

Business Insurance

Massive smoker suit rejected; plaintiffs to refile in state courts

NEW ORLEANS—Lawyers for smokers vow to file more than 50 separate class actions against tobacco companies in state courts after a federal appeals court last week rejected a massive federal class action.

A unanimous three-judge panel of the 5th U.S. Circuit Court of Appeals ruled that the so-called Castano case contained too many issues to be handled all at once. The single suit was filed in 1994 on behalf of millions of smokers who said they were addicted to nicotine.

See Updates on next page

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

© Entire contents copyright, 1996 by Crai Communications Inc. All rights reserved.

Punitive jury still out

By MARK A. HOFMANN

WASHINGTON—A Supreme Court decision that may eventually curb punitive damage awards may first generate much more litigation to determine when an award is unconstitutionally excessive.

The high court, in its 5-4 decision in *BMW of North America Inc. vs. Gore*, did not spell out any formula or draw any legal "bright line" that would indicate when a punitive damage award crosses the constitutional boundary.

Instead, the majority looked to what it called "guideposts" in finding that a \$2 million punitive damage award levied by an Alabama court against BMW was grossly excessive.

Business laments justices' refusal to draw bright line

"As in *Haslip*, we are not prepared to draw a bright line marking the limits of a constitutionally acceptable punitive damages award," Justice John Paul Stevens wrote in the majority opinion. In *Pacific Mutual Insurance Co. vs. Haslip*, a 1991 case, the court upheld a punitive damage award of four times compensatory damages but hinted that there was a constitutional limit on punitive awards.

"Unlike that case, however, we are fully convinced that the grossly excessive award in this case transcends the constitutional

limit," wrote Justice Stevens in the opinion, in which he was joined by Justices Sandra Day O'Connor, Anthony Kennedy, David Souter and Stephen Breyer.

The majority opinion found that the punitive award violated the automaker's constitutional due process rights and sent the case back to Alabama's high court for review.

Nevertheless, the decision fell a bit short of risk managers' hopes.

"It would be nice if the line were a little clearer. At least it's a step in the right direction. It's unfortunate that issue had to go all the way to the Supreme Court, and who knows what will happen back in the state Supreme Court," said Louis J. Drapeau, president of the Risk & Insurance Management Society Inc. in New York and manager-insurance and risk management for the Troy, Mich.-based Budd Co.

"It is encouraging to see that a stand is finally being taken regarding punitive damages but, unfortunately, I'm not sure if it really clarifies the situation," agreed David R. Haight, RIMS vp-government affairs and director-risk management for CF Industries Inc. in Long Grove, Ill.

See Punitive on page 22

Tax bill would target some group captives

Levy aimed at tax-exempt owners

By JERRY GEISEL

WASHINGTON—Tax-exempt organizations that are shareholders of offshore captive insurers would be hit with new taxes on captive earnings under legislation passed by the House of Representatives last week.

The captive provision is part of a broader tax bill that also includes numerous pension simplification and other employee benefit provisions (see story, page 21).

The legislation would, retroactive to Jan. 1, 1996, require tax-exempt shareholders of captives that are "controlled foreign corporations"—that is, foreign corporations more than 50% owned or controlled by U.S. shareholders—to treat captive earnings as taxable unrelated business.

Such tax-exempt entities currently pay no unrelated business tax which can range up to 35%, on captive earnings.

It is unclear how many offshore captives are controlled by U.S. tax-exempt entities. Onshore captives owned by tax-exempt entities are already subject to federal taxes.

If enacted, the provision, which goes beyond earlier proposals considered by Congress but never enacted into law, would have its greatest impact on tax-exempt hospitals, other health care providers and educational institutions.

"Certainly, many entities would be affected," said Tom Jones, a partner at law firm McDermott, Will & Emery in Chicago.

But captive experts doubt that the new taxes would prompt offshore captives to move to the United States.

"We have been prepared for this for a long time. None of our clients (that would be affected by the provision) are interested in

See Tax bill on page 21



'We are fully convinced that the grossly excessive award imposed in this case transcends the constitutional limit.'

—Justice John Paul Stevens

Businesses return to Texas system

Falling rates, liability shield revive workers comp market

By JOANNE WOJCIK

AUSTIN, Texas—Heated rate competition in the Texas workers compensation market and more lawsuits against companies that opt out of the state system are spurring more employers in the state to buy traditional coverage again.

Anecdotal and survey evidence suggests that more and more employers have returned to the traditional market, or plan to do so, since a 1989 workers compensation law set compensation levels for certain injuries, required administrative hearings before workers could file suit and made other changes that businesses backed.

The reform law, which took effect in 1991 and was upheld by the state Supreme Court last year (*BI*, Feb. 13, 1995), also allows insurers to offer policyholders better low-cost coverage options, such as large-deductible plans and minimum premium plans, which are similar to paid-loss retrospective programs.

"Since the 1991 reforms, the Texas work comp market has returned," declared Bill Jackson, Dallas branch manager for ManagedComp Inc., a Waltham, Mass., company that administers workers comp claims and provides loss control and other services. "Forty percent to 45% of our clients are former non-subscribers."

See Texas on page 21

Storm planning trims rates

By MARK A. HOFMANN

CHESAPEAKE, Va.—Sometimes the law of unintended consequences can actually work for a risk manager.

That's what Chip MacCallum of the city of Chesapeake, Va., discovered when what began as a hurricane preparedness project resulted in a 45% drop in the city's property insurance rates.

He hadn't set out to secure lower rates. "It was not really my goal at all; it was really serendipity," he said.

The project grew from a brainstorming session with Patrick Riley, vp of Johnson & Higgins of Virginia Inc., the broker for the southeastern Virginia city of about 150,000 people, which lies 20 miles inland from the coast.

"Each year, the broker and I sit down and have an annual plan to update or improve the sophistication of some aspect of our insurance program. It was pretty clear toward the beginning of last hurricane season that it was going to be a very active year," said Mr. MacCallum.

In 1995, they focused on property exposures, particularly property loss control to minimize storm-related damage.

Interviews with other risk managers and emergency preparedness officials who had gone through the storm recovery process led to an important re-

alization. "Unlike liability, which is kind of a creature of the law, property losses are easily identified and easily photographed," he said.

Storm veterans also warned him that preparation is critical because after only 48 hours of storm damage he

could easily wind up with five years worth of work. Police officers would have accidents on slick, debris-choked roads; workers compensation claims would rise sharply; and a huge number of property claims would come in very quickly.

Adding to the post-storm pressure is a public looking to the city agencies for help. "The level of expectation rises rapidly on the part of the general

See Planning on page 16

Risk managers, insurers prepare for windstorms well in advance...Page 16



More rigorous cataloging of municipal properties was a primary reason for Chesapeake's rate success. Shown is a portion of City Hall.

Updates

More smoker suits promised

Continued from previous page

The 5th Circuit cited the 3rd Circuit's recent rejection of a massive class action settlement with asbestos producers (*BI*, May 20).

The decertification of the class is not just a tobacco industry victory, but "a victory for the legal principles of this country," said Daniel W. Donahue, senior vp and deputy general counsel for R.J. Reynolds Tobacco Co. "The message it sends is clear: the laws apply to all equally and fairly with disregard for political correctness, popularity or social objectives."

"We will be filing 52 class actions in the 50 states, D.C. and Puerto Rico," said Diane Cooley, a Washington-based plaintiffs attorney with the firm Coale & Van Susteren. By the end of this week, "you will see a number of state class actions against the tobacco industry."

The decision is not expected to affect the settlement reached earlier this year by Liggett Group Inc. with plaintiffs in the Castano case (*BI*, March 18). That deal lets Liggett walk away if the class is decertified. "We remain committed to a negotiated resolution of tobacco industry litigation," said a spokesman for Liggett's parent, Brooke Group Ltd. "We continue to believe responsible compromise is in the best interest of Liggett and the entire tobacco industry."

The spokesman said the settlement would apply to class-action lawsuits filed in state courts.

Tobacco companies continue to face a number of lawsuits, including those filed by state attorneys general. The recent ruling should not affect how those suits are pursued, said a spokesman for Texas Attorney General Dan Morales, who has sued the industry in federal court.

"From their perspective, it's a setback in that now they have to wage 50 separate fights in 50 states," he said.

A&A Inc. announces new CEO

NEW YORK—Elliot S. Cooperstone, executive vp of New York-based Alexander & Alexander Services Inc., is the third new president and chief executive officer of U.S. retail brokerage unit A&A Inc. in the last three years.

Mr. Cooperstone, 34, came to A&A in 1994 after serving as assistant to Frank G. Zarb at The Travelers Inc. Mr. Zarb left Travelers the same year to become A&A's chairman and CEO (*BI*, June 13, 1994).

Mr. Cooperstone succeeds Lawrence E. Burk, who became chairman and CEO of A&A Inc. in late 1993. Mr. Burk succeeded Ron Forrest, who resigned from the company (*BI*, Nov. 8, 1993).

Mr. Burk now will be deputy chairman as well as president and chief operating officer of A&A's global retail operation.

In a statement, Mr. Zarb said Mr. Cooperstone "will accelerate our efforts to expand our distribution capability" while helping the broker increase its profit margins.

In the first quarter in 1996, A&A Inc.'s revenues were down 2.5% to \$191.3 million from \$196.3 million during first-quarter 1995. Excluding revenues from sold operations, A&A Inc.'s revenues were up 3.7%.

Kenneth J. Davis, chairman and CEO of the broker's global retail operation, was named to the additional post of chairman of A&A Inc.

Louisiana eases RRG stance

BATON ROUGE, La.—Pending the outcome of a legal challenge, the Louisiana Department of Insurance will allow risk retention groups licensed in other states to do business in Louisiana without complying with a registration procedure adopted last year.

Under that procedure, groups that want to do business in the state must file a registration statement between March 1 and Sept. 30. In addition, risk retention group officers and directors must submit a set of fingerprints, and a risk retention group must maintain \$5 million in capital and surplus (*BI*, Dec. 18, 1995).

Those and other Louisiana requirements are being challenged in federal court by several risk retention groups and the National Risk Retention Assn. The groups say such requirements are pre-empted by the federal Risk Retention Act.

While the suit is pending, Louisiana Insurance Department officials say they expect the groups to meet filing requirements set under the federal law. Among other things, the federal law requires each group to file a copy of its plan of operations with regulators in any state in which it wants to do business and gives regulators the authority to go to court to shut down a risk retention group that they believe is in hazardous financial condition.

Sales of quake cover restricted

SACRAMENTO, Calif.—Insurers will be restricted from selling earthquake coverage under California's Fair Access to Insurance Requirements Plan under an order by Insurance Commissioner Chuck Quackenbush.

Critics contend the order was timed to pressure state legislators who are considering a proposed state earthquake insurance facility. The proposed California Earthquake Authority suffered a setback when the Internal Revenue Service denied it tax-exempt status (*BI*, May 6).

The CEA proposal is now in a conference committee, whose chairman, State Sen. Charles M. Calderon, D-Whittier, has said he favors making the facility's implementation contingent on IRS approval.

Despite the IRS setback, the Insurance Department wants legislators to move now, passing a bill on an urgency basis, said Richard Wiebe, deputy insurance commissioner.

See Updates on page 22

Errors & omissions

• Due to a typographical error, a chart in the May 20 issue incorrectly showed a decline in Kemper National Insurance Cos.' 1996 net premiums written. Kemper's premium volume rose 7.2%.

CIGNA deposit delayed

By ROBERTO CENICEROS

LANSING, Mich.—Michigan regulators have given two CIGNA Corp. units more time to make a special deposit aimed at protecting policyholders that CIGNA moved into its new runoff operation when the insurer reorganized earlier this year.

The amount of the deposit could be less than the \$165.3 million announced two weeks ago when Michigan Insurance Commissioner D. Joseph Olson set a deadline of May 21 for payment of the deposit, said John Schoonmaker, director of legal resources for the Michigan Insurance Bureau (*BI*, May 6). CIGNA now has until June 20.

The amount is likely to be adjusted downward because CIGNA representatives, during two days of meetings with regulators last

Insurer argues for a reduction of Michigan fund

week, provided the bureau with data—including direct unearned premiums and adjustments for asbestos and pollution reserves—specific to its operations in Michigan, Mr. Schoonmaker said. The bureau had called for the \$165.3 million deposit based on computations extrapolated from national data.

"We went off national figures and percentages," Mr. Schoonmaker said. "We made certain assumptions. But always we had let them know that they could give us more Michigan-specific data and that is what they have done."

Mr. Schoonmaker was not able to comment further on what

amount the bureau may seek from the two CIGNA units subject to the order. They are Insurance Co. of North America and Century Indemnity Insurance Co., CIGNA's lead runoff company.

Philadelphia-based CIGNA declined to comment other than to say it received a stay. Mr. Schoonmaker said CIGNA is expected to use the time to provide further evidence that the special deposit should be lower than announced earlier.

The ultimate amount of a special deposit could bring additional scrutiny from regulators in other states.

For example, a spokeswoman for the Pennsylvania Insurance Department said the department would review the financial impact on any company required to make a special deposit, particularly a large one. **BI**

Online opportunities for insurance industry

Industry must adapt or lose ground: Panel

By ROBERT KAZEL

CHICAGO—Cyberspace: the final frontier?

For risk managers, insurers and brokers, what seemed like science fiction several years ago is becoming real in the form of new communications technology.

And though the transformation of the industry has so far been subtle and slow, a panel of industry experts said last week that those who fail to adapt to new ways of conducting business via computer could become the losers in a competitive war to be waged largely online.

The panel discussion, "Beam Me Up, Scotty... Technology and the Distribution of Insurance," brought together the top executives of a large insurer and a bro-

kerage firm, a risk manager and chief information officer of another broker to analyze how technological environments such as the World Wide Web may rewrite the roles of players in the insurance marketplace.

The event was the 11th annual Harold H. Hines Jr. Memorial Symposium, named for the former president and chief executive officer of Rollins Burdick Hunter Co., now Aon Risk Services, a subsidiary of Chicago-based Aon Corp.

The insurance industry, panelists said, can use the Internet as a long-overdue entry point into mass technology. The industry is waking up to the potential of technological innovation later than other industries and must overcome that reluctance to be

See Internet on page 23

PBM directory approaches

The second annual *Business Insurance* directory of prescription benefit managers will appear in the Aug. 5 issue along with our annual Managed Care Market Report.

If your company provides general prescription benefit management services directly to corporate or institutional employers independently of other services like consulting and was not listed in the directory last year, please request a questionnaire by calling Assistant Directory Editor Rich Trout at 312-649-5483.

There is no charge to be listed, but companies must complete a *BI* questionnaire and return

it by June 28.

Business Insurance defines general prescription benefit management services as an integrated package of services designed to control the distribution methods of prescriptions used by plan participants. The package of prescription-related services must include at least several of the following elements: claims processing, formulary management, a negotiated pharmacy network, mail-order drug plan, pharmaceutical benefit plan design consulting, prescription educational services for users and/or physicians and prescription utilization review.

Olin ruling may affect Superfund

MOBILE, Ala.—A federal judge's ruling that Superfund cleanup costs cannot be levied for acts that took place before the law's 1980 enactment may spur accelerated congressional action on Superfund reform this year.

The Comprehensive Environmental Response, Compensation and Liability Act "contains no language explicitly stating it is retroactive," wrote U.S. District Judge W.B. Hand of Mobile, Ala., in a May 20 ruling in *United States vs. Olin Corp.*

The case involved Stamford, Conn.-based chemical company Olin Corp.'s responsibility for cleaning up mercury and chloroform pollution that had occurred at a plant it operated in McIntosh, Ala. Judge Hand found that most of the pollution occurred before Dec. 11, 1980—when the Superfund law was enacted.

"If you want to know how this decision changes the Superfund landscape, go see the movie 'Twister.' Everything has changed. We must reform Superfund this year," said Rep. Michael Oxley, R-Ohio, and chief author of H.R. 2500, the House GOP reform bill.

The Environmental Protection Agency is expected to appeal Judge Hand's decision to the 11th U.S. Circuit Court of Appeals.

—By Mark A. Hofmann

Inside

• Some companies are using onsite child care centers to help control both costs and quality. **PAGE 4**

• Businesses will have to wait for clearer guidelines on punitive damages, this week's editorial says. **PAGE 8**

• U.K. cedants are entitled to recover from their reinsurers before paying claims, the law lords ruled. **PAGE 17**

• Many Lloyd's executives and members are growing more confident of the market's survival. **PAGE 17**

Departments

Advertiser Index.....20
Classifieds.....18

For the Record 19
Insider Trading.....15
Insurance Services Guide.....19
International 17
Letters.....8
Opinions 8

Business Insurance (ISSN 0007-6864) Vol. 30, No. 22, is published weekly by Crain Communications Inc., 740 N. Rush St., Chicago, Ill. 60611-2590. Second-class postage is paid at Chicago and at additional mailing offices. POSTMASTER: Send address changes to *Business Insurance*, Circulation Department, 965 E. Jefferson Ave., Detroit, Mich. 48207. \$4 a copy and \$85 a year in U.S. \$105 in Canada and Mexico (includes GST). All other countries \$205 a year (includes expedited air delivery). Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 0293512, GST No. 136760444. Printed in U.S.A. Copyright 1996 by Crain Communications Inc.

Pension windup unclear

By DAVE LENCKUS

DETROIT—The federal pension plan protection agency is not sure whether it will be tapped to cover losses in a plan allegedly raided by former major league baseball pitching ace Dennis McLain and two business associates.

After an investigation by the FBI and the U.S. Department of Labor, Mr. McLain, Roger S. Smigiel and Jeffrey A. Egan were indicted by a federal grand jury in Detroit May 9 for allegedly stealing more than \$3 million, or nearly 25% of plan assets, from Peet Packing Co.'s defined benefit plan.

The alleged theft of funds, which were used to cover the defendants' personal expenses and company expenses, "played a significant role in the demise of

Ex-pitcher indicted for stealing funds from pension plan

PPC," a 110-year-old meat-packing company in Chesaning, Mich., the indictment states.

The defendants were charged with conspiracy, theft of pension plan money, two counts each of money laundering and mail fraud.

Each money-laundering offense is punishable by up to 20 years in prison and the greater of a \$500,000 fine or twice the value of the amount stolen. The other offenses are punishable by up to five years in prison and a \$250,000 fine.

The federal Pension Benefit Guaranty Corp. has not received an application to terminate the

plan, but the agency is gathering information on the case, a spokeswoman said.

The pension plan's new trustee could not be reached.

As of October 1994, the last date for which information is available, the plan had 500 participants, about 200 of whom were retired, the PBGC spokeswoman said. She did not know how adequately funded the plan was then.

Mr. McLain, who won 31 games in 1968 with the Detroit Tigers, was the last major league pitcher to win at least 30 games in a season. He won the Cy Young Award in 1968 and 1969. He retired in 1973.

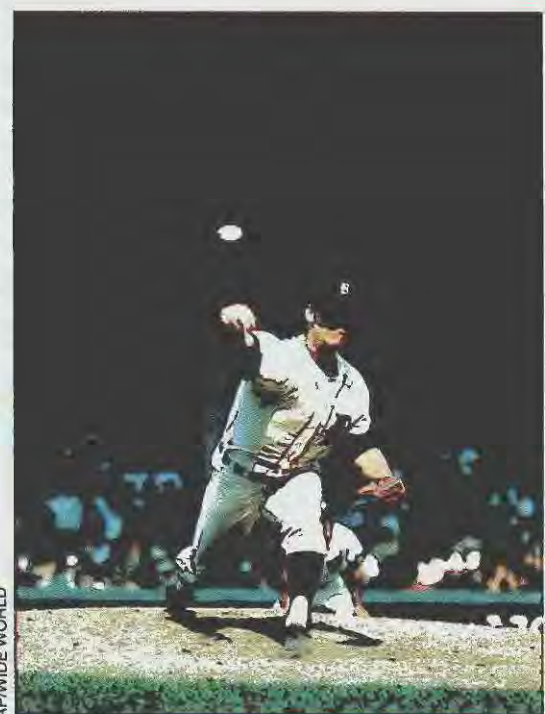
In 1985, he was convicted on racketeering and cocaine possession charges. He served 29 months before a court ruled his trial was

See McLain on page 6

Former Detroit Tigers pitching star Dennis McLain, the last pitcher to win 30 games in a season, was indicted this month along with two business associates for allegedly stealing more than \$3 million from a defined benefit pension plan.



AP/WIDE WORLD



AP/WIDE WORLD

Insurers facing difficult future

Some won't survive, exec says

By GAVIN SOUTER

HAMILTON, Bermuda—A daunting combination of hefty losses and big demands from policyholders, regulators and market competition could put many insurers and reinsurers out of business in the next several years, a reinsurance executive says.

Insurers will survive only if they learn from their past mistakes and address the problems they currently face, said Heidi E. Hutter, chairman and chief executive officer of Swiss Reinsurance America Corp. in New York.

Companies with the best chance of surviving also focus on clients' needs rather than selling their prod-



'As an industry, we (insurers and reinsurers) don't learn a damn thing.'

Heidi E. Hutter

ucts, have a clear idea of what risks they are writing and assist regulators to understand the industry, Ms. Hutter said.

Traditionally, everyone in the insurance industry from risk managers through insurers to reinsurers have ignored the lessons of history, she said.

"As an industry, we don't learn a damn thing," she said at the 25th annual International Risk Management Group Ltd. conference in Bermuda earlier this month.

A prime example of the insurance industry's inability to learn from the past can be seen in the rates set for catastrophe exposures after Hurricane Betsy in 1965, Ms. Hutter said.

While that hurricane caused insured losses estimated at \$515 million, it was followed by a very quiet hurricane period, and catastrophe rates fell to record lows in the 1970s.

