MAY 17, 1993

Business Insurance®

Reporting weekly for corporate risk, employee benefit and financial executives / $2.50 a copy; $80 a year

© Entire contents copyright 1993 by Crain Communications Inc. All rights reserved

Update

USF&G planning venture to write property catastrophe reinsurance

BALTIMORE—USF&G Corp. is organizing a joint venture Bermuda reinsurance company primarily to write traditional property catastrophe reinsurance on a worldwide basis.

The company will have $100 million to $200 million in capital, said Paul Ingrey, president of Morristown, N.J.-based F&G Re. The reinsurance unit will not participate in the venture, he said.

USF&G, which is expected to be a minority partner, has lined up two part-

Continued on next page

Reform plan takes shape

Including medical elements of workers comp, auto cover in system raises concerns

By MARK A. HOFMANN and MEG FLETCHER

CLINTON AGENDA

WASHINGTON—The Clinton administration's sketchy plan for folding the medical component of workers compensation into a reformed health care system appears fraught with practical and political difficulties.

"I'm sure it's possible, but I'm not smart enough to figure out how to do it," said Stephen M. Wilder, assistant treasurer-risk management at the Walt Disney Co. in Burbank, Calif.

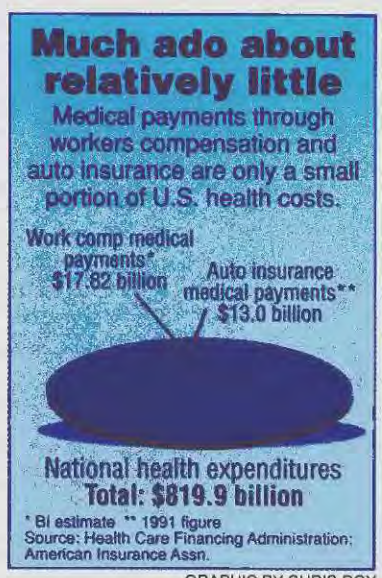
If Hillary Rodham Clinton is, she gave few details when she broached the idea to a business audience in Williamsburg, Va., earlier this month.

"It would be a big plus for workers comp if national health care reform produced high quality medical care at significantly reduced cost," said Richard Victor, executive director of the Workers Compensation Research Institute in Cambridge, Mass.

Mrs. Clinton also said the administration would like to pull the medical portion of automobile insurance into health care reform. This would change commercial auto risks.

Left unanswered by Mrs. Clinton was how

Continued on page 45



GRAPHIC BY CHRIS ROY

Employer mandate key to financing

By JERRY GEISEL

WASHINGTON—The Clinton administration's health care reform package will require all employers to contribute toward the cost of health care coverage for their employees, but the mandate will be phased in, a top White House adviser says.

Mr. Magaziner

The administration has ruled out other financing alternatives, including a value-added tax, to help fund health care coverage for the nation's 36.3 million uninsured, according to Senior Domestic Policy Adviser Ira Magaziner.

"You're left then with an employer-employee required contribution of some sort. To our way of thinking, even though that's a difficult decision, we think it is the only equitable decision," he said.

At the same time, an employer mandate would dramatically reduce the amount of taxes that would be needed to ensure universal coverage, he said.

Continued on page 44

4 states could win waivers of ERISA

By MARK A. HOFMANN

WASHINGTON—Legislation that would grant four states limited waivers from the Employee Retirement Income Security Act could signal the beginning of a barrage as states seek to shoot down the federal law's pre-emptory powers.

A House panel last week voted to extend waivers to Hawaii, Maryland, Minnesota and New York as part of budget reconciliation legislation. The waivers would allow the states to circumvent the federal law, which pre-empts states from enacting laws relating to employee benefit programs.

House Education and Labor Committee Chairman William Ford, D-Mich., cautioned, however, that the portion of the budget reconciliation package containing the ERISA waivers might not remain part of the final legislation.

In fact, the chief reason the language was included in the budget package was to assure that the Education and Labor Committee retains jurisdiction over certain aspects of ERISA, rather than surrendering all power over that area to the Ways and Means Committee, Rep. Ford said.

"Whenever you get into moving money around, that other committee rears up," he said to the chuckles of his colleagues.

Opponents of waiving ERISA's pre-emption didn't find anything to laugh about in the committee's actions, though.

"We are being pushed pell-mell back into the past," warned Mark Ugoretz, president of the Washington-based ERISA Industry Committee, an employee benefits lobbying group.

Granting states waivers from ERISA will lead to a variety of state laws that will encourage companies with group health care plans to drop them and discourage firms now without plans from establishing them, he said.

Hawaii's waiver would allow the state to make changes in its universal health care system, which is now operating under a limited ERISA waiver, according to Frank McArdle, a consultant

Continued on page 45

Utility rebates $800 to employees with lower health costs

By NANCY P. JOHNSON

RICHMOND, Va.—One employer has lowered its health plan costs by using the lure of cash.

At an after-work party last week, Dominion Resources Inc., a Richmond, Va.-based utility holding company, handed out checks for $800 to 70 employees who participated in a program that significantly lowered the company's 1992 health care costs. Thirty more employees, who were not in the program for the entire year, took home checks for prorated amounts.

Dominion Resources decided in 1991 to take an extra step to reduce excess utilization of health care services.

This goal was achieved in the "Share the Savings" program, in which participating employees receive taxable payments if the company spends less for health care expenses than budgeted. If budgeted funds remain at the end of the plan year, the company keeps half to defray its health care costs for the following year and distributes the remainder to employees who did not exceed their annual deductibles and therefore created no added expense for the plan.

This year, eligible participants —those who participated in one of the company's three indemnity plans and who did not exceed the deductible—received a maximum of $800 whether they have individual or family coverage.

Because Dominion's health care spending for 1992 was $296,780—under budget by $135,000—the company distributed $68,000 to eligible employees.

About 90% of Dominion Resources' 177 employees participated in the program.

One Dominion employee who pocketed an $800 check is pleased with the outcome.

"When employees who are not getting this check see this, it will inspire them to participate next

Continued on page 16

Louisiana charges insurer a sham

Suit targets defunct risk retention group

By DOUGLAS McLEOD

BATON ROUGE, La.—The Louisiana Insurance Department is seeking to recover $20 million in a lawsuit alleging fraud by more than three dozen companies and people affiliated with the defunct Physicians National Risk Retention Group Inc.

The amended complaint, filed earlier this month in state court in Baton Rouge, charges that Physicians National was capitalized with borrowed money and was never intended to be a viable medical malpractice insurer.

Instead, former Physicians National President Douglas S. Crucet and others conspired to use the insurer to generate premiums from which they could siphon millions of dollars in illicit commissions, management fees and other payments, the suit alleges.

In addition to Mr. Crucet, the suit names 13 companies connected with the operations of Physicians National and 23 individuals who were directors or officers of the insurer or the other companies.

None of the defendants has yet answered the amended complaint.

Mr. Crucet vehemently denied the allegations, calling them "outrageous in the extreme."

"I'm sitting here in bankruptcy, with my house foreclosed on," said Mr. Crucet, who filed for personal bankruptcy in bankruptcy court in Atlanta last year.

"I own two suits, both bought before I went to work for Physicians National. I wear a $29 wristwatch. I drive an eight-year-old car with 150,000 miles on it. You're not talking to somebody who has $5 million in a Swiss bank account."

Continued on page 20

Update

USF&G venture in Bermuda

Continued from previous page
ners for the venture, with another one possible, said Mr. Ingrey. Further details are expected in about three weeks.

The USF&G joint venture follows the creation last year in Bermuda of property catastrophe reinsurer Mid Ocean Reinsurance Co. Ltd. (*BI*, Nov. 9, 1992; April 26).

Superfund reform principle

WASHINGTON—Superfund reform must preserve the principle of "polluter pays" and avoid creating a system of proportional liability for pollution cleanup, the Clinton administration's top environmental official said last week.

President Clinton is concerned about inefficiencies in the current cleanup system, Environmental Protection Agency Administrator Carol M. Browner told the Senate Subcommittee on Superfund, Recycling and Solid Waste Management on May 11 and the House Subcommittee on Transportation and Hazardous Materials on May 13. She promised the EPA would attempt to lower transaction costs stemming from Superfund litigation.

Ms. Browner insisted, however, "We should be careful to preserve the principle of site-specific polluter pays. The parties that contribute to the contamination should be responsible for the cleanup."

She added that the administration does not favor a system of proportional liability for cleanup costs because it would force the EPA to define to very small levels the proportion of liability, which would increase the time needed to clean up sites.

Tobacco company found liable

GREENEVILLE, Miss.—A Mississippi state judge has found American Tobacco Co. strictly liable for injuries to smokers, the first such ruling by a court.

In a strongly worded opinion, Washington County Circuit Judge Eugene Bogen concluded that cigarettes are defective and unreasonably dangerous "because when used as intended, they cause cancer, emphysema, heart disease and other illnesses."

Judge Bogen ruled that Anderson Smith, a deceased smoker whose family brought the suit, cannot be held partly at fault. Mr. Smith "did with Pall Mall cigarettes what defendants intended be done, he smoked them. Defendants may not be heard to argue that (Mr. Smith) was somehow contributorily negligent."

Tobacco industry representatives dismissed the ruling as aberrant and having little weight beyond Mississippi. However, Richard Daynard, chairman of the Tobacco Product Liability Project in Boston, called the ruling "very persuasive." "Reasonable people cannot disagree that the product is unreasonably dangerous," he said.

American Tobacco, a unit of American Brands Inc. of Old Greenwich, Conn., said it will appeal.

Mental health care mandate

WASHINGTON—The Clinton administration will propose that basic health care plans must cover mental health and substance abuse.

Benefit packages that only cover physical ailments are incomplete because they do not cover the "whole" person, Hillary Rodham Clinton said last week at a conference here on women's health issues. Also, mental health problems often are directly related to an individual's physical problems, she said.

Mandating mental health and substance abuse benefits could initially increase the cost of the basic employer-provided benefit package the administration will propose.

According to a study by A. Foster Higgins & Co. Inc., mental health and substance abuse benefits last year comprised 8.8% of medical plan costs (*BI*, March 1).

Mrs. Clinton, who chairs the Task Force on National Health Care Reform, also said health care costs cannot be contained without universal coverage, because uninsured individuals with relatively minor problems will continue to use emergency rooms—the most costly method of treatment. Hospitals then are forced to charge exorbitant prices for small items, like aspirin, as they shift the costs of uncompensated care to insured patients.

Mrs. Clinton also said certain preventative benefits, like well-baby care and neonatal care, would be part of the package.

Pension reduction plans struck

WASHINGTON—Employers cannot set up plans allowing retirees to reduce their pension benefits, transfer the amounts to flexible benefit plans and then use the funds to pay health care premiums on a pretax basis, the Internal Revenue Service says.

Such reduction arrangements, in which taxable pension benefits are converted into pretax dollars to pay for non-taxable medical expenses, would require specific authority from Congress, an IRS official told *Business Insurance* last week.

In the absence of such authority, the IRS views the pension reduction arrangements as "impermissible," the official said.

Pension reduction arrangements have been promoted by several benefit consulting firms to help employers shift more health care costs to retirees and thus reduce employers' retiree health care liabilities. Pension reduction arrangements would make it easier to shift premium costs to retirees since the retirees would be using pretax dollars to pay for the new costs.

Relatively few employers—probably fewer than 10—have established pension reduction plans, said Harry Conaway, a principal with William M. Mercer Inc. in Washington.

Updates continued on page 46

Ruling may help company prove existence of cover

By DAVE LENCKUS

KANSAS CITY, Kan.—A company seeking pollution coverage under a lost general liability insurance policy has won access to the reinsurance files of an insurer that denies it wrote the policy.

Under a federal court order, the company also will be allowed to examine the insurer's attorney memoranda in its effort to prove coverage exists.

The ruling last month, which came in the discovery phase of pollution litigation between Browning-Ferris Industries of Kansas City Inc. and Employers Commercial Union Insurance Co. of America, a predecessor of Commercial Union Insurance Co., is part of a growing trend that will help policyholders reconstruct missing policies, a BFIKC attorney says.

But insurer attorneys see no clear trend in such rulings.

Boston-based Commercial Union has turned over its reinsurance documents and memoranda to BFIKC attorney Thomas Ryan, a partner with Lathrop & Norquist in Kansas City, Mo.

The coverage dispute stems from federal officials' efforts to clean up a Superfund site in eastern Kansas near Holliday.

Two companies that operated a landfill at the site in the 1960s merged with BFIKC in 1972. Federal officials subsequently declared the landfill a Superfund site and named BFIKC as a potentially responsible party for cleanup costs.

Mr. Ryan estimated that cleanup costs could range from $2 million to $9 million and that

Continued on page 34

Court reverses own ruling

Negotiations over revised Manville payout plan to continue

By MICHAEL SCHACHNER

NEW YORK—Negotiators are heading back to the table, confident they can work out a deal acceptable to all 200,000 asbestos victims covered by the Manville Personal Injury Settlement Trust, after an unusual federal appeals court ruling May 5.

Admitting to errors of both fact and law, a three-judge panel of the 2nd U.S. Circuit Court of Appeals partially reversed its own 1992 ruling that had thrown out the restructured trust.

But the 2nd Circuit did not reinstate the restructured trust. Instead it merely cleared the way for new rounds of talks within some definite guidelines.

One reason the court earlier rejected the revised plan was that it would not pay claims on a "first in, first out" basis.

Such payments had been called for in the 1986 reorganization plan of asbestos maker Johns-Manville Corp., which created the trust. In 1990, the Manville trust ran out of cash and was restructured so the Denver-based company could pay hundreds of thousands of asbestos claims against it. The 2nd Circuit ruled last year that any revisions to the trust would have to retain the "first in, first out" payment scheme (*BI*, Dec. 14, 1992; Nov. 26, 1990).

But now the panel has ruled that payments do not have to be on the "first in, first out" basis. Because the Manville trust has only $2.5 billion in assets to cover approximately $6 billion in estimated current and future lia-

Continued on page 18

Bill would increase policyholders eligible for Executive Life payout

By JOANNE WOJCIK

SACRAMENTO, Calif.—A bill being introduced this week in California's Senate could put another snag into the already unraveling Executive Life Insurance Co. rehabilitation.

The bill would significantly increase the number of policyholders eligible for payments from the failed insurer's estate. As a result, it would reduce payouts to the holders of guaranteed investment contracts issued before 1989 because the holders of some $500 million in more recent GICs would be considered policyholders, too.

The bill—to be introduced Wednesday by Sen. Patrick Johnston, D-Stockton—would codify part of a 1989 state court ruling that holders of GICs used to back municipal bond issues are, under the California Insurance Code, "policyholders."

That label is crucial because policyholders can often recover much of their claims against insolvent insurers; lower-ranking creditors often get little or nothing.

The 1989 ruling also held that the holders of contracts issued after an addition to the State Insurance Code was made were not

Continued on page 46

Is American Business Insurance for sale?

Market says yes; broker won't say

By JUDY GREENWALD

SAN FRANCISCO—American Business Insurance Inc. may be for sale.

Stephen J. Leaman, the San Francisco-based broker's president and chief executive officer, and a spokeswoman for parent American Financial Corp. in Cincinnati, declined to comment about widespread reports that ABI is up for sale.

But sources in the investment community say it is widely known the brokerage is on the block, with First Boston Corp. handling the deal. One rumor pegs the current asking price for the brokerage at $200 million.

ABI reported $126.5 million in gross revenues in 1992, up 9.1% from $116 million in 1991.

ABI, which has grown rapidly through acquisitions since its 1984 founding by Bernard H. Mizel, was the 19th-largest broker in the world in 1991, according to a *Business Insurance* ranking (*BI*, June 29, 1992). It

Continued on page 45

Inside

- IRS pension rules to hurt multinationals. **PAGE 4**
- A sound health care reform package is worth waiting for, this week's editorial says. **PAGE 8**
- FAS 106 is leading employers to make retirees pay more for health care, a survey shows. **PAGE 35**
- California is investigating allegations of overbilling in the ELIC rehabilitation. **PAGE 38**
- Some Lloyd's names may throw a wrench in a new proposal for settling members' litigation. **PAGE 39**

Departments

Advertiser Index 28
A.R.M. exercises 27
Benefit beat 6
Books & ideas 27
Classifieds 42
Comings & goings: buyers 38
Comings & goings: industry 21
For the record 37
Insurance services guide 43
International 39
Letters 8
Markets 31
Opinions 8
Perspectives 27
Products & services 35
Reader reply service 28
Ticker 47

Vol.27, No.21—*Business Insurance* (ISSN 0007-6864) is published weekly by Crain Communications Inc., 740 N. Rush St., Chicago, Ill. 60611. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to *Business Insurance*, Circulation Department, 965 E. Jefferson Ave., Detroit, Mich. 48207; 313-446-1611. Copyright 1993 by Crain Communications Inc.

Outcome studies touted as a way to raise quality

Some hope Clinton to coordinate research

By CHRISTINE WOOLSEY

Employers, insurers and health care researchers would like to see the Clinton administration mandate—and perhaps help fund—outcomes research that purchasers could use to determine the quality of care delivered by accountable health plans.

While the managed competition model favored by President Clinton does call for a National Health Board to provide consumer information on the quality of accountable health plans, some observers fear that role may not be given the priority it needs.

Studies by Rand Corp., Harvard University and others have repeatedly found that a significant percentage of unnecessary medical and surgical services are being performed throughout the country. Those services not only interfere with a patient's quality of life, they also are costing the nation millions of dollars per year in wasted expenditures.

Proponents of outcomes research say such information would eliminate most medically unnecessary procedures by giving physicians the data they need to improve their practice patterns.

And, they say corporate purchasers and consumers of health care would be able to better judge whether their health care dollars are buying high-quality medical care.

The proponents hope that enough research and development money will be put into outcomes research to create a meaningful "report card" for health plans that contains information like the appropriateness of certain procedures and how well they provide preventive care like child immunizations.

Currently, though, there is no coordination of outcomes re-

Continued on page 14

APIW honors Thrower

Academic is Insurance Woman of the Year

By GAVIN SOUTER

NEW YORK—Ellen Thrower, president of the College of Insurance, will receive the 1993 Insurance Woman of the Year award from the Assn. of Professional Insurance Women Inc.

Ms. Thrower's "infectious enthusiasm" for insurance education makes her a worthy award recipient, colleagues and associates say.

And her achievements and personal qualities reflect the APIW's goals, said Cathryn Curia, APIW president and a vp at St. Paul Reinsurance Management Corp. in New York.

Photo by David Lubarsky

"Ellen Thrower's position as president of the College of Insurance recognizes the significant role of women within the industry," she said.

Ms. Thrower was delighted to be named Insurance Woman of the Year.

"Previous winners of the award are people I hold in very high regard, so I feel to be respected by the APIW is a real honor," she said.

The award was introduced in 1976, when the APIW was founded.

Ms. Thrower's teaching career began in 1978 at Georgia State University, where she was an instructor in the department of risk management and insurance.

In 1981, she moved to Florida State University in Tallahassee, where she was assistant profes-

Continued on page 46

Nevada workers comp reform

Legislators hope comprehensive bill can wipe out system's huge deficit

By JUDY GREENWALD

CARSON CITY, Nev.—Nevada legislators are hoping a comprehensive workers compensation bill will help eliminate a workers comp system deficit of more than $2.2 billion—nearly twice the size of the state's general fund spending.

But whether Nevada's Senate and Assembly can agree on a bill for Gov. Bob Miller to sign remains to be seen. A comprehensive bill, S.B. 316, has already passed the Senate, but is likely to be amended by the Assembly.

Under Nevada law, employers in the state must purchase workers comp coverage from the monopolistic State Industrial Insurance System or be large enough to self-fund their workers comp risks. About 130 employers, accounting for about one-third of the workforce, self-insure, said Insurance Commissioner Terry Rankin.

However, most of the bill's provisions would also benefit self-insured employers, said James Pettis, risk manager for Mirage Resorts Inc. in Las Vegas, a self-insured employer with about 12,500 employees.

For instance, the bill would permit self-insured employers to introduce managed care for workers comp coverage for the first time, said Mr. Pettis, who supports the bill.

In his Jan. 25 "State of the State" address, Gov. Miller referred to workers comp reform as "possibly our greatest challenge."

The SIIS, which is officially insolvent, was $2.2 billion in debt as of June 30, 1992, he said. This equals all Nevada state government spending for education, prisons, welfare, Medicaid, state workers' salaries, environmental protection and senior citizen services for two years, he said.

Premiums paid this year alone will fall $394 million short of SIIS' own expenses, and the system will be $3 billion in debt by December 1995, he said.

Discussing the factors that led to the current crisis, Assemblywoman Chris Giunchigliani, chairwoman of the Assembly Committee on Labor and Management, which is now considering the bill, said the SIIS was poorly managed and shorthanded. One claims manager could be handling as many as 2,000 claims, she said.

Part of the problem is due to the lack of rate increases during the high inflation period of the early 1980s and the fact that at times employers received dividends from the fund, she said.

Some bad assumptions were made by the fund during the past five years and when these were corrected, "it suddenly went from solvent to insolvent overnight," said Mark Smith, president of the Las Vegas Chamber of Commerce.

"The Legislature has to take some action to be able to correct it; there's no question about it," he said, adding he generally supports the bill.

The last rate hike for the SIIS, for 11.4%, was effective Oct. 1, 1991 (*BI*, Oct. 21, 1991).

In addition to its impact on self-insured employers, managed

Continued on page 36

Third time not charm for Kansas tort reform

By SALLY ROBERTS

TOPEKA, Kan.—If at first you don't succeed, try, try and—in the case of Kansas lawmakers—try again.

In a third attempt to reduce recoveries by personal injury plaintiffs, a statute reforming the state's collateral source rule has been found unconstitutional by the Kansas Supreme Court.

The 1988 statute's allowance of evidence of collateral source benefits—evidence that a plaintiff's loss has been compensated by sources other than the defendant—was found in violation of the equal protection provision of the U.S. and Kansas Constitutions.

At issue was a classification allowing admission of collateral source benefits to plaintiffs seeking damages in excess of $150,000. The statute prohibited the admission of collateral source benefits to those seeking lesser amounts.

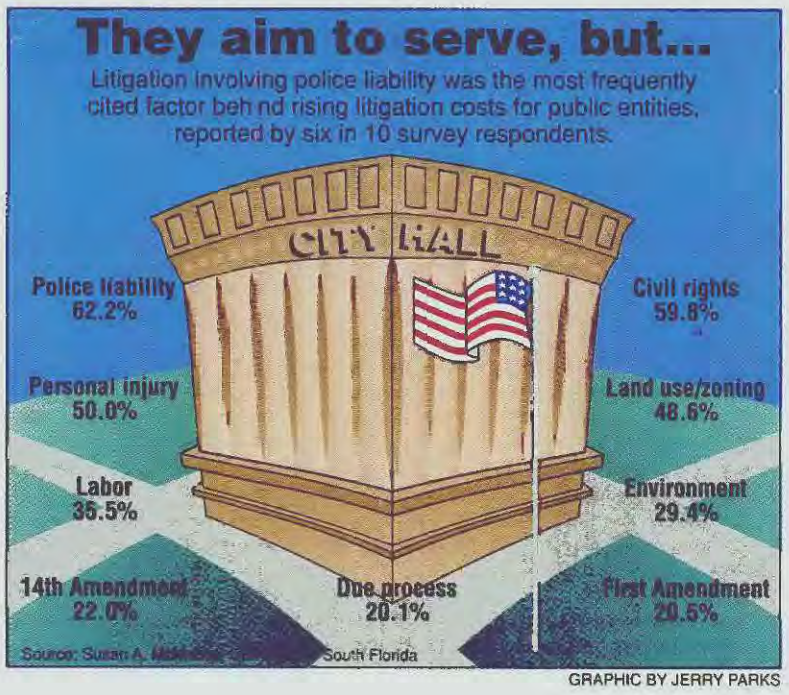
The Kansas Supreme Court ruled last month the classification is discriminatory and lacked facts or data on which to make such a projection.

"The only basis for the classification is to deny a benefit to one group for no purpose other than to discriminate against that group. The challenged classification unreasonably discriminates in favor of claimants demanding $150,000 or less and unduly burdens those seeking judgments in excess of $150,000," Justice Donald Allegrucci wrote.

Proponents of the court's ruling claim that defendants should

Continued on page 32

Rising litigation costing public entities



GRAPHIC BY JERRY PARKS

By DEBORAH SHALOWITZ

Outside, the battle is sometimes fought in the street with guns and tear gas and careening police cars. Inside, the battle is fought in the courtroom with speeches and documents and well-heeled attorneys.

In both cases, cities and counties seem to come up short.

According to a new survey, the nation's cities and counties spent more than $8.5 billion in 1991 in litigation costs, including damage awards, settlements and defense costs.

And, 88% of those surveyed said their litigation costs had increased over the previous two years. For nearly one-fifth of the 234 municipalities and counties surveyed, increases in litigation costs have exceeded 30% for the previous two years.

"This is a problem that's not going away," stated Susan A. MacManus, chairwoman of the department of government and international affairs at the University of South Florida in Tampa, and one of the authors of the study.

Litigation is "an ever-increasing issue for us—it isn't letting up at all," agreed Thomas Vance, risk manager for the city of Anaheim, Calif.

Experts say litigation against public entities is growing for several reasons, including a weak economy and an increasingly litigious society.

"Because of the economy being what it is, you're finding more people suing" across the board, and thus more lawsuits also against government entities, said William R. Quinlan, a partner specializing in government liability with law firm Pope & John

Continued on page 16

IRS proposal to hit U.S. multinationals

By JERRY GEISEL

WASHINGTON—Proposed Internal Revenue Service rules governing deferred compensation plans maintained by foreign subsidiaries of U.S. companies could cost multinationals tens of millions of dollars in tax breaks.

The rules also could, in certain situations, put multinational companies in the difficult position of either stopping pension practices that are required in other countries or forgo U.S. tax breaks.

On the other hand, the proposed rules clear up a number of gray areas and will allow employers to recognize the cost—for tax purposes—of certain types of deferred compensation plans.

The rules also will give employers one year to make needed changes to comply.

"Employers will have more time to decide on the right strategy," said Robert Heitzman, an independent consultant and actuary in Alpine, N.J.

The rules involve Section 404A of the Internal Revenue Code, which governs how U.S. employers can recognize costs of deferred compensation programs maintained by foreign branches and subsidiaries.

Until now, Section 404A rules only applied to funded deferred compensation plans maintained by foreign branch operations of U.S. employers and to so-called book reserve plans.

In book reserve plans, employers do not have to make actual cash contributions to their pension plans, but instead establish reserves.

The latest IRS proposed regulations, though, extend Section 404A to funded deferred compensation plans maintained by foreign subsidiaries of U.S. companies.

Previously, multinationals could elect not to be treated under Section 404A. Instead, they could turn to other sections of the Tax Code to determine how they could recognize—for tax purposes—contributions made to funded plans by their foreign subsidiaries.

Under some interpretations of those Tax Code requirements, employers with foreign subsidiaries could fully recognize—as a charge against earnings—contributions made to funded plans as long as the contributions met local rules.

But that no longer would be an option. Instead, U.S. funding rules would determine the amount of pension contributions that could be recognized as a charge against earnings.

In some cases, rules in some foreign countries, such as the United Kingdom, allow employers to make much larger tax-deductible contributions than would be allowed in the United States.

By applying U.S. funding limits to foreign plans, "Employers' tax breaks could be restricted. This is something corporate finance officials must be alerted to," said Larry Maloney, a principal with William M. Mercer Inc. in New York.

The IRS rules also clarify and tighten the definition of what is considered a funded plan under Section 404A.

In general, foreign plans must meet many of the same requirements that pension plans in the United States now follow, noted Chris Christiansen, a consultant in the Rowayton, Conn., office of Hewitt Associates.

For example, pension contributions must have "substance." That means an employer contribution to its pension plan could not then be loaned back by the plan to the employer, a practice that is allowed in some countries.

In addition, under the proposed IRS rules, a foreign pension plan could not engage in activities—such as owning more than 10% of the employer's stock—that would be prohibited under the Employee Retirement Income Security Act of 1974. Such practices are allowed in other countries.

The IRS rules also make clear that a foreign plan's assets must be used for the exclusive benefit of participants.

Following that requirement could cause a problem for multinational companies in the United Kingdom, where rules require employers, in certain circumstances, to periodically withdraw accumulated surpluses from their pension plans.

By contrast, ERISA strictly bars employers here from withdrawing surpluses from an ongoing plan.

Unless the IRS modifies its rules, a U.S. multinational company in the United Kingdom could be in the position of either losing U.S. tax breaks or violating British rules.

That problem should be raised with the IRS, said Mark Kordonsky, a managing consultant with A. Foster Higgins & Co. Inc. in Los Angeles.

But there is some good news for employers, too.

The IRS rules make clear that certain deferred compensation arrangements will qualify for Section 404A, and their costs could be recognized as a charge against earnings.

Specifically, so-called termination indemnity plans, offered by employers in a number of countries, including Colombia, Italy, Japan and Venezuela, would be considered bona fide deferred compensation plans.

Termination indemnity, often provided in lieu of a regular pension plan, provides special benefits to employees who terminate employment.

Benefit consultants note that the proposed rules, published in the May 7 issue of the Federal Register, are very complicated and will have to be studied carefully before any decisions are made.

"Employers will need a few weeks to digest these rules," said Roger Atkins, a national consultant with The Wyatt Co. in Washington.

"Don't do anything quickly," advised James Klein, national practice leader for retirement plans and executive benefits with Towers Perrin in New York.

The IRS plans to hold a hearing on the rules Oct. 5 in Washington. BI

John Martin/The Image Bank

"Never say never."

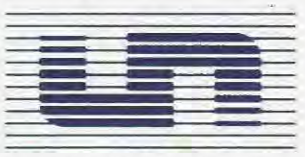
Unique risks and specialty programs don't always fit into the traditional underwriting guidelines established by many insurance companies.

And often, when insurers encounter risks they aren't familiar with, they impose all kinds of inflexible underwriting rules—rules that can leave producers feeling tied up in knots.

At United National Group—one of the largest surplus lines insurers in America—our underwriters are adaptable and accommodating, and they work hard to help producers grow and profit.

Our companies are resourceful, flexible, and inventive, and when it comes to writing surplus lines risks, we never say never.

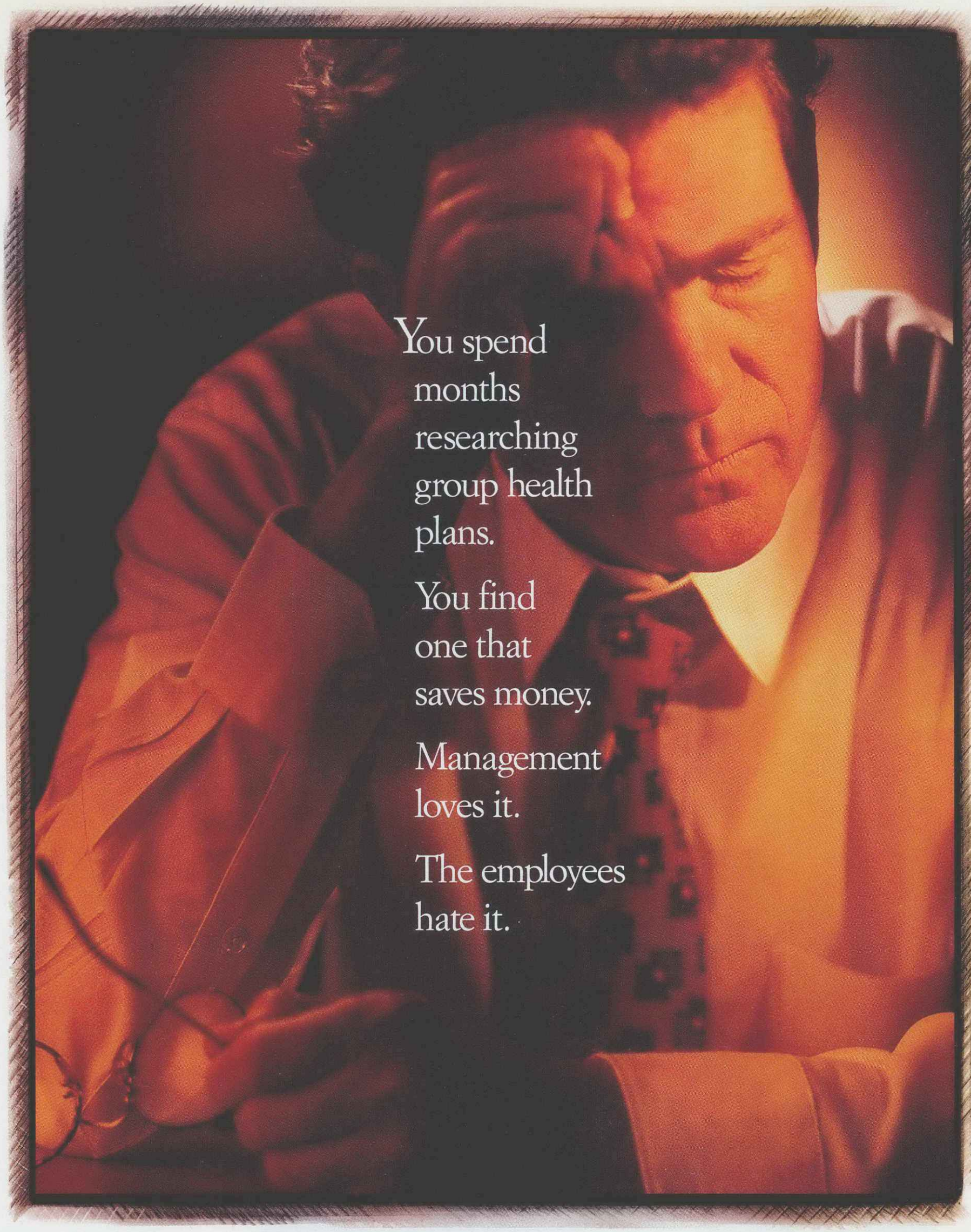
United National Group. Wise enough to listen, strong enough to act.



united national group

The open market for unique risks and specialty programs.

United National Insurance Company
Diamond State Insurance Company
Hallmark Insurance Company
Three Bala Plaza, East Suite 300 Bala Cynwyd, PA 19004 (215) 664-1500



Employee satisfaction. It's critical in selecting a group health plan that manages medical costs. At Wausau, our claim processing accuracy is 99%, based on audits. Our complaint ratio, a mere .004. It's quality care that satisfies employers and employees.

WAUSAU
NATIONWIDE® INSURANCE GROUP

Wausau Insurance Companies, 2000 Westwood Dr., Wausau, WI 54401 1-800-542-5408 A+ A.M. Best Rating

Macy's pact covers retiree medical costs

Benefit Beat

NEW YORK—A labor agreement reached last month by R.H. Macy & Co. Inc. guarantees union retirees full medical coverage until 1999, but active union members must switch to an HMO and pay part of the premium.

Trying to come out of Chapter 11 bankruptcy protection, Macy's came to the bargaining table with Local 1-S of the Retail, Wholesale and Department Store Union almost a year before the contract was due to expire.

Under the deal, ratified by union members April 14, Macy's agreed to continue covering all medical expenses not covered by Medicare for the union's 1,900 retirees. The agreement runs from April 1 of this year through February 1999.

Meanwhile, the union agreed to give up its indemnity plan for an HMO that will require 30% premium contributions.

Going into the talks, Macy's had been intent on eliminating retiree medical benefits entirely, said Joseph Pascarella, president of Local 1-S. But it backed off when the union agreed to exempt all future hires from eligibility for post-retirement medical benefits.

About 4,000 active employees no longer have access to the indemnity program, which had covered all reasonable and customary health care costs above a $100 per person annual deductible.

Under the new U.S. Healthcare Inc. HMO plan, active employees who were working at least 20 hours per week under the old contract must now pay about 30% of the plan's monthly premium.

Employees' share of the HMO premium will range from about $45 per month for individual coverage to $120 for family coverage. To help defray the added costs, Macy's agreed to across-the-board wage increases of $10 per week in August, as well as another $10 per week in February 1994 and $7 per week in August 1994.

The contract also calls for wage increases in 1995 and 1996 and caps at 8% the annual premium increases employees must bear.

"Employees won't have to pay their specific amount until the wage increases become effective," Mr. Pascarella said. All three wage increases take effect in August.

The plan covers workers at stores in the Bronx, Manhattan, Queens and White Plains, N.Y. The contract also denies health benefits to any new employee working fewer than 28 hours per week.

—By Michael Schachner

Food union strike

CLIFTON, N.J.—About 1,500 unionized employees of four major grocery store chains in northern New Jersey and upstate New York went on strike last week rather than accept a joint management health care cost-shifting proposal.

A spokesman for the United Food and Commercial Workers union Local 1262, which represents 28,000 members, said some union members decided to strike instead of accepting what he termed a "vague proposal that would raise out-of-pocket maximum liabilities from $550 per year to as much as $9,000 in a catastrophic case."

"Our employees earn from $5.05 per hour to $14.00 per hour in extreme cases. They're not Wall Street brokers who can afford this type of a hit," he said.

The stores conducting "separate, but simultaneous" negotiations with the union are Foodtown, Pathmark, Grand Union and Shop-Rite.

About 26,000 employees in New Jersey and about 1,800 in New York had been covered by a three-year contract with the stores that expired April 10.

In addition to the 1,500 strikers, all of whom had worked for the Shop-Rite chain, about 5,000 workers were locked out of their jobs at 12 Grand Union stores. The spokesman said at least 19 other stores employing another 6,000 union employees are preparing to lock employees out rather than continue negotiations.

—By Michael Schachner

Employers to foot bill

Human resource executives expect national health reform will cause companies to pay more for employee benefits, according to a recent survey.

Nearly a third—31%—of the 185 respondents predict their companies' health benefit costs will increase under managed competition, according to a survey by William M. Mercer Inc.

And, 54% believe managed competition would make benefit administration more complex.

Respondents are skeptical about whether health reform will actually create universal access. About 55% doubt that managed competition will provide universal coverage, though 32% believe the plan could provide universal access in the long term.

Many respondents also expect heavier taxes to pay for health reform.

About 55% of respondents say a benefits tax on employers is probable, while 36% say such a tax is possible. A benefits tax on employees is probable, according to 25% of respondents, while 37% say such a tax is possible.

For a copy of the survey, contact the public relations department at William M. Mercer, 1166 Avenue of the Americas, New York, N.Y., 10036; 212-345-7584.

—By Nancy P. Johnson

Domestic partners

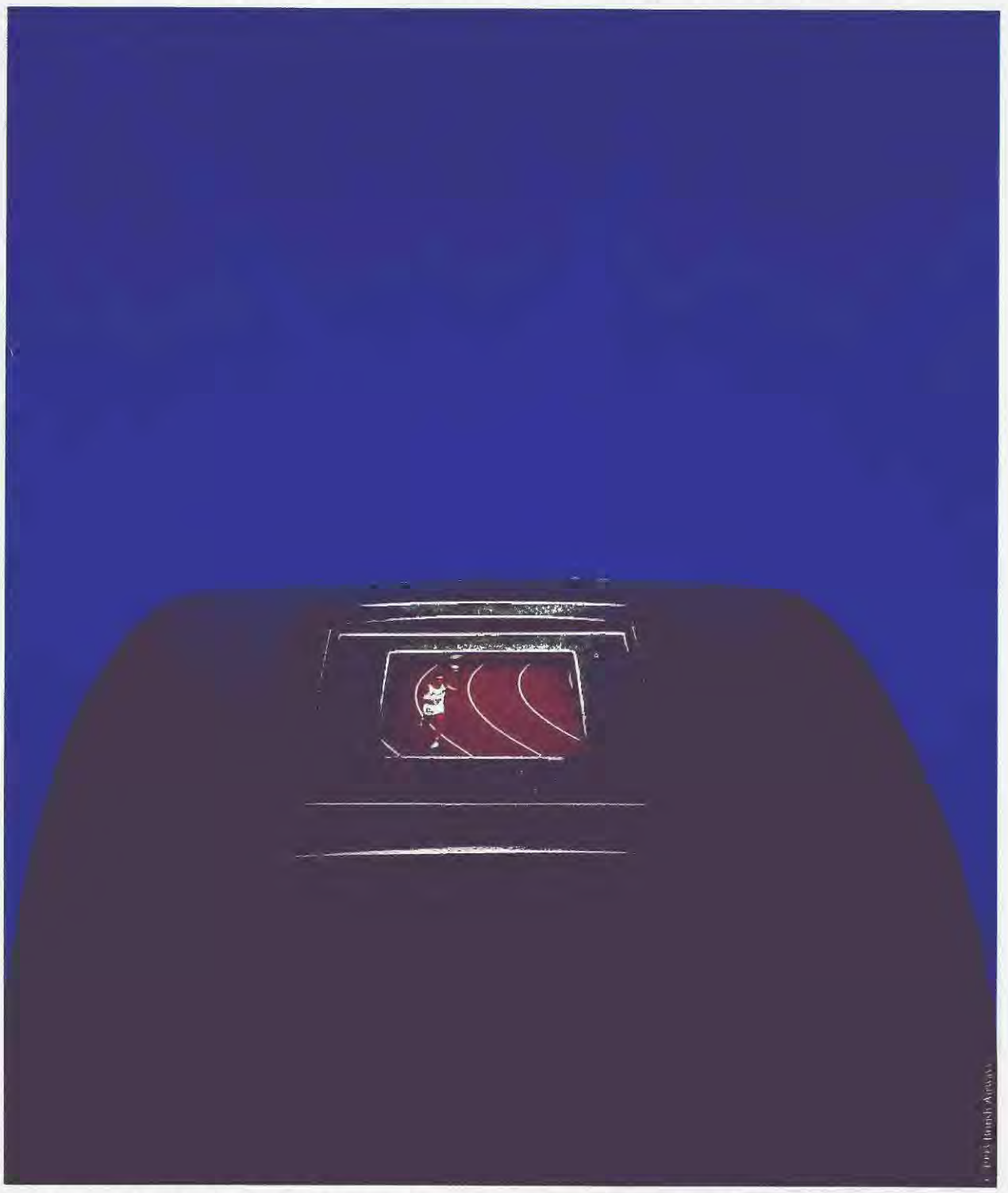
WORCHESTER, Mass.—Clark University on June 1 will begin extending a host of benefits to the domestic partners of its gay and lesbian faculty and staff members.

Benefits include health insurance under one of seven plans, dental insurance, free tuition and bereavement leave.

To qualify, partners must have joint financial obligations and have shared a residence for at least one year and be unable to marry under Massachusetts law.

—By Michael Schachner

42 choices. Not counting on and off.



Introducing Club World℠ seat-back entertainment. First-run and classic films. Sports. Cultural and current affairs. Eight channels. Your own hi-definition video screen. The widest range of programming to choose from. Or not. *It's the way we make you feel* that makes us the world's favourite airline.

BRITISH AIRWAYS
The world's favourite airline®

Reliance National Covers the Bases

Coast to coast and around the world, Reliance National covers the bases with a winning strategy. Our global team of underwriters works with each and every client, offering the most comprehensive array of coverages available.

With a field network of offices from Los Angeles to London we provide the outstanding service our clients have come to expect. From our underwriters to our claims management and loss control engineers, our winning team of professionals scores high points in the Property/Casualty and Accident & Health arena.

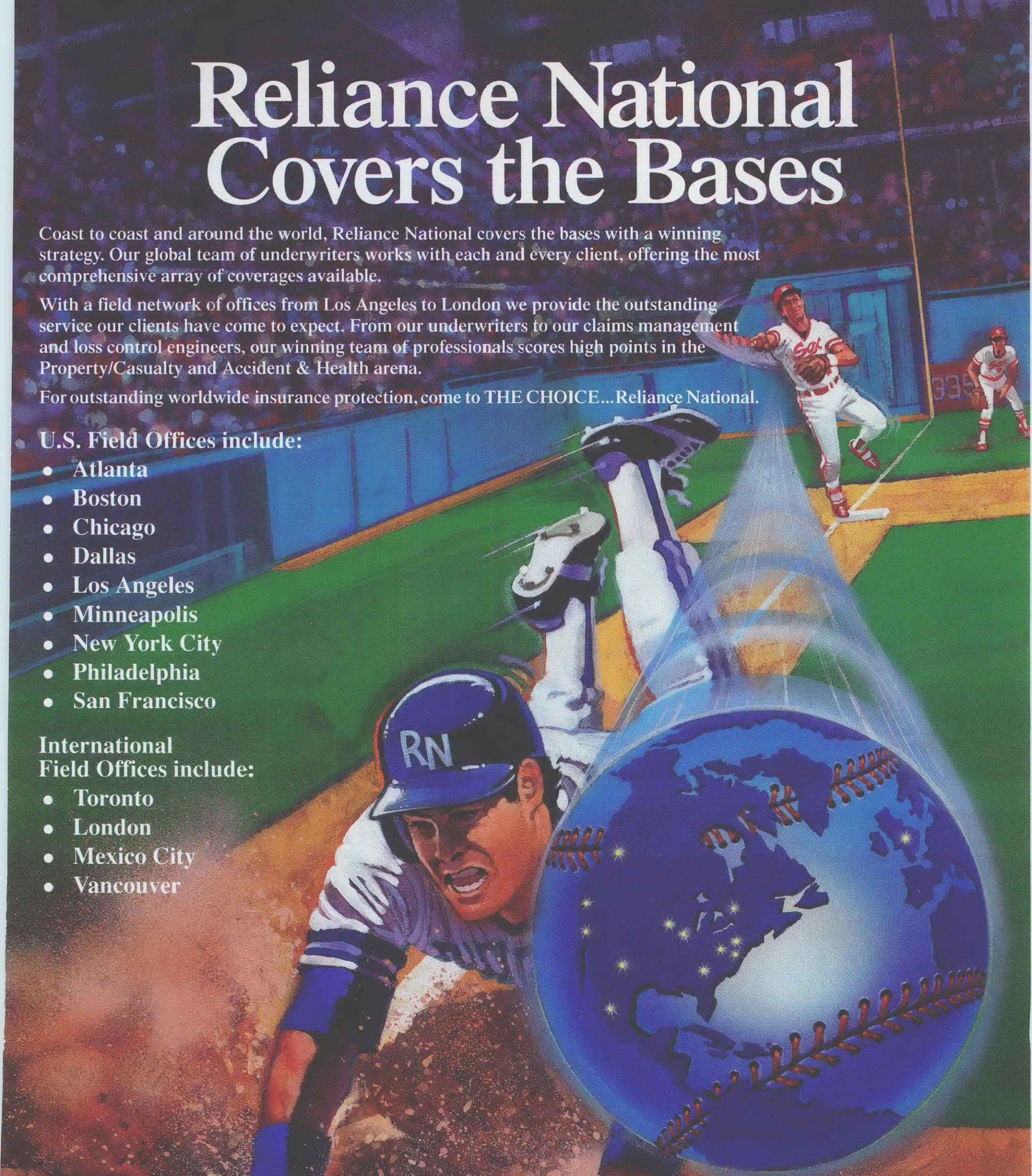
For outstanding worldwide insurance protection, come to THE CHOICE... Reliance National.

