NEWSPAPER

NOVEMBER 14, 1994

Business Insurance®

Reporting Weekly For Corporate Risk, Employee Benefit and Financial Executives / $4

© Entire contents copyright 1994 by Crain Communications Inc. All rights reserved

Updates

Reinsurance lets Justice Breyer sever last Lloyd's of London ties

WASHINGTON—Supreme Court Justice Stephen G. Breyer hopes a reinsurance policy he bought for about $100,000 will dispose of his Lloyd's of London liabilities as well as criticism of earlier rulings on two Superfund-related cases that could affect Lloyd's.

Justice Breyer's personal unlimited quota share reinsurance contract covers all his liabilities at Lloyd's, including those arising from his membership in loss-plagued syndicate 418, managed by Merrett Underwriting

Continued on next page

Republican majority spells change

Congress likely to reverse course on Superfund, McCarran-Ferguson

By MARK A. HOFMANN

WASHINGTON—The Republican capture of both Houses of Congress should sound a death knell for attempts to amend the McCarran-Ferguson Act for at least the next two years.

The GOP victory also makes it far less likely that Congress will pass federal insurance solvency regulation. Congress will also be less inclined to grant the Occupational Safety and Health Administration new power.

Congress is, however, more likely to move on some sort of federal uniform product liability code as a result of the Republican gains. There's also reason to believe that a natural disaster reinsurance bill could win enactment. And, even though the GOP is not generally perceived as a particularly "green" party, Superfund reauthorization is likely to occur during the 104th Congress, although the bill will differ from that offered by the White House.

It's easy to explain why McCarran-Ferguson reform will most likely drop from the Capitol Hill radar screen: The most persistent proponent of amending the act that grants insurers a limited immunity from federal antitrust law lost

Continued on page 12



ELECTION 94

- **Out with the old.** Last week's elections claimed some key leaders on risk and benefit issues. **Page 13**
- **Employers carry the day.** Business opposition played a key role in defeating ballot initiatives. **Page 16**
- **In with the new.** Newcomers were the big winners in the five insurance commissioner races. **Page 21**

New leadership signals possibility of renewed attempt to tax benefit plans

By JERRY GEISEL

WASHINGTON—Just because Republicans have won control of Congress doesn't mean employers have won more freedom from governmental interference in their benefit programs.

While comprehensive health care reform legislation is dead for at least two years, other congressional attacks on employee benefit programs may intensify.

With an agenda that includes lower basic tax rates but increased defense spending and a balanced federal budget, Republicans—if history is a guide—will target employee benefit plans as a potential revenue source.

During the early and mid-1980s—when the GOP last controlled the Senate—Republicans, joined by many Democrats, pushed for legislation that snipped away at benefit plans' tax-favored status.

The most outspoken proponent of taxing health care benefits during the 1980s—Sen. Robert Dole, R-Kan.—will become the new Senate majority leader.

In the 1980s, Republicans also backed lowering tax-deductible employer contributions to pension plans and shift-

Continued on page 17

Decision will keep rulings on the books

By ROBERTO CENICEROS

WASHINGTON—A U.S. Supreme Court decision could encourage insurance companies to settle coverage disputes before trial, particularly in potentially precedent-setting cases.

Ironically, insurance company lawyers point out, the ruling may also encourage insurers to appeal after they lose at the trial level.

The justices' unanimous Nov. 8 ruling in *U.S. Bancorp Mortgage Co. vs. Bonner* discourages the practice—employed by insurance companies, among other parties—of eliminating unfavorable decisions from case law by settling out of court before an appeal is heard.

Although the ruling specifically applies to cases before federal appeals courts, several attorneys

Continued on page 4

Employer coalitions in the driver's seat

By CHRISTINE WOOLSEY

Employer health care coalitions are bringing some equilibrium to a health care market that has played by its own rules for decades.

Through dozens of coalition projects, employers are directly influencing the cost and quality of health care services, and even the makeup of their local health care markets.

Corporate purchasers around the country have initiated numerous grassroots reform projects in the last several years, in addition to—and in spite of—state and federal legislative efforts to reform the health care system.