But, during the same period, construction in hurri-

See Survive on page 15

Practice guidelines curb costs: Actuary

By ROBERTO CENICEROS

SEATTLE—Used consistently, practice guidelines can be a powerful tool to help self-insurers control health care costs, including the medical component of workers compensation, says an actuary.

Practice guidelines are systematically developed statements on medical procedures. Self-insured employers, insurers and health care providers can use them to evaluate appropriate health care procedures for specific medical conditions.

Referring to practice guidelines can

help employers better understand employee health benefit utilization. The guidelines provide insight into the parameters that primary care or occupational doctors use to determine treatment and referrals to specialists, explained Richard L. Minifie, an associate actuary in Seattle for Milliman & Robertson Inc., at a recent seminar sponsored by the Western Pension & Benefits Conference.

For efficiency, employers, primary care providers, specialists and case managers all must use the same set of guidelines, Mr. Minifie said. The consistency will help eliminate disagree-

ments and misunderstandings that differing guidelines can cause.

"Whether or not people actually use practice guidelines, they need to have a consistent philosophy" on things like patient referral and treatment patterns, Mr. Minifie said. "And, if they are using practice guidelines, it doesn't work well to have your primary care physicians using one set and your specialists using another or your case managers using another set. That is where people can run into problems. If people don't know what is expected of them, it can make it difficult to have

See Guideline on page 6

Differing paths to wellness

By DEBORAH SHALOWITZ COWANS

CHICAGO—Because employees' health needs vary widely, large companies should tailor wellness programs to the needs of specific employees or divisions, an Amoco Corp. official recommends.

While programs for office workers may emphasize aerobic activity, employees on offshore drilling platforms may need programs that concentrate on building strength, said Peggie Maniscalco, health promotion services coordinator at the company's Chicago headquarters.

Programs may differ even for workers in similar jobs. For example, employees in some locations may welcome the chance to receive a quick massage at their desks; elsewhere, employees may find such offerings too extreme.

Managers at each Amoco facility can determine what their wellness program will include or whether one will be offered at all, explained Ms. Maniscalco at a recent conference sponsored by The Wellness Coalition, a consortium of Chicago-based health and wellness organizations.

Two examples illustrate the range of wellness offerings within Amoco.

At a 977-employee facility in Chocolate Bayou, Texas, employees are offered a needs assessment, blood pressure and cholesterol screenings, a "Fit or Fat" video and a stress management program.

The 320 employees at an Alpharetta, Ga., plant have much more extensive options. Their offerings include: blood pressure, cholesterol, vision and glucose screenings; a health fair; a health resource library; seminars on topics such as parenting, cancer and heart attack prevention, dress for success and achieving financial security; stress management; a back health and back care program; a weight control program; walking groups; low-fat cafeteria menu choices; and healthier snacks in vending machines.

The most popular programs are health risk screenings, largely because people like information about themselves, Ms. Maniscalco said. The screenings are conducted on work time.

Management must indicate its strong support of a wellness initiative before any health promotion activities can begin at a facility, she noted.

A steering committee consisting of employees at the facility works with Amoco's health promotion services staff to develop and oversee their own wellness program. To develop an appropriate program, these committees can survey workers on their interests, evaluate medical and workers compensation claims for employees at the site, determine whether the facility offers healthy food choices, and develop a mission statement and annual objectives. Steering committees meet monthly during work hours.

Amoco facilities around the world may implement wellness programs if they want to, Ms. Maniscalco said. She noted that Amoco facilities in Egypt, London, Belgium and Norway already offer wellness programs and a site in Trinidad is just starting a program.

Each facility also decides if it wants to include retirees or dependents in the wellness program.

Amoco currently does not offer financial incentives or disincentives for participation in health promotion activities. However, "we're struggling with" the question of whether to do so, Ms. Maniscalco said.

BI

Realistic goals for measuring wellness plan success. Page 13

Firm settles suits on ELIC annuity

SAN FRANCISCO—Pacific Lumber Co. will pay \$7 million to settle two lawsuits charging the company imprudently purchased an annuity for company pension plan participants from now-defunct Executive Life Insurance Co. of Los Angeles.

The company, based in Scotia, Calif., terminated its pension plan in 1986, using more than \$37 million in plan assets to purchase the

annuity to pay its pension obligations for about 6,000 participants.

The plan was terminated to recover more than \$62 million in surplus pension assets after Pacific Lumber was acquired by Houston-based Maxxam Inc. in 1986. Executive Life was found to be insolvent and was seized by California insurance regulators in 1991. Under ELIC's rehabilitation plan, Aurora National Life Assur-

ance Co. now conducts Executive Life's insurance business.

In one of the lawsuits filed in 1992, the U.S. Labor Department alleged that Pacific Lumber, Maxxam and executives of the two purchased the annuity from ELIC despite a negative evaluation by their own insurance expert of the insurer's ability to pay claims. That effort found that its extensive junk bond investments

made Executive Life significantly leveraged.

The second lawsuit, a class-action filed in 1990 by former and current plan participants, made similar charges, but also alleged that Pacific Lumber used \$25 million of residual plan assets to finance Maxxam's buyout of the company.

Under the preliminary settlement, filed with the U.S. District

Court for Northern California in San Francisco, the court will appoint an administrator to oversee the settlement fund and distribute its assets to participants and beneficiaries.

The settlement will be more than enough to pay all losses suffered by plan participants, which are estimated at less than \$2.5 million, according to the Labor Department.

The fund also will pay attorneys' fees and costs for the plaintiffs in the class action.

—By Joanne Wojcik

Insights on onsite child care

By DEBORAH
SHALOWITZ COWANS

To control quality, many companies don't kid around with local providers

CHICAGO—The need for quality child care, not just child care in general, is a primary reason employers build their own child care centers.

Some companies build and run child care centers to maintain control over the quality of the facility that otherwise they would not have.

Take Chrysler Corp., for example. It was considering contracting with a local facility and during a scheduled visit, the facility and its staff-to-child ratio looked fine, recalled Valerie A. Brannas, a human resources executive at Chrysler's Highland Park, Mich., headquarters.

However, during an unscheduled visit, there were far fewer staff people and some of the equipment was not there. Ms. Brannas discovered that the director had "borrowed" staff and equipment from another center to impress her.

Ms. Brannas and other speakers at an April work/family conference sponsored by care center management company Prodigy Child Development cautioned that child care centers may be plentiful in a given area, but those centers may not provide the caliber of care that employees' children need and deserve.

It was employee complaints about the quality of care available near its Racine, Wis. headquarters that prompted S.C. Johnson & Son Inc. to build a center five years ago.

The center, which can accommodate about 230 children, is open all day and all night to serve workers on all shifts said Mary Kay S. Carr, director of diversity for the company.

The company's center has been accredited three times by the National Assn. for the Education of Young Children.

Accreditation by that Washington-based group is a precondition

for quality, but will not guarantee it, said Josie Disterhoft, director of Lutheran General Children's Day Care in Des Plaines, Ill., which runs five centers at or near Lutheran General Hospital facilities in suburban Chicago.

According to Ms. Disterhoft, there are several other prerequisites for quality child care, including:

- A strong commitment from senior management for the center.
- An advocate for an enriched childhood experience within the company who is "really quite noisy—pleasant, amiable, but really quite noisy."
- An articulated mission for the center.
- Environments that nurture and teach children.

• An emphasis on professional development for the center's staff.

Ms. Disterhoft also noted that it is important for employers to figure out what parents really want from the center and what the program can give.

At S.C. Johnson, for example, a parent representing each room in the child care center meets monthly with the center's director, Ms. Carr said. However, "the role of the parent is providing input and advice" and the center director makes all decisions, she added.

Group size and teacher-to-child ratio also are good indicators of child care quality, said Chrysler's Ms. Brannas.

Currently Chrysler operates only one child care center, which is located near a Huntsville, Ala., plant where nearly half the workers are women. The company is looking into building a consortium center with other Detroit-area companies, she said.

Child care centers are not universally popular among employees. Some who do not use a center object to the costs. The experts recommended several possible responses.

Emphasize the good of future generations and provide "constant education" on how the child care center affects children, parents and the community, recommended Ms. Carr.

Also, tie the company's investment in the community to business objectives, suggested Kathy Zweber, director of work/life and wellness initiatives for Motorola Inc. in Schaumburg, Ill. Motorola has five onsite centers at U.S. facilities and several more in Europe, Asia and India.

Motorola reminds employees that kids with high-quality day care have fewer problems; often the result is a community with fewer gang and drug problems. The community then is an attractive place to live and work, and a good source for future employees, she said.

Sometimes people think "work/life is kind of a warm, fuzzy field," Ms. Zweber admitted. However, in reality "this is not a warm, fuzzy program—this is a tool for doing business."

Remind managers and employees that a child care center—or any work/family benefit—is a good recruitment and retention tool, suggested Bonnie Michaels, president of Managing Work & Family, an Evanston, Ill., consulting firm.

Furthermore, work/family benefits can create a "norm of reciprocity" between employer and employee, according to Susan Lambert, a University of Chicago professor who spent two years studying the work/family programs at Fel-Pro Inc., a small manufacturing firm in Skokie, Ill. (BI, Sept. 18, 1995).

Explaining the public relations value of a center could help win over managers, said Ms. Carr. For example, S.C. Johnson officials pointed out to managers that the annual cost to the company for their child care center is equal to seven seconds of advertising during the Super Bowl. The child care center has been written about so much in newspapers and magazines that it generates lots of publicity also, the company pointed out.

Reminding employees about other benefits that assist certain groups of employees can also help blunt criticism of work/family programs, said Carol Rolland, work/family programs administrator for Lincoln National Corp. in Fort Wayne, Ind. (BI

It's Not for Everyone But it can be...

You wouldn't go rafting without an experienced guide... Why should it be any different with the Alternative Market.

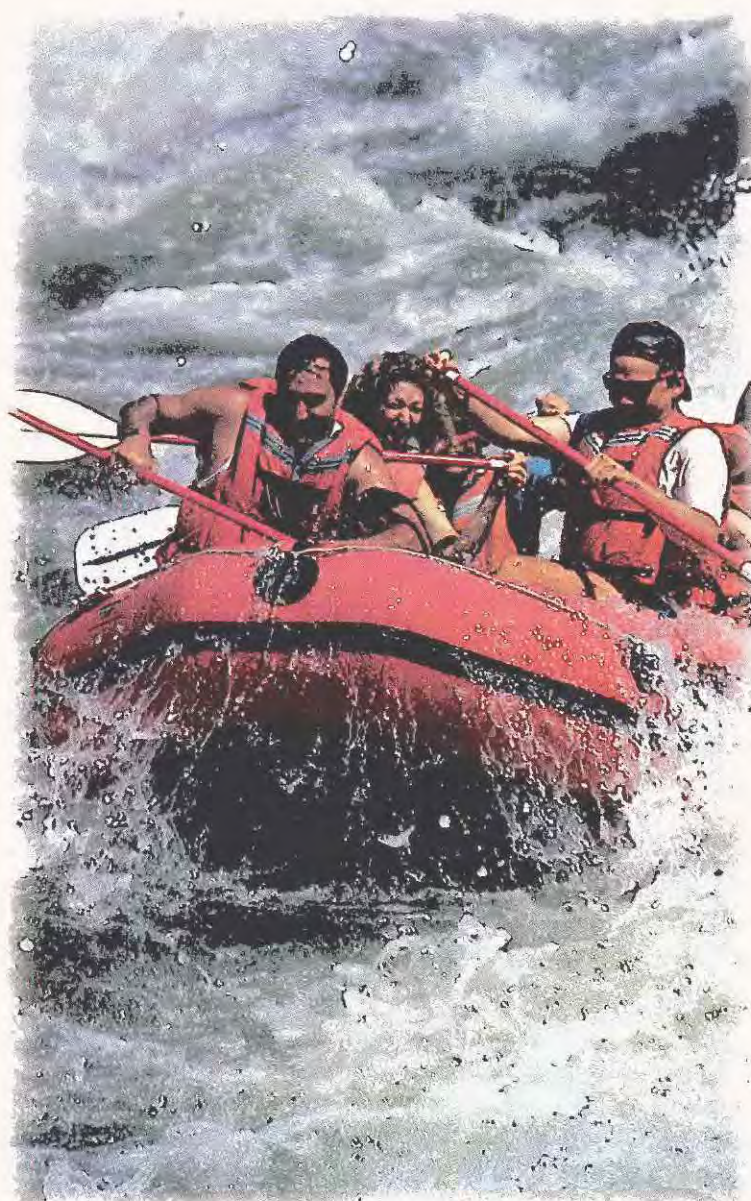
When negotiating the rapids, it's best to have someone along who's been this way before. Same thing with **Workers' Compensation**. You need a strong, steady, experienced hand at the controls. Or else...

Commonwealth Risk, an acknowledged Alternative Market leader, has negotiated the challenges of a rapidly changing, continually shrinking Workers' Compensation market. Strength of product, expertise, and the support of The MRM Companies make the difference.

Times have changed. Business has changed. Companies in touch with the market change. Commonwealth Risk has an array of products to accompany its success in Workers' Compensation. Packaged with Auto and General Liability coverages, they represent multi-line casualty capabilities.

We also have distinct advantages on association/group programs. Offshore and onshore captive management facilities offer unique features to insureds. Agency captives, which are becoming popular, present attractive opportunities to brokers and agents. Whatever your commercial property-casualty needs, we can find a solution to your particular situation.

Never considered an Alternative Market company? No reason to hesitate. Commonwealth Risk has the knowledge and expertise to guide you along the way. That comes from knowing the current.



For more
information,
please call:

Philadelphia, PA (215) 979-3300
Orange, CA (714) 978-0577
London, England 071-247-1066

CommonwealthRisk

An **MRM** Company

A leader in Alternative Risk Financing **CommonwealthRisk®**



**It
begins
with 2 people.**

THEIR BUSINESS TAKES OFF, A
FACTORY IS BUILT. SOON A SECOND,
THEN A THIRD. DEMAND SPREADS, GLOBAL
GROWTH OPPORTUNITIES ARE SEEN. BUSINESS
ALLIANCES ARE FORMED, NEW FACILITIES CONSTRUCTED. TO
ARRANGE PROPERTY AND CASUALTY COVERAGES, LOSS CONTROL, FIRE
ENGINEERING, EMPLOYEE BENEFITS, AND TO COORDINATE CLAIM HANDLING
AND UNDERWRITING, THIS BUSINESS RELIES ON AN EXPERT, WAUSAU INSURANCE.



The business insurance experts.



Guideline

Continued from page 3
an efficient delivery system."

Employers also can use guidelines to profile the doctors in their health plans and determine which ones are performing optimally.

"We think that is one of the keys for all organizations, not just employers but managed care organizations and insurance companies," Mr. Minifie said. "It allows you to really find out where you are doing a good job and where you are not doing such a good job."

However, Mr. Minifie cautions that physician profiling is a detailed process requiring adjustments for doctors' case mixes and the severity of injuries they treat. The guidelines can help, but they are not an end-all.

Employers also can benchmark

their entire health plans with the guidelines. Some organizations merely evaluate their health plan's past performance.

That is one way of making improvements, Mr. Minifie said. But a better method is both to evaluate the plan from its own historical perspective and benchmark against the best health plans or delivery systems.

"We found it is more effective to tell people, 'This is where you are at and this is where you could be if you were as good as the people who are the best in the country,'" he said.

To date, Milliman & Robertson's guidelines have been used mostly on a limited exploration basis by insurers, health networks and a few large, self-insured employers.

But Mr. Minifie expects their use to increase among employers with the recent publication of a workers compensation manual

'There are differences in how people heal. . . but you can set parameters for much of the care,' says Richard Minifie.

that consists of practice guidelines, return-to-work targets, duration of medical care targets and a case management template.

The return-to-work targets can help employers cut wage-loss payments. For example, they can help an employer determine how quickly an employee with a certain job classification might return to work after a specific injury, like an ankle sprain.

"There are differences in how people heal and the severity of sprain," Mr. Minifie said. "But

you can set parameters for a good portion of the care."

In the recent past, return-to-work estimates lacked the degree of precision available today, Mr. Minifie said. They were typically limited to descriptions, such as light duty or heavy duty. But now, with improved documentation made available by employers, return-to-work guidelines provide a wider range of activities a worker may perform. For example, they may suggest a worker with a sprain can stand, walk or climb stairs.

The duration of medical care estimates allows case managers to determine the amount of time typically required to complete treatment for specific injuries. Therefore, if a doctor recommends six weeks of treatment for an injury that typically requires three weeks, a case manager or employer can investigate to deter-

mine if there are special circumstances requiring the additional care.

"That is the way case management works most effectively," Mr. Minifie said.

Case management templates also can alert employers to treatments that might not be necessary. They point out procedures that rarely are used.

"That doesn't mean it is not warranted," Mr. Minifie said. "The guidelines and templates are not meant to say you cannot provide these services. They are meant to say it is unusual, it is uncommon or there is no medical research that warrants this procedure and it needs to be discussed between the medical director, case manager and the attending physician."

About 325 people attended the April 11 seminar organized by the Seattle chapter of the Western Pension & Benefits Conference. The seminar is held yearly in April, but a date has not been set for 1997. For more information, contact Beverly R. Maggs, manager of benefits communication at Milliman & Robertson Inc. in Seattle, 206-624-7904. **BI**

McLain

Continued from page 3

unfair. He then pleaded guilty to racketeering charges and was sentenced to five years of probation.

Messrs. McLain, 52, of Brighton, Mich., and Smigiel, 44, of Rochester Hills, Mich., purchased Peet in January 1994 and began raiding the pension fund two weeks later with the help of Mr. Egan, 35, of Bloomfield Hills, Mich., through a series of transactions using shell companies the trio set up, the indictment charges.

Messrs. McLain and Smigiel first appointed themselves trustees of the plan, even though Mr. McLain was barred from being a trustee because of his prior conviction, the indictment states.

The two moved \$12.5 million of plan assets from the bank that had been the plan's trustee to another bank. They then directed the second bank to wire more than \$3 million to Vanguard Investments Inc., a shell company that Mr. Egan set up and named to "deliberately" confuse it with the similarly named mutual fund company, according to the indictment.

The trio laundered the money by moving \$2.5 million of it from Vanguard to another shell company and then back to Peet, according to the indictment. They tried to make the transfer to Peet look like a legitimate mortgage loan by signing and backdating mortgage documents, the indictment says.

The indictment says the money was used to, among other things:

- Help repay a loan Messrs. McLain and Smigiel obtained to purchase Peet.
- Purchase a condominium in Puerto Rico for Mr. McLain.
- Purchase a Harley-Davidson motorcycle for Mr. Smigiel.
- Pay large salaries and make other large payments to Messrs. McLain and Smigiel.

Mr. Egan used the remaining \$550,000 of stolen plan funds to purchase stock in Vanguard's name, which generated \$52,250 of commissions for him, the indictment says.

Each defendant has pleaded innocent to the charges and has been released on \$100,000 of unsecured bond. A trial date has not been set. **BI**

The Emperor of China
had hundreds of servants to make sure his every
wish and comfort were attended to. Your employees deserve
health care that's just a little bit better.

Great people deserve great care and service, whether they're an emperor or an employee. This principle has guided John Hancock for over 130 years. And it's just one of the many reasons your company should offer our exceptional line of managed care plans.

John Hancock is committed to being a leader in the managed care market. Our dedication to providing quality, affordable plans and excellent service is second to none. Proof of this is our Signature line of network-based managed care plans. Your employees can count on them for access to great care and one-of-a-kind personal attention. The Signature managed care line includes PPO, POS, prescription drug and dental plans. A John Hancock representative will help you craft an integrated and easily managed health care solution. To learn more about any of our managed care programs, call 1-800-352-8179.

John Hancock



WHAT IF

THIS IS JUST THE CALM

BEFORE THE STORM?



Security. In property catastrophe reinsurance, nothing matters more than your reinsurer's ability to withstand the most significant natural catastrophes. At CAT Limited, our state-of-the-art exposure management technology permits us to demonstrate that, after the storm calms, you can count on us to shore up your balance sheet. Ask your broker to call Paul Hasse or Charles Kline at (809) 292-2102 for more information.

CAT LIMITED

COMBINING CAPITAL AND TECHNOLOGY

Opinions

Punitive reform takes a step

THE U.S. SUPREME COURT took a welcome first step in curbing excessive punitive damages last week, but businesses still have a long way to go before they win real relief from these awards.

Legislative action—and in all likelihood more litigation—will be required for the court's decision in *BMW of North America vs. Gore* to have the impact risk managers seek.

The case before the court involved an Alabama jury's award of \$4 million in punitive damages to a physician who sued BMW because it had retouched the paint job on a car sold as new without informing him. The jury awarded him \$4,000 in compensatory damages for a paint job that was worth about \$601. On appeal, the Alabama Supreme Court merely cut the punitive award in half.

BMW understandably took its case to the U.S. Supreme Court, which ruled for the first time in its history that a punitive damage award was so excessive as to be unconstitutional and sent the case back to the Alabama Supreme Court for reconsideration.

Welcome as this decision is, we would have liked to see the justices provide more guidance for other courts on exactly when punitive damages violate constitutional guarantees. While the barest majority of the justices—five of the nine—agreed that this particular award was unconstitutional, they did not set any formula or draw any judicial "bright line" to separate the acceptable awards from the unconstitutionally excessive.

So now that's a job for those who make the law, not those who interpret it.

Congress can step in and help draw that line, though further action before the November elections is unlikely.

The House of Representatives approved a broad tort reform bill last year that would have restricted punitive awards, but the Senate failed to follow suit. Both houses approved a product liability reform bill that contained a formula for determining punitive damages in product liability cases. But the president vetoed that bill a few weeks ago.