U.S. Field Offices include:

- Atlanta
- Boston
- Chicago
- Dallas
- Los Angeles
- Minneapolis
- New York City
- Philadelphia
- San Francisco

International Field Offices include:

- Toronto
- London
- Mexico City
- Vancouver



THE CHOICE

Reliance National

A Reliance Group Holdings Company

77 Water Street, New York, N.Y. 10005

For further information write us or call (212) 858-6308

Reliance National underwrites through Reliance National Insurance Company, Reliance Insurance Company, Planet Insurance Company, United Pacific Insurance Company, Reliance Insurance Company of Illinois, and Reliance Insurance Company of New York.

© 1993 Reliance National Insurance Company.

Opinions

A plan worth waiting for?

NORMALLY, MISSING A deadline is not something that should be applauded.

But we do welcome President Clinton's decision to delay sending to Congress his much-awaited plan to reform the nation's health care delivery and financing system. Mr. Clinton originally promised to have a reform package ready by about May 3, but the proposal probably won't be unveiled until sometime in June.

Given that health care reform has been discussed for literally decades, a six-week or so delay really is irrelevant.

What is important is that the administration recognizes the complexity of the health care system and the difficulties inherent in trying to overhaul it.

We much prefer that the administration waits a few more weeks, gets more advice and takes more time to analyze different options than try to meet a largely symbolic, self-imposed deadline.

If the administration gets it right and wins passage of comprehensive health care reform legislation that expands coverage and brings costs under control, no one in years to come will remember or care that the initial proposal was a few weeks late.

Also, charges that the administration is developing its health care package in secrecy are off the mark.

The task force headed by Hillary Rodham Clinton and charged with making recommendations to President Clinton has held literally hundreds of meetings—many with employer groups—to discuss options and ask for advice.

This isn't to say we approve of everything the administration has done in crafting a health care reform proposal. We would have, for example, liked to have seen more employer and union representatives—those with day-to-day experience running health care programs—and fewer government officials on the task force.

And certainly the size of the task force—more than 500 people serving on various working groups—was larger than it needed to be.

But those criticisms are minor.

What's really important, and seems to have been overlooked by many critical of the Clinton health care reform process, is that this administration—unlike the last one—has made a commitment to solve—not ignore—the nation's health care crisis.

We, and the American people, can wait a few more weeks to see what the Clinton administration has to offer.

Letters

Americans must take responsibility for their health

To the editor: Will issuing everyone a national health insurance card, as the Clinton administration has proposed, control health care costs? Why is this as fiscally unappealing as endlessly printing money? The similarity rests in the worthlessness of these government endeavors. Both are totally irresponsible.

Maintaining the health of the individual is the only possible directive that will reduce costs. There is no solution in insurance—universal, national, managed or otherwise. Frankly insurance, in and of itself, has been the predominant factor in creating the cost crisis in health care.

The implementation of Medicare and other legislative mandates and the proliferation of health insurance has so greatly influenced our expectation of what health care providers can and should achieve that we now have a virtual addiction for care and technology beyond any appropriateness or accountability that we would apply to other resource allocation decisions. Worse, in order to satisfy the infinite demand for health care and desire to provide care, more and more resources are being siphoned away from other important human endeavors. Are we really that sick?

If we don't achieve and maintain health and take personal responsibility for doing so, the proposed national health insurance card and the printing of money to finance its deficits will converge to give us all a gigantic pain in the wallet.

John J. Iannantuono
Treasurer
Indicon Inc.
Allentown, Pa.

Firm did not place risk with FSIL

To the editor: I read with interest the article about Financial Services Insurance Ltd. in the April 19 issue, which was reported in your usual comprehensive style.

There was mention in the article of a letter written in certain glowing terms by Coopers & Lybrand to Brian Nottage, our deputy managing director, regarding FSIL's sound financial standing.

For your information, despite the letter and the apparent excellent report by Coopers & Lybrand, our company did not in fact place business with FSIL.

Geoffrey Hughes
Chairman
London Special Risks Ltd.
London

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill., 60611-2590.

Health care reform ideas are well received

To the editor: On behalf of Treasury Secretary Lloyd Bentsen, I would like to thank you for your thoughts regarding health care reform. The Secretary appreciates your willingness to forward your publication and will share it with other Task Force members.

Again, many thanks for your ideas.

Marina L. Weiss
Deputy Assistant Secretary
for Health Policy
Department of the Treasury
Washington

* * *

To the editor: Congratulations on your Special Report, "Solving the Health Care Crisis." This was a well-balanced and timely issue concerning the hottest issue of the day, "Health Care Reform."

Again, best wishes for continued success!

Best regards.

Joseph W. Duva
Chairman and Chief Executive Officer
Preferred Solutions Inc.
New York

* * *

To the editor: Thank you for sending me the special edition of *Business Insurance* discussing health care reform.

In my ongoing effort to keep up to date on current issues before Congress and affecting the nation, it is most

Continued on page 10

Business Insurance®
Reporting weekly for corporate risk, employee benefit and financial executives

Publisher/Editorial Director:	Kathryn J. McIntyre, A.R.M. *(Chicago)*
Editor:	James M. Burcke *(Chicago)*
Editor-at-Large:	Jerry Geisel *(Washington)*
Managing Editor:	Paul D. Winston *(Chicago)*
Assistant Managing Editor/News:	Timothy Stanton *(Chicago)*
Assistant Managing Editor/Graphics:	Jeanne M. Bartels *(Chicago)*
International Editor:	Stacy Shapiro *(London)*
Senior Editors:	Dave Lenckus *(Chicago)* Douglas McLeod *(New York)*
Bureau Chiefs:	Michael Schachner *(New York)* Joanne Wojcik *(Los Angeles)*
Copy Editors:	Regis J. Coccia *(Chicago)* Sara J. Harty *(Chicago)* Sarah E. Polster *(Chicago)* Roseanne White *(Chicago)*
Associate Editors:	Michael Bradford *(Dallas)* Meg Fletcher, A.R.M. *(Chicago)* Judy Greenwald *(San Jose)* Mark A. Hofmann *(Washington)* Nancy Johnson *(Chicago)* Louise Kertesz *(Los Angeles)* Adrian Ladbury *(London)* Sara Marley *(Chicago)* Deborah Shalowitz *(Chicago)* Gavin Souter *(New York)* Christine Woolsey *(Chicago)*
Staff Reporter:	Sally Roberts *(Chicago)*
Directory Editor:	Kathy Welyki *(Chicago)*
Assistant Directory Editor:	Cynthia L. Bloom *(Chicago)*
Editorial Assistant:	Kerry A. Dziubek *(Chicago)*
Assistant to the Publisher:	Karen Brown *(Chicago)*
Editorial Cartoonist:	Roger Schillerstrom *(Chicago)*
Advertising Director:	Martin J. Ross III *(New York)*
Eastern Advertising Manager:	Stephen P. Lincoln *(New York)*
Midwest Advertising Manager:	Robert L. Niesse *(Chicago)*
District Managers:	Cynthia Bykowski *(New York)* Margaret Hikido *(Chicago)* Charles A. Horvath *(New York)* Thomas P. Loftus *(New York)* Deborah D. Neale *(Chicago)* Kathryn Premetz *(New York)*
Production Manager:	Elmer Kerstowske *(Chicago)*
Director of Communications:	Ronnie I. Drachman *(New York)*

EDITORIAL:	Chicago:	312-649-5398
	Dallas:	214-363-1066
	London:	71-608-1172
	Los Angeles:	213-651-3710
	New York:	212-210-0100
	San Jose:	408-379-1790
	Washington:	202-662-7200
ADVERTISING:	New York:	212-210-0228
	Chicago:	312-649-5276
	Los Angeles:	213-651-3710
COMMUNICATIONS:	New York:	212-210-0132
CIRCULATION:	Detroit:	800-678-9595

Published by Crain Communications, Inc., Chicago

Founder	G.D. Crain Jr.
Chairman	Mrs. G.D. Crain
Vice chairman	Keith Crain
President	Rance Crain
Chairman-executive committee	S.R. Bernstein
Treasurer	Mary Kay Crain
Secretary	Merrilee P. Crain
Executive vice president-operations	William A. Morrow
Vice president-circulation	William Strong
Vice president-production	Robert C. Adams

Published weekly at 740 Rush St., Chicago, Ill. 60611-2590, Telex 6871241, Fax 312/280-3174, Cable CRAINCOM. Offices: 220 E. 42nd St., New York, N.Y. 10017-5806, Fax 212/210-0704, CRAIN COM NYK; 1 Northpark, East Suite 114, 8950 N. Central Expressway, Dallas, Texas, 75231-6415, Fax 214/696-1936; Suite 814, National Press Building, Washington, D.C. 20045-1801, Fax 202/638-3155; 6500 Wilshire Blvd., Suite 2300 Los Angeles, Calif. 90048-4947, Fax 213/655-8157; 540 Latimer Circle, Campbell, Calif. 95008, Fax 408/379-3257; Cowcross Court, 2nd Floor, 75-77 Cowcross St., London EC1M 6BP, England, Fax 71/608/1173. $2.50 a copy. $80 a year in U.S. Canada add $38 for surface mail. First-class mail to U. S., add $95; to Canada add $105. All other foreign $200 per year expedited delivery. SHEILA GORMLEY, circulation manager. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, Business Insurance, 965 E. Jefferson Ave., Detroit, Mich., 48207-3185, or phone 800-678-9595 or 313-446-1611, Fax 313/446-1650. Microfilm copies are available from University Microfilms, 300 Zeeb Road, Ann Arbor, Mich. 48013. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Road, Wooster, Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media. For information and rates to reproduce in general circulation media, contact: MELANIE GLOVER, The Crain Syndicate, 740 Rush St., Chicago, Ill. 60611-2590, 312-649-5464. For reprints or reprint permission contact: KAREN BROWN, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590, 312-649-5319, Fax 312/280-3174.

BPA INTERNATIONAL Member of Business Publications Audit of Circulation ABP

Feeling Squeezed by Rising Benefits Costs?

GROUP HEALTH

WORKERS COMP

DISABILITY

SQUEEZ-BACK

- Utilization Management
- Group Health PPO
- Diagnostic Review
- Outpatient Procedure Review
- Medical Case Management
- Maternity Management
- Psychiatric and Chemical Dependency Management
- Case Management
- Workers Comp PPO
- Medical Bill Audits
- ADA Services
- Return-to-Work System SM
- Light-Duty Return-to-Work
- Job Placement
- Early Medical Management Intervention SM

Crawford

CRAWFORD & COMPANY
HEALTHCARE MANAGEMENT

Call 800-241-2541

Ask for Dr. Richard Groepper

Letters

Continued from page 8

helpful to receive information that tells me what the electorate is thinking by virtue of the activities and the positions taken by major groups. The issue also provides valuable background information on which I can base a truly thoughtful analysis of the matters involved.

Rep. Henry B. Gonzalez
Democrat-Texas
U.S. House of Representatives
Washington

* * *

To the editor: I appreciate your sending me the edition of *Business Insurance* dealing with how to solve the health care crisis. I look forward to reading it and learning what the experts you spoke with suggested.

I am grateful for this background material as the administration approaches the pressing problems facing the nation. Thank you for thinking of me.

Richard W. Riley
Secretary of Education
Department of Education
Washington

* * *

To the editor: Thank you for your recent letters to Leon Panetta and Alice Rivlin regarding health care reform and enclosing a copy of *Business Insurance*. I am responding on their behalf. Your letter is timely and appreciated.

We at the Office of Management and Budget will do our best to ensure that the President's health care reform plan addresses effectively the dual challenges of cost containment and universal access, while maintaining high quality of care. We appreciate your views and will consider them as a health care reform plan is developed.

Nancy-Ann Min
Associate Director for Health
Office of Management
and Budget
Washington

* * *

To the editor: Thank you for sending me the special edition of *Business Insurance*. I have forwarded the special edition to Dr. Pat Cole, my Health and Human Services policy director, for her review.

I always appreciate reading informative material and other opinions on our national health care crisis.

Ann W. Richards
Governor
Austin, Texas

* * *

To the editor: Thank you for your recent letter and the *Business Insurance* magazine. I appreciate your taking the time to share your suggestions with me.

As you know, I am currently serving on the White House Task Force on Health Care Reform, and your suggestions, particularly with respect to alternative approaches care delivery, were helpful to me. I have taken the liberty of forwarding your ideas to the task force.

The President intends to send to Congress a comprehensive health care reform package later this spring. This is indeed a complex task, and your input is helpful to developing a comprehensive proposal.

I hope you will continue to contribute your ideas and suggestions in the weeks ahead.

Ronald H. Brown
Secretary of Commerce
Department of Commerce
Washington

* * *

To the editor: I want to con mend you for the excellent jc done on the special repor "Solving the Health Care Cr sis."

I am appointed by Gov. Edg to be vice chairman of the Healt Care Reform Task Force. Th task force has been asked t make recommendations of an change that we feel would pro vide better care for all Illinoi citizens. This issue will truly ai us in those deliberations. Yo have compiled under one cover vast array of the thoughts to th major issue of our time: healtl care.

I appreciate not only th depth, but also the format withi which it is presented. I read i cover to cover and am recom mending all the task force mem bers do so.

Thank you. You have estab lished yourselves as the elite in insurance reporting. This issue shows that excellence extends beyond the usual bounds of that business.

John Washburn
Vice Chairman
Illinois Health Care Reform
Task Force
Chicago

* * *

To the editor: I appreciated the opportunity to review the special edition of *Business Insurance*. Thank you for forwarding it to me, as it is most helpful to review compiled information like this as we study the reform of our health care system.

Carol H. Rasco
Assistant to the President
for Domestic Policy
The White House
Washington

* * *

To the editor: Thank you for the special issue of *Business Insurance*. I am the Veterans Administration coordinator on the White House national health care reform project and I find the broad coverage of the subject matter helpful.

This is an exciting opportunity to respond to the needs of all Americans, including our veterans. Your informative contribution to the debate on solutions will serve as a valuable resource. We will make the most of your publication.

Victor P. Raymond
Acting Assistant Secretary
for Policy and Planning
Department of Veterans Affairs
Washington

* * *

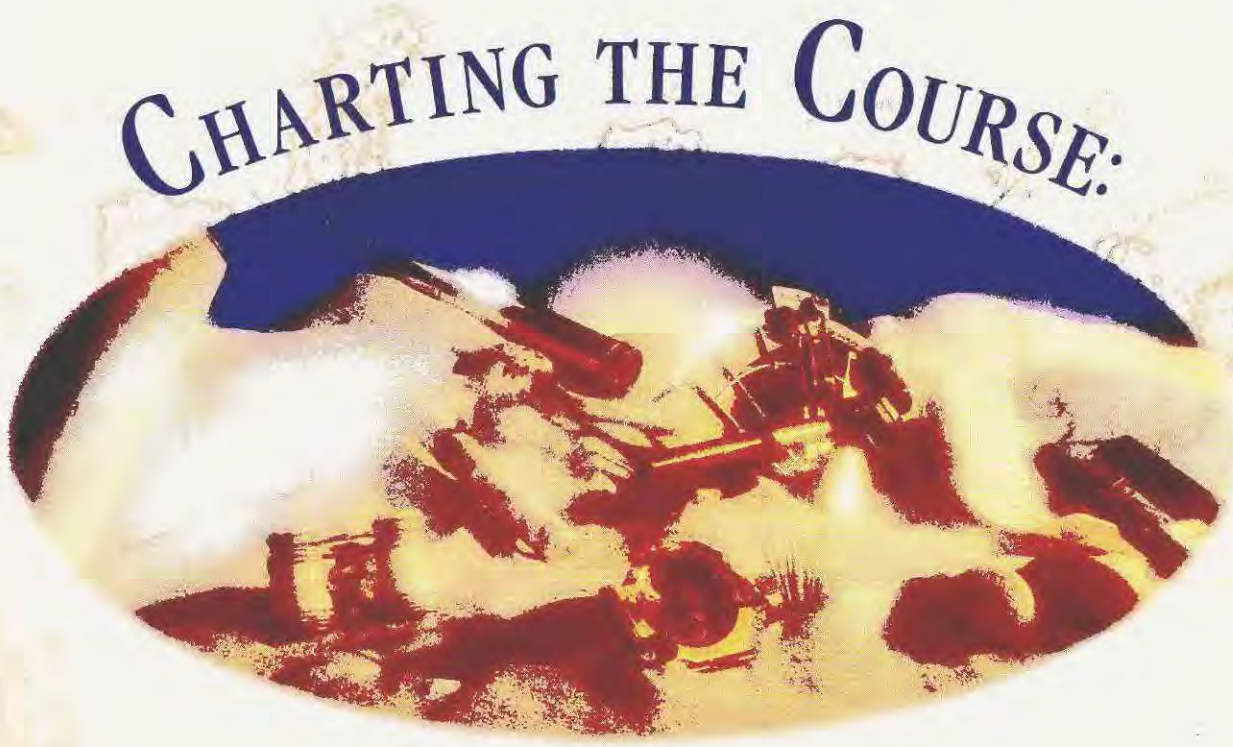
To the editor: Your position on health care reform will be of interest to both the president's working group and our military medical staff.

The Department of Defense has a beneficiary population of almost 8.5 million people living throughout the United States, as well as in many overseas locations. Our mission is to provide health care to our active duty members and, whenever possible, to their families, military retirees and their dependents.

We welcome all creative approaches and innovative ideas which could enhance the efficiency and effectiveness of our mission. Consequently, the Defense Department is an active participant on the president's working group seeking health care reform.

Your insights for guiding such health care reform will be very helpful.

Dr. Edward D. Martin
Acting Assistant Secretary
of Defense
Department of Defense
Washington



A History of Safe Crossings.

For over fifty years Constitution Reinsurance has been navigating clients safely and swiftly through the turbulent waters of the reinsurance industry. It is a history of being there when claims have to be paid. Of providing a high level of personal contact through experienced underwriters. Of offering financial strength–our assets now surpass $1 billion and our statutory surplus is over $270 million. These high standards have earned A.M. Best's A+ rating. But most important, they have earned us the trust of industry leaders...like you.

We underwrite treaty business through intermediaries and facultative direct. For the course that's right for you, call us today.

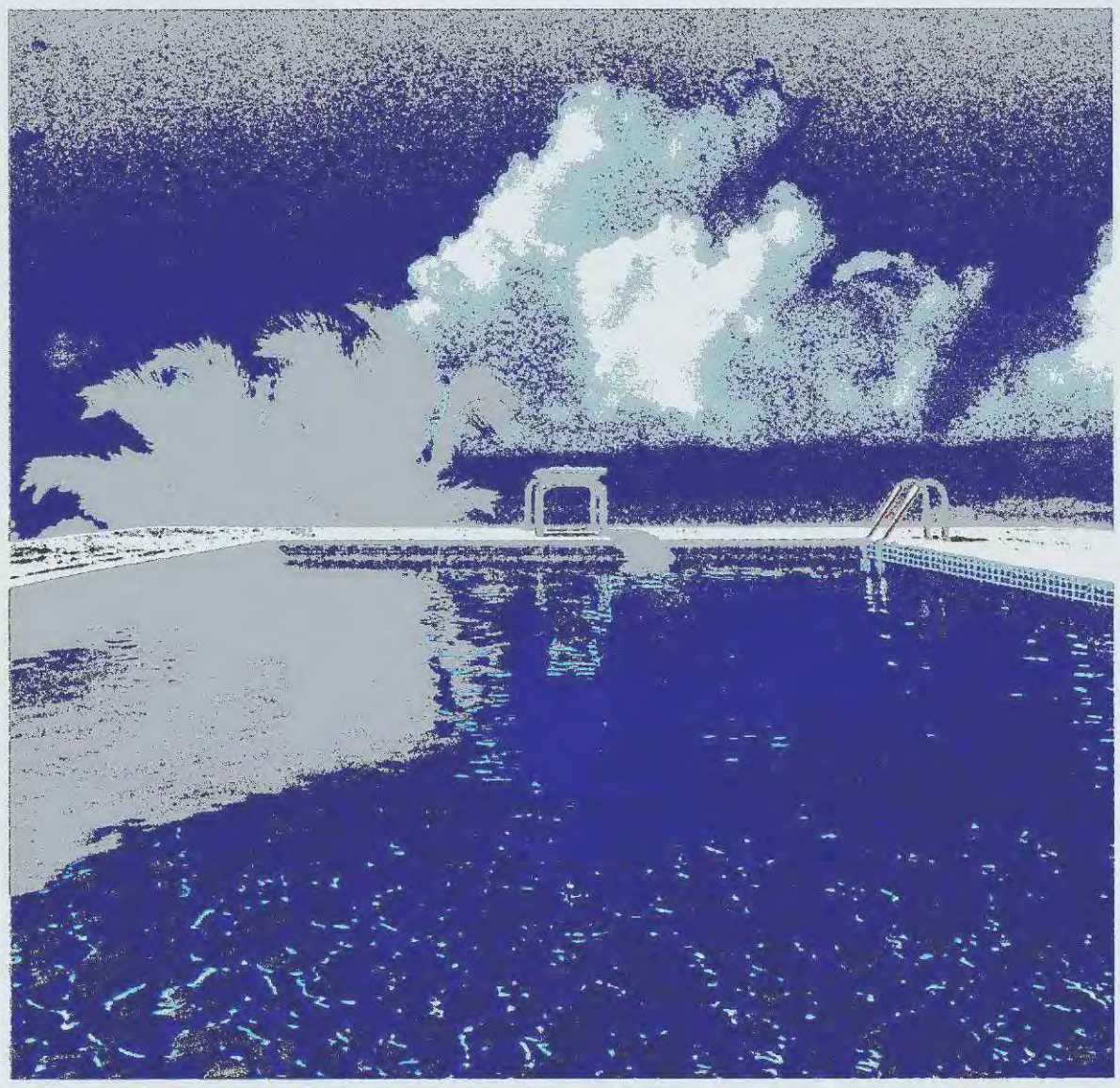
Constitution Reinsurance Corporation

Safe Harbor in any Storm.

New York 212 602 8500 • Atlanta 404 393 1939 • Chicago 312 726 8500 • Los Angeles 213 489 4440

The most refreshing idea in reinsurance since reinsurance.

Come on in, the program's fine. We call it Actualizer.℠ A unique pool program that is a sound, cost-effective alternative to premium-based individual life reinsurance. As a matter of fact, members are likely to save between 10% and 40% of their total reinsurance expenses. Because they pay only for the reinsurance they use.



Actualizer has been designed by customers who were the first to become pool members.

Working together we developed the features that have set Actualizer apart from conventional pool programs.

Like an aggregate stop-loss coverage to control claim spikes. No premium payments. An experience rating formula that helps to maintain equity.

What's more, it can work both on its own or integrated with current reinsurance programs. So clients can control its use for their company.

As a pool participant, we assume risk ourselves. As administrator, we provide auditing, underwriting and quarterly reporting.

Call Don Pappas, F.S.A., CIGNA RE, 203-726-3225, for details on the pool that can help you keep your head above water.

Connecticut General Life Insurance Company is the primary legal entity through which CIGNA RE underwrites life, health and accident reinsurance products.

We get paid for results.® CIGNA

P E R S P E C T I V E:

ATLANTA

BOSTON

CHARLOTTE

CHICAGO

COLUMBUS

DALLAS

DENVER

DETROIT

HARTFORD

IRVINE

KANSAS CITY

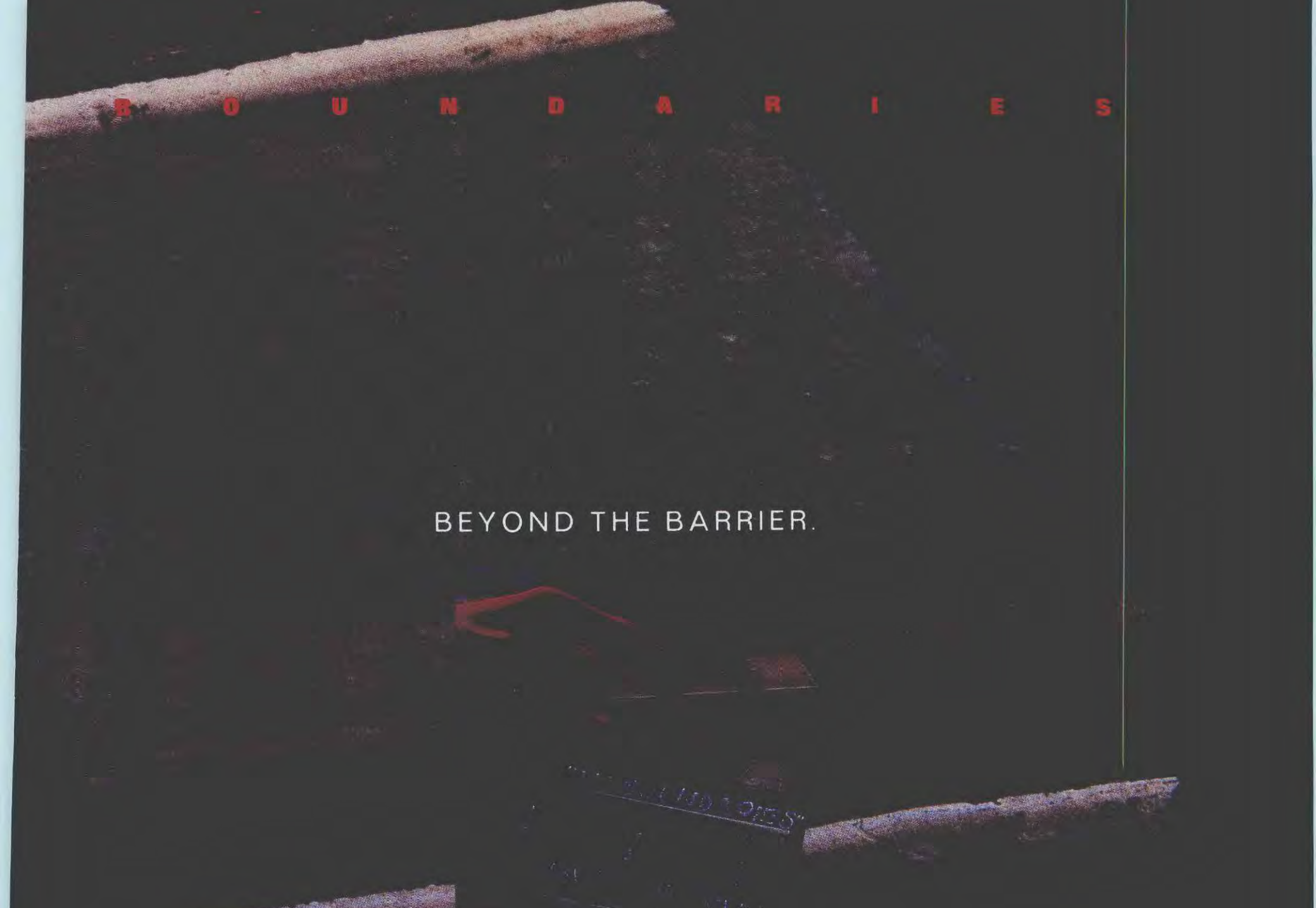
LOS ANGELES

NEW YORK

PHILADELPHIA

SAN FRANCISCO

TORONTO



BEYOND THE BARRIER.

What looks like a barrier to some, is a threshold to others. It's a matter of refocusing. The most exciting possibilities exist only behind so-called obstacles. Success will be borderline for those who spend too much time on the wrong side of boundaries. In the challenging business of taking on risk and assimilating loss through reinsurance, ERC has learned the only limits are those one places upon oneself.

E M P L O Y E R S **R** E I N S U R A N C E **C** O R P O R A T I O N

5200 METCALF. OVERLAND PARK. KS 66201
A GENERAL ELECTRIC FINANCIAL SERVICES COMPANY

Outcomes studies

Continued from page 3

search. A multitude of organizations around the country are creating their own medical criteria, collecting data and running studies to determine the frequency and appropriateness of medical care provided by individual hospitals and managed care networks. Those studies generally are just snapshots of what is going on nationwide in terms of inappropriate care.

The government, in its role as health care reformer, should step in to help coordinate and fund such studies, observers contend.

"We have so many competing entities coming up with these measures," pointed out Bob Bonin, manager of benefit administration for First Chicago Corp. in Chicago.

"A lot can be said for competitiveness, but a greater cooperative effort—at least among not-for-profit organizations—would help eliminate wasteful duplication," he said.

"The government has the opportunity now to have much more influence in this area than in the past," said Susan Brown, senior manager in the actuarial, benefits and compensation practice of Deloitte & Touche in Chicago.

"It could be a very powerful thing. Some people feel this is the most important thing the government could do" in terms of health care reform, Ms. Brown said.

In the past, the government was primarily concerned only with federally funded health care programs like Medicare. But, now that the Clinton administration is promoting the use of accountable health plans and requiring those plans to include a particular set of benefits, it also "could stipulate that the plans have to agree to abide by certain appropriateness guidelines, participate in ongoing outcomes research and agree to be audited periodically," Ms. Brown suggested.

"In order to eliminate the unnecessary care, we have to change providers' behavior and that isn't going to happen overnight," said Dr. Arnold Widen, vp and corporate medical director of Blue Cross & Blue Shield of Illinois, which also has pinpointed inappropriate care through outcomes research.

The medical profession should develop more defined protocols to guide physicians, and national health care reform legislation should provide increased funding to measure outcomes, he said.

Employers should use their clout as payers to encourage the government to focus on outcomes research, said Elizabeth McGlynn, a health policy analyst at Rand Corp. in Santa Monica, Calif. "They can begin to demand that the government, perhaps through some public/private partnership, get these kinds of measures developed and in widespread use."

Corporate purchasers would benefit from such research, Ms. McGlynn added. "One can't know whether it's worth it to pay higher premiums for certain health plans unless the plans can systematically demonstrate quality," she said.

Ongoing outcomes studies by BC/BS of Illinois and "some reports appearing in medical journals have indicated that up to one-third of all hysterectomies, Caesarean sections and other services might be unnecessary," Dr. Widen explained.

"If one extends such deductions to the entire health care system of the United States, it could be estimated that well over $100 billion of the $900 billion the country will spend on health care this year might be saved," Dr. Widen asserted.

That money—rather than value added or other taxes—could be used to finance universal access under President Clinton's health care reform plan, he said.

Estimates about how much health reform will cost vary.

Projections by the Health Care Financing Administration say universal health care coverage could initially increase health spending by $100 billion to $150 billion a year. Other estimates say the tab will total between $30 billion and $90 billion (*BI*, May 10).

Managed care plans like health maintenance organizations are becoming a popular venue for outcomes researchers. Because they provide a virtually steady population base, researchers can examine the quality of members' health outcomes over time more easily than in a fee-for-service environment.

A Rand Corp. study published in the May 12 issue of the Journal of the American Medical Assn. compared the appropriateness of hysterectomies provided by seven different HMOs.

The researchers concluded that the "rates of inappropriate use of hysterectomies are similar to those for other procedures."

Hysterectomy is the second most common surgery done in the United States, surpassed only by Caesarean sections.

More than 500,000 hysterectomies are performed each year, at an estimated cost of more than $2 billion.

A single hysterectomy can cost as much as $12,000, according to Dr. Widen of BC/BS of Illinois.

Because numerous studies have reported the overuse of hysterectomies, Rand researchers chose it as one measure of the quality of care provided in the HMOs it studied, said Ms. McGlynn, who co-authored the report published in JAMA.

The researchers found that, overall, about 16% of women in the seven HMOs underwent hysterectomies for reasons judged to be clinically inappropriate.

The proportion of procedures performed for inappropriate reasons ranged from 10% to 27% depending on the HMO, the researchers discovered.

In addition, 25% of women had hysterectomies for "uncertain reasons," the study found.

"The 16% is lower than the national average in a fee-for-service environment," Ms. McGlynn noted. "But the important message for the consumers is the range. The message here is there is variability among different plans," she added.

Appropriateness rates for hysterectomy isn't the only data purchasers should look at when determining which health plans to offer, said Dr. Gerald Plotkin, medical director of the medical groups division at Harvard Community Health Plan, an HMO based in Brookline, Mass.

"Purchasers could use this information, but one would not base such a decision on just one outcomes measurement," said Dr. Plotkin, who is also chairman of the standards committee of the National Committee for Quality Assurance, which accredits health maintenance organizations.

Rand, NCQA and other organizations are developing a set of performance standards so that health plans eventually can compare themselves and consumers can assess health plan performance. BI

We See What Others Don't.

Missing the smallest detail can cause major mistakes.

At Thomas Howell Group, we can identify what others are more likely to miss. And ultimately, our precision will reduce your cost.

Because when it comes to major loss, there's always the potential for major mistakes in adjusting. Extensive experience is a must. The kind of experience you're guaranteed to get from Thomas Howell Group. Which is why top international companies have learned to expect prompt, tailored service from our experienced professionals.

We're one of the world's largest loss adjustment firms. And no matter what the size or complexity, Thomas Howell Group has the capability to handle major loss in any corner of the globe with expertise and skill. Don't overlook the obvious, contact Thomas Howell Group (Americas) at Six Concourse Parkway, Suite 3100, Atlanta, GA 30328. Or call 1-800-554-8697, ext. 6732.

THOMAS HOWELL GROUP (AMERICAS) INC.

Gay & Taylor • Ward-THG • Thomas Howell Group (USA) • Gay & Taylor-THG Marine & Aviation • Thomas Howell Group (Latinoamericana)

Visit our booth 210-212 at PRIMA

© 1993 Delta Dental Plans Association

A Bundled Benefits Package Isn't Necessarily A Solid Foundation For A Dental Plan.

Many multi-line carriers offer dental plans as part of a bundled package. But, the only way to measure the real value of those plans is to separate and compare them to plans offered by a specialist like Delta Dental.

Does your dental plan carrier offer options to suit local, multi-state or national needs? Can it write business on a risk, retention or ASO basis? Does it give your employees access to the nation's largest network of participating dentists?

Delta Dental does all this, and more. Each Delta plan incorporates an extensive system of cost containment features such as pre-treatment reviews, post-treatment reviews and fee utilization.

That's the kind of service and value you can find only with the nation's largest dental carrier. That's why Delta Dental has a 98% customer retention rate, covers more than 24.3 million people in 33,000 groups and pays $2.4 billion a year for dental care.

To learn more about the benefits of choosing the specialist, Delta Dental, over a bundled plan, call 1-800-441-3434 today.

DELTA DENTAL®

America's Dental Plan Specialist

Benefit 'rebates'

Continued from page 1

year and to be more prudent in their health care spending," said Barbara Fasig, a compensation and benefits administrator. "The program really rewards employees for contributing to bottom-line savings."

Dominion's quest to reduce health care spending began in 1989, when it dropped its low-deductible indemnity plan and two health maintenance organizations, and replaced them with three indemnity plans with varying deductibles:

- $200 for individual and $600 for family coverage.
- $500 for individual and $1,000 for family coverage.
- $1,500 for individual and $3,000 for family coverage.

The company contributes a flat amount per month of $86 toward individual coverage and $226 toward family coverage premiums. The monthly premiums range from $148 for individual coverage and $490 for family coverage under the low-deductible plan, to $104 for individual coverage and $343 for family coverage under the high-deductible plan.

The large percentage of employees—75%—enrolled in the high-deductible plan is the key to the company's success in controlling health cost increases, said J. Kennerly Davis Jr., vp. Since 1989, Dominion's health costs have risen less than 1% per year compared with 20% per year for other corporations in Virginia, he said.

Dominion encourages employees to participate in the high-deductible plan because this leads them to treat it as a true insurance plan—for covering unexpected high-cost items—not as a prepaid health plan, Mr. Davis explained.

And, the company urges employees in the high-deductible plan to use the resulting premium savings to set up health-care savings accounts for covering routine medical care. "We encourage employees to not look at health coverage as a use-it-or-lose-it commodity," which is an attitude that contributes to the high cost of health care, said Mr. Davis, who added that 20% of Dominion employees participate in company-sponsored savings plans.

It was Mr. Davis' idea to use the rebate as a means to make it clear to employees that "we all have to share the pain of bad experience, so we should share the results of good experience, too."

The rebate program—which will be repeated for the 1993 plan year—isn't the only tool Dominion uses to hold down health care costs.

Two years ago, the company started a wellness program under which employees who meet certain "healthy lifestyle" criteria can earn up to $50 per household per month in credits that may be applied toward health premiums.

Because about one-third of Dominion's health plan costs had been due to five factors—excess weight, high cholesterol, high blood pressure, smoking and lack of seat belt use—the company set up a voluntary program under which nurses check weight, cholesterol and blood pressure, and the participant signs a statement verifying the other factors.

However, no payments are withheld for any of these factors that are not under the employee's control, Mr. Davis said.

As an incentive to participate in the screening process at the company's annual "health fair," the company gives participants a $10 gift certificate to a local restaurant. About 66% of employees participate in the program, said Mr. Davis.

"The message we are sending out with this program is that these five factors have a great impact on health and on health care costs," he said.

While the three-level indemnity plan is important in holding down health cost increases, the wellness plan and other features of Dominion's overall health program work together to create real cost savings, said David Morgan, managing consultant at A. Foster Higgins & Co. Inc. in Richmond. "In this case, the company wins and the employees win," said Mr. Morgan, who helped structure the company's rebate program. BI

Public entities

Continued from page 3

Ltd. in Chicago.

"With the recession in California, we're seeing more litigation than ever," agreed Mr. Vance.

Also, "When a government gets sued, local people say it's just a societal problem," Ms. MacManus contends.

Some kinds of cases are much more responsible for public entities' rising litigation costs than others, according to the survey, which was conducted in September 1992 by Ms. MacManus in conjunction with the National Institute of Municipal Law Officers in Washington.

More than half of the survey respondents cited cases involving police liability, civil rights violations and personal injury as most responsible for increasing litigation costs (see chart). "Each of these types of cases is complex, lengthy and expensive," the survey noted.

Survey respondents also said several factors are responsible for the increase in litigation against government entities.

In particular, the survey respondents blamed an increase in frivolous cases, a greater need for outside counsel, an increased caseload, increasing case complexity, and a higher incidence of lawsuits brought by both government employees and private citizens against government entities.

"In summary, it appears the cycle goes as follows: more cases being brought by employees and citizens alike against public sector entities yield higher caseloads and more complex cases, which, in turn, necessitate greater reliance on outside counsel," the survey explained. "And for whatever reason, the whole chain of events yields a greater incidence of 'frivolous cases.' "

However, government entities can do several things to mitigate litigation costs.

The most popular cost-saving approach employed by the cities and counties surveyed is settling cases; one-third of those surveyed said they adhered to this philosophy.

Because of the "large inflation in jury verdicts," Mr. Vance acknowledged that "unfortunately, in California and in most states, particularly the liberal ones, we are more likely to settle a bad injury case where we may not have liability because there's a lot of sympathy value" for the plaintiff.

However, experts debate the wisdom of this approach.

It is a "dangerous cycle of settling to save," warned Ms. Mac-

Continued on next page

HCM

Hertz Claim Management shows strength in numbers, managing close to a billion dollars in liability, workers' compensation and benefit claims. We're one of the 12 largest claim managers in the industry, the 7th largest property/casualty TPA. And **Hertz Claim Management** is number 1 in California - the largest manager of self-insured workers' compensation claims in the state. We're also number 1 in customized service, developing programs that meet your own specific needs.

HCM
Hertz Claim Management

Not Our Promise, Our Guarantee.

BI-03

Hertz Claim Management Corporation, 225 Brae Boulevard, Park Ridge, NJ 07656-0713, 1-800-426-7389.

Continued from previous page
Manus. Government entities definitely need to think long and hard about getting a reputation, particularly among the plaintiff's bar, of this 'settling to save' mentality."

"We don't settle nuisance lawsuits," stated Stephen A. Finley, risk manager for the city of Lakewood, Colo.

"That has contributed some to the low volume of nuisance lawsuits" the city receives, Mr. Finley said.

However, "I'm not here to tell you that that's a perfect scheme," he added. "We've made some decisions that at the end of the case did not seem right economically."

Government entities can employ many other mechanisms to reduce litigation costs, experts noted.

Thirty-three percent of the jurisdictions surveyed said they reduced their reliance on outside counsel, while 29% said they increased their reliance on outside counsel. Both groups are attempting to save money this way.

Ms. MacManus said that the appropriateness of using in-house counsel vs. outside counsel depends on where and what kind of case is being tried.

For example, if the venue is a federal appeals court or a state court where the in-house attorney has no experience from a procedural perspective, Ms. MacManus advised hiring outside counsel immediately.

On the other hand, "everyday things" that are expected to stay in local courts should be handled by in-house counsel, she said.

Cook County, Ill., which encompasses Chicago and has a population of 5.5 million, is increasing its risk management staff to an anticipated 32 by the end of the year from 18 people in August 1992, according to Salvatore Saputo, director of risk management.

In addition, the county has established a loss control program and will be working with Tillinghast to quantify losses and establish claims management programs, he said.

Cities and counties can also try to control losses by involving non-risk management personnel.

"Get all the city employees to act as risk managers," suggested Mr. Vance. "Have them act as the eyes and ears of the city," alerting management to the dangers they see.

Mr. Quinlan, an attorney, advised government entities to be careful to maintain proper records of all potentially loss-producing events.

'Get all the city employees to act as risk managers. Have them act as the eyes and ears of the city,' alerting management to the dangers they see, advises Thomas Vance, risk manager for the city of Anaheim, Calif.

"In so many instances, governments are without records," he said. "Often, these (large damage awards) are the result of not having the appropriate data to defend the case."

For example, if an accident occurs in a public playground, an incident report should be filed immediately, he said. The report should identify witnesses who can later be called upon to testify in a trial.

If information about the accident is not written down immediately, it is difficult to remember several months later when a lawsuit is being pursued, Mr. Quinlan observed.

Similarly, public hospitals must be scrupulous in keeping proper records and preparing an incident report immediately after an accident or unforeseen medical result, according to Mr. Quinlan.

Medical malpractice is Cook County's most expensive general liability problem, Mr. Saputo said. Because of this, the county instituted a comprehensive risk management program at Cook County Hospital two years ago, he added.

Mr. Finley advised government entities to concentrate resources on training personnel. The city of Lakewood, Colo., is "open to training, and I think that's important," he said. "Safety training in one area helps in all areas —it helps instill an attitude."

Lakewood trains police officers extensively, in addition to training personnel on proper procedures for directing traffic and working in roadways, he said. "We try to train against taking shortcuts."

The city also replaces its vehicles regularly, Mr. Finley said. "We're not keeping our vehicles until they're rust buckets," he quipped. For example, in some instances police cars are replaced every two years.

Ms. MacManus advised government entities to make sure they are handling the defense of lawsuits properly.

For example, government entities should "immediately contact other places that have had similar suits" to find the best expert witnesses instead of trying to find them themselves, she suggested. Also, in-house counsel should attend continuing education courses to stay abreast of high-risk litigation trends, she said.

And, "there should be a strong relationship between legal counsel and the risk management people," Ms. MacManus said. "I don't think there's enough of an interchange between legal counsel and the other departments."

Ms. MacManus also suggested government entities try to educate the public on how much lawsuits really cost taxpayers.

Several experts also suggested government officials work to pass tort reform in their states.

"We very much feel like we need some meaningful tort reform," stated Mr. Vance. "Globally, cities continue to need to effect tort reform, particularly at the state level."

"I'm in favor of tort reform after seeing all this," agreed Ms. MacManus. Previously, she said she was indifferent about the issue.

•

"Litigation as a Budgetary Constraint: Problem Areas and Costs," is available for $10 from Susan A. MacManus, University of South Florida, Department of Government and International Affairs, 4202 E. Fowler Ave., SOC 107, Tampa, Fla. 33620-8100; 813-974-2384.