Major companies are making their own health care reforms. Page 37

Signs of their progress are growing.

Employers report decreasing health plan costs and increasing cooperation from health care providers that are now willing to share outcomes data and participate in quality improvement projects.

Standards set by these purchasers are becoming the basis for competition in local markets undergoing consolidation, and many health plans are creating new products to meet the specific requests of large group purchasers.

Some providers are even seeking input from employers before starting new marketing campaigns or strategic business ventures.

Many factors are driving change in the health care system, most notably the rapid proliferation of managed care and President Clinton's proposal to mandate

Continued on page 37

New workers comp abuses seen

Comp 'mill' crackdown changes face of fraud in California

By ROBERTO CENICEROS

LOS ANGELES—Somewhere now in hiding is a doctor who was spooked into shutting down one of Los Angeles' notorious workers compensation "mills" only to later surface two counties away, offering his services to unsuspecting employers instead of employees.

Beware.

The doctor, who is now being sought by authorities, is not the only player in a new and disturbing trend of doctors, attorneys and other providers who are shifting their strategy and now targeting employers as a means of exploiting the workers comp system, according to insurers and state officials.

"We're not only hearing about it, we're seeing it," said Ranney P. Pageler, vp of the fraud investigation department for Fremont Compensation Insurance Co. in Glendale, Calif. "We have seen a lot of questionable mill-related doctors surfacing on the defense and industrial side."

Sweeping workers comp reforms enacted last year made a priority of reducing the mills and other abuses of the state's system (*BI*, July 26, 1993). Among other things, the reforms made stress claims harder to prove and reduced the number of medical-legal reports a worker could use to press his or her claim. Both features of the system had been exploited for hundreds of millions of dollars.

The law also targeted the workers comp mills, many of which worked with medical clinics, doctors and attorneys to hustle workers out of unemployment lines to file fraudulent or questionable workers comp claims.

Another key component of the reforms allows employers to designate the medical provider of injured workers for 90 days, or longer under certain conditions.

It is this feature that many clinics and individuals associated with the mills are now taking advantage of, offering their services as

Continued on page 36

Updates

Breyer cuts ties to Lloyd's

Continued from preceding page
Agency Management Ltd.

This type of policy is rarely used because the premium is so high, said Sheila Marshall, a partner at LeBoeuf, Lamb, Greene & MacRae in New York, which represents Lloyd's in the United States.

"It is used even less now because NewCo is expected to be up and running by the end of 1995, and that would have taken care of Justice Breyer's liability on 418's 1985 year. But he felt strongly that as he had told the court he would leave Lloyd's as soon as possible, he should buy the reinsurance," she said.

NewCo, now called Equitas Ltd., is the reinsurance vehicle that Lloyd's plans to use to cover members' liabilities prior to 1986.

A Lloyd's member from 1978 through 1988, Justice Breyer made profits during the 1980s but saw his fortunes sink in 1992 and 1993, as syndicate 418 made cash calls to cover pollution liabilities.

At his nomination hearings, he was criticized for ruling on two Superfund cases without disclosing his Lloyd's membership (*BI*, July 4).

Dow Chemical in implant suits

HOUSTON—For the first time, Dow Chemical Co. will have to defend suits related to breast implants made by Dow Corning Corp. in a trial set to begin today in Harris County Court.

Texas District Judge Michael H. Schneider late last month ordered Dow Chemical to remain as one of several defendants in two breast implant cases that will be tried together. Dow Chemical faces claims based on conspiracy, fraud and deceptive trade practices.

The judge dismissed several claims against Dow Chemical, including one based on its role as 50% owner of the Dow Corning joint venture.

The Texas cases are two of the thousands of cases that were not consolidated under the $4.75 billion 30-year global settlement approved this summer by U.S. District Judge Sam Pointer. More than 60,000 implant cases were consolidated in multidistrict litigation by Judge Pointer in Birmingham, Ala. (*BI*, July 18).

Dow Chemical has been dropped as a defendant in cases filed in other state courts and in the multidistrict litigation.

Asbestos coverage broadened

CHICAGO—The mere presence of asbestos in buildings constitutes property damage for purposes of liability coverage, an Illinois appeals court has ruled in upholding a groundbreaking 1991 trial court ruling.