Even if Congress did move, this president's record more than amply indicates he'd veto any substantial reform.

If the Supreme Court won't draw the line, and if the president is unwilling to support tort reforms, then it's going to be left to the courts to interpret *BMW vs. Gore* and provide guidance.



That will be a crap shoot, at best.

The Supreme Court's decision in *BMW vs. Gore* is a welcome first step in a journey that no doubt will lead through numerous courtrooms on the way to the destination risk managers have long sought—a clear and equitable method for imposing punitive damages rather than the capricious system that currently exists.

BI cartoonist honored

CHICAGO—Editorial Cartoonist Roger Schillerstrom has won the 1995 Peter Lisagor Award for editorial cartoons.

The Lisagor Awards are given annually for exemplary journalism by the Chicago Headline Club, a chapter of the Society of Professional Journalists. The awards are presented annually to Chicago-area journalists by their peers.

Of Mr. Schillerstrom's editorial cartoons, the judges said: "The judges found them to be clean, well-presented and interesting. His humor helps to lighten serious national concerns and allows the reader a window into his opinions without feeling bludgeoned."

Letters

Look at spending on anti-policyholder litigation

To the editor: Joanne Wojcik's excellent article on bad faith disputes in your May 6 issue, "Disputes over Bad Faith a Matter of Perspective," contains a half-truth, which unfortunately may be just as distorting as a whole untruth.

Ms. Wojcik correctly reports on a Rand Corp. study that the insurance industry spends a half-billion dollars on legal fees fighting its policyholders in court. That sum would be awful enough, but it only tells half the tale. The whole truth is that the insurance industry spends twice that much

each year on anti-policyholder litigation.

According to the American Insurance Assn. in a legal brief filed Feb. 23, 1993, in the Supreme Judicial Court of Massachusetts, the insurance industry spends \$1 billion a year fighting policyholders in court.

The AIA's amicus brief, filed in *Affiliated FM Insurance Co. vs. Constitution Reinsurance Corp.*, No. SJC-06165 (Mass.), states:

"While the sums at issue in this case are relatively minor, direct (i.e. primary and ex-

cess) insurers spend (conservatively) a billion dollars a year in so-called 'coverage litigation.' ..."

If General Motors, IBM or Exxon spent that kind of money litigating against their customers, automobiles, computers and gasoline would be banned from the marketplace as grossly defective products.

Eugene R. Anderson
Anderson Kill Olick & Oshinsky P.C.
New York

RIMS' role in Canadian standards

To the editor: An article and editorial in the May 6 issue indicated the Risk & Insurance Management Society Inc. "declined an invitation by the Canadian Standards Assn. to be involved in the development of standards." As I was RIMS' president at the time, I would like to clarify that this decision was the result of an exhaustive effort by then-RIMS Vp Yvon Menard to see how RIMS could add real value to the process.

The project offered little control by input—RIMS had one chair among about 25

academics, engineers, consultants, etc.—but more importantly, CSA's definition of "risk management" was focused on risk control. We could not get agreement to include risk financing in the standard.

RIMS felt guidelines would be useful, but there would be little use in supporting incorrect standards, and so RIMS declined.

Tony Bridger
Risk Manager
Bank of Montreal
Toronto

Business Insurance®

Reporting weekly on corporate risk,
employee benefit and managed health care news

Vice President/ Publisher/Editorial Director:	Kathryn J. McIntyre, A.R.M. (Chicago)
Editor:	Paul D. Winston (Chicago)
Editor-at-Large:	Jerry Geisel (Washington)
Managing Editor:	Timothy Stanton (Chicago)
International Editor:	Stacy Shapiro (London)
Senior Editors:	Meg Fletcher, A.R.M. (Chicago) Judy Greenwald (San Jose) Dave Lenckus (Chicago) Douglas McLeod (New York) Joanne Wojcik (Los Angeles) Roseanne White (Washington)
Assistant Managing Editor/News:	Roseanne White (Washington)
Washington Editor:	Mark A. Hofmann (Washington)
Bureau Chief:	Michael Schachner (New York)
Graphics Editor:	Eric J. Williams (Chicago)
Copy Editors:	Regis J. Coccia (Chicago) Sara J. Hartly (Chicago)
Assistant Copy Editor:	Lee Velker (Chicago)
Associate Editors:	Michael Bradford (Dallas) Deborah Shalowitz Cowans (Chicago) Roberto Cenicerros (Los Angeles) Sarah Goddard (London) Robert Kazel (Chicago) Sally Roberts (Chicago) Gavin Souler (New York) Rodd Zalkos (Chicago) Sandra L. Budde (Chicago) Rich Trout (Chicago) Ovie M. Deni (Chicago)
Directory Editor:	Karen Brown Tucker (Chicago)
Assistant Directory Editor:	Roger Schillerstrom (Chicago)
Editorial Assistant:	
Assistant to the Publisher:	
Editorial Cartoonist:	
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) Blake Delany (New York) Barrie Harmelin (New York) Deborah D. Neale (Chicago) James Patten (New York)
Sales Assistant:	Lori Lieberman (Los Angeles)
Classified Advertising Manager:	Cheryl Buller (Chicago)
Production Manager:	Elmer Kerstowski (Chicago)
Director of Communications:	Ronnie I. Drachman (New York)
Promotion Coordinator:	Barbara O'Brien (New York)
EDITORIAL:	Chicago: 312-649-5398 Dallas: 214-361-2295 London: 171-457-1400 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 New York: 212-210-0132
COMMUNICATIONS:	
SUBSCRIPTIONS:	Detroit: 800-678-9595

Published by Crain Communications, Inc., Chicago

Founder	G.D. Crain Jr. (1885-1973)
Chairman Emeritus	Mrs. G.D. Crain Jr.
Vice Chairman	Keith Crain
President	Rance Crain
Chairman-executive committee	S.R. Bernstein (1907-1993)
Treasurer	Mary Kay Crain
Secretary	Merrilee P. Crain
Executive Vice President-operations	William A. Morrow
Vice President-production	Robert C. Adams
Circulation director	Peter J. Johnson

Published weekly at 740 Rush St., Chicago, Ill. 60611-2590, Fax 312-280-3174, E-Mail 76735.3045@CompuServe.com, Cable CRAINCOM. Offices: 220 E. 42nd St., New York, N.Y. 10017-5806, Fax 212-210-0704, CRAIN.COM NYK; Suite 114, 8950 N. Central Expressway, Dallas, Texas 75231, 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; New Garden House, 78 Hatten Garden, London EC1N 8JQ England, Fax 171-457-1440, \$4 a copy and \$85 a year in U.S. \$105 in Canada and Mexico (includes GST). All other countries \$205 a year (includes expedited air delivery). DAVE KELLEY, 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 313-446-0450, Fax 313-446-6777. Microfilm copies are available from University Microfilms, 300 Zeeb Road, Ann Arbor, Mich. 48103. 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: JOSEPH P. HANLEY, Crain News Service, 220 E. 42nd St., New York, N.Y. 10017-5806, 212-254-0890. For reprints or reprint permission contact: KAREN BROWN TUCKER, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590, 312-649-5319, Fax 312-280-3174.

TO SUBSCRIBE TO THE WORLD'S LEADING
COMMERCIAL INSURANCE PUBLICATION, CALL
800-678-9595



313-446-0450 outside of the United States



Business Insurance welcomes letters to the editor. The section is intended to be a forum for readers' opinions and comments. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Please send your letters to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611; fax: 312-280-3174; e-mail: pwinston@crain.com.

Business Insurance Covers Life's Most Important Steps.



From helping employees manage family responsibilities to planning for retirement, smart companies offer employee benefit programs that make it easier for employees to walk through life's most important steps.

BI's readers are big believers in these programs — with an average of \$21 million* spent on employee benefit programs like work & family, pension and 401(k) retirement plans. Because they spend so much, they rely on BI to keep them informed on the latest trends and issues. And as they search for new services and suppliers, they'll look to our directories to do their initial footwork.

BI will be in step with the needs of these corporate decision-makers when we publish our Pensions/Retirement Plans issue, with its Directory of 401(k) Plan Administrators. Then, following close on its heels, is our Balancing Work & Family spotlight, featuring the Directories of EAPs & Dependent Care Resource & Referral Services.

You can lead more than 155,000** of BI's readers to your door when you advertise your services in these important issues. Start off on the right foot, reserve your ad space today.



Benefits

Pensions/Retirement Plans

Published on May 20
Directories: 401(k) Plan Administrators
Distribution: AAMGA, IFEBP

Balancing Work & Family

Publishing: June 24 ■ Ad Closing: June 12
Directories: EAPs & Dependent Care Resource & Referral Services
Distribution: SHRM

*1995 BI Audience Profile, Erdos & Morgan, Inc. **Includes pass-along

NEW YORK
220 E. 42nd Street
New York, NY 10017-5806
[212] 210-0133
Fax: [212] 210-0704

CHICAGO
740 N. Rush Street
Chicago, IL 60611-2590
[312] 649-5276
Fax: [312] 649-7799

LOS ANGELES
6500 Wilshire Blvd.
Los Angeles, CA 90048-4947
[213] 651-3710
Fax: [213] 655-8157

Business Insurance
Coverage Guaranteed®

If this is the reception your maybe it's time to



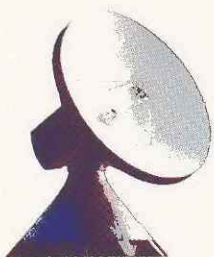
irtually no one would challenge the direct market's size or financial stability. But ask clients to evaluate the bigger picture—underwriting flexibility or responsiveness to unique needs and business opportunities—and its ratings often decline. If you share this view, we'd like to suggest an alternative solution: *Tune in to the broker channel.*



TUNED IN TO YOUR WAVE

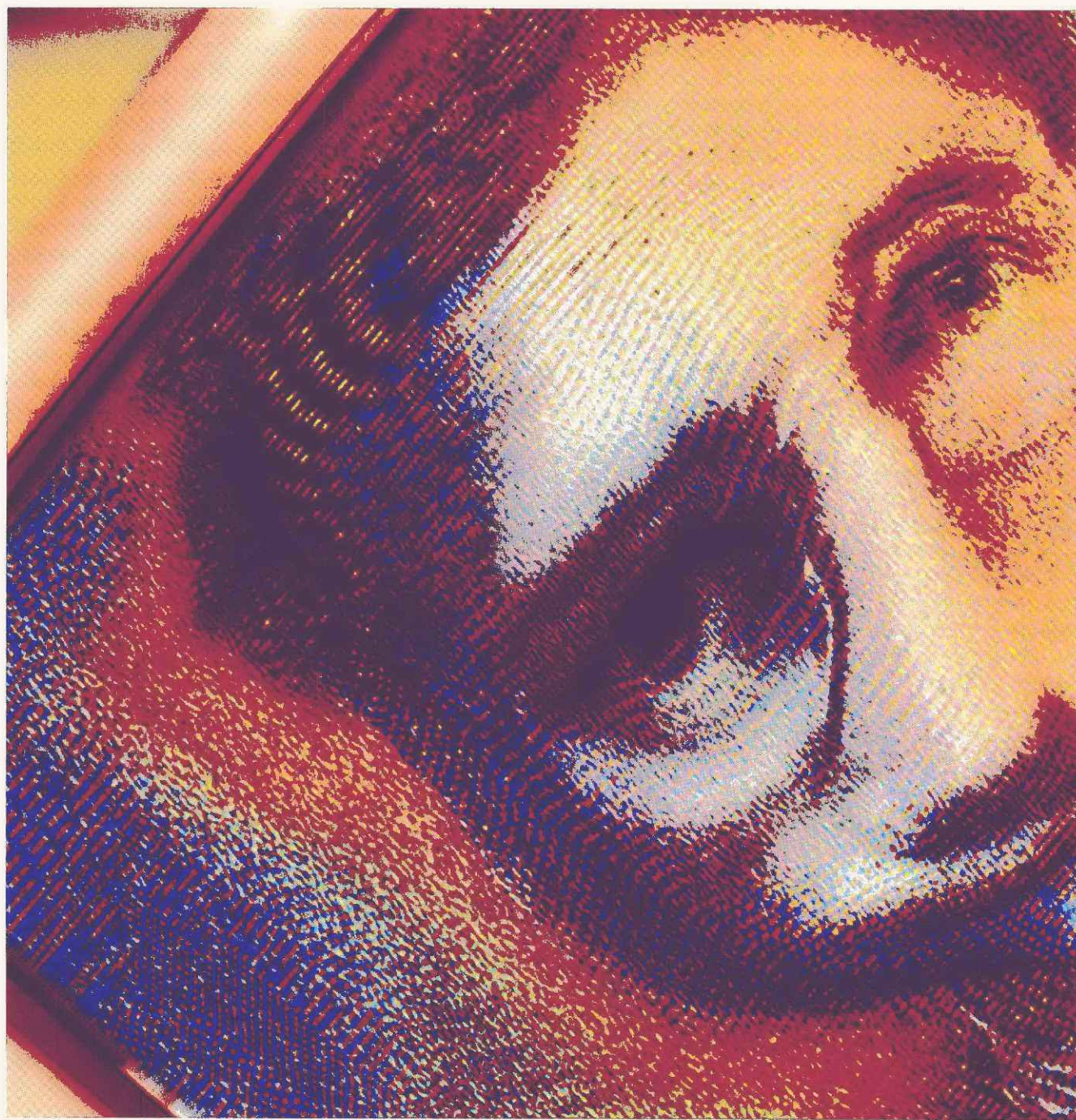
Like the commercial banking profession a decade ago, the reinsurance brokerage industry is changing dramatically. Today's top reinsurance brokers work smarter, faster and are more responsive to clients' changing needs. In addition to directing reinsurance programs, most have created highly specialized consulting units to help clients deal with issues from financial and tax planning to complex risk-based capital requirements.

Broker-market reinsurers have also changed. Check the numbers: Half of



WELCOME TO THE INFORMATION SUPERHIGHWAY. The broker market provides access to problem-solving specialists across the globe.

Standard & Poor's "top tier" reinsurance companies are marketed through brokers. Led by innovators like Zurich Reinsurance Centre, the broker market is attracting top underwriting, actuarial, claims and financial professionals from throughout the industry, all to provide more innovative solutions to reinsurance buyers *without* compromising financial security.

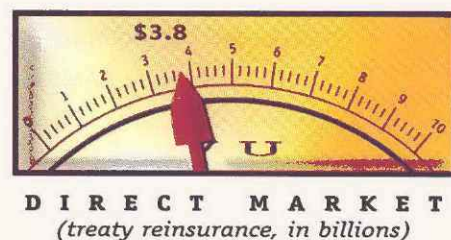


A NETWORK OF PROBLEM SOLVERS

Brokers share a simple philosophy: "What's best for you" rather than "What's in it for me?" They provide clients with a broad range of problem-solving ideas rather than promoting a single point of view.

Brokers are tireless client advocates. They work on your side of the table, negotiating favorable terms and conditions, evaluating contract language, facilitating claims payments, and constantly challeng-

ing reinsurance companies to create more efficient solutions. The broker market doesn't tell you how to run your business. It shows you ways to make it stronger and more profitable, in part by designing pro-



reinsurer gives new ideas, change channels.



grams to achieve an optimal balance of risk retention and risk transfer.

When traditional solutions have come up short, the broker market has developed new and more effective ones, including



BROKER MARKET
(treaty reinsurance, in billions)

the creation of finite risk protection and, most recently, the expansion of the property catastrophe market.

Brokers are managing their businesses to be more responsive, too. By upgrading technologies and automating many day-to-day service functions, brokerage firms and reinsurers are able to respond faster to client needs—from contract delivery to claims payments—and have set aggressive goals for continuous improvement.

WHO'S IN CHARGE HERE, ANYWAY? YOU ARE! Keep control over your reinsurance program using the help and advice of your broker.



A WORD FROM OUR SPONSOR

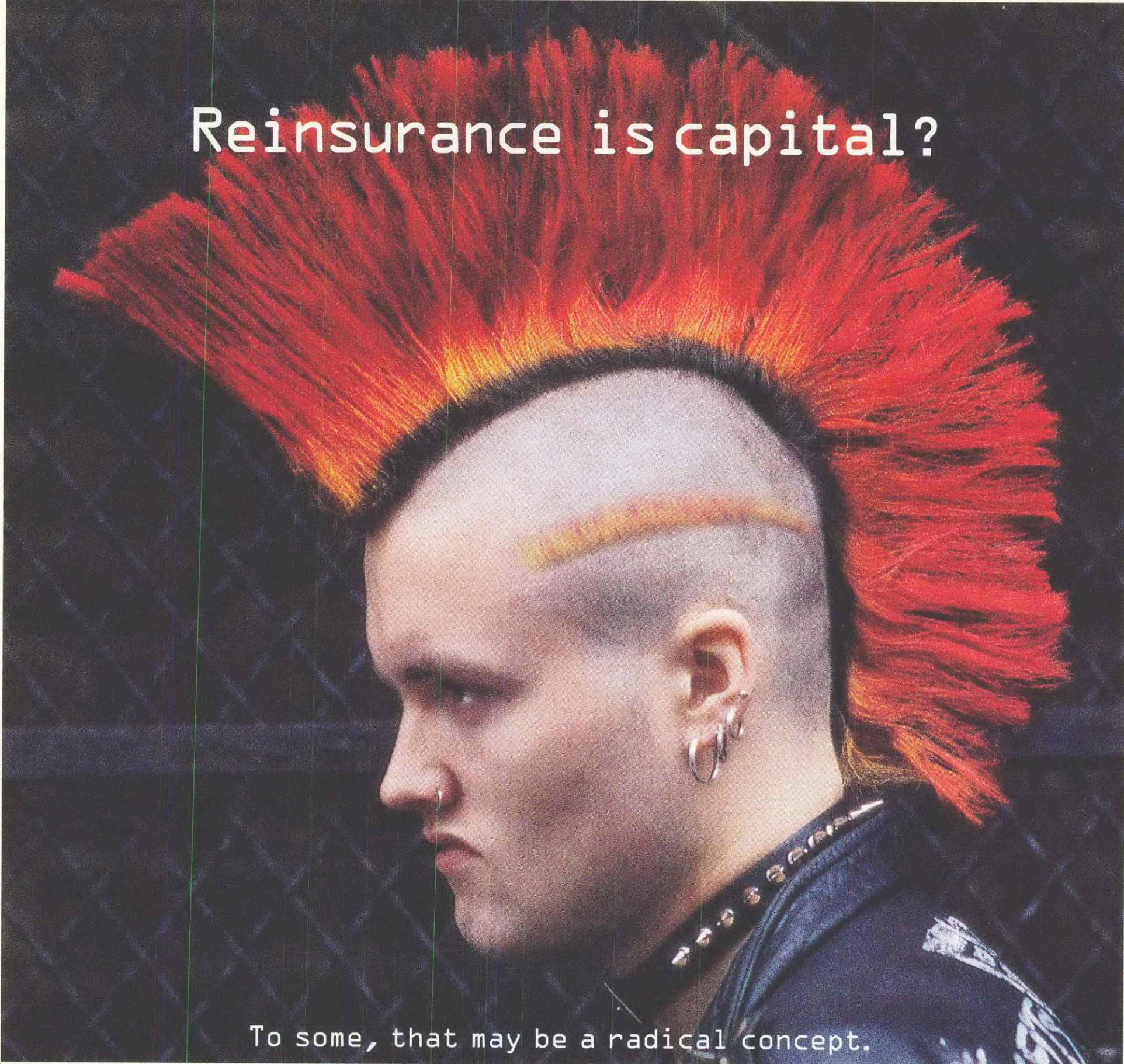
Why are we saying all of this in an ad? For the same reason we formed ZRC: We believe the reinsurance industry needs to change to keep pace with the escalating needs of ceding companies. Working through the broker channel, we continue to advocate this position to the benefit of a growing number of clients.

With more than \$600 million in statutory surplus, an A (excellent) rating by A. M. Best Company, a AA- claims-paying rating from S&P and a clean, unencumbered balance sheet, ZRC leads the broker market in size and financial stability. But beyond capacity, it's our energy, creativity and innovative underwriting philosophy that we think set us apart. If you're looking to fine tune your reinsurance program this renewal season, call your broker and ask about ZRC. You'll be pleasantly surprised by the reception you'll receive.



MEMBER OF THE ZURICH INSURANCE GROUP

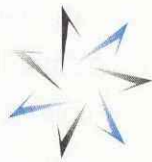
TEL: 212-898-5000 FAX: 212-898-5005



Reinsurance is capital?

To some, that may be a radical concept.

Reinsurance is capital? Of course it is. So why does your reinsurer look so uncomfortable when you ask about other kinds of capital? Ask us. We're the first reinsurer created to provide both the highest quality reinsurance *and* capital investment. Alone, or as part of integrated solutionssm, flexible combinations of reinsurance and capital designed to meet your needs. We have \$330 million of clean new capital and a thoroughly global attitude. Sound a bit out there? Find out more. Call your intermediary, or 203.861.2500. Some people think we're radical. We think they're right. Risk Capital Reinsurance. The Merchant Reinsurer.sm



RISK CAPITAL
REINSURANCE

Corporate goals can be used to sell wellness efforts

By DEBORAH
SHALOWITZ COWANS

CHICAGO—It may be nearly impossible to prove that wellness programs directly reduce a particular company's health care costs.

But what many corporate benefit managers can show is that wellness programs help achieve broader goals, such as reducing health and behavior risk factors among a company's employees, said David R. Anderson, vp of operations for StayWell Health Management Systems Inc. in St. Paul, Minn.

Evaluating whether a particular program helped cut costs is often very difficult.