Manville ruling

Continued from page 2

bilities, requiring full payments for early claimants means that many later claimants would get nothing.

Plaintiff's attorney Fred Baron of Baron & Budd in Dallas, called the panel's decision a "positive move."

"Without this ruling, we never could have concluded a settlement. It's consistent with the intent of the people who drafted the original settlement trust that the FIFO order not be substantive. FIFO was only applicable when 100% of the claims were going to be paid in their entirety. That no longer is possible," he said.

Patricia G. Houser, executive director of the trust, also praised the ruling. "It clarifies that 'first in, first out' is not a right but an administrative procedure. It opens the door to a settlement and can only be looked at as a positive development."

Lawyers for the asbestos victims agreed that the new ruling will move negotiations along.

"We can now seek a negotiated settlement that will pay all claimants a fair amount," said Sanders McNew of Caplin & Drysdale in New York, the acting counsel to plaintiffs' lawyers.

"At this time, I cannot venture a guess as to what that amount would be nor do we have an alternative settlement to the one that was thrown out last year. But this ruling clears the way to pursue a settlement that doesn't discriminate against any class member," Mr. McNew said.

Another part of the revised trust plan that the 2nd Circuit rejected in 1992 was its creation of two classes of claimants. Those most seriously injured by exposure to asbestos product were to receive up to 45% of their claims in the first two years of the plan, and those less seriously injured were to receive a similar amount beginning in the third year. Both groups were to then get pro rata payments as funds became available.

The restructured plan would also have prohibited asbestos victims and manufacturers from suing the reorganized Manville Corp. or the trust or pursuing claims outside the settlement. BI

The Manville saga

AUGUST 26, 1982
Manville Corp. files for Chapter 11 bankruptcy protection.

DECEMBER 1986
New York bankruptcy judge approves amended reorganization plan, which creates the Manville Personal Injury Settlement Trust.

MAY 1990
Manville Trust runs out of money to cover current claims.

NOVEMBER 19, 1990
Asbestos plaintiffs file a class action complaint and simultaneously propose a settlement that would revise procedures for allocating trust assets and paying claims.

JANUARY 1991
Other former asbestos manufactures object to the proposed settlement.

JUNE 27, 1991
A revised restructuring plan is approved in a court order that also stays legal proceedings against the Manville Trust and restricts suits against Manville.

FEBRUARY 24, 1992
2nd U.S. Circuit Court of Appeals hears arguments of asbestos plaintiffs and former asbestos manufacturers objecting to the restructuring plan.

DECEMBER 4, 1992
Panel of the 2nd Circuit Court of Appeals throws out the plan.

MAY 5, 1993
The same 2nd Circuit panel partially reverses course, clearing the way for new talks.

GRAPHIC BY CHRIS ROY

Union wants no substitute for fully paid health care

BOSTON—Union workers for Boston Gas Co. have been off the job for almost four months because they refuse to give up their 100% company-paid health care.

Until the contract for approximately 1,150 members of the United Steelworkers of America Local 12003 expired Jan. 24, Boston Gas had been paying $8,000 per year for health care coverage for the union workers. Boston Gas also paid the same amount for health care coverage for 200 members of United Steelworkers Local 12007, whose contract expired March 28. The union members had received major medical indemnity coverage through a Blue Cross & Blue Shield plan.

Beneficiaries did not contribute to the cost of premiums and were not subject to deductibles or copayments. The health plan covered full hospital and physician charges and prescription drugs.

When the contracts with the union locals expired, Boston Gas canceled the health care coverage. The workers, who have not returned to work, then began receiving unemployment compensation and health care coverage from a state insurance pool, the gas company said. Workers also could buy health care coverage from the company under provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985.

During negotiations with the union locals, Boston Gas offered union members several options—a preferred provider network or two health maintenance organizations. Beneficiaries would have had to contribute $4 per week for individual coverage or $11 per week for family coverage for the PPO; premium contributions for the HMOs would have been less.

However, the union rejected management's offer.

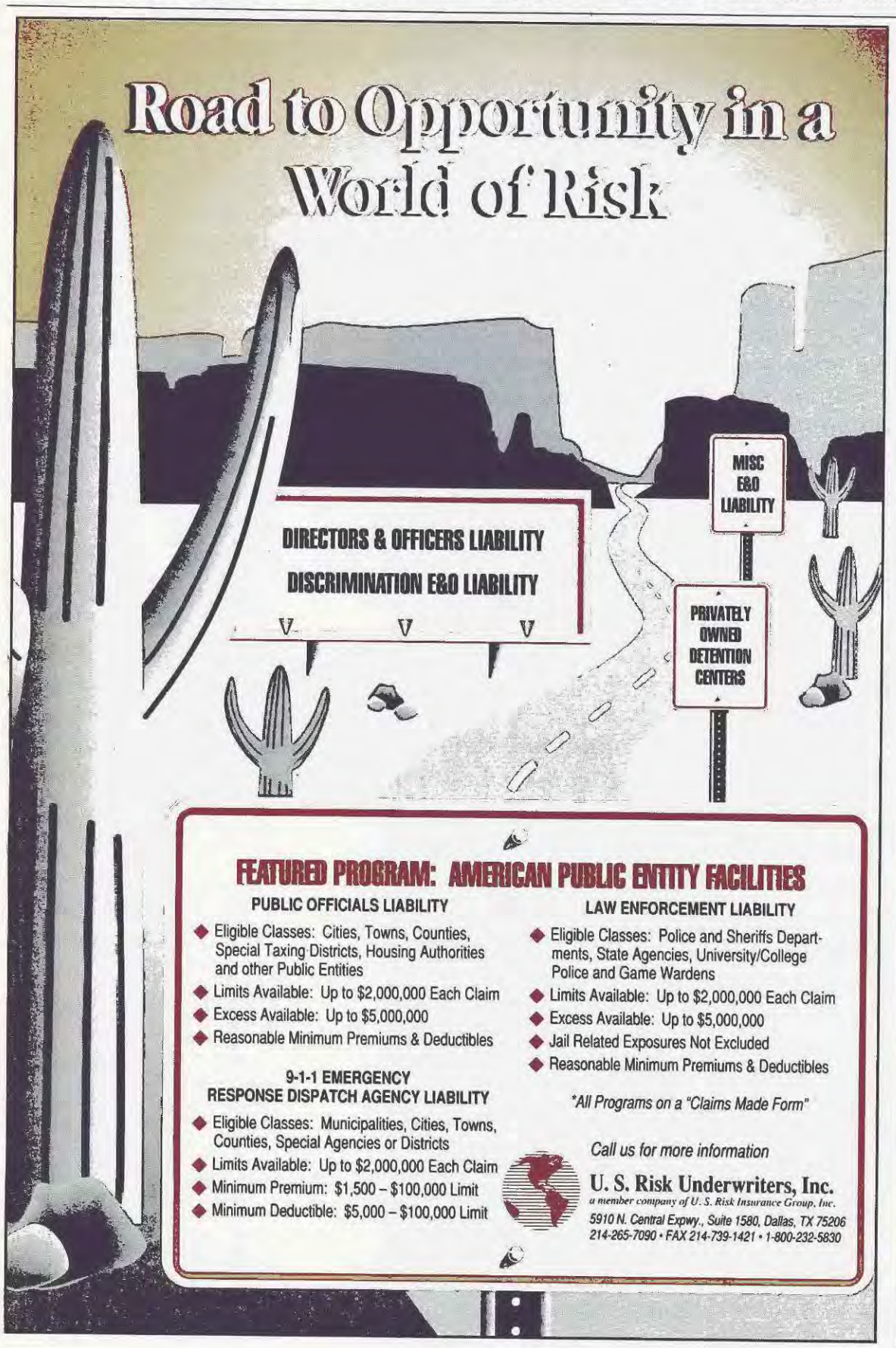
Boston Gas three weeks ago offered the union members Health Flex Blue, a PPO run by BC/BS, which afforded broader coverage and more physician choice than the previous managed care options offered by the company, according to a Boston Gas spokesman. But, beneficiaries would have to pay $11 per week for individual coverage and $24 per week for family coverage.

The union also rejected this offer.

Boston Gas' health care bills have been increasing 50% per year for the past five years, which has been communicated to employees through newsletters, pointed out the spokesman.

"We continue to negotiate at least once a week," he said, though "there's no reason for optimism at this point."

—By Deborah Shalowitz



PROFESSIONAL LIABILITY

We have the Markets to Meet Your Needs...

◆ Third Party Administrators
◆ Directors and Officers
◆ Environmental Consultants
◆ Safety & Engineering Services
◆ Miscellaneous

Capitol Special Risks

Tel. (404) 956-0125 ◆ Fax (404) 956-9779

1640 Powers Ferry Road, Bldg. 24, Suite 200, Marietta, GA 30067

If reinsurers were airlines,
which one would you fly?

General Re®

Now more than ever,
the right choice.

©1992 General Reinsurance Corporation, Stamford, CT 1-800-7-GENRE-1

Physicians National

Continued from page 1

Peter Derbes, a New Orleans lawyer representing six Physicians National directors and three corporate defendants, noted that his clients also denied similar charges in an earlier version of the Insurance Department lawsuit.

Mr. Derbes also said his clients have filed a counterclaim charging that Physicians National—licensed in 1987 during the tenure of former Insurance Commissioner Sherman A. Bernard—was targeted for political reasons by Mr. Bernard's successor, Douglas D. Green.

Mr. Bernard pleaded guilty last month to federal charges of shaking down officials of five insurance companies for campaign contributions (*BI*, May 3). Physicians National was not one of the five.

Mr. Green was himself convicted of federal and state fraud charges in 1991 and is serving a 25-year prison term (*BI*, July 1, 1991).

Louisiana regulators placed Physicians National in conservatorship in August 1991, after the insurer had been hit with cease and desist orders in about 14 of the 44 states where it wrote malpractice insurance.

Much of the regulatory concern involved the insurer's discounting of its loss reserves (*BI*, Aug. 26, 1991).

Physicians National—which wrote $10.5 million in direct premiums in the year ended June 30, 1991—was ordered liquidated in November of that year (*BI*, Dec. 2, 1991).

The Louisiana department originally filed its suit against several of the corporate and individual defendants last November.

An amended complaint filed May 6 by the Insurance Department added Mr. Crucet as a defendant.

Although litigation against him had earlier been stayed by his bankruptcy filing, the bankruptcy court lifted the stay March 22 on a motion by the Physicians National estate, court papers say.

The lawsuit charges that Physicians National was improperly capitalized with borrowed money and that it was not structured to operate as a viable insurer.

Although its preliminary license required it to have $2 million in unencumbered capital and surplus, it actually had only $1.4 million and most of this consisted of loans from participating doctors and a certificate of deposit obtained with the proceeds of a bank loan, the complaint alleges.

The insurer also initially set rates 50% to 60% below those offered by other malpractice insurers, and Physicians National board members overrode recommendations of underwriting personnel by ordering coverage of high-risk policyholders at low rates, according to allegations in the suit.

In an interview, Mr. Crucet denied these charges. He said Physicians National's preliminary license only required $1.2 million in capital and surplus and that its initial capital included a $900,000 letter of credit, $100,000 in cash and contributions from member doctors that the insurer was authorized to raise.

"The charge that our rates were artificially low is rubbish," he added.

The lawsuit also alleges that Mr. Crucet and the other defendants conspired to use a chain of agency, marketing, management and consulting companies to siphon off fees, commissions and other payments from Physicians National.

For example, the complaint alleges that:

- Mr. Crucet controlled and secretly owned a 2% stake in Enterprise Corporate Services Inc., which provided administrative and management services to Physicians National under contract.

The suit charges that Mr. Crucet breached his fiduciary duties to the insurer by controlling ECS.

- Mr. Crucet owned Physicians Reliance Marketing Co., a broker that received a 15% commission on business it produced for the insurer.
- Further commissions were stripped out through Physicians Reliance Assn. Insurance Agency Inc., formed by the insurer's parent at Mr. Crucet's direction; and also by Enterprise Corporate Services Insurance Agency Inc., formed by ECS to benefit Mr. Crucet.

Mr. Crucet said in an interview that PRAIA was formed because a Louisiana Insurance Department official said Physicians National had to operate through an agency.

- Mr. Crucet directed two other defendants to form Strategic Equipment Leasing Co., which signed a consulting contract with ECS to provide services for Physicians National for a $25,000 monthly fee.

At the same time, ECS entered into a separate contract with Medical Prospective Inc. for the same services for $20,000 a month. Mr. Crucet was MPI's only employee and received all these funds, according to the lawsuit.

Through MPI, Mr. Crucet later received an additional fee of 1% of Physicians National direct premiums.

He had earlier received this override through Ballantyne Group Ltd., a company in which he had a secret one-third stake, the suit charges.

The complaint also alleges that Mr. Crucet used $585,000 of Physicians National's money to form American Medical Liability Risk Retention Group Inc., which competed directly with Physicians National.

The allegations assume 'that I as an individual was able to manipulate and control all these other people,' including numerous Physicians National directors, lawyers and auditors. 'I'm flattered,' says Douglas S. Crucet, its former president.

After Physicians National entered liquidation, Mr. Crucet and several of the other individual and corporate defendants continued the alleged scheme by transferring Physicians National funds they still controlled to a Bermuda-based captive insurer, Atlantic Maritime Insurance Corp. Ltd., according to the lawsuit.

Mr. Crucet said in an interview that Atlantic Maritime was formed to provide extended reporting period endorsements to former Physicians National policyholders.

Mr. Crucet ridiculed the Insurance Department's charges that he led a conspiracy to drive Physicians National into insolvency.

The allegations make the assumption "that I as an individual was able to manipulate and control all these other people," including numerous Physicians National directors, lawyers and auditors, Mr. Crucet observed. "I'm flattered."

A Louisiana judge has set a June 28 hearing date for the defendants to show cause why a preliminary injunction should not be issued barring them from transferring or disposing of Physicians National assets.

The Insurance Department has also asked for an order barring the defendants from spending more than $10,000 of their own money without the court's approval. BI

Insurer shut down after domicile not found

SALEM, Ore.—An insurer that claims to be domiciled in "The Federal Republic of Corterra" has been ordered to cease operations in Oregon on the grounds that the domicile is a "mythical island nation."

Professional Indemnity Corp. sold professional liability insurance to about 1,000 chiropractors nationwide through the Washington-based Chiropractic Assn. for Research and Education, according to Randall Goulding, CARE's general counsel. Mr. Goulding, of Chicago, said he is an attorney in private practice.

"I've never been there personally," Mr. Goulding said of the Republic of Corterra, which he called "a new insurance jurisdiction."

"It used to be known as the Coral Islands," in the South Pacific, he said.

A CARE official faxed a map of the Federal Republic of Corterra to *Business Insurance.* Commenting on the map, an official at the Micronesia Institute in Washington said, "Thank you for providing some levity this afternoon."

The Coral Islands are nowhere near where the Republic of Corterra is drawn on the map, she added.

"There is no country called the Republic of Corterra with a government that we recognize," said a U.S. State Department official.

The Oregon order demands that the company, its related operations—which include CARE and The American Institute of Chiropractic Inc.—halt the sale of insurance in Oregon.

California and Washington have also issued cease and desist orders against Professional Indemnity Corp.

PIF is "litigating" the order in Washington on the grounds that it is "unconstitutional," Mr. Goulding said. Regulators in Washington and California object to the company's "methodology" of bypassing surplus lines brokers, he said.

The company, which has processed 12 claims from the 2½-year-old CARE program, has never received a complaint, said Mr. Goulding, who is responsible for the program's claims administration.

—By Louise Kertesz

The team approach at work

At B E P International, the team concept is more than a slogan... it's a philosophy. As a team, we bring to the client the individual expertise of our professionals in one well-balanced approach. The goal: the delivery of tailor-made reinsurance products.

It is the endurance of our team approach that sets us apart: experienced and trained professionals, a team-developed action plan - all supported by advanced technology. The result: innovative and diversified services, client-oriented reinsurance programs and a growing reputation across North America.

A member of the Sodarcan Group, which is ranked among the world's top insurance brokers, B E P International enjoys a tradition of more than 30 years as a leading reinsurance broker.

BEP International

Reinsurance Brokers
Jersey City, Seattle, Toronto, Montréal

J&H names new president

Richard A. Nielson has been promoted to president of broker Johnson & Higgins in New York. He succeeds **David A. Olsen**, who will remain chairman and chief executive of the brokerage.

Mr. Nielson will remain head of J&H's U.S. retail brokerage operations and he will take on broader duties from other J&H executives due to retire soon, a spokesman said.

In other agent/broker changes:

Stephen A. Crane appointed chairman of the Strategic Development Group/North America at Willis Corroon Group P.L.C. in Nashville, Tenn. Mr. Crane was president and CEO of G.L. Hudson & Son Inc., Willis Corroon's reinsurance subsidiary.

Richard E. Disher named senior vp and manager of claims management services of Sedgwick James Inc. in Portland, Ore.

William E. Bowes named senior vp-property/casualty department for Sedgwick James of Oregon Inc. in Portland. **Terri L. Rhodes** was named vp-claims management services.

M. Michael Zuckerman joined Willis Corroon Corp. of Pennsylvania as vp. Previously, He was an associate vp-risk management and insurance at Thomas Jefferson University in Philadelphia.

Gary P. Sheerer joined Rollins Hudig Hall of Northern California Inc. as senior vp, and **Carl J. DeBarbrie Jr.** joined as vp and director-market relations. Also in San Francisco, **Dennis C. Alumbaugh** joined Rollins Hudig Hall International as senior vp.

Alan R. Diamond named chairman and CEO of Rollins Hudig Hall of New York.

James R. Watkins named president and CEO of Hogg Robinson of Pa. Inc. based in Bala Cynwyd, Pa..

Ellen Perle named senior vp and general counsel for Minet Inc., the North American arm of broker Minet Group P.L.C., in New York.

Charles P. Sweeney Jr. named senior vp-marine/transportation unit of Jardine Insurance Brokers Inc. in San Francisco.

Alan S. Klein named executive vp and chief operating officer of NIA Ltd. in Paramus, N.J.

Comings & Goings: Industry

Insurers

Douglas Azar joined American Life Insurance Co., a unit of American International Group Inc., as president and chief operating officer in New York.

John D. Fleming appointed senior vp and chief operating officer of New York Life Worldwide Holding Inc., a subsidiary of New York Life Insurance Co.

Peter M. Cazzolla named president and CEO of the California Insurance Group in Monterey.

Elliot F. Gerson named president of Travelers Corp.'s managed care and employee benefits operations in Hartford, Conn.

The agency and brokerage group unit of Continental Insurance Corp. announced several appointments: **William N. Burkett** named senior vp; **Bradley J. Williams** named vp and manager of the South Atlantic region; and **Robert B. Lane** named vp and manager of the Gulf Coast region.

Jim Macdonald, **Wendy Baker** and **Alan Pritz** named senior vps of the Special Operations Group for Continental Insurance Corp. in New York. In addition, **Doug E. Hikawa** named vp-claims for the Workers Compensation & Indemnity Co. of California, a San Diego-based unit of Continental's Special Operations Group.

William W. Ward retired as chairman and CEO of Continental Corp.'s Toronto subsidiary Continental Insurance Co. Canada. **Byron Messier**, president and chief operating officer of Continental Canada, will succeed Mr. Ward and retain his current titles.

Dennis A. Mathies appointed executive vp-financial institutions and commercial fidelity department for Continental Corp. subsidiary Continental Guaranty & Credit in Cranbury, N.J. **Robert Littlefield** replaced Mr. Mathies as vp and manager for the eastern region of subsidiary Marine Office of America Corp. in New York.

Joseph H. Gareau named executive vp and chief investment officer of ITT/Hartford Group Inc. in Hartford, Conn.

Alethea O. Caldwell named executive vp-services for Blue Cross of California in Woodland Hills.

S. Martin Hickman retired as CEO of Blue Cross & Blue Shield of Illinois in Chicago. He is succeeded by **Raymond F. McCaskey**, former chief operating officer.

David Suchar joined California Compensation Insurance Co. as loss control consultant serving Humboldt County.

Elizabeth M. Lindner named vp-commercial lines group services at Kemper National Insurance Cos. in Long Grove, Ill.

Reinsurance

John J. Lewis and **Stanley Marchut** promoted to vps at General Reinsurance Corp. in Hartford, Conn.

Francois Chavel promoted to president and CEO of Sorema North America Reinsurance Co. in New York. Mr. Chavel succeeds **Pierre D. Croizat**, who is now president and CEO of the consolidated worldwide reinsurance operations of its French parents, SOREMA S.A. and GROUPAMA.

HMOs/PPOs

Jerry R. Hansen named president and CEO of St. Louis-based Group Health Plan.

Wilfredo Gonzalez named executive vp and chief operating officer of CAC-Ramsay Inc., a subsidiary of Ramsay-HMO Inc. in Coral Gables, Fla.

Other suppliers

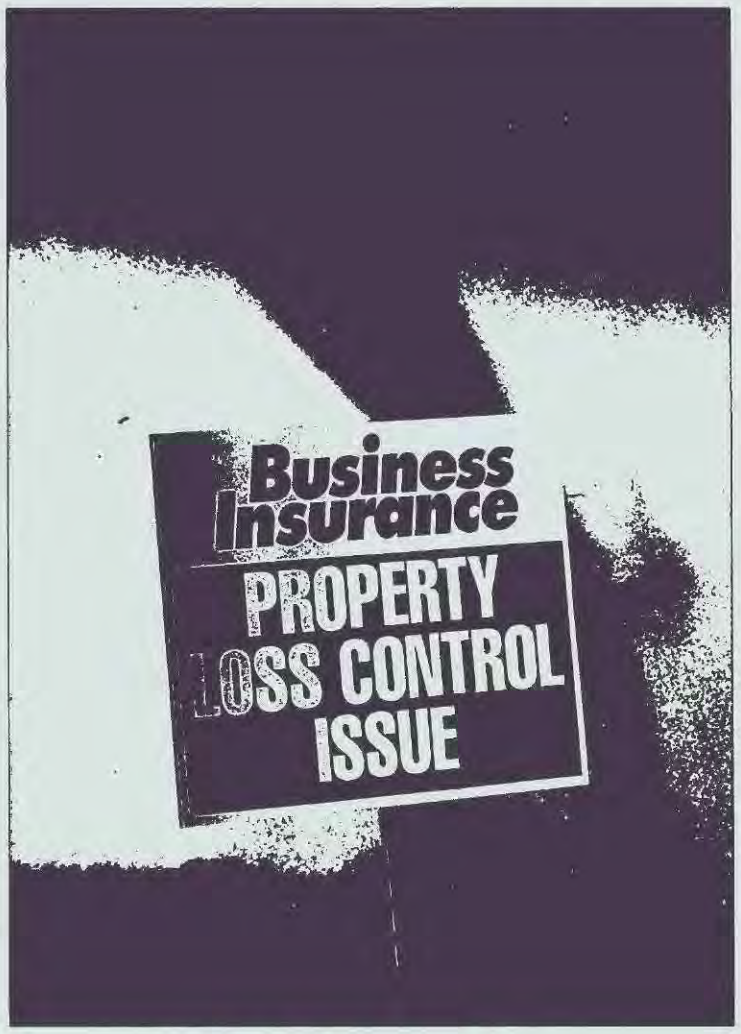
Christopher K. Young joined Buck Consultants Inc. as compensation practice leader in the firm's Pittsburgh office.

Robert A. Cohen named principal and national managing consultant of the employee benefits and compensation practice for The Josen Co. in Columbia, Md.

Fred Massa named chief administrative officer of Willis Corroon Administrative Services Corp. in Nashville.

Timothy P. Demetres named senior vp of The Manhattan Group in New York, an investment banking and consulting firm serving insurance companies, agents and brokers.

Susan G. De Baker named vp/consulting coordinator for Northland Risk Management Services Inc. in St. Paul, Minn. BI



PLAN AHEAD.

It's one thing to plan for risks you can anticipate, it's quite another to out wit Mother Nature. But companies that assume the worst will happen have a better chance of minimizing losses to their property and their bottom line.

The upcoming Property Loss Control Issue of *Business Insurance* will focus on disaster recovery planning, one way that many companies are protecting themselves against the unexpected. It will highlight articles on how to assemble disaster recovery plans and will examine the crucial elements of such plans, including rebuilding strategies, minimizing plant interdependency and computer operations back-up.

We've gathered a group of experts to guide our readers through the process. Case histories will document how companies have used their plans to get their businesses up and running in the face of disasters that could have put them out of business.

This issue will also include *BI's* DIRECTORY OF PROPERTY LOSS CONSULTANTS, the definitive source for information on companies nationwide that provide property loss control services.

So plan ahead. Reserve your ad space in this "must-read, must-keep" issue. You'll be reaching the key strategists—risk managers, financial executives, directors of operations, and insurance agents and brokers—who understand that a little foresight produces better results than 20/20 hindsight.

PROPERTY LOSS CONTROL

Issue Date: June 7 Closes: May 26th

RESERVE YOUR SPACE, CALL

Business Insurance®

Coverage Guaranteed

New York: (212)210-0228 or Fax: (212) 210-0704

Chicago: (312)649-5276 or Fax: (312)280-3189

Los Angeles: (213)651-3710 or Fax: (213)655-8157

We've Made A Name For Ourselves.

BUSINESS INSURANCE

It's Business Insurance.

We're the weekly it takes to stay on the cutting edge of the commercial insurance marketplace.

SUBSCRIBE TODAY!

CALL TOLL-FREE on 1-800-678-9595.
Fax your order in on 1-313-446-0961. Use the card in this issue or if it's gone, use the coupon below.

Business Insurance gives you total news coverage of loss prevention, risk financing and benefit management. Every week. Annual subscription (52 issues) in U.S. dollars.

	Surface Mail		By Air	
Check Here	1 year	2 years	1 year	2 years
USA	☐ $80	☐ $140	☐ $175	☐ $330
Canada	☐ $118	☐ $210	☐ $185	☐ $350
All other countries (by expedited air)			☐ $200 U.S.	☐ $380 U.S.

☐ new subscription. ☐ renewal. ☐ payment enclosed.
☐ bill me. ☐ bill company.
☐ Please send information on your special 20%-off group rate for five or more subscriptions.

Mail to: Business Insurance, Circulation Dept., 965 E. Jefferson Ave., Detroit, MI 48207

name (please print)

title telephone

company

nature of business

☐ business or ☐ home address

city state/country zip/postal code

☐ I prefer not to receive information or advertising by mail from companies not affiliated with Business Insurance.

4C043

Improving the residual markets

NCCI aims to shrink size, increase operating efficiency

By MEG FLETCHER

ORLANDO—States' residual markets for workers compensation insurance can improve only through greater cooperation among servicing insurers and related insurance organizations, regulators and agents, a panel of experts say.

Improving residual markets is increasingly important because in 1992 they accounted for a record 28%—or $4.8 billion—of all workers compensation premiums written, up from $4.4 billion in 1991 and $1.2 billion in 1985, said James Rabenstine, senior vp-residual markets for the National Council on Compensation Insurance in Boca Raton, Fla.

However, residual markets reported $2 billion in underwriting losses last year and a combined ratio of 139%, Mr. Rabenstine told an audience of about 600 at the NCCI's annual issues symposium last month in Orlando.

In the typical state residual market, unlike other insurance markets, 88.3% of all policyholders in 1992 were employers that paid less than $10,000 in premium, though those employers collectively paid only 20.4% of all premium.

Meanwhile, only 1.1% of all policyholders were employers that each paid more than $100,000 in premium, though together they paid 43.9% of all premium.

"We need to more effectively manage this enormous segment of the workers compensation market," Mr. Rabenstine said, speaking of the residual market. "NCCI is well-positioned to get the job done."

The NCCI is well under way in obtaining state regulatory approval of several programs to pare down the size of the residual market and make it operate more effectively.

Specifically, the NCCI has begun efforts to reduce operating losses, to restructure residual market operations and to improve servicing insurers' performance.

In terms of pricing, the NCCI has regulatory approval to impose surcharges or differentials in 24 states, to use rate adjustment programs in 16 states and to remove premium discounts from large risks in 19 states.

Panelist Robert M. Willis, insurance superintendent of the District of Columbia, urged the implementation of residual market retrospective rating programs to make large policyholders more accountable for their losses.

"Today, large employers with bad experience have clear incentives to stay in the residual market," Mr. Willis said. "The ultimate goal should be to move clients into the voluntary market."

He emphasized the need for servicing insurers to perform safety inspections and require their residual market clients to provide written reviews of their safety programs.

Servicing insurers should be more aggressive in going after policyholders that do not pay premiums as required, Mr. Willis said.

Mr. Willis' comments echoed the sentiments of some members of the National Assn. of Insurance Commissioners, who have criticized NCCI operations in the past few years and encouraged positive changes (*BI*, May 4, 1992).

In addition, Mr. Willis urged agents to make their presence better known to policyholders, especially by helping to set up safety reviews and programs. That could justify higher agent commissions, he added.

Panelist Richard L. Katten, president of Ferd. Marks Insurance Agency Ltd. in New Orleans, emphasized the critical role agents should play in residual market reform.

However, "today, agents are treated as stepchildren in the residual market," Mr. Katten said.

Currently, most agents do not like to work with the residual market because "we do three times the work for one-third the remuneration and three times the errors and omissions exposure," he said.

However, agents that do work in the residual market need to be treated more fairly by the NCCI, including a recognition that the agent is entitled to renewal rights to a policy, Mr. Katten said.

Richard Palczynski, senior vp of The Travelers Insurance Co. in Hartford, Conn., said life as one of the nation's largest servicing insurers has been "anything but dull" in light of the many changes the NCCI has adopted in the past two years.

Mr. Palczynski praised several of the NCCI's reforms, including "positive" changes in the way servicing insurers are rewarded.

Previously, insurers received a fixed fee whether or not they provide managed care services and whether or not they challenged questionable claims. Now, medical cost containment expenses—and allocated loss adjustment expenses as of Jan. 1, 1994—will be reimbursed on a claim-by-claim basis, which should reward insurers for more active oversight, Mr. Palczynski said.

The NCCI also stopped paying fees on uncollectible premium, he added.

The NCCI's new rules encourage insurers to work at detecting premium fraud, he said.

The residual market offers great potential for "gamesmanship" in determining employer class, payroll and business ownership than does the voluntary market where the relationship between policyholder, insurer and agent is more fixed, Mr. Palczynski said.

Travelers' small unit has already found more than $50 million in premium so far, Mr. Palczynski added.

In addition, servicing insurers should consider providing comprehensive loss control services for large employers that are interested in reducing their hazards or improving their loss experience, he said. BI

Has your reinsurer impressed

If you want to know how your reinsurer will behave in a changing market, look at what they have done in the past.

In the last "sellers" market, many reinsurers closed offices and cut staff: we added them. Many reduced or restricted coverage: we continued to provide occurrence liability coverage even though the market moved toward claims-made. We didn't give our branches premium quotas, or force them into sunset clauses, either. Even in the last two years, some reinsurers have been cutting property capacity and pro rata coverage. We continue to provide both.

American Re has a 76-year history of financial stability. With $3.6 billion in statutory admitted assets and approximately $1 billion in statutory surplus, our balance sheet is stronger than ever. We are a company of

Workers comp rate increases

ORLANDO—Workers compensation rates increased an average of 10% nationally last year.

The average 10% increase, up from 7.4% in 1991, was the third-highest rate of increase in the past eight years. It was exceeded only by rate increases of 12.1% in 1990 and 11.5% in 1985, according to Ronald C. Retterath, senior vp of the National Council on Compensation Insurance.

In addition, the ratio of approved rate changes to those indicated by NCCI statistics was at a five-year high of 64% in 1992, up from 55% in 1991, he said.

Significant premium level increases from 1990 to 1992 ranged from 72.7% in Alabama to 22.3% in Wisconsin.

Other states which had significant increases during the same period are, in descending order: Arkansas, 67.4%; Kansas, 64.3%; Oklahoma, 61.3%; Nebraska, 60.6%; Mississippi, 60.2%; Missouri, 59.9%; Indiana, 52.4%; Louisiana, 50.2%; North Carolina, 50.1%; Kentucky, 48.6%; Utah, 47.6%; Connecticut, 38%; New Hampshire, 37%: South Dakota and New Mexico, 36.7%; Vermont, 34.2%; Tennessee, 32.2%; Illinois, 30.3.%; Michigan, 30%; Florida, 28%; South Carolina, 26.1%; and Iowa, 24.2%.

Endangering workers comp

Price controls and cost overruns harming the system: Hager

ORLANDO—Workers compensation today is "a business at risk" for key participants in several states, says the president of the National Council on Compensation Insurance.

"The system itself in many states is at risk, businesses that operate under the system are at risk, insurance companies that sell it are at risk, state economies are at risk, jobs are at risk, and most tragic of all, the very lives of workers have been put at risk," William D. Hager told about 600 people attending the NCCI's annual issues symposium last month in Orlando.

He primarily blamed "unjustified price controls" and "cost overruns," caused by fraud and by "profiteers," including a small percentage of attorneys who recruit would-be workers comp claimants from unemployment lines.

"On a state-specific basis, they are easily identifiable and, more importantly, legislation can be easily structured to squeeze them out of the system," Mr. Hager said.

A recent National Council on Compensation Insurance study concluded there is 'a strong connection' between rising workers compensation costs and the permanent loss of jobs from a state, says William D. Hager.

He praised reform efforts encouraged by the National Assn. of Insurance Commissioners and several individual jurisdictions, particularly Oregon and Texas, as well as Alabama, Arkansas, the District of Columbia, Kansas and Virginia.

Although workable solutions vary from state to state, reforming workers compensation systems is generally good for most system participants, especially businesses.

A recent NCCI study concluded there is "a strong connection" between rising workers compensation costs and the permanent loss of jobs from a state, Mr. Hager said.

The study suggests that "a 10% increase in workers compensation costs carries the harsh penalty of a 1% reduction in jobs," he said.

The reverse also is true, and states like Oregon that have reduced workers comp costs have created jobs, he said.

Reforming ailing systems also can improve worker safety, he said.

Case histories of three states where traditional workers compensation systems have collapsed—Louisiana, Maine and Rhode Island—show a predictable negative cycle: Prices got out of hand, regulators imposed "unwarranted" limits on prices insurers could charge, insurers cut back on voluntary writings and a flood of employers joined the residual market.

"Controlling price is dangerous, because the result is to subsidize dangerous employers," he said. It's an "untold tragedy" that Maine's 1989 occupational injury rate was a "shocking" 155 lost workdays per 100 employees, the highest in the nation and more than two times the national average, Mr. Hager said. At that time, Rhode Island's 137 injury rate made it second nationally while Louisiana's 91 ranked it 12th.

Each of the states subsequently put "powerful" reforms in place, he noted.

Mr. Hager emphasized that the NCCI offers several tools to help:

- Identification of state cost drivers and pricing of anticipated savings from proposed legislation by the NCCI's legislative pricing unit and data base.
- Commitment to eradicate fraud through the NCCI's National Workers Compensation Fraud Commission and its own anti-fraud units.
- Commitment to injury prevention through a new magazine and coalition to focus on research, education and creative planning.

—By Meg Fletcher

you again?

specialists who work together in teams, drawing upon an unparalleled list of technical and financial services to create customized products for our clients. Our coverage and price are consistent and predictable from one year to the next. We do this because we believe in building relationships that outlast the underwriting cycle.

Past performance is often the best indicator of future performance, and ours just keeps getting better.

AMERICAN RE-INSURANCE COMPANY

555 College Road East, Princeton, NJ 08543-5241 (609) 243-4200

Atlanta, Bermuda, Bogota, Boston, Brussels, Cairo, Chicago, Columbus, Dallas, Hartford, Kansas City, London, Los Angeles, Melbourne, Mexico City, Minneapolis, Montreal, New York, Philadelphia, San Francisco, Santiago, Singapore, Sydney, Tokyo, Toronto, Vienna

Work comp insurers oppose removing medical care from state system

ORLANDO—The nation's largest workers compensation insurers advise national health care reformers to improve the current workers comp system, rather than split it up.

Health care reformers are considering removing coverage for injured workers' medical care from state-based workers comp systems and including that coverage in a national health care program. There is little or no talk about changing the other component of workers comp—compensation for lost wages.

"A better approach" would be to keep both components as part of the traditional workers compensation system, but make several mandatory changes to improve it, said William D. Hager, president of the National Council on Compensation Insurance in Boca Raton, Fla.

The NCCI recommends:

- Granting employers and insurers authority to use medical cost management for workers comp, such as preferred provider organizations, in all states.
- This may require a federal pre-emption of various state laws that would restrict the application of managed care, such as allowing employees to choose their own physicians.
- Applying any national medical fee schedule to workers comp as well as to general health care. This would reduce providers' ability to shift costs to the workers compensation system.
- Applying any new malpractice controls to workers comp medical care.
- Requiring uniform electronic forms for reporting workers compensation data, including claims information.

"The White House attention is commendable. The question is not whether the Clinton proposal will impact workers compensation, but how it should impact workers compensation," Mr. Hager said.

However, health care reformers should be aware of "precautionary considerations," he said at the NCCI's annual issues symposium last month in Orlando.

These concerns recognize that workers comp is an overall workplace disability management system that focuses on maximum medical improvement and prompt return to work.

In addition, "many studies have shown that if an employer loses control of medical treatment —as they would in any integrated program—the cost of the wage replacement goes right through the roof," Mr. Hager said.

Also, the current workers comp system is designed to put maximum economic pressure on employers through its experience rating program to encourage workplace safety. "Removing medical costs from the system surely removes employer focus on safety," he said.

In addition, he noted that even if the medical component is transferred from workers comp to a national health system, someone must still pay the cost of this additional piece.

—By Meg Fletcher

N.Y. may broaden info on liquidations

NEW YORK—A little-noticed provision in New York's fiscal 1993 budget may require the New York Insurance Department and its liquidation bureau to disclose more financial information on companies in rehabilitation or liquidation.

The provision inserted in the budget bill requires the rehabilitator or liquidator to submit annual reports to the Insurance Department detailing each insolvent company's assets and liabilities, claims accrued or paid and other activity involving the insolvent company's estate.

In the past, the New York insurance superintendent has released aggregate data for all the liquidation bureau's estates in an annual report to the state Legislature.

Information on individual estates has been scarce, though, and this has occasionally triggered complaints from creditors and others.

Though the new budget bill does not specifically require public disclosure of estates' finances, it does require the liquidation bureau to report to the Insurance Department, which is subject to freedom of information requests. This raises the possibility that more information will have to be divulged.

Kevin Foley, deputy insurance superintendent, said the liquidation bureau has been providing reports on individual estates to the superintendent for two years, though these have not been released publicly.

—By Douglas McLeod

MEWA fraud artists sentenced to prison

ORLANDO—A federal judge has sentenced three people who pleaded guilty to criminal charges arising from the 1990 collapse of International Forum of Florida Health Benefit Trust, an allegedly fraudulent multiple employer welfare arrangement.

George V. Doherty Jr., Robert L. Searle and April M. McGlawn pleaded guilty last year to various charges stemming from the failures of IFFHBT and another insolvent MEWA (*BI*, Nov. 30, 1992).

U.S. District Judge G. Kendell Sharp sentenced Mr. Doherty to between 22 and 80 months in prison and ordered him to pay $34.5 million in restitution. Mr. Doherty had pleaded guilty to a racketeering charge.

Mr. Searle, who pleaded guilty to a charge of helping to prepare a false corporate tax return, was sentenced to two years in prison and ordered to pay $163,020 in restitution.

Ms. McGlawn, who pleaded guilty to conspiring to commit money laundering and embezzlement, was sentenced to six months home confinement and ordered to pay $111,795 in restitution.

John L. Gazitua, a former administrator of IFFHBT, is scheduled for sentencing June 16. He pleaded guilty to 15 criminal charges, including racketeering, mail fraud and money laundering.

The Florida Insurance Department is separately suing many individuals and companies involved in the IFFHBT collapse. Among these is Alan Teale, who is accused of helping the MEWA obtain bogus assets and reinsurance (*BI*, July 1, 1991).

Mr. Teale and his wife, Charlotte Rentz, were arrested in January on unrelated charges that they defrauded thousands of policyholders using an international web of fraudulent insurance and reinsurance companies (*BI*, Jan. 25).

—By Douglas McLeod

Self-Insurance
with Self-Control

With the catastrophic losses of 1992, worsening loss ratios and the subsequent failure of some insurers, you could lose control of liability coverage for your public entity.

Rates that are competitive today could become prohibitive tomorrow. Your insurer could suddenly decide to withdraw from the market. And you couldn't do a thing about it.

Unless you owned the insurance company.

States Self-Insurers Risk Retention Group offers its members stable, affordable excess liability coverage. And, with the advantage of self-control: members own the company.

Operated exclusively for public entities, States is a lower-cost alternative to standard insurers, with fixed-cost premiums and limits up to $10 million in excess of your self-insured retention.

For a free informational kit, including details on our unique premium credit plan, call States today at (404) 640-0609. And take control before you lose it.

States

1303 Hightower Trail, Suite 220
Atlanta, Georgia 30350
Facsimile (404) 594-2232

InsurerTopics

A special editorial section
sent exclusively
to insurers and reinsurers

More things change, the more they stay the same

Federal cat reinsurance, solvency regulation have long history at RAA

REINSURANCE *issues*

By MARK A. HOFMANN

Comparing the issues facing the Reinsurance Assn. of America today, in light of its recent 25th anniversary, to the group's concerns when it was founded in 1968 can give one a sense of deja vu.

"It's amazing" how much of the reinsurers' agenda looks like that of a generation ago, said Paul D. Hawksworth, president of Mercantile & General Reinsurance Co. of America in Morristown, N.J. Mr. Hawksworth served as RAA chairman in 1991-1992.

As an example of just how long a shelf life some reinsurance issues have, Mr. Hawksworth pointed to RAA President Franklin W. Nutter's reading of a few documents during the group's annual meeting last month. One of the memos dealt with setting a trigger mechanism for activating a federal catastrophe reinsurance facility. That issue, the subject of a 1970-era memo, remains a critical question for advocates of such a facility today, advocates that include the RAA.

"There have been certain recurring themes," observed Mr. Nutter, who served as the RAA's president from 1981 to 1984 and returned as its president in 1991. Two main themes are federal catastrophe reinsurance and the nature of solvency regulation.

"The issues are in many respects still with us, such as federal vs. state regulation. The RAA's initial position was cautious support for federal regulation of solvency," said Ronald Jacks, who served as the RAA's first president from 1968 to 1974.

The association supported bills sponsored by then-Sens. Edward Brooke, R-Mass., and Warren Magnuson, D-Wash., to give the federal government a role in solvency regulation, but the bills never became law, noted Mr. Jacks, a partner at Mayer, Brown & Platt in Chicago. He is in charge of the firm's international insurance and reinsurance practice.

The RAA was also involved in efforts to create a federal catastrophe reinsurance facility during the early 1970s. That effort, continued now as the broader-based Natural Disaster Coalition, attempts to focus congressional attention on the matter.

Somewhat ironically, the RAA was born in response to another plan for a federal reinsurance program, a program reinsurers resisted.

Mr. Jacks said the RAA coalesced in response to a push for federal riot reinsurance in the wake of the civil disturbances of the late 1960s. Several domestic reinsurers banded together "not to fight it, but to put it in proper perspective," he said.

Property insurers responded with "alarm and concern" that if the riots continued, there would be substantial losses. They wanted federal riot reinsurance protection. The primary insurers argued that private reinsurance wouldn't be available if the riots continued in intensity and frequency. "This was not true," he said.

Mr. Jacks, who then ran the Washington office of the Minneapolis-St. Paul law firm Robins, Davis & Lyons, joined the general counsel of the reinsurers to present their case to the appropriate congressional panels.

"We thought the act wasn't needed, but if Congress were to go forward, we offered to help it," he said.

Although the riot reinsurance facility was adopted, congressional reports "made clear that the private reinsurance industry was not a contributing cause to the issues addressed by the legislation," he said.

The initial RAA spun off from the American Insurance Assn., which then had its own reinsurance section. About 15 reinsurers signed on, Mr. Jacks said. Today, there are 26 members.

"The original intent was to limit membership on the board of directors to the CEOs or, in some cases, their immediate No. 2's so you could ensure participation at the highest levels," he said.

Although primary insurers initially doubted whether the organization would get off the ground and be effective, the RAA quickly established good relations with them and has continued working with primary insurers on matters of common interest, he said.

One issue that quickly emerged was the creation of a federal reinsurance facility to deal with a major natural disaster, Mr. Jacks said. In the early 1970s, the RAA proposed a federal catastrophe program.

As Mr. Jacks sees it, the need for such a facility has not vanished and neither has the need for federal solvency regulation.

"I still think there's an absolute need for federal regulation of solvency if it can be accomplished without adding another layer of bureaucracy to the point where it becomes unmanageable," he said.

Charles W. Havens III, now a managing partner in the Washington office of LeBoeuf, Lamb, Leiby & MacRae, joined the RAA staff in 1970 after serving as an attorney in the U.S. Department of Defense. He succeeded Mr. Jacks as RAA president in 1974 and served until 1981.

"States were waking up to reinsurance issues" in the early 1970s, Mr. Havens said.

Throughout the 1970s, the association had begun appearing frequently as a friend of the court "and we had the distinction of never being on the losing side," he said. The issues included whether injured third parties and guaranty funds in insolvency cases could sue reinsurers directly and which receiver had primacy in recovering reinsurance when a multistate insurer became insolvent, he said.

