of London brokers listed on the London Stock Exchange, analysts said the market's improved underwriting profitability is causing rate increases to decelerate.

The British commercial lines market mirrored developments in the U.S. insurance market during the period from 1984 through 1986, with poor underwriting results and inadequate reinsurance capacity leading to the withdrawal of some smaller insurance companies from the market, according to the report.

Now, the British market appears to be stabilizing although there is no sign of rate cutting, Wood Mackenzie says.

"The brokers are thus faced with the prospect of continuing, but decelerating, brokerage growth," says the report.

Meanwhile, the insurance brokerage industry must cope with increasing professional liability insurance costs, the Wood Mackenzie report notes.

According to the report, Sedgwick Group P.L.C.'s errors and omissions insurance premium jumped to 15 million pounds ($23 million) from 7 million pounds ($10.7 million) in the first nine months of 1986, while Willis Faber P.L.C. also reported a substantial E&O coverage rate increase last year, following a 300% rise in 1985.

Sedgwick and Willis Faber officials confirm the Wood MacKenzie report.

In addition, insolvencies in the international insurance and reinsurance markets have led to bad-debt losses for several brokers, the report says.

For example, C.E. Heath P.L.C. has reported bad debts relating to business placed in the 1970s totaling 9.2 million pounds ($14.1 million) over the last three years, and Minet Holdings P.L.C. has "penalized profits by 5.5 million pounds" ($8.4 million) in the last two years, the Wood MacKenzie report says.

Insurer forming

A new British insurance company is being formed on the shell of the former British subsidiary of Allstate International Inc. of Northbrook, Ill.

Some 40 British financial institutions have invested 15 million pounds ($22.8 million) in New Scotland Insurance Group P.L.C., including spending 6 million pounds ($9.12 million) to acquire Allstate Insurance Co. Ltd., Allstate's last direct European subsidiary.

Allstate earlier decided to withdraw from all direct general insurance operations in Europe for strategic reasons, but the company will retain ownership of its London-based reinsurance company, said Noble & Co. Ltd., an Edinburgh-based firm that managed the private stock offering for the new company.

Allstate Insurance Co. Ltd. is licensed to write all classes of general insurance other than railway stock, aircraft hull and aircraft liability.

The bulk of AICL's business consists of British automobile, property and liability risks.

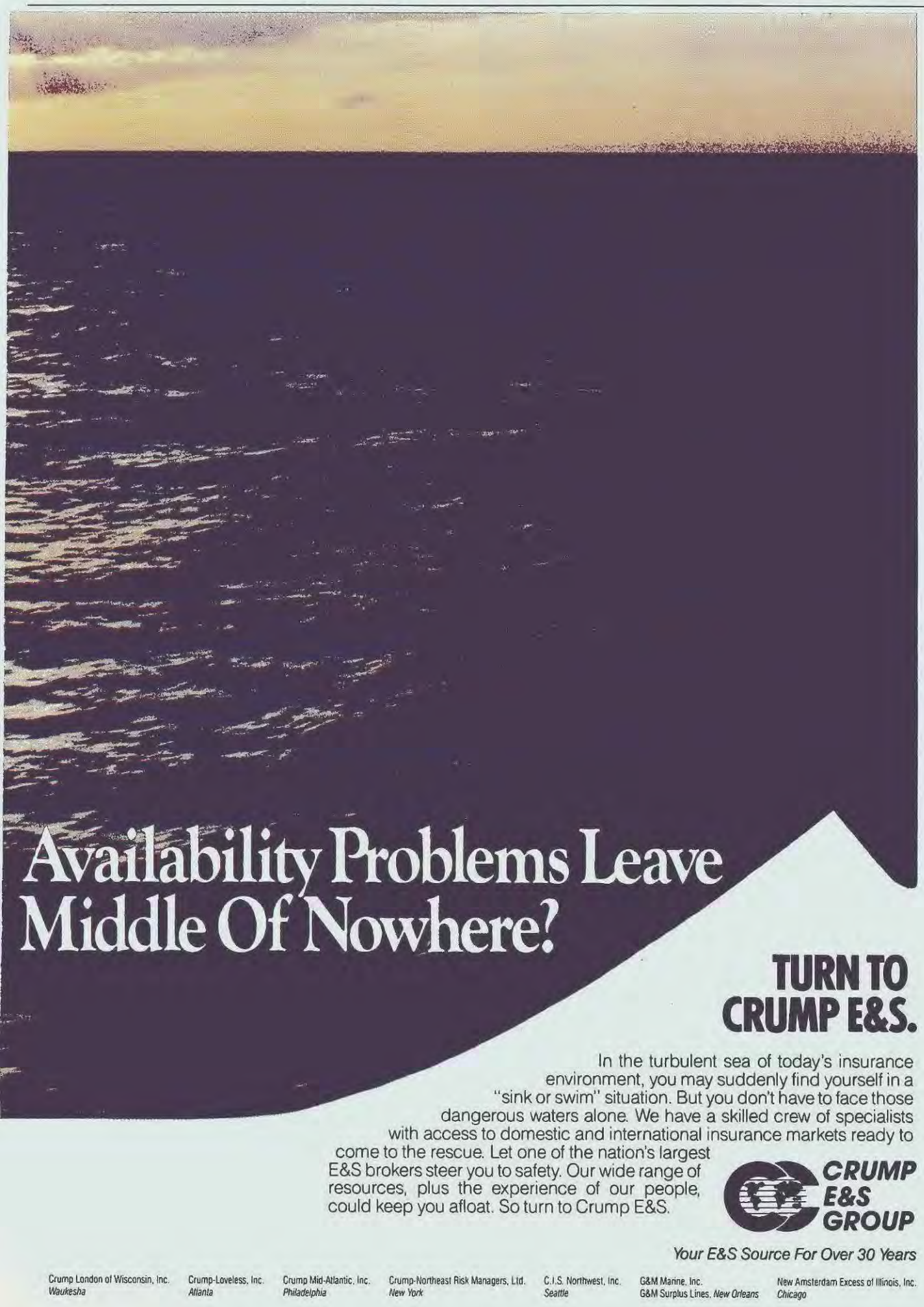
New Scotland will continue to underwrite these lines of business.

The Allstate unit produced a "low-level loss" in 1986 on gross written premiums of 37 million pounds ($56.2 million), said Tim Noble, a founding director of Noble & Co.

The company had a surplus of 8.5 million pounds ($12.9 million), according to a statement released by Noble & Co.

New Scotland Insurance Group will be headed by Chairman Gordon Henry, a former chairman and chief executive of Stewart Wrightson Holdings P.L.C. and currently chairman of Scottish retail bank Adam & Co. P.L.C.

A chief executive has been appointed although his name will not be revealed until a replacement has been found at the company where he currently is employed, according to Mr. Noble. ■



opinions

The impact of alternatives

TOO FEW INSURERS will seriously contemplate the warnings delivered by John Bogardus, chairman of Alexander & Alexander Services Inc., at a recent meeting in London (see story, page 12).

That's too bad, because Mr. Bogardus eloquently examined an issue near and dear to our hearts: the long-term impact of self-insurance and captives on the commercial insurance marketplace.

Mr. Bogardus cautioned commercial insurers that insurance buyers that now are turning to self-insurance and captive insurance companies may never go back to purchasing commercial insurance. "The industry seems to believe that most business will return to the market as harsh conditions moderate. . . .However, I think we're in for a rude and costly awakening," he said.

We made a similar prediction almost a year ago, although at that time we focused our remarks on the large corporations forming multiple-owner captive insurers (*BI*, April 14, 1986). We said the combination of stiff withdrawal penalties and underwriting success, leading to market stability, would keep members in these alternative facilities. And, we suggested this might be a positive development for commercial insurers since it would remove the big-premium business that seems most subject to extreme pricing changes.

But, at that time, we also ventured that many smaller self-insurers would return to the commercial insurance market when the price of commercial insurance was more attractive than the risks associated with self-funding. Since then, however, Congress has passed amendments to the Risk Retention Act that make it possible for all professionals and businesses from different states to band together and self-fund any liability risk except workers compensation. Now, we believe many smaller commercial insurance buyers will take advantage of this opportunity and become as dedicated to their new risk-funding mechanism as the major corporations are to their multiple-owner captives.

As Mr. Bogardus said, "The CEOs, corporate treasurers and risk managers I see are talking about long-term alternatives to insurance."

If smaller businesses find happiness with risk retention groups, then commercial insurers will lose their bread-and-butter business.

We especially agree with Mr. Bogardus' analogy to the savings and loan industry in the United States, which misunderstood the shifting nature of customer loyalties and paid "an enormous price" for its misunderstanding.



"For decades, the U.S. savings and loan industry flourished. . .then, short-term rates became almost as volatile as insurance prices. The customer was startled. Alternatives became available, and the customer discovered he could get a better deal," Mr. Bogardus explained.

"Interest rates came down, but the customer never came back. He had gotten more sophisticated, and his traditional loyalties vanished."

Too many independent insurance agents and insurers dismiss these warnings as merely hyperbole.

We recall Lloyd's of London underwriter Robin Jackson's retort during a panel discussion at the 1984 NACSA/NACSE meeting when warned that companies would form captives if commercial insurance became too expensive: "If people want to form captives to write their business at the cheap rates we've been writing it at, good luck to them" (*BI*, Oct. 22, 1984).

Mr. Jackson would have had a point, if that is what captive insurance company investors did. But, most investors in captives want these insurers to fairly price the coverage they write so that prices will be stable over time. They are trying to avoid big underwriting losses.

If multiple-owner captives and risk retention groups flourish, as we predict many will, commercial insurers will indeed find they have lost desirable market share to alternative risk funding mechanisms.

letters

Courts must return to 'fault/negligence concept'

To the editor: I sit on the Task Force on Liability Issues in Massachusetts (*BI*, Jan. 26), and couldn't disagree more with Assistant Attorney General John Donahue's comments.

My point is that our court system must return to the fault/negligence concept originally established during the formative years of our country. Mr. Donahue was candid enough to relate the conflicting idealism that says a plaintiff or victim should be compensated no matter whose fault.

Mr. Donahue's feeling was explicit: There is no better way it can be done than through the judicial system with the monetary resources of our insurance policy with no degree of major consideration of fault or who is at fault.

Mr. Donahue asks what better way we could remunerate the claimant. My answer: It was not my thought to be active in the task force to come up with a social need solution. I feel that this is the responsibility of legislative government.

Our responsibility to "victims" is certainly one that should be addressed openly, but not arbitrarily clothed with the resource of an insurance policy.

The judicial system also has allowed the legal profession unreasonable financial gain. They say that they are acting on behalf of the aggrieved, but in reality it is themselves.

I'm not a lawyer and I don't fault lawyers, but I do fault the judicial system that has allowed this to happen.

I strongly feel that the effort of judicial reform must be continued, and the compensation of victims and plaintiffs should be developed outside the judicial system to come back to its original intent of fault/negligence.

Otto Wahlrab
President
John P. Slade & Son
Insurance Agency Inc.
Fall River, Mass.

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Can an agent serve as a risk manager?

To the editor: Don't you wonder how many of your readers invited their brokers into their offices and requested affirmation of the Independent Insurance Agents of America ad in the Feb. 2 edition?—"the only risk manager you'll ever need is your independent agent"—hah!

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Jeffrey Greenberg to head National Union

Jeffrey W. Greenberg has been named president of National Union Fire Insurance Co. of Pittsburgh, Pa., a subsidiary of American International Group Inc.

He succeeds **Joseph P. DeAlessandro**, who recently joined Commercial Credit Co. of Baltimore as a senior vp and chairman of its insurance unit, Commercial Credit Insurance Services in New York (*BI*, Feb. 23).

Mr. Greenberg previously was president of the North American division of American International Underwriters, AIG's international marketing arm.

He joined the company in 1978 as aviation manager for AIU London, and since has worked as branch manager of AIU's Houston office and vp and regional manager of the New York office.

Mr. Greenberg is the son of Maurice Greenberg, president and chief executive officer of AIG.

Vincent J. Masucci will replace Mr. Greenberg as president of the North American division of AIU. Mr. Masucci, who joined the company in 1972, had been president of the West Coast division in Los Angeles.

In other insurer changes:

Richard H. Jenrette elected chairman of Equitable Life Assurance Society of the United States in New York. Mr. Jenrette succeeds **Robert F. Froehlke**, who is retiring. Founder and chairman of Donaldson, Lufkin & Jenrette Securities Corp., Mr. Jenrette retained his position at Donaldson and became vice chairman of Equitable when the two companies merged in 1985. Mr. Jenrette later was appointed chief investment officer at Equitable and president and chief executive officer of Equitable Investment Corp.

Richard A. Plazak elected president of Industrial Underwriters Inc. in San Francisco, an affiliate of Industrial Indemnity Co., a Crum & Forster Corp. unit. Prior to joining IUI in 1980, Mr. Plazak was vp and San Fransisco branch manager of Cameron & Colby Co.

Agents/brokers

Barbara Weigand promoted to vp at N.J. National Associates, headquartered in Cape May, N.J. Prior to joining the company in 1969, she was with the Insurance Co. of North America's property department.

Stephen C. Felker named managing director of Marsh & McLennan Inc. in St. Louis. Previously, Mr. Felker was senior vp and director of Lawton-Byrne-Bruner, a St. Louis brokerage acquired by M&M late last year. He joined LBB in 1974.

Richard Halpern and **Charles C. Errant** joined The Daniel & Henry Co. in St. Louis as vps. Mr. Halpern and Mr. Errant previously were vps with Lawton-Bryne-Bruner in St. Louis.

At Rollins Burdick Hunter Co. in Los Angeles, **Leslie C. DeWald** joined the firm's National Aviation Division as vp and western region aviation manager.

Gerald R. Swanson named president of Johnson & Higgins of Washington Inc. in Seattle. Mr. Swanson succeeds **Denver Ginsey**, who is retiring. Mr. Swanson has been with J&H for 18 years.

Also at J&H of Washington: **Edward J. Buchwald** named executive vp and **Jim L. Metcalf** promoted to vp and manager of the property department.

Reinsurance

George M. Gottheimer Jr. appointed senior vp of Reinco Intermediaries Inc. Mr. Gottheimer previously was senior vp of Pro Re Inc.

comings & goings: industry

of America, a subsidiary of the Crump Cos. Inc.

Clifford English Jr. appointed senior vp at E.W. Blanch Co.'s New York office. Prior to joining Blanch, Mr. English was senior vp of Intere Inc., where he had been since 1979.

Excess/surplus

At Crump/H&W Insurance Services, **Ralph H. Harmsen** appointed vp-casualty/property brokerage.

William F. O'Brien elected senior vp and national marketing manager of the wholesale division of Poe & Associates Inc. in Tampa, Fla. Prior to joining Poe, Mr. O'Brien was vp of Morse, Payson & Noyes, a multiline insurance agency in Portland, Maine.

Also at Poe, **Denis I. Pruiett** elected executive vp of the company's wholesale division. Prior to joining Poe, Mr. Pruiett was with CIGNA Corp. for 16 years, most recently as marketing vp.

Other suppliers

Richard D. Lindahl joined Touche Ross as head of the employer health cost management consulting practice for the Dallas office of the firm's Actuarial and Employee Benefits Consulting Division.

Jane Y. Rastallis joined D.A. Betterley Risk Consultants Inc. in Worcester, Mass. Ms. Rastallis, formerly president of Albert C. Jones of New England, has been a risk management consultant for nine years. Previously, she had 17 years' insurance agency experience with Gauthier & Woodard Inc. in New Hampshire.

Michael B. Coyle named vp at Aldrich & Cox Inc. in Buffalo, N.Y. Mr. Coyle has been a risk manager-consultant with the company since 1979.

Ray Pfeister named director of medical/welfare benefits practice of Coopers & Lybrand's Actuarial, Benefits and Compensation office in New York. Mr. Pfeister previously served as vp of Alexander & Alexander Services Inc., vp and senior account executive at Johnson & Higgins and a group manager with The Prudential Insurance Co. of America.

Also at Coopers & Lybrand, **James McNicholas** joined the New York ABC office as senior consultant. Before joining the company, he was an actuary at the New York Life Insurance Co.

R.J. Young named president and chief executive officer of Graham Miller Inc. in Los Angeles, replacing **Donald G. Maxson**, who became chairman of the board. In addition, Mr. Maxson will serve as deputy chairman of the international adjusting firm.

Scott Dowd appointed senior consultant at the Wittner Cos. in St. Petersburg, Fla. Mr. Dowd previously was with Johnson & Higgins and Fred S. James in Southern California. ■

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Canadian excess mutual nears fruition

By TONY THOMPSON

TORONTO—Canadian risk managers will have new coverage options if three new mutual insurance companies are formed as proposed by broker Johnson & Higgins Willis Faber Ltd.

Each facility will offer a type of commercial property/casualty coverage that has been difficult to find at an affordable premium: excess liability, directors and officers liability and pollution liability.

Premium quotations are now being issued to 100 major corporations that have shown interest in the first of the three facilities to be formed, Canadian Excess Liability Insurance Co. The corporations must return the quotations before the insurer's projected March 31 incorporation and registration date if they wish to purchase excess liability coverage from the company.

Policies, which will be issued on a claims-made form, will have maximum limits of $25 million Canadian ($18.75 million) excess of $10 million Canadian ($7.5 million).

Policyholders will be required to purchase at least $100,000 Canadian ($75,000) in shares to capitalize the mutual, says J&HWF Senior Vp Brian Jones, who is overseeing the proposed companies.

The mutual plans to capitalize at $15 million Canadian ($11.25 million), according to sources. Zurich Insurance Co., CELIC's underwriting manager, would not comment on proposed capitalization.

While any profit will be shared among shareholders at the end of each fiscal year, policyholders also will be required to pay loss assessments up to 100% of their annual premium should losses exceed premiums.

The seed for CELIC was sown last July when J&HWF announced plans to form three insurers to help ease a capacity crunch in the Canadian market (*BI*, Aug. 4, 1986).

The tightened Canadian insurance market that necessitated the new mutuals resulted because of "underwriters' knee-jerk reaction to the U.S. losses of previous years," says Michael Cartwright, manager-insurance for Union Carbide Canada Ltd., the chemical and consumer products company in Toronto, a unit of Union Carbide Corp. of Danbury, Conn. Mr. Cartwright is a member of CELIC's advisory board.

"So they are charging premiums to recoup those losses. In many cases, companies are not paying the going rate; they're paying the 'gone-rate,' " he said.

But some observers, like Chris Cayton, senior vp at broker Reed Stenhouse Cos. in Toronto, say they believe the need for the excess liability facility may have passed, because capacity is now increasing.

"CELIC may not be as vital today as it was six months ago," says Mr. Cayton. Nevertheless, Reed Stenhouse is suggesting its clients obtain quotations from CELIC.

Sheldon Rankin, president of Toronto broker Marsh & McLennan Ltd., which with Reed Stenhouse tried to organize underwriters to develop an excess liability pool and failed, also has doubts about CELIC.

"We won't advise our clients until we have had our actuarial experts fully analyze the CELIC policy," Mr. Rankin says.

But, Andre Goyette, director of insurance for Bombardier Inc., a Montreal-based automotive company, says he will be recommending CELIC to his board, despite a softening in rate increases.

"The insurance market can turn sour rapidly," says Mr. Goyette. "This group can stay in place whether the market is good or not. If the market is poor, we can assume the risk; if it's good, the group can use the insurance market, feeding the policies to the insurers who should be taking the risk in the first place."

With a targeted premium volume of $30 million, CELIC would write at a premium-to-surplus ratio of 2-to-1.

The final authority on whether CELIC will be licensed will be Thomas Hammond, federal superintendent of insurance. The provincial superintendents of insurance generally follow if the federal government grants a registration certificate.

Despite earlier assurances that CELIC would be approved if surplus requirements were met, Superintendent Hammond already has shown concern over CELIC's proposed capitalization of $15 million Canadian and has said he would prefer to see that figure nearer to $25 million Canadian ($11.25 million).

However, CELIC's promoters and advisers are hopeful that the superintendent will soon approve their amended proposal.

With CELIC close to becoming a reality, J&HWF is now working on another mutual specializing in D&O coverage.

Mr. Jones says that the Canadian Directors & Officers Insurance Co. is needed because the D&O market in Canada has virtually dried up, with only four insurers now offering the coverage.

"Last July, with no claims experience, we saw our premiums increase eight times, and our deductible was increased at the same time," says Tony Bridger, risk manager of Canada Packers, a major food processor and agricultural feed company in Toronto.

"I've been told by my executive to obtain cover at any price, and I'm very excited about the possibilities of CANDO," he said.

J&HWF has retained Stewart Smith (Canada) Ltd. to advise on the formation of CANDO. Premium limits and capitalization for CANDO have not yet been established.

The D&O facility hopes to be incorporated by July 31 if industry reaction is favorable.

According to a 1986 survey of major Canadian corporations by actuarial consultants Eckler Partners Ltd. of Don Mills, Ontario, there is a need for the facility.

"We found quite a high percentage did not have D&O insurance, the main reason being the high premiums," says Eckler Consultant Joe Cheng. "We estimate the frequency of claims is about one in 100. The trouble is, with so few companies assuming this risk, the lack of competition keeps premiums high."

Riding the momentum from sponsoring CELIC and CANDO, Mr. Jones is now working on a facility that would write non-sudden and accidental pollution coverage. CELIC will include coverage for sudden and accidental pollution incidents in its policy.

The pollution proposal is expected by July. ■

& after

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London conference

Insurers become myopic: Brokers

By CAROLYN ALDRED

LONDON—Policyholders that cannot find capacity in the commercial property/casualty insurance market are quickly devising their own solutions, two insurance brokerage executives say.

Underwriters on both sides of the Atlantic have become too introspective and are losing sight of their clients' needs, agree John A. Bogardus, chairman and chief executive officer of Alexander & Alexander Services Inc., and Adrian Platt, chairman of Lloyd's of London broker Sedgwick Group P.L.C.'s marine and aviation division.

Commercial insurance buyers now are turning to self-insurance and captive insurance companies, and commercial insurers are in danger of losing that business forever, both brokers warned at last month's London Insurance Market Conference, sponsored by Insurance & Reinsurance Research Group Ltd., a London risk management consultant.



Mr. Bogardus

"The industry seems to believe that most business will return to the market as harsh conditions moderate. . . .However, I think we're in for a rude and costly awakening," said Mr. Bogardus, who announced last month he will step down as A&A's chief executive officer in May and retire as chairman next year (*BI,* Feb. 23).

Recent changes in the market may be permanent, he said, noting that a new, tougher breed of risk managers is running corporate risk management programs.

"The new breed of risk managers bears little resemblance to the insurance buyer of yesteryear. . . .To them, commercial insurance represents merely one of several possible funding mechanisms for reserving against risk," Mr. Bogardus explained.

Risk managers' greater understanding and sophistication is requiring the insurance industry to provide more comprehensive analysis and explanation, he said. Added to this is the attention now being paid to risk management and insurance by chief executive officers and financial management anxious to reduce costs and increase efficiency, Mr. Bogardus said.

"The CEOs, corporate treasurers and risk managers I see are talking about long-term alternatives to insurance. For example, some are discussing the formation of a risk managers' insurance company covering liability risks above a retention of only $1 million. This could be the ultimate risk retention group," he added.

Mr. Bogardus pointed to the savings and loan industry in the United States as a market that misunderstood the shifting nature of customer loyalties and paid "an enormous price" for its misunderstanding.

"For decades, the U.S. savings and loan industry flourished . . .then, short-term rates became almost as volatile as insurance prices. The customer was startled. Alternatives became available, and the customer discovered he could get a better deal," he explained.

"Interest rates came down, but the customer never came back. He had gotten more sophisticated, and his traditional loyalties vanished," said Mr. Bogardus.

Furthermore, many insurers are not viewing clients much beyond their next renewal, while the industry is placing too many of the burdens created by tight property/casualty market on its customers' shoulders, he said.