With hard data hard to come by, benefit managers adapt

"You need big, big numbers to document results in these things because there are so, so many variables," he explained last month at a conference that was sponsored by the Wellness Planning Coalition, a Chicago-based consortium of health and wellness organizations.

A single employee seriously hurt in a car crash could, for example, push up some companies' claims for several years. And even if the costs from that claim can be removed from the data, other exceptional claims could skew the figures, said Mr. Anderson.

What's more, only data col-

'You need big, big numbers. . .because there are so, so many variables,' cautions David R. Anderson.

lected over several years will be valid, he cautioned.

Instead of trying to demonstrate a direct link, he advised employers to "point to the research" to show broader effects of health promotion activities, such as reduced frequency of health care

claims.

Several major published studies—such as ones done by Blue Cross & Blue Shield of Indiana; the California Public Employee Retirement System; the City of Birmingham, Ala.; Control Data Corp.; E.I. du Pont de Nemours & Co.; Johnson & Johnson; and Travelers Insurance Co.—do show that wellness programs reduced health costs, said Mr. Anderson.

The best thing most benefit managers can do is to tie the success of wellness programs to goals and objectives that their companies can really measure, he said.

"Get an agreement (from man-

agement) that risk reduction is your bottom line," Mr. Anderson advised.

For example, benefit managers can make awareness of health risk factors one of the goals of a health promotion program.

Likewise, participation levels and the satisfaction of participants also can be deemed goals of the health promotion program and measured to evaluate its success.

Companies also can compare medical cost trends and absenteeism rates within their organizations to industry norms to document the success of health promotion initiatives, Mr. Anderson suggested.

Didja hear the one about humor at work?

Laughter is called
good for what ails us

By DEBORAH
SHALOWITZ COWANS

CHICAGO—Amid talk of wellness initiatives and high-risk populations, the nearly 200 people at a recent health promotion conference sponsored by the Wellness Planning Council got this bit of advice: Keep your sense of humor.

"When we lose our sense of humor, we lose our sense of perspective," warned Chris Clarke-Epstein, a motivational speaker who is based in Wausau, Wis.

"We all have to deal with stuff. But we can package it in a positive way," she said.

Positive humor can "make us all feel connected," said Ms. Clarke-Epstein. "The only way you can find the humor in your life and in your work is if you start looking for it."

Ms. Clarke-Epstein said there are several ways to increase the "humor quotient" in the workplace, including:

- Building a humor library of funny books that employees can peruse when needed.
- Using humorous resources, such as funny or philosophical buttons and stick-on notes with witty sayings.

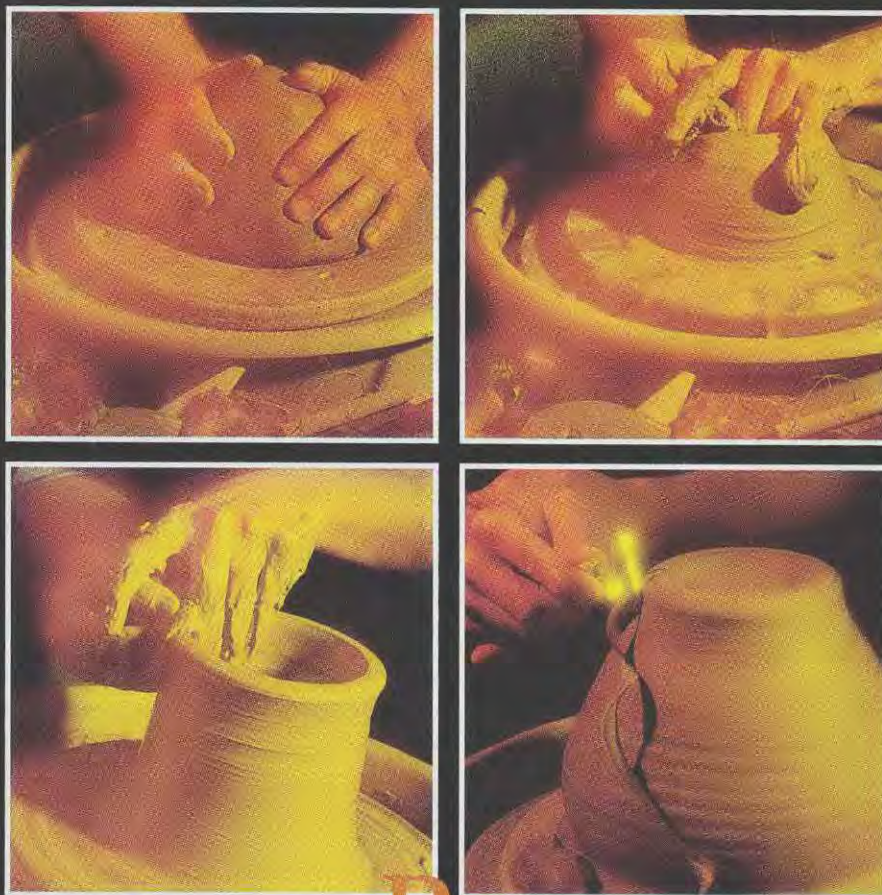
- Maintaining a file with clever cartoons and funny clips from newspapers and magazines and giving it to employees to glance through for a few minutes when appropriate.

- And being outrageous sometimes by doing or wearing totally unexpected things, such as a rubber animal nose.

"Humor isn't a luxury in our business life," Ms. Clarke-Epstein concluded.

"Humor is a necessity...if we want to serve our customers, if we want to live healthy lives, and if we want to come home at the end of the day and say, 'Can't wait to go into work tomorrow morning,'" she said.

For further information on the Wellness Planning Coalition, a consortium of wellness and health organizations, contact Marlo Carthen at the Midwest Business Group on Health, 8303 W. Higgins Road, Suite 200, Chicago, Ill. 60631; 312-380-9090; fax: 312-380-9096. **BI**



Re
shaping
Ourselves

Some stereotypes of a traditional insurance company have, unfortunately, been well earned. The business has been a highly conservative world that focused almost exclusively on insurance products and then made a limited amount of options available. A world where terms were almost dictated to you. But we're out to change all that. By literally reshaping ourselves and the way we do business.

PHICO is being reinvented not to sell insurance products, but to help you focus on limiting and managing risk. Where insurance coverage may be just one of many options. Where the processes and systems are fast, friendly and designed for *your* comfort, not ours. And one where *you* dictate the terms.

The best of traditional insurance, innovative risk transfer and financing alternatives, and a wide array of stand-alone services from which to pick and choose. That's the new PHICO Group.



The Risk Prevention & Management Professionals • 800-382-1378

The time to consider insurance is *before* a design problem occurs. But should one of your projects go awry, Zurich-American provides architect's and engineer's professional liability coverage to firms of all sizes and engineering disciplines. We specialize in providing creative solutions to

professionals' changing insurance needs. Our mission is to provide the highest level of service to our insureds, brokers and agents and to give them the security and financial stability that comes with our Best's A+ and Standard and Poor's AAA ratings. So if a structure you've designed becomes a bit of an

insurance stretch, be sure to contact Zurich-American at 1-800-382-2150.



**ZURICH-AMERICAN
INSURANCE GROUP**

The Power of Partnership®

**This Is No Time
To Start Thinking About
Professional Liability
Coverage.**

A MEMBER OF THE WORLDWIDE ZURICH INSURANCE GROUP

Survive

Continued from page 3

cane-prone areas increased dramatically and it took hurricanes Hugo in 1989 and Andrew in 1992 to alert the insurance industry to the increase in their exposures, Ms. Hutter said.

"Now we have started to focus more on exposures, but we still haven't learned the lesson—there are risks that have not happened that we have to focus on," she said.

For example, insurers do not seem concerned about earthquake risks surrounding the New Madrid Fault in the Midwest, Ms. Hutter said.

While the seismic cycle suggests that another earthquake is unlikely to hit the Midwestern fault for 300 years, insurers should not rely on that probability, she said.

"Look at the storms in Europe (in 1987) that were supposed to be once-in-100-years events. Five years later, we had another one," Ms. Hutter said.

Liability exposures also are making the world a riskier place for insurers, she said.

"Asbestos and pollution are a good example of our vulnerability to concentrations of risk. The fallacy would be for anyone to pretend that something like that could not happen again," Ms. Hutter said.

Liability exposures will increase in other ways, too, she said.

The litigious environment in the United States is just beginning to be mimicked in other countries, Ms. Hutter said.

"The existence of the European Union encourages that because you will not be suing your neighbor anymore; it will be some guy from Spain or from Germany," she said.

Pressures on performance also are making life more difficult for insurers, she said.

Risk managers are seeking lower premiums and taking higher retentions to satisfy their own financial managers, Ms. Hutter said.

That in turn leads to insurers covering a greater proportion of excess and catastrophe coverage, which leads to more volatility, she said.

And insurers are feeling more pressure from regulators and rating agencies concerned about the large number of insurance insolvencies, Ms. Hutter said.

"There have been 650 insolven-

cies in the past 17 years. For an industry that sells promises, that is not a very good record," she said.

Most of those insolvencies were in the United States or the United Kingdom, where there is the most open market competition among insurers, she noted.

As more markets in Europe and Latin America liberalize, more insolvencies will be likely, Ms. Hutter said.

Technology also is changing the insurance industry. In particular, policyholders are demanding that insurers use new technology to provide instantaneous information, Ms. Hutter said.

Insurers are expected to analyze information and make decisions concerning risks extremely quickly and, if they give in to that pressure, the results could be disastrous, she said.

To combat these problems, insurers must query every aspect of their operations, starting with why people buy insurance, Ms. Hutter said.

"The expectation of the person taking on the risk is that they will earn a return over the years, so inherent in the transaction is an expectation that some profit will move from the policyholder to the insurer. So why should they (the policyholders) pay good money to do that?" she said.

The answer is that businesses will give up a portion of their profits to insurers if the insurance enables them to make better use of their capital, Ms. Hutter said.

"The increase in bottom-line performance is the motivation, so insurers have to focus on that, and when you take that approach it helps you focus on solutions rather than products," she said.

In finding those solutions, insurers must be prepared to use a wide range of products, including a combination of traditional insurance and mechanisms that are based on instruments traded in the capital markets, Ms. Hutter said.

But, as the insurance products become more complex, insurers must retain a firm grip on what they are covering and not upset the stability of their own balance sheets, she said.

"You need to be disciplined about risks and cognizant about what you are doing," Ms. Hutter said.

Finally, to ensure that the insurance industry is stable, insurers must be prepared to work openly with regulators to help them gov-

Breaking comp gridlock

Lawyer knows six reform proposals won't come easy

By GAVIN SOUTER

HAMILTON, Bermuda—Reforming the U.S. workers compensation system will be difficult, but reform is needed, says a workers comp lawyer.

The conflicting interests of employers and workers that have hampered reform efforts for decades still do so today, said John E. Smith, a partner at Harvey, Pennington, Herting & Renneisen Ltd. in Philadelphia.

Nevertheless, several steps need to be taken to make the system more efficient, fairer and more effective, said Mr. Smith at the annual International Risk Management Group Ltd. conference in Bermuda earlier this month.

Attempts at meaningful reform almost invariably ignite a confrontation between employers and workers. "Reform which can be construed as providing increased benefits to the worker is usually opposed by business and insurance interests. Reform which tends to reduce or eliminate benefits to the worker meets with opposition from labor groups and trial attorneys," he said.

Politics further complicates matters. Democrats generally favor increased benefits; Republicans generally back limitations or cuts in benefits.

But, despite the difficulties, the huge cost of workers comp benefits makes the state-based system a prime candidate for reform, he said.

Total system costs were only \$5 billion in 1971. Then, the following year, many states improved benefits and made other changes in response to both the threat of a federal takeover of the system and to the recommendations of a national commission. Since then, costs have risen to \$57 billion a year.

Though the rate of increase in workers compensation insurance costs has slowed, Mr. Smith argues that there is much room left for improvement. He recommends six specific proposals.

First, give employers greater control over medical cost containment.

"Much of the abuse in the current workers comp system arises from the lack of control maintained over various health care providers by the employer," he said.

Much of the abuse occurs when specialists prescribe measures that fly in the face of accepted medical practice and could be averted by directing workers to physicians selected by the employer, Mr. Smith said.

For example, one chiropractor may recommend a course of treatment taking several years that most chiropractors say is only effective if it brings results within weeks or months, he said.

"At the very least, if the employer is able to direct the initial period of treatment, many injuries will have been resolved and the employer will at

least have a good idea as to what is actually wrong with the injured worker," he said.

For this mode of treatment to work, employers must select the physicians objectively so that the physicians do not appear to be the organization's "hired gun," Mr. Smith said.

Second, redefine the concept of injury for workers compensation claims.

The concept has come to include aggravations of pre-existing conditions no matter how minor they might be, Mr. Smith said.

"For example, a worker with a pre-existing degenerative back condition could theoretically herniate discs to his back while bending over to pick up a piece of paper," he said. "Under most state laws, this would be deemed to be a compensable injury."

Workers should be required to prove that a work-related injury substantially contributes to an existing injury before a workers comp claim is paid, Mr. Smith said.

Thirdly, cease disability payments when a worker becomes eligible for Social Security unless the worker can demonstrate that he or she intended to continue working.

The expressed goal of the workers compensation system is to replace lost income or earning capacity and that does not require payment of benefits beyond retirement age, Mr. Smith said.

Fourth, ensure employers' right to to recover all or a portion of the award to an injured worker in a suit against a third party that caused the injury, he said.

"In order to pass tort reform legislation, many legislatures are willing to weaken or eliminate the ability of the employer to recover its workers comp lien," Mr. Smith said. For example, this can be done by permitting an employer to be named in a third-party action filed by an injured employee, he said.

For the workers comp system to be effective, it must be a no-fault system, Mr. Smith said.

Fifth, devote more resources to vocational rehabilitation.

"Too often, vocational rehabilitation, while permissible, is not mandated, so that cooperation by the injured worker is essentially voluntary," Mr. Smith said.

Finally, cut legal costs.

To reduce these costs, steps should be taken to handle more workers comp claims through a purely administrative process rather than a legal process, he said.

"Especially in the preliminary stages of a contested matter or where the disputes are relatively minor, consideration should be given to a mediation or arbitration process where neither side is represented by counsel," Mr. Smith said.

ern an increasingly complex business, she said.

"Regulators are struggling to deal with the here-and-now, never mind what is going to

come," Ms. Hutter said.

Insurers will sacrifice long-term prosperity for short-term gain if they push ill-conceived insurance products past befuddled regula-

tors, she said.

"The market must help regulators understand how the products need to be regulated," Ms. Hutter said. **[B]**

American International Group Inc.: M. Bernard Aidinoff, director, purchased 113 shares of common at \$98.63 each on March 5, and now directly holds 7,535 common.

Lloyd Bentsen, director, purchased 113 shares of common at \$98.63 each on March 5, and now directly holds 1,923 common.

Marshall Cohen, director, purchased 113 shares of common at \$98.63 each on March 5, and now directly holds 1,688 common.

Barber B. Conable, director, purchased 113 shares of common at \$98.63 each on March 5, and now directly and indirectly holds 12,006 common.

Houghton Freeman, director, indirectly sold 20,436 shares of common at \$98.49 each on March 11, and now directly and indirectly holds 1,275,170 common.

Maurice Raymond Greenberg, chairman, disposed of by gift 105 shares of common at an unreported price on March 13.

Mr. Greenberg indirectly purchased and acquired by gift 1,324 shares of common at \$95.38 each

from March 1 to March 22, and now directly and indirectly holds 16,839,887 common.

Carla Anderson Hills, director, purchased 113 shares of common at \$98.63 each on March 5, and now directly holds 2,749 common.

Frank J. Hoenemeyer, director, purchased 113 shares of common at \$98.63 each on March 5, and now directly holds 12,852 common.

John I. Howell, director, purchased 113 shares of common at \$98.63 each on March 5, and now directly and indirectly holds 57,210 common.

Nicholas Alexander Okulich, retired, purchased 200 and disposed of by gift 200 shares of common between an unreported price and 94.38 each from March 11 to March 12.

Mr. Okulich indirectly acquired by gift 200 shares of common at an unreported price from March 11 to March 12, and now directly and in-

directly holds 1,161 common.

Dean P. Phypers, director, purchased 113 shares of common at \$98.63 each on March 5, and now directly holds 9,032 common.

Kathleen E. Shannon, vp, exercised an option for 1,125 shares of common at \$21.38 each on March 29 and now directly and indirectly holds 16,216 common.

AIG stock closed at \$91 a share on May 17.

Chubb Corp.: Robert P. Crawford, vp, exercised an option for 800 and disposed of by gift 410 shares of common at \$28.63 each from March 4 to March 18, and now directly and indirectly holds 13,361 common.

Henry G. Gulick, vp, exercised an option for 550 shares of common at \$36.38 each on March 29. To cover expenses of the transaction Mr. Gulick turned in 212 of them for \$94.25 each on March 29 and now directly and indirectly holds 6,119 common.

Dean R. Ohare, chairman, exercised an option for 4,333 shares of common between \$35.00 and \$47.75 each on March 8. To cover expenses of the transaction Mr. Ohare turned in 1,559 of them for \$96.81 each on March 8, and now directly and indirectly holds 51,179 common.

Chubb stock closed at \$46.88 a share on May 17.

General Re Corp.: Ronald G. Anderson, retired, exercised an option for 18,859 shares of common between \$87.94 and \$123.50 each on March 18 and sold them at \$144.56 each on March 18, and now directly and indirectly holds 601 common.

John Charles Etling, retired, exercised an option for 4,000 shares of common between \$89.31 and \$113.63 each from March 4 to March 25. To cover expenses of the transaction Mr. Etling turned in 342 of them for \$148.00 each from March 4 to March 25 and sold 4,000 shares in the open market at \$148.00 each from March 4 to March 25, and now directly and indirectly holds 26,643 common.

Ronald E. Ferguson, chairman, exercised an option for 9,855 shares of common between \$89.31 and \$113.63 each from March 7 to March 9. To cover expenses of the transaction Mr. Ferguson turned in 9,372 of them between \$147.75 and \$153.31 each from March 7 to March 9 and now directly and indirectly holds 72,322 common.

Dallas W. Luby, officer of subsidiary, disposed of by gift 1,081 shares of common at an unreported price on March 9. Mr. Luby, indirectly acquired by gift 1,081 shares of common at an unreported price that same day and now directly and indirectly holds 21,239 common.

General Re stock closed at \$140 a share on May 17.

Insider Trading, compiled by Invest/Net Trading Group Inc. of Fort Lauderdale, Fla., from reports filed with the Securities and Exchange Commission, tracks stock sales and purchases by insurance industry directors and officers. The column is distributed by Tribune Media Services Inc.

Insider Trading

Planning

Continued from page 1

public and our capacity to meet the needs goes down," said Mr. MacCallum.

A city is expected to help with public safety, evacuation and shelter. And, even as cities struggle to do so, federal and state officials will look for support in coordinating recovery efforts, he said.

Developing a hurricane preparedness plan was one of the few things Chesapeake could do in advance of any storm.

"I started looking at the handicaps the storm would create for us," he said. Absenteeism would run high. Roads would be clogged with debris. Sheet metal buildings and temporary buildings that are much like mobile homes would probably sustain damage.

Meanwhile, insurance catastrophe response teams would need to enter the area as soon as possible after a hurricane. Many of these people would not know their way around the city under the best of circumstances. With street signs blown down and other problems, they would be in even worse shape.

"If I'm going to be dealing with all these other things in liability and workers compensation, I needed something organized well enough to put in the hands of somebody" who wasn't familiar with the area—whether staff or insurer—and "say, 'Go here and inspect the loss,'" said Mr. MacCallum.

The catch was, the city didn't know how many buildings it actually had spread over its 353 square miles. There was no central list because each city department was responsible for its own property and often did not maintain up-to-date lists. City-owned structures ranged from fire stations to libraries to 9-by-12-foot storage sheds.

The problem was complicated by the fact that many buildings would share a parcel of land. So a single street address would encompass multiple buildings, adding to the confusion of adjusters and catastrophe response personnel, he said.

Valuing buildings presented other problems. The city doesn't pay property taxes and doesn't value buildings as accurately as a private corporation, which depreciates buildings, would. "The city doesn't pay the corporate income tax or capital gains tax—you never sell a water treatment plant," he said with a chuckle.

"You always have to deal with the issue, is the value of properties accurate?" agreed J&H's Mr. Riley.

"I felt it was very important to be able to locate the building and have the persons who were adjusting the claim be certain that the debris they were looking at was the same building," said Mr. MacCallum.

He created for each building a sheet that contained basic information like street address and, where applicable, the name of the building. The fact sheet also included photographs and written descriptions—anything that would help identify the structure.

The sheets also contained something a little more esoteric: the exact latitude and longitude at which the building was located.

This was determined by using the Global Positioning System, a satellite system originally designed to pinpoint locations for military use and now used more widely by civilian sailors. The city has several of the devices, used for locating sewer lines, among other things.

Mr. MacCallum also discovered that many buildings were only vaguely identified. Many, for instance, were simply listed as "government offices."

Having more precise definitions enabled the city to set priorities for getting each site back up and running after a catastrophe, he said. So, for instance, reopening library branches will be given a lower priority than reopening the building that houses the data processing functions necessary to issue payroll checks.

The project took nearly a year to complete, he said. Gathering the information meant a lot of legwork for the risk manager, too.

"When it came to photographs, I took the photographs. When it came to finding out what the latitude and longitude was, I went to the site," he said. "It's a very easy project not to complete."

The information became part of a database that classifies properties by a variety of criteria, he said. J&H provided technical assistance on the project.

The number of structures the city knew it owned nearly doubled to about 200, he said. The value of

Good information on its properties is what made the big rate cut possible for Chesapeake.

insured property went to \$114.9 million from \$82.4 million.