What's more, the appeals court broadened the trigger of coverage that the trial court had allowed. It ruled that USG Corp.'s U.S. Gypsum Co. unit could tap any coverage that applied at any time from when the asbestos was installed in a building until it was removed, not just policies that would have applied when the asbestos was discovered (*BI*, Jan. 21, 1991).

USG, which is defending 47 other asbestos property damage suits, says that the "continuous trigger" affords it up to $600 million in coverage. Insurers have until Nov. 28 to seek a rehearing or appeal to the Illinois Supreme Court.

The Illinois ruling means that some insurers that wrote CGL coverage between 1940 and 1984 will have to indemnify USG for $6.2 million it spent to resolve eight separate asbestos property damage cases.

Twelve insurers named in USG's 1983 coverage suit settled prior to the ruling. The remaining insurers are: Admiral Insurance Co., American Excess Insurance Co., American Motorists Insurance Co., American Re-Insurance Co., Continental Casualty Co., Fireman's Fund Insurance Co., First State Insurance Co., Interstate Fire & Casualty Co., National Surety Corp., National American Insurance Co. of California, and various Lloyd's of London and London market underwriters.

Separately, USG tentatively agreed earlier this month to settle two class-action asbestos property damage cases brought by most of the nation's school districts for $30 million.

FAA won't ground fleet

WASHINGTON—The Federal Aviation Administration will not immediately follow the National Transportation Safety Board's recommendation to ground during suspected icing conditions the type of aircraft that rolled upside down in flight and crashed in rural Indiana Oct. 31, killing all 68 aboard.

And, AMR Corp. subsidiary American Eagle, which operated the French-built ATR-72 turboprop airplane, said it would not voluntarily ground its fleet of ATR-72s in climates where icing could occur. The airline already has issued "some pretty good precautionary measures" to its pilots who fly that aircraft under those conditions, a spokesman said (*BI*, Nov. 7).

The NTSB has not determined the cause of the crash. But, it says it is aware that smaller ATR-42 planes have encountered rolling problems during icing conditions similar to those the American Eagle ATR-72 plane experienced. The board is concerned that the aircraft's autopilot masks the corrections the lateral control system makes to compensate for ice buildup on wing ailerons, which keep the plane level in flight and enable it to bank. When the autopilot disengages after a given force error threshold is reached, the lateral control system, reacting to the aileron position, rolls the plane. The ability to regain control could be impaired if the plane is descending, as the American Eagle flight was.

Continued on page 38

Errors & omissions

• Due to a typographical error, an aviation expert's opinion on what caused the crash of American Eagle Flight 4184 was misstated in the Nov. 7 issue. The expert said he did not believe that the plane's excessive speed with its wing flaps deployed was the sole cause.

An independent Allstate could take different path

By DAVE LENCKUS

CHICAGO—Sears, Roebuck & Co.'s spinoff of Allstate Corp., the nation's second-largest property/casualty insurer and 21st-largest life insurer, could mean another huge market for commercial insurance buyers over the long term, an insurer analyst says.

Though Allstate says it plans no significant operational changes following the planned spinoff around June 1995, balancing its largely personal lines book of business with more commercial writings would make the insurer much stronger, said John L. Ward, chief executive officer of Ward Financial Group in Cincinnati.

Whatever path Allstate takes, its split from Sears is expected to make both companies stronger.

Allstate would be able to make strategic decisions faster without having to obtain approval from two boards and consider Sears' business concerns, analysts say.

Sears would be free from the uncertainty of the insurance business. Though Allstate often has paid dividends to Sears and generally has been profitable, it reported $825.2 million of losses in 1992, largely because of $2.7 billion of Hurricane Andrew losses.

And this year, Allstate has reported $1.3 billion of losses from the Northridge earthquake in the Los Angeles area, which has depressed profits to $320.7 million for the first nine months.

Allstate's spinoff will not affect its high ratings from A.M. Best

Continued on page 4

Home seeks $250 million

Reserve additions lead to third-quarter loss, downgrades

By GAVIN SOUTER

NEW YORK—Home Holdings Inc. faces a difficult future as it grapples with long-tail liability problems and an ambitious plan to raise additional capital, say the rating agencies that downgraded the insurer last week.