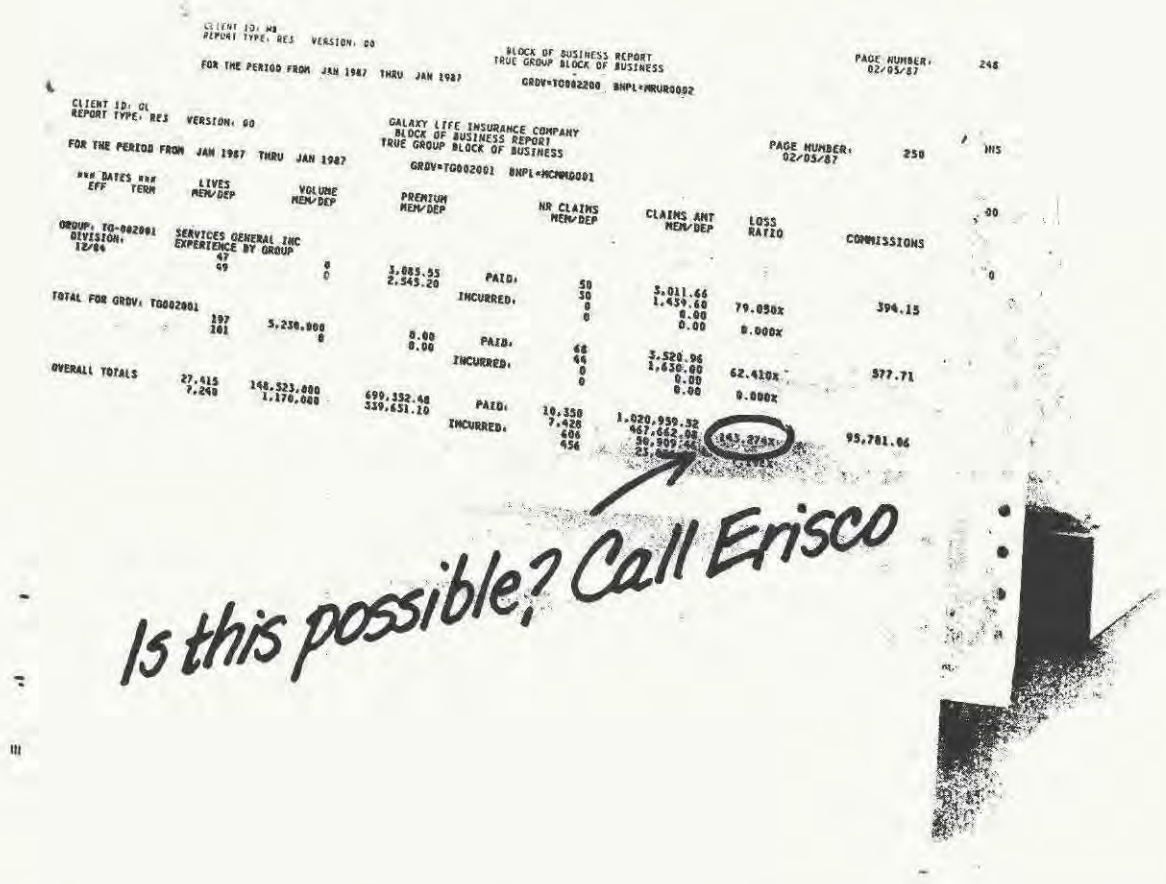
"We are in danger of unwittingly reinforcing the impression that the insurance industry can't be expected to provide new or innovative solutions for certain emerging risk problems," said Mr. Bogardus.

However, some "pervasive and troublesome developments," including the lack of security behind some

Continued on next page

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London capacity returns for property coverages

By CAROLYN ALDRED

LONDON—Capacity for many property and non-U.S. casualty coverages is slowly returning in the London insurance market, according to three Lloyd's underwriters who together write a full spectrum of marine, non-marine and aviation risks.

In fact, there is too much capacity in the marine market, one underwriter noted.

However, there still is little or no capacity for some U.S. liability risks, another underwriter pointed out.

Underwriters Richard Hazell, Richard Outhwaite and Richard Maylam—dubbed the Three Richards during last month's London Insurance Market Conference—each spoke of increasing capacity in their various sectors of the market. The conference was sponsored by the Insurance & Reinsurance Research Group Ltd.

The non-marine property market is showing signs of a slight recovery, according to Mr. Hazell, underwriter for syndicates managed by F.R. White & Others.

"There is a small element of competition creeping back into the market, producing sufficient market capacity for small to medium-size property risks," he noted.

In the absence of a major catastrophe in 1987, the next two years will see a growth in capacity in property insurance and reinsurance markets, he predicted.

But, there is still a lack of capacity for policyholders with major exposures, he added. Also, some lines, like product liability and professional liability with U.S. exposures remain almost impossible to underwrite, he said.

"Fear of the U.S. court system will keep new underwriters from entering the U.S. liability scene for some time. If pollution and asbestosis claims continue to spiral, they alone will probably be sufficient to bankrupt the whole insurance industry," according to Mr. Hazell.

Also, excess liability insurance is very difficult to place, regardless of whether it is for U.S. or foreign risks, he added.

Meanwhile, capacity in the aviation market already has increased following improved claims experience in 1986, said Mr. Maylam, aviation underwriter for A.J. Archer & Partners.

But as capacity and competition in the aviation market increases, underwriters must be careful not to slash rates, he warned. "The market cannot afford to fall back into bad habits. Liability awards in the U.S. are still increasing, and problems such as terrorism remain with us."

However, increased capacity already has led to steadier rates, particularly hull rates, Mr. Maylam noted (*BI*, Feb. 2).

Turning to satellite insurance, Mr. Maylam said the market has reached a watershed.

"The space business has a very big future, and the insurance market will have to come up with a lot of capacity," he said.

While Mr. Maylam spoke of the new heights to be achieved in the aviation market, fellow Lloyd's underwriter Mr. Outhwaite of R.H.M. Outhwaite (Underwriting Agencies) Ltd. spoke of a decline in business in the marine insurance market.

"There is much too much capacity in the marine market for the business available, and world shipping is continuing to decrease at 3% a year in terms of total annual tonnage," he pointed out.

The marine market is firmly in the doldrums, and Lloyd's underwriters—faced with declining demand and too much capacity—have turned to writing non-marine insurance, he noted. Marine syndicates are allowed to write up to 10% of their premium capacity as incidental non-marine business, he pointed out.

"The London marine market has become almost the only market in the world for some non-marine risks. But what makes marine underwriters think they can ignore the experience of the rest of the world?" Mr. Outhwaite observed.

Clauses are now being included in marine underwriters' excess-of-loss liability reinsurance contracts to exclude these types of non-marine risks, he said later in an interview with *Business Insurance*. ■

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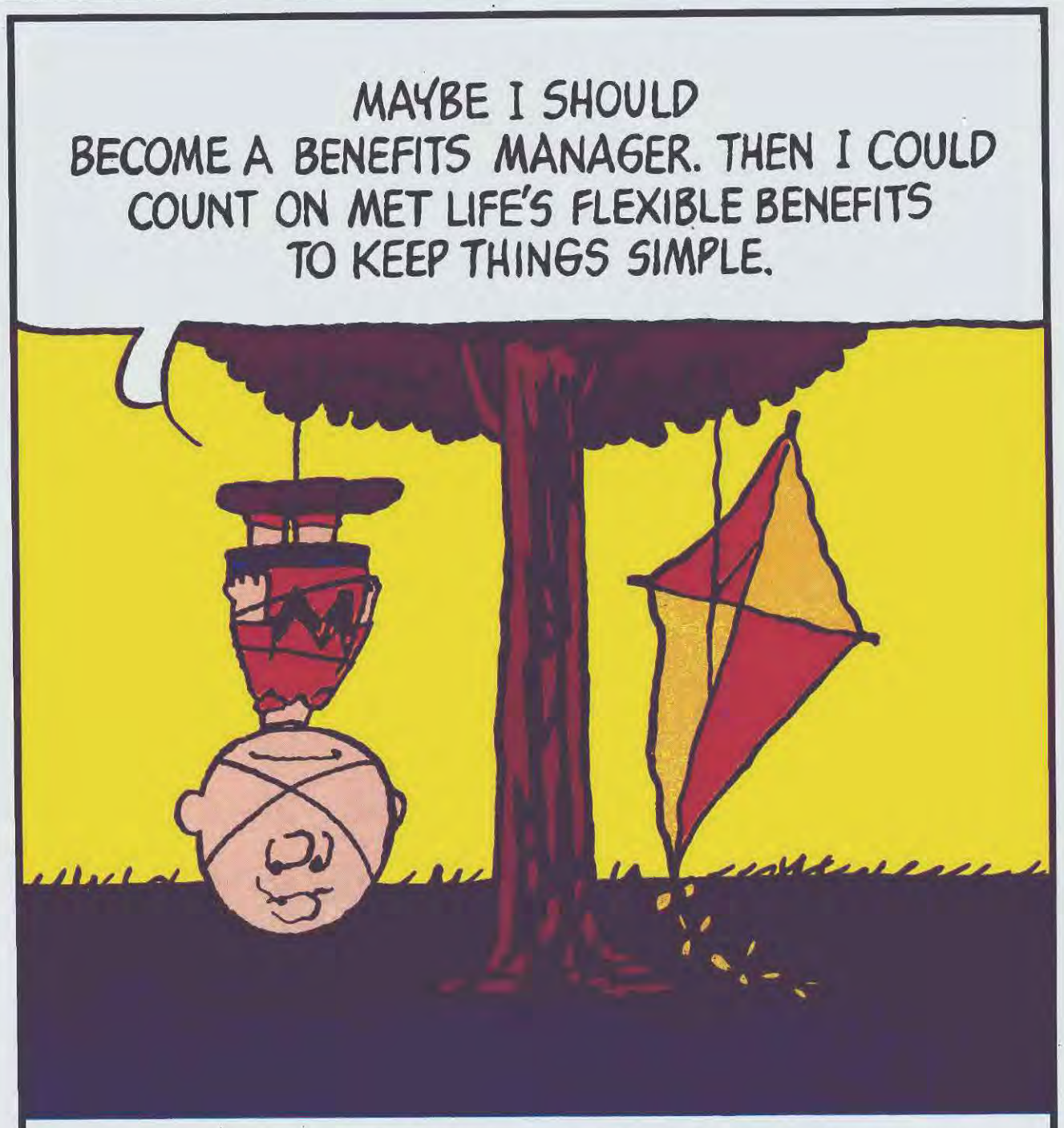
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Continued from previous page
insurers, could hamper the industry's efforts to retain its client base, he warned.

"As we see an increased inability of these companies to meet their obligations, we also see greater evidence that they are delaying or resisting claims payments," he said, adding that some insurers now are now turning to the courts in an effort to deny rightful claims payments.

"Such behavior is no longer confined to only the financially troubled companies but is showing signs of becoming a trend," Mr. Bogardus said. "It is ironic that members of an industry so incensed at the proliferation of litigation would so readily adopt the same tactics."

Such litigious behavior threatens the credibility of the insurance industry's campaign for civil justice reform, said Mr. Bogardus.

Other factors hampering the progress of the industry, both in its fight to retain clients and its quest for tort reform, include industry fragmentation and a lack of leadership, he said.

"I am convinced that our problems as an industry in the U.S. are exacerbated by our almost total lack of effective leadership in the public arena," he said, pointing out that the insurance industry has been unsuccessful in persuading the public that insurance is more a victim than a cause of current coverage availability and cost problems.

Meanwhile, now that the Democrats have captured the U.S. Senate, the prospect of effective tort reform on the federal level has been "virtually eliminated," he added. This pessimistic prediction is based on the influence of trial lawyers on the U.S. political system, he said.

"Nearly half—42%—of the members of the House of Representatives are lawyers, and lawyers comprise a majority of the Senate. . .and the prospect of tort reform has aroused the trial lawyers to new heights of political activity," he said.

In the face of this tide of opposition, the insurance industry must aggressively fight to achieve its objectives, Mr. Bogardus said. One way for the industry to take the offensive would be to invite its critics to take part in industry-sponsored studies seeking to quantify the impact of tort reforms on the cost of insurance claims, he explained.

"If they decline to participate, the industry's critics place themselves in a defensive posture."

Sedgwick's Mr. Platt called for the London insurance market to take a more aggressive attitude in seeking tort reform and suggested that insurers recruit policyholders as allies in their quest.

'I honestly feel that we have become too introspective about our own problems,' Mr. Platt says.

"Why couldn't an action group of major clients of the London Market and major leaders be formed to support a strong lobby to the U.S. administration? I know that we brokers could help to bring an effective group together," said Mr. Platt.

However, the market's first priority must be to provide the client with the solutions he requires, he said, echoing Mr. Bogardus' sentiments.

"Have we forgotten about the client and his problems? I honestly feel that we as industry have become too introspective about our own problems and worries," Mr. Platt said.

Much of the blame lies with reinsurers, according to Mr. Platt. "My feeling is that our industry's products are to a large degree being influenced by this sector of the market in a manner which does not inure to solving our ultimate clients' problems."

Some reinsurers are trying to restrict the coverage they offer to ceding companies by either imposing mandatory exclusions or ceasing to participate in complete classes of risks, he said. As a result, "the market as a whole could be missing opportunities for profit."

Mr. Platt noted that it is understandable that some insurers are limiting capacity for U.S. liability risks until adequate tort reforms are enacted.

However, if the "result of withdrawing cover is that either a major client goes bankrupt due to inadequate cover or alternatively he sets up a self-funding scheme which takes all his business out of the market, then I believe that withdrawal of cover is quite untenable," he added. ■

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DTI seeks increased regulatory power

By STACY SHAPIRO

LONDON—The British Department of Trade and Industry may propose beefed-up regulations for non-life insurance companies and brokers this year, the head of the department's insurance division says.

For example, there is no requirement at the moment for a broker to identify to a client the insurer with which the broker intends to place the client's coverage, said Tom Muir, head of the DTI's insurance division.

"That seems a strange omission. Should that be put right?" Mr. Muir asked during an address at last month's London Insurance Market Conference, sponsored by Insurance & Reinsurance Research Group Ltd.

Also, the DTI will "have a good look" at the how the solvency of non-life insurers are measured, since liabilities are oftentimes undervalued on insurance company annual statements, Mr. Muir noted.

The DTI also will have to make sure that it can satisfy other European Community member nations that "we have real teeth to stop insurers also writing business in other states," he said.

And, the department needs the power to appoint an administrator to study a company's records before the company is ordered liquidated, said Mr. Muir.

At the moment, the DTI has no power to appoint an administrator to review a company's records and instead must liquidate a suspect company to take control of its records.

'I doubt there will be radical changes in the style of regulations we have,' says Mr. Muir.

Nevertheless, said Mr. Muir, "I doubt there will be radical changes in the style of regulations we have in the U.K. in the future. There are only two caveats to that. Requirements from the EC may be laid on us through directives which we may not agree with but we still have to implement. Also, we have to look at what flaws there may be in our own regulatory system. If we do find flaws in the system, we plug up the holes."

Mr. Muir noted the "insurance regulator's role is to help the insurance buyer. It is not to help the seller."

Consciously or unconsciously, regulators must protect the individual consumer who buys insurance more than the commercial insurance buyer, he noted.

"The big corporate buyer can often look after himself and sometime do a better job" of noting industry problems than regulators, he said.

Still, both large and small buyers are better protected if there are strong insurance companies in the market rather than weak companies that can border on insolvency, noted Mr. Muir.

Regulation and competition should be in balance in the market to "bring benefits" to buyers, he said. "The two must be kept in balance."

Regulation generally ought to take into account the nature of the market being regulated, said Mr. Muir.

As London is largely a market writing international risks, it requires a different style of regulation than other markets.

The DTI also is concerned over how much it costs the department to regulate the insurance industry.

"We are concerned with our own cost-effectiveness, too," he said. "So, if we bring in new regulation, there must be a good reason" for the department to spend the money to enforce it.

There are four main ways in which the Department of Trade and Industry helps the insurance buyer, said Mr. Muir:

- The DTI influences the framework in which insurance operates in the United Kingdom.

In the past few years, he noted, two courts have issued conflicting decisions about unauthorized insurers operating in Britain.

One decision said that an unauthorized insurer did not have to pay claims on policies it had written, while the other said these insurers must pay claims, even though the policies are not authorized. To end the conflicting decisions, Section 130 was added by the DTI to the Financial Services Act passed last November, which says that unauthorized insurers are responsible for paying claims on unauthorized insurance policies, Mr. Muir explained.

- The DTI regulates insurers' solvency.

However, "clearly there is further work to be done, by regulators and the market, in improving methods for assessing reserve adequacy," Mr. Muir said.

"It goes without saying that any magician who unravels the secrets of relating the past to the future will find a welcome from us," he added.

- The DTI regulates insurers' market conduct. "This covers such matters as policy conditions, selling methods, the content of advertisements, the links between insurers and related intermediaries and the direct or indirect control of insurers' investment choices," he said.

The new Financial Services Act, which is designed to regulate British investment markets like the London Stock Exchange, will lead to new regulations governing life insurers and their intermediaries, he noted.

But Mr. Muir believes that the public will expect non-life insurers, which are not regulated under the new law, to follow similar rules promulgated by the life insurance industry.

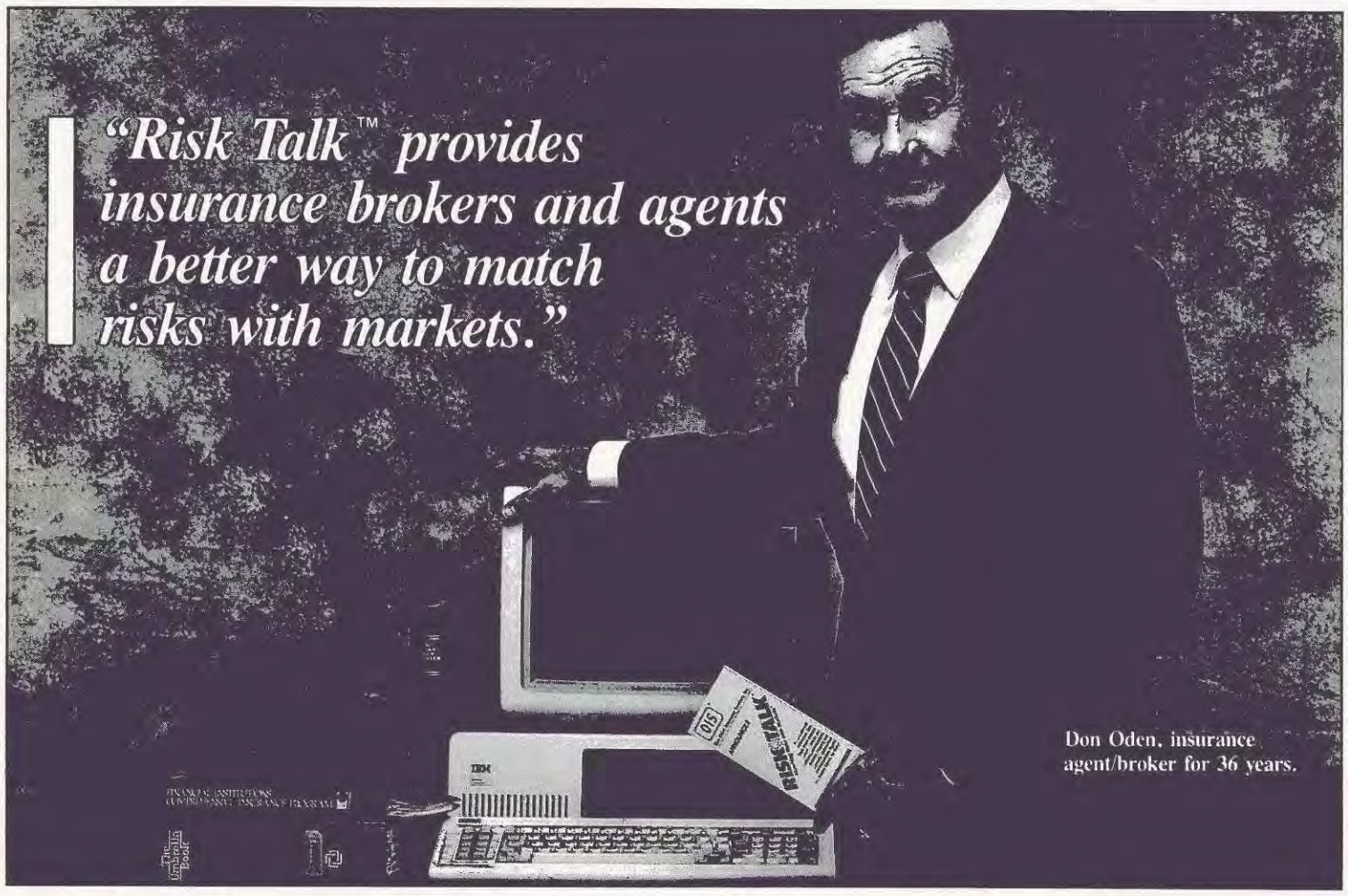
- The DTI has powers to intervene to regulate insurance companies' actions.

"If their solvency is in jeopardy or they are not obeying the other rules, then we intervene to the extent we think appropriate to protect policyholders' interests," Mr. Muir explained.

The department, for example, can limit the amount of business an insurer can write, control its investments, require that assets be put into a trust or take any other measure "up to the point of stopping them from doing business."

"These powers are not limitless but are substantial," said Mr. Muir. "The message they send to the companies is clear: Stick to the rules or take the consequences.

"The problem tends usually to be less in the powers themselves. It is more in sensing early enough that there is a need to use them." ■



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Lloyd's ready to make changes: Lawrence

By STACY SHAPIRO

LONDON—Lloyd's of London must make changes in its self-regulatory structure and market practices this year to satisfy British government demands, admits Murray Lawrence, Lloyd's senior deputy chairman.

But, Lloyd's will make other changes in the market—not required by the recent Neill report—to satisfy policyholders and others, says Mr. Lawrence, who is also chairman of Murray Lawrence & Partners, a Lloyd's underwriting agency.

The Neill report, the product of a British government inquiry into Lloyd's self-regulation, has called for Lloyd's to make 70 changes to its self-regulatory system, Mr. Lawrence noted.

Already, the Lloyd's Council has agreed with the report's most controversial recommendation: that four working Lloyd's members on the council resign in July to be replaced by four non-Lloyd's members appointed by the governor of the Bank of England. This would shift control of the council to non-working members and outsiders for the first time in Lloyd's 299-year history (*BI*, Feb. 9; Jan. 26).



Mr. Lawrence

In addition, "We have a considerable shopping list from Neill to deal with in the future," Mr. Lawrence told last month's London Insurance Market Conference, sponsored by Insurance & Reinsurance Research Group Ltd.

Lloyd's has agreed to accept in principle all the changes called for in the Neill report, he said.

While "this will occupy our resources in the future," at the same time, however, Lloyd's must also meet the demands of its policyholders, he said. "One cannot ignore market matters."

For instance, he noted Lloyd's has been accused of failing to meeting policyholders' capacity requirements, though Mr. Lawrence pointed out that Lloyd's capacity has increased 20% this year to 10.2 billion pounds ($15.6 million) from 8.5 billion pounds ($13 million) a year ago.

"Lloyd's cannot fill the whole gap that has been caused by the capacity crunch," Mr. Lawrence noted.

Despite capacity increases in all parts of the Lloyd's market, he said there is pressure on marine underwriters to provide more non-marine capacity to policyholders.

Lloyd's marine market at the moment has more capacity "than its risks can feed," said Mr. Lawrence, because of the slump in the world shipping and offshore oil businesses. But, Lloyd's brokers want to tap this surplus of marine capacity for non-marine risks by using existing market devices that are "highly undesirable," he said.