As a result of the catastrophe recovery inventory, Mr. MacCallum was able to go into the city's April 1 property insurance renewals with confidence and a far more detailed list of the city's risks. The list showed that the city wasn't playing any games with its property values, he said.

"Once the information was collected, we were able to approach markets," said J&H's Mr. Riley. Their goal: squeezing out the pricing factor related to unknown risks.

"What really allowed us to make such a significant rate difference for him was having good information," Mr. Riley said.

The inventory, combined with favorable market conditions, allowed a dramatic decrease in property insurance rates, Mr. MacCallum said. The rate went to \$0.032 per \$100 of agreed value from \$0.059 per \$100 as the city changed insurers to ITT Hartford Group Inc. from a unit of Chubb Corp., he said. The result was a 45% rate reduction despite a 39.5% increase in exposure.

Mr. MacCallum credited J&H for much of the success. "This project, this success on the financial side, would not have occurred had it not been for the way that J&H marketed this on our behalf."

Both Messrs. MacCallum and Riley stressed that one factor working in the city's favor is that hurricanes historically have not been a problem, despite the city's proximity to the Atlantic.

"There's a perception of risk and a reality of risk," said Mr. Riley. He noted that some insurers regard Chesapeake and other Tidewater cities as being in a major storm path, while others don't. Part of the broker's job is to identify which ones don't and market accounts to them, he said.

"There's a real question as to whether a city like Chesapeake has the same risk as a city in Florida or on the South Carolina coast," Mr. Riley said. **BI**

Hurricane season opening catches very few unaware

Risk managers, insurers prepare year-round for storms

By MARK A. HOFMANN

Preparation for this year's hurricanes should have been under way long before the season officially begins later this week, say loss control experts.

For risk managers, contingency planning ought to be a year-round process, they say. The advent of hurricane season, which officially runs from June 1 to the end of November, should simply serve as a reminder to keep plans up to date, say experts.

"We expect insureds to have a catastrophe plan," said Richard A. Gross, a research consultant at Industrial Risk Insurers in Hartford, Conn.

"For the most part, the large industrial facilities like we insure were certainly aware of windstorm all along," said Ken Linder, IRI's assistant director of research. "We have made an increased push in recent years to make sure that regular inspections that need to be done, maintenance of roofs, are being done." IRI wants to make sure that policyholders don't wait until the last minute to try to mitigate damage.

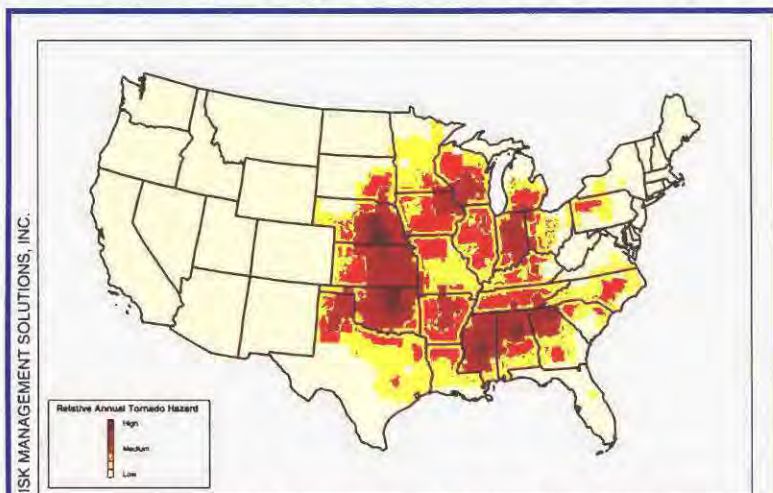
Among other things, IRI provides a "hurricane checklist." The 17 listed actions include: protecting important papers from wind, debris and rain; protecting windows from flying debris, inspecting roof edging strips, gutters, flashing, covering and drains; and shutting down processes safely. Next to each suggested action is a blank for the time needed for accomplishing the job. "The length of time needed—expressed in hours or days—to accomplish these tasks should be determined in advance so that appropriate actions can be initiated at the proper time," the checklist states.

"Making sure that people are making decisions and are doing things vs. waiting," is a key to The Rouse Co.'s hurricane preparedness plan, said Steven W. Sachs, who acts as risk manager for the Columbia, Md.-based real estate development firm. Like IRI, The Rouse Co. provides its mall and property development managers with a checklist of steps to be taken in the event of a hurricane, said Mr. Sachs, who is senior vp and manager of the risk management services division of Hobbs Group, an affiliate of Waltham, Mass.-based Arkwright Mutual Insurance Co.

When a hurricane threatens, Mr. Sachs initiates a pre-hurricane conference call agenda from Rouse's headquarters in Columbia. Participants in the conference call include people in the possible storm path as local property managers, operations managers, security managers and even public relations personnel in case there will be dealings with the press after the storm. Home office personnel include safety officials, the group or regional vp responsible for the property in harm's way and the risk manager.

Mr. Sachs said one of the crucial parts of the conference is reviewing the facts of the storm. "In many cases, we have better information" about the storm than people on site do, he said. That's because the home office tracks developments through the national press, which tends to embellish the details less than local news outlets, he said.

Another crucial measure is to make sure that the local personnel set up a command center and then



An analysis by Risk Management Solutions Inc. shows major tornado risk areas clustered in the Midwest and Southeast.

Tornadoes offer little warning

Hurricane season also can serve as a reminder to prepare for other wind-related perils, such as tornadoes.

Though both pack very high winds, tornadoes present very different challenges than hurricanes.

A major difference is the amount of advance warning a risk manager has, said Steven W. Sachs, who acts as risk manager for Columbia, Md.-based real estate development firm The Rouse Co.

Sometimes the warning time for a tornado is measured in a few minutes. "From the time you

know, you have to concentrate on communicating with people to get them to the safest part of the building," he said. And, of course, that has to be determined and communicated well in advance of the event.

Another difference for risk managers is the hail that often accompanies tornadoes. Hail stones can wreak havoc with rooftop heating and air-conditioning units if the ice balls are big enough to shred the metal fins of the fans, warned Mr. Sachs.

—By Mark Hofmann

to walk through the actions required to protect property. These include such precautions as removing certain common-area amenities, such as tables, from malls and storing them properly; and going over a checklist of medical supplies, tires, and other items that might be needed in the wake of a storm.

The call also deals with operational issues such as when the shopping center needs to be closed, when to shut off power and how to allocate manpower during and after the storm. Manpower questions also include ensuring that transportation and lodging will be available for employees involved in cleanup, he said.

Local personnel in Barnett Banks' offices throughout Florida also are expected to not wait until the last minute to think about how to deal with a hurricane.

"We expect them to keep it in mind all year round," said Jim Dineen, director-risk management for the Jacksonville, Fla.-based banking giant.

Mr. Dineen said that the bank has a business continuity plan to deal with catastrophes. "We have taken the viewpoint that hurricanes are obviously our greatest risk," he said. But he added that the plan takes other perils into account as well, because the definition of catastrophe nowhere uses the word windstorm.

The bank conducts specific training so that everyone involved in the catastrophe planning and recovery process knows what to do.

"Everybody knows what everybody else is doing so there are no expectations that are not being fulfilled," he said.

The bank has a command center in Jacksonville and has designated subcommand sites at various locations, he said. It also has a recreational vehicle outfitted as a mobile

command post that can go anywhere in Florida or south Georgia where Barnett has banks.

Sometimes taking a very simple step before a hurricane can save millions of dollars' worth of property damage, said Mike Burke, vp and chief engineer of Allendale Mutual Insurance Co. in Johnston, R.I.

"The thing we found after Andrew was that the general industrial structure was OK. But the waterproof envelope that consists of the roof covering and the siding on the building was a different story. It's an easy thing to do, but it's not something roofing companies always do very well." As a result, faulty roofs could turn a few hundred thousand dollars' worth of storm-related building damage into millions of dollars' worth of water damage, he said.

"The challenge is I have to be clever in how I keep this waterproof cover in place," said Mr. Burke. For a new building, that means using a few more screws in a just a few places on the roof, which translates into pennies per square foot, he said.

Other customers have been able to cut their loss by 40% or 50% through retrofitting, said Mr. Burke. Between the edge of the roof where the roof covering ends and the wall begins, there's a piece of metal flashing that's meant to be a waterproofing detail, he said. If that flashing is well secured, it provides an enormous amount of restraint against the wind. It needs to be screwed down at about 1-foot intervals. "It's a very easy thing to do," he said.

Allendale began stressing this to its customers about three years ago, and Mr. Burke estimates that 90% to 95% of those in windstorm areas have taken the step.

Before a hurricane hits, "I'd make sure that every flashing is screwed in as tightly as possible," he said. **BI**

INTERNATIONAL

Brighter outlook in Lloyd's market

By SARAH GODDARD

Despite some R&R naysayers,
most market watchers are hopeful

LONDON—Some members and officials at Lloyd's of London are growing confident that they can see light at the end of the tunnel, though others fear it may be the headlamp of an oncoming train.

Now that the Council of Lloyd's has upped the ante for members in the market's reconstruction and renewal plan, member action groups and market executives alike are becoming more hopeful about Lloyd's future.

David Robson, chairman of Anton Members Agency Ltd. and the Lloyd's Underwriting Agents Assn. is not alone in feeling "pretty good" about Lloyd's ability to put to rest the seemingly endless litigation and rid itself of past liabilities through proposed runoff reinsurer Equitas Ltd.

"Overall, it seems to me that there is a gathering mood of confidence that R&R will be accepted," said Anthony Howland Jackson, chair-

man of Bain Hogg Group P.L.C. and the Lloyd's Insurance Brokers Committee.

Member action groups, though less upbeat, generally agree. "It's the best we are going to get," said Sarah Gibb, secretary of the Gooda Walker Action Group.

But, a core group of members still insists the new £3.1 billion (\$4.69 billion) settlement fund, plus a reduced Equitas cash demand of £1 billion (\$1.51 billion) on members, is inadequate.

Alan Porter, chairman of the Devonshire Names Action Group and the Cuthbert Heath Names Assn., said he welcomed any improvement to the offer. However, he added, "the addition of £300 million (\$453.9 million) to the settlement offer really is quite miserable."

He described the £100 million (\$151.3 million) contributed by bro-

kers as neither "proper" nor "fair," adding that more cash could come from agents and the ongoing market.

But the agents continue to stand their ground on how much they should contribute.

In effect, they are adding £60 million (\$90.8 million) to the £200 million demanded by the R&R plan because they are calculating profit commissions after deducting names' special levies on 1993, 1994 and 1995 underwriting years, said one managing agency representative, who asked not to be identified.

The plan allows agents to exclude the levy. What's more, Mr. Porter said, the agencies that would be hardest hit by an increased contribution are those that traded at a profit during Lloyd's lean years, helping members' bottom lines.

Lloyd's still has to reach a final

agreement on brokers' contribution, but Mr. Howland Jackson is confident it will be settled by the end of May. The basic principle is that about £100 million is raised now on the back of five years of levies, raised retrospectively and starting in August or September with the 1995 year of account. The amount each broker pays will be determined by the volume of business they placed at Lloyd's the preceding year, he explained.

If capacity remains at the same level—and is fully utilized—for the next three years, this would equal about 0.2% of Lloyd's brokers' premium volume.

All Lloyd's brokers will be required to pay the levy, regardless of the class of business they place.

Responding to action groups' calls for more from brokers, he stood firm. "There is not a penny more to come from brokers," he said.

"Brokers cannot set a precedent of paying the losses of the markets in which they place business, but they

can contribute to the future health of the market," he said.

But there may still be a rabbit or two left in Lloyd's hat. Lloyd's refused to comment on a £300 million (\$452.7 million) syndicated loan that market sources say Lloyd's finance department is working on.

Earlier this month, Mr. Porter suggested a syndicated loan raised against a levy of 2% a year on Lloyd's brokers, managing agents and policies issued, "to put the really damaged names back on their feet."

One insurance analyst said a bit more still could go into the pot, possibly from managing agents. But overall, he believed the settlement proposals have reached a stage where it is difficult to see a better deal for names.

Most observers believe Lloyd's has scraped together all of the money available.

A monthly poll of names conducted on behalf of Lloyd's is showing three or four names in favor of the settlement offer for every name opposed to it, said Anton's Mr. Robson.

See Lloyd's on next page

Reinsurers must pay
before cedant pays
Ruling to benefit insolvent insurers

By SARAH GODDARD

LONDON—Up to £3 billion (\$4.5 billion) in reinsurance recoveries has been freed up by a landmark House of Lords' ruling last week.

In last Thursday's decision in *The Charter Reinsurance Co. Ltd. vs. Patrick Feltrim Fagan*, five law lords agreed unanimously that reinsurance policyholders can collect their ceded claims before making payments to their own claimants.

The result is "stunningly good news" for creditors of insolvent insurers, said Philip Singer, a partner at London accounting firm Coopers & Lybrand, which is running off Charter Re. "The judgment means that creditors do not lose out and reinsurers do not get the undeserved windfall they might otherwise have received."

Nicholas Bradley, a partner at London law firm Davies Arnold Cooper, which represented Charter Re, welcomed the ruling, saying "it provides certainty to an issue which has been open for some time." It will lead to considerable savings, he said, by eliminating hundreds of arbitrations and allowing insolvency practitioners to draft schemes of arrangement.

However, there are doubts about whether the ruling will apply to all insurance contracts within the London market.

The case centered on the refusal of two Lloyd's syndicates, formerly part of the Feltrim agency, to pay claims to the insolvent Charter Re under wording in the "ultimate net loss" clause. Reinsurers had argued that the clause means they only have to pay a claim once the cedant has paid out.

In a 1995 U.K. High Court decision, Justice Mance had ruled that this was not the case—reinsurers become liable once the claim is established, he said, and are liable for the full amount of the claim, irrespective of whether they are unable to pay the policyholder the full amount because of being in runoff (*BI*, July 3, 1995).

Although the Court of Appeal had been split on the issue, the House of Lords upheld Justice Mance's opinion.

The case involved the meaning of the words "actually paid," and

See Charter Re on page 19

Ferry disaster uninsured

Tanzanian vessel
deemed poor risk;
at least 500 dead

By MARIA KIELMAS

Losses from the May 21 passenger ferry disaster on Lake Victoria in Tanzania, in which more than 500 people are thought to have died, likely are uninsured.

The age of the ferries that service routes in the East Africa lakes, their lack of maintenance and chronic overloading makes it unlikely that any private-sector insurer would cover them, a London broker said.

The 800-ton ferry, "Bukoba," constructed in 1979 in Belgium, was the property of the state-owned Tanzanian Railways Corp.

State-owned The National Insurance Corp. of Tanzania dominates the country's insurance market. Executives from the insurer were unavailable for comment late last week.

The ferry capsized between the Tanzanian lakeside towns of Bukoba and Mwanza. According to local reports, the ferry was licensed to carry 433 passengers but actually was carrying more than 800 at the time of the accident.

The cause of the accident has not been established.

The rescue operation was orga-



GRAPHIC BY JERRY PARKS

nized by the Tanzanian Red Cross, the Tanzanian People's Defense Force, which is part of the army, the Tanzanian Police Force and the Tanzanian Railways Corp.

State officials are investigating the disaster, said a Tanzanian government official in London. Initial results of the inquiry should be known by the end of May, he said.

East African political analysts are confident that the poor state of transport infrastructure in East Africa will improve. Early this year, Tanzania, Kenya and

Uganda signed an agreement aimed at reviving the cooperation that existed among them some 30 years ago. Transportation was a top priority then. The countries are seeking foreign investors to improve the infrastructure, especially ferries and international railways.

In the wake of the disaster business executives in Uganda anxious to increase regional exports, called for a complete overhaul of the safety rules governing transport on the East African lakes.

German industry ill at ease with EIL

By DON LEWIS KIRK

German companies remain at odds with insurers over rates and terms for compulsory environmental impairment liability insurance.

Risk managers are complaining that the coverage trigger in the EIL policies reduces the scope of coverage, effectively cutting off coverage of long-tail risks, among other complaints.

A dramatic restriction in coverage conditions has made buyers angry, said Guenter Schlicht, managing director of Deutscher

Versicherung-Schutzverband, or DVS, an association representing 4,000 companies.

"We find insurers restrictive and inflexible and have difficulty understanding why rates go up while benefits go down," he said.

Hauptrecht Freiherr Schenk zu Schweinsberg, risk manager and director of the captive insurer of Essen, Germany-based steel manufacturer Krupp A.G., says companies had better coverage of pollution risks before EIL policies were introduced in 1993.

Before insurers offered EIL policies in Germany, companies with

pollution exposures bought coverage under so-called WHG, or Wasserhaushaltsgesetz, policies, which covered cleanup costs for contamination of policyholders' own property on an occurrence basis.

The new EIL policies limit coverage to third-party damage that manifests itself during the policy period, thereby eliminating coverage for long-tail exposures.

The EIL policies were introduced to meet the new exposures created by a 1992 environmental law that required German companies to have liability coverage for

up to 160 million DM (\$103.8 million) in property damage and 160 million DM for personal injury. The policies replaced the more expensive WHG policies.

Since insurers shifted to EIL policies, "we confront numerous exclusions and have few alternatives but pay out of our own pockets when an accident occurs," he said. "We look at EIL as a step backward."

Risk managers contend EIL coverage took away many of the advantages of earlier WHG policies. "Today, insurers exclude cleanup cost," of the policyhold-

er's own property, Mr. Schlicht said. In addition, he said, "insurers often consider damage from fire and explosion an EIL loss. As a result, companies are left to clean up their own property."

Only recently have one or two insurers in Germany, including a unit of American International Group Inc., offered first-party pollution coverage (*BI*, March 11). While applauding such efforts, risk managers insist insurers have a long way to go.

"For every concession, there are far-reaching limitations," Mr. Schlicht said.

See EIL on page 19

Lloyd's

Continued from previous page

It is not the names who could stymie the offer, he said, but some unforeseen event "could suddenly emerge and trip the whole thing up." He cited the recent actions by U.S. states to freeze Lloyd's U.S. trust funds, saying they had come "out of the blue" (BI, April 1).

The Paying Name's Action Group remains very unhappy about the set-

tlement offer, despite the amendments that would appear to benefit its members. The 2,000-member group represents members who have paid their losses to date and are generally still underwriting.

Michael Toppin, a PNAG committee member, warned that even with the £50,000 (\$75,650) cap on names' cash payments in excess of assets lodged at Lloyd's, many names who have taken out loans to pay their Lloyd's debts would be wiped out by the current settlement offer. What

PNAG members needed was for Lloyd's to take the losses they have paid into account when assessing their Equitas premiums, he said, as well as factoring in the debt members may have incurred by paying their liabilities.

What's more, members need Lloyd's to release the cash profits from the 1993, 1994 and 1995 underwriting years to pay off their creditors, "those who lent us money to support Lloyd's on the strength of a triple profit release which we were

Failing to ensure that Lloyd's acts reasonably would be a 'gross dereliction of duty' by the DTI, an action group says.

promised," said PNAG Chairman Tony Welford. Lloyd's plans to place those profits directly into Equitas as

part of members' Equitas premiums.

The action group is preparing to file a complaint against the Department of Trade and Industry, which it says is trying to distance itself from the dispute between names and Lloyd's.

The interests of both policyholders and members are linked by the R&R plan, the group claims, and failure by the DTI to ensure that Lloyd's acts reasonably to ensure the market's survival is "a gross dereliction of duty." **BI**

The Professional Marketplace

RATES AND CLOSING TIME:

Rates: Display classified is \$153.00 per column inch, minimum of one inch. Straight classified is \$13.50 per line, minimum of 5 lines. Count 34 characters per line (include each space and punctuation as a character). Additional \$22.00 charge for all blind box ads. Only those responses 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 5:00 Tuesday, 6 days preceding publishing date. No verbal phone copy accepted. Most major credit cards accepted. Mail ads to, Cheryl Butler, Classified Advertising, 740 North Rush Street, Chicago, Illinois 60611. For more information call 312-649-5340 or FAX 312-649-7799.

HELP WANTED

COMMERCIAL LINES PRODUCERS

Large Regional San Antonio Based Independent Insurance Agency looking for experienced Commercial Lines Producers for both its **San Antonio** and **Houston** offices. Proven success record required. Excellent Income and Benefit Opportunities. Send resume to: P.O. Box 40097, San Antonio, Texas 78229.