But in spite of poor third-quarter results and investors' general lack of appetite these days for insurance company stocks, The Home is well-positioned for the future, contends Lars-Goran Nilsson, president and chief executive officer.

The company has cut its costs, exited poorly performing sectors of business and has bolstered its liability reserves to meet pollution and professional liability losses, he said.

"We chose to restructure in a fast and bold way and we are now in shape compared with our competitors," Mr. Nilsson said.

The costs of that restructuring hit the company's third-quarter earnings.

Home reported a net loss of $131 million after an addition of $135 million to its reserves. In the year to date, Home has added $175 million to its reserves, including $115 million for professional liability reserves and $60 million for environmental exposures.

In the third quarter of 1993, the company posted a net loss of $174

Continued on page 38

A&A posts $27.4 million loss in its nine-month earnings

By RODD ZOLKOS

NEW YORK—Alexander & Alexander Services Inc. last week announced a net loss of $27.4 million against revenues of $990.7 million for the nine months ended Sept. 30.

The net loss figure includes a $20.9 million third-quarter write-down stemming from an agreement ending certain indemnity obligations to Sphere Drake Insurance Group. Alexander & Alexander sold Sphere Drake in 1987 and had agreed to indemnify the company for various potential liabilities.

For the same nine-month period in 1993, A&A reported revenue of $993.8 million and net income of $23.7 million.

Frank R. Wieczynski, A&A's corporate secretary, said the Sphere Drake agreement represents part of new Chief Executive Officer Frank G. Zarb's commitment to cleaning up the broker's balance sheet (*BI*, July 18).

"Without that, we would've had a small profit (for the quarter)," Mr. Wieczynski said. "That was something that was a contingency out there, and what we're trying to do is shed and eliminate as many contingencies off the balance sheet as possible."

A&A had a net loss of $20.8 mil-

Continued on page 39

New annuity rules feared

Restrictions for replacing pensions seen

By JERRY GEISEL

WASHINGTON—Employers and insurers complain that proposed Labor Department guidance for employers purchasing annuities to replace pension benefits could prove unworkable.

The new guidance, which is expected to be released by year end, is in response to the 1991 collapse of Executive Life Insurance Co.

The lesson of Executive Life, from which dozens of employers in the mid- and late 1980s purchased annuities after terminating their overfunded pension plans, is that increased federal regulation is necessary, say organizers of groups that represented Executive Life victims.

"Either you need more meaningful regulation or be more honest with individuals that there is not regulation or scrutiny," said Maureen Marr, the coordinator of the Los Angeles-based Action Network for Victims, which represented about 2,500 individuals covered by Executive Life policies.

Responding to these concerns, the Labor Department plans to release an interpretative bulletin—a formal expression of the department's thinking on an issue—that will detail the standards

Continued on page 30

Inside

• The changing of the guard in Congress could benefit business, this week's editorial says. **PAGE 8**

• Lloyd's of London encounters new obstacles to collecting member debts, including trial of a member's claims in U.S. federal courts. **PAGE 31**

• Risk management is taking on a greater role in Latin America, attendees at a Latin American risk management conference learned. **PAGE 31**

• Lloyc's of London managing agency D.P. Mann Underwriting Agency Ltd. plans to reduce the 1995 capacity of a market-leading syndicate. **PAGE 31**

Departments

Advertiser Index **28**
Ask a Casualty Actuary **23**
Benefit Beat **6**
Classifieds **34**
For the Record **39**
Insurance Services Guide **35**
International **31**
Legal Briefs **23**
Letters **8**
London **31**
Opinions **8**

Vo . 28, No. 46—*Business Insurance* (ISSN 0007-6864) 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. Canadian Post International Publications Mail Product (Canadian Distribution) Sales Agreement No. 0293512, GST No. 136760444. Printed in U.S.A. Postmaster: Send address changes to *Business Insurance*, Circulation Department, 965 E. Jefferson Ave., Detroit, Mich. 48207-3185; 800-678-9595 or 313-446-1611. Copyright 1994 by Crain Communications Inc.