Other members of the market are talking about "eliminating market lines" at Lloyd's so that instead of separate marine, non-marine, aviation and motor markets, Lloyd's syndicates would write all varieties of risks, he said.

Mr. Lawrence noted there are arguments for and against eliminating market segments.

The current structure of Lloyd's allows underwriters to become specialists in one line of insurance, a system "which is envied" by the rest of the world, he said, while others argue the market delineations are unjustified.

"I believe there will be changes in the current market divisions and quicker than expected," he said.

Lloyd's must also improve many other market practices in the future, he said. "There is little truth that we are still in the quill pen era, but there are many practices . . .which leave a lot to be desired."

Specifically, the transfer of premiums and documents between policyholders and Lloyd's underwriters is very slow. "We must make more progress in this area quickly to satisfy policyholders, (Lloyd's) members and regulators overseas, particularly in the U.S.," he said.

"If we are to continue to be the most successful marketplace in the world. . .we must move with the times," Mr. Lawrence said. ■

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London aviation insurers need improvement: Buyer

By STACY SHAPIRO

LONDON—The London aviation insurance market today is offering less service and cooperation to airlines than it did eight years ago, an airline risk manager says.

Today, the London market overreacts to airline losses, offers insufficient capacity for some risks, narrowly worded coverage for others, cartel-type fixed rates and slow claims payments, said Urs Kneubuehl, insurance manager for Swissair, at last month's London Insurance Market Conference, sponsored by Insurance & Reinsurance Research Group Ltd.

"The weak points have become more and more valid. . .and what is even more unfortunate, they still are valid today," he said.

For example, Swissair's aviation liability insurance formerly covered liability exposures at the hotels owned by the airline and other non-aviation operations.

Now, however, because aviation underwriters are excluding hotel liabilities and other non-aviation risks from aviation liability coverage, Swissair must buy three different liability policies—aviation liability, hotel liability and non-aviation liability—instead of only one, said Mr. Kneubuehl.

"The reasons given" by the underwriters for not covering non-aviation risks under an aviation policy "are that they do not know enough about non-aviation risk," he said. "But why do they not want to learn? We as an airline would be happy to tell them everything, and we have offered to do so.

"Our offer was, however, not accepted. . . .We have here the example for lack of communication between insurer and insured as well as lack of information on the side of underwriters," he explained.

London aviation underwriters also are guilty of overreacting to airline losses, he continued.

Last year, he noted, underwriters said they were forced to raise rates to recoup record airline losses in 1985. However, instead of reducing rates this year following a minimal number of losses in 1986, underwriters are saying that other insurers "should not be impressed by an exceptionally good year. . . .I have never yet heard an underwriter say to his colleagues not to be impressed too much by an exceptionally bad year."

"There is certainly no reason why an exceptionally bad and an exceptionally good year should not be treated the same way."

London aviation underwriters also are guilty of "cartel-type fixing of terms," said Mr. Kneubuehl.

Last year, London underwriters imposed minimum 10% hull rate increases and 25% liability rate increases. Also last year, the aviation underwriters introduced a "terrorist surcharge" on war risk coverage for all airlines, regardless of the regions in which they flew, he said (*BI*, June 23, 1986).

In addition, the London aviation insurance market is guilty of slow claims settlements, noted Mr. Kneubuehl. "Today, I feel like crying when I think about the seven to eight months it takes to settle simple claims—and this is in spite of a period of one month mentioned in the policy wordings," he said.

Swissair, he noted, is one of the shareholders in Polygon Insurance Co. Ltd. in Guernsey, formed more than 10 years ago with two other airlines as a captive insurer.

Today, Polygon—which writes third-party aviation risks and is considered a part of the London aviation underwriting market—allows Swissair to "get better results" from aviation underwriters, Mr. Kneubuehl said. "We go though Polygon to get directly to markets like the U.S. without using brokers."

Before the London aviation insurance market loses its airline customers to other markets, London underwriters should make some changes to "remain in the leading role," said Mr. Kneubuehl.

He suggested that London aviation underwriters should:

- Recognize clients' needs and try to find solutions.
- Establish closer contract and better communications with airline risk managers.
- Increase capacity as the value of aircraft increases.
- Re-establish market competition instead of acting like a cartel.
- Smooth the peaks and troughs of the aviation insurance pricing cycle and avoid overreaction to high-loss years.
- Offer quicker claims settlement procedures. Within the last two years, Mr. Kneubuehl noted, Swiss underwriters have been quicker to pay claims than London underwriters. ■

Lloyd's computer proposal to be unveiled this month

By CAROLYN ALDRED

LONDON—A clearer vision of an electronic network linking Lloyd's of London brokers to Lloyd's underwriters and the rest of the London market will be available by the end of this month.

Computer experts representing Lloyd's, the Lloyd's Insurance Brokers Committee and other sectors of the London insurance market hope to produce a marketwide network model by mid-March, three computer experts told delegates at last month's London Insurance Market Conference.

Also, a proposal for electronically linking syndicates and brokers to Lloyd's Policy Signing Office will be reviewed this month.

A network that would allow underwriters and brokers to receive information about risks, policies and claims via computer terminals was first given serious thought in the London market in 1981, after then-Lloyd's Chairman Peter Green and senior members of the Committee of saw how U.S. insurers were investing in computer technology.

Since then, however, progress has been hampered by the markets' inability to work together, according to Des Lee, head of systems and communications at Lloyd's. Now, "the first major breakthrough has come as a result of proper cooperation between the LIBC, Lloyd's, the Institute of London Underwriters and the Policy Signing & Accounting Centre Ltd., an accounting center for non-marine claims and premiums for 122 London market companies, said Mr. Lee.

A working group consisting of two representatives from each market participant has been working since January and will produce a report this month, noted Mike Seddon, data processing manager at PSAC.

"However, there will be no 'Big Bang' in the London insurance market," said Mike Anstree, systems director of the Lloyd's Insurance Brokers Committee, referring to the term used for the simultaneous computerization and deregulation of the London Stock Exchange last year.

"The type of business and the way it is conducted. . .sets (the insurance market) apart from banks, stocks and securities," he said.

Meanwhile, progress also is being made individually by separate sectors of the market, the three speakers said. Recent developments include:

- The creation of a Policy Signing & Accounting Centre computer network, allowing member companies to access registered line slips and signed policies from remote computer terminals.

So far six member companies, representing 19% of PSAC's business, are linked to the network, which is based on an International Business Machines Corp. system. A further eight companies are awaiting the installation of telecommunication wires and another eight companies are expected to be linked to the network by the middle of the year.

By the end of 1987, PSAC hopes to have 30 companies, representing 57% of its business, connected to the network, said Mr. Seddon.

- A plan initiated by Lloyd's linking six syndicates with Lloyd's Policy Signing Office. The syndicates, which vary in size and include non-marine, marine, aviation and motor syndicates, are using their existing technology to relay data to the LPSO, said Mr. Lee.

At least three Lloyd's brokers—including E.W. Payne Ltd., a Sedgwick Group P.L.C. unit, also hope to take part, he added.

- A computer network board formed by Lloyd's brokers and chaired by Viscount Chelmsford, a former chairman of LIBC. This organization will provide additional support for brokers as computerization discussions "emerge from a period of hibernation," said Mr. Anstree. ■

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ASK A CASUALTY ACTUARY

Do insurers reduce reserves in lean years?

Q **It is sometimes alleged that insurers' loss reserves are more adequate in the profitable calendar years and less adequate in unprofitable calendar years. In your opinion, is this allegation valid, for example, for the years comprising the prior underwriting cycle?**

A Before directly addressing your question, it is important to emphasize that general observations about the insurance industry cannot, with any degree of assurance, be applied to any one specific insurance company. Nor is it possible to observe the historical performance of any one insurance company with regard to the adequacy of its reserves during profitable as well as unprofitable years and to form an opinion on the current condition of its reserves based on its published profitability or lack thereof.

Changes in management, management philosophy, significant circumstances affecting lines of business underwritten and the quality of reinsurance are among the more obvious reasons why allegations about the condition of any one company's reserves cannot be reliably inferred.

Having said all of the above, let's look at the historical record on this issue for the 25 largest property/casualty underwriters reporting data to the Securities and Exchange Commission. To do this we will examine the percentage of redundancy or deficiency of each company's overall loss reserves as of year-end 1976 (a representative unprofitable year) and as of year-end 1980 (a representative profitable year).

In each case, the percentage redundancy or deficiency in reserves will be defined in terms of the restated value of total loss reserves four years later. In other words, total loss payments during the succeeding four calendar years relating to the stated year-end reserves were added to the reserves remaining for those claims, and this total was compared with the original year-end reserve.

The results have been summarized in the accompanying table, with individual companies ranked by the magnitude of the percentage reserve deficiency as of year-end 1976. The specific name of each company has been omitted in order to discourage improper inferences being made about the current condition of the reserves of each of these companies.

A review of this table indicates the following:

- As the last column of the table shows, 16 of these major insurers fit the hypothesis that loss reserves are significantly stronger during profitable years than they are during unprofitable ones.

An additional three insurers also exhibited stronger reserves in 1980 than in 1976, but the extent of the strengthening was not large enough to be considered significant. The remaining four companies clearly did not fit the hypothesis, with two of these companies exhibiting virtually no change in the adequacy of their overall reserves and two exhibiting reserves that are less strong in 1980 than in 1976.

- Of those companies that had significantly stronger reserves in 1980, the extent of the strengthening was very substantial for 10 of them (20 percentage points or more) and quite significant for another six (10 to 19 percentage points).
- If eight-year runoffs were used instead of four-year runoffs to measure the adequacy of the year-end 1976 reserves, in many instances there were additional—and sometimes significant—further deficiencies indicated in the reserves.

For example, for the first five companies the difference would have been as follows:

- Company A—63% reserve deficiency after four years, 66% reserve deficiency after eight years.
- Company B—35% reserve deficiency after four years, 46% reserve deficiency after eight years.
- Company C—34% reserve deficiency after four years, 63% reserve deficiency after eight years.
- Company D—28% reserve deficiency after four years, 42% reserve deficiency after eight years.
- Company E—27% reserve deficiency after four years, 52% reserve deficiency after eight years.

In conclusion, the above information indicates that during the last underwriting cycle, many major insurance companies had relatively deficient loss reserves during the worst part of the cycle and that, in general, these deficiencies were showing profitable results. Because of several notable exceptions, it would be inappropriate to ascribe this phenomena to any given insurer based on whether results for the industry were generally, or specifically, profitable or unprofitable.

Are insurers' loss reserves stronger during profitable years?

Company	Percentage deficiency: Year-end 1976 reserves	Year-end 1980 reserves	Percentage-point improvement
A	63%	14%	49
B	35	4	31
C	34	1	33
D	28	11	17
E	27	26	1
F	22	−4	26
G	22	−4	26
H	20	−1	21
I	17	7	10
J	17	−6	23
K	17	−7	24
L	16	11	5
M	16	8	8
N	15	−12	27
O	14	2	12
P	13	3	10
Q	12	−2	14
R	8	16	−8
S	7	−10	17
T	6	−20	26
U	3	3	0
V	−2	−8	6
W	−27	−11	−16

Source: Securities and Exchange Commission — Chart: Amy Palmer

Association considers funding alternatives

Q **An association is currently evaluating two alternatives to its $2 million claims-made professional liability policy. Those alternatives are:**

- **Establish a rental captive insurance company offshore, with a domestic fronting insurance company, a Section 114 trust and a reinsurance program to provide excess limits of liability over the captive's retention and shelter retained earnings. Estimated one-time cost is believed to be $50,000 to $75,000.**
- **Establish a domestic association captive insurance company to be organized under the Risk Retention Act of 1986 and a reinsurance program with an offshore insurer to shelter earnings. Estimated one-time cost is believed to be $100,000.**

Are these one-time fees normal within the industry? Which option would you recommend?

A While neither of your cost estimates appears to be out of line with "industry norms," there are so many variables that must be considered in making a cost comparison that a feasibility study would appear to be in order to properly address your questions.

Based on the limited information provided in your description, some observations appear to be in order.

One of the biggest variables in determining the cost of setting up a risk retention group is the selection of a domicile.

In several states—such as Vermont, Delaware, Tennessee, Colorado and, by July 1987, Hawaii—special captive insurance company laws and a receptive posture by insurance regulators represent an environment where legal fees for filing an application and initial capitalization requirements are very reasonable. On the other hand, forming a liability insurance company, which must be done to set up a risk retention group, is a costly and protracted process in other states such as New York or California.

Currently, there are some captive management companies that will absorb the bulk of the one-time start-up costs, with the expectation of recouping these costs over time through ongoing quarterly management fees. Such companies may also be willing to follow this approach with respect to risk retention groups as well.

An appropriate cost comparison analysis will not only include one-time start-up costs, but ongoing costs as well.

While it is quite possible that one-time start-up costs for a risk retention group would exceed those of a rental captive (and your cost comparisons do not appear to be unrepresentative), it is quite likely, in my opinion, that the ongoing costs of a risk retention group would tend to be less. This situation would tend to reverse itself if the premium volume were relatively small—for instance, around $1 million.

Even this is not a given, however, because it is quite likely that a wide range of unbundled services will be made available to risk retention groups as more of these groups are established.

Continued on next page

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

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



Mr. Sherman

This month's column, on actuarial issues in the casualty field, is written by Richard E. Sherman, a principal with Coopers & Lybrand in San Francisco. William J. Miner, an actuary with The Wyatt Co. in Chicago, answers actuarial questions in the benefits field. Ralph F. Perry Jr., vp and director of risk management at Amfac Inc. in San Francisco answers risk management questions. And, Joseph W. Duva, director of employee benefits at Allied-Signal Inc. in Morristown, N.J., answers benefits management questions.

Mr. Sherman's and Mr. Miner's columns appear alternately on the first Monday of each month. Mr. Duva's and Mr. Perry's columns appear alternately on the second Monday of each month. Mr. Sherman's next column will appear on May 4.

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.

perspective

Treatment center increases risks

By The Insurance Institute of America

The following question and answer are drawn from the curriculum for the Associate in Risk Management designation awarded by the Insurance Institute of America. They represent the type of question asked, and possible answers to, the three examinations for the A.R.M. designation.

This month's material, taken from the December 1986 A.R.M. 54 national examination, highlights the special risk management concerns of those hospitals that specialize in treating highly communicable diseases.

Q: The board of directors of a major metropolitan charitable hospital is considering devoting a portion of its existing building to a special treatment center for victims of a newly discovered, potentially contagious disease. If established, this will be the only facility in the city designed for diagnosis and in-patient care of persons with this disease—including hospice care for the terminally ill. The board of directors recognizes that establishing this new treatment center will expose some of its personnel to this disease, thus creating potentially significant workers compensation liability for the hospital.

Before acting on this proposal, the board of directors has asked the hospital's risk management professional to advise it not only on how it might cope with this added workers compensation liability exposure, but also on any other loss exposures that this new treatment center might create or increase.

Explain in detail why establishing this new treatment center within its existing facilities would, or would not, be likely to increase the hospital's exposures to:

- Property loss.
- Net income loss.
- Liability loss (other than workers compensation).
- Personnel loss.

A.R.M. exercises

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- The new treatment center probably would increase the hospital's property exposures by calling for additional equipment or upgrading of existing structures to properly care for patients with this new disease. Additionally, this disease could potentially contaminate parts or all of the hospital, making these facilities unusable and lowering their value.
- If the hospital expects no substantial net income from this new treatment center, establishing it might not pose any significant new net income loss exposures.

However, if treating this disease will involve substantial resources and generate a meaningful portion of its net income, then damage to the clinic wing could deprive the hospital of this anticipated income. Moreover, such damage could require the hospital to incur extra expenses to continue treating these patients or to transfer them to other organization's facilities.

Finally, news that the hospital is treating patients with this disease may give the hospital adverse publicity, causing it to lose other patients and/or staff.

- Even setting aside potential workers compensation problems, operating the new wing may expose the hospital to liability for medical malpractice in treating these or other hospital patients who may be exposed to this disease or for allowing the contagion to spread beyond the hospital to the general community.
- Treating this disease may or may not expose the hospital to loss of services of key personnel. If proper procedures are followed and if the disease causes no undue anxiety among hospital staff, no personnel losses may result.

If, however, there is a gap in the sanitary treatment practices of the hospital, the disease may spread to some of its key personnel, causing them death or disability.

Alternatively, if the disease frightens some key employees, they may resign, again depriving the hospital of their valuable services.

- The presence of this new disease on its premises should prompt the hospital to pay special attention to workers compensation risk control to safeguard its own employees. For loss prevention—to reduce frequency with which employees contract the disease—the hospital should consider:
  - Pre-screening for good health hospital personnel working in this unit.
  - Excluding as far as possible other hospital personnel from this treatment wing.
  - Requiring strict sanitary procedures—including appropriate personal protective clothing among staff working with these patients.
  - Conducting educational programs about this disease for hospital staff.
- Loss reduction efforts should aim at reducing the severity of workers compensation claims contributable to this disease. Loss reduction measures that should be considered include:
  - Frequent examination of all hospital personnel—especially those caring directly for these special patients—to identify and treat anyone who may contract the disease.
  - Rehabilitation of any diseased employees to return them to work as promptly as possible.
  - Education about the disease so that employees themselves will be able to better judge whether they have contracted it can refer themselves for appropriate treatment.

The sample questions and answers used in this column are taken from the Associate in Risk Management designation curriculum of the IIA. For more information on the content of the A.R.M. program, write Dr. G.L. Head, Vp, Insurance Institute of America, P.O. Box 314, Malvern, Pa. 19355.

Rental captives

Continued from previous page

On an ongoing basis, it is most likely that the corresponding operating costs of a risk retention group would tend to be less than the typical fronting fees (10% to 18% of premium) that have been customarily charged by fronting insurance companies.

It is unclear to me whether there is any good reason to work with a rental captive as opposed to a wholly owned captive—unless your total program is quite small. There appear to be relatively few companies that currently are willing to rent out their captive.

If you wish to pursue the rental captive approach, make sure that you are thoroughly convinced that you want to throw your fortunes in with the other participants in the rental captive. Even if there are reasonable provisions in the agreement forms to substantially segregate the accounts of each participant, there is still the risk that the underwriting results for some of the other participants may trigger the insolvency of the rental captive.

There is much to be said for continued consideration of Bermuda and other offshore locations as a captive domicile as opposed to a domestic location for a risk retention group if a stable and well-defined regulatory environment is a key consideration.

The Risk Retention Act is still so new that no track record has been developed in any of the states with regard to their regulatory posture toward risk retention groups.

In most states, the insurance commissioner in the state of domicile can exercise a great deal of discretion in terms of his approach to monitoring risk retention groups, whereas the track record and well-defined regulatory requirements of a domicile like Bermuda create a predictable environment.

Can states regulate risk groups' rates?

Q **In your article concerning the Risk Retention Act (*BI,* Jan. 5), you indicate that purchasing groups are exempt from state regulation of rates. It is my understanding that New York requires all rates to be filed, including those of a purchasing group. I am interested in knowing how you came to your conclusion.**

A In the previous article, I stated that "risk retention groups and purchasing groups are exempt from state *approval* of rates and forms outside the state of domicile." Your statement that New York state requires all rates to be filed, including those of a purchasing group, is correct for licensed insurers but not for unauthorized insurers.

However, the requirement for licensed insurers to file rates does not mean that New York state has any meaningful authority to approve or disapprove those rates once they are filed. It is that authority that the Risk Retention Act has restricted.

My conclusion is based on Sections 4(a)(2) and (3) of the act. This portion reads: "Except as provided in this section and Section 6, a purchasing group is exempt from any state law, rule, regulation or order to the extent that such law, rule, regulation or order would (2) make it unlawful for an insurer to provide or offer to provide insurance on a basis providing, to a purchasing group and its members, advantages, based on their loss and expense experience, not afforded to other persons with respect to rates, policy forms, coverages and other matters; (3) prohibit a purchasing group and its members from purchasing insurance on a group basis described in paragraph (2) of this subsection."

I read this to mean that the Act explicitly exempts the regulatory authority that New York had over liability rates for purchasing groups—to the extent that such authority would prevent purchasing groups from obtaining coverage at special rates and to the extent that such rates are based on loss and expense experience. Thus, a filed rate based on experience could potentially be disapproved. New York could also disapprove the filed rate of a licensed company for a purchasing group if it can be proven that the rate was so low it would put the insurer in hazardous financial condition.

New York state still retains the authority to require the filing of such rates by licensed insurers, since the mere filing of the rates would not prevent those rates from being used by purchasing groups. Thus, the authority of the state to regulate rates for purchasing groups has been significantly restricted.

Section 4(d)(1) of the act states: "A purchasing group which intends to do business in any state shall furnish notice of such intention to the insurance commissioner of such state. Such notice shall identify the state in which such group is domiciles; shall specify the lines and classifications of liability insurance which the purchasing group intends to purchase; shall identify the insurance company from which the group intends to purchase insurance and the domicile of such company; and shall identify the principal place of business of the group."

It is worth noting that the above-cited section provides a list of information that must be filed with the insurance commissioner.

Global programs

Risk managers resist putting eggs in one coverage basket

By Jerome Karter

OVER THE YEARS, many U.S. multinationals have successfully adopted a global approach to banking, accounting and advertising. Yet the same U.S. multinationals often get cold feet at the thought of wedding their domestic and foreign insurance exposures under one global program.

True global insurance programs have been much ballyhooed in recent years. Global program advocates have repeatedly espoused the economies of scale that can be achieved through "spread of risk" and "bulk buying." By and large, however, U.S. multinationals have usually decided against putting all of their eggs into one protective basket.

U.S. risk managers have cited many reasons for resisting the global concept. Some fear that capacity restrictions will ultimately unravel a global program. Others fear the loss of a competitive edge when premiums are pooled with one insurer.

Still others blame the 1983-1984 soft market for the dearth of global programs since there was little incentive to seek bulk buying benefits when rock-bottom insurance rates prevailed both in the U.S. and abroad. At that time, however, those who foresaw the hardening market predicted a swing toward global programs and envisaged theoretical formats for property and casualty lines.

The hard market materialized, yet globals did not—even though their fundamental concepts remained sound. So why do global programs still have their advocates? Let's start by analyzing what a global program does.

Global programs stem from the hypothesis that ultimate consolidation yields ultimate benefit. In effect, global insurance programs allow the U.S. multinational to share state-of-the-art risk management principles with its foreign subsidiaries. Like the U.S. parent, the foreign operations often deal with new products, or advanced technologies or novel services. Unlike the parent company, however, these subsidiaries probably have not kept pace with current U.S. standards in insurance program design.

U.S. multinationals that have married their U.S. and foreign insurance exposures successfully into a global programs are enjoying the advantages of:

- Worldwide insurance rates that reflect the size and the experience of the global program.
- Liberalization of coverage.
- Common worldwide standards for conserving assets.
- A corporate insurance philosophy geared to worldwide financial strength.
- A good-citizen status with respect to local insurance laws and exchange-control regulations.

Each of these can represent a distinct benefit to U.S. multinationals and their foreign subsidiaries. For example, it is easier for a U.S. multinational to achieve adequacy of coverage at competitive price levels when all of its assets, earnings and liabilities are insured through one worldwide insurer that has facilities around the globe. The worldwide insurer can mirror "all-risk" master policy coverage in non-tariff market countries. Assets in tariff-rated countries can be protected through a combination of admitted and non-admitted "all-risk" master policy coverage.

Ideally, the U.S. multinational gains the maximum benefit from bulk bargaining, while premiums are paid, where possible, by the local subsidiary. In addition, centralized bargaining power allows the worldwide insurer to control rates in non-tariff countries, thereby allowing for greater premium savings.

Global programs also afford consistency of coverage, deductibles, limits of liability, value reporting and claims handling procedures, as well as early reporting of local additions or deletions.