HELP WANTED

Business Insurance

Circulation Breakdown Commercial Consumers

Administrative:

CEO's, Presidents, and Owners, ...1,790
Vice Presidents, General Managers and
Other Administrative Personnel 4,961

Financial:

Chief Financial Officers and Vice Presidents
of Finance 3,172
Secretaries, Treasurers, controllers and
other Financial Personnel 3,028

Risk/Employee Benefits:

Vice Presidents, Directors, Managers, and other
related department personnel of: insurance, risk,
employee benefits, personnel, compensation,
pension, safety, security, industrial relations,
human resources and employee/
labor relations 17,213

Sub-total

Associations 311
Government, Unions and
Educational Institutions 881

Commercial Consumers

Sub-total 31,356
Insurance Agents and Brokers 8,013
Insurance Companies 7,685
Accountants, Actuaries,
Attorneys & Consultants 3,586
Adjusters, Appraisers, TPA's, Captive Managers
& Health Care Providers 1,858
Others Allied to the Field 1,091

Total Qualified

Non-qualified 7

TOTAL CIRCULATION

.....53,596

* Source Business/Occupational
breakdown of qualified circulation,
November 27, 1995 Issue, as
submitted to BPA for December 1995
BPA Publisher's Statement

LEGAL NOTICE

REQUEST FOR PROPOSALS LOS ANGELES COUNTY METROPOLITAN TRANSPORTATION AUTHORITY

PROJECT: METRO RED LINE EAST SIDE EXTENSION
CONTRACT NO: SP007
CONTRACT NAME: PRE-CONSTRUCTION SURVEY SERVICES
RFP AVAILABLE: MAY 20, 1996, 9:00 AM TO 4:00 PM
COST OF RFP: FIRST COPY \$25 PICKED-UP; \$50 MAILED; ADDITIONAL
COPIES \$100 PICKED-UP; \$125 MAILED. PAYMENT BY
COMPANY OR CASHIER CHECK TO MTA
PRE-PROPOSAL MEETING: MAY 28, 1996, 10 AM PST
WINDSOR CONFERENCE ROOM, 15TH FLOOR
ONE GATEWAY PLAZA, LOS ANGELES, CA 90012
PROPOSAL DUE DATE: JUNE 17, 1996, 2:00 PM PST
PROPOSAL DELIVERY: 17TH FLOOR RECEPTION AREA
ONE GATEWAY PLAZA, LOS ANGELES, CA 90012
BONDS: NONE
LICENSE: NONE
DBE GOAL: 28%

The MTA is seeking a consultant with extensive pre-construction survey experience to systematically document the following conditions along the **Metro Red Line** East Side Extension from Union Station to First Street and Lorena: 1. pre-construction and post-construction physical conditions of structures, utilities and other improvements; 2. economic condition of businesses along the alignment; and 3. required environmental mitigation measures.

The Pre-Construction Survey Consultant will: identify potential properties to be surveyed, conduct formal inspections of properties, provide proper notice and maintain communication with communities affected by survey activities, report on each property surveyed and identify unusual and dangerous conditions and provide photographs and/or video tapes to the MTA of all structures surveyed.

The MTA has established a Disadvantaged Business Enterprise (DBE) participation goal of 28% for this contract. The MTA affirmatively assures that DBE's will be afforded full opportunity to submit proposals and that it will not discriminate on the grounds of race, color, religion, sex or national origin.

TO ORDER RFP DOCUMENTS CALL OR WRITE:

LKG-CMC
707 Wilshire Blvd., Suite 3650
Los Angeles, CA 90017
(213) 892-0124

FOR QUESTIONS REGARDING THIS RFP, CONTACT:

Metropolitan Transportation Authority
P.O. Box 194
Los Angeles, CA 90053
Attn: James Hennessy (213) 922-4286
FAX: (213) 922-7382

LEGAL NOTICE

LEGAL NOTICE

LEGAL NOTICE

UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK IN THE PETITION OF HERMAN FEDERSPIEL, AS SUPERVISOR OF REASSURANCEAFVILKINGS-AKTIESELSKABET (THE "COMPANY")

Case No. 96-B-42629 (JLG)

NOTICE IS HEREBY GIVEN that on May 20, 1996, as amended May 22, 1996, an order was entered by the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") in connection with the cases filed with respect to the Company pursuant to section 304 of the Bankruptcy Code (the "Order").

NOTICE IS FURTHER GIVEN that pursuant to the Order, all parties are enjoined from continuing an action pending in the United States courts entitled *Sutherland Asbill & Brennan, BLS Management, Inc. Pine Top Insurance Company v. Reassuranceafviklings-aktieselskabet et al.* as against the Company.

NOTICE IS FURTHER GIVEN that a Petition has been brought, pursuant to Section 304 of the United States Bankruptcy Code, 11 U.S.C. § 304, and Petitioner has brought a motion seeking preliminary injunctive relief as follows:

1. Enjoining and restraining all persons and entities from (a) commencing or continuing any action or other legal proceeding in the United States (including, without limitation, arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) against the Company or any of its property in the United States, or any proceeds thereof; (b) transferring, relinquishing or disposing of any property of the Company in the United States, or the proceeds of such property, to third parties; (c) enforcing any judicial, quasi-judicial, administrative or regulatory judgment, assessment or order or any arbitration award; (d) commencing or continuing any act or any action or legal proceeding in the United States (including, without limitation, arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) to create, perfect or enforce any lien, set-off or other claim against the Company or any of its property in the United States or any proceeds thereof, including, without limitation, rights under reinsurance contracts; and (e) drawing down any letter of credit established by, or withdrawing from, setting off against, or otherwise applying property that is the subject of any escrow agreement or similar arrangement in which the Company has an interest, in excess of what is expressly authorized by the terms of the contract and any related trust or other agreement pursuant to which such letter of credit, escrow, or similar arrangement has been established;

2. Requiring all persons and entities that are beneficiaries of letters of credit established by the Company, or parties to any escrow or similar arrangement in which the Company has an interest in the United States, to (a) provide notice to Petitioner's United States counsel of any draw down on any letter of credit established by the Company, or any withdrawal from, setoff against, or other application of property that is the subject of any escrow agreement or similar arrangement in which the Company has an interest, together with information sufficient to permit the Petitioner to assess the propriety of such draw down, withdrawal, setoff, or other application, including, without limitation, the date and amount of such draw down, withdrawal, setoff or other application and a copy of the agreement pursuant to which any such draw down, withdrawal, setoff or other application was made and provide such notice and other information contemporaneously therewith; (b) turn over and account to the Petitioner for all funds resulting from such draw down, withdrawal, setoff, or other application in excess of what is expressly authorized by the terms of the contract, any related trust or other agreement pursuant to which such letter of credit, escrow, or similar arrangement has been established;

3. Requiring every person and entity that has a claim arising under a contract of insurance, reinsurance or retrocession written or entered into by the Company and who is a party to any action or other legal proceeding in the United States (including, without limitation, arbitration, or any judicial, quasi-judicial, administrative or regulatory action, proceeding or process whatsoever) in which the Company is named as defendant, to place the Petitioner's United States counsel on the master service list of any such action or other legal proceeding and to take such other steps as may be necessary to ensure that such counsel receives (a) copies of any and all documents served by the parties to such action or other legal proceeding or issued by the court, and (b) any and all correspondence, or other documents circulated to parties named in the master service list.

The Order shall remain in effect pending a hearing on the Petitioner's motion for a preliminary injunction, and the Bankruptcy Court's determination of whether the Order should be continued, which hearing is scheduled to be held in the Bankruptcy Court on May 29, 1996 at 10:00 a.m., before the Honorable James L. Garrity, Jr. at Courtroom 610-2, the Alexander Hamilton Custom House, One Bowling Green, New York, New York. Any party in interest who has not received a copy of the Order should contact counsel for the Petitioner in writing at the address listed below.

Kroll & Tract
520 Madison Avenue
New York, New York 10022-4235
(212) 921-9100
Attention: Elliott M. Kroll, Esq.
Dan J. Schulman, Esq.

Looking for a candidate to fill the job?

Business Insurance Classifieds assure top quality results!
The most talented men and women in the insurance industry
know where to turn when they want to make their moves.

Advertise in
Business Insurance's
Professional Marketplace

Call 312/649-5340
for advertising details.

INTERNATIONAL

EIL

Continued from page 17

Schlicht said. "Even more serious than the cleanup issue is the issue of pre-claim damages, which occur before the policy is signed but manifest themselves afterward."

Under the EIL policies, pre-claim damage typically would not be covered. "Should a substance be set free and cause later damage, the buyer confronts ruinous cost," Mr. Schlicht said.

Pre-1993 WHG coverage included onsite cleanup costs and wide-reaching long-tail coverage.

German EIL policies did away with both, says Karl-Heinz Jaeger, risk manager of Ludwigshafen-based chemical manufacturer BASF A.G., who criticized EIL policies for allowing insurers to avoid long-tail exposures.

"One characteristic of German EIL is that any policy starts from point zero. As a result, insurers need only cancel a policy after a big claim to free themselves from long-tail exposures," Mr. Jaeger said.

He pointed out that any change of insurer is a potential bombshell. "Should the policyholder have an accident under one policy and change insurers, it means any long-term after-effects of an accident are not covered by the new policy."

As a rule, German EIL policies offer buyers tail coverage for three years after the coverage period. "But after that, it's goodbye to long-tail," Mr. Jaeger said.

Buyers also continue to complain about high rates for EIL coverage.

Herbert Schilling, Gerling Konzern A.G. board member and head of Gerling's liability insurance division, insists the problem lies elsewhere.

"Our experience with EIL shows us that rates are fair. Since 1993, we have paid just as much for claims as we earned with premium," he said.

With a 100% loss ratio, Mr. Schilling said he sees no room for lower EIL rates anytime in the near future.

Insurers' resolve to not expand coverage or lower rates was set by a major claim in April 1993, when German chemical manufacturer Hoechst A.G. had a chemical leak at one of its plants in Schwanheim, creating a toxic cloud (BI, April 5, 1993).

Public outcry over the leak helped drive up Hoechst's liability, he said, and a relatively small incident grew to a 20 million DM (\$13 million) claim.

In other points, Mr. Schilling

admits to differences of opinion in claim settlements but says other criticisms by policyholders are largely unfounded.

"The exclusion of the buyer's cleanup costs (for damage to its own property) was needed to protect insurers from companies that could misuse accidents to free themselves of contamination existing already on their property," he said.

And, the EIL policies' manifestation trigger does not mean policyholders automatically lost other long-tail coverage, he said.

Mr. Schilling noted that most companies still have potential coverage of claims from unknown past contamination under their older WHG policies. "Only new policies start from zero and exclude existing but hidden contamination."

One common dilemma for buyers and insurers is that the potential for EIL claims in Germany is still relatively unknown. Insurers have no statistical information on

Mr. Jaeger says rates are too high considering the limited coverage of 20 million DM on average for property and for personal injury claims. While insurers insist such coverage is "generous," risk managers say it's not, especially considering the policy's exclusions and the fact that their exposure is as high as 160 million DM.

BASF A.G. is one of three major chemical producers that created a joint reinsurance captive with Hoechst A.G. and Bayer A.G., called Indurisk Ruckversicherung A.G., to help fill the gaps in EIL coverage (BI, Oct. 2, 1995).

With average premiums amounting to 30% to 40% of the buyer's total liability premium and strict liability under German law for damages amounting to 160 million DM (\$103.8 million), BASF's Mr. Jaeger said the companies had no choice.

Despite a few major claims, Mr. Jaeger said Indurisk is doing well and has managed to pay claims from premiums and not tap re-

'Even more serious than the cleanup issue is the issue of pre-claim damages, which occur before the policy is signed but manifest themselves afterward,' says Guenter Schlicht.

pollution losses under the EIL policies dating back more than three years and must resort to calculating premiums on expectation rather than experience.

Gerling's Mr. Schilling admits most insurers expect the worst possible outcome from potential claims.

Risk managers say several claims over the last two years bear that out, but one problem—and for many the most serious—is it is impossible to verify what effect the claims are having on insurers.

"Deregulation has one serious side-effect," said Wolfram Rohde-Liebenau, risk manager and director of insurances at Siemens A.G. "We are no longer informed by regulators about claims experience of commercial insurers."

Prior to deregulation in 1994, the Supervisory Office of Insurance Matters in Berlin published statistics documenting claims experience.

"We have no way of telling if insurers speak the truth," said Mr. Rohde-Liebenau.

The only gauge is often their own experience, and many companies see no relation between their own losses and the high rates being charged.

serves. Two major claims, including a "maximum loss" for the 1993 Hoechst accident in Schwanheim.

The "complex and difficult relationship" between risk managers and insurers that led to the creation of Luxembourg-based Indurisk is still shaping the market, said DVS' Mr. Schlicht.

While buyers seek alternatives to traditional insurance coverage, there are signs insurers are willing to bend. Last year, some valuable concessions were made:

- Policyholders need no longer detail every potential hazard but can make general declarations, which reduces administrative hassles and costs.

- Insurers have made it easier for companies to include coverage of certain substances under existing policies; they need merely be reported to the insurer.

- Coverage was extended to include damage to rented equipment.

Any hope of lower rates and better conditions has been dampened recently, though, as insurers say they will not change terms and conditions until they have more experience with EIL claims under their belts. **BI**

the Equitas reserving had been calculated with this verdict in mind.

Anthony Berry, underwriter of Additional Underwriting Agencies (No. 7) Ltd., which is running off the Feltrim syndicates, confirmed that the Feltrim losses had been calculated on a conservative basis. The ruling will not lead to increased losses on the syndicates, he said.

But Mr. Singer admitted there could still be unknown liabilities because some brokers may have failed to notify insurers or runoff managers of losses that occurred while the case was proceeding.

Chris Hughes, a partner with Coopers & Lybrand who is responsible for winding up the affairs of the KWELM group of companies, said the ruling would help reinsurance recoveries, which had slowed down considerably during the case. "An important potential obstacle (to

making reinsurance recoveries) has been removed," he said. Although the decision will make no difference to the time frame of the KWELM runoff, it should lead to recoveries of hundreds of millions of dollars, predicted Mr. Hughes.

But the judgment is not as clear cut as some had hoped.

Anthony Fitzsimmons, a partner at London law firm Ince & Co., which represented Feltrim, said the ruling may be limited in its scope. "The House of Lords seems to have tried to restrict the decision to business other than direct insurance and what Lord Mustill called 'first-tier policies of reinsurance,'" he said. "What this restriction means in practice is still uncertain, but it is possible that the decision only applies to retrocession business. If this is so, the judgment only partially resolves the issue." **BI**

For the Record

Fugitive Coker arrested in Portugal

MOBILE, Ala.—Stephen D. Coker, a fugitive since his indictment on insurance fraud charges in 1994, has been arrested in Portugal and is facing extradition to the United States.

Mr. Coker, an alleged partner of the late con man Alan Teale, was indicted by a federal grand jury in Mobile in September 1994 on racketeering, mail fraud, money laundering and tax evasion charges (BI, Oct. 24, 1994).

However, he left the country for Europe before the charges were filed and then dropped out of sight. Portuguese Judicial Police arrested him May 10 in Lagos, Portugal, where he was using an assumed name and had false identification papers, according to the U.S. Attorney's office in Mobile.

Mr. Coker's arrest involved several law enforcement agencies, including the FBI, Interpol and Portuguese prosecutors. Investigators trying to track him down during his months on the run examined Mr. Coker's travel and passport records, bank transactions and other financial documents, the U.S. Attorney's office said.

Mr. Coker is being held in Evora, Portugal, pending the completion of extradition proceedings.

The 1994 indictment charges that Mr. Coker participated in a vast international insurance scam orchestrated by Mr. Teale.

In addition to producing business for several of Mr. Teale's offshore insurers, Mr. Coker also helped Mr. Teale set up a Belgian reinsurance company using worthless penny stock as capital. The reinsurer was one of several methods Mr. Coker and co-conspirators allegedly used to siphon off premiums for their own use, prosecutors charged.

Mr. Coker also plotted to prevent corporate records from falling into the hands of FBI and Internal Revenue Service investigators, and filed a sham lawsuit against Mr. Teale to make it appear he was one of Mr. Teale's victims, the indictment alleges.

California insurers retain immunity

LOS ANGELES—Changes to a California workers compensation statute did not strip insurers of immunity under all civil laws for reporting fraud, an appellate court ruled.

Continued on next page

Services Guide

To learn how to start and to succeed in CPCU and IIA study

Come to the Source



AMERICAN INSTITUTE FOR CPCU
INSURANCE INSTITUTE OF AMERICA

CALL 1-800-644-2101

CPCU® and IIA candidates

I guarantee you will learn more in less time with The Burrham System — or your money back.
Ray Burrham, CPCU, CLU, ARM
19 Everett Street, Southbridge, MA 01550
Call 1-800-GET-CPCU Now!

FOR 1996 SERVICES GUIDE
ADVERTISING INFORMATION
CALL 312-649-5340

Business Insurance's



1996 Tapes Are Available

Three original daily programs include news segments; risk management and employee benefits features; highlights from major conference sessions; interviews with leading corporate and industry executives, RIMS staff, attendees and exhibitors; plus coverage of conference events.

TO ORDER Dial Kerry Braddick at BI: 212-210-0229

While supplies last.

\$50 for a set of three programs. \$25 for any single day.

Cost includes standard shipping. Pre-payment required. Make checks payable to Business Insurance or charge to Visa, Mastercard, or American Express. Write to Business Insurance, TV'96, 220 E. 42nd Street, New York, NY 10017. Fax your order to Kerry Braddick, TV'96, at 212-210-0704.

For advertising information contact: Cheryl Butler,
Classified & Services Guide Advertising, 740 North Rush Street, Chicago, Illinois 60611.
Telephone (312) 649-5340 • Fax (312) 649-7799

Charter Re

Continued from page 17

in his decision, Lord Mustill wrote, "In this context, 'actually' means 'in the event when finally ascertained,' and 'paid' means 'exposed to liability as a result of the loss insured under' the insuring clause.

It is unlikely that London market reinsurers will feel any detrimental effects from the ruling, said Coopers & Lybrand's Mr. Singer. "Theoretically, it shouldn't have an impact," he said. "Any sensible underwriter would have reserved on the basis that we were going to win." Under-reserving would have been picked up by auditors and regulators and dealt with by them, he added.

A Lloyd's of London spokesman said the House of Lords' decision had "nil impact" on the market and

"Be sure that you return it."

If you're racing through this issue of *Business Insurance* because you "borrowed" it from a colleague, you should have your own subscription. Then you'll be first on the list. You can take as much time as you like with all of *Business Insurance's* exclusive worldwide news of loss prevention, risk financing and benefit management every week.

**To subscribe, use the card in this issue
or Call 1 (800) 678-9595 Toll-Free.**

Ask about our special 20%-off group subscription rate for five or more subscriptions. A great way to save money. And avoid pass-along problems.

Subscription Rates in U.S. Dollars for 1 year, 52 Issues.

USA	\$85
Canada/Mexico	\$105*
All other countries by expedited air.	\$205

*Price includes Canadian GST.

Business Insurance

Subscription Dept.
965 E. Jefferson
Detroit, MI 48207

Outside the USA
Call (313) 446-0450

For the Record

Continued from previous page
cently ruled.

The case involved a suit including charges of intentional infliction of emotional distress against Fremont Compensation Insurance Co. by a doctor after he was found innocent of allegations of overbilling.

The April 23 decision in *Fremont Compensation Insurance Co. vs. Superior Court of Orange County* by the Fourth District Court of Appeal in Santa Ana, Calif., is the first published opinion on the state's Insurance Code 1991 immunity statute, said Michael Stock, assistant general counsel for Glendale, Calif.-based Fremont.

In 1992, Fremont reported the physician to the Department of Insurance and the Los Angeles County District Attorney. During a trial on

criminal charges, a Los Angeles jury found the doctor innocent. He then sued Fremont in Orange County Superior Court, claiming the insurer instigated an aggressive campaign to destroy his career.

Fremont asserted civil immunity, but that defense was rejected by the trial. It was also initially rejected by the appeals court but, under a California Supreme Court order, the appeals court reconsidered its original ruling.

The court found that nothing in the 1991 statute lessened existing insurer immunity. The statute gives immunity to insurers for reporting suspected fraud but only if insurers act in good faith, without malice and they reasonably believe their action is warranted.

Mr. Stock called the decision a victory for employers and insurers.

"If insurers had faced costly civil actions every time we reported a suspected crime, it would have had a chilling effect on our ability to aggressively fight fraud and hold down insurance costs," he said.

Information in brief

Sterling L. Bassett, one of the founders of Gallagher Bassett Services Inc., the third-party administration unit of Itasca, Ill.-based broker Arthur J. Gallagher & Co., died earlier this month. He was 81. . . **Orange County, Calif.**, may emerge from bankruptcy by the end of June now that a federal bankruptcy court judge in Santa Ana, Calif., has approved the county's recovery plan. Also, earlier this month, former county Treasurer Robert Citron and his former deputy, Matthew Raabe, settled Securities and Exchange Commission charges, agreeing not to violate securities laws in the future and to cooperate with an SEC probe into the county's 1994 investment debacle. . . A new Colorado law cuts the general **premium tax rate** for insurers that conduct business in the state to 2% from the current 2.25% over five years. . . Several months after a federal bankruptcy court estimated that **Eagle-Picher Industries Inc.'s** asbestos-related liabilities totaled more than \$2.5 billion (BI, Dec. 18, 1995), the company recently filed an amended reorganization plan with the U.S. Bankruptcy Court in Cincinnati that seeks to exclude common shareholders from any recovery. Following the court's estimation of liabilities in December, Eagle-Picher recorded a \$1 billion balance sheet writedown that resulted in the company having a negative net worth. **BI**

*Presented by Business Insurance and
IBF • International Business Forum*

NOVEMBER 6-8, 1996

**Ritz Carlton Huntington Hotel
Pasadena, CA**

CONFERENCE CHAIR

Kathryn J. McIntyre
*Vice President, Publisher
& Editorial Director
Business Insurance*

ADVISORY BOARD

Maddy Bowling
*Vice President, Workers Comp
Managed Care
Intracorp*

James Conerty
*Manager of Risk & Loss
Management
IBM*

Arnold Davenport
*Vice President, Risk Management
Marriott International, Inc.*

Thomas Dickson
*Senior Vice President
Centre Re Insurance*

Mary Stoik Dymond
*Director of Risk Management
ACX Technologies Inc.*

John Kessock, Jr.
*Chairman
Commonwealth Risk Services, Inc.*

Elizabeth M. Linder
*Executive Vice President
Kemper National Insurance
Companies*

Peter Madeja
*President & CEO
GENEX*

David G. May
*Managing Director
Marsh & McLennan*

Jeffrey W. Pettegrew
*Vice President
Risk Management & Insurance
Western Staff Services*

Gail Sater
*Risk Manager
Red Wing Shoes*

Richard A. Victor, Ph.D., J.D.
*Executive Director
Workers Compensation
Research Institute*

Susan M. Werner, ARM
*Director of Risk Management
Hardee's Food Systems, Inc.*

Stephen M. Wilder
*Vice President, Risk Management
Walt Disney Company*

COMMENTS FROM LAST YEAR'S ATTENDEES

*"Without question the best
conference. The topics pre-
sented gave me ideas I will
be able to apply. I would rate
this conference as 'excellent.'"*

Augustine (Gus) Vigil
*Claims Manager
New Mexico Self-Insurers' Fund*

*"The 'Meet The Press' panel
formats create a dynamic
and informative conference
which encourages participa-
tion of the attendees!"*

Mary Stoik Dymond
*Director of Risk Management
ACX Technologies, Inc.*

CONFERENCE SPONSORS

**AIG CLAIM
SERVICES, INC.**

CENTRE RE

**COMMONWEALTH RISK
SERVICES, INC.**

GENEX

INTRACORP

**KEMPER NATIONAL
INSURANCE COS.**

MARSH & McLENNAN

WHO SHOULD ATTEND

Risk managers, loss prevention and safety managers, workers compensation administrators and analysts, employee benefit executives, plus insurers, brokers, consultants, representatives from HMOs and PPOs, state and local government representatives, association members, attorneys and providers from a broad range of companies and institutions.