Through this, the RAA discovered a great need for reinsurance education, Mr. Havens said. State regulators, working with limited resources, did not necessarily have expertise and understanding of reinsurance, he said.

Setting up a federal catastrophe reinsurance facility was an issue then as well, but no action was taken, he said. Mr. Havens noted that until the mid-1980s, primary insurers "wouldn't jump on the bandwagon because they hated the thought of federal involvement."

Mr. Nutter, who succeeded Mr. Havens as president in 1981, said another reason the catastrophic reinsurance project didn't go anywhere was because the frequency and severity of natural disasters waned during the 1970s. There was no longer an external stimulus, he said.

Money is another reason Congress has been very wary of creating such a facility, said Claude C. Lilley, professor of risk management and insurance at Florida State University.

"You are looking at potential exposures that are potentially beyond the resources of even the federal government, unless the Treasury turned on the printing presses," said Mr. Lilley. For example, a major California earthquake could "take down" many primary insurers and their reinsurers, he said.

The idea of a facility nevertheless "still makes a lot of sense," said Jack H. Blaine, who served as president of the RAA in 1990-1991 and currently heads the National Organization of Life & Health Guaranty Assns. in Herndon, Va.

Mr. Blaine noted that "when I came here, the Earth-

Continued on next page

Insurer Topics

RAA anniversary

Continued from previous page

quake Project was fairly well along.' The Earthquake Project, an alliance of the RAA and primary insurer associations, was founded in 1986 to promote a federal reinsurance facility for a catastrophic earthquake. Until a few weeks ago, the group even had its offices in the RAA's Washington headquarters.

Late last year, the project was renamed the Natural Disaster Coalition to reflect its broadened mission to create a facility to cover catastrophic windstorms such as Hurricane Andrew, as well as earthquakes.

Legislation to create such a facility is likely to be introduced within a month or so, and supporters have become cautiously optimistic that something may finally happen.

"What has changed is that there is a far greater awareness in Congress and regulatory bodies" of the need for such a mechanism, said Mercantile & General's Mr. Hawksworth.

After Hurricanes Andrew and Iniki devastated Florida and Hawaii, respectively, last year and after a major earthquake struck the San Francisco Bay area in 1989, "people now believe that the big one can happen," said Mr. Hawksworth.

Optimism also finally surrounds another long-term RAA concern—the creation of a system of federal solvency regulation for reinsurers. The association recently testified in favor of a bill that would do just that, H.R. 1290 sponsored by House Energy & Commerce Committee Chairman John D. Dingell, D-Mich. (*BI*, April 26).

Mr. Nutter pointed to the federal vs. state solvency regulation question as an example of how an issue seemingly resolved can re-emerge in a totally different context.

In the 1960s, there was not a system of state guaranty funds to protect policyholders' interests, he said. That brought the matter to Congress' attention. In the 1980s, the question arose as part of a larger controversy over the adequacy of financial solvency regulation in general, as saving and loan associations, banks and some large insurers all failed, he said.

Particularly during the second half of the 1980s, the "relatively high number of insolvencies and withdrawals from the market generated concerns about the financial solidity of the insurance marketplace by both regulators and the industry itself," said Ed Jobe, chairman and chief executive officer of American Re-Insurance Co. in Princeton, N.J. He is a member of the RAA board of directors.

"The role of reinsurance in solvency regulation received a higher profile. This generated new and more detailed methods of solvency regulation," he said.

Another issue the RAA would like to see quickly resolved is whether 19 state attorneys general can go ahead with their 1988 suit alleging that the RAA and 31 other insurance entities engaged in a boycott during the mid-1980s. The question is now before the U.S. Supreme Court, which is expected to render its judgment by July (*BI*, March 1).

"We're not out from under the suit yet," said Mr. Nutter.

Even if the long-term goals of the RAA are met with the passage of federal solvency and catastrophic reinsurance legislation, other issues are coming to the fore, chief of which is environmental liability.

Mr. Nutter noted that environmental liability was not a major concern of reinsurers when the RAA was founded. But the federal Comprehensive Environmental Response, Compensation and Liability Act—better known as Superfund—has created a morass of liability questions for reinsurers, he said. The act is now up for reauthorization.

"Toxic torts and environmental pollution are the most important issues facing the reinsurance community for the rest of this century and perhaps even into the next," said Robert Hall, senior vp at American Re. BI

North Carolina drivers get refunds

RALEIGH, N.C.—Insurers will pay North Carolina personal automobile policyholders about $100 million in rate refunds beginning Sept. 1.

According to North Carolina Insurance Commissioner James E. Long, the refund—which does not apply to commercial auto insurance—is the largest of its kind in the country. It stems from an agreement between the North Carolina Rate Bureau and state regulators that settled four rate dispute cases late last month.

Under the agreement, insurers dropped their appeal of the commissioner's order reducing rates in 1989 by 5.9% and the commissioner let stand rates filed in 1987, 1988 and 1990.

Policyholders who bought policies during the year beginning March 1, 1990, are entitled to the refund. Individual insurers will calculate the refund due their policyholders. The amount refunded will vary greatly among drivers because of the myriad factors involved in ratemaking, but could be more than $200 for some drivers.

—By Mark A. Hofmann

When you work as a team, one side shouldn't do all the talking.

Edgar Bergen & Charlie McCarthy courtesy of the Bergen Foundation.

At Prudential Re, we're interested in doing business with you. And unlike some companies, if you team up with us, you'll have a voice.

And we'll listen to that voice. So we can get to know your business and your business objectives.

We'll also be on hand to give you a hand. We'll help you fine tune your reinsurance program to make it even more profitable—just as we've refined our operations to make them more responsive to your needs.

We do this because we know we will both benefit from it in the long run.

And we're looking for relationships that will be long running.

So if your present reinsurer is trying to put words in your mouth, call Prudential Re.

Prudential Re®

The Reinsurer of Choice

Available directly or through an intermediary.

© 1991 Prudential Reinsurance Company, a subsidiary of The Prudential Insurance Company of America, Newark, New Jersey.

Insurer Topics

A clearer focus on fraud

Insurer giving cameras to taxi drivers

By GAVIN SOUTER

NEW YORK—If you ever collide with a taxicab in New York City, don't be surprised to find yourself on film.

Following the adage that "the camera never lies," an insurer is issuing 10,000 disposable cameras to taxi drivers in an effort to clamp down on fraudulent claims.

Armed with a print of what really happened in an accident, the insurer believes that soaring bodily injury and physical damage claims can be brought under control.

The camera program is just one part of an experiment that could establish a sizable voluntary market for New York taxicabs, said John D. Reiersen, president of Eagle Insurance Group of Lynbrook, N.Y., which is issuing the cameras.

The participating taxi drivers are covered under an assigned risk plan in which Eagle writes 1% of the risks. Many taxicab operators in the plan have complained about the high premiums, which are the same for all policyholders, regardless of individual loss experience, he said.

The standard premium for coverage from the plan is $4,000 per vehicle, which is unaffordable for some drivers and taxicab companies, Mr. Reiersen said.

But the insurers in the assigned risk plan have little option, he said, due to severe losses and the difficulty of underwriting the business. The plan's combined ratio is about 135%. One recent accident, in which a taxi driver insured by the plan knocked down eight people with his cab, will likely produce claims of about $470,000, he said.

In answer to the complaints from taxicab operators with better-than-average loss experience, Eagle is suggesting a variety of risk management techniques that can help reduce claims and make the business more attractive to the voluntary market, Mr. Reiersen said.

"We're giving them a chance to show us that livery business can be profitable for insurers," he said.

The camera program was introduced in March. The 10,000 taxi drivers in the assigned risk plan are offered $8 disposable cameras.

When drivers have an accident they will take shots of the vehicles involved and the passengers, Mr. Reiersen said.

"One of the main problems we have is that in between an accident happening and claims being made, stories change. If we have a photo we can see who the passengers were and what damage was done," he said. Fraudulent physical damage claims are frequently made by vehicle owners, towing companies and car-repair companies, he said.

Owners sometimes make a claim

for previous damage to the car; payment to towing companies is often based on a percentage of the repair bill, so some towing operators can be tempted to "take a sledgehammer to the taxi"; and repair shops also sometimes inflict more damage to the vehicles to inflate their bills, Mr. Reiersen said.

In addition to issuing cameras, Eagle is encouraging livery companies to take additional risk management steps.

"We have two major problems: one is trying to control who drives the vehicle and the other is late reporting of accidents," he said. Accidents are being reported "late, later and never," he said.

Eagle is trying to address these and other problems through a pilot program with some taxi operators on Staten Island.

Under the program, Eagle fully insures participating operators in the voluntary market—in which rates are tied to loss experience and can be lower than in the assigned risk plan—provided that it can preapprove the companies' drivers and impose a $1,000 deductible on all claims that are reported more than 10 days after the accident.

The companies will also have to set up safe-driver programs for their drivers, Mr. Reiersen said. For example, drivers will have to take defensive-driving courses, attend meetings with insurers to discuss safe driving techniques, and have their vehicles properly maintained, he said.

"The whole point is to get taxi drivers to pay attention to risk management," Mr. Reiersen said.

Between 60 and 100 drivers are needed to generate enough premium to make programs like this feasible, he said.

By focusing on groups of this size, Eagle can better analyze the loss records of participating drivers, he said. "Then if we can isolate two or three drivers with particularly bad records, we can kick them out."

Eagle will be particularly watchful for drivers who have been involved in accidents with bodily injury claims and those convicted of driving while intoxicated, he said.

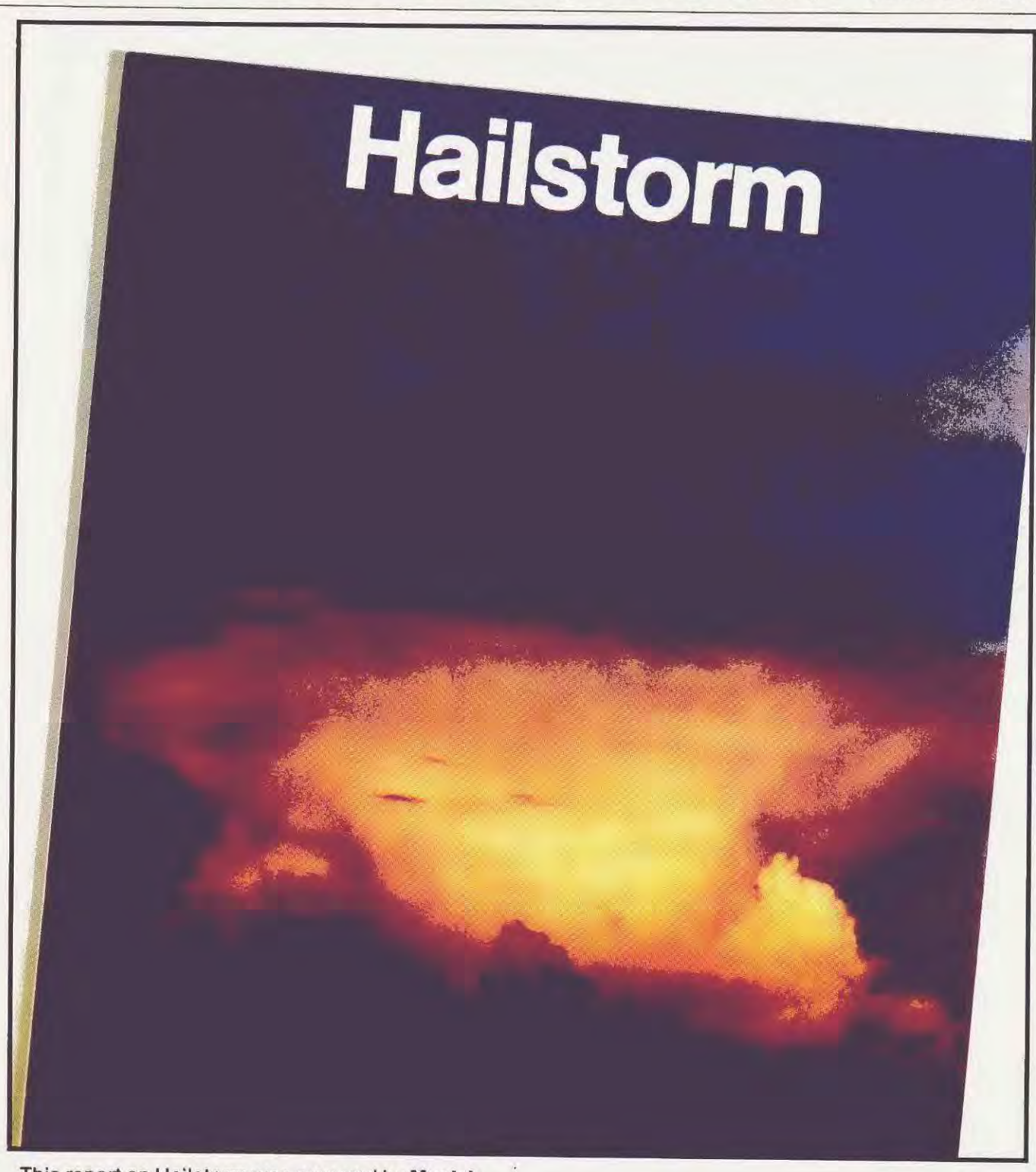
The success or failure of the Staten Island pilot program will not be known for approximately two years, Mr. Reiersen said.

If the loss experience improves significantly, Eagle will return some of the premium to the participants in the program, he said.

For example, Eagle might set an anticipated loss ratio of 65% and charge a total premium of $500,000 for the group of participating taxicab operators. If the program turned in a loss experience of 40%, Eagle would return half of the difference —or 12.5% of the premium, which would be $62,500.

The program is an experiment, he stressed. "It may work but then again it may not, but I don't see any other solution to their problem."

If the program is successful in Staten Island, it will be extended to other areas of New York, Mr. Reiersen said. BI



This report on Hailstorm was prepared by **Munich Re.** Like all research prepared by **Munich Re**, it reflects the experience, professionalism and integrity of the **Munich Re** organization.

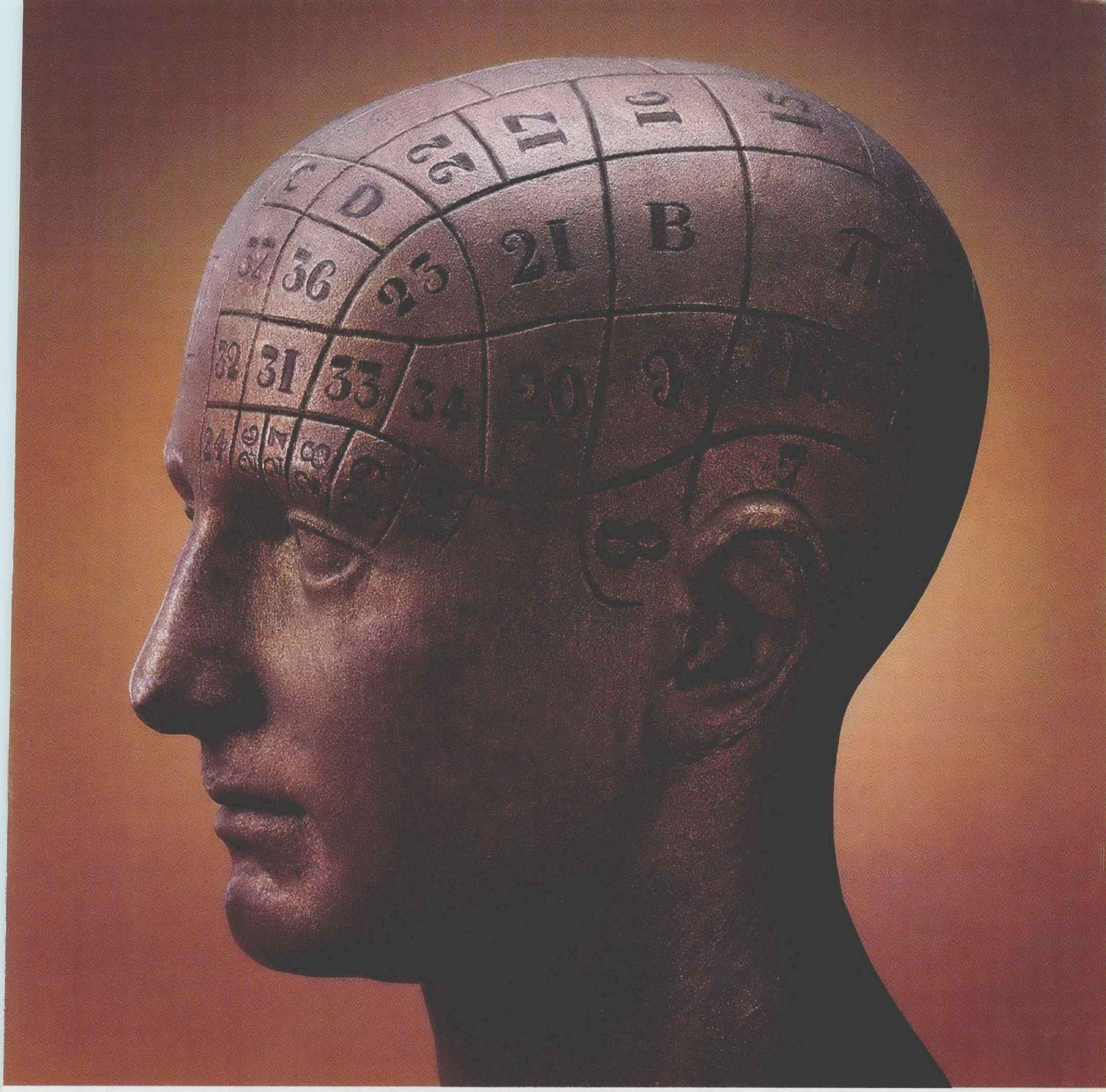
Each **Munich Re** study is the result of painstaking research by highly experienced professionals. The care and attention given to their preparation is an example of the thoroughness **Munich Re** brings to every aspect of reinsurance.

Munich Re—unsurpassed service for more than 110 years.

MARC
Munich Re Group

New York • Chicago • Atlanta
San Francisco • Dallas • Boston
Columbus • Hartford
Philadelphia

Munich Re Group in the USA: MARC and MARC-Life



INTELLIGENT REINSURANCE KNOWS NO BOUNDS.

Reinsurance used to be divided into two basic parts: Treaty and Facultative. Today, not only have the barriers disappeared between Treaty and Fac, but they've been joined by Financial Reinsurance, Alternative Markets, Claims Management, Engineered Risk and many other sophisticated specialties. North American Re provides every type of reinsurance our clients need. When you need reinsurance without boundaries, keep us in mind.

NORTH AMERICAN RE

A TRADITION OF EXCELLENCE

NORTH AMERICAN REINSURANCE CORPORATION 237 PARK AVENUE, NEW YORK, NY 10017 (212) 907-8000 ATLANTA BOSTON CHICAGO DALLAS LOS ANGELES NEW YORK PHILADELPHIA SAN FRANCISCO

A MEMBER OF THE SWISS RE GROUP

Insurer Topics

A do-it-yourself guide to strategic planning

Avoiding the expense of an outside consultant does not necessarily result in a lower quality plan

By Edwin P. Moldof

IT Perspective

INSURANCE INDUSTRY executives tend to look at strategic planning with a skeptical eye. To them, it is nothing more than a cloudy crystal ball used to gaze at an uncertain future. After all, no strategic plan could have predicted the changes that have rocked the industry—the impact of AIDS, the tremendous Hurricane Andrew losses and the glut of mergers in recent years.

Strategic planning seems an unnecessary expense at a time when many insurance companies are tightening their belts. Hiring a big consulting firm is expensive. Even worse, every company has heard the horror story of paying for a strategic plan that was virtually impossible to implement.

To all this, I would respond: Do it yourself and do it properly. There's no great secret to planning. Doing it properly requires you to think about your business in fresh, future-oriented, holistic ways.

Strategic planning is well-suited for any company in a volatile, unpredictable industry. As you well know, insurance is changing. New trends range from the search for alternative risk financing to self-insurance (such as rent-a-captive) to new legislation from the Clinton administration. To keep up with that evolution, strategic planning is an essential tool.

The following five elements are required within a do-it-yourself strategic planning context.

Situational Analysis

Identify the crucial situations currently confronting your company. As an example, here are some responses one company gave:

- Declining revenues and increasing costs.
- Trend toward larger deductibles.
- Declining customer satisfaction with rates and coverage.
- Risk Retention Act resulting in "pooled" groups.
- Overwhelming amount of paperwork.
- Costly court battles related to reimbursement for experimental treatments.

Your initial list of situations will probably be much longer than this one. Combine points that are similar and eliminate ones that are of minor importance.

A common mistake here is creating a list that is too long or imprecise. You want to develop a clear snapshot of your organization right now. Once you spotlight the present situation, you can use it for comparison in the next part of the process.

Mission Statement

A mission statement declares what an organization must do to prosper. Although this simple one- or two-sentence statement simply flows from the insurer's vision of itself three years down the road, it is often the most difficult part of the do-it-yourself plan. I've heard more than one insurance executive lament: "How can I know where we'll be three years from now when I don't know where we'll be in three months?"

We're not asking you to predict the future. Just develop a vision of the future in a structured way, by answering a series of interlocked questions:

- What should be the characteristics of your customer mix in three years? Categorize by types of companies and types of insurance. What is the most desirable type of customer, the most profitable type of customer?
- What should be the main insurance services offered in 1996? What percentage of revenues should each of these services generate?
- What should be the targeted geographic area?
- What should be the organization's driving force or core capability? This is the outstanding characteristic the organization is known for, such as a specialized service, expertise in a specific type of insurance or being the low-cost provider. Also consider other characteristics that could be developed to help the company compete in three years. What will be the organization's position within the industry by 1996—not just its numerical rank but in terms of reputation, quality and other areas compared to its competitors?
- What trends will become major threats or opportunities in the next few years? The trends can be: technological, like new computer capabilities to process claims faster and more cost-effectively; legislative, like health care reform; social, like the aging population in the United States; and medical, like the increasing number of tests doctors perform on average to limit their liability.
- What barriers can prevent the realization of an organization's vision? The barriers can range from an organizational culture that is inherently conservative and avoids experimental programs to a lack of internal systems or few key people.

Making the transition to a mission statement isn't difficult. Although the answers appear to be about different subjects, they all converge at some point. They may suggest that if your organization doesn't become more specialized, it won't survive; or they may force you to conclude that if you form joint alliances with other organizations, you'll greatly increase revenues.

Strengths and Weaknesses

This step in the do-it-yourself process requires two lists. When you're composing these lists, keep your mission statement in mind. The strengths should help you fulfill your organization's mission, while the weaknesses will hinder that effort. Strengths and weaknesses may be found in a variety of areas: products, services, people, equipment and procedures.

Your list of strengths should be based on what:

- Gives the organization its competitive edge.
- Differentiates it in a positive way from competitors.
- Contributes significantly to profitability.

The second list, comprised of weaknesses, points to tangibles and intangibles that:

- Might jeopardize the survival of the organization.
- Negatively affect customer satisfaction.
- Move the organization toward "me too" status rather than differentiating it.

Goals

A word of warning about this plan component: Don't base goals only on past performance. Set goals that are attainable but require a stretch.

The first goal should deal with expected revenues three years down the road. This goal should be immediately reviewed in light of the mission statement. Is the company described in that statement able to achieve the projected revenues? If not, either the mission statement or revenue goals must be changed.

Once they are compatible, additional goals should be set that reflect your strengths and weaknesses, situational analysis and other elements of the company vision.

If an insurer's mission is to be the leader in a specific category by 1996, its marketing goal should be geared toward that objective—costs of advertising, personnel and other requirements of the 1996 definition of market leader have to be factored into the equation.

For example, if a strategic weakness relative to that mission is a facility's lack of state-of-the-art claims processing software, a management information systems goal must be created to eliminate that weakness.

Don't be afraid to adjust other components of the strategic plan as you formulate your goals. Most do-it-yourselfers find themselves frequently erasing and changing parts of their plans as they evolve. New trends occur every day that can affect a plan; innovative ideas may not surface until you're almost done with the plan. Be open to changes, and think of the plan as a living, mutable document.

Strategies and Action Plan

Every goal in your plan requires a strategy and action plan designed to achieve that goal. A strategy is a major action to achieve a goal, and an action plan consists of detailed steps to implement a strategy. To each action, you must attach a date due, person responsible and cost. This specificity increases the odds that the action will be carried out rather than merely discussed—or carried out improperly.

As you implement your action plan and strategies, you achieve a series of goals, which in turn helps you fulfill your mission, which in turn enables you in 1996 to realize the vision of your organization formulated three years earlier.

Don't be daunted by the task of doing your own plan. If you need an incentive, think of the money you're saving. Even if you feel you need a consultant to fine-tune or implement parts of the plan, you'll find you've saved thousands of dollars by creating a plan on your own. The bulk of a strategic planner's time—and fee—revolves around interviewing people and gathering information from other sources.

As you're working on your plan, you may find yourself stuck for a variety of reasons. For instance, no one can agree on the trends that will present opportunities or threats in the future—you have 40 trends on your list, and you need to shorten it to a workable number.

To get yourself unstuck, try the following technique. Ask each person on the planning team to assign a numerical value between 10 and 100 to each trend on your list relative to its probable impact on the organization. The five trends with the highest numbers—and greatest impact—would make the list.

Perhaps most importantly, maintain the formality of the do-it-yourself process. Resist the temptation to dispense with formal, written statements and lists or to skip one or more of the five components outlined here. Writing it down is important, if only because it stimulates discussion and fresh thinking. The act of writing has been shown to be an idea-generating action, and it gives other planners something tangible to react and refer to. The five steps are linked steps, and if you eliminate one, you break the chain. You can't create effective goals unless they're unified by a mission statement.

None of this guarantees you'll realize your organizational vision in three years. But it greatly increases the probability, and better odds mean better revenues. BI

Edwin P. Moldof is director of strategic planning and marketing for Blackman Kallick Bartelstein, an accounting firm in Chicago. Mr. Moldof assists insurers and other companies in creating do-it-yourself strategic plans.

WINS-RE

The power of WINS-RE

All the power you need

- Access to complete, reliable and timely information
- Innovative and effective solutions to standard reinsurance information processing requirements
- Productivity tools to enhance company efficiency and profitability
- Ease of installation and implementation
- Native on the IBM AS/400
- Fully integrated modules to support the essential operations of the reinsurance industry — Contract Management, Account Entry, Excess of Loss/Facultative Claim Processing, Cash Entry, Retrocession, Diary System, Financial/Management Reporting and Management/Production Inquiry.

Call or write: the Marketing Dept. about the power of WINS-RE.
The Wheatley Group, Ltd.
Member of the AVEMCO Services Group
One Huntington Quad
Melville, NY 11747
Phone: (800) 788-0144
Fax: (516) 293-1248

IBM Business Partner
Visit Booth 801 at the IASA show
*IBM and AS/400 are registered trademarks of International Business Machines Corporation

Software solution for the Reinsurance Industry

Insurer Topics

Future execs to face rapid changes

By MARK A. HOFMANN

PHILADELPHIA—As Jeffrey S. Greenberg sees it, the No. 1, 2 and 3 issues facing college graduates who seek careers in property/casualty insurance are "the velocity of change."

"Many CEOs and management teams are not equipped" to deal with the type of rapid and constant change likely to continue buffeting the insurance industry throughout the decade, said Mr. Greenberg, executive vp of American International Group Inc. in New York.

Mr. Greenberg offered his assessment of the skills the insurance industry will demand during a speech at the fifth annual Awards for Excellence luncheon at Temple University in Philadelphia last month.

Of course, change is not limited to insurers, he noted. "Many of the old icons are not what they once were," he said, citing General Motors Corp. and International Business Machines Corp. as examples of tarnished corporate idols.

He added that during his own 17 years in insurance, the industry has undergone changes that no one foresaw two decades ago. For example, producers have consolidated as independent agents have lost business, particularly personal lines, to direct writers. Brokers have not been immune from consolidation, either, he said.

For insurers, "increased velocity of insolvencies" could mean that only half as many companies as are now in business will still be underwriting by the end of the century, he said.

In addition, available capital is migrating from many traditional insurance companies and Lloyd's of London syndicates into better-capitalized traditional insurers and alternative facilities, he said.

And, insurers are facing a set of new and expanded issues in the 1990s, said Mr. Greenberg.

Insurers are redefining who the commercial insurance customer really is, he said. They have traditionally viewed the broker as customer, whereas the real customer is now the risk manager, the chief financial officer and—in some cases—the chief executive officer, said Mr. Greenberg.

Most insurers haven't dealt particularly well with the new spectrum of customers, he said. As a result, the customers are making decisions on the basis of price alone. In reality, "helping to control the cost of risk" and not simply the lowest price, is what the new customers are seeking, he said.

The nature of risk itself is changing as well, he said. The standard of negligence appears to be based increasingly on a sense of entitlement, he said. Changes such as an aging population and shifts in population patterns create a new calculus of risk, he said.

Insurers must also confront the specter of retroactive risk, defining not only the risk but how courts will interpret a contract, he said. This underscores the need for underwriters to express themselves clearly.

Technology will define the types of people insurers will seek, he said. Mr. Greenberg noted that when he joined National Union Fire Insurance Co. of Pittsburgh, Pa.—the New York-based AIG unit he headed for years—in the late 1970s, the company had two personal computers for approximately 400 employees.

"Today, some employees have two of them on their desk, which I think is just bragging," he said. The audience chuckled.

Jokes aside, insurers have to cut down on the amount of paper involved in the three-corner transaction of insurer-broker-risk manager, which involves greater reliance on technology, he said. Insurers have to cut down their expense ratios, and "we as an industry have done a poor job" of cutting costs, Mr. Greenberg said.

Later in the 1990s, insurers "will be dealing with a plethora of regulation" as the debate over whether the federal government should take over traditional state regulatory functions heats up, he said.

A more globalized economy in general will be the norm, marked by the emergence of regional trading blocs and risk managers' demands that their insurers and brokers follow them in their international ventures.

Mr. Greenberg exhorted his student listeners to "look into the future yourselves." Be prepared to work in a property/casualty insurance industry where people work in teams, viewing insurance as a business rather than the application of one or another set of skills such as underwriting, he said.

"The winners will continue to be people who can work in a fluid environment." BI

Junk bond investments picking up

WASHINGTON—Life insurance chief investment officers may be less reluctant these days to hold investments in high-yield bonds, a survey by the Washington-based American Council of Life Insurance indicates.

The number of high-yield bonds held by life insurers declined on both an absolute and proportional basis between 1991 and 1992, says Nathaniel B. Cabanilla, senior investment analyst for the ACLI.

However, compared with responses in several previous years, the percentage of financial executives in 1993 that said they will increase their investment in high-yield bonds was slightly larger than those who said they would decrease their investment in these bonds.

Junk bonds are bonds issued with a credit rating of BB or lower from rating agencies. They pay higher yields than investment-grade issues because of their greater perceived risk of default.

Mr. Cabanilla said the ACLI conducted an unpublished survey of 105 chief investment officers for life insurance companies in February.

According to the ACLI, junk bonds accounted for 7% of life insurers' bond investments in 1992, compared with 9% in 1991 and 12%

Continued on next page

Conduct A Hands-On Examination Of Practice Guidelines Software.

Call today and request a free demonstration diskette for *Quality*FIRST™ clinical practice guidelines software.*

*Quality*FIRST is the most comprehensive practice guidelines software on the market, comprised of over 450 guidelines that address the diagnosis, treatment, facility and resource use for almost every case you will encounter. Developed by the Institute for Healthcare Quality℠ in conjunction with Health Risk Management,® this software has served as a medical decision-making aid in prospectively evaluating over 400,000 cases in over 4,000 hospital and outpatient settings since 1984.

Available either linked to a mainframe with wrap-around management services, or in a PC format, *Quality*FIRST is easy to access, easy to understand, easy to use. And it supports on-going enhancements in both content and software through a continuous quality improvement process. All of which helps you raise health care quality to a new high while holding health care costs to new lows.

For a free *Quality*FIRST demonstration diskette and complete information, call toll-free today. 1-800-241-9611

INSTITUTE FOR HEALTHCARE QUALITY

*patent pending
© 1992 IHQ

Insurer Topics

Former football star now tackling insurance

By MICHAEL SCHACHNER

WORCESTER, Mass.—Five years ago, Gordie Lockbaum spent many a fall afternoon catching a pass out of the backfield one minute and dropping back into a defensive stance as a safety the next.

As the first college football player to play both offense and defense on a regular basis since Leroy Keyes did it at Purdue University in the 1960s, Mr. Lockbaum led the Holy Cross Crusaders to an undefeated season in 1987 and garnered a multitude of individual honors.

The feat of playing both running back and defensive back as well as returning kicks and covering punts —and doing them all well—earned him national recognition as one of the most versatile football players in college history.

He was third in the Heisman Trophy balloting his senior year, was selected to play in three post-season all-star games and still holds National Collegiate Athletic Assn. Division 1-AA records for: most touchdowns in a single game, six; most passes caught by a running back in a season, 78; and most receiving yards by a back in a season, 1,152.

But that was then.

Today, the 27-year-old Mr. Lockbaum lives in Worcester with his wife and 3-year-old son, is an up-and-coming commercial insurance agent for the William F. Sullivan Insurance Agency Inc. and is trying his hand at becoming a color commentator for college football games.

Life in the real world suits him fine, Mr. Lockbaum says. But, with a few more pounds on his frame and a step more speed, he might have made it in the National Football League.

Drafted by Pittsburgh in the ninth round in 1988, Mr. Lockbaum tried out with the Steelers as a third-down specialty back but was released by the club during the preseason. The following year, he caught on with the Buffalo Bills and survived the entire preseason, splitting time at both running back and free safety. However, he again failed to make the final 45-man roster.

Rather than play football in Canada or take a gamble in Europe with the now-defunct World League of American Football, Mr. Lockbaum put aside his cleats and helmet, followed the advice of his college roommate's older brother and took a job as a rookie insurance agent with the Sullivan agency, which is in the same city where he attended college.

It was a decision that, at the time, was very hard for him to make but one he does not regret.

"Working for Bill Sullivan was a great opportunity which I didn't want to lose out on. I gave football my best shot and it just didn't work out. After being invited to a couple camps and seeing the talent at the professional level, it wasn't that difficult to walk away from," he said.

"You'd be amazed at how talented those players are. They're truly in a different league," he said.

This coming from a man who virtually owned his league while at Holy Cross.

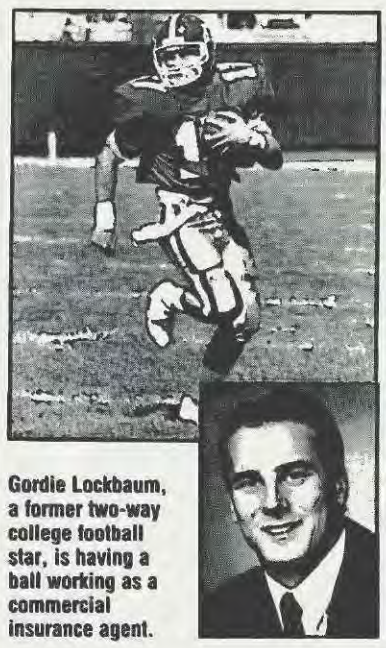
During his junior year, Mr. Lockbaum, who excelled at three sports at Glassboro High School in New Jersey, amassed nearly 200 all-purpose yards per game, while at the same time racking up 46 tackles on defense and picking off one pass.

The following year, he led the Crusaders to a perfect 11-0 record and a Patriot League championship, caught 78 passes out of the backfield and earned approximately 30 individual honors ranging from third in the Heisman Trophy voting to The Football News Division 1-AA Player of the Year.

In total, Mr. Lockbaum scored 43 touchdowns during his four-year career at Holy Cross, picked off five passes, recovered five fumbles and even recorded four sacks on opposing quarterbacks.

"At a time when specialization was growing more popular, it was real intriguing to play both ways," he said.

"At the time there were a lot of questions about which unit I'd practice with, what team meetings I'd attend and how I'd fit in. There was a lot to it, but fortunately I handled it and despite the extra bumps and bruises, it was a great experience," he said.



Gordie Lockbaum, a former two-way college football star, is having a ball working as a commercial insurance agent.

When asked to identify the pinnacle of his astounding college career, he reminisced about the Heisman Trophy award ceremony in New York during the fall of 1987.

"The whole situation surrounding the Heisman Trophy award was a blast. We were treated like kings in New York. It was an honor to meet several past recipients and to get to meet the other players personally. The whole aura was pretty overwhelming."

Tim Brown of the University of Notre Dame, who now plays for the Los Angeles Raiders, won the distinction as college football's best all-around player that year and took home the Heisman, but "it was a great honor just to be there and to be voted third in all regions of the country," Mr. Lockbaum said.

Having put his college football days behind him, except for the occasional story he's asked to tell, Mr. Lockbaum is now three years into what he hopes will be a career job at the Sullivan agency, an $18 million company that for 37 years has specialized in the commercial brokerage business.

"Business is great," he said. "I'm more comfortable now that I know myself and the products I'm selling. This job is one of constant learning. If you represent 15 companies, knowing all the forms and exclusions is complicated. But I realize now that this business is a lot more than just selling price."

Earlier this year, Mr. Lockbaum passed four of the 10 exams necessary for him to earn the Chartered Property & Casualty Underwriter designation. "I expect to have the CPCU distinction under my belt by the time I'm 30."

So what else lies ahead for him?

"I plan on staying here forever. My family and I love Worcester. It's the second-largest city in New England, but it feels like a small town in many ways," Mr. Lockbaum said.

"Commitments are something I have made and honored my whole life. You need to always look at the glass as being half full. If you view things positively, you'll be much happier in life," he insisted.

And, although his playing days are over, you can't take the football out of him completely.

"I still love watching and talking about the game," he said. "I'm trying to get a broadcast career going, but I'm still pretty inexperienced."

This past fall, Mr. Lockbaum provided color commentary for a pair of Holy Cross games that were seen on Sports Channel of New England as well as doing radio commentary for nine other games. BI

High-yield bonds

Continued from previous page
in 1990.

As part of another survey conducted late last year, the ACLI also asked 92 chief investment officers to rank nine investments that will provide the most attractive risk/reward trade-off over the next three years. High-yield bonds ranked seventh, ahead of only equity real estate and money market instruments.

Ranked highest as an attractive investment was publicly traded common stock, followed by private placements, mortgage-backed securities, foreign securities, commercial mortgages and corporate bonds.

Mr. Cabanilla said because of the strict investment rules under which life insurers operate, "there's not going to be a large increase of high-yield bonds." Another factor discouraging greater investments in these bonds, he said, is a "flight to quality" in the industry.

On the other hand, the perception that life insurance companies are in a better position today than they were three or four years ago could have made life insurers less reluctant to hold these investments, he said.

Junk bonds accounted for 5.3% of the life insurance industry's $1.35 billion in general account assets in 1991, the last year for which complete data is available. Investment-grade bonds accounted for 56.1% of assets, while mortgages accounted for 19.4%, policy loans and other assets 11.6% and stocks and real estate 9.9%.

Among other findings:

- There is greater interest among chief investment officers in increasing their investments in commercial mortgages, with 32% of respondents saying they planned to do so in 1993, compared with 20% who said they did in 1992.
- A total of 26% of insurers in 1992 and 1993 said they planned to increase investments in mortgage-backed securities.
- A total of 40% indicated interest in increasing investments in private placements.

Investment officers were also asked in September to rank several groups on their impact on investment policy over the past year. Rated most important on average were: rating agencies, followed by boards of directors, policyholders, regulators, investment professionals, stockholders, agents and salespeople.

—By Judy Greenwald

READER REPLY SERVICE

Insurer Topics

To obtain free information on the products and services advertised, turn to our post-paid Reader Service Reply Card bound in this issue, or complete the coupon below and mail to:
BUSINESS INSURANCE
Reader Service Center
650 So. Clark St., 6th Floor
Chicago, IL 60605-1702

Issue of May 17

READER SERVICE #	ADVERTISER	PAGE #
100	Atrium	24B
101	Health Risk Management Inc.	24G
—	Munich Reinsurance Co.	24D
102	North American Reinsurance	24E
103	Prudential Reinsurance	24C
104	Wins Re	24F

Business Insurance
FREE LITERATURE FOR READERS
Issue Date: MAY 17, 1993
Card Expiration: JULY 12, 1993

All questions must be answered to process inquiries.
PLEASE CHECK ONE ITEM FOR EACH CATEGORY:

1. My organization is best described as:
A ☐ Mfg/Svcs F ☐ Ins Agent K ☐ Adj/Apprs
B ☐ Association G ☐ Ins Broker L ☐ TPA
C ☐ Union H ☐ Ins/Reins Co M ☐ Healthcare Inst
D ☐ Government I ☐ Actry/Conslt
E ☐ Educational Inst J ☐ Attorney N ☐ Other _____

2. Number of employees:
1 ☐ 150 or less 2 ☐ 151 - 499 3 ☐ 500 - 999
4 ☐ 1,000 - 4,999 5 ☐ 5,000 or more 6 ☐ Unknown

3. My title is best defined as:
A ☐ Administrative Mgt D ☐ Benefits Mgt
B ☐ Financial Mgt E ☐ Loss prevention Mgt
C ☐ Risk Mgt F ☐ Other _____

4. My purchasing involvement for the requested products is to:
1 ☐ recommend only 2 ☐ specify 3 ☐ approve

5. Do you now receive a personally addressed copy of Business Insurance?
A ☐ Yes B ☐ No, so please send subscription info

Circle the numbers below that correspond to the companies listed on our Advertiser Index for the May 17, 1993 issue. Cards with more than 20 items circled will not be processed. This card expires July 12, 1993.

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	36	37	38	39	40	41	42	43	44	45
46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75
76	77	78	79	80	81	82	83	84	85	86	87	88	89	90
91	92	93	94	95	96	97	98	99	100	101	102	103	104	105
106	107	108	109	110	111	112	113	114	115	116	117	118	119	120
121	122	123	124	125	126	127	128	129	130	131	132	133	134	135
136	137	138	139	140	141	142	143	144	145	146	147	148	149	150

Please print clearly

Name _____
Title _____
Company _____
Address _____
City _____ State _____ Zip _____
Phone ( ) _____

DOES YOUR FACULTATIVE UNDERWRITER LEAVE YOU FEELING LIKE YOU'RE OUT THERE ALL BY YOURSELF?

Calling your facultative underwriter for a quote needn't be a lonely experience. At NAC Re, we pride ourselves on our ability to build lasting, personal relationships. By getting to know you well, it's easier for us to anticipate your needs — and to help you meet *your* clients' needs.

We provide thorough, prompt responses at all times...along with consistent pricing and service in both hard and soft markets. And thanks to our substantial limits — $45 million ($22.5 million PML) for property, and $7.5 million for casualty — it's easy and efficient to do business with us.

Want to work with a facultative reinsurer who won't leave you high and dry? Call us for a quote. We'll be there for you — every step of the way.

We'll be there when you need us.

NAC Reinsurance Corporation

NAC Re

GREENWICH
(203) 622-5500
FAX: (203) 622-5555

HARTFORD
(203) 293-6200
FAX: (203) 247-3734

CHICAGO
(312) 876-7200
FAX: (312) 876-1399

SAN FRANCISCO
(415) 616-8200
FAX: (415) 616-8275

There's a distinct pattern to most group health managed care networks—sameness. The trouble is, medicine's not practiced the same way everywhere. So when it comes to containing costs, what plays in Peoria may not work in Philadelphia.

That's why, at ITT Hartford, we take a regional approach to managed care.

We start by carefully scrutinizing *all* the managed care delivery systems in a given area to determine which is best. Then we subject our choice to a battery of tests to ensure it meets our standards for accessibility, flexibility, fee structure, utilization management, quality assurance and service.

WHEN WE CUT GROUP MEDICAL COSTS, WE DON'T CUT CORNERS.

Once we contract with a local network, we constantly and consistently monitor performance.

Cost containment efforts are managed at the local level. Incentives to use the network are built-in. Claim administration is coordinated. Cost management reports are customized. And a wide choice of payment plans optimizes cash flow.

The result is a managed care program that meets the needs of the customer, employer *and* employees alike.

For complete information, call Janis Allen, Director of Marketing, at 203-843-8599. Or write her at ITT Hartford Life Insurance Companies, P.O. Box 2999, Hartford, CT 06104-2999. You'll find we offer a unique edge.

© 1993 ITT Hartford Insurance Group. Hartford, CT 06115

FOR THE BEST IN LIFE – AND HEALTH

ITT HARTFORD

Inheriting pollution risks

How different firms manage pollution liability exposure

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 the possible answers—in one of the three examinations for the ARM designation.

This month's exercise, drawn from a recent national examination in ARM 55-Essentials of Risk Control, highlights some non-technical, common-sense approaches to preventing or reducing the size of the diverse pollution losses an organization may suffer, even from pollution that it did not cause.

Q: • A firm that builds and operates strip shopping centers has learned that underground storage tanks may be located beneath the surface of land that it now owns and plans to develop. Describe three specific actions this firm could take to reduce or eliminate its potential liability for pollution caused by leakage from these underground tanks.

• The owner of an apartment complex would be required to clean up contamination caused by a leaking underground storage tank. This work, as well as the related adverse publicity, may cause the owner some losses of rental income. Describe the specific actions the owner could take before and after a leaking underground storage tank has been discovered to reduce potential resulting losses of rental revenues.