Last, but not least, the U.S. multinational's relationship with one worldwide insurer lays the groundwork for a stable long-term relationship that can survive future market swings.

"Hah!," you say. "Many of the same benefits are available through a non-global foreign-controlled master program, and I can still maintain autonomy between my U.S. and my foreign insurance."

While this is true, the global concept offers the added benefit of liberalized coverage. As every risk manager knows, the consequences of a big fire or liability claim are not necessarily confined to one country. A foreign U.S. multinational subsidiary often is dependent upon supplies from another country. Thus, the effect of a fire in Houston may be felt in Japan or Belgium, and vice versa. Separate programs may not always respond to these exposures.

In many cases, potential coverage gaps are eliminated when U.S. and foreign exposures are united under one contract.

Global property insurance policies, for example, can cover the worldwide interdependency exposure that exists between parent and subsidiary, as well as between one subsidiary and another. Worldwide extensions to suppliers, customers and utilities are another example of broadened global property coverage.

international issues

Asset conservation can be enhanced through a global program, as well. Potential loss situations can be identified more easily when all subsidiaries are insuring to a common standard and losses are pooled through one insurer. Under a global program, a solution to a loss-causing event at one location can be identified and shared with other facilities that may have the same exposure.

Lastly, it makes sense that assets and earnings should be protected through centralized risk management decisions just as major investment decisions are made or approved centrally.

There are some obstacles to putting together a global program, of course.

First, only a limited number of worldwide markets have the capacity to underwrite a global program. And those that do will underwrite through separate U.S. and foreign treaty facilities. Fortunately, this practice allows the global insurers to wrap around a primary U.S. property program underwritten by a highly protected risk insurer.

Next, the "all-risk" manuscript policy form must be carefully edited to ensure that all worldwide exposures are covered and to relegate limits, deductibles and peril/property exclusions to the appropriate U.S. or foreign coverage sections.

Another obstacle occurs when foreign facilities have a long-term agreement in force. For a nominal rate discount, LTAs lock a local policy into a three- to 10-year period. Facilities with an existing LTA will be barred from the global program for the duration of the policy period, unless a loss occurs or the LTA insurer seeks a policy change prior to expiration.

Finally, the global concept is obstructed when a program rate is higher than a local market alternative. Unfortunately, there is usually a market somewhere in the world that will undercut at any price. Thus, U.S. risk managers must help their foreign managers to understand that a global program operates to the best interests of all concerned, even when it is not the least expensive alternative at a given location.

None of these issues represents an overwhelming obstacle to adopting the global concept. Indeed, global property insurance programs are relatively easy to structure and to market, although their casualty counterparts may present problems.

Over the years, the global concept has been used widely by excess casualty underwriters in the form of umbrella liability contracts. Umbrella policies usually contain a worldwide territorial clause that allows coverage to respond to any loss in excess of separately placed primary U.S. and foreign casualty programs.

But, when the liability insurance market hardened in the mid-1980s, many risk managers elected to offset increased U.S. retention levels by building separate foreign-only occurrence-form excess liability programs. Most of these programs will probably be maintained until the liability market returns to equilibrium. In addition, separately placed U.S. and foreign excess policies for pharmaceutical and chemical companies may continue through a future soft market until commercial insurers clarify their position toward long-tail liabilities.

So, the decision to globalize a casualty program must be deferred until the U.S. risk manager opts between worldwide concurrency of forms, even if it entails claim-made excess limits or separate U.S. and foreign liability policies when occurrence coverage is still available for non-U.S. operations. If the latter option is selected, a risk manager must then decide which policy will provide jurisdiction for claims brought in the United States arising from a foreign occurrence. As can be expected, any options will be determined largely by the nature of the company's product line. More hazardous industries like pharmaceuticals or chemicals will have fewer options.

Global casualty programs also may be impacted by underwriters' wariness toward recent "forum shopping" in many foreign countries—shopping around for the best courts and country in which to bring a claim. To make matters worse, the pending European Community Product Liability directive is expected to escalate the practice of forum shopping as strict liability becomes the rule of thumb.

Yet, the future of global casualty programs is not totally bleak. Let's look at a hypothetical claim to see what the practical benefits of a global casualty program can be.

Your British subsidiary designs and manufactures a product with component parts from subsidiaries in Spain and France. The completed product is exported to Australia. The product is defective and injures Australian, French and U.S. nationals. The Australian nationals sue the Australian subsidiary company. The French nationals file suit in France against the French subsidiary and also against the Australian company. The U.S. nationals file a claim in the United States against the U.S. parent company. Which company is liable?

Can the Australian company recover from the British company? Can the British company recover from the French and Spanish suppliers if a component part were proved defective?

Clearly, the potential subrogation claims between parent, subsidiary and sub-subsidiary can be avoided through the implementation of a global casualty program.

Nothing is simple, particularly the global concept. But, if special attention is paid to design, marketing and management, the global concept may suit your corporation's needs.

Jerome Karter is vp and manager of the New York International Department of Johnson & Higgins. His column appears the first Monday of every month.



European court blocks German rate hikes

BRUSSELS, Belgium—A West German association of property insurers that recommended members raise rates a fixed amount is violating the Treaty of Rome, the European Court of Justice ruled.

The treaty established the European Community.

The court ruled recently that all insurance companies in European Community member nations, including those that belong to the German association, must abide by the "competition rule" under the treaty, even though insurers are not specifically named in the rule.

The rule, similar to U.S. antitrust law, basically says that companies cannot enter into agreements, decisions or practices that prevent, restrict or distort competition in the European Community.

In *Verband der Sachversicherer (German Tangible Property Insurers) vs. the European Commission,* the German property insurers challenged the European Commission's refusal to allow fixed rating recommendations to be applied to the West German property insurance market.

During the late 1970s, the West German association claimed that fierce price competition between property insurers led to drastically reduced premiums. As a result, the association issued a recommendation in 1980 to its member insurers to increase premium levels by certain fixed amounts.

Knowing this might be in contradiction to the treaty's competition rule, the association notified the European Commission about the recommendation in 1982 and requested an exemption—known as "negative clearance"—from the rule.

The European Commission refused to issue the exemption in 1984, stating that the recommendation to increase rates by certain fixed amounts infringed the treaty.

The property insurers, supported by the West German insurance federation Gesamtverband der Deutschen Versicherungswirtschaft, contested this decision in the European Court of Justice, claiming that the treaty did not specifically mention insurance companies.

But, the court upheld the European Commission's decision in late January, though the court also ruled that the commission should take the "special nature" of insurance companies into account if they apply for exemption to the competition requirement.

—By Denise Claveloux

worldwide

Jordanian reinsurer

AMMAN, Jordan—A state-owned reinsurance company is now operating in Jordan.

Jordanian Reinsurance Co., established Jan. 1, is owned by the government's Social Security Corp. and Pension Fund, but the government has invited banks and privately owned companies, including insurers, to buy stock.

Jordanian Reinsurance has initial capital of 3 million Jordanian dinars ($9 million), according to Ravi Ibrahim, controller of insurance at the Ministry of Trade and Industry.

The company will reinsure only Jordanian business this year, but it will write business from other Arab countries in 1988 and 1989, he said. In future years, the reinsurer may consider writing reinsurance in other nations, he added.

Insurance companies operating in Jordan must now cede 25% of their business to the new company.

The Jordanian market currently generates about 27 million dinars ($81 million) in gross premium volume, of which 10 million dinars to 12 million dinars ($30 million to $36 million) is ceded to reinsurance companies outside Jordan, he said.

There are 31 insurance companies operating in Jordan, of which 19 are Jordanian and 11 are foreign-owned. The number of Jordanian-owned companies has been reduced in recent years, however, with the merger of International Insurance Co. and Arabic Union Co. and the merger of National Insurance Co. and Al-Ahliah Insurance Cos.

—By Maria Kielmas

Swiss rate hikes

BERNE, Switzerland—Property insurance rates in Switzerland will increase an average of 14% this year following severe damage caused by snow and hail storms last year, says a Swiss government report.

In addition, auto liability insurance rates will increase by an average of 10%, except for public service vehicles like buses, said the annual report of the Federal Office for Private Insurance.

In 1985, the last year for which there are records available, 116 non-government-owned insurance and reinsurance companies were registered with the Swiss Office of Private Insurance, the report said. Of these, 78 were Swiss-owned insurance companies, 13 were Swiss-owned reinsurance companies and 25 were foreign-owned companies.

Foreign companies that entered the Swiss market in 1985 included Colonia Versicherung A.G. of West Germany, which writes property and auto insurance; Union des Assurance de Paris of France, which writes jewelers bloc coverage; and Insurance Co. of North America, a CIGNA Corp. unit, which writes specialty risks in Switzerland.

Swiss insurers in 1985 wrote 35.3 billion Swiss francs ($16.8 billion at the applicable exchange rate) in premiums and paid about 22.2 billion Swiss francs ($10.5 billion) in claims, the report said.

Property insurance—known as accident and damage coverage in Switzerland—and health insurance premiums increased 8.3% in 1985 to nearly 8 billion Swiss francs ($3.8 billion), the report said. Swiss life insurance premiums also increased 23.9% to 9 billion Swiss francs ($4.3 billion).

—By John Parry

New reinsurer

BRUSSELS, Belgium—European risk managers expect to announce the formation of their own reinsurance company this month to write liability risks, says Dick Vlasblom, European insurance manager for Dow Chemical Corp.

The new company, to be called either European Pooling System S.A. or EPS Reinsurance Co., will be incorporated in Luxembourg to write reinsurance for risks of shareholders. The company is being formed under the auspices of the Assn. Europeene des Assures de l'Industrie, which encompasses risk management associations in Belgium, France, the United Kingdom, Italy, the Netherlands and West Germany (*BI*, Dec. 29, 1986).

Formation of the company has been delayed by the death late last year of Henk W. Arntz, manager of the captive insurance broker division of Dutch chemical company AKZO, one of the company sponsors.

However, recently six companies agreed to buy shares in the reinsurer: Dow's European division of Dow; AKZO; DSM, the Dutch state mining company; Solvay & Cie S.A. of Belgium; Tabacco Fina of Belgium; and the Italian subsidiary of British-based Rio Tinto Zinc.

Other companies also are expected to purchase stock in the reinsurer.

Individual European risk management associations, too, are considering support, including the French risk management association GACI.

Tabacco Fina is supporting the new reinsurance company because it is the first time the European industry has fought back against market pressures, according to Frank Settembrino, director of Tabacco Fina.

—By Denise Claveloux

Persian Gulf losses

ATHENS, Greece—More merchant vessel losses have been reported on account of the Iran-Iraq War than were caused by World War II, shipping experts say.

In the last eight months, more than $80 million in war risk claims have been filed after attacks on merchant vessels in the Persian Gulf, said Gregory B. Hadjeilefthteriadis, vp of Eleston Corp., a Greek marine security firm.

He made his remarks at a recent conference, Shipping Under Fire: Reassessing Safety and Security at Sea, in Athens.

Altogether, some 200 merchant vessels have been damaged during the eight-year war, of which 78 were Greek-owned. Nine Greek seamen and 12 foreign crew members have been killed and another 20 Greeks and 13 foreign sailors have been injured.

The Iran-Iraq War "is the most destructive and dramatic war that has ever been recorded as far as its effects on the international and Greek shipping world is concerned," said Capt. Dimitris I. Paizis, marine and operation manager of Eleston.

The war "is the most serious offensive against merchant vessels since World War II, added Capt. Klass Reinigert, managing director of Smit Tak International Ocean Towage & Salvage Co.

By virtually halting oil and cargo shipments in and out of the gulf, the war has become "in effect a form of economic warfare," Capt. Reinigert said.

To combat shipping losses caused by the fighting, there should be more naval escorts to protect merchant vessels in the Persian Gulf, said retired U.S. Navy Adm. Harold E. Shear, former commander-in-chief of Allied forces in southern Europe.

Already, American naval ships in the Red Sea and the Persian Gulf have escorted some U.S. merchant ships, which American forces would do "anywhere in the world if the situation dictates it," Adm. Shear said.

Those attending the conference —which was sponsored by Eleston, Naftiliaki Publishers Ltd., the Piraeus Marine Club and Marine Security Ltd.—passed a resolution deploring the attacks on merchant ships in the Persian Gulf. The 170 insurance brokers, marine lawyers, marine security firm representatives, oil industry experts and shipping industry representatives also called for Iran and Iraq to stop the fighting.

Attendees also discussed the threat to passenger ships and offshore oil and gas rigs from terrorists.

For example, another hijacking of a passenger liner like the Achille Lauro incident in 1985 could "cripple" the cruise industry, said Kenneth Luck of Control Risks Ltd., a London security consultant.

Ship operators therefore should enhance the security of port installation and boarding procedures, he suggested.

Also, preventive measures should be taken to minimize the threat of terrorism to offshore drilling installations, said Capt. Erik Hellgren, senior naval liaison officer of the contingency planning secretariat of the Norwegian Shipowners' Assn.

Offshore operations are unlikely to escape terrorist attention, Capt. Hellgren pointed out.

—By Louis Economopoulos

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agent/broker topics

A monthly editorial section sent exclusively to agents and brokers

Striking a chord

Producers, insurers tune up their communication efforts

By LINDA J. COLLINS

Producers and insurers are tuning up communications efforts to improve relationships that struck a discordant note during the last market swing.

The turn from a soft to a hard market strained relationships between insurers, producers and clients at every level, industry observers say.

Many agents and brokers felt that insurers abandoned them when the market hardened in the mid-1980s, after the insurers had actively competing for their business earlier in the decade.

And, insurers felt many producers severed long-standing relationships with them during that period to gain the lowest available rates for their clients or to take advantage of more attractive incentives from other companies.

"It's really a roller-coaster relationship," explained Richard Kasyjanski, vp of agency services for the Independent Insurance Agents of America in New York.

"In the soft market, agents drive the marketplace. Companies give free enticements to get more business from them. Then, in the hard market, agents have to try everything they can just to keep markets open," Mr. Kasyjanski added.



Mr. Brooks

While insurer/producer relationships have suffered low points in previous market cycles, "Right now these relationships are probably at the lowest point we've ever experienced," said Dean E. Brooks, executive vp of Brooks-Lussem Insurance Inc. in Des Moines, Iowa, and chairman of the IIAA's commercial lines committee.

Agents are frustrated because they have had trouble explaining to their clients why prices and coverage availability vary so significantly during hard and soft market cycles, said agency consultant David Hales, chairman and chief executive officer of Hales & Associates in Oak Brook, Ill.

"After insurers pushed for growth without sound underwriting principles in the soft market, agents feel that they have been left holding the bag and are being held directly responsible" for the resulting underwriting losses, said Patricia A. Borowski, vp of government and industry affairs for the National Assn. of Professional Insurance Agents in Alexandria, Va.

As the distribution arm of the insurance industry, producers were often left scrambling to place coverages and trying to explain to angry clients and prospects what was going on, which generated more ill feelings toward insurers.

Agents and brokers also complain that when insurers were hit with major underwriting losses and lower investment yields in the mid-'80s, many companies reduced commission levels, cut the number of producers they would work with and limited the classes and lines of business they would write. At the same time, premium costs soared, with increases sometimes hitting quadruple digits.

"Many agents feel that companies took advantage of us during the hard market by cutting commissions, cutting agencies, etc. It makes good company/agency relationships very difficult" to maintain, said Kenneth W. Morrison, president, Hilb, Rogal & Hamilton Co. of Tidewater in Chesapeake, Va., and member of the company relations committee of the PIA.

But, in defense of some insurers, agents and brokers should recognize that "certain companies remained markets" during the mid-'80s, said John Lusk, assistant vp-property/liability distribution system for CNA Insurance Cos. in Chicago.

"Those companies received far more pressure on their resources to respond to agents, which in turn put a strain on the service area," he said.

"Not all companies have violated our faith. Some have kept strong commitments, while others altered that commitment midstream," agreed Josiah H. Welch, president and treasurer of Chase & Lunt Inc. Insurance Agency in Newburyport, Mass.

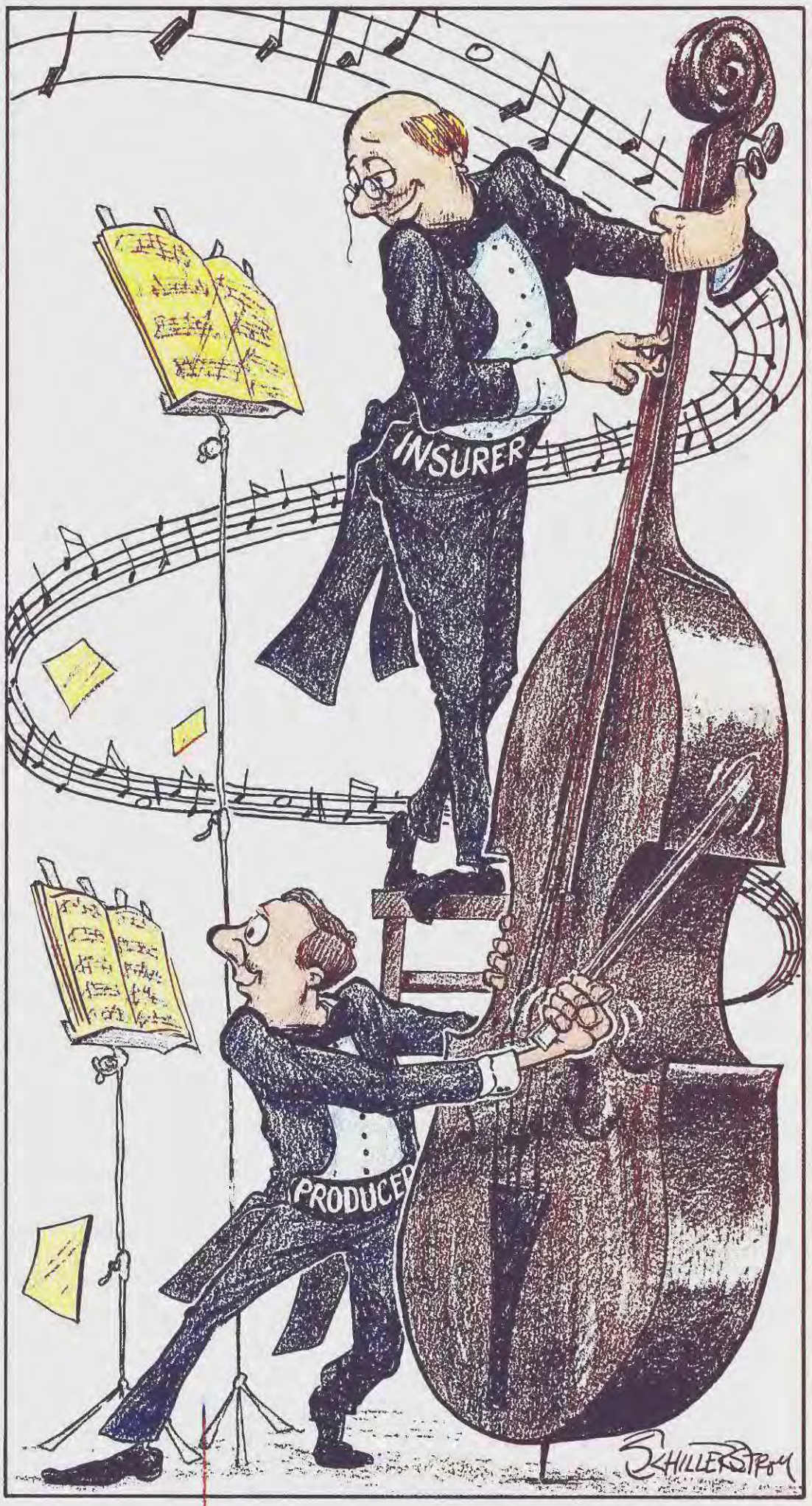


Mr. J. Welch

Regardless of where the blame lies for the strain in relationships between insurers and producers, both sides acknowledge that better communication and cooperation is needed between insurance companies and their distribution arm.

"There is a lot more interest within the industry in developing

Continued on next page



Agents should review company contracts

By LINDA J. COLLINS

Company contracts—not personal ties—now form the the basis of agency/insurer relationships, one agent notes.

Therefore, it is now more important that agents examine their contracts carefully and negotiate—whenever possible—to improve them, according to Josiah H. Welch, president and treasurer of Chase & Lunt Inc. Insurance Agency in Newburyport, Mass.

Insurers base these contracts on an agency's profitability, premium volume and mix of business. Agents, in turn, look for company contracts that offer them the most protection.

Many agencies have suffered unnecessarily because their principals did not spend enough time examining their company contracts before signing them, according to Mr. Welch.

"Agencies have to be knowledgeable about these company contracts and what they contain," he emphasized.

Signing a company contract "requires planning and thinking on the part of an agency. To assert their rights, agency principals need to do their homework," agreed Patricia A. Borowski, vp of government and industry affairs for the National Assn. of Professional Insurance Agents in Alexandria, Va.

Ms. Borowski said agents should read their company contracts carefully to answer these questions: "What do they offer and what do they not offer? Is there room for negotiation? What are the gradations of service provided?"

Agents sometimes can negotiate with insurers to amend standard contract provisions in their favor, observers say.

However, Mr. Welch warned, the only time an agency can negotiate a contract successfully is "when the market is good." And since the market is beginning to stabilize, agencies should begin to have more success in negotiations, he predicted.

During the recent hard market, many agencies that did not have adequate provisions in their contracts found themselves faced with abrupt contract terminations and commission cuts—sometimes midterm, he explained.

These things "should not be allowed by contract, or else when times harden and things get sour, companies can alter the contracts midstream," Mr. Welch said.

In addition, "an agency should not operate without a clear understanding of what is expected of it by the company," he said.

"Premium volume requirements, desired mix of business, rehabilitation provisions, termination clauses—all of these should be spelled out in the contract. Too many agents have let this opportunity slip by," he stressed.

He also urged agents to evaluate their companies on a regular basis —"what they offer and how they rank in the protection of agents in the contract agreement."

Carefully evaluating insurers is even more crucial now that many agencies have had to limit the number of insurers they represent to provide the remaining markets with enough volume.

According to Richard Kasyjanski, vp of agency services for the Independent Insurance Agents of America Inc. in New York, many national insurers have set a minimum annual premium volume requirement for agencies of $500,000 to maintain their contracts.

"Agents have been forced to consolidate their markets to remain open, and agents who can't meet those requirements" have had to "find another way to go," he said.

Similarly, many smaller agents have found it necessary to form agency cluster arrangements, sell their businesses to larger agencies or brokerages, or merge with other small agencies in their marketing area to provide enough premium volume.

And because of their size, some remaining small agencies may have to "give up the idea of having contracts with the national companies and find strong regional carriers" that do not have those premium volume requirements, said Mr. Welch.

But, for agencies that can meet the volume requirements, most of the national insurers are offering "preferred agency" programs that offer a number of support services in exchange for the opportunity to become one of an agency's top markets.

Mr. Hales pointed out that the preferred agent programs of national insurers can offer a number of support services to agents, such as financial assistance for acquisitions, educational reimbursements or employee training programs, automation support, advertising assistance, financial support to new agency producers and more.

They also sometimes offer more attractive commissions and/or profit-sharing agreements.

On a nationwide basis, both the IIAA and the PIA have contracts committees that develop standards for agency/company contracts. These committees meet with insurers to attempt to modify company contracts so that they offer more protection to agencies.

"Our contracts committee has been very effective in soft markets" in persuading insurers to modify their standard contracts to offer better protection to agencies, said Mr. Kasyjanski.

"In the hard market, insurers aren't too cooperative, but in the soft market they will negotiate with us," Mr. Kasyjanski added.

"On a national level, we have been doing a lot of work to establish standards for agency/company contracts and have been working to establish rehabilitation provisions in those contracts as safeguards for agents," said Kenneth W. Morrison, president of Hilb, Rogal & Hamilton Co. of Tidewater in Chesapeake, Va., and a member of the company relations committee of the national PIA.