To register or receive information about sponsorship or exhibit opportunities, please write or call International Business Forum, 7 Penn Plaza, Suite 901, New York, NY 10001.

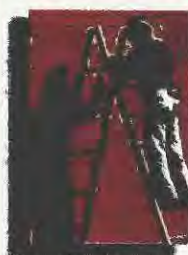
TEL: (212) 279-2525 FAX: (212) 279-9307



THE FOURTH ANNUAL

Business Insurance

**WORKERS COMPENSATION
CONFERENCE**



**SPECIAL WORKSHOP
NOVEMBER 6, 1996**

RISK FINANCING & THE CAPITAL MARKETS

Cutting edge risk managers are accessing capital markets to finance fortuitous risks. This in-depth, two-hour workshop will provide insights into these innovative approaches to risk financing. Industry leaders will translate theory into practice and take the mystery out of these new products.

EMPLOYERS PRIVATE ROUNDTABLE

This roundtable session provides an opportunity for participants to voice their concerns about their workers compensation programs and share information to find solutions to common problems.

**AGENDA HIGHLIGHTS
NOVEMBER 7-8, 1996**

★ **CONFRONTING WORKPLACE VIOLENCE AS A WORKERS
COMPENSATION ISSUE**

★ **INTEGRATING MANAGED CARE APPROACHES INTO WORKERS
COMPENSATION**

★ **ELECTRONIC DATA INTERCHANGE**

★ **CASE STUDIES:**

- Alternative Financing of Workers Compensation
- Return to Work
- Creative Safety Incentive Programs
- Reducing and Managing Repetitive Stress Injuries

★ **COST CONTAINMENT PERFORMANCE MEASUREMENT**

- Turning Data Into Useful Tools to Control Costs

ACCREDITATION

International Business Forum has applied with the California Insurance Board as a course provider for CEU credits

ADVERTISER INDEX

Issue of May 27

ADVERTISER	PAGE #
Bell Atlantic	9REG
Business Insurance	9,20
CAT Limited	7
Commonwealth Risk Service	4
John Hancock Mutual Life	6
Phico Group	13
Reliance National	24
Risk Capital Reinsurance Co.	12
Wausau Insurance Company	5
Zurich-American/International	14
Zurich Resource Centre	10-11

Tax bill

Continued from page 1

coming ashore. They like the insurance infrastructure here," said James Blankenship, a tax partner with KPMG Peat Marwick in Bermuda.

Being offshore would retain its advantages, including more lenient reporting and surplus requirements and an established reinsurance network, said Mr. Jones.

Still, the provision would mean higher costs for tax-exempt shareholders of offshore captive insurers.

And captive administration could be more difficult under the bill. Shareholders would only be taxed on the portion of a captive's profits derived from insuring the risks of unrelated shareholders; income derived from insuring a shareholder's own risks, or those of a tax-exempt affiliate, would not be taxable. Allocating captive income on a shareholder-by-shareholder basis can be an arduous task, Mr. Blankenship said.

This isn't the first time that Congress has taken aim at tax breaks for offshore captive insurers. A series of mid-1980s laws removed many tax breaks for corporate owners.

The provision targeting offshore captives owned by tax-exempt entities has its roots in legislation going back to 1989. A version pro-

posed in 1993 would have imposed the unrelated business income tax on tax-exempt entities owning at least 10% of a controlled foreign corporation like an offshore captive.

"Once something is proposed, it keeps coming back and back," said Jon Harkavy, a vp in the Arlington, Va., office of USA Risk Group, a captive management company.

Given the technical nature of the captive provision, captive experts doubt that lobbying would convince legislators to drop the provision.

"It would be very difficult to separate this provision out from the rest of the measure," said Brett Gold, a partner with Baker & McKenzie in New York.

Still, the fate of the broader tax bill is attached is uncertain. Administration officials earlier said they fear that the Senate, which could begin considering the bill as early as this week, may add provisions unacceptable to the administration.

But, ultimately, Congress will impose taxes on tax-exempt entities that own offshore captives, some predict.

"Unfortunately, it may well be just a matter of time before something is enacted into law that imposes new taxes on tax-exempt entities that own captives," said Terry Brooks, a partner with Jones, Day, Reavis & Pogue in Washington. **BI**

Tax bill passed by full House retains pension simplification

WASHINGTON—Tax legislation passed by the House last week includes numerous pension simplification provisions.

Those provisions, unchanged from those contained in the bill approved by the House Ways and Means Committee (BI, May 20), would ease 401(k) non-discrimination testing procedures, simplify the definition of "highly compensated" employees for non-discrimination testing and require multiemployer pension plans to speed up vesting schedules, among other things.

The House measure also would require that assets held by deferred compensation plans sponsored by state and local governments—known as Section 457 plans—to be held in separate trusts beyond the reach of creditors. Assets held prior to the date of enactment would not have to be moved to a trust until Jan. 1, 1999.

The measure—much to the relief of employers—also would clear up a problem created by Congress in 1994, when it passed legislation giving new pension rights to employees who return to their employers following duty in the military.

Under that 1994 law, returning veterans can make retroactive contributions to 401(k) and other savings plans.

Employers have to match those contributions and deferrals on the same basis they matched other workers' contributions during the same period.

Much to employers' relief, the bill would clear up benefit problems related to military service.

However, the 1994 law did not make Tax Code changes needed to accommodate the changes. For example, tax law now only allows employees to defer a maximum of \$9,500 a year to a 401(k) plan. A returning veteran, though, might want to contribute more than that for the years of service he or she was in the military.

If the employer does not allow the employee to make the retroactive contribution, the employer

would violate the veterans law. But if the employer permitted the retroactive contribution, the company would violate the Tax Code.

The tax legislation would eliminate this problem by making clear that contributions needed to comply with the veterans law would not violate the Tax Code.

Separately, a Clinton administration pension reform package—outlined several weeks ago by administration officials—was formally introduced in the Senate last week.

The administration package includes a number of provisions that also are in the House tax bill, such as simplified non-discrimination testing procedures for 401(k) plans. In addition, the package would exempt employers from including salary deferrals of employees under 21 years old or those with less than one year of service when running 401(k) plan non-discrimination tests.

The administration package also would expand eligibility for employees covered by pension plans to make tax-deductible contributions to individual retirement accounts.

—By Jerry Geisel

Texas

Continued from page 1

So competitive is the Texas market that the state's 25 largest workers compensation insurance companies sought rate decreases averaging 24.5% for 1996, according to the Texas Department of Insurance.

The Texas department earlier this year ordered 17 workers comp insurers to justify or lower their rates because the department felt they were too high in light of the 1991 reforms (BI, Jan. 15).

Some insurance companies are taking 25%, 35%, even 50% off rates before giving employers credits or modifiers for safety practices or managed care, according to Mr. Jackson. "Really good companies can get 70%-75% off manual rates."

In fact, premiums today may be "less than what it costs to distribute the product," said Mike Dodge, president of Dodge & Associates, a law firm that represents Stirling Cooke Texas Inc., the managing general agent for Clarendon Insurance Group Inc. in Texas.

Two forces are driving the heated competition.

First, workers comp losses in Texas dropped 80.9% to \$743.4 million in 1994 from \$3.9 billion four years earlier, before the 1989 law took effect. The loss ratio for the line fell to 38.7% in 1994 from 94.9% in 1990. From 1985-1989, loss ratios for workers compensation insurance in Texas had surpassed 100%.

The second factor is the ability of Texas employers to opt out of the system. This forces insurers to compete on price and product innovations, said Steve Bent, executive director of the Texas Assn. of Responsible Non-subscribers, or TXANS, in Austin.

Falling rates may help explain why some companies that had opted out of the state workers compensation system are now returning.

In a recent TXANS survey, 16.7% of non-subscribers said they were either very likely or somewhat likely to return to the workers comp system, said Mr. Bent. Of those considering the move, 13.3% said they did so before the end of 1995, while another 16.7% plan to return sometime this year. The remaining 70% said they didn't know when they would return.

And a recent focus group survey conducted by the Austin-based Texas Restaurant Assn. found a similar trend: As of year-end 1995, 60% of the trade group's members purchased workers comp coverage, up from just 40% in 1989, according to Glen Garey, general counsel to the restaurant group.

Movement, though, is not entirely in one direction.

Larger companies can still realize savings by opting out of workers comp, said Mr. Bent. And, in some cases, employers that bought workers compensation coverage have resumed their non-subscriber status after their insured workers compensation loss costs increased, he said.

Texas employers that opt out, and therefore directly bear the costs of workplace injuries, are more safety conscious than other companies, according to a study by University of Minnesota researchers.

And even though employers that opt out are not protected by the exclusive remedy doctrine and run the risk of unlimited tort liability, their overall lost worktime and legal costs are about the same as other employers (BI, Jan. 15).

Liability considerations may play just as important a role as falling rates in employers' decisions to rejoin the state comp system.

Many companies are coming back into the state system because the exclusive remedy feature shields them from liability at a time when liability suits against non-subscribers are a growth industry for Texas lawyers.

When the 1989 reform law took

effect, "a lot of lawyers doing workers comp shifted to non-subscribers," observed TRA's Mr. Garey.

Even though contingency fees can range up to 25% in workers compensation cases, suits against companies outside the system can be more attractive, he said.

One reason is that lawyers suing non-subscribers may be able to pick up a third-party case as well, such as a suit against the manufacturer of workplace equipment, said Mr. Garey. And overhead is lower for lawyers who sue non-subscribers because they can avoid the administrative burdens of the workers compensation system.

Miller Distributing Inc. of Fort Worth decided to opt back into the workers comp system in Texas in 1991, not long after it resolved a 3-year-old lawsuit filed by an injured employee, according to Vp John Coy.

The suit sought more than \$150,000 in damages, which would have pierced the wholesale beer distributor's employers liability coverage, which was underwritten by Lloyd's of London syndicates.

It turned out that the worker's injury claim was fraudulent, and Miller Distributing won \$250,000 in a countersuit.

The company leaped at the opportunity to get back into the state system. The opportunity, Mr. Coy recounted, took the form of a Houston General Insurance Co. policy for a premium less than the company's workers comp costs the previous year.

"Now there are no liability exposures to worry about anymore," he said.

Miller Distributing previously had been a client of Managed-Comp.

The total cost of its claims, plus excess premiums, was \$304,000 for the year ended Sept. 30, 1991. Over the next four years, thanks to aggressive light-duty and return-to-work programs, that total fell to \$168,000, \$115,000, \$104,000, and \$56,000.

Based on that favorable loss history, Miller Distributing will pay Houston General about \$40,000 for workers comp coverage for its 160 employees in the current fiscal year. In 1991, Travelers Insurance Co. had quoted it a renewal premium of more than 11 times that amount.

"This is the reason we went back to the insured market," Mr. Coy said.

Miller Distributors handles its workers comp claims in-house and has established its own provider network to treat injured employees.

Approximately 85% of the employer's claims are minor, and those employees are sent to a nearby occupational clinic. More severely injured employees are treated by Harris Hospital, one of the most expensive hospitals in the state.

"When we created our own network, we started with the biggest and most expensive hospital so our employees would feel comfortable," Mr. Coy explained.

When injured employees return to work, they are provided light-duty jobs and are enrolled in a work-hardening program to prevent their re-injury.

Liability considerations also prompted family-owned restaurant chain Bill Miller Bar-B-Que to begin buying workers comp coverage four years ago.

"We were uninsured for 40

years," said John Miller, co-owner of the San Antonio-based company. But "once we had a workable work comp system in Texas, it's the only way to go."

Mr. Miller estimates that the cost of buying coverage for his 2,500 employees is about the same as his claim costs had been when the company was a non-subscriber.

But now "we're shielded from liability," he said. The 1989 law "took the lawyers out of the loop. If you have insurance, they can't sue you."

The restaurant chain had been hit with hundreds of workplace lawsuits over the years.

Besides the liability issues, many employers in Texas no longer want to deal with the administrative hassles of being non-subscribers, observed Jerry Murphy, principal of Dallas-based wholesale brokerage Murphy Page.

When non-subscribers purchase employer liability and general accident coverage in lieu of traditional workers comp insurance, their excess insurers often require them to use outside claims administrators, he explained. In addition, these employers must have their own outside counsel and must keep abreast of legal rulings and legislation that affect non-subscribers.

"It's not as easy as it looks," he said. **BI**

Pennsylvania considers comp reform

HARRISBURG, Pa.—The Pennsylvania House of Representatives next month is expected to consider a broad workers compensation reform package that business lobbyists estimate could cut rates by as much as 20%.

Under the package—H.B. 2216—which is strongly backed by state business groups, employer-funded benefits, like severance and pension payments, could be used to offset workers comp awards.

In addition, benefits would be based on a worker's average pay over a year rather than pay over

the highest quarter in a year.

Other changes included in the package would: limit the amount of time—based on severity of injury—that an injured worker could collect temporary total disability benefits; increase to 120 days from 30 days the length of time an employer can require an employee collecting workers compensation benefits to receive medical care through company-approved physicians; and allow medical reports by physicians to be submitted as evidence in cases rather than requiring formal dispositions. **BI**

Punitive

Continued from page 1

A constitutional law expert warns that the decision is likely to spawn considerable litigation.

"I think it is going to spur a lot of litigation, and many more decisions are going to be required to tell us precisely where the line between excessive and not excessive is," said Paul Rothstein, professor of law at Georgetown University Law Center in Washington.

"I think that lawyers for defendants will make claims that the damages exceed the constitutional limits in many more cases...in the hopes that their case will be found to exceed the line. And I think they will do that, for example, in any case where the punitive damages are anywhere between 30 times the economic damages and 500 times the economic damages.

"The lawyers do know that the Supreme Court will not easily condemn the amount of punitive damages; they have to be something the justices would call outrageous and unreasonable. Therefore it seems that it would have to be at least 30 times for a credible lawyer to feel that would be considered outrageous and unreasonable," Mr. Rothstein said.

"As with all tort reform, the stated goal is to reduce delay and reduce the amount of litigation. And again and again, the impact of it is to fuel litigation and become...a corporate lawyers' full employment act," said Joseph Bel-luck, a staff attorney with Public Citizen in Washington, which supported Dr. Gore's position. "These tort reforms in a very artificial way undo literally decades of reasoned decisions by judges. When you have that type of dislocation, it just creates confusion and more litigation."

The ball is now in Congress' court, said Victor Schwartz, counsel to the Washington-based American Tort Reform Assn. and a well-known advocate of product liability reform.

"Congress can lay down more precise guidelines. Congress has the right under the 14th Amendment to implement due process, it also has the right to protect interstate commerce, both of which were involved in this opinion," said Mr. Schwartz.

The decision "gives Congress a new predicate for action on punitive damages, and it can provide courts with more guidelines, which they're going to need in light of the litigation this decision" is likely to generate, said Mr. Schwartz.

"Every time any award seems excessive, people are going to argue that the award was unconstitutional and guidelines, national guidelines, are going to seem very much needed," he said.

"There is clearly something Congress could do. It could pass tort reform, which would solve the problem of the legal bright line that Justice Stevens said that the court was unwilling to draw," agreed Robin Conrad, vp of the National Chamber Litigation Center in Washington.

BMW vs. Gore began when Dr. Ira Gore discovered that the paint on a \$40,000 sedan he'd bought as new had actually been retouched because of damage during shipping. He claimed that this reduced the value of his car, which he had driven for nine months before being told by an auto detailer that it had been repainted. Because the paint job was worth \$601.37—less than 3% of the car's value—BMW, as a matter of policy, did not disclose it.

An Alabama jury awarded Dr. Gore \$4,000 in compensatory damages and then assessed BMW \$4 million in punitive damages, holding that the automaker's failure to disclose the touch-up constituted "gross, oppressive or malicious" fraud. The jury arrived at \$4 million by multiplying the compensatory damages by 1,000, the approximate number of cars it estimated had been similarly retouched nationwide. On appeal, the Alabama Supreme Court said the jury shouldn't have taken actions in other states into account and cut the award in half.

But the U.S. Supreme Court majority held that BMW's conduct was not sufficiently egregious to justify such a large punitive award.

"Elementary notions of fairness enshrined in our constitutional jurisprudence dictate that a person receive fair notice not only of the conduct that will subject him to punishment but also of the severity of the penalty a state may impose," wrote Justice Stevens.

"Three guideposts, each of which indicates that BMW did not receive adequate notice of the magnitude of the sanction that Alabama might impose for adhering to the non-disclosure policy adopted in 1983, lead us to the conclusion that the \$2 million award is grossly excessive: the degree of reprehensibility of the non-disclosure; the disparity between the harm or potential harm suffered by Dr. Gore and his punitive damage award; and the difference between this remedy and the civil penalties authorized or imposed in comparable cases."

The majority noted that touched-up paint had no impact on the car's safety, there was no evidence of bad faith in BMW's non-disclosure policy and that there had been no deliberate false statements. The majority opinion also said, "The sanction in this case cannot be justified on the ground that it was necessary to deter future misconduct without considering whether less drastic remedies could be ex-

pected to achieve the goal."

The opinion also said that states can impose penalties based on harm done to their citizens, but not to citizens of other states.

The majority found the award to violate the 14th Amendment's due process clause, which, the court has held, prohibits a state from imposing "grossly excessive" punishment on a tortfeasor. It sent the case back to the Alabama Supreme Court for review. Three members of the majority added their own concurrence.

But the decision also drew two sharply worded dissents.

"One might understand the court's eagerness to enter this field, rather than leave it with the state legislatures, if it had something useful to say," wrote Justice Antonin Scalia, who was joined by Justice Clarence Thomas.

"In fact, however, its opinion provides virtually no guidance to legislatures, and to state and federal courts, as to what a 'constitutionally proper' level of punitive damages might be," wrote Justice Scalia.

"The court, I am convinced, unnecessarily and unwisely ventures into territory traditionally within the states' dominion and does so in the face of reform measures recently adopted or currently under consideration in legislative arenas," wrote Justice Ruth Bader Ginsburg in her dissent that Chief Justice William Rehnquist joined.

Despite the lack of a clear line, ATRA's Mr. Schwartz called the decision a "major victory, because for eight years the court has looked at cases of this type and it has never made a holding on excessiveness, that a certain judgment is too much. By saying under the Constitution that this is too much, it has created an indelible line in our law that punitive damages cannot be simply what anybody feels like imposing."

Michael Rustead, a professor of law at Suffolk University Law School in Boston and an expert on punitive damages, isn't so sure that *BMW vs. Gore* will have a major impact on punitive damages.

"The impact is likely to be far less than the early reports. The facts are very idiosyncratic. It's very difficult to think of any (other) case where a punitive case was based on lawful conduct" in other states, he said.

Mr. Rustead added that the decision resolves some of the questions of what constitutes reprehensible conduct.

"In some ways it validates the state's use of punitive damages for conduct that endangers the public," he said. Nevertheless, "the case itself is unlikely to be repeated."

BMW of North America vs. Gore, U.S. Supreme Court, No. 94-896, May 20, 1996.

Updates

Sales of quake cover restricted

Continued from previous page

The IRS would not comment on why it withdrew its earlier approval for tax exemption. However, the Los Angeles Times last week cited undisclosed IRS sources saying the agency felt California is committing too little public money to the plan.

Mr. Quackenbush said his restrictions on the FAIR Plan—the state's homeowners insurer of last resort—were needed because enrollment in the plan has mushroomed and a large earthquake could touch off defaults among insurance companies, which would be assessed to pay for the losses.

Lloyd's in mail fraud probe

NEW YORK—Federal postal investigators are looking into whether U.S. members were fraudulently recruited to join Lloyd's of London.

The U.S. Attorney's office in New York ordered an investigation after receiving complaints over the past several months by U.S. members. The complaints were forwarded to the U.S. Postal Inspection Service in New York, which investigates mail fraud. Many Lloyd's solicitations were sent by mail.

As part of the investigation, postal inspectors have sent questionnaires to Lloyd's members in the United States, said P.A. Bossert, a postal inspector.

The questionnaire asks members for information about their recruitment to Lloyd's, including: how much information they were given about the nature of the risks underwritten by the syndicates they would be joining; whether the meaning of "reinsurance to close" was explained to them; whether the meaning of unlimited liability was made clear; and whether the members think that misrepresentations were made to them about Lloyd's.

Lloyd's officials have not been contacted by investigators and have not seen the questionnaires, said Ron Sandler, chief executive officer.

Bill may let banks sell policies

HONOLULU—A bill now before Hawaii Gov. Benjamin J. Cayetano would let state-chartered banks sell all types of insurance coverages in Hawaii, as well as in other states and countries subject to regulatory approval.