• The underground storage tank for heating fuel for a building can be viewed as a component in an overall system to heat the building. With respect to potential liability arising out of leaks in such a storage tank, explain how each of the following systems safety concepts can be useful in identifying and managing potential pollution liability exposures:

- ✔ System components concept.
- ✔ System life cycle concept.

A: • Among many other possibilities, the shopping center owner could remove any potentially polluting tanks, monitor any remaining tanks that now appear to be safe, and locate previous owners of its properties who could become co-defendants in future pollution liability claims.

Digging up the tanks would remove some pollution sources, and inspecting regularly those tanks that remain would tend to limit any pollution and any resulting liability they may cause.

Under federal and many state environmental protection laws, all previous owners of polluted lands can be held jointly and severally liable for pollution damage, thus making them additional sources of funds to pay claims that may be brought against the current apartment complex owner.

Under federal and many state environmental protection laws, all previous owners of polluted lands can be held jointly and severally liable for pollution damage.

• Pollution of rental properties poses significant hazards to the apartment owner's income because many present tenants are likely to become reluctant to stay and new tenants may become difficult to attract once actual or threatened pollution becomes known in the community.

Before any pollution is discovered, the owner can guard against these losses through many actions, including removing any polluting tanks and cleaning up any present pollution, strengthening the wording of tenants' leases so that they must continue paying rent even if the properties on which they live became polluted, and maintaining amicable relations with tenants so that they are more willing to continue paying rent despite any actual or threatened pollution.

After pollution from an underground storage tank is discovered, the landlord can demonstrate its good faith through vigorous cleanup efforts, by moving severely affected tenants to alternative units, perhaps by reducing rents to tenants who agree to continue occupying somewhat polluted premises, and by advertising to counter any adverse publicity.

• Applying some basic concepts from systems safety can help control environmental pollution from underground storage tanks.

The key to using these concepts is to recognize that an underground storage tank is itself a system that is made up of subsystems, which is itself a subsystem in larger systems.

✔ One such concept is that all systems consist of interrelated components. Thus, an underground storage tank may leak or rupture because the connection or interactions among these components break down.

The notion of system components also suggests that fixing one or a few of the parts of an underground storage tank may be as effective as—and yet less costly than—replacing or removing the entire storage tank system.

✔ All systems have a life cycle, consisting of the design of the system, its installation, its operating life and its eventual disposal.

Each of these phases offers opportunities for: building safety into the system to make it less susceptible to leakage or other failure, installing tanks carefully, monitoring and performing preventive maintenance on them regularly throughout their working lives and replacing each component in the system well before that component becomes weakened as it nears the end of its expected life cycle. BI

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 ARM program, write Dr. George L. Head, Vp, Insurance Institute of America, P.O. Box 3016, Malvern, Pa. 19355-0716.

Mapping the work comp maze

A guide to help orient risk managers

Books & Ideas

"The Workers Compensation Guide"

Published by the International Risk Management Institute, 12222 Merit Drive, Suite 1660, Dallas, Texas, 75271-2217; 214-960-7693

$38.50

By Kevin M. Quinley

WORKERS COMPENSATION has become the biggest risk management headache of the 1990s. In recent years, this field has seen many developments—new deductible plans, huge residual market loadings, and even major changes in the standard coverage form. Changes have brought new problems as well as opportunities.

In response, the International Risk Management Institute, a Dallas-based research and publishing firm specializing in insurance and risk management, has developed the new "Guide to Workers Compensation Insurance."

The book is a team effort, with each chapter authored by an expert in the insurance and risk management field.

Staying abreast of current developments, the guide offers an overview of work comp law, summarizes the 1992 work comp and employers liability policy changes, and addresses the small-deductible plans approved by the National Council on Compensation Insurance and the large-deductible plans that insurers must file individually. In addition, the guide addresses: experience rating, retrospective rating, workers compensation loss control, medical cost containment, claims audits, and managing occupational disease claims and lawsuits.

The guide is long on practicality and short on theory, a bonus for hands-on risk professionals. Among the real-world issues it addresses are:

• How will a merger or acquisition affect a firm's experience modifier?

• When is a workers compensation deductible the right move?

• Should risk managers initiate a claims audit, and what should they expect to achieve with it?

• How can firms get managers, supervisors and employees to abide by safety program guidelines?

The guide—if read and used to implement change—will pay for itself over and over again in time saved, increased accuracy and lower workers compensation costs. Every producer, rating technician, risk manager, underwriter or premium auditor can benefit from this valuable tool.

Seasoned professionals will appreciate the depth and scope of data offered on workers compensation. Newcomers will benefit from the explanations of many complex concepts.

Insurance agents, brokers and consultants can turn to this guide to decipher and explain the coverage form, endorsements, and experience and retrospective rating. Underwriters will use the guide to help answer questions posed by agents and technical staff. Risk managers will find it to be a valuable source of practical tips on claims management and risk financing.

Most likely, there is no single "right" solution for all workers comp problems. The problems must be attacked from a number of angles like loss prevention, financing, claims management and insurance transfers.

IRMI's guide offers a concise and multilevel approach to solving the workers compensation riddle. While no one-step solution exists, this guide is a step in the right direction. BI

Kevin M. Quinley is vp of risk services for MEDMARC Insurance Co. Inc. and subsidiary Hamilton Resources Corp., both of Fairfax, Va. Mr. Quinley holds the Chartered Property & Casualty Underwriter and Associate in Risk Management designations.

Policy interpretation fuels rise in litigation

Choice of law clauses, forum-sensitive wordings could help, attorneys say

By ROGER SCOTTON

HAMILTON, Bermuda—Inconsistent policy interpretation is overburdening the U.S. court system and misdirecting millions of dollars into paying for litigation rather than valid claims, an insurer attorney charges.

However, policy interpretation could be made significantly more predictable if more insurance policies included choice of law clauses or clarified forum-sensitive provisions, a brokerage attorney says.

The two options were put to the spring meeting of the American Bar Assn.'s Tort and Insurance Practice Section in Bermuda earlier this month.

The effective management and control of coverage disputes are increasingly hindered by uncertainty created when different courts give conflicting rulings on identical issues, contends Travelers Corp. General Counsel George McKeon.

Because of irreconcilable decisions from different jurisdictions, "the otherwise intellectual exercise of policy interpretation and application becomes a mundane jurisdictional game of forum over substance," he said.

Pointing to pollution coverage disputes, Mr. McKeon said it would not be unreasonable to assume that the past 12 years of "voracious litigation" had at least produced some universal agreements and binding precedents.

However, "Nothing could be further from the truth. The end result of the legal battles to date has been irreconcilable judicial decisions defying and stifling the emergence of any clear trends," he said.

For example, the "plain language" of typical general liability policies requires insurers to defend policyholders against legal suits, Mr. McKeon said. A demand or claim short of a suit, though, "cannot be deemed to trigger the defense obligation," yet some courts have ruled otherwise, he said.

Some courts have also found that, despite policy language, cleanup costs may be covered damages. And, more controversially, courts are divided over the meaning of the "sudden and accidental" clause in the commercial general liability policy's pollution exclusion, Mr. McKeon observed.

Despite a multitude of cases and the minimal need for time-consuming and costly discovery in interpreting contract terms, "many courts become too deeply involved in the factual minutiae on contract issues," Mr. McKeon said. These issues detract from what should be the ultimate coverage issues, he said: whether the pollution damage is fortuitous and whether a policyholder's conduct precludes coverage.

Policy interpretation differs from jurisdiction to jurisdiction and sometimes from court to court in the same jurisdiction.

"Conflicting decisions leave a lingering taste of uncertainty in the mouths of both insurers and insureds and create the incentive to engage in expensive and exhaustive litigations until final resolution of every conceivable issue has been achieved in virtually every jurisdiction," he said.

From the insurer's perspective, Mr. McKeon argued that claims-handling staff people "should be permitted to go about their jobs secure in the knowledge that the policy under which a claim is reviewed has only one meaning and interpretation."

"After all, it was no one's expectation that policy language would mean different things in different states," he said.

But, according to Ronald Herzfeld, senior counsel for Alexander & Alexander Inc., when confronted with significant questions on policy interpretation, "the first question which any attorney must ask is inevitably: What state are we in?"

Mr. Herzfeld said choice of law matters—which involve the selection of an appropriate legal forum to hear a dispute—are by far the most common issues in multi-jurisdictional contracts and transactions.

And, he said that in environmental coverage disputes, "the choice of law resolution may be an important and substantive issue in a particular case."

But, Mr. Herzfeld pointed out that confusion is being created as traditional choice of law analysis gives way to "novel rules, fashioned specifically for application in environmental coverage cases, which apply to determine the choice of law in the first instance."

Unclear policy language is often 'a license to sue,' says Edith Lichota, a vp of BICL.

Traditionally, the place where a contract was made is the most important factor when analyzing choice of law, Mr. Herzfeld said.

Determining the place of negotiation of an insurance policy is complicated by the number of parties typically involved in placing a commercial policy, however.

The place of performance and the location of a policy's subject matter are additional considerations, he added.

In environmental coverage disputes, "some courts have begun to eschew the traditional choice of law analysis in favor of a broad public policy approach, which favors application of the law of the state in which the hazardous waste or cleanup is located," Mr. Herzfeld said.

As a result, "it may become more common and necessary for either insureds or insurers to inject some predictability into future interpretations of an insurance policy, at least as to the law to be applied, by inserting a choice of law clause into the policy, or by clarifying provisions that are highly forum-sensitive," he said.

Mr. Herzfeld said he seldom has seen choice of law provisions included in insurance policies.

But, he argued, because of the forum sensitivity of so many coverage issues of great concern to multinational enterprises, the need is increasing "for those enterprises to obtain legal advice on choice of law as part of the process of structuring an insurance program."

Risk management consultant Edith Lichota called for every effort to be made, well in advance of any claim or argument, to eliminate policy ambiguities and agree on any uncertainty relative to coverage.

Unclear policy language is often "a license to sue," she said.

Ms. Lichota is an independent consultant who also serves as vp of Bankers Insurance Co. Ltd., the Bermuda-based directors and officers liability insurer.

Ms. Lichota said self-funded programs "can usually respond to multi-jurisdictional problems better than commercial insurers."

She pointed to the example of BICL, which was formed to stabilize and supplement the commercial market.

She said the objective was to issue the broadest policy that could be reasonably underwritten and to administer the policies "from the perspective that there was a bias toward payment of covered claims, as opposed to what appeared the reverse bias on the part of many carriers."

She added that Bermuda law was used in the construction of the policy to avoid triggering coverage disputes in the United States.

She said the BICL policy language is "clear and unambiguous" and she indicated in her paper to the conference that the insurer "will not try to torture policy language into a policy defense."

"As a policyholder-owned facility, the board would prevent this from happening," said Ms. Lichota. BI

READER REPLY SERVICE

PRODUCTS & SERVICES LISTING

Issue of May 17

READER SERVICE #	ADVERTISER	PAGE #
—	Aetna Corporate	30-31
1	American Drug Stores	34
2	American Excess	33
3	American Excess	35
4	American Excess	37
5	American Re-Insurance Co.	22-23
6	American Risk Pooling	44
7	AON Entertainment/CNA	40
—	BEP International	20
—	Berkley Risk (States)	24
—	British Airways	6
—	Business Insurance	21
8	Capitol Special Risks	18
9	CIGNA Reinsurance	11
10	Constitution Reinsurance Corp.	10
11	Crawford & Company	9
12	Delta Dental Plan Assoc.	15
13	Employers Reinsurance Corp.	12-13
—	General Reinsurance	19
14	Hertz Claim Managment	16-17
—	Home Insurance	41
15	ITT/Hartford	26
16	Liftman Insurance	37
17	NAC Reinsurance Corp.	25
18	Prudential Service Bureau	36
19	Reliance National	7
20	Royal Insurance	48
21	Skandia America Group	38
22	Society of C.P.C.U.	41
23	Thomas Howell/Gay & Taylor	14
—	Travis Software	32
24	United National Group	4
25	USA Health Network	29
26	U.S. Risk Underwriters, Inc.	18
27	Wausau Insurance Company	5
28	Western Atlantic	32
29	Scott Wetzel Services	34
30	Scott Wetzel Services	36
31	Scott Wetzel Services	44

READER SERVICE

To obtain free information on the products and services advertised, turn to our post-paid Reader Service Reply Card bound in this issue, or complete the coupon below and mail to:

BUSINESS INSURANCE
Reader Service Center
650 So. Clark St., 6th Fl.
Chicago, IL 60605-1702

Business Insurance

FREE LITERATURE FOR READERS

Issue Date: MAY 17, 1993
Card Expiration: JULY 12, 1993

All questions must be answered to process inquiries.
PLEASE CHECK ONE ITEM FOR EACH CATEGORY:

1. My organization is best described as:
A [ ]Mfg/Svcs B [ ]Association C [ ]Union D [ ]Government E [ ]Educational Inst F [ ]Ins Agent G [ ]Ins Broker H [ ]Ins/Reins Co I [ ]Actry/Conslt J [ ]Attorney K [ ]Adj/Apprs L [ ]TPA M [ ]Healthcare Inst N [ ]Other _____

2. Number of employees:
1 [ ]150 or less 2 [ ]151 - 499 3 [ ]500 - 999 4 [ ]1,000 - 4,999 5 [ ]5,000 or more 6 [ ]Unknown

3. My title is best defined as:
A [ ]Administrative Mgt B [ ]Financial Mgt C [ ]Risk Mgt D [ ]Benefits Mgt E [ ]Loss prevention Mgt F [ ]Other _____

4. My purchasing involvement for the requested products is to:
1 [ ]recommend only 2 [ ]specify 3 [ ]approve

5. Do you now receive a personally addressed copy of Business Insurance?
A [ ]Yes B [ ]No, so please send subscription info

Circle the numbers below that correspond to the companies listed on our Advertiser Index for the **May 17, 1993** issue. Cards with more than 20 items circled will not be processed. This card expires **July 12, 1993.**

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	36	37	38	39	40	41	42	43	44	45
46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75
76	77	78	79	80	81	82	83	84	85	86	87	88	89	90
91	92	93	94	95	96	97	98	99	100	101	102	103	104	105
106	107	108	109	110	111	112	113	114	115	116	117	118	119	120
121	122	123	124	125	126	127	128	129	130	131	132	133	134	135
136	137	138	139	140	141	142	143	144	145	146	147	148	149	150

Please print clearly

Name _____
Title _____
Company _____
Address _____
City _____ State _____ Zip _____
Phone ( ) _____

Reducing exposures continues in Florida

By ROGER SCOTTON

HAMILTON, Bermuda—Hurricane Andrew was a chill wind for property/casualty insurers in Florida, the state's insurance commissioner says.

Florida Insurance Commissioner Tom Gallagher said several insurers have collapsed under the weight of Andrew claims, while some insurers are now significantly reducing their exposures in the state. Mr. Gallagher spoke earlier this month at a meeting of the American Bar Assn.'s Tort & Insurance Practice Section.

Allstate Insurance Co., for example, will not renew about 300,000 of its 940,000 homeowners policies this year, he said.

Insured damages from last August's Hurricane Andrew have reached a record $16.5 billion. About 80,000 homes had been damaged and 637,000 claims were received by insurers, which, at one point, had more than 7,000 assessors working on them, Mr. Gallagher said. An estimated 18,000 Florida homes had no insurance, he added.

"But, if Andrew had come in 40 miles farther north, we could have expected claims to reach $50 billion," he said.

In light of that threat, Mr. Gallagher is calling for the creation of a catastrophe insurance fund, though he declined to discuss the initiative (*BI*, May 10). A windstorm catastrophe fund is as important in Florida as an earthquake fund was in California, he said.

So far, a total of $13 billion has been paid to about 600,000 policyholders in Florida, but only about 5% of the homes damaged or destroyed by Andrew have been repaired or rebuilt, according to Mr. Gallagher.

Many policyholders have used insurance settlements to pay off their mortgages before selling what was left of their houses for rock-bottom prices and then putting remaining cash toward a new home elsewhere, the commissioner said.

Damaged houses are being bought cheaply by property speculators and building firms who plan to fix them up once housing demand strengthens.

An estimated 20% of insurance claims from the storm are considered fraudulent, Mr. Gallagher said. With six full-time fraud investigators at work on Andrew damage claims, 42 arrests have been made and 150 fraud cases are pending.

The most common cases of hurricane-related fraud involve false and inflated claims and attempts to bribe loss adjusters, he said. "We've found people being turned in by their tenants, and by relatives and neighbors," he added.

William Bailey, director of the Hurricane Insurance Information Center in Miami, who also addressed the meeting, told of residents who ripped tiles off their roofs to meet insurers' damage requirement for replacing roofs.

"The fraud we were most concerned about was the fraud on policyholders," Mr. Bailey stressed. Far too many houses were simply not constructed in accordance with relevant building codes, he said. As a result, "Some communities were just completely blown away."

Mr. Bailey told of the "eerie feeling" driving through hurricane-socked areas of Florida and "seeing the shock on the faces of people who looked as if they had just lived through a nuclear holocaust."

"A lot of them just spray-painted their name, policy number and the name of their insurer on what was left of their house and just moved out," Mr. Bailey said.

The insurance industry has been able to survive hurricane's impact by "dumping three-quarters of its bond portfolio for significantly more than book value," Mr. Bailey said. "But the industry cannot do that again," he warned.

In view of expert predictions forecasting six hurricanes this year, Mr. Bailey said the insurance industry's immediate concern is the next storm.

Housing construction and reinsurance are among other major considerations for the insurance industry. "Reinsurance prices have doubled and coverage has halved, so our insurers are retaining more risk," he said.

Hurricane Andrew not only did billions of dollars of property damage to Florida, "it also changed basic aspects of the U.S. insurance industry," particularly in the areas of underwriting, marketing and claims administration, according to Mr. Bailey.

He said he believes insurers will need to see two or three hurricane seasons "with no hits" before they start to feel comfortable enough to expand their homeowners business in hurricane-prone areas again. BI

Bad management blamed for insurer failures

By ROGER SCOTTON

HAMILTON, Bermuda—Bad management and fraud are the only reasons why insurers fail, an insolvency specialist contends.

And insurance company managers tend to make a series of mistakes, rather then one big error. Typical failures of management include the transfer of underwriting authority, reinsurance problems, inadequate capitalization and discounting loss reserves, he says.

"My experience of companies who give their pen away—for instance to the managers of pools, the holders of line slips or binding authorities, or to managing general agents—is that they usually live to regret it, assuming they actually survive the experience," said Philip Singer, a partner with Cork Gully, the U.K. insolvency practice of Coopers & Lybrand.

"If you pay a man a commission for writing premium, don't be surprised if you end up with a complex web of reinsurance designed to generate commissions," he said during a meeting of the American Bar Assn.'s Tort and Insurance Practice Section earlier this month in Bermuda.

In a session on determining the solvency of alien insurers, Mr. Singer said that his experience with insurance pools, in particular, is that managers often fail to maintain proper records and separate trust accounts for each pool member.

"Pools often collapse in a mess of writs and recrimination," he said, citing what he termed the "classic example": the collapse of the line slip managed by H.S. Weavers (Underwriting) Agencies Ltd.

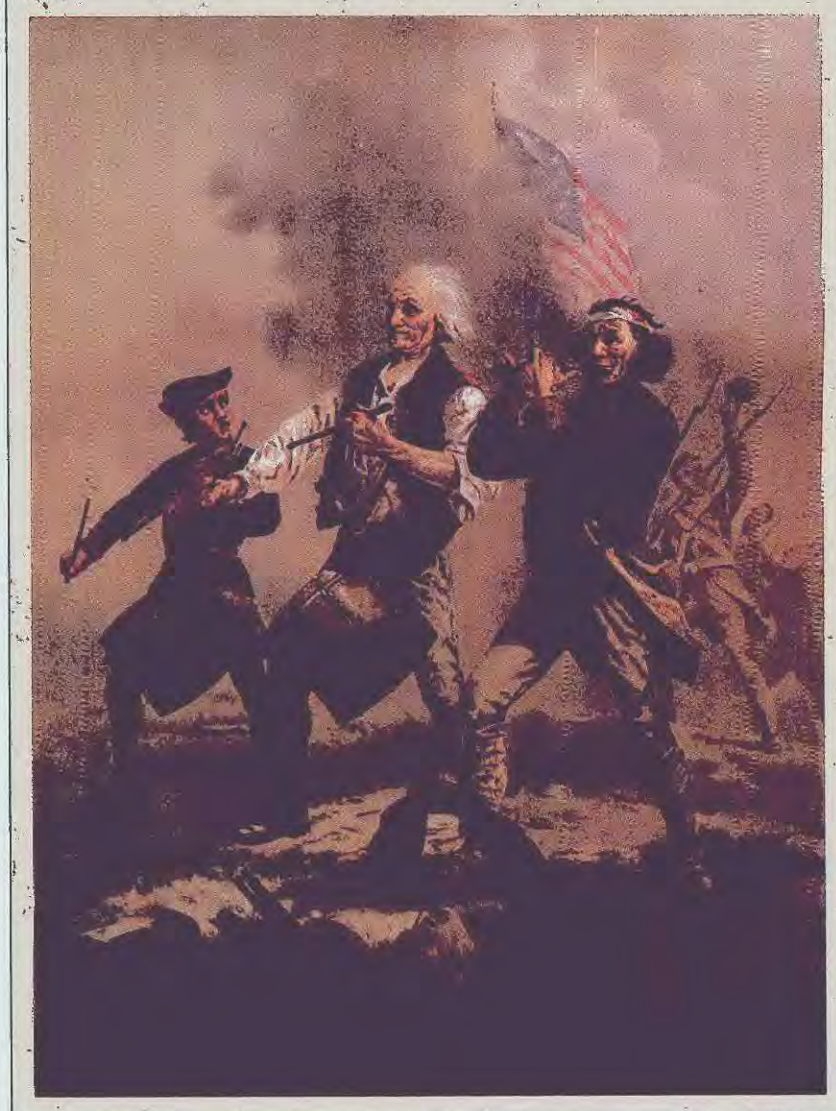
Mr. Singer also warned his audience about problems with the use of financial reinsurance or discounting of loss reserves.

Financial reinsurance has been used to "window dress impaired balance sheets" and has led to litigation between liquidators, auditors and financial reinsurers over alleged misrepresentation, he said.

"It is essential, when examining a balance sheet, to under-

Continued on next page

Join The Revolution.



USA Health Network, the network that covers the nation, offers a revolutionary approach to help control the high cost of healthcare.

USA delivers managed care with true cost containment. Expanding the cost containment concepts of utilization management, we include case management, compliance monitoring and an innovative early warning system to notify payors of upcoming catastrophic claims - *all at no additional cost.*

Here's another plus: USA offers guaranteed savings. Unlike most managed care organizations that charge a capitated fee, USA utilizes a percentage of savings fee schedule. There are no costs involved for having access to our network, you pay only if you actually use it. More importantly, if using our network doesn't save you money, you don't pay us!

JOIN THE REVOLUTION. Call 1-800-USA-3860 and let us show you a network that delivers quality services through a revolutionary new approach - *managed care with true cost containment.*

USA Health Network
The National Network

7301 North 16th Street, Suite 201
Phoenix, Arizona 85020

CALL **1-800-USA-3860**

Bad management

Continued from previous page

stand precisely the arrangements which underlie the figures," he said.

It also is important to make sure that the investment income to be earned over a discounting period "at least matches the discounting," Mr. Singer said.

"Neither discounting nor financial reinsurance is in reality a means of balancing an out-of-balance balance sheet," he said.

Mr. Singer said that most underreserved insurers that later collapse are also undercapitalized. He said that this situation can stem from another failure of management, namely the "dissipation" of profits that are paid out in the form of dividends to parent companies, instead of being put back into the company in the form of increased capital.

Mr. Singer said that a "classic fraud" involves leaving a failed insurer's liquidator with neither records nor money.

"Without money he cannot chase after the records or attempt to reconstruct them, and without the records he cannot find out where the money has gone," he complained.

The final irony, he said, is that if the liquidator succeeds in proving fraud against the directors of a company, "that company's reinsurers may well have grounds for avoiding liability on the basis that since the original business was founded in fraud, then any reinsurance placed was also tainted with that fraud."

'Don't forget that the mere fact of an audit may not mean a company is solvent,' says Peter Mitchell.

"In those circumstances, (the reinsurers) may not only be able to avoid the contract but retain the premium," he said.

In choosing an alien insurer or reinsurer, "discrimination needs to be exercised in the selection of security," Mr. Singer advised.

He said that even when available information shows an insurer to be in good health, "all information is historical and no account can be taken of the business which is being underwritten today."

Co-speaker Peter Mitchell pointed out that audited financial information is not the only route to determining the solvency of alien insurers or reinsurers. "Remember that accountants can only report on the information provided to them."

Mr. Mitchell, a partner in the Bermuda office of Coopers & Lybrand, also urged conference attendees not to be misled by rating agency pronouncements about insurance companies.

He said that for information on Bermuda-based companies, for example, the Bermuda Registrar of Companies can be approached and asked to provide a "certificate of compliance" indicating that the company is "in good standing under the law."

Mr. Mitchell said that the issue of such a certificate implies that a company is making the statutory filings required of it by the Minister of Finance. "If it is not making filings, then it's an indicator that the company could be in trouble," he said.

Mr. Mitchell said that the Bermuda-based companies can also be approached directly. "It's up to the insurer as to whether he gives you his financials," he said. "But don't forget that the mere fact of an audit may not mean a company is solvent, it's just a picture of its financial affairs at a particular point in time—an opinion that you may be reading some time after it was reached."

Mr. Mitchell urged that delegates understand the accounting requirements of relevant domiciles and said any assessment of an alien insurer or reinsurer should also include "gut reaction and market feel."

Mr. Singer made a similar point, saying that insolvencies are almost always preceded by market gossip. "Don't take risks," he warned. "Think twice about your reinsurer if you can only locate his domicile with the aid of a map." BI

Creditor weapon: Pay up or wind up

HAMILTON, Bermuda—A legal instrument known as a "statutory demand" is the most powerful weapon in a creditor's armory for the collection of a court judgment against a Bermuda company, according to local attorney Geoff Bell.

The statutory demand, a type of writ that requires the payment of a debt within three weeks, can be made against a Bermuda company on the basis of a foreign court judgment, the lawyer said in a paper delivered at the American Bar Assn.'s Tort & Insurance Practice Section conference here earlier this month.

In discussing options open to creditors with judgments enforceable in Bermuda, Mr. Bell's paper said that "the threat of a winding up petition will generally be sufficient to ensure payment."

One of the circumstances in which a Bermuda company may be wound up by the island's Supreme Court is an inability to pay its debts. Therefore, failure to meet the three-week deadline for a statutory demand would entitle a creditor to petition for a winding up order, said Mr. Bell, head of the litigation department for the law firm of Appleby Spurling & Kempe.

"This form of relief should be available, at least in theory, to the judgment creditor who has secured a judgment in the U.S. capable of enforcement in Bermuda," he said. "If a debt is genuinely disputed, the court will restrain the issue of a winding up petition as an abuse of process," he added.

Securing a Bermuda statutory judgment will put the matter beyond doubt, he added.

"Thereafter, the court has little sympathy with a solvent company which declines to settle a debt which is not bona fide disputed," said Mr. Bell's paper.

Meanwhile, if a civil action is commenced against a Bermudian entity from outside the jurisdiction of Bermuda, "the defendant should consider the possibility of doing nothing," he advised.

Mr. Bell said that "genuine practical difficulties" can arise on the issue of whether a defendant has voluntarily submitted

Continued on next page

There are people
who know your business
as well as you do.

Continued from previous page
to the jurisdiction of a foreign court when his appearance in the foreign court was solely for the purpose of contesting jurisdiction.

Citing British legal precedents, Mr. Bell said the position of the Bermuda insurer is that any objection to the jurisdiction of a foreign court is "fraught" with real difficulties.

"Hence the Bermudian insurer will generally be advised by his Bermudian attorney that his choices are either not to appear at all or, if he appears—which would generally only be where a default judgment would cause problems. . .within the foreign jurisdiction or with regulatory authorities—then he should be prepared to fight the case through to trial on the merits."

U.S. attorneys, however, do not always recognize these dangers, according to Mr. Bell.

Any objection to the jurisdiction of a foreign court is 'fraught' with difficulties, says Mr. Bell.

They may be inadvertently "locking the client into U.S. proceedings rather than getting him out of them," he said.

"This is quite apart from the difficulties which, in practical terms, will arise if the jurisdictional objection does not succeed at first instance and the appellate court declines to grant a stay pending appeal, so enabling the plaintiff to move ahead on the merits."

—By Roger Scotton

Blues expand transplant network

CHICAGO—The Blue Cross & Blue Shield Assn. is adding three new transplant procedures to its National Transplant Networks Program.

The new procedures are:

- Single or bilateral lung transplants.
- Combination heart/bilateral lung transplants.
- Simultaneous pancreas/kidney transplants.

Procedures already in the transplant network are bone marrow transplants, heart transplants and liver transplants.

The BC/BS Assn. developed the transplant network to identify high-quality medical institutions for all BC/BS plan subscribers with transplant coverage.

Four hospitals have been approved to perform simultaneous pancreas/kidney transplants, five to perform single or bilateral lung transplants and two to perform combination heart/bilateral lung transplants.

For more information, contact: Cheryl van Tilburg at 676 N. St. Clair St., Chicago, Ill., 60611; 312-440-6161.

Markets

Cleanup cover venture

CHICAGO-CNA Insurance Cos. and General Environmental Management Corp. have struck an agreement to provide environmental remediation insurance, which CNA will issue and GEM will underwrite and administer.

The program will provide first-party coverage for cleanup costs, engineering expenses and legal fees required under federal, state or local laws, said GEM President Mark Snow.

GEM is a recently acquired unit of Aon Specialty Group Inc.

The environmental remediation coverage protects commercial real estate, including multifamily residential, retail, office, hotel/motel and development properties.

The policy generally attaches at the time of property sale, foreclosure, merger or acquisition, though it may also be written to protect a company's existing real estate portfolio.

The policy could be available as early as the third quarter of this year and will be available on an open-brokerage basis.

Policies protecting owners, operators or lenders of commercial real estate will be offered on a three-year basis, although shorter-term policies may be written.

The available coverage limit is $10 million per occurrence/$40 million aggregate over a three-year term. The minimum deductible is $10,000. Pricing is still being determined.

GEM's new address is 10 S. LaSalle St., Suite 1900, Chicago, Ill., 60603; 312-630-7450.

Mental health firm

LOS ANGELES—CMG Behavioral Health of California Inc., a unit of Los Angeles-based CMG Health Inc., has received its license as a prepaid health plan providing inpatient and outpatient behavioral health services.

The company also will provide utilization review, case management, network development and employee assistance program services.

Founded in 1986, CMG Health Inc. provides behavioral health services to more than 1 million participants in 34 states.

CMG Behavioral Health is located at 865 S. Figueroa St., Suite 1450, Los Angeles, Calif. 90017; 213-312-9400.

Risk management

Continental Corp. has launched Continental Risk Management Services Inc. to provide risk management services to Fortune 500 companies.

The stand-alone unit encompasses underwriting, pricing, actuarial services, claims and loss control services.

Adrian Tocklin serves as president of the new company, while Timothy Mitchell and Kay Smith are executive vps. Ms. Tocklin is also executive vp of Continental Corp. with responsibility for the systems and corporate claims divisions.

The subsidiary will have regional offices in New York, Chicago, Dallas, Los Angeles and Fort Lauderdale, Fla.

For more information, contact Ms. Tocklin, Continental Risk Management Services, 180 Maiden Lane, New York, N.Y. 10038; 212-400-3693.

New offices

Buck Consultants Inc. has opened an office in Cincinnati at the Dixie Terminal Building, Suite 218, 49 E. Fourth St., Cincinnati, Ohio; 45202; 513-784-0005.

Environmental Compliance Services Inc. has opened new corporate headquarters at the Eagleview Corporate Park, 520 Eagleview Blvd., Exton, Pa.

They have to. They're Independent Agents who represent Aetna.

They know the shoe business. They know the construction business. They know the car business. They know *your* business. They know dozens of businesses as well as they know their own. You see, more than 10,000 agents have been taught at the Aetna Institute. There they learn how to understand your needs, analyze risk, and give you a policy that's just perfect for you. They want your business to succeed just as much as you do.
Aetna. A policy to do more.℠

Aetna

© 1992 Aetna Life and Casualty Company

Cobra, Cafeteria Plan & Retiree Billing Software

AS LOW AS $1295

If you're looking to automate COBRA, Cafeteria Plan or Retiree Premium Billing administration call Travis Software! Our PC-based benefit systems, used by over 3,000 employers and TPA's nationwide, have proven to be easy-to-use, cost effective, customizable and complete.

TRAVIS Software Corp.
P.O. Box 820469
Houston, Texas 77282-0469
1-800-521-5409

All Travis systems are available in single-employer as well as multi-employer versions, and all are fully supported and updated.

Kansas ruling

Continued from page 3

not benefit from the fact the plaintiff has received money from other sources.

If someone does something wrong, "his liability shouldn't be reduced," contends Timothy A. Short, a partner for the law office of Spigarelli, McLane & Short in Pittsburg, Kan.

Those opposed to the court's ruling claim the common-law collateral source rule should be eliminated or limited in an attempt to reform the tort system and to control rising costs and availability of insurance. They contend that tort victims should be fully compensated for their injuries, but excess recoveries should be eliminated or reduced.

The Legislature determined the $150,000 amount crossed the line into duplicative recovery, say those in favor of admitting collateral source benefits. Below that line, they contend, potential costs of discovery are greater than potential savings from preventing duplicative recovery.

With insurance premiums and health care costs so high today, "there is no reason why a person should be being compensated twice," said Wayne T. Stratton, a partner for the law office of Goodell, Stratton, Edmonds & Palmer in Topeka.

The collateral source rule should be repealed; "it's outlived its time," contends Mr. Stratton, who wrote an amicus curiae brief on behalf of the Kansas Hospital Assn. and Kansas Medical Society.

However, Mr. Short says plaintiffs never actually receive double recovery. "After the injured person has paid lawyer and litigation fees, he is not even getting compensated once—especially in malpractice cases where out-of-pocket litigation expenses can be more than $100,000," said Mr. Short, who wrote an amicus brief on behalf of the Kansas Trial Lawyers Assn.

In addition, the statute is unfair, he said. Two people who suffer the same injuries, receive the same benefits and have the same collateral benefits are treated differently if one asks for $149,000 and the other for $150,000, he explained.

The collateral source benefits rule made its way back to the Kansas Supreme Court last month due to an appeal brought by KFB Insurance Co. against Ivan Thompson Jr.

Mr. Thompson had sued the automobile insurer, claiming KFB underinsured his motorist benefits. Mr. Thompson sought to recover for personal injuries and damages suffered as a result of an automobile accident.

KFB wanted to introduce evidence before the district court to show Mr. Thompson had other insurance to pay the medical bills, said Charles S. Fisher Jr. a partner for Fisher, Cavanaugh & Smith P.A. in Topeka and counsel to Mr. Thompson.

The court refused to allow the evidence to be introduced and declared unconstitutional the statute allowing the admission of collateral source benefits for claims of more than $150,000. The court then awarded Mr. Thompson $226,150.

KFB appealed the verdict and the state Supreme Court upheld the lower court's decision.

Three times the Kansas Legislature has enacted statutes that were intended to override or limit the collateral source rule.

A 1976 statute that allowed evidence to be admitted in actions for personal injury or death damages rising from a health care provider's failure to render professional services was found in violation of the equal protection provision and declared unconstitutional by the state's high court in 1985.

The Legislature enacted another statute in 1986 allowing collateral source benefits to be admitted in any medical malpractice liability action. This statute was found unconstitutional in 1988 on the same grounds.

The Legislature then enacted the third statute in 1988, allowing admission of evidence of collateral source benefits when plaintiffs seek damages in excess of $150,000 for personal injury and wrongful death actions. The Kansas Supreme Court late last month found the statute unconstitutional a third time.

"I was dismayed in how the court responded," Mr. Stratton said. "We were hopeful that all previous concerns were rectified."

Mr. Stratton said he is confident the Legislature will make another attempt to override the collateral source benefits rule. BI

Brokers need a reinsurer who's committed, no matter what turns up.

1992 was infamous as the Year of the Catastrophe. It was no time for an intermediary to worry about the staying power of its markets.

U.S. intermediaries who rely on Western Atlantic know we're committed to the business of reinsurance. We'll be there before, during, and after catastrophes strike.

We're part of the worldwide Swiss Re Group, and we carry their A+ rating from A.M. Best. As professional reinsurers, we provide financial stability and a complete range of services necessary to meet the ever-expanding needs of the American intermediary market.

The essence of our business is risk. Western Atlantic is committed to managing risk through good times and bad – especially years like 1992.

WESTERN ATLANTIC

WESTERN ATLANTIC REINSURANCE CORPORATION 380 MADISON AVENUE, NEW YORK NY 10017 TELEPHONE (212) 973-5300

Managed competition may hurt elderly

By MICHAEL SCHACHNER

PHILADELPHIA—Managed competition under a global budget might plug some of Medicare's shortcomings, but it could also open new gaps in health care coverage for the elderly, according to a physician and clinical scholar.

The elderly are already subject to disadvantages of high copayments, and they lack adequate preventive health care coverage, long-term care and prescription drug benefits under Medicare.

But if managed competition is fully implemented by the Clinton administration, retirees may be denied high-cost medicine near the end of life.

The elderly population is at risk because those over age 65 are responsible for the largest and most rapidly growing portion of the public health care budget, said Dr. William Greer, a senior fellow at the Leonard Davis Institute of Health Economics at the University of Pennsylvania.

Dr. Greer, who co-authored a position paper on the potential pitfalls and benefits of managed competition with Dr. Alan Hillman, also of the University of Pennsylvania, presented the team's paper at a Wharton School conference earlier this month in Philadelphia.

Dr. Greer asserts that managed competition under a global budget offers to change the nation's philosophy of medical decision-making. It would create a cost-conscious system with a comprehensive benefit package, coordinated care and reduced financial burdens on all payers.

However, inherent in such a system is the need to balance health care costs with the benefits that will be offered, he noted.

With the elderly consuming an estimated four times as much health care as the nation's population under the age of 65, it stands to reason that certain benefits the elderly have grown accustomed to may not be fully funded under a global budget-based system, Dr. Greer remarked.

"A system reliant on cost-effective, outcomes-based medicine may be less willing to fund high-cost medicine near the end of life. Preventive programs may be more appealing under such a system," he said.

' "Managed" to (the elderly) means a barrier between them and their doctor. "Competition" connotes competing for the young and healthy over them,' says John Rother, of the American Assn. of Retired Persons.

In their paper, Drs. Greer and Hillman predicted the most significant impact of managed competition on the elderly will likely be due to a "pervasive shift in the philosophy of medical care delivery in America," and not from specific changes in specific programs.

"The shift is one from a system of medicine that believes more is better to one that rewards more parsimonious care," the paper states.

"The traditional system of medical care in this country is embodied in the fee-for-service system. Each additional procedure performed by the physician increases the physician's income," Dr. Greer stated in the paper.

But that approach to providing care would change under a managed competition system, and the elderly could be drastically affected, Dr. Greer said.

"Health care reform may conflict with the interests of the elderly simply because of the increasing share of national health care expenditures devoted to this segment of the population," he stated in the paper.

"Any effort to reduce expenditures, therefore, could potentially limit health care services for those over age 65," he wrote.

"An extremely high proportion of medical care expenditures take place at the extremes of life. Could this high concentration of expenditures be more evenly distributed throughout the population and throughout life?" Dr. Greer asked.

Commenting on the paper was John Rother, director of the Legislation and Public Policy division of the American Assn. of Retired Persons in Washington.

He said his group overwhelmingly supports reform that would strengthen Medicare.

However, the AARP fears that managed competition as described in Dr. Greer and Dr. Hillman's paper could deny its members necessary care.

"Managed competition is just about the worst name the elderly can imagine," Mr. Rother said.

" 'Managed' to them means a barrier between them and their doctor. 'Competition,' meanwhile, connotes competing for the young and healthy over them," he said.

Mr. Rother said the elderly need a system that provides prescription drug benefits, long-term care, preventive medicine and catastrophic coverage.

But Mr. Rother offered no suggestions on how those benefits can be provided with the country's dwindling resources.

Peggy Connerton, chief economist and director of public policy with the Service Employees International union in Washington, said her union would support managed competition as it's currently being debated, but only if the system is "consumer-driven with purchasers on an equal footing with providers," she said. BI

Coping with retiree health costs

By MICHAEL SCHACHNER

PHILADELPHIA—Enhancing pension benefits while trimming or eliminating retiree health care benefits is one way employers can reduce future cost and accounting obligations without penalizing retirees.

But, employers who explore this option should be aware that they may encounter resistance from certain employees, according to an academician.

Due to the historically high rates of health care inflation, employees may strongly prefer retiree health benefits over pension benefits. By trading the health benefits for pension benefits, employees, in effect, would forfeit inflation protection with respect to health care costs, said Deborah Chollet, associate professor and director of the Center for Risk Management and Insurance Research at Georgia State University.

In light of new retiree health benefit accounting standards and general retiree health care inflation, employers are increasingly seeking ways to control spiraling retiree health care costs. But it appears the value of retiree health benefits will not deteriorate in favor of pension coverage—at least among some employees.

Ms. Chollet's views and observations about the future of retiree health care benefits were contained in a paper she presented earlier this month at a conference sponsored by the Wharton School at the University of Pennsylvania.

During her presentation, Ms. Chollet said Financial Accounting Standard 106 has expedited employers' efforts to control retiree health care costs. One of the best ways to do so is to substitute finite cash benefits for limitless health care benefits, she said.

And, even though some employees may prefer company-paid retiree health benefits to bolstered cash benefits, there is still a sizable employee group that would be receptive to richer pension benefits, she said.

"If employees perceive that the discounted present value of retiree health benefits exceeds the discounted present value of equal employer contributions to a pension plan, they may prefer funding of retiree health benefits," she wrote.

'We must accept we're in business to do business,' says Diana Murray of Sara Lee Corp.

However, such preferences are unlikely when explored further.

"Workers likely to value retiree benefits most are also likely to be near retirement," Ms. Chollet wrote. "Such workers would also have the most to lose from significant reductions in the pension formula in order to gain inflation protection for relatively few years."

Commenting on Ms. Chollet's paper was Olivia Mitchell, a professor in the School of Industrial and Labor Relations at Cornell University.

Ms. Mitchell said that if employers conduct internal research, they may find a greater number of workers than they might have expected would be willing to surrender some or all of their retiree medical benefits in exchange for a close-ended benefit like a pension.

"Not all employees want retiree medical. Those who do probably want it because they are older and adverse to risk and wouldn't be able to obtain the coverage elsewhere at an acceptable price," she said.

In addition, she said employers need to reconsider why they are making the commitment to provide retiree health care expenses in the first place.

"I think it is a legitimate question to ask whether too many retirees get the benefits for the wrong reasons," she said.

Diana Murray, senior manager-group insurance plans with Sara Lee Corp. in Chicago, also urged employers to look closely at why they offer retiree medical benefits and whether they can afford such a benefit.

"We may have reached the point where we must accept that we're in business to do business," Ms. Murray said.

"Some of us may just have to say that we cannot afford the ancillary costs. Many companies are adopting the attitude that retiree health care should be left entirely to Medicare and the federal government," she said. BI

County loses suit for pollution coverage

By JOANNE WOJCIK

NEW YORK—Policyholders cannot seek coverage for defending environmental damage claims under the personal injury portion of their comprehensive general liability insurance policies, a New York appeals court has ruled.

The April 8 ruling by the New York Supreme Court affirmed a lower court's decision that several CGL insurers had no duty to defend Columbia County, N.Y., against legal claims stemming from hazardous waste contamination.

The court found that the pollution exclusion barred liability coverage for bodily injury and property damage arising from pollution.

On appeal, Columbia County asserted that the underlying lawsuit fell within the policies' coverage for personal injury, which included "injury arising out of. . .wrongful entry or eviction or other invasion of the right of private occupancy."

But the appeals court disagreed, reasoning that the issue "is not whether a nuisance or trespass claim may possibly fit within the policies' personal injury coverage, but whether the facts alleged in the (underlying) complaint do."

"To extend the personal injury coverage to occurrences which fall squarely within the property damage coverage would have. . .render(ed) the pollution exclusion meaningless," the court added.

The coverage case, *County of Columbia vs. Continental Insurance Co.*, stemmed from a January 1989 lawsuit filed by a landowner in upstate New York who asserted his land was contaminated by wastes leaching from an adjacent county-owned landfill.

Columbia County had sought defense costs and indemnity from all of its CGL insurers between June 1, 1980, through June 1, 1990, which included Continental, Aetna Casualty & Surety Co. of Hartford, Conn., and Fireman's Insurance Co. of Newark, N.J.

•

Columbia vs. Continental Insurance Co., New York Supreme Court, Appellate Division, No. 65599, April 9, 1993.

Bermuda
or American
American Excess Insurance Association
Phone: (203) 528-2155 Fax: (203) 282-9393

Lost-policy ruling

Continued from page 2

approximately 15 companies will be held liable for those costs.