All in all, the hard market has strained agency/insurer relationships. Now that the market is stabilizing, "ongoing relationships need to be nurtured" to survive, said consultant Kathleen A. Pasley, president of The Market Planning Group in Boston. "You have to make a concerted effort."

Another consultant pointed out that agencies and insurers need not be alarmed if after a few years their relationships no longer seem to work.

The bottom line is profitability. As Ms. Pasley said, "The profitability of an agency as a business is now more important to the company" than the length of their relationship. ■



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Agents, insurers must match strengths

By LINDA J. COLLINS

Agents and brokers need to move more toward focused marketing, says one agency consultant.

"They should focus their sales efforts on types and classes of business they would like to write and then find carriers that are willing to write those lines," suggests John H. Jaques, founder of John H. Jaques Inc. in Novato, Calif.

By periodically reviewing and revamping their own operations, agents and brokers can maximize their bargaining power with insurers, other experts advise.

Likewise, one of the first questions an insurer will ask when considering whether to market its products through a particular agent or broker is "Do they run the type of operation that we want to deal with?" according to insurers and consultants.

"We first need to see if they are compatible, if the products we offer are the products that they need. If we find that the agency is compatible, we then look to see if it is well-managed," explained Robert J. Vairo, president and chief operating officer of Crum & Forster Inc., based in Morristown, N.J.



Mr. Vario

"The key is to be able as a carrier to match our resources and company strengths with the agency," according to Donna Clow, western New York branch manager for Reliance Insurance Co. in Fairport, N.Y.

Observers also agree that agents and brokers need some form of business and marketing plan, whether it is formal or informal, so the agency or brokerage can identify which insurers have the best products and business philosophy for their needs.

"Agents have to think about themselves first of all. What are they looking for? Then they can find out what the companies offer," said Patricia A. Borowski, vp of government and industry affairs for the National Assn. of Professional Insurance Agents in Alexandria, Va.

"We're recommending that the agency first put together a business plan, in writing, then approach insurers" to find out if they are interested in writing the type of business that the agency is targeting," said consultant Carol A. Hammes, president of The Middleton Group in Naperville, Ill.

Agents can benefit if they "take an aggressive position rather than waiting for insurers to come to them, and look for insurers that want to do what the agency wants to do," according to Ms. Hammes.

Insurers agree that it is easier to work with agencies that have defined their strengths and marketing approach.

"Not all companies and not all agents or brokers are alike," observed David S. La Placa, senior vp-distribution for the Atlantic Mutual Cos., headquartered in Berkeley Heights, N.J.

"We have to learn to mesh strengths," he added.



Mr. Burke

"From agents, we look for a dovetailing of our strengths with their strengths," according to Jack Burke, marketing vp for St. Paul Fire & Marine Insurance Co. in St. Paul, Minn.

"A good agency tends to have a marketing plan. That shows that they know who they are and what they want to do in their marketing area," Crum & Forster's Mr. Vairo explained.

"If they have a plan, that is a plus. It makes it easier for us to relate" to their needs, Mr. Vairo added.

However, if an agency has not yet formalized a marketing plan, "We will go out and assist in the development of a marketing plan," said Reliance's Ms. Clow.

After they have formulated their business and marketing approach, agencies should attempt to keep insurers "apprised of their long-term growth plans," urged agency marketing consultant George Nordhaus, president of Insurance Marketing Services Inc. in Santa Monica, Calif.

Meaningful agency/company relationships depend upon ongoing "communication and a leveling with each other," Mr. Nordhaus added (see story, page 24B).

Other important characteristics that insurers say they look for in forming relationships with agencies and brokerages—regardless of their premium volume, their business philosophy or their marketing approach—include:

- A sound financial condition and adequate capitalization for growth.
- Good, professional management.
- Knowledge of the industry.
- A well-trained staff and staff stability.
- A pattern of growth and potential for additional growth over time.
- Recognition in their community.
- A good loss ratio over a three- to five-year period.
- A perpetuation plan.
- Automation, if it is used properly.

Insurers point out that while it is not mandatory for an agency to be automated, a properly utilized automation system is an attractive attribute.

Insurers also look for "professionalism" in an agency or brokerage—for principals "who know their market and how to function in that market and who know the insurance business," according to Howard Goldstein, vp-marketing research at Zurich-American Insurance Cos. in Schaumburg, Ill.



Mr. Restrepo

"Good agents and good companies should really take these relationships seriously. We'd like to make sure the people we work with will be there five to 10 years from now," explained Robert P. Restrepo Jr., director of marketing—Commercial Insurance Division for Aetna Life & Casualty Co. in Hartford, Conn. ■



IIAA panel to study risk retention groups

NEW YORK—The Risk Retention Committee of the Independent Insurance Agents of America is gathering information about recently formed risk retention groups for IIAA members.

The amendments, signed into law Oct. 27, 1986, allow special multiowner captive insurers—called risk retention groups—to operate nationwide to provide member-owners with all types of commercial liability coverage except workers compensation.

Uncertainties the IIAA cites concerning the 1986 expansion of the Risk Retention Act, include:

- How insurance commissioners will regulate risk retention groups.
- What products will be developed by the groups.
- How the insurance market will react to the the groups' presence.
- How they may potentially impact agents.

Potential problems identified by the IIAA include:

- The risk of financial loss to risk retention group members because of lower capital and surplus requirements.
- The absence of multistate supervision.
- Clients' ability to obtain acceptable certificates of insurance.
- Abuses by fly-by-night promoters.
- Inexperienced claims handling and policy interpretation.

Training program

MEDWAY, Mass.—The Saenger Organization has developed a training program to prepare New England-based Century 21 real estate brokers for property/casualty and life/health agent licensing examinations.

The consulting firm provides marketing and educational support services to members of the insurance and financial services industry.

Between 300 and 400 real estate brokers have completed the course and have taken state licensing tests.

Century 21, the country's largest franchiser of real estate agencies, is a subsidiary of Metropolitan Life Insurance Co.

Century 21 brokers who obtain their insurance licenses can legally refer their clients to special Metropolitan agents for their insurance needs.

The Saenger Organization developed a learning text—similar to a self-study course—that it provides to students four weeks prior to a course. Students are required to complete the exercises furnished in the learning text before attending the class.

The property/casualty course averages two days in length and the life/health course averages one day.

The courses offer a participatory learning situation with case studies, group exercises, etc. A variety of handouts are provided to enhance the text materials and prepare the brokers for the state examinations.

A different text is designed for each state.

Ten instructors with insurance industry backgrounds have been recruited and trained by Saenger to teach the courses.

Bruce Saenger, president of The Saenger Organization, explained that "real estate brokers approach the licensing process far differently than an insurance agent" and thus need a course designed specifically for them.

For more information, contact The Saenger Organization, 89 Main St., Suite 213, Medway, Mass. 02053; 617-533-4949.

'Topflight' contract

NORTHBROOK, Ill.—Northbrook Property & Casualty Insurance Co. has developed a new preferred agency contract called "Topflight."

Northbrook, a subsidiary of Allstate Insurance Co., plans to designate about 1,000 Topflight agents. A minimum of 60 agents will be signed up the first year.

In exchange for an annually adjusted premium volume commitment from the agent, Allstate will provide commission incentives and bonuses, some expense reimbursements and a two-day-contact service commitment on new business produced by the agencies.

"An agency has the opportunity to receive, in its profit-sharing agreement, up to 50% of the profits made by Northbrook on its book of business," said Catherine E. Buxton, assistant vp-marketing.

Topflight agents also receive the highest commission rate available in their states, with a one-year guaranteed lock-in if commission schedules are adjusted.

In addition, Topflight agencies are reimbursed up to $500 per year for costs related to the testing of a new sales or sales management employee; up to $1,000 per year, upon successful completion of a course, for educational expenses for full-time employees; and up to $5,000 annually, based on a gross written premium formula, for advertising expenses.

Currently, the Topflight contract is available only to agents who already represent Northbrook.

"We are more interested in agents with which we already have a relationship," Ms. Buxton said, although she acknowledged that the insurer might consider a relatively new Northbrook agent for Topflight.

For further information on the Topflight program, contact Northbrook's Marketing Department, Allstate Plaza South, Northbrook, Ill. 60062; 312-291-5000.

Needs analysis

MINNEAPOLIS—A computerized Individual Needs Analysis Program introduced by Northwestern National Life Insurance Co. helps agents evaluate the financial needs of their clients, particularly clients with incomes of $50,000 or less.

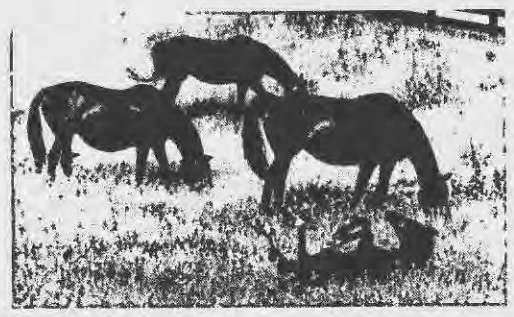
It is available free to all licensed Northwestern National agents.

The program disk is compatible with an IBM PC, and is accompanied by a producer's guide with instructions, a financial data booklet in which to gather client information and a brochure that summarizes Social Security benefits.

The program is capable of five basic types of analysis: life insurance needs; educational expense needs; retirement needs; financing a specific goal, such as a home; and disability income needs.

For additional information, contact: Northwestern National Life Insurance Co., Personal Insurance Department, Box 20, Minneapolis, Minn. 55440. ■

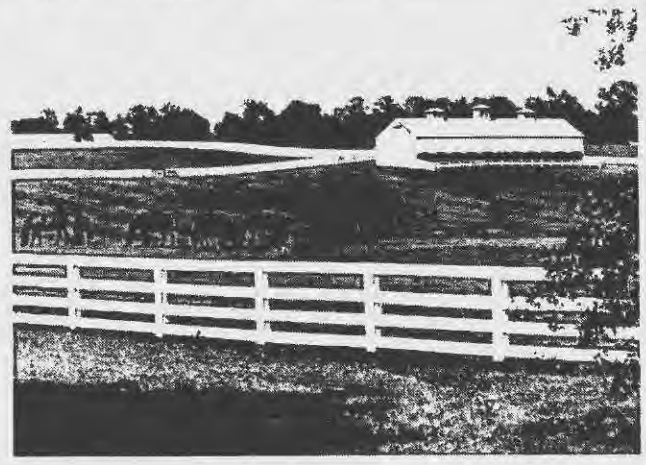
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Write to: Rhulen Agency, Inc., Dennis Hewston, Farm Division Manager, 196 Broadway, Monticello, New York 12701. Or Call Toll Free (800) 431-1270 or (Inside N.Y. State) Call (914) 794-8000.

Rhulen AGENCY, INC.

PIA offers members ad/marketing catalog

a/bt products and services

The National Assn. of Professional Insurance Agents has launched a comprehensive advertising and marketing program for its members. The program features both pre-designed and custom-designed materials.

Agents can select from a 16-page catalog the materials best suited to their budget, marketing goals, size and image. The catalog describes three distinct ad/marketing programs, which feature a total of more than 100 ready-to-use or custom advertising and marketing pieces—including brochures, radio commercials, sales letters and newspaper ads.

The Facts Series has more than 25 pre-designed ads and marketing tools that tell consumers how an independent agent's special knowledge can save them money. These materials can be customized with the agency's name or logo.

The Adaptibles Series of pre-prepared materials can be color-coordinated and further customized to include the agency's address and photos of its staff or clients.

Agents who select the third program work one-on-one with an advertising/marketing agency to develop fully customized ad and marketing strategies. The agency, Creative Insurance Marketing Co., based in Shrewsbury, N.J., is offering its services to PIA members for a discounted price.

To receive a copy of the catalog with information and pricing on the PIA's ad program, contact the PIA Marketing Dept., 400 N. Washington St., Alexandria, Va. 22314; 703-836-9340.

Retirement package

Provident Mutual Life Insurance Co. of Philadelphia has designed a package of coordinated sales presentation materials on pre-retirement planning for consumers over the age of 40.

The "Explorations" program materials are available to insurance brokers and to agents representing the life insurer.

According to a company spokesperson, the materials are designed to help agents or brokers "get their foot in the door" with prospects. Client materials include a 12-page guide to retirement planning, a presentation folder and a four-page direct-mail pamphlet complete with personalized envelope and business reply card.

The package also features a strategy guide to help agents and brokers plan their sales approach and an 84-page book on pre-retirement planning designed for agents.

The presentation folder, 12-page booklet and direct mail pieces are available at a cost of 90 cents per set. The 84-page book costs 66 cents and the strategy guide is free. Provident Mutual will personalize the client materials with the agency or brokerage's name and address for an additional charge.

For further information on the package, contact Patricia Soslow, Provident Mutual, 1600 Market St., Eighth Floor, Philadelphia, Pa. 19103; 215-636-5000.

Information network

The Professional Insurance Agents of New England and The Source Information Network are offering an electronic information network to New England agents.

The network, which began operating in September, can be accessed with any personal computer or dumb terminal with a modem, or through a word processor.

The network features:

- Current bulletins published by the PIA/NE.
- An electronic listing of vendor subscribers, many of whose services are available electronically.
- Private, on-line conferencing with other network users.
- An on-line network subscriber directory.
- A private electronic bulletin board.
- Access to motor vehicle reports for 80 cents above the state charge.

Through The Source, agents also have access to: airline scheduling and travel reservations; stock quotations, business and investing information; news, weather and sports; software product reviews; computer conferencing and other communications capabilities; and electronic shopping.

Agents pay a one-time membership fee of $50 ($40 for Massachusetts agents), plus a monthly usage charge.

For additional information, contact the PIA/NE Information Network, 1 Ash St., Hopkinton, Mass. 01748; 617-435-6801.

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Georgia reforms

Continued from page 2

reform bill but dropped by the Senate would require insurers to offer in Georgia all coverages that they write in other states.

And, another insurance reform bill, which would increase insurers' reporting requirements, has been passed by the Senate and is now in the House.

Many observers say they believe the tort reform and malpractice reform package is a positive step.

"It's a good bill, and we are pleased," said John R. Poole, senior vp-governmental affairs for the Business Council of Georgia in Atlanta. "It offers substantial improvements over existing law."

But tort reform advocates said some compromises were necessary to get the bills passed.

The package is "a step in the right direction," "it's just the first step," noted Eben L. Jones, director of insurance and risk management for Rollins Inc. in Atlanta and president of the Atlanta chapter of the Risk & Insurance Management Society.

While the tort reform bill "doesn't go far enough in a couple of areas, it's a major tort reform piece of legislation," observed James H. Purcell, regional manager for the Alliance of American Insurers in Atlanta.

"We recognize that we're in this thing together and have to make it work, and we're very pleased by the efforts made by attorneys in the Legislature" to cooperate in passing these measures, said Jerry T. Hargrove, president-elect of the Professional Insurance Agents of Georgia and chief executive officer of Northside Insurance Services Inc. in Atlanta.

While Mr. Purcell said he does not expect the reforms to translate into lower premiums for policyholders, he predicted "it will affect the amount of the increases."

He pointed out that several other considerations factor into the ratemaking process.

Mr. Jones agreed. Tort reform alone will not lower insurance costs to consumers, because to reduce the costs of the civil justice system, the public must change its attitude about litigation, he said.

"We're trying to treat the symptoms and not curing the disease. The symptom is court costs, but the disease is the greed of the American public," he explained.

But while the reform might not reduce premium costs, "I think it will have some improvement on the business climate" in Georgia, Mr. Poole commented.

The Georgia Trial Lawyers Assn. —which opposed the measures— expressed its gratitude "to legislative leaders who held the line on the most severe, unnecessary and unfounded tort reform proposals," including their refusal to abolish the doctrine of joint and several liability governing economic and non-economic damages, as was originally proposed, said Jet Toney, executive director of LawPac, the political action arm of the GTLA.

Specifically, the Tort Reform Act of 1987—formerly House Bill 1:

- Abolishes punitive damages when the only injury to the plaintiff is emotional distress.
- Caps punitive damage awards at $250,000, except in product liability actions or when the court rules that a defendant intended to harm the plaintiff. Punitive damages are not limited in those cases.
- Limits product liability punitive damage judgments to one award for any act or omission, regardless of the number of causes of action arising from that act.

Mr. Toney expects that many attorneys will challenge the constitutionality of that provision.

- Designates that 75% of any punitive damage award—less court and attorney costs—be paid to the state treasury. This stipulation also applies to punitive damages awarded in product liability cases.

"Capping punitive damages and stipulating that 75% of the award goes to the state should make it less attractive" for plaintiffs to pursue punitive damages in court, said Robert C. Bock, executive director of the Independent Insurance Agents of Georgia in Atlanta.

- Grants a judge the authority to order a separate trial to determine damages if the judge deems that a jury's award of damages is clearly inadequate or excessive.
- Requires that punitive damages be specifically stated in a lawsuit and stipulates that when a court decides to award punitive damages, a separate hearing be conducted solely to decide the size of the award.
- Limits the exposure to civil liability suits of directors and officers of non-profit hospitals, institutions or governmental agencies.
- Permits disclosure of collateral sources so that payments made to plaintiffs from other sources may be introduced as evidence and used to reduce an award.
- Permits courts to apportion a joint and several liability award if a plaintiff is found to have contributed to the injury or damages.

The act was a compromise between House Bill 1 and Senate Bill 1. For example, S.B. 1 would have abolished joint and several liability and capped all punitive damage awards, including those in product liability cases, at $250,000. H.B. 1 would have capped punitive damages, except those in product liability cases, at $500,000.

Mr. Jones said that while the RIMS chapter was disappointed that joint and several liability was not abolished, permitting the courts to apportion awards when they find a plaintiff contributed to an injury is a victory.

"We had hoped for a better provision on joint and several liability," agreed Mr. Poole of Business Council of Georgia. But the apportionment provision "gives a defense to joint and several defendants if the plaintiff contributed to the incidence. That's an improvement to current law."

But GTLA's Mr. Toney was pleased that joint and several liability was not eliminated. "If joint and several liability had been abolished, it would have become the horror of horrors in regards to the victims' ability to receive adequate and reasonable compensation for their injuries," he said.

Other tort reform measures are outlined in the Medical Malpractice Reform Act of 1987. This act:

- Limits the statute of limitations during which minors over the age of 5 and legal incompetents can file a medical malpractice lawsuit to five years from the date of occurrence, unless a foreign object has been left in the plaintiff's body. For children under the age of 5, the statute of limitation runs until their 10th birthday.
- Limits the liability exposure of licensed health care providers who volunteer their services without charge to treat patients at the request of a hospital, public school, non-profit organization or state agency. This provision also limits the liability exposure of those entities to injuries or death resulting from gross negligence or willful or wanton misconduct.
- Requires that, in any action alleging professional malpractice, the plaintiff must file with the complaint an affidavit from an expert witness substantiating at least one negligent act or omission.

While this provision is included in only the Medical Malpractice Reform Act, it appears to have more far-reaching implications, observers agree.

"Our supposition is that this provision will apply to more than just medical malpractice," Mr. Jones said.

Regardless of the questions about how the provisions may be interpreted by the courts, tort reform advocates are generally pleased with the results.

"In comparison with other states that have tied a number of things like rate freezes or rollbacks to tort reform, generally this is a good" package, said Mr. Purcell, referring to Florida's controversial insurance rate regulation and tort reform law, which was enacted last year (*BI*, Dec. 15, 1986; July 7, 1986; June 16, 1986).

The Georgia Legislature now has turned its attention to insurance reform measures, which lobbyists on both sides predict will be enacted this year.

A joint legislative committee now is ironing out one bill, H.B. 508, that both houses have passed with modifications. The measure is backed by Insurance Commissioner Warren D. Evans.

A provision in H.B. 508 that would have frozen premium rates in the state for three years was voted down in the House by a 99-62 margin early last month.

Under a modified provision in the bill, rate increases of 25% or more within a 12-month period would require the commissioner's approval. The commissioner would have 90 days to approve or disapprove the increase and another 60 days to investigate the need for the increase. Costs of the study would be paid by the insurer.

Another provision that would have required insurers to provide the same coverages in Georgia that they offer in any other state was deleted from the Senate version.

Also dropped was a provision that would have established an insurance consumer advocate position in Georgia funded by a surcharge on insurance policies.

"We feel that House Bill 508 will go through," said Mr. Purcell. "This is an either/or proposition for the property/casualty insurance community. If we were to fight this, we might be faced with a rate freeze, rollbacks, etc."

A second bill, S.B. 134, would increase the amount of information—including premiums, claims, reserves, investment and court awards and settlement amounts—that insurers are required to disclose to the Insurance Department. That bill passed the Senate and is now being studied by a House committee.

However, Mr. Purcell predicted S.B. 134 will "stay in the House" and not be enacted.

But Mr. Toney disagreed.

"I expect both insurance reform bills to pass because many legislators have expressed their views that without insurance reform, the tort reform would not be effective," Mr. Toney noted. ■

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RIMS conference

Continued from page 3

business they're seeking, how you do business with them, some financial highlights, some ramifications of being a policyholder, such as length of commitment, stock purchase or reserve premium requirements and retrospective premiums," explained Charles Crane, senior vp for broker Marsh & McLennan Inc. in Seattle, and coordinator of the session, entitled "Alternative Large Liability Market Update."

Session speakers confirmed to date include Judith M. Tornese, director of risk management for the Transamerica Corp. in San Francisco, who will serve as moderator; Peter F. Garvey, managing director of Marsh & McLennan Inc. in San Francisco, an expert on alternative liability facilities; Clinton N. Greene, president of Farmington Management Inc. in East Hartford, Conn., which manages American Excess; Brian M. O'Hara, president and chief operating officer of X.L.; and William T. Torpey, vp of American Risk Management Inc. in Fort Lee, N.J., the Reiss Organization division that manages Tortuga.

Upon completion of the course, a risk manager will be able to select a large liability facility to meet his or her organization's needs, according to Mr. Crane.

Another session included in the track program will focus on association captives.

"The basic premise of the session is to point out the pluses and minuses of group insurance programs," said the session's coordinator, James V. Davis, chairman of Corroon & Black Advanced Risk Management Services in Nashville, Tenn.

This session will focus on the key criteria for successfully launching an association or group-sponsored insurance program. Other issues that will be addressed include: program management from the perspective of the association; alternative organizational forms and compliance with state insurance laws; structuring of the loss financing program; and identification of fronting insurance company requirements.

In addition to group captives, risk retention groups also will be discussed during the session, said Mr. Davis.

Warren G. Brockmeier, vp-risk management services for the Wyatt Co. in Chicago, will give "his observations as a consultant in terms of the prerequisites to get a program going," Mr. Davis said.

And Mr. Davis will examine group insurance programs "from an insurance brokerage perspective."

William H. Bradley, Atlanta partner of Sutherland, Asbill & Brennan, a Washington-based law firm noted for its insurance tax practice, will look at the programs' "tax and legal design aspects," taking into consideration the Tax Reform Act of 1986 and the newly expanded Risk Retention Act.

Other seminars within the track program focusing on alternative markets include:

- "Rent-a-Captive: A Cash Flow and Risk Funding Alternative for the Risk Manager," coordinated by Robert A. Mulderig, executive vp at Mutual Indemnity Ltd. in Hamilton, Bermuda.

Donald F. McGuffey, director-risk management for Equifax Inc. in Atlanta, will moderate the session. Speakers include Leslie Cohen, vp, Marsh & McLennan Inc. in Atlanta; and Beverly H. Patrick, president, Professional Risk Management Services Inc. in Washington, D.C.

- "Pooling: What Have the Results Really Been?" coordinated by David McGurn, division vp of Arthur J. Gallagher & Co. in Rolling Meadows, Ill.