Gov. Cayetano, a spokeswoman said, has not taken a stand on S.B. 3159 and is now reviewing it. He has until July 3 to sign or reject legislation passed by the 1996 Legislature.

Even if he signs it, banks probably would not rush into all areas of insurance, said Gil Tam, senior vp and chief lobbyist for Bank of Hawaii in Honolulu. Current federal law prohibits banks from engaging in underwriting until June 1, 2000.

Briefly noted

Massachusetts Insurance Commissioner Linda Ruthardt will hold a June 24 hearing to determine whether to reconsider a controversial June 28, 1995, order allowing insolvent **Electric Mutual Liability Insurance Co.** to redomesticate to Bermuda, where it quickly filed for voluntary liquidation. Reinsurers for the longtime General Electric Co. insurer allege that EMLICO deliberately misled regulators to secure their approval for the move to Bermuda, which has a creditor-friendly liquidation law (*BI*, April 29). . . . A court order issued last week will bar Missouri insurance regulators from taking coercive action against **Blue Cross & Blue Shield of Missouri**, which has refused to pay a \$200 million to \$500 million charge assessed by the state in connection with its 1994 reorganization. A trial is set for June 28. . . . The federal judge overseeing **silicone gel breast implant cases** in U.S. District Court in Birmingham, Ala., may appoint a national panel of experts to help sort out the scientific debate over the safety of implants. . . . **Lloyd's of London** will appeal a May 17 ruling by Vice Chancellor Sir Richard Scott that litigating members who have debts to Lloyd's can keep court awards rather than turn them over to the market. . . . **Mid Ocean Ltd.**, parent of catastrophe reinsurer Mid Ocean Reinsurance Co. Ltd., will be listed on the New York Stock Exchange on May 30. Stock in the Bermuda reinsurer has been traded over the counter since 1993 (*BI*, Aug. 9, 1993). . . . **Alfred W. Gross**, formerly deputy commissioner of the Virginia Bureau of Insurance's financial regulation section, will be the state's acting insurance commissioner until a permanent replacement is named for Steven T. Foster. . . . A Cook County, Ill., Circuit Court judge last week ruled unconstitutional a **\$500,000 cap on non-economic damages** in a 1995 Illinois tort reform law, which is likely to lead to state Supreme Court review. . . . A policyholder lawsuit alleging Sarasota, Fla.-based managed workers comp insurer **Riscorp Inc.** fraudulently acquired Commerce Mutual Insurance Co. in 1995 is "frivolous and without merit," a Riscorp spokesman said. The litigation is not expected to affect the Third Coast Insurance Co., a new workers compensation insurer Riscorp co-owns with Blue Cross & Blue Shield of Illinois (*BI*, May 6). . . . **Richard E. Smith**, president of New York-based Zurich Reinsurance Centre Holdings Inc., has been named to the additional post of chief executive officer, succeeding **Steven M. Gluckstern**, who will remain chairman. . . . A Minnesota Court of Appeals upheld a class-action settlement last week over salmonella-tainted ice cream manufactured by **Schwan's Sales Enterprises Inc.** (*BI*, Feb. 13, 1995). Residents of Illinois and Maryland challenged the settlement, claiming it was insufficient. . . . The French government announced Tuesday it will offer 17 million shares in **Assurances Generales de France** at a price of 128 French francs (\$24.50) per share. Another block of shares in the partly state-owned insurer will be offered to institutional investors. A date for the offering has not been set. . . . Reversing a 15-year decline, enrollment in the nation's 63 **Blue Cross & Blue Shield plans** rose last year by 1.6%, to 65.5 million. Enrollment in all types of managed care plans increased, as enrollment in traditional indemnity plans fell by 8%.

Tax-free adoption benefits advance

Bill passed by House also includes individual tax credits

WASHINGTON—Employers could provide up to \$5,000 in tax-free reimbursement to employees adopting a child under legislation passed this month by the House of Representatives.

The measure, H.R. 3286, also would provide a tax credit—up to \$5,000—to individuals for adoption-related expenses, which would include adoption fees, court costs and fees for attorneys.

The employer-provided reimbursement and the tax credit, though, could not be claimed for the same expenses. However, an employee who had \$10,000 in adoption expenses could receive

\$5,000 in tax-free reimbursement from an employer and use the full tax credit.

These tax breaks would be fully available to employees with adjusted gross incomes of less than \$75,000.

The tax breaks would be phased out—based on a sliding scale—for individuals with adjusted gross incomes between \$75,000 and \$115,000.

The tax breaks would apply for adoption of children under age 18.

Employee expenses incurred for adoption of a spouse's child or surrogate parenting expenses would not qualify for the pro-

posed tax breaks.

Currently, just under 25% of major employers reimburse their employees for at least a portion of adoption-related expenses. Typically, employers reimburse employees for up to \$2,000 of adoption expenses, according to Hewitt Associates L.L.C. Adoption expenses often range from \$10,000 to \$20,000 per child.

If the bill becomes law, it would apply to expenses incurred beginning next Jan. 1.

The Senate Finance Committee has not acted on a similar measure.

—By Jerry Geisel

Internet

Continued from page 2

profitable, said Gary R. Griffith, chairman and chief executive officer of Summit Global Partners Inc. in Dallas.

"Our view is primarily that today we're about two decades behind financial services, in general," he said. "If you go back to business insurance 10 or 15 years ago and look at the productivity margins for agents and brokers in particular, and probably also for insurance companies, you'll see that we've only progressed a minuscule amount—a single digit increase in productivity, whereas if you look at the rest of the financial services industry... you've got huge increases in productivity. Something has to change in this equation."

Such changes could most palpably affect the role of the broker, panelists said.

"As technology comes in, I don't think there's any doubt the low end of the personal market will be delivered online," said Scott K. Lange, director of risk management of Redmond, Wash.-based Microsoft Corp. Because so many insurance products are essentially similar, he said, the personal guidance of a broker is often not needed.

"That's going to put some pressure, I think, on brokers down the road," Mr. Lange said.

The emerging role for insurance brokers, he predicted, will be to add value to the insurance transaction by providing clients with insight when choices are more complex and less obvious. This will be more of a consulting role, he said.

But insurers should not overlook the eventual appeal of the Internet transactions for easy, routine purchase of policies, added Mr. Lange. "As the insurers start looking at these competing distribution channels—electronic channels—they're going to have to make some very difficult decisions about where they're going to maximize their market opportunities," he said. "Are they going to do it online—sort of going direct—because the consumer wants lower cost?"

Those difficult decisions will come rapidly as insurers automate more of their marketing. "What we are seeing today," Mr. Lange said, "is nothing compared to what we'll see 10 years down the road."

Insurers will have to adjust to marketing—Internet to take advantage of cost savings

and increases in speed that will change the nature of the business, said Dennis B. Chookaszian, chairman and chief executive officer of Chicago-based CNA Insurance Cos. The insurer now has an experimental Internet home page that is accessed 200 times a week for informational queries, but people still handle the actual customers and so far the page is merely serving as "an extension of the telephone," he said.

As insurance companies erect more sophisticated Internet outposts capable of processing new business, computer users will be able to tap into a rich vein of information on how products and prices differ, he said. This will especially be true for individual life, homeowners and auto insurance.

"Companies that cannot sell in that manner will find themselves at a competitive disadvantage," Mr. Chookaszian said.

Though the Internet will probably turn out to be the electronic road most traveled for insurers and brokers, it will not be the only computer avenue available to them. Another example of the industry cooperating to harness new technology was described by panelist Alan G. Page, chief information officer for New York-based Johnson & Higgins and a J&H director.

A London-based group of large brokerages

working with telecommunications giant British Telecom is creating the World Insurance Network for use by brokers and insurers (BI, Sept. 11, 1995). It is being developed for dedicated, high-speed communication of information between insurers and brokers, probably through the use of electronic data interchange and electronic mail. The system has been tested in the United Kingdom and Europe and will be rolled out early in 1997, he said.

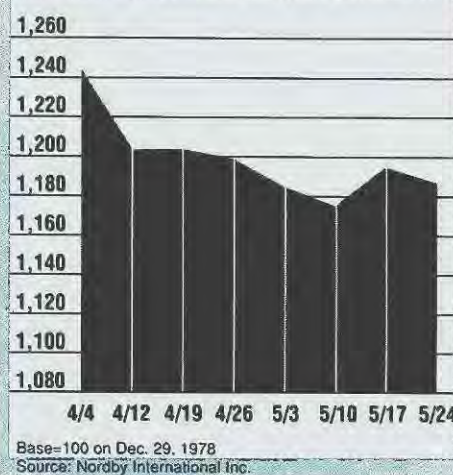
The WIN network will offer security safeguards not available through the Internet, said Mr. Page, who called the new network "a very nice industrial-strength highway."

Disagreeing with the assertion that the Internet may be unsafe for insurance applications, however, Microsoft's Mr. Lange argued that any security problems will be easily worked out.

"The security issue is not that big of a deal," he said. "In fact, I'm sure it's fixed already—I just don't think that it's been marketed. I know we've worked on a lot of things (using) the Internet. We feel very comfortable with the security we've incorporated into the technology."

The discussion was moderated by Kathryn J. McIntyre, publisher and editorial director of *Business Insurance*.

BI Insurance Index



PCS catastrophe options

As of May 24					
Call spread	Price bid/ask			Call spread	Price bid/ask
Eastern September 1996				Midwest June 1996	
40/60	4/5.5			5/20	2.5/—
50/70	3.5/4			10/20	1/2
80/100	2.2/2.5				
Southeast Sept. 1996				Northeast Sept. 1996	
40/60	3.5/4.1			40/60	1.3/1.6
Total volume: 110				Total open interest: 2,444	
For information on PCS cat options, call 312-435-3674.					
Source: Chicago Board of Trade					

Arizona revises regulations

PHOENIX—Two Arizona laws that take effect next month will limit the state's countersignature requirements on property/casualty policies and change medical malpractice rating to a use-and-file system from a prior-approval system.

Under current law, property/casualty policies sold by agents or brokers who are licensed in Arizona but live in another state must be countersigned by a resident licensed agent or broker. S.B. 2381, which becomes effective June 27, will make countersignatures unnecessary unless the home state of the non-resident agent or broker requires them.

"This removes an antiquated paperwork burden that has resulted in no protection for the consumers and will allow companies to more efficiently process policies for delivery to their customers," said Wayne Wilson, Western region vp based in Sacramento, Calif., for the American Insurance Assn.

He could not say how many policies would be affected.

S.B. 1147, which goes into effect June 24, permits medical malpractice insurers to begin using new rates immediately and file them within 30 days of their effective date. Under current law, companies must submit a request to the Department of Insurance for a rate change and wait at least 15 days until it is approved before it can be implemented.

The current law, however, is not applicable either to insurers domiciled in other states that write medical malpractice insurance in Arizona on a surplus lines basis, or to risk retention groups licensed elsewhere, said Gary Kirsten, general manager of Phoenix-based Mutual Insurance Co. of Arizona.

Mr. Kirsten said he believes Mutual is the only medical malpractice insurer domiciled in the state.

—By Judy Greenwald

British Issues

May 23 Companies	Price pence	P/E	Div. pence	Yield %	1 week high-low
Comm Union	605	11.6	35.3	5.8	629-605
Genl Accident	663	10.0	38.8	5.9	694-663
Gdn Royal Exch	268	9.9	11.3	4.2	277-263
Independent	495	9.2	14.1	2.8	495-492
Royal	428	8.0	20.0	4.7	446-428
Sun Alliance	415	9.4	21.6	5.2	426-415
Brokers					
Bradstock	72	12.0	7.1	9.9	72-72
Fenchurch	129	8.7	10.6	8.2	139-129
CE Heath	104	23.1	6.3	6.1	104-104
JIB Group	118	11.7	9.4	8.0	118-118
Lloyd Thompson	188	11.5	11.3	6.0	188-181
Lowndes Lmbt	147	7.9	11.0	7.5	148-147
Nelson Hurst	203	12.5	9.8	4.8	205-203
Sedgwick Grp	150	11.7	8.1	5.4	151-149
Steel Bri Jones	46	6.0	5.6	12.2	46-46
Willis Corroon	167	15.0	8.3	5.0	167-156
Source: Philip Olsen, London					
* Estimated. Others actual.					

BI Industry Stock Report MAY 20, 1996, THROUGH MAY 24, 1996

BROKERS

	Price	Weekly % change	Year to date % change	Annual High	Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
Acordia Inc.	NYS	31.75	-0.78	6.72	32.50	23.50	9	0.8	2.52	19	14.00
Alexander & Alexander	NYS	21.25	4.94	11.84	26.13	17.86	328	0.1	0.47	27	19.17
E.W. Blanch Holdings Inc.	NYS	21.75	-0.57	-6.95	25.50	16.50	99	0.4	1.84	17	4.93
Gallagher Arthur J. & Co.	NYS	30.75	-5.02	-17.45	39.50	30.75	322	1.16	3.77	12	6.48
Hilt, Rogal & Hamilton	NYS	13.125	-4.55	-1.87	14.38	12.00	57	0.6	4.57	15	1.21
Kaye Group Inc.	NDQ	7	7.69	-12.50	10.50	6.50	0	0.1	1.43	9	NA
Marsh & McLennan	NYS	97.625									
4.69	10.00	101.63	76.63	664	3.2	3.28	17	19.95	4.89		
Poe & Brown	NDQ	23.75	-2.56	-4.52	25.50	22.75	334	0.48	2.02	14	5.15
AVERAGE			0.5					-1.8	2.8	19	

INSURERS/REINSURERS

	Price	Weekly % change	Year to date % change	Annual High	Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
ACE Ltd.	NYS	48.625	8.36	22.33	50.38	24.38	840	0	0.00	-	22.45
Acceptance Insurance Cos.	NYS	17	0.74	14.29	17.50	13.13	102	0	0.00	45	10.76
AEON N.V.	NYS	49	-0.76	11.36	50.38	30.63	18	1.23	2.51	15	17.28
Aetna Life & Casualty	NYS	74.625	4.19	7.76	78.75	58.38	3789	2.76	3.70	20	48.85
AFLAC Inc.	NYS	31.125	0.00	7.33	33.13	24.38	934	0.4	1.29	13	17.58
Allied Group Inc.	NDQ	39.75	1.60	10.42	44.25	27.25	127	0.88	2.21	8	21.81
Allmerica Prop. & Casualty	NYS	25.625	-2.38	-5.09	27.25	20.38	140	0.16	0.62	10	19.87
Allstate Corp.	NYS	43	7.50	4.56	46.00	28.88	5825	0.85	1.98	11	18.75
American Financial Group	NYS	31.625	6.30	3.27	34.50	24.50	525	1	3.16	7	24.94
American General	NYS	36.125	4.71	3.58	39.13	31.00	2393	1.3	3.60	14	17.03
American Heritage Life Ins.	NYS	20.125	-4.17	-12.02	24.25	17.75	130	0.76	3.78	10	12.51
American Indemnity/Fin'l	NDQ	12.625	1.00	26.25	13.38	9.00	5	0.3	2.38	-5	15.92
American International	NYS	94.875	4.26	2.57	103.38	71.00	3133	0.4	0.42	17	34.66
American Re Corp.	NYS	44	0.28	7.65	45.00	34.00	394	0.32	0.73	-28	16.77
Aon Corp.	NYS	51	-2.63	2.26	56.00	36.00	951	1.44	2.82	14	18.30
Argonaut Group	NDQ	32.5	-2.26	0.00	35.00	28.88	120	1.48	4.55	11	29.91
AVEMCO Corp.	NYS	15.875	1.60	-0.78	18.00	14.63	40	0.48	3.02	18	6.28
Baldwin & Lyons Inc.	NDQ	17.5	7.69	7.69	18.00	14.25	209	0.32	1.83	9	13.90
Berkley W.R. Corp.	NDQ	44.375	3.20	-17.44	55.50	35.00	288	0.52	1.17	15	34.46
Berkshire Hathaway Inc.	NYS	324.00	-3.43	0.93	380.00	221.25	0	0	0.00	17	10089.11
Capital RE Corporation	NYS	37.375	0.00	21.54	38.25	24.00	74	0.24	0.84	12	27.82
Capsure Holdings Corp.	NYS	18	5.11	2.13	18.75	13.00	452	0	0.00	14	14.61
Chartwell Re	NDQ	21.25	2.41	NA	24.75	10.00	97	0	0.00	11	11.13
Chubb Corp.	NYS	47.5	1.33	-1.81	52.25	28.50	1722	1.08	2.27	12	48.92
CIGNA Corp.	NYS	115.875	2.54	12.23	125.50	73.25	1030	3.2	2.76	59	80.46
CNA Financial Corp.	NYS	101.25	2.40	-10.79	123.25	82.88	88	0	0.00	7	71.13
EMC Insurance Group Inc.	NDQ	13.75	1.85	0.00	15.25	11.00	11	0.56	4.07	9	11.13
Everest Reinsurance	NYS	24	0.00	2.67	25.13	18.50	435	0.12	0.50	126	NA
EKEL Ltd.	NYS	69.75	-0.36	14.58	73.13	45.75	421	0.4	0.57	-	31.47
Fremont General Corp.	NYS	24	0.00	-2.04	26.25	15.88	225	0.6	2.50	9	19.04
Frontier Insurance Group	NYS	35	3.32	9.38	35.00	23.50	90	0.48	1.37	14	14.65
Gainsco Inc.	ASE	10.625	-4.49	-6.59	12.38	8.31	103	0.05	0.47	13	3.98
General RE Corp.	NYS	142.375	1.70	-8.15	158.25	129.50	2365	2.04	1.43	13	59.35
Guaranty National Corp.	NYS	17.125	0.00	11.38	19.00	13.38	478	0.5	2.92	30	11.60
Harleysville Group	NDQ	26.625	-0.47	-17.76	33.00	23.75	354	0.76	2.85	11	20.72
Harford Steam Boiler	NYS	47.375	-1.30	-5.25	52.50	42.63	143	2.28	4.81	15	14.68
HCC Insurance Holdings	NYS	22.125	-8.76	19.59	25.50	9.25	298	0	0.00	24	15.86
ITT Hartford Group	NYS	51.875	2.72	7.24	53.75	44.50	2020	1.6	3.08	12	45.46
Lincoln National	NYS	48.75	2.08	-9.30	57.00	39.75	625	1.84	3.77	10	26.90
Market Corp.	NDQ	85	1.19	12.58	91.00	54.00	21	0	0.00	13	25.71
Meadowbrook Insur. Group	NYS	30.875	1.65	-7.84	33.88	24.00	29	0.08	0.26	-	NA
Mid Ocean Ltd.	NDQ	41.25	9.27	11.11	43.00	27.88	780	0.25	0.61	-	22.18

		Price	Weekly % change	Year to date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
Mutual Risk Mgmt. Ltd.	NYS	40.125	1.58	-12.30	46.50	30.50	192	0.4	1.00	17	9.72	4.13
NAC Re Corp.	NYS	33.25	2.70	-7.64	39.00	28.50	249	0.2	0.60	9	18.23	1.82
National Re Corp.	NYS	33.625	0.37	-11.51	38.13	30.00	114	0.2	0.59	11	17.05	1.97
Navistors Group	NDQ	19.25	-1.28	9.22	20.25	12.81	4	0	0.00	11	10.21	1.89
Nobel Insurance Ltd.	NDQ	11.125	-3.26	-2.20	12.75	9.38	11	0.2	1.80	10	6.84	1.63
Ohio Casualty Corp.	NDQ	34.375	1.85	-11.29	40.00	29.50	174	1.6	4.65	14	23.64	1.45
Old Republic Int'l	NYS	21.5	-1.71	-9.15	24.38	16.63	1265	0.44	2.05	9	25.79	0.83
Orion Capital Corp.	NYS	47.375	0.80	9.22	47.75	38.13	60	1	2.11	10	26.00	1.82
Partner Re Ltd.	NDQ	30	-3.61	9.09	31.88	22.25	1136	0	0.00	-	20.37	1.47
Penn-America Group Inc.	NDQ	15.5	18.10	8.77	15.50	8.25	143	0.16	1.03	11	8.29	1.61
Philadelphia Cons. Holding	NDQ	20.5	0.61	26.15	22.50	13.81	111	0	0.00	14	11.58	1.77

Lead & Asbestos Abatement

**FOR A CHILD, A LOSS OF INNOCENCE IS EXPECTED
BUT A LOSS OF HEALTH IS INEXCUSABLE**

The hazards associated with asbestos and lead poisoning are becoming commonplace in our society. Children are still being exposed to lead based paint chips and asbestos fibers in their homes and schools. And now, we have discovered hazards in the business environment as well.

Reliance National's LEAD & ASBESTOS ABATEMENT PROGRAMS offer insurance coverages available to contractors dedicated to the abatement industry. These programs offer a basic one million dollar combined single limit of liability. Additional capacity is available to meet the needs of a wide variety of insureds.

Come to Reliance National, **THE CHOICE** for lead & asbestos abatement contractors working to make our living space safe.

Coverages provided in the policy form include:

- Broad Form Comprehensive General Liability
- Bodily Injury & Property Damage Liability
- Products/Completed Operations
- Personal Injury & Advertising Liability
- Medical Payments
- Contractual Liability
- Fire

THE CHOICE



Reliance National

A Reliance Group Holdings Company

77 Water Street, New York, NY 10005

<http://RelianceNational.com>

**For further information
write us or call (212) 858-6602**

Reliance National products and programs underwritten by Reliance Insurance Company, Reliance National Indemnity Company, Reliance National Insurance Company, Reliance Insurance Company of Illinois, Reliance Insurance Company of California, United Pacific Insurance Company and/or Reliance Surety Company.

©1996 Reliance National Insurance Company