Although it had lost the policies, BFIKC then sought coverage from Commercial Union. The insurer wrote $100,000 of primary comprehensive general liability limits annually for BFIKC from 1967 through 1972, according to Mr. Ryan. The insurer also wrote at least $1 million of excess coverage annually for BFIKC from 1967 through 1970, he said.

The insurer denies that it wrote the coverage and filed suit in 1991 in U.S. District Court in Kansas seeking a ruling that it is not required to indemnify BFIKC.

In the evidence discovery phase of the litigation, BFIKC asked Commercial Union to produce any document that pertained to BFIKC, the landfill and the terms and conditions of any coverage that the insurer wrote for the company.

The insurer said it provided all such information with two limited exceptions: reinsurance information and memoranda and handwritten notes by the insurer's attorneys.

Commercial Union argued that it did not have to produce this material because, among other reasons, the request was ambiguous and the material BFIKC sought was irrelevant and would be too burdensome to produce. It also said the attorneys' notes were privileged material.

In a sometimes tersely worded April 5 opinion, U.S. Magistrate Gerald Rushfelt overruled many of the insurer's objections and ordered it to produce much of the material BFIKC sought.

Citing several other cases, Magistrate Rushfelt criticized the insurer for raising "general" objections to providing the material BFIKC sought. The insurer instead should have shown the court through affidavits or other evidence why it should not be ordered to provide the material, he said.

But, the magistrate agreed that some requests for material about BFIKC and the landfill that used the phrase "relates to" were too vague. Magistrate Rushfelt did, though, uphold BFIKC's request for other material.

On the relevancy issue, the insurer argued that the coverage dispute is governed by the terms and conditions of insurance policies, if they exist, and therefore extrinsic evidence like reinsurance information is irrelevant. The insurer also cited an unpublished opinion that reinsurance information is irrelevant in determining primary coverage terms.

In denying this objection, Magistrate Rushfelt said: "The present case involves more than simply interpreting the language of a given policy as a matter of law. The parties cannot find the policies at issue. If they are not found, the case will apparently involve reconstructing the language of the lost policies. . . .Extrinsic evidence is relevant in such cases."

The magistrate also noted that the insurer failed to attach a copy of the opinion it cited. He then pointed to another federal court ruling that stated reinsurance information should be discoverable to help reassemble the underlying insurance contract's terms.

But that December 1989 ruling by the U.S. District Court in New Jersey in litigation between Leski Inc. and several insurance companies carved out only a narrow exception to the rule on when reinsurance information is discoverable, Commercial Union argued. The exception is when the lost policy was subject to facultative reinsurance, the insurer said.

Magistrate Rushfelt disagreed, saying the New Jersey court ruled that the insurer in that case would not be overburdened in producing the reinsurance information.

The magistrate also said Commercial Union could reduce its burden of producing the material by allowing BFIKC access to sifting through the insurer's business records.

Magistrate Rushfelt also overruled the insurer's objections to producing attorney memos based on privilege, work product and confidentiality, saying the insurer did not substantiate them.

"This case is further evidence of the emerging trend" of courts giving policyholders access to an insurer's reinsurance information in coverage disputes complicated by the disappearance of policies, said Mr. Ryan, the BFIKC attorney.

The ruling helps knock down one of the "stone walls erected against policyholders" involved in similar litigation, concurred policyholder attorney Eugene R. Anderson, a partner with Anderson Kill Olick & Oshinsky in New York.

'This case is further evidence of the emerging trend' of courts giving policyholders access to an insurer's reinsurance information in coverage disputes complicated by lost policies, says Thomas Ryan, the BFIKC attorney.

It is significant because "there is no privy of contract between the insured and the reinsurer" in this case, said policyholder attorney Barbara Guibord, a partner with Zevnik Horton Guibord & McGovern in Chicago.

"Under standard contract law, that's not normally discoverable. That's a very significant aspect of this decision," she said.

"I would certainly cite it," said policyholder attorney John H. Mathias Jr. of Jenner & Block in Chicago.

And, he believes other policyholder attorneys will cite it, too, "because it's so well reasoned on this basic point" of the relevancy of reinsurance information in reconstructing a lost insurance policy.

But, several insurer attorneys say courts have been inconsistent in rulings on the relevancy of reinsurance information when policies have to be reconstructed.

"I think it's aberrational," said David Spector of Mayer, Brown & Platt in Chicago. Courts generally have been reluctant to grant such discovery "because it discourages candid discussions with reinsurers and may discourage candid reserving," he said.

Courts usually allow discovery of reinsurance information only when a specific need is demonstrated. "What in reinsurance materials would aid you in finding a lost policy?" he asked.

Another major issue is invasion of privacy, because such material also may include insurance information pertaining to several other policyholders, he said. However, he acknowledged that some courts were allowing such discovery.

"I cannot say this case in and of itself represents anything more than one court's view of applying discovery rules to a specific fact situation," said insurer attorney Peter H. Bickford, a partner with Bickford Hahn & Haley in New York.

Mr. Bickford said he does not believe it will help policyholders. He explained that in this case, the insurer did not meet its burden of proving that BFIKC's request for information was unreasonable. In addition, "Just because you can get documents in discovery, it doesn't mean they will be admissible" as evidence at trial, he noted.

Federal courts often will allow the discovery of material that may not be admissible as evidence if that material could possibly lead litigants to admissible evidence.

Some insurer attorneys also were not concerned that the court did not rule that any material, including attorneys' notes, was privileged information.

The ruling that the insurer did not establish that its attorneys' notes were privileged is specific to this case, said insurer attorney Stuart Cotton, a partner with Mound, Cotton & Wollan in New York. Mr. Cotton explained that insurers in other cases would be given the opportunity to establish that their attorneys' notes are privileged information.

"I don't think there's anything in this decision that established a principle of law that can be transferred to any other case," he said.

Commercial Union would not comment.

•

Employers Commercial Union Insurance Co. of America, et al., vs. Browning-Ferris Industries of Kansas City Inc. et al., U.S. District Court for the District of Kansas; No. 91-2161-JWL.

CLAIM COSTS: OUR VIEW.

ARE YOU GETTING THE MOST FOR YOUR CLAIM MONEY?

Woe to the company where claims aren't handled quickly. Settlement costs usually increase, plaintiff attorney fees escalate, defense costs rise and administrative expenses plague everybody. Coupled with improper reserves, overall costs can go through the roof.

Every day, claim administrators and risk managers are learning that claim management is a volatile business. When claims arise, effective administration depends on efficiency, skill and a clear plan of action.

At Scott Wetzel Services, we think proactive claim administration with an eye toward prompt disposition can save big dollars. An audit of your existing claims and claim program will reveal just how efficient your current program is.

We concentrate on the areas of Investigation, Reserving, Expense Control, Proactive Administration, Supervision and Regulatory Compliance. Issues of special interest to our clients are addressed. The quality of investigation, reserve adequacy and depth of supervision are analyzed. A comprehensive report including our assessment and recommendations is provided. As part of our normal course of action, we will arrange a counseling session in which we sit down with management and give a summary of the findings.

For an independent evaluation of your risk management program, call David Meyer of our Corporate Claim Department at (206) 661-0272. He'll explain why our audit is the first step toward sound claim management.

EXPERIENCE SCOTTWETZEL SERVICES, INC. WITH VISION.

Risk Management Planning and Support

AMERICAN DRUG STORES

OscoDrug RXAmerica Savon drugs

Can *SAVE* you money and
LOWER your company's prescription drug costs.

For further information call

1-800-999-1242

2100 Swift Drive, Oakbrook Illinois 60521

Retiree cost shifting growing

By CHRISTINE WOOLSEY

Employers have concluded that increasing retirees' out-of-pocket medical expenses—rather than attempting to better manage those expenses—is the best way to temper the impact of FAS 106, a new survey reveals.

The average cost—including employer and retiree contributions—for health benefits for a pre-age 65 retiree and spouse jumped 16% to $4,596 in 1992, according to a survey by The Wyatt Co. Retirees picked up $1,932 of the total cost—22% more than they paid out-of-pocket in 1991.

Total costs for retirees older than age 65 and their spouses rose 6% to $2,424, with retirees picking up $864—also 22% more than they paid out-of-pocket in 1991.

Single coverage for pre-age 65 retirees cost $2,244, with retirees picking up $816 or 21% more out-of-pocket than in 1991. And, single coverage for those older than age 65 cost $1,224, with the retiree paying $384—or 18% more, the survey found.

Large companies—those with 5,000 or more employees—are more likely to provide retiree medical benefits. In 1992, 82% percent of large employers did so, compared with 55% of companies with less than 500 workers, the survey reported.

But, 30% of employers surveyed do not provide any retiree medical benefits, pointed out William Miner, an actuary in Wyatt's Chicago office. "That is more companies than I would have guessed."

On the other hand, he noted, 15% of employers do not require employees to make contributions for retiree medical benefits. "I can't imagine that organizations —given all the attention paid to this recently—are not doing anything to manage" their retiree health care costs, he said.

Most companies, though, are addressing retiree health care costs. Roughly two-thirds of 474 companies participating in the study reported changing their retiree health plans in 1991 or 1992. Twenty-six percent made plan changes in both years, the survey reported.

Financial Accounting Standard 106—which requires companies to account for retiree medical expenses on an accrual, rather than a pay-as-you-go basis—was the key stimulus driving the plan alterations.

"The new accounting rule encourages companies to focus more on gaining control and predictability over their payouts than on attacking the overall health cost problem," Mr. Miner explained.

"Instead of adopting a long-term managed care strategy, most companies are seeking to somehow limit their outlays." The favored strategy for doing so is increasing retirees' share of their medical care obligations, he said.

According to the survey, 37% of employers required greater retiree contributions in 1992, up from 32% in 1991.

Sixteen percent of employers increased retirees' deductibles or out-of-pocket maximums in 1992, up from 13% that did so in 1991. Ten percent changed eligibility requirements for retirees in 1992, up from 2% in 1991.

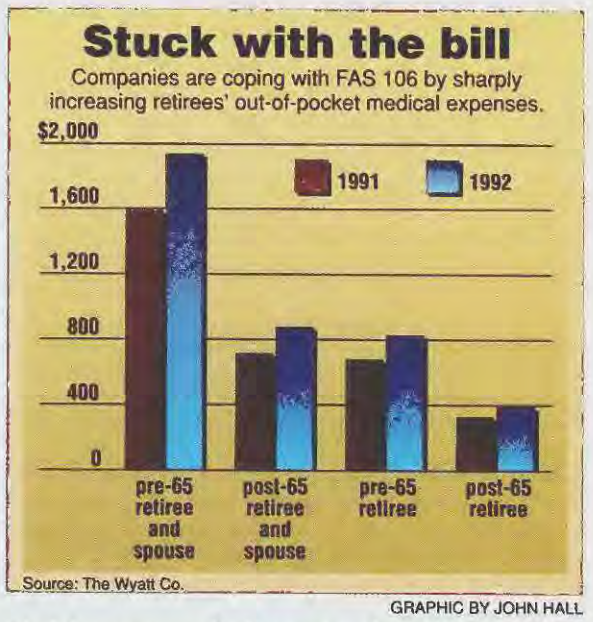
Other strategies aimed at reducing employers' retiree medical obligations included changing the way the employer plan integrates with Medicare; establishing a separate prescription drug program for retirees; and decreasing benefits for future retirees.

Few companies—less than 1%—have terminated coverage altogether for existing retirees, the survey found. Lawsuits filed by angry retirees and bad publicity have deterred most employers from using this strategy to limit retiree medical obligations, Mr. Miner noted. "More employers are decreasing benefits and reducing, or even eliminating, the employer share of the cost for future retirees."

Few employers impose all the changes in their plans on current retirees, even though that would simplify benefits administration. Rather, employers are more likely to implement changes for groups of employees who will be less likely to raise disputes, like future hires and active employees not yet eligible for benefits, the survey found.

•

Single copies of the 1993 Retiree Medical Benefits Survey are available at no charge. Contact Rachelle Green, The Wyatt Co., 1500 K St. N.W., Washington, D.C. 20005; 202-508-4757.



GRAPHIC BY JOHN HALL

C&I expanding pollution legal liability policy

NEW YORK—Commerce & Industry Insurance Co. has added first party, on-site cleanup coverage to its pollution legal liability policy.

New York-based C&I is the primary environmental insurance subsidiary of American International Group Inc.

The enhancement provides for first-party pollution cleanup costs. The insurer's PLL coverage was previously limited to third-party off-site bodily injury and property damage resulting from pollution conditions emanating from an insured site.

"It's in insurance companies' interest to pay for cleanup while (contamination) is still on the insured property" to mitigate possible third-party liability claims, said Joseph Palumbo, C&I's national marketing director.

Limits of $40 million are available. Premiums start at $25,000 above a minimum self-insured retention of $10,000.

Most purchasers of pollution legal liability coverage are looking for first-party coverage, Mr. Palumbo said. The new coverage will be available to PLL policyholders upon renewal, although some policies could be rewritten prior to that to include the on-site coverage, he said. Previously contaminated land is excluded.

Advances in environmental awareness and favorable loss experience make the expanded coverage possible, he said.

"Risks are better now than they were five or 10 years ago," Mr. Palumbo said. "Companies are paying more attention to the environmental aspects of their property."

For more information about the new coverage, contact Mr. Palumbo at 70 Pine St., New York, N.Y., 10270; 212-770-5340; fax: 212-425-3163.

Products & Services

Credit rating service

SAN FRANCISCO—Certus Financial Corp. is now offering the Certus Insurance Rating and Credit Analysis service, which evaluates the creditworthiness of about 60 life insurers that offer guaranteed investment contracts, annuities and other life insurance products.

Companies are rated on a scale of Q4—the lowest—to Q1—the highest, according to Sarena Shapiro, who is in charge of client relations. The service had originally been used only internally at Certus Financial, which is an investment adviser, but is now available to all institutional investors regardless of whether they use Certus Financial's services, she said.

Institutional investors can choose a basic service, at $5,000 a year, or a custom service, at $10,000 a year.

The basic CIRCA package includes: a complete list of credit ratings of insurers; monthly updates; notification via facsimile of any rating changes; special reports on the insurance industry; credit summary reports; and telephone access to credit analysts.

The custom package, designed for investors who need portfolio-specific credit analysis, includes the basic service plus: credit quality exhibits and reports on insurers within investors' portfolios; detailed statistical reports; notification via fax of rating changes within investors' portfolios; an analysis of significant events, such as insolvencies; and a weekly publication, the GIC Monitor, which includes a section that highlights significant credit issues.

For more information, contact Ms. Shapiro at Certus Financial Corp., 1 Bush St., Suite 450, San Francisco, Calif. 94104; 415-954-1950.

Home umbrella cover

NEW YORK—In a major expansion into excess and surplus lines, The Home Insurance Co. has introduced a $10 million lead umbrella product, which triples the in-house capacity of the insurer's excess and surplus casualty department to $15 million.

A unit of The Home's specialty lines division, the department writes surplus lines general liability as well as excess coverage on high-hazard risks. Those risks include manufacturers and distributors of toys, chemicals, pharmaceuticals, medical products and industrial material.

For more information, contact David Cohen, manager of the excess casualty department, at 59 Maiden Lane, New York, N.Y., 10038; 212-530-7120.

Ergonomic software

CRANBURY, N.J.—Continental Insurance Co. has released a new software program called SMART-Lift that analyzes the most ergonomic approaches to performing various tasks and avoiding injuries. The PC-based computer program incorporates lifting guidelines issued by the National Institute of Occupational Safety & Health.

SMART-Lift is the only program to address single and multitask approaches to reducing back injuries, according to the insurer. NIOSH advocates evaluating all motions a worker engages in while performing a task to prevent back injuries.

The program is marketed exclusively in the United States by Continental's loss control affiliate, Ctek Inc. For more information, contact Ctek at 1 Continental Drive, Cranbury, N.J. 08570-0001; 800-344-5438.

Books and videos

"Employers' Handbook: Mandated Health Benefits" is available from Thompson Publishing Group. The guide and monthly updates catalog court rulings and legislative changes related to the **Comprehensive Omnibus Budget Reconciliation Act** of 1985, or COBRA. Copies are available for $295 from Thompson's Subscription Service Center, 1725 N. Salisbury Blvd., Salisbury, Md. 21801-3351; 800-677-3789.

More than 1,000 questions about 401(k) plans are addressed in the **"401(k) Answer Book"** available from Panel Publishers. Topics include plan document alternatives, submitting a plan for IRS approval, investment and fiduciary issues, hardship withdrawals and employee communications. The book costs $96. In addition, the "401(k) Answer Book: Forms and Checklists" is available for $59. Contact Panel Publishers at P.O. Box 990, Frederick, Md. 21701; 800-638-8437; fax 301-695-7931.

The Assn. of Engineering Firms Practicing in the Geosciences has published a guide to the technical and business aspects of contracting. "Limitation of Liability: A Handbook for Consulting Engineers, Environmental Consultants, Architects, Landscape Architects and Other Design and Technical Consultants" discusses the benefits of a **limitation of liability clause** and reviews the concepts of risk allocation. The guide provides sample clauses and discusses related key issues. Copies are available for $45 from ASFE, 8811 Colesville Road, Suite G106, Silver Spring, Md. 20910; 301-565-2733. BI

Get out of the London fog.

American Excess Insurance Association
Phone: (203) 528-2155 Fax: (203) 282-9393

Nevada work comp

Continued from page 3

care provisions in the bill would allow for contracts between SIIS and managed care organizations and establish requirements for these organization's selections. Included in the 142-page bill approved by the Senate are other wide-ranging provisions that would:

- Freeze the average monthly wage for two years and eliminate the retroactive payment for temporary total disability for the first five days of lost work.
- Reduce compensation for permanent partial disabilities.
- Limit stress as a compensable injury.
- Prohibit physicians or chiropractors in most cases from referring injured workers to health care facilities in which they have a financial interest.
- Require employers to establish and implement a written safety program and increase the penalty for violations of these rules.
- Authorize groups of five or more public and private employers to form associations for self-insurance effective July 1, 1995.
- Establish an employer-paid deductible of up to $200.
- Establish a special fraud unit within the Attorney General's Office to investigate and prosecute workers comp fraud.
- Put responsibility for SIIS under the governor's direct control until July 1, 1997, among other organizational changes. The SIIS is currently controlled by an appointed board of directors.

Nevada's Assembly and Senate are Democrat-controlled, and the governor is a Democrat as well. However, support for the bill has not been along party lines, according to Insurance Commissioner Rankin.

The Senate, she said, felt workers comp required substantial reform and developed a "seven-year plan of attack" to make the system solvent that is reflected in the bill.

The Assembly does not want to reduce benefits for employees. "They're much more labor-oriented," Ms. Rankin said.

The workers comp crisis should not be dealt with "on the backs of injured workers," said Assemblywoman Giunchigliani, who noted there has been no increase in workers comp benefits in the past 12 years.

The assemblywoman said she expects her committee to amend the bill.

"I doubt the Assembly will let this bill go by without considerable modification," said Richard J. Tetreault, insurance manager for Southwest Gas Corp. in Las Vegas, a self-insurer.

A workers comp reform bill will become law, but as for what will be in it "I would need a crystal ball" to determine, said Mr. Smith. He said he believes the managed care elements and the limitation on stress claims will remain, but "beyond that, there's real uncertainty in the areas of rehabilitation and permanent and partial disability that must be resolved."

"I think it helps the state" by cutting the workers comp deficit, the Mirage's Mr. Pettis said.

But, if the present situation continues, he said, it could lead to a tax that would encourage employers in the state to leave and discourage others from entering.

He added that he would have liked some additional changes—for instance, capped legal fees.

"We think that the bill in its present form doesn't go far enough to correct all of the ills associated with SIIS. However, we feel the bill is acceptable, at least so far as self-insured employers are concerned," said Mr. Tetreault.

The likely outcome is that employers are "going to see higher costs, and I think the consumer is going to see fewer benefits," commented John Porter, a district manager for the Farmers Insurance Group in Las Vegas and president of the Nevada Insurance Council.

Nevada's workers comp situation affects policyholders and businesses as well as legal and medical professionals, observed Mr. Porter.

"It's all being tossed into one bag, and we're looking for a quick fix and it just isn't there," he said, adding he thinks the Legislature is demonstrating courage in tackling the work comp problem. BI

1991 Colorado comp law stands

DENVER—Employers in Colorado have successfully thwarted a bill that would have altered a workers compensation reform law enacted in 1991.

S.B. 261, which was defeated in a Senate committee May 7, sought to change the definitions of permanent partial and permanent total disability under the law. Those definitions determine the size of payments under a fee schedule established by the 1991 reform law (*BI,* July 1, 1991).

The 1991 law awards higher benefits to workers with serious injuries and lower benefits to those with minor injuries.

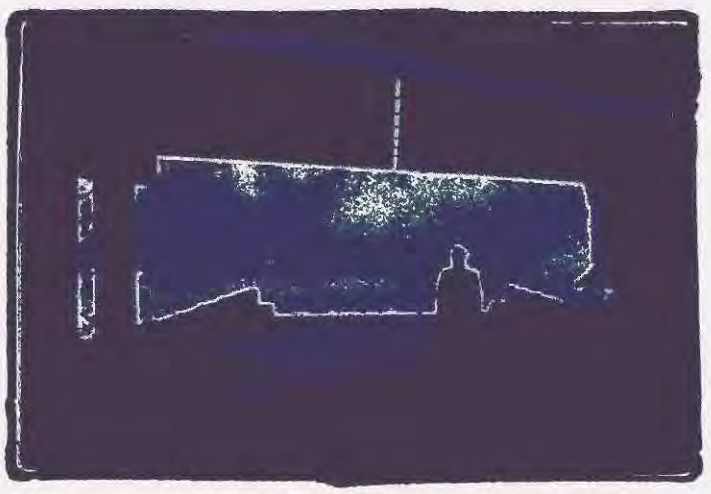
A coalition of large and small businesses, including self-insured companies, worked to defeat the bill, said Robert Ferm, an attorney with Hall & Evans in Denver and counsel for the American Insurance Assn.

"The reform of 1991 will not be diluted," he said. "We are just reaching the point in time when we can judge the results (of that law). S.B. 261 would have raised costs substantially."

The legislative session ended last week, and no special sessions this summer are expected to address workers comp, Mr. Ferm said.

—By Sara Marley

LOSS CONTROL: OUR VIEW.



OUR JOB IS TO PUT CLAIMS PEOPLE OUT OF BUSINESS.

Too often in risk management, the short-term bottom line is viewed as a line where even prudent judgement is unable to cross. Necessary risk management efforts such as loss control are often considered unneccessary, because the financial measurement of such endeavors may not be immediately or distinctly measured and thus, considered expendable in tight financial conditions.

The challenge to the risk manager is to convince the corporation that such investments are desirable. Scott Wetzel Services can assist you in these efforts. In addition to professional and thorough loss control services at the site level, we can provide comprehensive and specialized reports and statistical analysis to assist you in documentation efforts. We can also help identify the ways your company can improve employee relations by the limitation and avoidance of physical and emotional suffering through control and avoidance of work-related losses.

Don't be fooled into thinking that short-term reductions in critical areas won't have long term effects, financially, corporately and with respect to employee morale. Let SWS put over 50 years of experience to work for you in assuring the long term effects will be positive.

Contact Joe Sams or Valerie Williams, your SWS loss control specialists, by calling 1-800-426-5990. (In Washington, call 206-479-0200). They will show you how a small investment will provide a major return.

EXPERIENCE SCOTTWETZEL SERVICES, INC WITH VISION.

Risk Management Planning and Support

PRUDENTIAL SERVICE BUREAU

PSB

HEALTH AND DEPENDENT CARE REIMBURSEMENT ACCOUNTS

PRUDENTIAL LEGALCARE PLAN

COBRA ADMINISTRATION

INDIVIDUAL AND GROUP BILLING

FLEXIBLE BENEFITS PLAN ADMINISTRATION

ENROLLMENTS AND SURVEYS USING INTERACTIVE TELEPHONE VOICE RESPONSE AND OPTICAL CHARACTER RECOGNITION

CARRIER ADMINISTRATION

LIFE INSURANCE RECORDKEEPING

FOR INFORMATION: 1-800-PSB-TEAM

A SUBSIDIARY OF ThePrudential

For the Record

Ohio bill would merge 3 regional Blues plans

COLUMBUS, Ohio—Ohio legislators are hearing testimony on a bill that would create a new Blue Cross & Blue Shield company by consolidating three regional Blues plans.

H.B. 315, sponsored by Rep. Paul H. Jones, D-Ravenna, would also require the new company to offer a basic health care plan to Ohio businesses that employ two to 50 persons, regardless of the health status of individual employees.

The proposal is getting a mixed response from the three Blues plans during ongoing hearings before the House Insurance Committee.

The BC/BS plan in Cleveland supports the measure, while the Columbus plan is "neutral," and the Cincinnati plan opposes it.

$2.8 million settlement in Domino's accident

SOUTH BEND, Ind.—Zurich-American Insurance Co. and Farmer's Insurance Group will pay a $2.8 million settlement to the family of a woman killed in an automobile accident with a Domino's Pizza delivery truck.

Schaumburg, Ill.-based Zurich-American insures both Domino's and franchise holder Scott Halvorsen, while Farmer's insures the driver, Christopher Braden, according to Domino's attorney C. Roy Peterson of Lord Bissell & Brook in Chicago.

Mr. Peterson would not say how the settlement was divided.

The family of Susan Noonan Wauchop, who was killed in the May 1990 crash, will receive $2.5 million. Three of Ms. Wauchop's sons were injured in the accident.

The fourth passenger, Timothy Scott, will receive $30,000.

The plaintiffs dismissed their punitive damages claims as a condition of the settlement, Mr. Peterson said.

In a trial that was underway in U.S. District Court in South Bend, Ms. Wauchop's family claimed that the driver was speeding to meet Domino's 30-minute delivery guarantee.

Domino's maintains that the accident was due to weather and road conditions and that drivers are not penalized for being late. Mr. Peterson said uncertainty over jury awards prompted Domino's to settle.

GICs remain flexible, overcome concerns

NEW YORK—While low interest rates and troubled insurers may have made 401(k) plan participants wary of guaranteed investment contracts, the instruments are evolving to meet changing demand.

The image of traditional GICs has been tarnished in recent years, said Larry H. Mylnechuk, executive director of the GIC Assn. Inc., in Lake Oswego, Ore.

But variations of traditional GICs, such as separate account GICs offered by insurers and "synthetic" GICs offered by banks, have been created to help allay some of the fears of plan participants, said Thomas O. Toale, senior consultant at Alexander Consulting Investment Services Inc. in Lyndhurst, N.J.

"In recent years one of the trends we have seen is the utilization of non-traditional GICs," he said.

The two spoke at a recent seminar co-sponsored by Aetna Life & Casualty Co. and the New York Benefits and Business Council.

Some of the advantages of non-traditional GICs are: diversification from the insurance industry risk; added control over investments; and an objective market value of the individual plans.

Disadvantages are largely limited to the need for additional documentation and other administrative changes, and the need to educate the investment community and plan participants, Mr. Toale said.

Firms reach accord on preventive care

SAN FRANCISCO—In what may be a first-of-its-kind venture, 17 large employers and 15 health plans have agreed on preventive care guidelines for employees.

Under the agreement with employers in the Bay Area Business Group on Health, the health plans—which range from indemnity plans to HMOs—will also collect data on employee use of preventive care services.

"Prior to this agreement, health plan providers and employers used different preventive care guidelines and collected (little) data on preventive services," said Patricia Powers, executive director of the business group. "(Now) physicians will know what they are expected to provide."

Data from this project will help in developing standards to measure quality, she added.

Residual markets post big comp losses: Study

SCHAUMBURG, Ill.—Workers compensation residual markets lost $3.1 billion in 1991, the second-highest loss ever, according to a report from the Alliance of American Insurers.

While the underwriting loss totaled $4.8 billion in 1990, about $1.4 billion of that reflected reserve strengthening. When figures are adjusted for that, the 1991 loss was "only a slight improvement" over the 1990 loss, said Roger Kenney, Alliance director of actuarial studies.

In addition, seven workers comp residual markets accounted for almost 60% of the residual market underwriting loss. The largest losers were Florida—with $412 million—followed close behind by Massachusetts, Texas and Maine.

In many states, residual markets insure a larger portion of the market than the largest private insurer. For example, Rhode Island's residual market accounts for 84% of the workers comp premium volume in the state.

"The report clearly demonstrates the serious financial problems with workers compensation," Mr. Kenney said.

Residual Markets: Workers Compensation, 1991 (R-RM-00002-0393) is available from the Alliance's Publications Department, 708-330-8587. It is free to Alliance members, $20 for nonmembers.

Deal to make Olsten leader in home care

WESTBURY, N.Y.—Temporary services giant Olsten Corp. could become the nation's largest provider of home health care after signing an agreement to acquire Lifetime Corp.

Lifetime rejected several earlier bids by Abbey Healthcare Group, which had been aggressively pursuing the company earlier this year but withdrew its latest bid in April.

Olsten offered Lifetime $33 per share in Olsten stock, or $438.9 million, and agreed to take on about $150 million of the home health care company's debt.

Lifetime's home health care division, Kimberly Quality Care, will continue to operate independently until a decision is made about how to best combine the two companies' operations, said Frank Liguori, Olsten's chairman and chief executive.

The deal is expected to become effective Aug. 31, subject to shareholder and regulatory approval.

Information in brief

The **Health Insurance Assn. of America** is launching a $4 million advertising campaign to try to influence public opinion on the course of health care reform legislation. Among other things, the HIAA is concerned that the Clinton administration will propose restricting the ability of employers and trade groups to establish health care purchasing cooperatives. . . .The Texas State Board of Insurance permanently barred **First Assurance & Casualty Co. Ltd.**, which is unlicensed in any state, from selling motor vehicle liability coverage to truckers entering Texas from Mexico. . . .Consumer advocate Nettie Hoge has joined the **California Insurance Department** as a health care specialist. She will work with a group developing a plan for a state universal health care system . . . **AMBAC Inc.** last week announced a $75 million debenture offering. About $40 million of the net proceeds will be contributed immediately to AMBAC Indemnity Corp., with AMBAC Inc. holding the remainder for future needs of its subsidiaries. . . . **Kemper Corp.** announced it has completed a private placement of convertible preferred stock worth $230 million. . . .Personal life and health insurer Monarch Life Insurance Co. has filed a **$250 million legal malpractice suit** that charges its former law firm, Ropes & Gray of Boston, with helping former Monarch Life parent Monarch Capital Corp. divert millions of dollars of the subsidiary's assets. The law firm has rejected Monarch Life's offer to settle the case for the firm's professional liability insurance limits. . . .A $2 million 1988 payment to **former asbestos producer Fibreboard Corp.** exhausted the "products hazard" limits in its Hartford Accident & Indemnity Co. liability policies, a California appeals court ruled last week. Fibreboard's other claims were found to be excluded by the policies. . . .**Empire Blue Cross & Blue Shield** added $166 million to its reserves in the first quarter of 1993. The troubled insurer had only $40 million in reserves at year-end 1992, which was significantly below statutory levels. . . . Gov. Bob Miller is proposing reducing the status of the **Nevada insurance department** to a bureau as part of a reorganization of state government. . . .A jury has been selected for the first mini-trial in **Baltimore's consolidated asbestos proceedings**, which will involve eight plaintiffs and three defendants—GAF Corp., Keene Corp. and Porter-Hayden Co. A $17.2 million award in 1992 award set the stage for the mini-trials (*BI*, Dec. 21, 1992; Aug. 17; July 27; July 20). . . .Sedgwick Group P.L.C. and Michael Wade, ex-founder and chairman of broker Holman Wade Ltd., have formed a joint venture to offer individuals **limited liability membership** to Lloyd's of London as proposed in the society's recent business plan. The company, which is to be called Corporate Lloyd's Membership P.L.C., will be up and running this July if Lloyd's can hurry through its proposed rule changes to allow corporate capital. BI

NEW E&O PROGRAM FOR SMALL INVESTMENT ADVISORS!

$3,900 For $500,000
Errors and Omissions Policy

• Effective April 1, 1993 a major insurance company has lowered their minimum premium to $3,900 for one year of Errors and Omissions protection.

• All Insurance Brokers should call or fax us to receive complete details on competitive premiums for Investment Advisors Professional Liability up to $25,000,000.

• Ask about our competitive ERISA Bond premiums.

Theodore Liftman Insurance, Inc.
101 Federal Street, Boston, MA 02110-1800 • Tel 617-439-9595 • Fax 617-439-3099
Insurance Brokers since 1957

Proudly made in the U.S.A.

American Excess Insurance Association
Phone: (203) 528-2155 Fax: (203) 282-9393

ACX Technologies names Dymond risk manager

Comings & Goings: Buyers

Mary Stoik Dymond, 40, has joined ACX Technologies Inc. in Golden, Colo., as risk manager. Ms. Dymond is responsible for property/casualty and workers compensation risk management and risk financing programs. She also advises on loss control issues. Ms. Dymond reports to Treasurer Jed Burnham. ACX is the recently formed holding company of the non-beverage and food subsidiaries previously owned by Coors, including Coors Ceramics Co., Golden Aluminum Co., Graphic Packaging Co. and Golden Technologies Co. Prior to joining ACX in March, Ms. Dymond spent five years as risk manager for Apache Corp., an oil and gas company which relocated to Houston from Denver at the end of last year. Prior to her tenure with Apache, Ms. Dymond was corporate affairs administrator, which included risk management functions, for Axem Resources Inc. in Denver. Ms. Dymond earned a bachelor's degree in history and German from the University of South Dakota in Vermillion. A deputy member of the Risk & Insurance Management Society Inc., Ms. Dymond was the 1990-1991 president of the Rocky Mountain Chapter of RIMS.

* * *

Laura L. Markos, 42, has been named vp-risk management at Avery Dennison Corp. in Pasadena, Calif. Ms. Markos is responsible for the company's worldwide risk management strategy, including property and liability risk management, and the workers compensation and safety programs. She reports to Wayne H. Smith, vp/treasurer. Ms. Markos joined Avery Dennison in 1981 as corporate risk manager and was promoted to director of risk management in 1984. Prior to joining the manufacturer of pressure sensitive adhesives, office products and other specialty items, Ms. Markos was assistant vp-large accounts solicitation and account management for Sedgwick James Inc. in Chicago. Prior to that, she held risk management positions with Chicago-based Stone Container Corp., serving as acting risk manager before she left. From 1978-1980, Ms. Markos was a faculty member at the Insurance School of Chicago. From 1981-1984, she was a risk management adviser to the Los Angeles Olympics Organizing Committee. Ms. Markos earned a bachelor's of arts in business administration and psychology from North Central College in Naperville, Ill., and a master's degree in business administration from Northern Illinois University in Dekalb. She also holds the Chartered Property & Casualty Underwriter and Associate in Risk Management designations. Her professional affiliations currently include serving as a director of the Los Angeles chapter of RIMS, and as a director and treasurer of the International Federation of Risk & Insurance Management Assns. She also is a member of the Risk Management Research Council, an education and research organization.

* * *

David Schlocker, 31, has joined CSE Insurance Group in San Francisco as director of human resources. Mr. Schlocker is responsible for health coverage purchasing, benefits and claims administration, health and safety programs and compliance issues, recruitment, and salary and staff administration. He reports to Mary Williams, senior vp-administration and operations, and replaces **Rita Jennerjahn**. Prior to joining CSE, Mr. Schlocker was the director of human resources for the Bicycle Club Casino of Southern California in Bell Gardens, and was director of administrative support services for Northrop University in Los Angeles. He has worked in personnel administration for the U.S. Department of Labor. Mr. Schlocker holds a bachelor's degree in psychology from Beaver College in Glenside, Pa., and a master's in business administration in finance from Northrop University. He also has earned a master's degree in industrial and organizational psychology from California State University in Los Angeles. Mr. Schlocker's professional affiliations include the American Psychological Assn., the Society for Human Resource Management and the Northern California Council on Human Resources.

* * *

We'd like to report on staff changes in your company's risk management, safety and employee benefits departments. Just drop a note to Roseanne White, Copy Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590, or call 312-649-7785. Please send a photograph, too.

SINCE 1900, Skandia America Re has been doing business in the U.S. In fact, we are the country's oldest continuing domestic reinsurer.

Our core values are straightforward—to provide our brokers and clients with underwriting excellence and superior customer service, supported by advanced use of technology.

Our underwriting focus is on casualty reinsurance, both Treaty and Facultative.

Backed by capital and surplus of $293 million, we're proud of our "A" rating from A.M. Best Company and the financial protection we deliver to our clients.

Skandia

Skandia America Reinsurance Corporation
One Liberty Plaza, New York, NY 10006
Tel: (212) 978-4700 Fax: (212) 385-2135

Facultative Branch Offices

•New York
Tel: (212) 978-4700
Fax: (212) 385-8660

•Chicago
Tel: (312) 236-7833
Fax: (312) 236-3826
(800) 621-9260

•Atlanta
Tel: (404) 393-4300
Fax: (404) 393-9639
(800) 242-7044

•Norwalk
Tel: (203) 854-9966
Fax: (203) 853-4005

•San Francisco
Tel: (415) 398-1700
Fax: (415) 398-1544

•Skandia/Facman
Tel: (203) 854-9966
Fax: (203) 853-4005

California investigates charges of overbilling on ELIC rehabilitation

By JOANNE WOJCIK

LOS ANGELES—While policyholders are receiving only partial payments from the Executive Life Insurance Co. estate, the insurer's 2-year-old rehabilitation has been lucrative for lawyers, money managers and others providing services to the conservator.

Fees for legal, financial and other miscellaneous services related to the protracted rehabilitation effort are likely to exceed $70 million by the end of May, but the insurer's turnaround is far from complete: Policyholders are still battling with Insurance Department lawyers over their payouts under the latest rehabilitation plan (*BI*, April 26).

Meanwhile, the Insurance Department is awaiting the findings of an audit it ordered into allegations of overbilling contained in a wrongful termination suit unrelated to the ELIC rehabilitation.

The suit, filed by a former employee of Los Angeles law firm Rubinstein & Perry, which represents the Insurance Department, accuses the law firm of overbilling the department for services related to the ELIC rehabilitation.

While Adriana Moore was employed as an associate secretary, "she became aware that its partners, associates, employees and other agents engaged in a practice of presenting false bills to the firm's clients (including public entities) for legal services not actually rendered, and/or for overbilling and padding such bills," states the suit, which was filed Dec. 17 in San Francisco Superior Court.

These allegations were reiterated earlier this year at a deposition, which prompted the Insurance Department to order an investigation.

The deposition, at which other ELIC attorneys participated, was led by Pillsbury, Madison & Sutro, a law firm that represents some of the holders of guaranteed investment contracts sold by ELIC to back municipal bond issues.

Better known as "muni-GICs," these contracts were denied policyholder status when Insurance Commissioner John Garamendi seized the life insurer in April 1991.

Litigation Cost Management, a legal bill auditing firm based in Oakland, Calif., is scheduled to submit a report to the Insurance Department in the next week or so, according to Gary Greenfield, the auditing firm's president.

Based on court records, fees paid to Rubinstein & Perry stood at $12.6 million as of April 1.

About 20% of those fees have been withheld pending the outcome of the audit, attorneys involved in the ELIC rehabilitation say.

Meanwhile, fees to other attorneys involved in various phases of the ELIC rehabilitation totaled $12.1 million as of April 1.

In addition, financial fees as of April 1 totaled $22.5 million, while miscellaneous fees, such as those paid for computer services, amounted to just over $5 million.

The Insurance Department also is being billed by Altus Finance—the French investor group that purchased ELIC and its junk bond portfolio—to the tune of $14.9 million.

The original sales contract provided for Altus to be paid $15 million in fees, but that total has increased in subsequent agreements approved by Superior Court Judge Kurt Lewin, who is overseeing the rehabilitation.

Furthermore, the National Organization of Life & Health Guaranty Assns. was slated to receive $8 million in fees as part of its enhancement agreement. So far NOLHGA has not been paid, according to court records.

And the attorneys representing the holders of the muni-GICs also have not received any payments from the ELIC estate, despite an appellate court order granting defense cost reimbursement when they won the right to be counted among ELIC's policyholders.

Other firms receiving substantial sums from the ELIC estate include:

- The law firms of Howard, Rice & Nemerovski, which was paid $4.7 million; Crowell & Moring, $1.3 million; and Scribner, Hall & Thompson, $1.04 million.
- Financial services firms The Blackstone Group, which was paid $7.2 million; EAB Associates, $3.9 million; Coopers & Lybrand, $2.6 million; Price Waterhouse, $2.3 million; BlackRock Financial, a unit of Blackstone, $1.8 million; GB Capital Management, $1.4 million; and Wertheim Schroder & Co., $1.2 million.
- A total of $1.3 million was paid for computer services to ViewStar Corp. BI

INTERNATIONAL

Lloyd's names may derail settlement plan

By ADRIAN LADBURY

LONDON—Lloyd's of London has a "window of opportunity" to wipe out a significant portion of its 1990 underwriting losses if it can persuade errors and omissions underwriters and members to settle current litigation, a members agent says.

But two groups of names, unhappy with the business plan released last month, could throw a wrench in the works of any settlement. The two groups are calling for separate extraordinary general meetings to complain about the plan's failure to resolve litigation over losses from past years and to demand changes affecting Lloyd's management. As many as 17,000 members are suing their members agencies in an effort to recoup their massive losses.

One of the two groups is calling for the liquidation of the Corporation of Lloyd's, which manages the market.

Colin Spence, managing director of Sedgwick Lloyd's Underwriting Agents Ltd., contends members action groups and their E&O underwriters currently have a chance to negotiate a settlement with names before the July deadline for reporting 1990 results.

His call for a solution followed a May 7 report by the Errors & Omissions Panel set up by Lloyd's Chief Executive Peter Middleton last year. The panel, which included Mr. Spence, was set up to investigate how much members agents E&O coverage would be available to settle members litigation over losses on syndicates that wrote LMX business.

"In the business plan, (Lloyd's Chairman) David Rowland made it clear that Lloyd's is prepared to make a contribution to any settlement as long as it is to the net benefit of the Society, and it would be if it could avoid 'double counting' by July. To me this is a wonderful opportunity which the Society must take," said Mr. Spence.

Syndicates have set aside about 600 million to 700 million pounds ($909 million to $1.06 billion) in 1990 reserves alone to pay for members agents E&O losses, said Mr. Spence. These reserves are about one-quarter of Lloyd's 1990 estimated global loss of 2.5 billion to 2.8 billion pounds ($3.79 billion to $4.24 billion).

If Lloyd's members win their litigation against agents, the members would receive these E&O reserves to pay their underwriting losses, which are also reserved in the defunct LMX syndicates. This means that, in effect, there are two sets of reserves for the same losses, Mr. Spence contends. And names who are members of both LMX and E&O syndicates are effectively creating reserves to pay themselves—or double counting.

According to Mr. Spence, the E&O reserves could be reduced—and Lloyd's overall 1990 global loss reduced by an equal amount—if a compromise suggested by Lloyd's E&O panel is accepted by all parties.

Lloyd's has said it might contribute a small amount from its Central Fund to a marketwide settlement. But, "the incentive to use the Central Fund reduces considerably after July because the claims and reserving will already have gone through the loss assessment process," said Mr. Spence.

Neil Shaw, chairman of the

Continued on next page

Hafnia files bankruptcy

Insurer's long list of creditors is led by Danish bank

By MARIA KIELMAS

COPENHAGEN, Denmark—Denmark's Hafnia Holding A/S has filed for bankruptcy following a 1992 loss of 9.1 billion Danish kroner ($1.5 billion) and debts of 6.5 billion Danish kroner ($1.03 billion).

The filing marks the end of a long and troubled road for the Danish insurer ever since it joined forces with Norway's UNI Storebrand A/S in late 1991 in a failed takeover attempt of Sweden's Skandia Group (see chart).

The decision to file for bankruptcy was made last week at a meeting of the company's inspection committee, which was appointed last year by a bankruptcy court, said Hafnia Holding Chairman Holger Levesen.

Following the disposal of Hafnia's operating subsidiaries to Danish insurer Codan Insurance Ltd. in March (*BI*, April 5), Hafnia Holding's remaining assets were its 14.9% stake in Skandia and a 34.6% stake in Denmark's Baltica Holding A/S, which it acquired before the Skandia takeover attempt.

However, the value of shares in Baltica Holding may be worthless, stock market analysts say. Baltica Holding has been renamed Gefion and is being run off.

The combination of Codan, which is a unit of Sun Alliance Insurance U.K. Ltd., with the former Hafnia insurance subsidiaries makes Codan the largest insurance group in Denmark.