Allen F. Hyman, director of insurance services at TML Risk Management Services in Austin, Texas, is moderating the session. Speakers include: Stewart Diamond, corporate and defense counsel at Alcel, Glink, Diamond, Murphy & Cope P.C. in Chicago; Stephen P. Kahn, principal at ARM Tech in Laguna Hills, Calif.; Jo Ann Koster, assistant vp at American Re-Insurance Co. in Chicago; and Stephen M. Satler, vp at American Re in Chicago.

Another seminar that is part of the track program will delve into the consequences of non-insurance.

During "Going Bare: Coping With the Lack of Coverage," representatives from the insurance, accounting, legal and risk management professions will explore whether going bare is an acceptable alternative for managing certain risks.

Coordinating the session is David A. North, vp of Gallagher Bassett Insurance Services Inc. in Chicago. Speakers include William A. Day, corporate risk manager for Fred S. James & Co. Inc. in Memphis, Tenn., who also will serve as moderator; Albert J. Beer, vp at the Tillinghast division of Towers, Perrin, Forster & Crosby in New York; J. Patrick Gallagher, vp at Gallagher in Rolling Meadows, Ill.; and Rolland L. Krefall, director of insurance at National Car Rental in Minneapolis, Minn.

In addition, a seminar recently added to the conference schedule will focus on "Utilizing the Risk Retention Act: Pitfalls and Practical Issues."

The seminar will be moderated by Jon Harkavy, director of governmental affairs and general counsel for RIMS. Speakers scheduled to date include: Brady Young, with Tillinghast/TPF&C in Darien, Conn.; David Grub, New Jersey insurance commissioner; David Levinson, Delaware insurance commissioner; and P. Richard Hackenberg, staff vp and assistant treasurer for Allegheny International Inc. in Pittsburgh.

Risk and benefit managers grappling with drug abuse among employees can learn more about random drug testing during a special seminar offered for the first time this year.

"Substance Abuse and Drug Testing in the Workplace: Risk Management and Legal Implications" will discuss the pitfalls of on-the-job drug testing programs, explained Virginia Loughner, risk manager and attorney at Colorado National Bankshares Inc. in Denver, who will serve as moderator of the seminar.

Speakers will present statistics on nationwide drug abuse and accidents related to drug or alcohol use, she said.

Ms. Loughner said the seminar will be of particular interest to risk managers involved in heavy machinery and transportation industries.

Scheduled speakers at the seminar include: James E. Crockett, manager of risk and benefits for the Denver Water Department; Henry V.S. Hall, attorney for the Denver Water Department; and Steven L. Voorhees, director of marketing for Analyitox, a drug testing lab in Denver.

This year's RIMS conference also will feature 38 industry sessions, 12 special interest groups and 71 conference seminars.

Industry sessions provide an opportunity for risk managers involved in the same or similar industries to discuss common concerns and exchange ideas.

Special interest groups, which were first offered during last year's RIMS conference in Toronto, are designed to unite risk managers who have similar concerns but who don't have any other common bond, either because they work in unrelated industries or because they are at different experience levels.

Conference seminars this year are divided into several topic areas, including: employee benefits; general risk management; risk management information systems; international risk management; general insurance; risk financing; loss control/safety; law/legislation; workers compensation; claims management; exposures; and personal and professional development.

And, for the first time this year, an industry session recap will be held especially for non-RIMS members on Wednesday, April 1. Leaders of the industry sessions dealing with banking, motor vehicle manufacturing and import, construction, public entities, real estate and utilities will highlight issues and ideas expressed by risk managers during closed sessions, explained Barbara Parker, assistant RIMS conference director.

The Hilton Center at the Las Vegas Hilton Hotel will house the 1987 exhibition hall, featuring about 150 exhibitors. It will also be the site of many of the seminars and meetings, as well as registration, a message center and hospitality suite listings. Other sessions will be held at the Riviera and the Sahara hotels.

Registration fees for the full conference are $595 for members and $695 for non-members. For a partial week, the fees are $475 for members and $575 for non-members. The cost for one day is $195.

Because attendance is limited, RIMS' Ms. Parker encourages attendees to register and make seminar selections prior to arriving in Las Vegas. For more information, contact the RIMS Conference Department, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292. ■

Quintana settlement

Continued from page 3

Jamieson, Black, Hopkins & Ewald.

Last week, a spokesman for Bechtel said its share of the settlement was for "well under $2 million."

But according to attorneys for Quintana, Bechtel's share of the settlement is $1.75 million.

In addition, Howell, which Bechtel had named as a third-party defendant, earlier entered into an indemnity agreement with the Quintana-Howell property insurers and paid a "very nominal sum" so the insurers would not look to Howell for any payments arising from the litigation, according to Howell's attorney, Tony Pletcher, with the Corpus Christi firm of White, Huseman, Pletcher & Powers.

Howell paid insurers $100,000, according to Julius Denenberg, an attorney for Quintana with the same firm as Mr. Tuffley.

Bechtel alleged that Howell and some of its subsidiaries were at fault in the construction phase of the refinery and that was a factor in the explosion and fire.

Quintana settled its lawsuit against Union Oil and Bechtel late last year, but the settlement was finalized in London only last month.

Following the explosion, Quintana-Howell's insurers paid the joint venture approximately $41 million. Quintana-Howell had at least $50 million in property and business interruption insurance from various insurers at the time of the explosion and fire.

The property insurers included syndicates at Lloyd's of London, which participated in the first $25 million layer.

Lloyd's underwriters also wrote 40% of a second $25 million layer. Other insurers on that layer were Lexington Insurance Co., a unit of AIG; Northbrook Excess and Surplus Lines Insurance Co., an Allstate Insurance Co. unit; Allianz Insurance Co.; Gibraltar Casualty Co., a Prudential Insurance Co. unit; and Highlands Insurance Co., a Halliburton Co. unit.

Quintana-Howell had a $230,000 deductible, but its recovery in the settlement is less.

In 1982, Quintana, on behalf of the Quintana-Howell insurers, sued Union Oil, Bechtel and two other defendants in state court in Corpus Christi. However, litigation against two other defendants, Plant Process Equipment and Worthington Compressors Inc., was eventually dismissed.

The action was subsequently removed to federal court in Corpus Christi.

According to Mr. Tuffley, the loss involved a rupture and subsequent fire at the refinery caused by excessive heat in a hydrocracking unit. The unit is a device used to break down crude oil into petrochemicals, including naphtha.

The naphtha was to be used in the production of other chemical products. "It was one step in the chain," Mr. Tuffley explained.

Union Oil sold its hydrocracking technology, called Unicrackers, in the form of licensing agreements, to Quintana-Howell, according to Mr. Tuffley.

Under the agreement with Quintana-Howell, Union Oil also was responsible for inspecting the equipment and determining whether it should be modified for Quintana-Howell's purposes. Union also agreed to provide other assistance during the start-up period.

In addition, Union Oil hired Bechtel as a subcontractor to do engineering work, review the existing equipment against the Union specifications and determine whether modifications or new equipment was necessary, Mr. Tuffley added.

Following its inspection, Union Oil furnished the technology required to allow the hydrocracker to function using Union Oil's technology.

Quintana alleged that the design furnished by Union Oil was inadequate and insufficient and that the technical assistance provided by Union Oil was inadequate.

According to Mr. Tuffley, the hydrocracker, which was placed into service in January 1979, had two 40-foot tall reactors that were 8½ feet in diameter with steel walls about seven inches thick.

On Dec. 31, 1980, the walls of one of the reactors ruptured as a result of a "hot spot" formed adjacent to the walls of one of the reactors, Quintana alleged.

The rupture caused $17 million to $18 million in property damage and $25 million to $27 million in business interruption losses for Quintana-Howell.

The defendants had argued that the rupture was due to gross operational errors.

Experts for Union Oil said the wall was damaged by the prior misuse of the reactor, and the explosion was caused by Quintana's improper use and operation.

The settlement "was a compromise," Mr. Tuffley said. ■

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Stress

Continued from page 1

Oregon is a good example of a state at the other end of the spectrum. Statistics from the Oregon Workers' Compensation Department show that 141, or .0036%, out of 38,808 claims filed in 1985 were stress-related, compared with only 53, or .0014%, out of 37,498 claims filed in 1981, the first year it began breaking out such statistics.

"Pure" stress claims also show up infrequently in Iowa, according to Robert C. Landess, commissioner of the Iowa Industrial Commission.

However, a stress element is being "plead in most of the claims," Mr. Landess said. Attorneys are including stress factors "as part of just about every claim."

"Stress has now become the leading occupational disease claim," notes NCCI's Mr. Camilleri.

And, stress claims usually are more expensive, he said, because most persons with stress-related injuries tend to be out of work longer than those with only physical injuries.

The average indemnity cost of a stress-related claim is $8,100, compared with $4,200 for a purely physical injury, he said.

Medical costs for the two types of claims, however, are about the same—$2,100 for stress claims and $2,200 for physical injury claims.

Also, NCCI data shows that 0.5% of employees with stress-related illnesses use attorneys, compared with 0.1% of employees with physical injuries.

Stress-related workers compensation cases also tend to take twice as long to resolve as as physical injury cases, he added.

Employers already are keenly aware of these costs and are waging battles against compensability of stress claims, both in court and in state legislatures.

Most state workers compensation laws do not include definitive provisions for stress claims. However, at least four states—Georgia, Montana, Oregon and Ohio—allow injured employees to file claims specifically for stress-related emotional disability, while two states—Texas and New Mexico—reject the compensability of stress claims.

'Stress has now become the leading occupational disease claim,' notes NCCI's Mr. Camilleri.

But in Ohio, business groups are seeking state legislative assistance to overturn a Dec. 30, 1986, Ohio Supreme Court decision in which "job stress" was held to be a compensable injury, (*BI*, Feb. 2).

And, the National Federation of Independent Business in Alaska is looking for a legislative sponsor to amend the state's workers compensation act to prohibit compensability for stress claims.

Donald T. DeCarlo, special counsel for the American Insurance Assn. in New York, says that state legislation drafted to address these types of claims should include a number of criteria, including that the illness must arise out of and during employment.

Mr. DeCarlo is preparing a monograph on stress-related claims to be released this spring, which will include a section on proposed legislative language. Recommendations he is considering include:

- That stress claims connected to the termination of employment or disciplinary proceedings not be compensable.
- That the proof establishing the compensability of a stress claim be objective and corroborated by a psychiatrist or a licensed psychologist, rather than by subjective statements from the employee who "perceives" the disability is connected to the job.
- That conditions producing the stress must be unusual and extraordinary compared with conditions encountered by other workers performing the same kind of work.

The NFIB in Alaska has not yet drafted any legislation, but decided to seek such a measure after it surveyed its members late last year and found that 91% of those responding believe benefits should not be provided for problems caused by job stress.

Stress-related claims, according to many employers, were not part of the original agreement between employers and employees when the U.S. workers compensation system was conceptualized earlier this century (*BI*, Dec. 8, 1986).

"Workers compensation was designed to deal with physical injuries, not psychological ones," said Gary Jenkins, director of governmental relations for the NFIB.

Despite this historical interpretation, workers compensation leaders and at least one federal agency, are advising employers to recognize their liability concerning stress on the job and incorporate preventive programs.

"The whole scenario has changed in terms of employer responsibility," said Dr. Paul J. Rosch, president of the American Institute of Stress in Yonkers, N.Y.

"Ten or 15 years ago, there were not many stress-reduction programs in industry. But, if (stress at the workplace) is not addressed today, then employers certainly are liable," he said.

And, the Division of Biomedical and Behavioral Science of the National Institute for Occupational Safety and Health recently noted: "There is increasing evidence that an unsatisfactory work environment may contribute to psychological disorders."

According to NIOSH, factors that can contribute to an unsatisfactory work environment include: work overload, lack of control over one's work, non-supportive supervisors or co-workers, limited job opportunities, role ambiguity or conflict, rotating shift-work and machine-paced work. This information appeared in an October 1986 issue of Morbidity and Mortality Weekly Report, which is published by the Department of Health & Human Services.

And, in an editor's note, the HHS publication said it's important to control factors creating psychological disorders in the work place.

Why should employers become involved in prevention of job stress? Because the way companies do business has changed, Dr. Rosch said, pointing to the many takeovers and mergers and the increasing use of automation.

"Our forefathers were craftsmen. . . . They had something to be proud of at the end of the day," he said. But now, most workers are merely "cogs," he said.

Dr. Rosch especially pointed out that employees' responsibilities have changed and that the amount of information employees must process on a daily basis has increased.

According to recent reports, the tab for stress-related illnesses is $150 billion a year—a cost borne mostly by business. This includes not only actual costs, but also hidden costs, such as absenteeism and diminished productivity.

Whether or not they oppose workers compensation payments for stress claims, some employers are interested in on-the-job stress prevention.

Many employers have contracted with outside firms for stress management programs, including: International Business Machines Corp. of Armonk, N.Y.; Morgan Stanley Group Inc. of New York; Pepsico Inc. of Purchase, N.Y.; Pitney Bowes Inc. of Stamford, Conn.; and Burlington Northern Inc. of Seattle.

"When stress-related illnesses hit the profit/loss (balance), companies start to take an interest in stress management. These programs are not just for employee morale," said Allen Elkin, program director of STRESSCARE Systems Inc. in Great Neck, N.Y.

"This has become such a hot item. . .the popularity is so explosive," said Dr. Rosch, warning that employers need to be careful in selecting programs. Many programs are pre-packaged and, therefore, inflexible, he said.

Only those programs that are tailored to the employer and its individual employees will succeed in reducing job-related stress, according to Dr. Rosch.

For instance, STRESSCARE constructs a program from various modules only after diagnostic surveys are made at the company to determine its needs.

"We really look at the company and, on the basis of its needs," determine which modules will be used, said Mr. Elkin. These modules—or session topics—then are presented to small groups of employees in a number of meetings, usually four.

Two-year-old STRESSCARE's experience has been primarily with top-level executives, though Mr. Elkin said it is negotiating with companies to offer its program to other employees.

Some of modules that may be included in STRESSCARE's stress-reduction program are:

- Low stress creativity—which teaches employees, among other things, creative ways to solve problems, as well as methods to recognize blocks to creativity.
- Communication—which teaches techniques for assertive communication.
- Nutrition and fitness—which zeros-in on lifestyle modifications.
- Time management—which shows steps to set priorities, and also shows how procrastination and avoidance are stress-related.
- Value clarification—which helps employees "put it all into perspective."

STRESSCARE's program also tries to show that "most stress is self-induced," Mr. Elkin said. "So we teach people to get in touch with their thinking."

A STRESSCARE instructor will give practical examples of how "negative thinking," like jumping to conclusions and imagining the worst, can cause stress, he said.

Besides these various modules, a STRESSCARE program also includes traditional stress-reduction techniques, like deep-breathing exercises and meditation skills.

Employees who attend the sessions use a workbook and cassette tapes to reinforce the techniques.

But "employers need to know that there's no 'stress reduction package' out there. Each program needs to be tailor-made," Dr. Rosch maintained.

"Exercise is great for some people but boring for others. The same with meditation," notes Dr. Rosch. That's why a modular approach, designed for the employer, with some flexibility that allows individual employees to work with more than one technique, will be more successful, he said.

But employers have little historical data on the demographics of stress claimants to use in developing a stress management program, or even for making the decision to offer one.

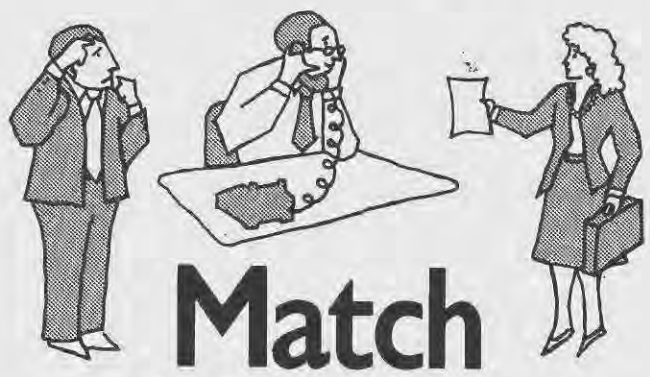
The NCCI, however, does offer some help. Its recent studies indicate that twice as many women employees file stress-related claims compared with physical injury claims. And, in general, stress claimants are more likely to be older than physical injury claimants, Mr. Camilleri said.

For example, the average age of a person filing a claim for a stress-related injury or illness is 38, while the average age for a person filing a physical injury claim is 36.

More information may be available later this year from the NCCI, which is compiling data from its member insurers.

Meanwhile, the HHS article suggests that additional efforts are needed to advance the understanding of work-related psychological disorders and of methods appropriate to control them, including:

- The improvement of systems for surveillance of psychological disorders in the workforce as related to working conditions.
- The improvement of research techniques for investigating stressful working conditions and their health consequences.
- Improved training of occupational health professionals and workers in recognizing stressful workplace conditions and signs of worker stress and in effecting remedial measures.
- Furthering the development of the mental health components in occupational health and safety programs. ■



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Fred S. James creates risk management posts

William A. Day, 60, has been named assistant vp and corporate risk manager for Fred S. James & Co. Inc. in Memphis, Tenn. In this position he will oversee James' newly created internal risk management department, which will service the risk management and claims adjustment needs of James' nationwide operations. He reports to James M. Power, senior executive vp/chief administrative officer. Previously, Mr. Day served as director of insurance services for Holiday Corp. in Nashville, Tenn., where he administered the worldwide insurance and risk management programs of Holiday Inns and other affiliated companies. He attended Memphis State University in Memphis and Southern Law University, also in Memphis.

Also at James' new risk management department in Memphis, **Joseph C. Garbuzinski**, 53, has been appointed corporate claims manager. In this position he will supervise the settlement of insured property/casualty claims and the adjustment of self-insured property/casualty losses. Mr. Garbuzinski reports to Mr. Day. Previously, he served as vp-claims at Cook International Inc. in Memphis, and prior to that was a claims supervisor at Continental Insurance Co. in New York. He holds a bachelor of science degree in business administration from Christian Brothers College in Memphis.

* * *

Patrick W. McCarthy, 37, has been promoted to manager-risk management in the comptroller's department of Prudential Insurance Co. of America in Newark, N.J. In this new position he will oversee property/casualty insurance for Prudential's real estate investment unit and home office buildings. He reports to Kevin Christel, director of risk management. Mr. McCarthy joined Prudential in 1968 as a life insurance underwriter in its Boston office, and most recently served as associate manager-risk management. He received a bachelor of science degree in management from St. Peter's College in Jersey City, N.J. In addition, he holds the Associate in Risk Management designation and is a deputy member of the Risk & Insurance Management Society.

* * *

Richard L. Canterbury, 47, has been named risk manager at Express Services, Temporary & Permanent Personnel in Oklahoma City. In this newly created position he will oversee property/casualty insurance programs and employee benefits for Express Services, which is involved in personnel placement and executive search services. Mr. Canterbury reports to Dale Mitchell, chief operating officer. Prior to this appointment, Mr. Canterbury was manager of insurance and claims at Kerr-McGee Corp. in Oklahoma City. He received a bachelor of science degree in business administration from Central State University in Edmond, Okla. In addition, Mr. Canterbury is past president and national director of the Central Oklahoma Chapter of the Risk & Insurance Management Society.

* * *

Colleen B. Dixon, 32, has been appointed an insurance officer for Columbia University in New York City. In this new position she will handle risk assessment, loss prevention and loss control programs, as well as insurance. She reports to Mary Breighner, director of risk management. Previously, Ms. Dixon was an account representative with Marsh & McLennan Marine & Energy Services Inc. She received a bachelor of arts degree in fine arts from Fairliegh-Dickinson University in Madison, N.J. In addition, she holds the Associate in Risk Management designation.

●

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Asthma treatment

Continued from previous page

Mr. Schonbrun believes there are two reasons for inefficient treatment of chronic disease: "One is that there is no incentive for doctors to spend the time needed to investigate the patient's history. The more people the doctor can move through the office, the more money he makes.

"Another reason is that often patients with chronic diseases have experience with their particular disease and have tough questions for the doctor that he may not be able to answer. The patient may become cynical and think that no one can help the disease," so the patient may not seek care until a serious, expensive episode occurs.

Programs like the center's whole person therapy are still a very new health care innovation for most employers, he said.

"Employers are still concentrating their efforts on their own data collection. They are looking at traditional health data and evaluating what the largest chunk of their health care bill can be attributed to. But, I think interest in chronic illness management programs on the part of employers is coming," he explained.

The National Jewish Center, a member of the U.S. Chamber of Commerce's Health Care Quality Subcommittee, is working to convince employers that programs emphasizing patient control of long-term illnesses can have a positive effect on health care costs and quality, Mr. Schonbrun said.

Benefit consultants agree that programs that encourage self-management of chronic illness are a new wrinkle for most employers, and they add that employers may be reluctant to utilize the programs for a number of reasons.

"Most employers are focusing on the bottom-line results when they look at health care costs," said Greg Kuhn, a principal and head of William M. Mercer-Meidinger Inc.'s Denver office.

"Most companies are looking at the big-dollar health services," like surgery or organ transplants. "I don't think, from corporate America's perspective, the magnitude of health care dollars in a year due to asthma or allergies is large enough to stimulate interest. Obviously, it would make sense if you look at the total costs of these illnesses year over year," he said.

Employers also want a faster return on their investment in cost management programs than patient self-management programs could produce, he said.

Employers that offer dependent health care coverage should be concerned about the costs of asthma since many asthmatics are children, said Cynthia Hosay, vp of health care cost management for New York-based consultant Martin E. Segal Co.

"The cost of lost work time and productivity of employees with asthmatic children can be enormous. Since most major employers cover dependents, managing these illnesses is very important," she said.

Since patient self-management programs may be available only in certain parts of the country, many employers might be unable to refer employees to the programs.

"A concern most employers would have is the availability of programs like this in my area," said Linda Havlin, a consultant with Lincolnshire, Ill.-based Hewitt Associates. However, "employees with chronic illnesses may already be aware of or looking for specialized programs." ■

Mardi Gras coverage

Continued from page 1

Americas has not been open for submissions since several of its syndicates announced last month that they would seek voluntary rehabilitation (*BI*, Feb. 23). The IEA, which has suspended all writings indefinitely, wrote coverage for several krewes last year and, according to industry sources, helped drive down premiums this year with its quotes to write the insurance. But it is uncertain whether any syndicates on the exchange wrote any coverage this year.

One market contributing to the increased availability of the coverage is Pelican State Mutual Insurance Co., a surplus lines company that opened last year in New Orleans. Pelican State is writing the $500,000 limits for around 35 of the estimated 70 parading krewes.

The cost of the coverage depends on the size of the organization that needs it and the day on which it parades, noted Mike Bowler, president of Pelican State and a member of the Krewe of Carrollton.

Rates run from a minimum of around $2,000 for smaller groups that parade before Fat Tuesday, when crowds are thinner, to as high as $20,000 for large krewes that roll tomorrow, the last day of Mardi Gras.

Mr. Bowler said his company is writing the coverage at rates that are 20% to 25% less than those he charged last year when Pelican's parent company, New Orleans-based managing general agent The Risk Exchange, wrote the coverage on behalf of AIG.

The Krewe of Carrollton, for example, paid around $135 per float for the coverage this year, compared with approximately $160 per float last year, according to Jules Cambre, captain of the 195-member krewe, which already has paraded 16 floats.

The Risk Exchange collected premiums totaling approximately $200,000 in 1986 for the coverage, according to Mr. Bowler.

This year, without increasing rates, Mr. Bowler said he expects that Pelican State will take in between $400,000 to $500,000 of the approximate $1 million in total premiums for all krewes' coverage.

"In 1986, AIG quadrupled the rate of the year before," Mr. Bowler pointed out. "We didn't ask them again this year."

However, not all krewes obtaining coverage from Pelican State were quoted a lower rate.

Thomas C. Farrell Jr., president of Farrell & Co. in New Orleans, said the cost of insuring the Crescent Club with Pelican State was the same it was last year. The $500,000 in coverage, with a $250 deductible, cost $4,800. The 300-member krewe has a 20-float entry, which was scheduled to parade before Fat Tuesday.

New England International Surety of America in New Orleans is another of the new entrants in the Mardi Gras marketplace, although it got there in a roundabout fashion. The insurer decided to write coverage for several krewes that originally had negotiated with American Columbus Insurance Co. of St. Petersburg, Fla.

Joseph Aguda, a marketing director with New England International, said the Louisiana State Insurance Department notified him 11 days before Fat Tuesday that American Columbus had decided not to insure a group of krewes it had negotiated with to provide coverage. New England International agreed to underwrite the coverage at limits of $500,000, said Mr. Aguda.

New England International, which last ran into regulatory problems with several state insurance departments alleging it issued insurance without a license, was licensed by Louisiana in October (*BI*, March 3, 1986; May 26, 1986; Oct. 27, 1986).

Still, one krewe is continuing to have insurance problems, which ended a Mardi Gras tradition last year. Last year, the Krewe of Zulu found liability coverage for its parade only after it agreed to stop throwing its unusual souvenirs.

Zulu's gold-painted coconuts have long been regarded as a prize catch by parade-goers, but in 1986 the club could get liability insurance for its parade only if it agreed to eliminate the coconuts.

Mr. Browne said Zulu's parading warriors are part of a group of krewes insured by New England. The insurer has excluded claims that may arise from the coconut toss from coverage.

Mr. Bowler of Pelican State said one of the reasons krewes in some years have had trouble getting parade liability coverage is because the insurance is "a bizarre line that is not common in other parts of the country. Not many insurers have ever written it."

He thinks insurers are ignoring a class of business that is not as risky as it seems. "We've got an excellent law that holds krewes harmless if someone is injured in a parade." The state law holds that any reveler injured at a parade cannot recover damages from a krewe unless malicious intent is proven, a city law enforcement official says.

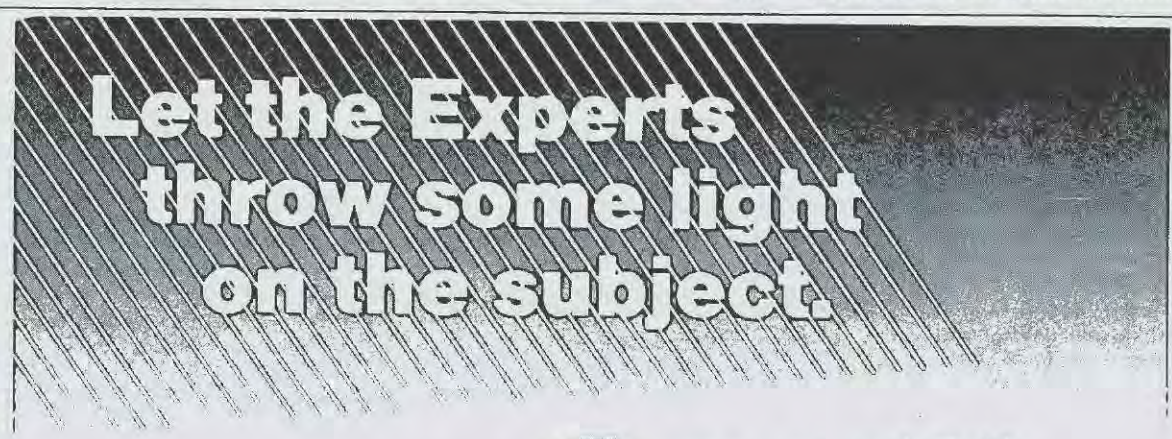
City ordinances also are designed to ensure the safety of the event, noted John Charbonnet, a member of the city's Mardi Gras Coordinating Committee.

Those regulations stipulate the permissible size and weight of trinkets that can be thrown from floats and set down other safety requirements, he said.

The committee that Mr. Charbonnet says is charged by the mayor with "making Mardi Gras as safe as possible," has made crowd control one of its priorities.

Cables installed along some parade routes and barricades are designed to keep crowds from getting too close to parading floats. "It's really worked," he said of the committee's crowd-control efforts.

Mr. Charbonnet could recall only one minor injury during last year's festivities. "Someone claimed they had their foot rolled over by a float," he said. ■



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Asthma treatment

Continued from page 3

The National Jewish Center is a non-profit medical center that specializes in treatment, research and professional education in the fields of immunology, allergy and respiratory medicine.

The center treats patients from around the world with illnesses such as severe asthma, emphysema, chronic bronchitis and tuberculosis. It has conducted "whole person" multidisciplinary treatment programs for its patients—who are predominantly asthmatics—for more than 80 years.

The whole person program combines comprehensive clinical testing, medical control and patient education that eventually leads to the patient assuming responsibility for monitoring his or her own illness, said Mr. Schonbrun.

This method—called "Pride" or "Progressive Rehabilitation Through Intensive Development and Education"—attempts to end the "revolving door" pattern in which only the acute symptoms of an asthmatic's attack are treated, with little attention paid to long-term improvement of his or her condition, he explained.

"The whole person program involves a very thorough diagnostic work-up, because it's not uncommon for people to come here with the wrong diagnosis," he said.

"Once the diagnosis is established, there needs to be an analysis of what type of asthma the patient has. We look at the various triggers of attacks, such as allergies, exercise-induced or cold weather-induced asthma, or psychosomatic stresses that can trigger attacks," he explained.

Once the diagnostic work is completed, a treatment program of medication and patient education begins.

"We really work on getting the patient to know what to do and maybe even to get the patient to know more about their own case of asthma than their doctors do," Mr. Schonbrun said.

Through classes, direct involvement in therapy and a patient education notebook, patients learn to avoid the triggers that cause asthma attacks and how to monitor their conditions each day so they can detect an oncoming attack.

And, through a comprehensive education program, patients learn what asthma is and what happens to their bodies during an attack. But, more importantly, they learn how to prevent a serious attack and avoid emergency room treatment and hospitalization.

To do this, patients are taught to measure their pulmonary functions daily with a "peak flow meter." The small device is used at home by the patient and gives an accurate measure of pulmonary function, Mr. Schonbrun explained.

To use the peak flow meter, the patient first inhales deeply, then exhales as hard as possible into the device. A sliding scale on the device measures the units of air the patient exhales.

The patient is instructed to perform this exercise three times a day, noting the highest measurement of the three.

"If the peak flow measurement declines from day to day, the patient knows they are nearing respiratory distress" and should contact their physician to adjust medication or take other medical action, he explained.

Patients also learn relaxation techniques and how to properly use medications required to control their disease.

"Another big part of this therapy is to try to get patients off of steroids, drugs that have significant side effects. In some cases, a case may be too severe and steroids are the only effective treatment," Mr. Schonbrun said.

Steroids are prescribed to reduce inflammation in the bronchial tubes and to suppress other symptoms of asthma attacks that may not respond to other medications, he said.

Steroids rarely are taken on a regular basis because of serious side effects like bone deterioration and muscle atrophy, he said, noting the steroids used to treat asthma "are the opposite of the anabolic steroids used to build muscles."

Other drugs commonly used to control asthma are called bronchodilators. But, to effectively control symptoms, a certain level of these drugs must be present in the patient's blood stream. Because each patient's metabolism is different, this level must be individually adjusted for every patient.

"The emphasis here is not only on getting people off certain drugs, but getting people onto drugs that work for them," Mr. Schonbrun explained.

A three-year cost/benefit study conducted by the center proved that teaching asthmatic patients to monitor their own conditions produces both cost savings and an improved quality of life for the patient, Mr. Schonbrun contends.

"We looked at the medical care utilization of a group of 34 patients in the year before they came to National Jewish and during the year following their whole person therapy," he said.

The difference in utilization and costs of health care services before and after a year of whole person therapy is significant. For example:

- Hospital admissions for the group in the year following therapy totaled 66, a 44% reduction from 117 admissions during the year before therapy.
- Total days of hospitalization for the group in the year following therapy numbered 428, down 49% from 844 during the year before therapy.
- Emergency room visits in the year following therapy totaled 40, 31% less than the emergency room visits in the year before therapy.
- Based on the average $648 per-day hospitalization charge at the National Jewish Center, the total average hospitalization cost per individual in the year following therapy was $8,157. The total average emergency room cost per individual was $441, based on an average emergency room charge of $375.

This is a decrease from an average annual individual cost of $16,086 for hospitalization and $640 for emergency room care in the year before therapy.

The estimated cost for the entire group in the year following therapy was $277,344 in hospitalization and $15,000 for emergency room care. This is a 49% decrease from a total hospitalization cost for the group of $546,912 and $21,750 for emergency room care in the year before therapy.

According to the study, the average cost of whole person treatment at the center—$15,357—would be recovered from cost savings in about two years for the average asthmatic.

"This work is part of what we hope will become an emerging pattern," Mr. Schonbrun said. "But, this type of study is rarely done because of the way we pay health care bills in this country" on a total-cost-per-case basis rather than calculating the cost of each medical service that patients use.

"We feel that that's the kind of data we should be looking at. We need to look at more than just 'does the patient leave the hospital?' We need to examine what happens to the patient after he leaves the hospital because that's what quality is really all about.

"Asthma is a long-haul disease and you don't just treat the patient and they're cured. Right now, the whole health care system is geared to treat the patient's acute symptoms and discharge them," he added.

Continued on next page

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Mission liquidation

Continued from page 1
Las Vegas Hilton hotel fire.

Perhaps the only notable event at the hearings was an objection to the liquidation of Enterprise by a former employee of MIC, Robert L. Webster. He is suing Enterprise over catastrophic injuries he sustained in a 1982 shoot-out in the offices that MIC shared with Enterprise in San Francisco.

Judge Fields overruled the objections and ordered the 7-year-old insurer liquidated.

The liquidation orders came as no surprise, but some other developments did.

Business Insurance learned that 16 officers and key employees of MIG and its companies recently were awarded a total of $375,000 in cash bonuses.

Lawrence G. Becker, MIG's vp, secretary and general counsel, says the bonuses were awarded by Mission American—and approved by that company's directors—to express appreciation for those who had put in "significant extra effort" on the insurer's behalf and to keep them on board.

But California Insurance Commissioner Roxani M. Gillespie says the bonuses, while issued with Mission American checks, were approved by the directors of MIG at a Cincinnati board meeting last August.

The bonuses present "a very confusing situation," Ms. Gillespie says. "Obviously, we need to take a look at this to see to what extent this was appropriate."

MIG President Raymond D. Johnson Jr. received a $100,000 bonus in full. Ms. Gillespie and other sources aware of the bonuses declined to identify the other 15 recipients. Of these: five are to receive $5,000; one is to receive $10,000; four are to receive $20,000; two are to receive $25,000; two are to receive $35,000; and one $40,000, Ms. Gillespie says.

All but Mr. Johnson, who received his entire bonus, have received only half their bonuses. The first installment was made in September and the second was scheduled for March 1; however, those plans were made before anyone suspected the state would take control of Mission American.

"That was not in anybody's mind at the time those were discussed by the board and granted to the individuals," says Mr. Becker, who played a leading role in efforts to rehabilitate MIC and restructure MIG.

Ms. Gillespie says the state considers the second half of the bonuses to be the responsibility of MIG, not Mission America.

Some outsiders who are aware of the bonuses criticize them for being doled out at a time when MIG—facing bankruptcy—was trying to maximize its assets with every move. But others point out that MIG executives have been working under unusually stressful, almost crisis, conditions, and have kept inordinately long hours for some time.

"What's going on over there would kill a horse under most circumstances," one insider said. "Anything they paid to at least the top three (executives) was in order."

Contrary to what has been reported elsewhere, Mr. Becker says that neither he nor Mr. Johnson, MIG president since June 1984, have resigned from the group.

They remain MIG executives, he says, but William S. Price, the former Crum & Forster executive appointed MIC's liquidator, terminated their responsibilities over the group's insurer operations Feb. 13. As representatives of MIG, the two were then asked by the liquidator to leave the premises, which is leased by MIC.

Ms. Gillespie notes that the Insurance Department is "working hard to preserve the morale and retain the good people we need."

Mr. Becker and Mr. Johnson are temporarily working out of the offices of Barger & Wolen, the law firm that represented the MIC units at the liquidation hearing, while they scout Los Angeles for office space.

In the meantime, they are devoting their time to MIG's non-insurer concerns, like managing general agency Sayre & Toso, and to issues relating specifically to the group, like the pending bankruptcy proceedings.

MIG assistant general counsel Donald Connors recently left to join Allianz Insurance Co. in Los Angeles as general counsel.

With the liquidation orders entered, insurance regulators and guaranty fund administrators are beginning their work.

A working group organized by the National Assn. of Insurance Commissioners will meet in Kansas City March 5-6 to discuss the liquidations. The group, which met Feb. 11-12 in Los Angeles, is chaired by Texas Insurance Commissioner Doyce Lee. Its members are regulators in California, New York, Michigan, Arizona, Illinois, Wisconsin, Florida, Washington and Missouri.

The group has appointed three technical committees. One will try to assess the financial impact of the MIC liquidation on insurers that bought reinsurance from MIC, another committee will examine the impact of the liquidations on state guaranty funds, and a third will assist the California department in Mission American's conservation.

The guaranty funds most likely to pay the largest volume of claims are those in the states where the insurers collected the most premiums on a direct written basis.

According to the 1985 annual statements of MIC, Enterprise, Holland-America and Mission National collectively wrote in direct written premiums:

- In California, $204.8 million.
- In Texas, $27.8 million.
- In Florida, $24.4 million.
- In Arizona, $21 million.
- In Oregon, $14.9 million.

Generally, policyholders of insolvent insurers file claims against the guaranty funds in their own states.

Due to cash-flow problems, MIC stopped paying all but workers compensation claims on Nov. 10, 1986, and all but California workers compensation claims on Jan. 26.

Many of MIC's outstanding policies are workers compensation policies, for which the companies retained the first $400,000 and reinsured $19.6 million excess of $400,000, their annual statements say.

Guaranty funds were evaluating their positions last week, although they cannot immediately begin paying claims.

"Our next step, literally, is to wait. Guaranty funds are sort of the tail of the dog: A lot of things have to happen before we can involve ourselves," says Paul Dygard, executive director of the Missouri Insurance Guaranty Assn. in St. Louis.

California liquidators must first collect all outstanding claim files, organize them by state, and distribute them to the various state guaranty associations for processing; this can take anywhere from six weeks to four months, Mr. Dygard estimates.

Once guaranty funds receive these files, their directors review them to assess the total exposure represented by policyholders in that state and to confirm coverage and proofs of claims. This can take from 10 days to two weeks, he estimates. Only then can claim payments begin.

Most of the funds need not wait to make assessments to start paying claims, under the revolving assessment system.

Workers compensation claims are paid in full by guaranty funds but most other claims are subject to a maximum limit. There also may be deductibles applied in addition to the policy deductible.

The California Insurance Guarantee Assn. has never had to assess insurers the permissible 1% maximum of written premiums, but Executive Director John Gates suspects it will be necessary for some lines of coverage to pay claims owed to MIC policyholders. CIGA collected $58 million in assessments last year.

California's fund pays claims to $500,000, subject to a $100 deductible.

The Florida Insurance Guaranty Assn. expects to assess insurers in that state the maximum amount permissible—also 1% of net written premiums—in three of its four categories. These three are workers compensation, auto liability and "all other."

This would be only the second time Florida has had to assess the maximum. It first did so last year, bringing in a record $60 million, reports P.J. Meunier III, manager of the association. It is using that money to pay claims filed against about 22 insolvent property/casualty insurers.

Assessing the maximum allowed is expected to generate even more than $60 million this year. But the decision to do so was made prior to MIC's looming liquidation, so future assessments could be heavy as well.

MIC and its subsidiaries have an estimated $15 million workers compensation exposure in Florida, with only $100,000 on deposit with the state, he says. That deposit was posted by Mission Re.

The Florida fund pays claims to $300,000 subject to a $100 deductible.

Policyholders in Missouri will benefit from the recent increase in guaranty fund coverage to $300,000 per claim. Previously, Missouri's fund only covered claims to $50,000. The deductible is $100.

Missouri's fund, which is paying claims on behalf of 16 insolvent property/casualty companies, took in about $7.5 million in its most recent assessment in August 1986.

The association has never had to assess the most it can—1% of net written premiums in each of three coverage categories—and cannot predict how much will be needed for the Mission insolvencies.

The Louisiana Insurance Guaranty Assn., which has assumed claims-paying responsibility for 16 insolvent property/casualty companies in the last year alone, also is uncertain how much it will have to assess.

Louisiana's fund will pay eligible policyholders of the Mission companies up to $150,000 per claim, after a $100 deductible.

Its most recent assessment, levied last September, brought in approximately $12 million and represented the first time Louisiana was forced to assess the maximum 1% on all lines covered, says Carey Guglielmo, the fund's general counsel in Baton Rouge.

Oregon, by comparison, has never had to assess its maximum amount, 2% in all eligible lines. The state does expect to assess insurers this year to cover claims against MIC but is not sure yet how much will be needed, says W. W. Kennell, administrator of the Oregon Insurance Guaranty Fund in Portland.

Its most recent assessment, levied in September, generated $4.25 million, which was used to pay claims filed against 16 companies now under the fund's jurisdiction.

Oregon pays claims to $300,000 and imposes only the policy deductible.

New York's fund, the nation's only pre-assessment property/casualty fund, begins assessing insurers when its coffers drop below $150 million. As of Jan. 31, the New York Property/Casualty Insurance Security Fund boasted $209 million. It is responsible for claims filed against 23 insolvent companies.

New York pays claims to $1 million and imposes only the policy's deductible.

Some observers question why California is liquidating two MIC companies that are domiciled elsewhere: Mission Re and Holland-America.

"Even though they're Missouri-domiciled, their headquarters and all their operations were in California. The only thing they had here was simply an office," explains Missouri Insurance Commissioner Lewis Crist. ■

Texas claims study

Continued from page 2
taking the project.

Altogether, 36 insurance groups consisting of 162 insurers licensed in Texas participated in the study.

They answered questions on claims closed during five time periods: November 1983 through February 1984; November 1984 through February 1985; November 1985 through February 1986; July and August of 1986; and September and October of 1986.

The closed-claims study includes information from 5,584 bodily injury claims related to general liability (including liability claims connected to commercial multi-peril policies), commercial automobile liability and medical malpractice policies.

Of the claims insurers submitted to the state board for study, 3,367 were used for most of the analysis.

The remainder were smaller claims closed by insurers in September and October of 1986 and were used in a separate report.

In its examination of general liability claims, the study focused on indemnity payments of $25,000 or more and any claims for which loss adjustment expenses exceeded $10,000 in all periods, except September and October of 1986, for which all closed claims were examined.

The $25,000 and $10,000 thresholds applied for commercial automobile liability claims in all periods examined.

All medical malpractice claims that involved lawsuits were included in the survey regardless of size, for all time periods.

Based on an analysis of the 3,367 claims during all time periods, the study shows:

- The average loss payment was $144,972.
- The 1,114 general liability claims accounted for 49.5% of the total loss payments, or $241 million. The average general liability claim payment was $216,698.

A breakdown of general liability closed claims shows that 22% was attributable to construction firms, while 10% was related to apartments, townhomes and condominiums, and offices. Municipalities and libraries contributed 4% of the general liability claims in the study and 3% came from schools, day-care centers, liquor liability risks, churches and non-profit organizations.

The remaining 61% of general liability claims reported in the survey were attributable to various other classes of business.

- The 1,046 commercial auto claims accounted for 29.7% of the loss payments, or $145 million. An average commercial auto claim payment was $138,767.
- The 1,207 medical malpractice claims accounted for 20.8% of the loss payments, or $102 million. The average malpractice claim payment was $84,150.

The study reports that non-economic damages from awards and settlements accounted for 46%, or approximately $224.5 million, of the $488 million of loss payments. Punitive damages awarded by courts made up 5%, or approximately $22.4 million, of the loss payments insurers reported.

Economic damages accounted for 47% of the total claims payments and prejudgment interest represented 2% of the losses, the study said.

Primary insurers paid 51% of the $488 million in loss payments and excess insurers were responsible for another 14%.

A total of 2% was funded by policyholders through self-insured retentions and by "awards or settlements in excess of policy limits," and 33% was paid by defendants in litigation other than those covered by the insurers that responded to the survey.

The state board's survey revealed that 1,327, or 39.4%, of the 3,367 analyzed claims were litigated claims that involved more than one defendant.

Of those claims, 400 represented cases in which a policyholder's estimated or assigned percentage of fault differed from the amount paid on the policyholders behalf:

- In 282 of the claims analyzed, payments made on behalf of policyholders exceeded the amount based on the policyholders' percentage of fault. The excess payments totaled $15.8 million, or 22.5% of the total settlements or awards in those cases.
- In 118 claims, payments made on policyholders' behalf were less than that based on their actual percentage of fault. The difference between the amount indicated by fault and the actual amount paid was $7 million, or 13.9% of the total settlements or awards made in the 118 cases.

In its report, the Legislature's joint committee recommends the state's doctrine of joint and several liability be abolished. If the current law is removed, a defendant would be responsible only for a percentage of damages proportional to its fault in personal injury and property damage cases.

The state board's study indicates that structured settlements were used in closing 6.9% of the claims analyzed.

When used, only half of the award was paid on a structured basis. The present values of projected future payments for the other half of a settlement averaged 26.5% of actual projected payments.

The joint committee has recommended mandating structured settlements for awards exceeding $100,000.

The closed-claims included in the study involved 69 suits filed in Harris County, Texas that were related to actions that took place in another part of the state. Dallas County had 17 such lawsuits filed, and Jefferson County had 15.

The joint committee has recommended the venue for filing suit be restricted to the county where a plaintiff claims to have suffered damages. The restriction, the committee reasons, would prevent those filing lawsuits from taking advantage of juries in areas that have historically awarded large judgments.

In the part of study devoted to analyzing 2,617 general liability and medical malpractice claims of all sizes closed during September and October of 1986, the state board reports some differences between small and large claims.

"The impact of the doctrine of joint and several liability was much less among the smaller claims than among the larger claims," the report says.

In addition, the report says: "Among smaller claims, medical expenses through the date of closing represents a much larger portion of economic damages than is the case among large claims, while future medical expense and future wage loss are much less significant among smaller claims than among larger claims."

Prejudgment interest and punitive damages are far less significant among smaller claims than larger ones, the report states. ■

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Brokers' results

Continued from page 3

Overall, "in 1986 M&M's growth was spectacular," Mr. Weinhoff commented, predicting that M&M will be better positioned than other brokers in 1987. While revenue growth may slow in insurance services operations, "the growth pace is accelerating in the benefits area," he explained.

"Marsh & McLennan's consulting business continues to be very strong, and investment management continues to beat even my most optimistic projections. M&M's property/casualty operations will continue to be more insulated to price swings than other brokers because they have primarily been paid by fees or negotiated commissions for over a decade now," said Mr. Rosencrants.

"M&M will likely have the strongest growth in 1987, since as much as a third of its revenues are not in the insurance industry. This will probably help them make up for any differences in cyclical pricing," Mr. Keefe agreed.

New York-based Alexander & Alexander Services Inc. reported 1986 gross revenues of $1.07 billion, a 16.9% gain compared with $913.6 million in 1985. A&A's 1986 net income was $43.2 million, contrasting a $7.3 million loss in 1985.

A&A's net loss in 1985 stemmed from a write-off of $20.5 million in merger-related expenses from its acquisition of Canadian brokerage Reed Stenhouse Cos. Ltd. in July 1985, and from adding $52 million to bolster the reserves of its discontinued underwriting operations (*BI*, March 24, 1986).