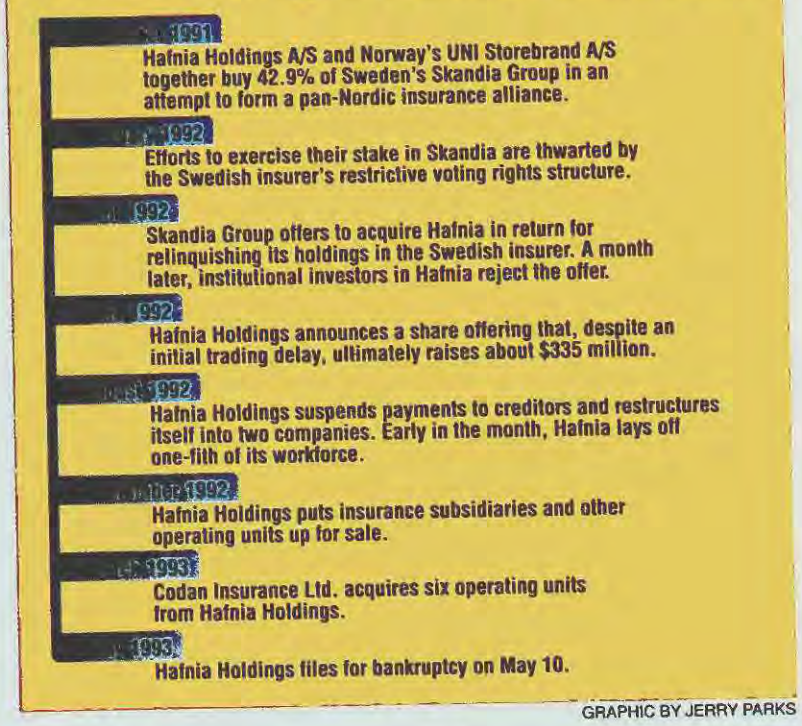
Hafnia Holding's largest creditor is Den Danske Bank, which is owed 1.2 billion Danish kroner ($193.1 million).

The bank is also the largest shareholder in Baltica Forsikring, which is Baltica Holding's former operating subsidiary. But a bank spokesman reaffirmed earlier statements by the bank that it hopes eventually to dispose of its stake in the insurer.

Hafnia Holding's other creditors are: Germany's Commerzbank, which is owed 1 billion Danish kroner ($160.1 million); Denmark's Sparekassen Bikuben, 600 million Danish kroner ($96.5 million); Sweden's Skandinaviska Enskilda Banken, 515 million Danish kroner ($82.9 million); Denmark's Unibank, 450 million Danish kroner ($72.4 million); the Greater Copenhagen Council, 280 million Danish kroner ($45 million); and Arbejdernes Lansbank, which is owed 200 million Danish kroner ($32.2

Continued on page 43

Hafnia saga's final chapter



GRAPHIC BY JERRY PARKS

France proposes easing employers' payroll expenses

By MARIA KIELMAS

PARIS—The new French government proposes cutting direct employee and employer contributions to the national social welfare system and paying for these costs from general tax revenues.

The proposal is part of the budget presented May 10 by the recently elected French administration.

Some members of the insurance industry and many analysts say the move could pave the way for the creation of employer-sponsored pension plans.

Prime Minister Edouard Balladur said in his first policy statement to the National Assembly on April 8 that easing employers' burden for financing the welfare system is a government priority. "The constant increase in payroll costs has been a prime cause of the growth of unemployment," he said.

France funds nearly 50% of its welfare system through direct contributions by employers and employees. This compares with direct contributions of 17.5% in the United Kingdom and 3% in Denmark, which like most Scandinavian countries funds its welfare system mainly with direct tax revenues.

Mr. Balladur said in April that he hopes the cost of aid to families, which many government sources say totals almost 200 billion francs ($36.88 billion) annually, will be shifted from employers to the state. "We need to aim to increase employees' wages by gradually transferring responsibility for funding family allowances from employers to the state, which would also make it possible to expand complimentary retirement

Continued on page 41

Pool Re bill in Parliament

Rate hike already expected for terrorism reinsurance pool

By ADRIAN LADBURY

LONDON—The British government may have to dip into its pocket to cover an expected shortfall in the mutual terrorist reinsurance pool to pay for the April 24 bombing in London's financial district.

Meanwhile, rate increases for the pool's members already are being discussed, even though the mutual will not be an official entity until the Reinsurance (Acts of Terrorism) Bill—introduced last week in Parliament—is passed.

The 295 members of Pool Reinsurance Co. Ltd. are expected this year to pay about 250 million pounds ($385.4 million) in premiums to fund the pool.

Once that reserve is exhausted, the pool members must pay an additional 10% of the original premiums they paid to cover losses.

An Assn. of British Insurers spokesman last week said that estimated insured losses from last month's attack on the city of London had grown to between 400 million pounds and 500 million pounds ($617 million and $770.8 million) from the original estimate of 300 million pounds to 400 million pounds ($462.5 million to $617 million).

The larger loss would mean a shortfall in the pool of somewhere between 200 million and 300 million pounds ($303 million and $462.5 million), before members pay the additional 10% levy on their original premiums.

A Pool Re spokesman confirmed last week that there is "certainly not enough money in the fund" to cover damages from the April 24 bombing. "It will clearly be a long time before all the claims are settled, but we will definitely need government assistance," he said.

An ABI spokesman agreed that the pool would run out of money because of the latest bomb. "We feel the government will have to pay up straight away," he said.

The mutual reinsurance pool, backed by retrocessional coverage from the British government, was proposed late last November after ABI insurers refused to write terrorist coverage for large commercial properties in the United Kingdom.

Last week the bill to activate the pool encountered no opposition in the House of Commons and is not expected to be opposed in the House of Lords, according to a Department of Trade and Industry spokesman.

The bill would confirm that insurers that participate in the pool must pay up to 100,000 pounds ($154,150) per policy for losses on commercial property policies as a result of a terrorist attack, and up to 2.5 million pounds ($3.9 million) for an apartment building. Above these amounts, terrorist claims would be reinsured with Pool Re.

The bill also states that if the pool's funds are exhausted, the insurers must pay an additional sum of up to 10% of the premiums remitted in the pool.

After that, the remaining claims will be paid by the U.K. government. According to the bill, the government plans to charge an unspecified premium to the mutual for this retrocession coverage once the pool's surplus exceeds 1 billion pounds ($1.54 billion). "The premium structure is designed with the aim of avoiding any net cost to government over a period of years," says the bill.

After the bill is passed, Pool Re

Continued on page 43

E&O proposal

Continued from previous page

E&O panel and also chairman of the Assn. of Lloyd's Members, supported Mr. Spence's call for a settlement and believes that an agreement is possible before the cut-off date.

"It is absolutely necessary that we have a plan to solve this problem and one that will not take five years. We need a resolution where the money goes to the names and not the legal fraternity," said Mr. Shaw.

Mr. Shaw believes that a solution can be reached on the basis of the panel's proposals.

The E&O panel calculated that the majority of the claims involved in the disputes are related to members agencies that placed names on LMX syndicates in 1989 and 1990.

It also calculated that only 690 million to 940 million pounds ($1.05 billion to $1.42 billion) of E&O cover is available for 1989 and 1990 claims. Total claims would come to 1.83 billion pounds ($2.77 billion), leaving a coverage shortfall of 890 million to 1.14 billion pounds ($1.35 billion and $1.73 billion).

To treat all litigating members equitably, the panel suggested a marketwide compromise.

It proposed that a new company be created called Recovery Ltd. This company would pursue claims against members agents on behalf of the names through arbitration and negotiated settlements. Monies recovered under the agents' E&O coverage would then be paid to Lloyd's to pay for the names' losses, meet their solvency requirements and allow them to continue underwriting.

Mr. Middleton, Lloyd's chief executive, gave a cool reception to the panel's suggestion but did not rule out some kind of solution on its basis.

"The task of 'Recovery' would be to recover money from one group of members on behalf of other members. At the moment we do not see how this proposal can be compatible with the obligation of the Council to act even-handedly for all members. A second difficulty is the financial risk of offering credits to members whose claims might not be upheld by a court judgment, if negotiation and arbitration proved to be unsuccessful," he stated.

But Mr. Middleton did not rule out a possible agreement. "We will continue to work closely with members of the E&O Panel, underwriters and action groups to do everything possible to bring about a negotiated settlement," he added.

The ALM's Mr. Shaw believes that Mr. Middleton is trying very hard to make the July deadline. "I cannot say what the actual plans are, but I met with Mr. Rowland and Mr. Middleton, and Mr. Middleton is certainly pursuing the matter very hard. I think he is going for it," said Mr. Shaw.

Mr. Middleton also acknowledged the vital role of the names and their action groups in a closed-door speech to the ALM last Wednesday.

"Mr. Middleton explained best as he could and as fully as possible what is going on in the negotiations between the names and the E&O underwriters. The very fact that they are going ahead suggests that it's possible, but the difficulty perhaps is for the action groups in the different categories to reach a common standard when dealing with the E&O underwriters," said Roger Pascal, deputy director of the ALM.

Mr. Middleton was unavailable for comment last week.

This potential split between the names could prove the downfall of the discussion process, added Colin Hook, chairman of the Feltrim Action Group, which represents names on syndicates formerly managed by Feltrim Underwriting Agencies Ltd., and also a member of the E&O panel.

Mr. Hook said it is impossible to predict whether the July deadline could be met but said a meeting was set for "later this month" between the E&O underwriters and the four major members action groups, including the Feltrim Action Group.

Mr. Hook did agree with Mr Spence that the "double counting" issue does provide a "window of opportunity" for Lloyd's, but warned that if the July deadline is missed his and other members action groups will forge ahead with legal proceedings.

"The double counting issue is not strong enough; it's a side issue," said Mr. Hook. "It will facilitate and encourage the discussion process, but it is not the principal element. Names want a sum of money on a check, a date on a check and to be taken out of open years. If satisfactory answers can be provided to these issues, then a deal can be struck."

But efforts to reach a settlement before or after the deadline could be foiled if disgruntled members' demands are passed at two extraordinary general meetings.

Claude Gurney, the Lloyd's name behind last year's EGM, said last week that he is in discussion with Mr. Middleton over the wording and procedure for calling another EGM, which should be ready by this Friday.

If the proposal can be agreed upon by then, the EGM will be held at Lloyd's June 22 annual general meeting, at which the market's 1990 results are released.

Mr. Gurney has amassed more than 100 signatures to support his demand that if Lloyd's wishes to introduce corporate capital into the market—which was a key feature of its business plan—it must first secure the approval of two-thirds of the membership.

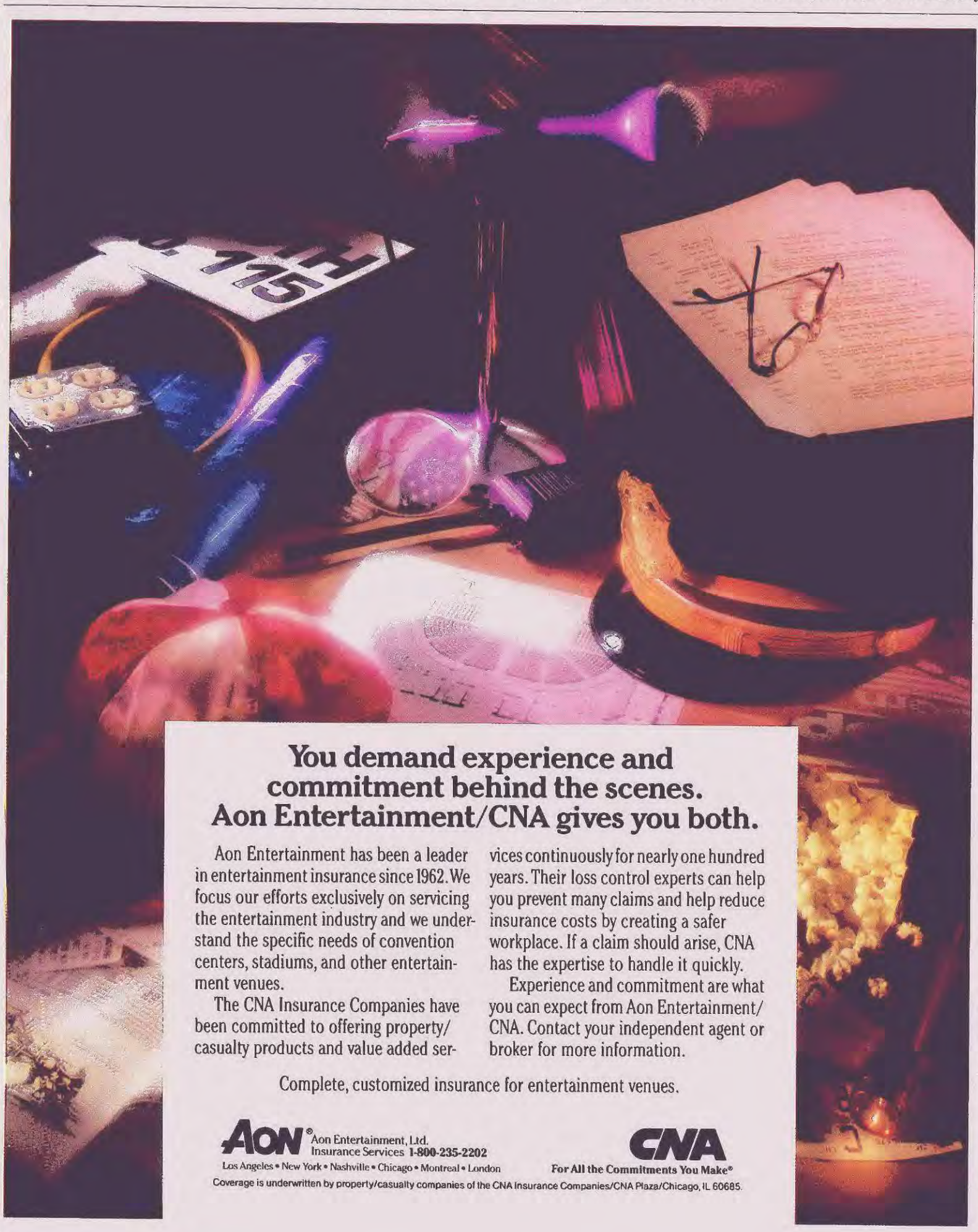
He also is demanding that members of the Council of Lloyd's sign a statement that they owe the membership a duty of care.

The second EGM demand is being instigated by lawyer Richard Astor, who is not a member of Lloyd's. Mr. Astor also was Mr. Gurney's erstwhile collaborator in last year's EGM.

Mr. Astor claims to represent a group of more than 100 names who, he said, will call for an EGM on the basis that "the business plan is a grotesque betrayal. They want to put in a single resolution to the effect that they have no confidence in the honesty or integrity of Lloyd's and wish to see (the Corporation) put into liquidation immediately. . .and all assets be distributed among the members for the time being."

Mr. Astor stressed he does not wish the market to be affected. Rather, he contends Lloyd's does not need the Corporation's leadership or management.

Mr. Astor also said the E&O compromise solution suggested by Mr. Spence is "helpful," but would not stop his proposal from going ahead. BI



INTERNATIONAL

France's budget

Continued from page 39

schemes," Mr. Balladur said.

The budget speech did not include specific proposals for creating private pension funds, but stock market analysts say that private funds may be created following the privatization of some state-owned enterprises.

The first phase of Mr. Balladur's proposed budget plan would begin with a July 1 increase in the general social contribution, a tax on earned income and income from investments, to 2.4% from 1.1%. This increase will go toward creating a new fund, called the "solidarity fund," aimed at bailing out the social security system. Without corrective measures, the welfare system will have a deficit of 135 billion francs ($24.89 billion) at the end of this year.

The extra tax is expected to bring in 50 billion francs ($9.22 billion) annually and 25 billion francs ($4.61 billion) for the rest of this year. Further payments to the "solidarity fund" will be made through indirect taxation like fuel levies.

In addition, employers will be exonerated from social security contributions on salaries that are at least 1.1 times the minimum wage, and employer contributions will be cut by half on salaries between 1.1 and 1.2 times the minimum wage. As of Jan. 1, the national minimum wage was 5,756.14 francs monthly ($1,061.32). This measure will take effect with the "shortest possible delay," he said.

Mr. Balladur said in April that he intends to invite labor unions to a conference to study sickness, retirement and unemployment insurance programs.

The goal is to produce a five-year plan. "The principles governing it are quite clear, but we have to check that they can be widely accepted: separation of the management of each risk, financial consolidation of each risk, and greater involvement in the management of each risk by employers and employees according to the principles of equal participation by both sides."

Mr. Balladur added that the state must retain an essential responsibility for sickness, retirement and unemployment benefits, and by seeking an easy policy should not "get caught up in a spiral of continuing growth of expenditure necessitating ever-higher contributions." The national assembly must be able to alter the new system at regular intervals.

France and Italy are the only European Community nations with no private pension plans to complement the state plan. Pensions in France are financed by employee contributions. The creation of private pension plans complementary to the state system is now at the center of the debate on the future of France's social security system.

According to Dominique Coudreau, former director general of Conservatoire Nationale des Arts et des Metiers, the existing obligatory pension schemes are facing challenges, such as an aging population, while the needs of French industry for long-term funds are considerable. He believes that a system of private pension funds that invest in the stock market would be feasible.

The creation of pension products could be a spinoff of any future program to privatize insurers. Mr. Balladur's speech gave no indication of the date of any privatizations, but partial privatization of insurers is not expected this year, said Mike Wheelhouse, insurance analyst at Nomura International in London (*BI*, April 19). He said that "everything has gone wrong at the same time" for French insurers; like the fall in real estate prices, the expense of consolidating cross-border acquisitions, and rate cutting in the fight for market share at home.

A UAP spokeswoman in Paris said there was "no reaction" from UAP to the Prime Minister's speech.

But Mr. Wheelhouse said that the previous socialist government in France had restructured much of the state finance and industry sector into complicated cross-ownerships that make it difficult to privatize.

The budget made no changes to France's long-term credit policy. The state export credit and political risk insurer, Coface, was unaffected by the new budget measures, a Coface spokesman confirmed.

The budget proposal can be amended by both houses of France's National Assembly, though the tax increases can be implemented through executive order. BI

PROFESSIONALS SERVING PROFESSIONALS℠
MARKET UPDATE: COMPLEX RISKS

MARKET STIMULUS: Many insurers have dropped coverages they found too complex or non-standard.

HOME RESPONSE: "Home seeks out complex coverages and shrinking markets—for the simple reason that we have seasoned specialists with the skills and experience it takes to write tough, non-standard risks.

"With The Home, you come out ahead on complex coverages that could cause you grief if handled by some less qualified insurer."

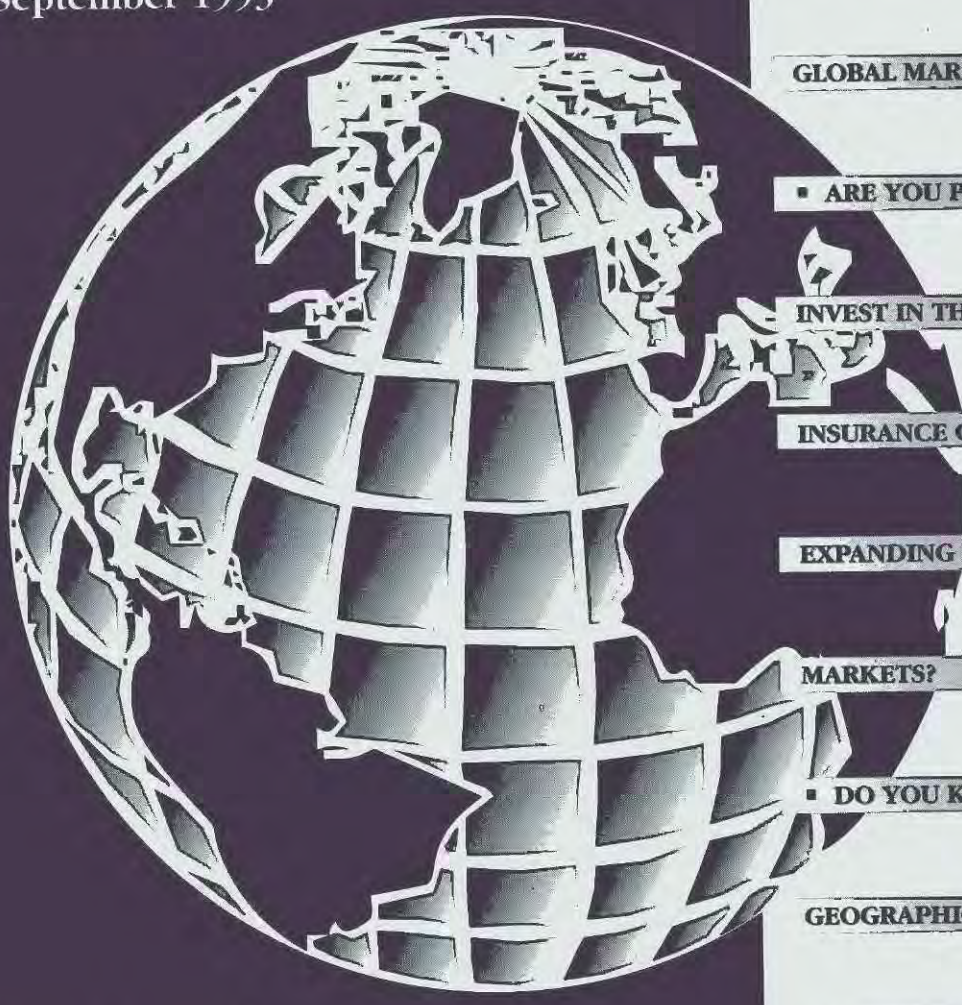
ART PHILLIPS
Executive Vice President
(212) 530-7201

HOME 1853

HOME INSURANCE
SPECIALTY LINES DIVISION

GLOBAL INSURANCE CAPACITY 2000: DEMAND AND SUPPLY

Royal Lancaster Hotel, London
19 - 21 September 1993



- IS YOUR COMPANY
- READY TO SUPPLY
- INSURANCE IN THE NEW
- GLOBAL MARKET?
- ARE YOU POISED TO
- INVEST IN THE
- INSURANCE COMPANIES
- EXPANDING INTO NEW
- MARKETS?
- DO YOU KNOW WHICH
- GEOGRAPHICAL
- MARKETS OFFER THE
- GREATEST
- OPPORTUNITIES FOR
- INSURERS AND
- INVESTORS?

The First Annual International Conference
sponsored by
The Society of CPCU

Brochure available...
call or fax for registration information.

The Society of CPCU
Chartered Property and Casualty Underwriters

PO Box 3009
Malvern, PA 19355
(215) 251-2734
fax (215) 251-2775

INTERNATIONAL

Loss record forcing Australian mines to run for coverage

By KATE McILWAINE

BRISBANE, Australia—Risk managers for Australian mining companies are considering captives and other risk financing alternatives because of difficulty in buying property/casualty insurance in the Australian and overseas insurance markets.

Risk managers, brokers and underwriters acknowledge the $28 billion Australian ($19.7 billion) mining industry's claims record has been "disastrous." Now, deductibles are increasing, rates are rising and capacity is scarce.

One of the biggest mining losses during the past two years was a business interruption claim of more than $76 million Australian ($57.8 million) after an Aug. 9, 1991, fire at the Ulan underground coal mine in New South Wales, owned by Ulan Coal Mines Ltd. in Sydney. Business at the mine was interrupted for nine months.

While risk managers and brokers say the Ulan loss started the market situation, they point out that most mines have experienced losses during the past two years, including flood damage, underground fires and equipment failures. As a result, many Australian underwriters no longer write mining risks.

Paul W. J. McManus, company secretary and treasurer of Brisbane-based mining company New Hope Corp. Ltd., said capacity is a major problem. New Hope operates two underground and one open-cut coal mine outside Brisbane and has mines in Indonesia. Mr. McManus said mining companies' premiums are rising by 35% and deductibles are increasing up to 40% of the insured value.

New Hope prefers to place its business onshore, but, because of the prices being quoted by Australian underwriters, the mining company is looking into establishing a captive. Singapore and Indonesia are potential domiciles.

"Some Australian insurance companies will not look at mining risks," Mr. McManus said. "They are letting dollars go offshore, which they could keep here to help the balance of payments."

"Mid-size miners, like us, are caught in the middle," he said. Such companies need insurance at reasonable rates, but insurers penalize them for the losses of bigger operators, he contends.

A contributing factor in the insurance problem, which to a lesser degree affects other commercial sectors in Australia, is that many Australian underwriters are "wimps" who are dictated to by reinsurers, charges Mr. McManus.

He contends that underwriters want to concentrate on personal lines and desert the corporate sector when the market is tough.

Mr. McManus said New Hope is considering using the insurance market for catastrophe-level coverage only.

Lionel Dowler, insurance manager for Brisbane-based copper, lead and zinc mining company MIM Holdings Ltd., said insurers traditionally have had a poor perception of mining risks, even hard-rock mining, which is seen as less risky than soft-rock mining, like coal. "In the current hard market, with reduced capacity, insurers are getting more selective," he said.

Mr. Dowler agreed that Australian insurers are reluctant to write mining risks. He said MIM has been "more fortunate than some" when its insurance was renewed in September 1992. "It is hard work, but MIM has a good reputation locally and overseas, and that stood us in good stead," he said.

MIM uses the Brisbane office of Alexander & Alexander to place its liability risks and Sedgwick McDermott, a Brisbane-based subsidiary of Melbourne-based Sedgwick Ltd., for property risks. MIM has increased its self-insurance. "I always thought we should carry a bigger percentage share on each layer. The hard market was a good incentive to do that," Mr. Dowler said.

MIM, too, has considered a captive. "The costs (so far) have outweighed the attractions," he said, but "one day we might even do it." MIM's property insurance package, formerly led by Queensland insurer Suncorp (see related story), is now led by Lloyd's of London syndicates.

Singapore-based Johnson & Higgins Risk Management Services Pte. Ltd., as part of a marketing program to increase its captive management business, is targeting the energy and oil and gas industries, said George McGhie, newly appointed manager-global risk management consultancy. J&H manages the CRA Ltd. captive Metals & Minerals Pte. Ltd.

Mr. McGhie said J&H is "working on other mining companies" and currently doing feasibility studies for six companies, though he wouldn't specify in what industry.

Brokers agree that Australian mining companies are having major problems buying insurance.

Noel Pettersen, executive director of the National Insurance Brokers' Association, said it is "a seller's market" and mining, petrochemical and manufacturing industries are particularly vulnerable.

Brian Peele, national manager-mining and energy for Melbourne-based Marsh & McLennan Ltd., said underwriters are increasing time deductibles for business interruption losses. Instead of seven- to 14-day waiting limits, they are being increased to up to 28 days.

Underwriters who refused to look at mining risks are "adopting a bunker mentality," Mr. Peele said. They should look objectively at any risks proposed, he said.

Five years ago, 20 Australian companies would have participated in writing mining risks. Today there is "just a handful," Mr. Peele noted.

However, Mr. Peele said the mining industry's current capacity problems are "not necessarily a bad thing." The industry now must look at how much of its losses it can absorb and implement risk management principles.

Mike McLeod, managing director

Continued on next page

Mining company suing insurer over refused claim

BRISBANE, Australia—MIM Holdings Ltd., a major Australian copper, lead and zinc miner based in Brisbane, has filed suit against Queensland underwriter Suncorp and six other insurers over their refusal to pay a $16.3 million Australian ($11.5 million) business interruption claim.

Suncorp, owned by the Queensland state government, was the lead insurer on an industrial special risks policy covering property and business interruption risks for MIM's Mount Isa mine site in far north Queensland. The policy's coverage limit was $450 million Australian ($317.3 million).

Lionel Dowler, MIM risk manager, said the support structure for a 109.5-foot gas cooling tower at the mine site collapsed on Feb. 7, 1991. The tower was not functional for almost five weeks, during which time lead and zinc were stockpiled but could not be smelted.

Mr. Dowler said the claim was approximately equally divided between property damage, including site cleanup, and business interruption costs.

MIM filed its claim with Suncorp in mid-1992, attributing the delay to time needed to calculate the business interruption loss.

Suncorp declined to comment on MIM's claim.

"The grounds for the rejection have been conveyed in the proper fashion to the insured and the insured's brokers" and it is "inappropriate to disclose them to a wider forum," said Terry M. O'Dempsey, Suncorp's manager-commercial insurance and reinsurance.

Other insurers on the slip were NZI Insurance Australia Ltd., C.E. Heath Casualty & General Ltd., Commercial Union Ltd., Switzerland General Insurance Co. Ltd., L'Union des Assurances de Paris, and Continental Pacific Insurance Co. (Australia) Ltd.

MIM filed its suit in the Supreme Court, Brisbane, in March. Suncorp has notified the court that it will defend the action and has been granted time to file documentation to indicate the grounds on which it has denied liability.

—By Kate McIlwaine

The Professional Marketplace

RATES AND CLOSING TIME:

Rates: Display classified is $130.00 per column inch, minimum of one inch. Straight classified is $11.50 per line, minimum of 5 lines. Count 34 characters per line (include each space and punctuation as a character). Additional $17.50 charge for all blind box ads. Only those reponses which fit into a business size envelope will be forwarded. Responses are forwarded daily.

Closing: Published every Monday. Copy must be in typewritten form by noon Tuesday, 6 days preceding publishing date. No verbal phone copy accepted. Prepayment required for all advertisements. Mail ads to Margaret Hikido, Classified Advertising, 740 N. Rush St. Chicago, IL 60611. For more information call 312-649-5340. FAX 312-649-7799.

Becher and Carlson

PROPERTY ACCOUNT EXECUTIVE-LOS ANGELES & ATLANTA

Becher + Carlson is expanding its property brokerage operation in *Los Angeles* and *Atlanta* and is seeking two property account executives with large account experience. Becher and Carlson is a group of companies that provides risk management consulting, brokerage, and captive management services to large corporate accounts nationwide.

Qualifications should include extensive property experience with a major broker marketing and servicing large corporate accounts. Individuals must have excellent technical knowledge of commercial property insurance coverages, including manuscript policies, DIC and HPR contracts.

These are two excellent opportunities for highly motivated professionals desiring to work with a progressive and innovative firm that specializes in large corporate accounts.

Becher and Carlson offers a competitive salary and benefit package. Interested persons should send confidential resume to: *Pam Brooskin, Becher + Carlson Risk Management, Inc., 21700 Oxnard Street, Suite 1800, Woodland Hills, CA 91367*

RISK MANAGEMENT OPPORTUNITIES

— Presented Exclusively By —

RMA RICHARD MEYERS & ASSOCIATES, INC.

DIRECTOR OF RISK MANAGEMENT

Highly progressive Fortune 200 corp., based in the Southeast region of the US, represents a "pass-thru opportunity" for a high-profile Risk Manager to meet up with new corp insurance initiatives. Your background should consist of solid risk management decision-making responsibilities, managing people, and promoting untraditional perspectives. Additional skills in corp finance or treasury also required. MBA Finance a +. **Salary in the high 5 figures; complete relocation offered.**

RISK MANAGER

Midwest-based Fortune 100 corp seeks a strategic risk management pro. Reporting to the Director, will manage a large, self-insured casualty/property ins program. Must have 5-8 years of progressive risk management exp, w/an emphasis on financial, analytical & computer proficiency. Strong presentation & communication skills also essential. Degree in Math, Accounting or Finance a strong +, as are CPCU &/or ARM credentials. **Salary $60-70,000; complete relocation offered.**

For immediate consideration, please call 201-765-9000, fax resume, indicating position desired, to 201-765-9009, or forward to Rich Meyers or Mike Tannenbaum at* RICHARD MEYERS & ASSOC., INC., *15 James St., Florham Park, NJ 07932.

". . Where Professionals Insure Their Careers . ."

HELP WANTED

RISK MANAGER TO 75,000

National business services corporation operating in over 40 states has an immediate opening for a professional Risk Manager.

Based in the Mid-South, the Risk Manager is responsible for review and analysis of all insurance programs (including appropriate loss limits, self-insured retentions, retrospective rating plans, and risk financing features), direct negotiations with underwriters/brokers, analysis of claim trends and direction of loss prevention programs.

Position requires minimum of 10 years risk management experience, at least bachelor's degree, CPCU or ARM designation, significant Workers' Compensation rating experience, incurred and paid loss retro experience. Successful candidate will have good organizational and communication skills and be highly detail oriented. Casualty/health experience with service industry preferred.

For prompt confidential consideration, send your resume with last five year salary history to:

Recruiter
P.O. Box 45
Memphis, TN 38101

Equal Opportunity Employer M/F

LEGAL NOTICE

INSURANCE LAWYERS

Experienced insurance lawyers emphasizing insurance company, agency and brokerage related matters, including compliance, coverage issues and litigation; also broker and agent errors and omissions — available for representation. Contact Daniel Warriner or Paul Brennan, **Brennan, Olson & Warriner, 32222 Camino Capistrano, Suite A, San Juan Capistrano, CA 92675 Tel. (714) 893-5358 or (714) 240-6711; Fax (714) 893-4451 or (714) 240-3761.**

YOUR AD SHOULD BE HERE

INTERNATIONAL

Australian mining

Continued from previous page
of Sydney-based Willis Corroon Ltd., said underwriters are tightening the defined events for material damage. He said Australian mining losses are a factor, but the global market also is influencing the tight capacity.

Steve Nevett, divisional director for Sedgwick Ltd., said a captive is "one of the best strategies" for companies with large asset bases, like the mining and energy industries, to cope with the hardening market, providing they are prepared to take a long-term view.

But Kevin D. Mutch, general manager-risk management for Melbourne-based CRA Ltd., a mining and resource firm with a Singapore captive, said a captive does not overcome all of a risk manager's capacity and coverage problems.

"A captive can give greater flexibility in structuring your programs and provide the ability to absorb greater levels of risk," he said.

Mr. Mutch said companies must think long-term if they are considering captives.

Many mining company risk managers have found it tempting in the past to take low deductibles, but they become "tarnished clients" if they have had a loss that "leaves the insurance market reeling."

"You need deductibles appropriate to your business, not necessarily what market forces will offer," he said. "A payback structure exists in the insurance market. If you have taken advantage of the market in soft times, by taking lower deductibles. . . .you are an easier target in the hard market. It's a question of balance."

Risk managers should ensure there is excess capacity in their programs so they have the ability to overcome difficult times, Mr. Mutch said. Too many have tried to fix things later, instead of spending more time marketing their risks. "If you go knocking on an insurance company's door in a hard market when you haven't been there before, you sound like a refugee." BI

Pool Re

Continued from page 39
and the government will sign a retrocession agreement, which is currently being drafted, said the Pool Re spokesman.

Rates charged by the mutual are expected to be raised because of the current shortfall, but the amount of the increase is unknown. The pool may need a temporary loan to pay the claims from last month's explosion, the pool's spokesman said. "The only other way of raising more money is to sell more cover or put the premiums up, or both."

A spokesman for the DTI said Pool Re rates are being reviewed. "Whether the recent events mean a new round of discussions or not I am not sure, but I expect some rates will increase and others will go down," he said.

The rates charged by Pool Re, which have been fixed by the mutual and the DTI, are calculated on a simple two-zone basis. Higher-risk inner cities are within zone one and lower risk suburbs and rural areas in zone two.

The ABI spokesman explained the current difference with an example: "For a building valued up to 100,000 pounds, a company in an inner city such as London, Birmingham or Manchester would pay 0.05% of the value of the property, but in a rural area the cost would only be 0.01%."

He added that in the next round of increases, the differential could widen further. "The assumption would be that the rate of increase would be proportionally higher in the cities" than in the rural areas.

The Pool Re spokesman agreed that the gap could widen. "The rating largely depends on the government philosophy, but I think higher increases in London than in Birmingham or out in the sticks is in the cards," he said.

But it is unlikely that there will be a compulsory levy on all commercial and personal property policies to fund Pool Re as proposed by the Assn. of Insurance & Risk managers in Industry & Commerce (*BI*, May 3).

"We have made our point to the DTI, Pool Re and the ABI, and that appears to be the end of it," said Alan Fleming, chief executive of AIRMIC. "They have given us no cause for optimism, but they have not said no either. We have let them know our view, and that is as much as we can do."

Mr. Fleming added that the association is now concentrating on more proactive issues such as working with the ABI and others to develop awareness campaigns and similar measures to prevent damage from terrorist bombings.

The DTI spokesman said the department does not want a compulsory levy. "We want a market solution, and that is what we have got."

The spokesman also said that the rate levels and the question of geographical differences is entirely up to the industry, which has to sell the coverage. He said that the government would not interfere with the rates set by the insurers but confirmed it would have a say in the rate charged to the pool by the government for retrocession coverage.

"We have an interest in protecting the taxpayer," he said, "and we expect to see a certain amount to cover the risk, although we are not prepared to reveal how much. Obviously at the end of the day we will have to reach an agreement with the industry." BI

Hafnia bankruptcy

Continued from page 39
million).

In addition, the Netherlands' ABN Amro Bank is owed about 600 million Danish kroner ($96.6 million) and Barclay's Bank in the United Kingdom is owed an undisclosed amount. A Barclay's spokesman in London said the bank did not publicize such information. According to a 1992 statement by Hafnia Holding, the insurer has 111 creditors.

France's Union des Assurances de Paris holds 7% of Hafnia Holding while Banque Paribas holds a 2.5% stake.

In their 1992 results published earlier this year, both companies announced they had made full provisions for their losses in Hafnia.

A UAP spokeswoman in Paris said the Hafnia bankruptcy announcement did not make any difference to the situation at all.

But the outlook for Skandia shareholders has improved markedly in the wake of the bankruptcy filing, said Mike Wheelhouse, insurance analyst at London stockbroker Nomura International.

Whereas a small holding company anxious to release its assets might have tried to sell the Skandia stock as soon as possible, the large European banks that are Hafnia's creditors would probably not find such an action in their best commercial interests, he said.

"Why should they dump Skandia stock at a huge discount if they can wait until the price rises? Skandia shareholders should be able to breathe a sigh of relief," Mr. Wheelhouse said.

Hafnia acquired its stake in Skandia in late 1991, as part of a failed takeover of the Swedish insurer in conjunction with Norway's UNI Storebrand A/S. The fate of the 28% of Skandia stock held by UNI Storebrand is still unknown. BI

Insurance services guide

WLT
Software of Florida, Inc.
Insurance Software Specialists
• SOPHISTICATED SOFTWARE
• QUALITY SERVICE
• AFFORDABLE PRICING
▪ HEALTH CLAIMS ADMINISTRATION AND BILLING
▪ WORKERS' COMPENSATION CLAIMS ADMINISTRATION
▪ FLEXIBLE BENEFITS ADMINISTRATION
▪ COBRA ADMINISTRATION
STAND ALONE AND NETWORK BASED PC SYSTEMS
CALL TODAY FOR MORE INFORMATION OR A FREE DEMONSTRATION
831 NORTH HERCULES AVENUE ▪ CLEARWATER, FLORIDA 34625
813-442-9296
...ANYTHING ELSE IS A COMPROMISE

THE INSURANCE PROFESSIONALS, INC.
TOW TRUCK INSURANCE
PROPERTY & LIABILITY COVERAGES
GARAGE - BODYSHOPS
AGENT APPOINTMENTS CALL
(602) 991-3600

InPhoto Surveillance

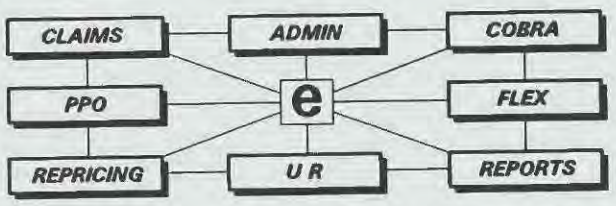
Experts in long range video surveillance. Agents stationed within a 3 hour drive of 80% of the U.S. population.
800-822-8220 FAX 800-752-0720

Directory Printing
✓ State-of-the-art printing!
✓ From artwork or electronic files!
✓ 3-5 day printing deliveries!
HAMILTON *PRESS* (609)753-0900
Berlin, New Jersey FAX 753-0307

Advertise in
The Insurance Services Guide!
FAX your ad
for the next issue:
FAX: 312-649-7799
PHONE: 312-649-5340

AssuranceWARE
Common Sense Software for the Insurance Industry
■ Workers' Compensation
- Policy Adminstration
- Rating
- Claims Adminstration
- Premium Billing/Accounting
■ Workers' Compensation Managed Care
- PPO Management
- Billing & Administration
- Utilization Review
- Pre-Certification Management
■ State Medical Fee Schedule
■ Reasonable & Customary Bill Processing
■ Rehabilitation Case Management
IBM Business Partner
Industry Application Specialist
Call today for more information and for a FREE demonstration diskette.
PROGRESSIVEDATASOLUTIONS, INC.
1320 N. SEMORAN BLVD., SUITE 205 ■ ORLANDO, FL 32807 ■ 407-382-5920

CASE MANAGEMENT PC SOFTWARE
RETURN™
Workers' Compensation, Disability Plans and Other Individual Care
Manages, Maps and Coordinates Case Process -
all providers, services and resources.
Disability duration guidelines optional
HMT
Health Management Technologies, Inc. 1-800-647-7007

The Total Managed Care Solution for
HEALTHCARE CLAIMS MANAGEMENT


• CPT/ICD-9 CLAIMS EDITS • ELECTRONIC CLAIM SUBMISSION
• AUTOMATED DATA CONVERSION • "24 HOUR" INTEGRATION
• ELECTRONIC DATA IMAGING • MANAGED CARE INTERFACE
...12 YEARS & OVER 70 INSTALLATIONS NATIONWIDE
...FOR TPAs, INSURANCE COs & SELF INSUREDS
...WIDE RANGE OF OPERATING SYSTEMS
ELDORADO COMPUTING INC
2880 E Northern Ave Suite 4 Phoenix, AZ 85028 602 493-0288

ISP Insurance Software Packages
A PMSI® Company
✓ *Micro & LAN Based Claims Systems since 1985*
Workers Comp W/ Fee Schedule & PPO
Employee Benefits
Auto, GL, Property
✓ Fee Schedule and PPO repricing System
✓ First Notice of Injury Service & Software
✓ Over 300 Systems Country Wide
✓ Powerful, Complete systems, Easy to use
✓ Mini & Mainframe Integration
✓ Certified IBM, Novell, Microsoft

ISP systems can provide information interfaces with the PMSI family of services and other 3rd party systems and services. For the best in claims and cost containment software, Call ISP.
Call us for more info at 800-237-8133

For advertising information in the INSURANCE SERVICES GUIDE Contact: Margaret Hikido.
740 N. Rush Street, Chicago, Illinois 60611. Telephone (312) 649-5340

Financing reform

Continued from page 1

However, to prevent economic disruptions, a health care contribution requirement for employers would be phased in, Mr. Magaziner said, suggesting that the amount of the required employer contribution would be gradually increased.

Speaking before a National Assn. of Manufacturers-sponsored breakfast, Mr. Magaziner said the administration has made decisions on several other elements of the health care reform package that it expects to unveil next month. Those elements include:

- Malpractice reform. The package will include provisions that will discourage frivolous suits and encourage greater use of alternative dispute resolution mechanisms. He did not elaborate.
- Cost containment. Health care providers would receive fixed fees —similar to capitated arrangements many health maintenance organizations now use—for each employee they agree to treat. The fees would be paid by purchasing cooperatives or alliances composed of employers and individuals.

Through these capitated arrangements, the amount of unnecessary care would be dramatically reduced because physicians, for example, would no longer have an economic incentive to order test after test, Mr. Magaziner said.

- Fixed budgets for health care purchasing alliances to procure health care benefits from providers. Mr. Magaziner did not spell out how the budgets would be set or who would set them.
- Preventing health care services from being used "willy-nilly," by requiring employees to pay a portion—still undefined—of health care costs.
- Cutting paperwork requirements until eventually only one reimbursement form is used.
- Making it easier for states to enact their reform proposals.

Mr. Magaziner said many other issues remain to be decided. For example, the administration has not decided whether self-insured employers will be required to participate in purchasing alliances.

Mr. Magaziner conceded this issue has become "one of our biggest headaches" and may be one of the last to be decided.

Many large employers say they want to remain outside the purchasing alliances, believing they can better manage the cost and quality of care provided their employees.

Mr. Magaziner said he often wakes up "five or six times a night" worrying if the right decisions are being made.

But the worst thing of all would have been to do nothing, he said. That would mean that health care costs would consume an even greater portion of the nation's gross domestic product while leaving tens of millions of Americans uninsured or underinsured.

The reform package will be completed at the end of the month and sent "sometime thereafter" to Congress, he said. The timing will depend in part on how quickly legislators act on a broad tax package.

Many members of Congress earlier urged the administration to delay releasing the health package out of concern that too many legislative initiatives are piling up.

Until the package is released, Mr. Magaziner urged manufacturers not to pay attention to newspaper accounts of what may be proposed. Many of those are "wholly inaccurate," including a recent report that the package could increase health care spending by $150 billion annually, he said.

Many of the reports are inaccurate because they are based on outdated options papers that were presented to the task force, he said.

Several principles that have been the basis of health care reform remain in place, according to Mr. Magaziner, including that all Americans have the right to guaranteed health care coverage, a right that cannot be taken away, if, for example, an individual loses his or her job or moves.

Another basic guiding principle is that the administrative costs associated with providing health care coverage must be reduced. There are "too many checkers checking the checkers," Mr. Magaziner said.

Nurses, for example, now spend about as much time filling out forms as providing care, he said.

Health care reform will not be easy to accomplish, he said, noting that some interest groups that benefit from soaring costs don't want to see the system changed.

But the administration still believes enactment of a reform package this year is possible, he said.

Meanwhile, in other health care reform developments, the administration denied published reports that the task force plans immediate changes in the Medicare program that would require beneficiaries to receive their care through the purchasing alliances. B!

TRAINING: OUR VIEW.

MAINTAINING THE CUTTING EDGE GIVES CLIENTS AN EDGE.

In an ever-changing legal and regulatory environment, continuing education of claim professionals is essential. Unfortunately, in a soft market and depressed economy, educational programs are usually first to perish due to cutbacks.