A $3.7 million extraordinary charge in A&A's fourth-quarter 1986 figures relates to a reversal of tax benefits the brokerage had recorded in the second quarter stemming from its acquisition of Reed Stenhouse. Mr. Keefe explained that this was prompted by the government's repeal in June 1986 of investment tax credits retroactive to the end of 1985. However, the brokerage has indicated that some of those tax benefits will be recoverable in 1987.

"A&A's fourth quarter insurance brokerage revenue growth picked up a little from the third quarter, but operating income fell way below expectations and expenses continued to run ahead at a rapid pace," said Mr. Rosencrants. A&A's total revenues had grown only 13.2% in the third quarter but exceeded 18% growth in the first two quarters.

"Overall, 1986 was disappointing compared to both the company's and most analysts' expectations," Mr. Rosencrants added.

"The results were disappointing," agreed Mr. Weinhoff. "As a result, we are lowering our earnings estimates for 1987 and 1988."

Mr. Keefe said A&A's fourth-quarter revenues were similar to its revenues in the third quarter, "which is a pretty good showing, but expenses were up considerably. That really cut into their operating income."

But T.H. Irvin, A&A's president and chief operating officer, attributed the increase in expenses to the "1,000 new employees we added in 1986" and to large sales bonuses issued to producers in the fourth quarter "because we had record new business sales in 1986."

"We are pleased" that the results "are significantly better than 1985's. We're looking for growth in 1987," Mr. Irvin added.

And, on a positive note, Mr. Rosencrants pointed out: "A major development for A&A was the settlement of litigation with Howden auditors. That now seems to be behind them."

In November, A&A was awarded $24 million in a settlement against four accounting firms it accused of breach of contract and negligence (*BI*, Nov. 10, 1985). A&A sued the accounting firms when it found that subsidiary Alexander Howden Group P.L.C.—which it acquired in 1982—was worth $40 million less that the broker paid. And, Howden generated further losses after the acquisition.

Notable in the fourth quarter is the fact that A&A was not forced to increase its provisions for loss on disposal related to the discontinued underwriting units of Howden, which had been a continuing problem in previous quarters.

An announcement by A&A Chairman and Chief Executive Officer John A. Bogardus Jr. that he will step down from his position as CEO following the annual shareholders meeting in May spurred rumors on Wall Street that his decision was related in some way to A&A's results (*BI*, Feb. 23).

In response to the rumors, Mr. Bogardus stated: "Our results and my announcement are 100% unrelated." He added: "I would have retired under any circumstances, and to attempt to tie my decision to our earnings just isn't correct."

Mr. Bogardus said he announced when he assumed his position in November 1978 "that 10 years is the maximum amount of time a CEO should remain in office. In this high pressure, service-oriented business, 10 years is plenty long enough to tie up a CEO position." Stepping down and allowing new people to assume management positions is healthy for the company, he added. Mr. Bogardus will remain chairman of A&A for another year, when he plans to retire.

Corroon & Black Corp. reported revenue growth of 21.8% in 1986 to $338.3 million from $277.7 million in 1985.

The New York-based brokerage's year-end net income was $41.6 million, a 44.2% increase compared with $28.8 million in 1985. However, in 1985 Corroon & Black recorded a $2 million loss on disposal of Lloyd's of London underwriting agency operations owned by Minet Holdings P.L.C., in which the brokerage holds 25% equity interest.

Year-end 1986 broker results
(In thousands of dollars)

Broker	Gross revenues	% change	Net income	% change
Marsh & McLennan	$1,804,100	31.9%	$243,200	49.3%
Alexander & Alexander	1,068,200	16.9	43,200	N/M
Corroon & Black	338,302	21.8	41,577	44.2
Arthur J. Gallagher	118,845	24.9	15,405	33.0
Poe & Associates	33,095	15.2	4,439	54.8

N/M-Not meaningful
Chart: Amy Palmer

In the fourth quarter, Corroon & Black's revenues grew 11.2% to $85 million from $76.4 million in fourth-quarter 1985. Revenue growth in the last seven quarters ranged from 22% to 32.7%.

Net income for the quarter rose 7.8% to $8.2 million from $7.6 million in 1985.

"Our tax burden went up significantly in the fourth quarter because of some non-repeating situations which pushed our tax rate lower in 1985. We continued to experience very satisfactory growth in our retail brokerage operations and brokerage services group, primarily as a result of new business achievements," said Stephen Crane, senior vp/chief financial officer.

Overall, "I think it was quite a good year. Our per-share earnings were up 35% over record earnings in 1985," Mr. Crane added.

"Corroon & Black's fourth quarter was pretty much in line with our earnings expectations," said Mr. Rosencrants. "Their pretax margins continued to improve, and that was quite heartening."

The brokerage "had dramatic gains in new business for the year" and "managed to keep its expenses down," said Mr. Keefe.

But Mr. Weinhoff felt that it was a "disappointing quarter" for Corroon & Black. "We were surprised that their tax rate was so high," he said.

Rolling Meadows, Ill.-based Arthur J. Gallagher & Co. reported a significant growth in revenues—24.9%—to $118.8 million in 1986 from $95.2 million in 1985.

Gallagher restated its 1985 results to reflect three major acquisitions in 1986, accounted for as poolings of interest. Gallagher originally reported 1985 gross revenues of $81.6 million.

The brokerage's net income in 1986 jumped 33% to $15.4 million from $11.6 million in 1985.

Gallagher's fourth-quarter gross revenues rose 15.3% to $29.4 million from $25.5 million in fourth-quarter 1985. Its net income for the quarter increased 28.5% to nearly $3 million from $2.3 million in 1985.

President Robert E. Gallagher said that the slowdown in growth in the fourth quarter from gains ranging from 22.9% to 30.2% in the last seven quarters was due to several factors, including "increased costs relative to brokers' errors and omissions insurance, lost business over high premium costs and a gradual slowdown in premium rates."

Overall, "We were delighted with our quarter and absolutely delighted with the year," Mr. Gallagher said. "Our basic strategies and plans are in place. It's back to the basics of good, hard blocking and tackling" for brokers in general, he commented.

"Their business is doing terrific" and they controlled their operating expenses, said Mr. Weinhoff. "Looking at their fundamental business, we were favorably impressed," he commented.

Gallagher's "revenue growth continued to be pretty good," said Mr. Rosencrants, but "Gallagher was the only broker to come in below my earnings estimate. I reduced my earnings estimate for 1987," he added.

Mr. Keefe does not track results at Gallagher.

Revenues for Tampa, Fla.-based Poe & Associates Inc. grew 15.2% to $33.1 million in 1986 from $28.7 million in 1985. Poe's net income jumped 54.8% to $4.4 million in 1986 from $2.9 million in 1985.

In the fourth quarter of 1986, Poe's revenues grew 9.5% to $8.3 million from $7.6 million in the fourth quarter of 1985. Net income in the fourth quarter of 1986 increased 18% to $877,000 from $743,000 in 1985.

Poe & Associates' revenues suffered in the last half of 1986 from insurance reform legislation adopted in Florida last summer that prompted many insurers to cease writing new business in the state. (*BI*, Dec. 15, 1986; July 7, 1986; June 16, 1986). About 70% of Poe's retail business is written in Florida, explained chairman William F. Poe.

"We failed to gain the new business growth we normally would get," which he estimated would probably have translated into about $1 million in additional revenues for the quarter.

"We were pleased by our results under the circumstances. Because we were able to maintain our earnings, I felt we did an acceptable job," Mr. Poe stressed, adding: "Our first half was great. The second half wasn't."

"When the air clears and we're back on more normal ground here in Florida" we plan to continue to grow both internally and externally, Mr. Poe added.

Financial analysts contacted do not track Poe's results. ■

BI Insurance Index



The *Business Insurance* index of insurance industry stocks continued to inch upward last week, closing at 525.7 points on Feb. 26, up 2.8 points from 522.9 points on Feb. 19. The previous week, the *BI* index recorded a 16-point jump from 506.9 points on Feb. 12. During the most recent trading period, 35 stocks posted gains, while 22 declined and seven remained unchanged. The five stocks that posted the largest gains were: Harleysville Group Inc., up 8.0%; NAC Re Corp., up 7.8%; Torchmark Corp., up 7.8%; Scor U.S. Corp., up 5.6%; and Baldwin & Lyons Inc., up 5.3%. Stocks that posted the largest losses were: UNUM Corp., down 10.5%; Zenith National Insurance Corp., down 5.1%; Frank B. Hall & Co. Inc., down 4.9%; Aneco Reinsurance Ltd., down 4.2%; and CNA Financial Corp. and Continental Corp., both down 4.1%. The *BI* index outperformed the major stock market indicators, averaging a 0.5% increase. The New York Stock Exchange composite averaged a 0.8% decline, while the Standard & Poor's 500 average closed down 0.9% and the Dow Jones 30 Industrials average tumbled 1.2%.

British Issues

Feb. 24 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	347	19.8	18.3	5.3	352—	342
Genl Accident	960	16.0	37.7	3.9	979—	960
Gdn Royal Exch	920	15.1	46.5	5.1	939—	920
Royal	998	10.5	42.2	4.2	1000—	982
Sun Alliance	748	16.6	29.5	4.0	789—	748
Brokers						
CE Heath	440	12.6	34.5	7.8	450—	440
Hogg Robinson	379	14.0	16.2	4.3	385—	379
JH Minet	266	11.8	12.0	4.5	271—	266
Sedg Grp	314	12.8	16.9	5.4	317—	311
Stew Wrightson	499	16.9	19.0	3.8	499—	489
Willis Faber	448	16.0	15.5	3.5	454—	448

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

Year-end results good, but much is left to do

By MYRON PICOULT

Special to Business Insurance

IN MY LAST COLUMN I questioned whether or not property/casualty insurer managements had the smarts to make use of the "windfall profits" that were likely to develop in the fourth quarter of 1986, because of the relatively light incidence of catastrophic losses (*BI*, Jan. 26). Now that most companies have reported their fourth-quarter and full-year figures, I have to acknowledge that, on the whole, reserving is being viewed in a more intelligible light.



Mr. Picoult

Very few managers publicly acknowledge the need to address their reserves—it is always "the other guy" who is short. Nonetheless, it is enlightening to see some conservatism take hold. Hopefully, it is not a flash in the pan.

The next step will be for the industry, perhaps with the help of the accounting profession and/or the Securities and Exchange Commission, to recognize some of the fallacious figures that are currently carried on balance sheets under the nomenclature of "reinsurance recoverables." This should not be done at the expense of deviating from the development of a more realistic reserve posture.

The liquidation of Mission Insurance Co. and its four subsidiaries last week underscores the pressure being brought to bear on the industry from insolvencies and reinsurance collectables. Although Mission's bell has been silenced, its hollow ring will reverberate for some time through the home offices of many companies.

The problems with reinsurance recoverables—together with the new tax bill, the low-yield environment and the continued need to polish off reserve deficiencies—underscores why it would be illogical for any company to compromise its pricing standards at this juncture of the underwriting cycle.

As good as the year-end 1986 figures appear to be, they certainly do not lend themselves to irrational pricing behavior.

Data on American International Group Inc. and the Hartford Insurance Group is excluded from our survey of property/casualty insurer results, though the inclusion of the data on these two companies should not materially effect the current average.

For the three months ended Dec. 31, our survey showed the following:

- Net premiums written on average rose 14.9%, which is a marked slowdown relative to the prior quarters in 1986 and reflects the fact that we have come full circle on the major commercial lines rate increases that were implemented a year ago. Nine companies were above the average and 10 were below.

Five underwriters recorded less than double-digit increases, but this can be explained by the participants of the Municipal Bond Insurance Assn.

- Pretax net investment income increased 13.3%. Ten companies were above the average and nine were below. In fact, four companies recorded declines in investment income on a quarter-to-quarter basis. Overall, this was the smallest gain posted during 1986.

It should be noted that yields remain low and cash flow from operations (defined as net premiums written less expenses and paid claims) dipped in the fourth quarter for many of the participants in our survey. Some underwriters are beginning to understand the new tax bill a little better and are initiating some portfolio shifting.

- The group's aggregate combined ratio after policyholder dividends stood at 107.0%, compared with 115.9% a year earlier. This represents some pick-up from the third quarter and mirrors reserving strategies. Ten insurers posted combined ratios in excess of the 107.0% mark and nine were below. To date, only GEICO Corp. is the only company we survey whose combined ratio is below 100%. Based on the results received to date, all of the improvement in the quarterly combined ratio was in the loss ratio, as the expense ratio moved up a tad.
- Statutory data on net premium-to-surplus ratios is not as complete as some of our other screens. With data on about two-thirds of the companies, the ratio stood at 2.44-to-1. The year-end 1985 figure equaled 2.50-to-1. Likewise, the reserve to surplus ratio equalled 2.0-to-1 vs. 3.2-to-1 at the end of 1985 for all the companies in the screen.
- Likewise, statutory data on reserves is also a little slow in coming in. With a little more than three-fourths of the companies reporting, it appears that total reserves at year-end were up 19.4% compared with the previous year. If that number holds, it would be the highest gain for the year. Paid claims were up modestly at the 5.0% level. That figure has bounced around for our survey all year long.
- Finally, property/casualty earnings were up very strongly for the quarter. The average, where it could be calculated, was up almost 115%. Many underwriters went from red ink to black ink and one company went from red ink to pink ink.

To be sure, the industry's critics will point to these gains as being astronomical and further evidence of preceding rate gouging. But the fact is that the 1986 figures are being compared with the woefully low 1985 numbers. Management should take pains to point this out, as well as the fact that returns on equity are not exactly ebullient. Some candor and a few mea culpas would be incredibly refreshing.

As good as the year-end 1986 figures appear to be, they certainly do not lend themselves to irrational pricing behavior.

Myron M. Picoult is senior vp and senior insurance analyst with Oppenheimer & Co. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts.

Travelers Corp.

Travelers Corp.'s operating income for 1986 increased 23% to $443.6 million from $359.8 million in 1985, due to a strong recovery in property/casualty earnings, said Edward H. Budd, chairman and chief executive officer.

Operating income for 1986 was boosted by $28.5 million as a result of changes in pension accounting standards and by $54.2 million from non-recurring tax benefits.

Net income for 1986 increased 45% to $545.8 million from $375.2 million. Net income for 1986 was boosted by a $41.2 million extraordinary tax benefit. Excluding the tax benefit, net income increased 34.5%.

The combined ratio improved to 108.1% in 1986, compared with 117.7% in 1985.

The underwriting loss for 1986 was $390.9 million, compared with $663.9 million in 1985.

"After several years of severe underwriting losses, the current level of profitability (in property/casualty commercial lines) is needed to provide the capital required to expand underwriting capacity," Mr. Budd said.

Hartford, Conn.-based Travelers' net premiums written in 1986 totaled $4.95 billion, up 24% from the $4.0 billion in new premiums written in 1985.

Fireman's Fund

Moody's Investors Service Inc. has assigned a P-1 rating—its highest rating—to Fireman's Fund Corp. of Novato, Calif., for its commercial paper program. The rating is based on Fireman's Fund's capitalization and reserve position, as well as its liquid investment portfolio.

NAC Re Corp.

NAC Re Corp. reported operating income for 1986 of $3.4 million, compared with a 1985 loss of $3.7 million.

Net income was $6.1 million, up from a loss of $1.3 million the year earlier.

Net premiums written in 1986 totaled $112.7 million, compared with $26.6 million in 1985.

The combined ratio for New York-based NAC Re in 1986 was 109.9%, an improvement from 153.5% in 1985. ■

BI Industry Stock Report

February 26, 1987 2/20/87 thru 2/26/87

Brokers		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol.(000)
Alexander & Alexander Svcs	NYSE	27.75	-2.6	396.4	1.00	3.6	30.13	27.75	1,331.3
Baldwin & Lyons Inc	OTC	20.00	5.3	16.3	0.20	1.0	21.50	19.00	0.3
Corroon & Black Corp	NYSE	33.50	2.7	14.9	0.65	1.9	33.88	33.00	439.8
Gallagher Arthur J & Co	OTC	29.00	3.6	20.7	0.40	1.4	29.00	28.25	117.9
Hall Frank B & Co Inc	NYSE	17.00	-4.9	0.0	0.00	0.0	17.75	17.00	95.1
Marsh & Mclennan Cos Inc	NYSE	68.88	4.6	20.9	1.90	2.8	68.88	66.63	696.7
Poe & Assoc Inc	OTC	13.00	0.0	16.5	0.40	3.1	13.00	13.00	2.8
AGENTS/BROKERS	AVERAGE			21.3		2.4			
Conglomerates & Holding Cos.									
Anderson Clayton(Ranger/PanAm)	NYSE	65.63	0.0	18.8	0.00	0.0	0.00	0.00	0.0
Armco Inc	NYSE	8.38	-1.5	0.0	0.00	0.0	8.63	8.25	728.1
Berkley W R Corp	OTC	32.25	3.2	17.8	0.24	0.7	32.25	30.75	844.4
Berkshire Hathaway Inc Del	OTC	3335.00	1.2	193.4	0.00	0.0	3395.00*	3310.00	0.8
CIGNA Corp	NYSE	65.75	0.4	10.4	2.80	4.3	66.63	65.00	1,404.8
CNA Finl Corp (CNA)	NYSE	61.25	-4.1	15.2	0.00	0.0	63.38	61.25	219.9
General Re Corp	NYSE	64.75	1.8	23.6	1.00	1.5	65.38	64.00	1,294.1
ITT (Hartford Group)	NYSE	61.75	-1.8	17.5	1.00	1.6	62.13	60.75	2,537.2
Sears Roebuck & Co. (Allstate)	NYSE	51.00	-1.4	14.1	2.00	3.9	53.50*	51.00	8,433.7
Transamerica Corp (Occidental)	NYSE	35.13	-2.4	9.8	1.76	5.0	36.25	35.13	1,046.0
CONGLOMERATES/HOLDING COS.	AVERAGE			81.4		0.2			
Insurers									
Aetna Life & Cas Co	NYSE	67.38	2.1	10.9	2.64	3.9	67.38*	65.38	3,191.2
American General Corp	NYSE	42.38	1.5	11.8	1.25	2.9	43.00	41.75	1,876.0
Amern Heritage Life Invt Co	NYSE	42.75	-1.2	14.8	1.32	3.1	43.00	42.75	6.6
American Indty Finl Corp	OTC	18.25	2.8	0.0	1.12	6.1	18.25	18.00	30.4
American Intl Group Inc	NYSE	75.13	0.7	21.5	0.25	0.3	75.63	73.00	1,474.3
Aneco Reins Ltd	OTC	2.88	-4.2	0.0	0.00	0.0	3.00	2.88	24.6
Avemco Corp	NYSE	38.38	3.0	17.0	0.50	1.3	38.75*	38.00	55.4
Business Mens Assurn Co Amer	OTC	29.00	-0.4	0.0	1.10	3.8	29.50	29.00	190.3
Chubb Corp	NYSE	69.50	3.3	12.3	1.68	2.4	70.50	68.50	982.8
Combined Intl Corp	NYSE	57.88	-1.5	10.5	2.24	3.9	58.75	57.25	244.6
Continental Corp	NYSE	52.00	-4.1	14.4	2.60	5.0	53.38	52.00	564.0
Crown Life Ins Co	OTC	345.00	0.0	11.9	6.40	1.9	345.00	345.00	0.5
Durham Corp	OTC	43.50	0.0	14.6	1.36	3.1	43.50	42.75	9.7
Farmers Group Inc	OTC	49.25	0.5	16.4	1.20	2.4	49.75*	48.75	602.7
Fairmont Finl Inc	AMEX	18.63	-2.0	12.8	0.00	0.0	19.25	18.63	310.1
Fireman Fd Corp	NYSE	40.75	2.2	17.3	0.40	1.0	41.00	39.13	701.0
Fremont Gen Corp	OTC	19.13	2.0	0.0	0.48	2.5	19.13	19.00	110.6
Great West Life Assurn Co	OTC	700.00	0.0	14.4	18.00	2.6	700.00	700.00	0.0
Home Group Inc	AMEX	23.75	1.6	6.4	0.20	0.8	23.75	22.50	681.1
Hanover Ins Co	OTC	72.75	3.9	15.4	0.56	0.8	73.00*	72.00	27.9
Harleysville Group Inc	OTC	18.50	8.0	11.8	0.32	1.7	18.88*	17.63	118.4
Hartford Steam Boiler Insptn	OTC	63.25	0.4	14.8	1.60	2.5	64.50*	63.25	75.4
Kans City Life Ins	OTC	28.75	0.9	11.1	0.96	3.3	28.75	28.50	13.6
Kemper Corp	OTC	36.00	-0.7	14.3	0.60	1.7	36.50*	35.25	536.9
Liberty Corp S C	NYSE	39.00	0.0	13.7	0.72	1.8	39.25	39.00	14.1
Lincoln Natl Corp Ind	NYSE	50.25	-2.0	11.0	2.16	4.3	51.00	50.25	331.9
Mission Ins Group Inc	PAC	.88	0.0	0.0	0.00	0.0	4.38	.69	9.7
Monumental Corp	OTC	55.63	0.0	18.8	0.00	0.0	55.63	55.63	1.1
Nac Re Corp	OTC	31.00	7.8	47.7	0.00	0.0	31.00	28.50	141.9
Nobel Ins Ltd	OTC	17.25	4.5	13.0	0.37	2.1	17.25	16.50	263.1
Northwestern Natl Life Ins	OTC	29.63	-3.3	8.9	0.86	2.9	30.38	29.00	422.1
Ohio Cas Corp	OTC	44.75	-2.7	14.8	1.68	3.8	45.75	44.75	266.7
Old Rep Intl Corp	OTC	30.75	1.7	12.9	0.78	2.5	31.00	29.00	344.5
Orion Cap Corp	NYSE	27.63	-3.1	0.0	0.76	2.8	27.75	27.00	112.4
Protective Corp	OTC	18.50	-2.6	10.2	0.70	3.8	19.50	18.50	200.7
Provident Life & Acc Ins Co	OTC	28.50	2.7	13.3	0.84	2.9	28.50	27.75	225.5
St Paul Cos Inc	OTC	53.25	-2.7	15.4	1.76	3.3	54.25	53.25	1,744.3
SAFECO Corp	OTC	60.25	-0.8	12.5	1.70	2.8	61.25	60.00	220.5
Scor U S Corp	OTC	14.25	5.6	28.5	0.00	0.0	14.25*	14.00	298.4
Seibels Bruce Group Inc	OTC	17.25	1.5	0.0	0.80	4.6	17.50	17.25	74.5
Selective Ins Group Inc	OTC	24.25	4.3	11.2	0.92	3.8	24.25*	23.50	157.1
Statesman Group Inc	OTC	5.00	2.6	0.0	0.05	1.0	5.13	5.00	167.1
Tokio Marine & Fire Ins Co	OTC	68.00	0.0	76.4	0.17	0.2	68.00	68.00	9.7
Torchmark Corp	NYSE	33.00	7.8	12.1	1.20	3.6	33.00	31.13	764.2
Travelers Corp	NYSE	52.00	0.5	11.7	2.28	4.4	52.25	50.75	1,247.8
Trenwick Group Inc	OTC	17.50	1.4	134.6	0.00	0.0	17.50	17.25	17.8
United Fire & Cas Co	OTC	32.00	0.8	15.0	0.80	2.5	32.75	32.00	11.9
United States Fid & Gty Co	NYSE	47.50	-0.3	13.2	2.32	4.9	48.25*	47.25	1,826.0
Unum Corp	NYSE	27.75	-10.5	11.1	0.40	1.4	29.00	27.75	1,737.1
Uslife Corp	NYSE	42.88	-3.7	11.1	1.20	2.8	44.00	42.88	836.8
Washington Natl Corp	NYSE	31.00	1.6	14.1	1.08	3.5	31.13	30.50	55.1
Zenith Natl Ins Corp	OTC	23.50	-5.1	17.9	0.80	3.4	24.25	23.50	181.8
INSURANCE COMPANIES	AVERAGE			13.8		2.4			

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