Such actions make short-term fiscal sense. At Scott Wetzel Services, we believe technical superiority in claim management is only as good as one's understanding of the issues as they change. That's why we increase our commitment to training every year.

SWS has established on-going training programs in every office. Each employee has an annual outlined and documented plan of training specific to individual needs. New employees receive Twelve Week Training Plans, including Automated Claims Management System (ACMS) Training. In every office, an ACMS Trainer directs training for all new employees under the supervision of the home office training department. Follow-up ACMS training is provided as needed.

Our people are also encouraged to improve their own skills. To assist them, Scott Wetzel Services has established a Corporate Library in our home office. Materials related to professional and personal improvement are available to all.

Find out more by calling our president, John Harrold at 1-800-426-5990. (In Washington, call 206-479-0200). He'll explain why continually honed technical superiority nets results that show up on your bottom line.

EXPERIENCE SCOTTWETZEL SERVICES, INC WITH VISION.

Risk Management Planning and Support

PUBLIC ENTITY INSURANCE PROGRAM

FOR:

CITIES • TOWNS • COUNTIES • TOWNSHIPS • SPECIAL DISTRICTS • POLICE DEPTS.

Liability Carrier: American Governmental Reciprocal Insurance Exchange
A Risk Retention Group

Property Carrier: Best Rated A + XV

Excess Carrier: Best Rated A + XV

Excess Limits available to $25,000,000.

Providing Competitive Pricing & Broad Coverage including:

General Liability • Public Officials

Police Professional • E & O • Automobile

Excess Liability • Property

Special Program for Self-Insured Retentions

Contact: American Risk Pooling Consultants
P.O. Box 5088, Southfield, MI 48086
Phone: (313) 358-4010 Fax: (313) 358-2276

Health reform plan

Continued from page 1

the indemnity part of workers comp would function if the medical portion were removed.

"We're worried about federalizing the workers comp system, we're worried about ripping it in half," said Leslie Aubin, health-care policy analyst for the National Federation of Independent Business in Washington. "We'd love to see the liability side addressed as well, but that hasn't been the case."

Health care reformers will be "borrowing trouble" if they try to fold in workers comp immediately without considering the particular needs and issues related to workers comp, said Judith Greenwood, director of research, training and information with the West Virginia Workers' Compensation Division.

"I do think the emphasis is more political than substantive in trying to get small business to buy into an employer-based national health system," said Ms. Greenwood, who also chairs the International Assn. of Industrial Accident Boards & Commissions' medical committee.

Two insurance trade groups—the Alliance of American Insurers and the American Insurance Assn.—weighed in against merging the systems before Mrs. Clinton's announcement (*BI*, May 3; April 19).

And insurers are not alone in questioning how workers comp can be split between a national health reform scheme and a private indemnity system.

"Old-fashioned comp issues don't disappear, but will rear their heads," perhaps in Congress if the task force doesn't deal with them, said Peter Barth, an economics professor at the University of Connecticut at Storrs. For example, any proposal to impose copayments and deductibles on workers comp cases would meet "enormous resistance" in Congress, he said.

Leading that resistance could be organized labor. The AFL-CIO is urging the administration to "incorporate the health care services component of workers comp," said James Ellenberger, the group's assistant director for occupational safety and health.

National reform, however, should not jeopardize "the unique characteristics of the (workers compensation) system," the labor group says. That means no copayments or deductibles and full treatment of injured workers for as long as necessary (*BI*, March 26).

The AFL-CIO has drafted a plan for how the systems could be melded (see related story).

"Practicality dictates that you would get your universal health care plan working first, and on a good footing, before bringing in other things," said Evelyn Scott Ferris, president of the IAIABC, which represents workers comp administrators primarily in the United States.

Numerous other questions surround the suggested changes. Not the least of them is how state workers comp laws could be coordinated with a federal system.

"The real hurdle's going to be all the regulations that govern the work comp system," said Susan M. Werner, director of risk management for Hardee's Food Systems Inc. in Rocky Mount, N.C. Inconsistency among the states would have to be overcome before the health care component could be wrapped into a federal system, she said.

"A host of incredibly complex laws and rules in each and every state will have to be reviewed and modified," agreed Glenn Meister, a principal with A. Foster Higgins & Co. Inc. in Los Angeles.

Adopting the Clinton proposal would appear to reduce the need for state regulators, the IAIABC's Ms. Ferris said.

How alternative risk financing mechanisms would fare under a merged system also remains murky.

Under a merged system, companies that use captives for work comp exposures "are probably in no worse position than when you were competing" with the insurance market, said Richard S. Betterley, president of Betterley Risk Consultants Inc. in Worcester, Mass.

"(But) It would seem to preclude the opportunity to self-insure unless you met certain hurdles," he said. One hurdle might be a requirement to have a large, specified number of employees in a plan.

For self-insured groups consisting of employers individually too small to self-insure on their own, the news could be worse, Mr. Betterley said. He questioned whether there would be a provision for such groups to continue.

"Anything that would threaten our members' ability to continue to have the option to self-insure would be of great concern," said Mark Stuart, assistant director-risk management for the National Assn. of Manufacturers in Washington.

Company size could determine whether self-insuring workers comp would make sense under a merged system, said Stan Hoffert, vp and general counsel with Employers of Wausau Mutual Insurance Co. in Wausau, Wis.

If self-insured companies could stay out of the "health insurance purchasing cooperatives" because of their size, they wouldn't lose out under the new system, he said. "But if they get rolled into the HIPC, then they've got the same problems as the rest of us."

One of those problems could be controlling the indemnity side of the workers comp equation under the merged system. But the biggest challenge is finding a way to overcome potentially higher indemnity costs caused by splitting control of medical care away from returning an injured employee to the job, said Mr. Victor of WCRI.

Workers comp administrators caution against adopting any national plan that does not include strategies to achieve "the unique set of linked goals from medical care to medical stabilization, to productive employment." Unless those goals are carefully considered, an attempt to combine the two systems could increase rather than decrease costs and make the system more prone to litigation, said the IAIABC.

Insurers don't argue with that.

"The thing that's being left out of the equation is that those savings, whatever they are, will be more than offset by the escalating disability costs," said Paul Mattera, a vp of Liberty Mutual Insurance Co. in Boston.

Despite promises of savings from a combined system, business groups and insurers are skeptical.

Under a merged system, employers would have to buy wage-loss coverage, liability policies to cover potential litigation and some sort of health coverage to cover deductibles and copayments if the merged system requires injured workers to pay for their own treatment, said David Pratt, senior vp-federal affairs with the American Insurance Assn. in Washington.

Disability and accident costs could also rise if experience rating is eliminated, and employers thus lose an incentive to promote safety.

Splitting apart the health care and indemnity portions of workers comp would also cost insurers and policyholders the "ability to manage the entire case—medical treatment such as referrals to specialists with an eye toward hastening a return to work," said Mr. Mattera.

Labor may have task force's ear

The Clinton administration's apparent support for folding workers compensation medical benefits into a national health care plan indicates that Hillary Rodham Clinton's team may be heeding labor's message.

Union officials see that development as encouraging, though they are uncertain about whether the Task Force on National Health Care Reform is considering other elements of the AFL-CIO's proposal, said James Ellenberger, assistant director for occupational safety and health.

The AFL-CIO presented its views to health care planners earlier this spring in person and through a five-page working paper that outlines its support for integration of workers comp into health care reform and details how it could be done.

Following is a summary of the union's draft, details of which have not previously been publicized.

"Substantial cost savings should occur through integration," the AFL-CIO wrote. Integrating workers comp medical care with a national health care program theoretically could save at least $7.5 billion, based on projected system costs of $70 billion. Specifically, integration will save money by eliminating cost-shifting and unnecessary care, the paper said.

Under the AFL-CIO draft proposal, including workers comp as part of a national health care program would be financed by all employers—even those that currently self-insure.

Employers would pay premiums for workers comp medical coverage directly to a Health Insurance Purchasing Cooperative. Premiums would be community rated and adjusted periodically by group experience.

"For medical treatment for conditions related to a person's employment, any copay and/or deductible, normally assessed on patients, would be paid by the HIPC and recovered from the employer. In the case of occupational injuries or illnesses that cannot be assessed against a specific employer, the HIPC will adjust the 'community rating' for all similarly situated employers."

In addition, any services needed beyond the core benefits of the national health plan would be billed to the HIPC and recovered from the employer.

The union also recommends retaining experience rating as an incentive for employer safety by retrospectively assessing employers based on actual experience.

Under the union's draft proposal, HIPCs would assess and collect premiums from employers, collect information on work-related medical treatment, and supervise and conduct quality control reviews of Approved Health Providers.

In addition, the HIPC would "establish a dispute resolution process to settle disputes over causation and extent of permanent impairment. This, or a similar mechanism, may also need to be used to resolve disputes over appropriate medical treatment."

The union also proposes that an individual—rather than employers—select an AHP and use it for both regular health care and occupational injuries or illnesses. If necessary services are not available for a work-related condition, the AHP would have the authority to refer patients or to contract for such services.

"Determinations as to the work-relatedness of the condition being treated would be made at the point of initial care, if possible." However, procedures should be set to allow for determination at a later date.

The AHP must institute quality control measures "to engender trust and confidence by workers and employers in determinations as to treatment, causality and extent of impairment," the union wrote.

Under the union's proposal, state workers comp agencies will limit their scope to wage-loss benefits and return-to-work programs. In addition, state regulators must ensure all licensed employers carry medical insurance for work-related conditions through the appropriate HIPC and "coordinate monitoring and enforcement mechanisms" with the HIPC.

"State agencies will be responsible for all dispute resolutions involving indemnity benefits. Where disputes involve questions of causality or extent of impairment, the decision of the HIPC will govern."

A national health care plan would pre-empt all existing arrangements for providing the medical portion of workers comp. However, workers comp insurers with managed care networks or services would be able to apply to the HIPC for approval as an AHP, the union proposes.

—By Meg Fletcher

No one suggested that the new health care system could adopt an aggressive return to work program for injured workers regardless of where or how they were hurt, thus controlling indemnity costs.

David M. Farmer, vp-federal affairs for the Alliance in Washington, for example, suggested that if a health insurance purchasing cooperative tried to adopt an aggressive back-to-work program, "you'd have a public sector program substituting for a private sector program. It's been our experience that no public sector program has ever been less expensive in the long run than a private sector program."

Mr. Barth pointed out that doctors don't like being forced to determine when an employee should go back to work but tolerate it now because workers comp cases are a small part of their practice.

Meanwhile, if the medical portion of automobile insurance is folded into the national health plan and if employers are required to pay for their workers' health care coverage, as was suggested last week by Senior Domestic Policy Adviser Ira Magaziner, employers will be even more unhappy, said Mr. Farmer.

Noting that the medical portion of auto insurance is more than $10 billion, David Snyder, the AIA's senior counsel, said, "This would load an additional $10.5 billion of health care expenditures that businesses would have to pick up."

Herman Brandeau, associate general counsel for State Farm Mutual Insurance Group in Bloomington, Ill., said that placing the medical portion of automobile insurance into the reformed health system "is doable if it is done right."

Doing it right, he said, would require: assessing auto policyholders some portion of their premium to fund health care reform; requiring both first- and third-party claims from auto accidents to be paid by the system's funding mechanism; and changing the collateral source to preclude the possibility of suits for further indemnification. BI

American Business Insurance

Continued from page 2

was formed with the financial backing of AFC, a unit of Great American Insurance Co., both of which are controlled by financier Carl H. Lindner.

Russell R. Miller, chairman of insurance investment banker Russell Miller Inc. in San Francisco, said the likely purchaser will probably be "some of the stronger firms that are not of the large size," such as Hilb, Rogal & Hamilton Co., Acordia Inc. or Hogg Group P.L.C.

Other possible suitors include "one of the other strong players that are not yet large players" and whose management might be interested in enhancing their overall U.S. capabilities, he said.

"There are some very, very good people and companies as a part of this group," Mr. Miller said of ABI, noting he had arranged the sale of some of them to the brokerage.

Mr. Miller said he does not believe the larger publicly held brokers, such as Marsh & McLennan Cos. Inc. and Alexander & Alexander Services Inc., would be likely buyers. "Pretty much their national networks are in place, so they probably wouldn't be interested."

It is also unlikely someone outside the brokerage business would be interested, he said, pointing to brokers' low margins.

"We haven't taken a look, but that's not to say we wouldn't," said Gary Griffith, chief executive officer of Hogg Robinson Inc. in Boston, the U.S. subsidiary of Hogg Group. Hogg Robinson would normally be contacted by a business broker about a possible deal, but that has not occurred yet, he said.

Robert H. Hilb, president of Hilb, Rogal & Hamilton Co. in Richmond, Va., said he also has not been contacted about the sale. While HRH "would certainly look at anything we thought would fit with our company," Mr. Hilb said he did not know whether ABI would fit.

Acordia would not comment.

Some in the market speculate ABI could be up for sale because its highly diversified parent, AFC, may be shuffling its holdings. AFC may simply feel the time is ripe to make a profit from selling the brokerage, one observer said.

ABI in 1991 acquired Charleston, W.Va.-based McDonough Caperton Insurance Group Inc., a large broker whose business includes third-party administration services. This acquisition gave ABI a mix of property/casualty and employee benefits business that may be attractive to potential buyers.

ABI handled $1.87 billion in premiums in 1992, including $500 million in claims processed through the TPA, which was a 24.7% increase from $1.5 billion in 1991.

Mr. Mizel, now an executive vp with Poe & Brown Inc. in San Francisco, left ABI last year because of an "agreement to disagree" with AFC, Mr. Leaman has said (*BI*, June 29, 1992).

Mr. Mizel wanted to quickly turn ABI into a large national brokerage, while AFC decided it was time to control its bottom line and slow down its acquisition activity, said Mr. Leaman. ABI offices made 11 acquisitions and mergers in 1992, down from 14 a year earlier. BI

Ellen Thrower

Continued from page 3

sor of insurance and risk management.

She moved on to become associate professor of insurance at Drake University in Des Moines, Iowa, in 1984 and was appointed director of the university's Insurance Center in 1985.

Four years later, she assumed her current position of president and professor of insurance and risk management at the College of Insurance.

Ms. Thrower's enthusiasm for insurance education and her ability to generate interest in the subject is one of her major strengths, according to her former teachers and colleagues.

"She's one of the most dynamic academics I know. (APIW) has made an excellent choice," said Harold Skipper, director of the center for risk management & insurance research in the College of Business Administration at Georgia State.

When she arrived at Drake, for example, she injected a new vitality into the program, he said.

And her rapport with students brings out the best in them, Mr. Skipper said. "She understands students, she empathizes with them, but at the same time she is straight and honest with them when they are not doing as well as they could do."

Ms. Thrower is also effective in communicating to her colleagues in other departments what risk management and insurance is all about, Mr. Skipper said.

"The traditional view is that if you are studying insurance, you want to sell life insurance," he said. Ms. Thrower helped to dispel that myth among her colleagues to the benefit of her students, he said.

Now students at the College of Insurance are benefiting from Ms. Thrower's interest in them and insurance, said Sandra Gustavson, professor of insurance at the University of Georgia in Athens.

In particular, Ms. Thrower set up a program at the College of Insurance encouraging minority students to study insurance, she said. Under the program, which was started in 1989, insurance companies and brokers sponsor minority students from all over the country to spend a semester at the college.

"We have made a commitment to increase diversity at the college, and we have focused special attention on minority students. . . .Now over 25% of our students are from minority groups," Ms. Thrower said.

Another important program Ms. Thrower has introduced is designed to promote insurance among high school teachers, said Ms. Gustavson. High school teachers attend the college for a two-week course on insurance and how to teach it in an interesting way to their students.

"We have had teachers from about 40 states, many of whom come with misconceptions about insurance. When we dispel the misconceptions, they become interested in insurance and go back to their schools and include it in their classes," Ms. Thrower said. The program is funded through the Insurance Education Foundation.

Ms. Thrower's fund-raising efforts also have benefited the college, said Robert Clements, president of Marsh & McLennan Cos. Inc. and chairman of a newly formed advisory committee created by the board, which explores external resources.

"As president of the college, she has multiple responsibilities and one which she can't escape is fund raising. She has been a big power in that area," Mr. Clements said.

The colleges's $35 million capital campaign for the Second Century, started in 1991, has already received more than $20 million in donations and pledges.

Ms. Thrower's own higher education began at the University of North Carolina at Greensboro, where in 1974 she earned a bachelor of science degree majoring in business administration. She also earned a master's degree in business administration, concentrating on risk management and insurance, from UNC in 1978.

In 1982, she received a doctorate in business administration, again with a concentration in risk management and insurance, from Georgia State University in Atlanta.

In 1988, she spent a summer at the Harvard University Institute for Educational Management in Cambridge, Mass.

In addition to the College of Insurance, Ms. Thrower is a member or director of many other educational and industry associations, including the Insurance Education Foundation and the American Institute of Property & Liability Underwriters.

Ms. Thrower will be honored at a June 10 reception at the City Midday/Drug and Chemical Club in New York.

The award will be presented by Donald J. Greene, chairman of LeBoeuf, Lamb, Leiby & MacRae and a trustee of the College. BI

Executive Life

Continued from page 2

policyholders. That addition, Section 10541, took effect in January 1989 and governs the priority status of "funding agreements" like GICs and some annuities.

California regulators have argued that because GICs are by state law mere "funding arrangements" under Section 10541, holders of those contracts were not entitled to the same rights and protections as policyholders. Thus, the regulators initially excluded muni-GIC holders from ELIC's rehabilitation plan (*BI*, Aug. 12, 1991).

But the Legislature never intended Section 10541 to relegate GICs to non-policyholder status, according to Ross Sargeant, chief of staff for Sen. Johnston, who plans to introduce his proposal as part of a bill that would merge the state life and health guaranty funds.

That status would hurt California-domiciled life insurers when they tried to market these products and would put at risk investments made by pension plan participants, California counties, municipalities and others, he said.

Based on the 1989 state court ruling, muni-GICs issued after Section 10541 become effective would be excluded from the ELIC asset distribution. Next month, the Los Angeles Superior Court judge overseeing the rehabilitation is expected to consider a motion to similarly exclude all other GICs (*BI*, May 3).

The Johnston bill would not increase the financial obligation of the National Organization of Life & Health Guaranty Assns., said Jack H. Blaine, president of the Herndon, Va.-based group. NOLHGA's enhancement agreement did not include payments to California GIC holders because they are not covered by the state guaranty fund, he said.

The group is paying on GICs in states where guaranty fund coverage is provided, he said. Fewer than half of those funds cover GICs. BI

ERISA waivers

Continued from page 1

with Hewitt Associates in Washington.

Although Hawaii's universal health care law covers nearly all citizens, the state would like to improve cost containment features of the program (*BI*, March 26).

New York's proposed waiver would retroactively allow the state to levy a 13% surcharge on hospital bills paid by self-insured plans to help cover the costs of providing health care to the uninsured.

If the waiver becomes law, it would overturn a February ruling by U.S. District Judge Louis J. Freeh that the state's surcharge violated ERISA (*BI*, Feb. 8).

Minnesota's proposed waiver would allow the state to charge hospitals a 2% tax on gross revenues to help fund expanded access to health care coverage under the MinnesotaCare law, a health care reform measure enacted last year (*BI*, Sept. 28, 1992; April 27, 1992).

Mr. McArdle described the proposed Maryland waiver as a "preemptive strike" to protect the state's hospital rate-setting system from being overturned as an ERISA violation (*BI*, April 19).

"Any tinkering with pre-emption is a matter of concern," said Henry Saveth, a principal with A. Foster Higgins & Co. Inc. in New York. He added, however, that four waivers do not amount to "a wholesale gutting" of ERISA pre-emption.

Mary Lynn Eubanks, a Hewitt legal consultant in Lincolnshire, Ill., noted the waivers would only be granted for a limited time.

However, Mr. McArdle said nothing in the legislation would prevent them from being extended.

ERIC's Mr. Ugoretz said he was not particularly impressed with the proposed sunset provision.

"It's nice to have, but it's not much solace. It says that members of Congress are not facing up to the reality of health care reform," he said. Mr. Ugoretz predicted that if Congress passes responsibility for health care reform back to the states in the form of ERISA waivers, "it's going to be an unholy mess."

During discussion of the provision by the committee last Wednesday, Rep. Harris Fawell, R-Ill., predicted that letting the waivers stand would amount to "the Balkanization of self-insured plans," adding that "46 more states will follow" the four that are seeking waivers.

Rep. Fawell offered an amendment to strike the four waivers from the budget reconciliation legislation.

"Turf wars should not be the basis of changes of policy of immense importance to this nation," he added.

However, within a few minutes, Rep. Fawell withdrew his amendment after Rep. Ford assured him, "I'm not sure we'd have to keep this in the bill all the way through" the budget reconciliation process.

"We hope Chairman Ford will get it knocked out," said Ellen Goldstein, director of health care policy for the Assn. of Private Pension & Welfare Plans in Washington. "We've got to be hopeful reason will prevail."

Mr. McArdle pointed out, however, that the waivers are part of "the fastest-track legislation in town" and that the Clinton administration, unlike its immediate predecessor, isn't opposed to them. In fact, he predicted there "will be attempts to expand" the number of ERISA waivers.

"This could result in a patchwork of rules, which is exactly what ERISA was designed to preclude," Mr. Saveth said. BI

Update

Nationwide changes continue

DALLAS—In Nationwide Group's latest move to reorganize its commercial business lines distribution system in its Western region, affiliate Employers Insurance of Wausau will terminate its contracts with all exclusive business lines agents in July.

Wausau last week gave the 117 exclusive agents four options: become account representatives with Wausau, sign a broker agreement, transfer to another Nationwide operation or leave the company.

A termination provision in current agent contracts contain one-year non-compete agreements. Still, some agents said they plan to leave because their earnings potential would be otherwise drastically cut.

Wausau said it hopes the agents will stay with the company.

The agents were exclusive agents for Nationwide until earlier this year. Nationwide then required that they become exclusive agents for Wausau and submit their largest new and renewal commercial business to Wausau for pricing. In addition, Wausau account representatives were given the opportunity to compete against the agents on new business. Wausau also uses brokers to produce business.

The earlier change in the distribution system prompted a lawsuit on behalf of 2,000 former exclusive agents (*BI*, May 3).

Tornado damages businesses

WYLIE, Texas—Businesses in this town nine miles northeast of metropolitan Dallas suffered at least $10.6 million of insured damage when a tornado plowed through on May 9, according to the Texas Division of Emergency Management.

Thirty-nine businesses in Wylie suffered damage averaging $340,000 each, or about $13.3 million overall, according to Emergency Management Disaster Recovery Officer Hal Wilson. About 80% of the businesses were adequately insured, he said. The remainder were underinsured or uninsured. Overall, the tornado, which also damaged a hospital, caused about $18.8 million of damage in the town.

The tornado was part of a huge storm system that roared through seven states May 7-9. Portions of Arkansas, Kansas, Louisiana, Oklahoma, Nebraska and South Dakota also were pummeled by tornadoes, strong winds, hail and thunderstorms. The Property Claim Services division of the American Insurance Services Group expects to release an estimate of insured damage this week.

Cleanups are ruled 'damages'

BALTIMORE—Government-ordered environmental cleanups are covered "damages" under the terms of standard-form comprehensive general liability policies, the Maryland Court of Appeals has ruled.

However, the damages must be to third-party property, not to a policyholder's own property, the court found in *Bausch & Lomb Inc. vs. Utica Mutual Insurance Co.*

The decision countered a 1987 federal appeals court ruling that under Maryland law mandated cleanup costs were not covered damages under CGL policies (*BI*, July 20, 1987). Bausch & Lomb, though, lost its coverage bid because the damage in question had occurred primarily to groundwater under its own property, triggering the owned-property exclusion in its CGL policy.

Briefly noted

Arthur J. Gallagher & Co. has signed a letter of intent to purchase **Great Lakes Agency** in Chicago. . . .**Lloyd's of London names** do not have to pay their losses before they can sue their managing and members agents, the British High Court has ruled. . . .The California Insurance Department has suspended **Arthur A. Blumeyer III** from acting as an agent in the state. Mr. Blumeyer was indicted on fraud and other charges earlier this year (*BI*, March 22). . . .**Zurich Reinsurance Centre Holdings Inc.,** after its initial public offering (*BI*, March 15), began trading on the New York Stock Exchange Wednesday at $35 a share. It closed Friday at $35. . . .Massachusetts' highest court struck down as unconstitutional a **$515 filing fee required of injured workers** who hire attorneys to represent them in workers compensation disputes. . . .**General Motors Corp.** said its unfunded pension liability may increase by $5 billion to a total of $14 billion at year end. . . .**Seibels Bruce Group Inc.** is suing American States Insurance Group for breach of contract and unspecified wrongful acts related to American States' cancellation of a proposed merger of the two insurers (*BI*, Aug. 31, 1992). . . .**American International Group Inc.** is splitting its stock and increasing its dividend. A three-for-two split of AIG common stock will be payable to shareholders of record on July 2. AIG also declared a quarterly cash dividend on the new shares of 10 cents, payable to shareholders of record Sept. 3. . . .In state court motions filed last week, holders of muni-GICs from **Executive Life Insurance Co.** are challenging the sale of the failed insurer to a French investment group on the grounds that it may violate the federal Bank Company Holding Act and state insurance law. . . .American Insurance Assn. President **Robert E. Vagley** is recuperating from shoulder and hand surgeries following a recent bicycling accident. . . .**Royal Insurance Holdings P.L.C.** plans to raise 404 million pounds ($615.1 million) by offering shareholders one new share for every three existing shares at 255 pence ($3.88) per share. . . .H.R. 1960, passed last week by the House Ways and Means Committee, would reduce to $150,000 from $235,840 the amount of employee compensation that can be recognized in determining **defined benefit pension formulas** and making contributions to defined contribution plans (*BI*, May 10). . . .A federal court has approved a **$45.7 million settlement** by 150 municipalities in a lawsuit over DDT contamination of Santa Monica Bay (*BI*, March 8, 1992). . . .United HealthCare Corp. plans to buy HMO America Inc. in a stock transaction valued at about $400 million. The deal, expected to be completed in September, would make **United HealthCare Corp.** the largest managed care health system in the Chicago area.

Undaunted by soft market, brokers are learning to adapt

By LEONARD M. WILSON

Special to Business Insurance

THE INSURANCE BROKERS have weighed in with their annual reports during recent weeks—comprehensive report cards on results for the year just closed. In the case of the publicly owned insurance brokers, certain themes emerge that reflect the tough insurance market.

Restructuring and realignment of operations were common threads. Not only did managers adapt to the difficult market conditions, but they also focused on reshaping operations to deal with continuing dynamic shifts in brokering.

Annual reports generally displayed an optimistic tone, since managements rightly should have a can-do attitude toward the challenges of competition, growth and soft insurance markets. In the 1992 reports, the soft market was cited as an impediment to operating results. But the ability to cope was evident in the initiatives described in the brokers' annuals.

Marsh & McLennan Cos. Inc. took several steps to reorganize operations. U.S. retail operations were divided into two segments. Risk management will serve the large client including multinationals. Mid-size clients will be served by a division called simply insurance brokerage.

Marsh & McLennan Europe was established as well to give cohesion to what the annual report calls "the only fully owned and integrated insurance broking organization in the European community." The company acquired Frizzell Group Ltd., a U.K. leader in insurance programs for affinity groups.

Reflecting a wider rage of funding activities, Marsh & McLennan formed Risk Capital Corp. to oversee investments in specialized underwriting facilities such as ACE Ltd., X.L. Insurance Co. Ltd. and most recently Mid Ocean Reinsurance Co. Ltd., a property catastrophe reinsurer.

Alexander & Alexander Services Inc. highlighted an extensive program of restructuring for which a fourth-quarter charge was established. Marginal offices were closed and individual offices were focused on service appropriate to the particular client mix.

On the cost front, results of the restructuring were quickly realized with savings of $27 million identified in 1992, and prospects for additional reductions in 1993. For the year as a whole, expenses rose about 2% compared with the year before.

The company adopted the common trading name of Alexander & Alexander for all retail brokerage across the globe. This decision effectively underscores the firm's recognition of an increasingly multinational client base.

Arthur J. Gallagher & Co. noted the success of its self-insurance entity, Gallagher-Bassett Services Inc. This unit now operates from 102 domestic offices. Gallagher-Bassett handled 208,000 property and casualty losses, and in the process dispersed $780 million of client funds. Perhaps presaging future directions, Gallagher Bassett completed its first acquisition, AMSEC Loss Control Services of Middleburg, Va.

Gallagher also consummated its first merger in employee benefits, with the addition of Abow Cos. Inc. of Troy, Mich. The benefits segment seems targeted for future growth both internally and through acquisitions.

Gallagher's annual report included the Gallagher Way, a statement of management principles and values that can be read and studied to advantage.

Hilb, Rogal & Hamilton Co. installed a new standardized, computer-based accounting and reporting system in several offices as the first step in an eventual rollout across all of its locations. The firm moved toward a divisional structure aimed at affording greater discipline while sustaining the concept of decentralized operations.

Willis Corroon Group P.L.C. pursued a concerted program of cost control throughout its organization. U.S. retail was a particular focus for programs designed to improve efficiency and enhance client service. Additional offices were established in key areas to broaden the company's international position.

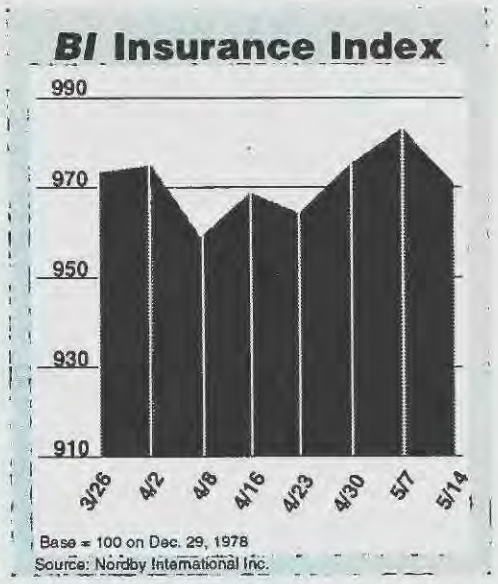
Rollins Hudig Hall was the newly minted designation for Aon Corp.'s insurance brokerage subsidiary. The acquisition of Frank B. Hall & Co. enlarged retail operations to 129 offices worldwide. RHH can now claim a presence in almost every major industrial country.

Sedgwick James, the U.S. brokerage subsidiary of Sedgwick Group P.L.C., decided to focus efforts on areas with the greatest promise. Particularly good results came in such diverse areas as retail, construction, public entities and financial risks. On the buyout front, the firm acquired Duncan Peek Inc., a leading Atlanta-based broker and benefit consultant.

Poe & Associates took a giant step in its corporate development by merging with Brown & Brown Inc., a broker with headquarters in Florida. Their merger will allow the combined company, Poe & Brown Inc., to approach $100 million in revenues in 1993.

Clearly, the public insurance brokers are not standing still. Profitability is an issue in domestic retail brokerage as we suggested in our column last month. Managements are positioning operations to improve performance whatever the state of insurance markets. BI

Leonard M. Wilson is a senior vp with Lazard Asset Management Inc. He is a member of the New York Society of Security Analysts.



Insurance stocks fell last week, as the *Business Insurance* Index dipped 11.6 points to 970.7 May 14 from 982.3 on May 7. Advancing issues for the week were led by Seibels Bruce Group, up 13.3%; Sierra Health Services, up 10.5%; and American Indemnity/Financial, up 6.8%. Declining issues followed Statesman Group Inc., down 12.3%; Frontier Insurance Group, down 10.0%; and Orion Capital Corp., down 8.8%. The most active issue was U.S. Healthcare, 6.4 million shares traded. The *BI* Index was down 1.2%; the NYSE Composite was down 0.6%; the Standard & Poor's 500 was down 0.6%; and the Dow Jones 30 Industrials rose 0.2%.

British Issues

May 13 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	588	N/M	32.5	5.5	591—582	
Genl Accident	588	N/M	35.7	6.1	593—573	
Gdn Royal Exch	176	N/M	9.3	5.3	182—176	
Royal	308	N/M	6.7	2.2	313—308	
Sun Alliance	337	N/M	19.0	5.6	339—324	
Brokers						
Bradstock	125	14.6	6.8	5.4	125—125	
CE Heath	318	18.3	21.3*	6.7	318—318	
Hogg Group	190	16.7	10.9	5.7	190—190	
JIB Group	190	18.8	10.0	5.3	190—190	
Lloyd Thompson	274	22.1	7.5	2.7	274—274	
Lowndes Lmbrt	347	13.9	16.8	4.8	348—347	
PWS Holdings	63	9.3	5.3	8.4	63—59	
Sedgwick Grp	170	20.5	8.0	4.7	170—165	
Steel Brrl Jones	207	12.1	17.7	8.5	207—207	
Willis Corroon	184	17.2	8.8	4.8	184—180	

Source: Philip Olsen, London * Estimated

BI Industry Stock Report

MAY 10, 1993 THROUGH MAY 14, 1993

		Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
BROKERS												
Acordia Inc.	NYS	19.88	-5.36	-7.56	24.75	15.13	59	0.36	1.81	12	7.01	2.84
Alexander & Alexander	NYS	25.63	-3.30	-3.30	28.88	19.75	170	1.00	3.90	22	10.00	2.56
Gallagher Arthur J. & Co.	NYS	34.50	1.47	22.12	35.63	21.00	60	0.72	2.09	22	6.35	5.43
Hilb, Rogal & Hamilton	NYS	14.50	-3.33	-7.20	16.88	11.00	82	0.44	3.03	20	3.11	4.66
Marsh & McLennan	NYS	89.13	-1.93	-2.46	97.63	73.50	603	2.68	3.01	21	14.40	6.19
Poe & Associates	OTC	20.13	0.00	20.15	21.25	11.25	0	0.40	1.99	77	2.64	7.62
BROKERS	AVERAGE		-2.1	3.6					2.3	25		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W.R. Corp.	OTC	41.50	-3.21	-3.49	50.50	32.00	371	0.40	0.96	16	23.51	1.77
Berkshire Hathaway Inc.	NYS	13500.0	1.50	14.89	13500.0	8875.00	1	0.00	0.00	36	6437.25	2.10
ITT (Hartford Group)	NYS	81.75	-0.76	13.54	84.25	62.50	1018	1.96	2.40	-35	68.23	1.20
Sears (Allstate)	NYS	53.13	-0.47	16.76	55.75	37.75	5403	1.60	3.01	-9	40.18	1.32
CONGLOMERATES	AVERAGE		-0.7	10.4					1.6	2		
INSURERS/REINSURERS												
ACE Ltd.	NYS	30.13	-2.82	-	32.00	27.50	550	0.40	1.33	26	34.06	0.88
AEGON N.V.	NYS	45.75	-0.27	9.91	49.38	33.13	20	2.94	6.43	9	34.06	1.34
Aetna Life & Casualty	NYS	53.38	0.95	14.78	54.13	36.00	1128	2.76	5.17	116	67.08	0.80
Allied Group Inc.	OTC	36.50	-5.81	14.96	45.50	19.50	208	0.72	1.97	8	11.29	3.23
Allmerica Prop. & Casualty	NYS	54.63	-1.13	8.17	60.38	34.75	140	0.44	0.81	5	40.44	1.35
American General	NYS	29.50	5.83	3.51	33.25	22.63	2050	1.08	3.66	12	39.89	0.74
American Heritage Life Ins.	NYS	37.50	0.67	23.97	37.75	27.50	3	0.68	1.81	17	16.51	2.27
American Indemnity/Fin'l	OTC	11.75	6.82	95.83	11.75	4.75	43	0.08	0.68	6	14.43	0.81
American International	NYS	126.38	-2.41	8.94	132.75	84.25	1651	0.56	0.44	16	54.21	2.33
American RE Corp.	NYS	35.75	-5.30	-3.38	41.75	34.25	618	0.00	0.00	36	N/A	N/A
Aon Corp.	NYS	51.50	-5.50	-4.63	56.75	41.25	180	1.80	3.50	17	27.17	1.90
Argonaut Group	OTC	33.50	-0.74	9.84	35.25	25.50	113	1.00	2.99	10	21.70	1.54
AVEMCO Corp.	NYS	18.75	-8.54	-19.79	28.00	18.75	80	0.40	2.13	22	7.33	2.56
Baldwin & Lyons Inc.	OTC	38.00	4.11	4.11	39.00	27.50	13	0.48	1.26	9	30.85	1.23
Chandler Insurance	OTC	4.00	6.67	-15.79	7.63	3.50	17	0.00	0.00	17	8.63	0.46
Chubb Corp.	NYS	86.25	-5.22	-2.95	96.38	64.63	849	1.72	1.99	13	40.67	2.12
CIGNA Corp.	NYS	60.88	0.83	3.84	68.00	47.13	515	3.04	4.99	11	81.73	0.74
CNA Financial Corp.	NYS	92.13	-4.16	-5.99	102.88	82.00	107	0.00	0.00	-13	80.24	1.15
Continental Corp.	NYS	28.88	0.43	7.44	34.75	20.00	1466	1.00	3.46	21	38.32	0.75
EXEL Ltd.	NYS	49.63	-4.34	5.03	52.25	32.38	222	1.00	2.02	9	N/A	N/A
Fund American Corp.	NYS	85.13	0.74	18.23	85.13	67.50	17	0.00	0.00	15	81.85	1.04
Fremont General Corp.	NYS	34.38	-6.46	-0.36	41.75	33.25	198	1.08	3.14	9	25.62	1.34
Frontier Insurance Group	NYS	40.50	-10.00	-6.90	49.00	30.25	122	0.60	1.48	13	13.97	2.90
Gainsco Inc.	ASE	15.50	2.48	9.73	18.56	8.16	167	0.04	0.26	19	2.65	5.85
General RE Corp.	NYS	111.38	-4.30	-3.78	130.50	79.25	565	1.88	1.69	16	46.07	2.42
Guaranty National Corp.	NYS	21.50	0.00	8.86	24.00	14.38	278	0.00	0.00	12	9.12	2.36
Harleysville Group	OTC	29.00	-0.43	2.65	32.75	18.00	30	0.64	2.21	17	16.77	1.73
Hartford Steam Boiler	NYS	55.88	0.00	-3.25	59.88	51.38	84	2.12	3.79	20	19.74	2.83
HCC Insurance Holdings	OTC	22.00	4.76	8.64	23.50	12.25	116	0.00	0.00	23	10.12	2.17
Kemper Corp.	NYS	35.75	-2.05	20.68	43.00	20.75	694	0.92	2.57	-9	37.66	0.95
Lawrence Insurance Group	ASE	6.13	2.08	-28.99	10.25	5.50	5	0.12	1.96	102	4.66	1.31
Liberty Corp.	NYS	31.00	-6.77	9.73	33.88	25.00	59	0.56	1.81	13	18.43	1.68
Lincoln National	NYS	79.75	0.47	9.06	83.63	55.75	287	3.04	3.81	10	58.92	1.35
Markel Corp.	OTC	35.13	3.31	12.40	36.50	23.00	115	0.00	0.00	11	15.44	2.27
Mutual Risk Mgmt. Ltd.	NYS	38.50	-7.78	-4.94	46.00	25.75	62	0.28	0.73	21	7.51	5.13
NAC Re Corp.	OTC	37.50	3.45	-7.41	44.75	21.75	625	0.16	0.43	53	13.60	2.76
National Re Corp.	NYS	37.50	-1.96	26.58	39.63	17.63	35	0.12	0.32	14	N/A	N/A
Navigators Group	OTC	32.75	-6.43	0.77	36.50	28.50	6	0.00	0.00	25	15.69	2.09
Nobel Insurance LTD.	OTC	6.88	-5.17	17.02	8.25	4.25	308	0.00	0.00	2	3.91	1.76
NWNL Companies	NYS	54.50	-2.68	7.13	64.88	34.50	211	1.60	2.94	14	46.21	1.18
Ohio Casualty Corp.	OTC	63.50	-0.97	0.59	68.75	50.25	239	2.84	4.47	12	43.08	1.47
Old Republic Int'l	NYS	22.00	-4.35	-11.56	27.38	19.50	1047	0.40	1.82	7	18.63	1.18
Orion Capital Corp.	NYS	39.00	-8.77	10.25	46.38	24.59	177	0.80	2.05	8	28.62	1.36
Phoenix RE Corp.	OTC	31.50	-1.18	100.00	34.00	9.00	327	0.20	0.63	-68	13.32	2.36
Provident Life	NYS	28.88	-0.43	1.32	31.50	20.75	19	1.04	3.60	11	30.38	0.95
Re Capital Corp.	ASE	15.00	-2.44	-9.09	16.63	12.25	29	0.28	1.87	30	16.88	0.89
Reliance Group Holdings	NYS	7.13	1.79	16.33	8.50	4.25	636	0.32	4.49	3	2.94	2.42
RLI Corp.	NYS	25.75	0.00	4.04	28.63	18.38	26	0.52	2.02	12	17.92	1.44
St. Paul Companies	NYS	81.75	-0.15	6.17	83.25	67.88	398	2.80	3.43	-13	59.79	1.37
SAFECO Corp.	OTC	56.50	-1.09	-0.44	66.75	47.75	1631	1.80	3.19	13	35.37	1.60
SCOR U.S. Corp.	NYS	18.25	-2.67	4.29	20.75	13.13	39	0.32	1.75	261	14.39	1.27
Seibels Bruce Group	OTC	1.06	13.33	-43.31	6.13	0.38	37	0.00	0.00	0	6.22	0.17
Selective Ins. Group	OTC	23.00	2.22	4.55	25.75	18.50	74	1.12	4.87	13	20.22	1.14
Statesman Group Inc.	OTC	11.63	-12.26	-3.13	16.50	5.00	524	0.20	1.72	6	6.71	1.73
Tokio Marine & Fire	OTC	58.38	-6.04	21.61	63.50	36.75	65	0.00	0.00	-	70.93	0.82
Torchmark Corp.	NYS	52.63	-5.82	-7.27	64.75	37.75	729	1.04	1.98	14	14.87	3.54
Transamerica	NYS	48.88	2.09	1.82	56.13	40.00	1237	2.00	4.09	11	35.86	1.36
Transatlantic Holdings	NYS	52.38	2.44	-6.68	56.75	29.38	54	0.28	0.53	17	21.85	2.40
Travelers Corp.	NYS	27.75	0.45	1.83	30.75	17.13	776	1.60	5.77	-4	43.85	0.63
Trenwick Group Inc.	OTC	44.50	-5.32	9.20	49.75	25.75	180	0.80	1.80	16	23.87	1.86
United Fire & Casualty	OTC	37.50	0.00	-9.64	43.00	35.00	0	1.00	2.67	87	28.47	1.32
Unitrin	OTC	45.63	1.39	6.73	46.75	32.75	342	1.20	2.63	14	36.51	1.25
UNUM Corp.	NYS	52.75	-2.09	-0.47	58.38	37.00	589	0.80	1.52	14	21.83	2.42
US Facilities Corp.	OTC	10.50	0.00	5.00	13.50	6.50	255	0.00	0.00	13	9.64	1.09
USF&G Corp.	NYS	16.88	-0.74	36.36	19.63	9.88	1068	0.20	1.19	338	10.29	1.64
USLICO Corp.	NYS	18.13	2.11	0.69	20.00	15.00	67	0.24	1.32	-6	29.80	0.61
USLIFE Corp.	NYS	37.13	-1.66	2.41	42.63	29.34	269	1.20	3.23	12	64.90	0.57
Washington National	NYS	25.25	0.00	9.78	28.00	18.50	86	1.08	4.28	14	30.27	0.83
Zenith National Ins.	NYS	24.63	-4.83	24.68	29.25	16.38	238	1.00	4.06	22	14.81	1.66
INSURERS/REINSURERS	AVERAGE		-1.3	6.3					2.5	28.0		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	OTC	23.88	3.80	19.38	29.00	14.50	1878	0.00	0.00	23	9.61	2.48
Pacificare Health Sys.	OTC	40.75	6.19	-20.10	57.50	25.50	229	0.00	0.00	20	3.90	10.45
Safeguard Health Enter.	OTC	8.75	-5.41	-10.26	12.50	7.00	6	0.00	0.00	11	4.03	2.17
Sierra Health Services	ASE	17.13	10.48	-20.81	21.69	8.06	356	0.00	0.00	15	2.01	8.52
TakeCare Inc.	OTC	38.00	-2.25	-14.61	50.25	25.75	198	0.00	0.00	14	2.01	18.91
United Healthcare Corp.	NYS	56.00	3.23	-1.54	68.00	37.75	2911	0.03	0.05	31	4.68	11.97
United Medical Corp.	ASE	9.38	0.00	47.06	9.75	6.13	6	0.20	2.13	17	10.30	0.91
U.S. Healthcare	OTC	46.50	1.64	4.20	59.75	29.34	6359	0.52	1.12	23	3.60	12.92
HMOs	AVERAGE		2.2	0.4					0.4	19		
ALL COMPANIES	AVERAGE		-0.5	5.2					2.1	25		

System design: Nordby International Inc.

PROTECTION FROM A DIFFERENT PERSPECTIVE.

A perspective on business insurance that comes from a combination of international roots with national presence. Strength and stability with experience and innovation.

For protection from a different perspective, get behind the shield.

Royal Insurance

YOUR SHIELD AGAINST THE UNEXPECTED.

© Royal Insurance, 9300 Arrowpoint Boulevard, Charlotte NC 28201-1000