Risk managers learn to gauge, improve quality

By SALLY ROBERTS

While most risk managers have a firm grasp of the theory of total quality management, the practice of TQM in their own departments still has many stymied.

Many risk managers say quality improvement measures, such as benchmarking, are too difficult to apply to processes in their profession because there is no set standard for comparison.

It is easy to use measurement tools for operations like retail sales, but when one starts talking about minimizing risk, safety, loss control, financial accounting and reserving, how does one measure those against other companies that are structured differently? asked Karen Fleming, manager-risk management for Bell Atlantic Corp. in Arlington, Va.

"We all learn about quality in our job but have had a hard time applying the quality process to risk management," she said.

Indeed, nearly all risk managers have heard about quality and quite a few talk about quality improvement processes. And some large companies have been successfully implementing the process in their risk management departments for several years.

But many more risk managers still are not applying the tools to achieve the benefits of quality management, said Lucien P. Laborde Jr., managing director-risk management services for Willis Corroon Group in Nashville, Tenn.

One reason is that most risk managers have not been given the training needed to correctly implement quality improvement processes.

These questions and concerns prompted the New York-based Risk & Insurance Management Society Inc. to launch a new educational course titled "Quality & the Risk Management Process."

"We really needed a course not on what quality is and understanding it, but on the application of quality to risk management functions," said Ms. Fleming, who also chairs the educational committee of RIMS.

More risk managers are now learning how to use quality measurement tools to improve all their processes and make them more efficient, she said.

About 20 risk managers gathered in Atlanta last month at the inaugural course offering to learn about different tools that assess the quality performance of their risk management functions.

Part of the course included learning statistical tools to mea-

Continued on page 28

NAIC's Walsh forecasts regulatory agenda

Insurers told that effective communication is top challenge

By MARK A. HOFMANN

HONOLULU—The issues that will dominate the insurance regulatory agenda during the next three years are already apparent, according to the president of the National Assn. of Insurance Commissioners.

These will present insurers with communications challenges. In addition, insurers should get out the word that the current system of state insurance regulation is the best in the world, providing consumers with the widest array of products at the best price, said David J. Walsh, the Alaska director of insurance whose term as president of the NAIC runs out later this year. He made his remarks during an address to the 49th annual meeting of the Des Plaines, Ill.-based National Assn. of Independent Insurers in Honolulu Oct. 30 through Nov. 2.

According to Mr. Walsh, the regulatory issues likely to receive the most attention between now and 1997 include allegations of redlining by insurers, the future of the McCarran-Ferguson Act and health care reform.

He called redlining "a bus you will either ride or drive and it's your decision" which seat to take. He urged his audience of insurance executives to take the driver's seat "by being forthcoming with regulators and legislators and answering the questions they ask. If you do not, they will be answered for you and you will not like the answers."

"The good risks in inner-city America should be written," he said. But underwriting urban risks does not mean that all such risks are good risks or that all insurance companies should be required to write all risks, Mr. Walsh said.

He added that the insurance market for urban areas won't be well-served if the redlining issue—which revolves around allegations that insurers and other businesses discriminate against the residents of inner cities on the basis of race—becomes a rallying cry for politicians and community activists "interested only in advancing their own careers."

Turning to the issue of the McCarran-Ferguson Act, which grants insurers limited exemption from federal antitrust laws and establishes the states as the primary regulators of insurance, Mr. Walsh noted that nobody likes

Continued on page 24

Keeping productivity healthy

Sick child care center saves employers money by helping parents go to work

By DEBORAH SHALOWITZ COWANS

MEMPHIS, Tenn.—Lit trees and late hours on Main Street, holiday Muzak and hordes of shoppers in the malls: these are the signs of winter that fill employers' hearts with excitement and anticipation.

Then there are those other signs of winter, the ones that fill employers' hearts with distress and dread: little aching ears and feverish faces, school-age children with coughs and sore throats.

Some Memphis-area employers, though, have a bit less to dread and more to be thankful for this holiday season—a new child care center that caters to employees' sick children.

Sniffles 'n' Snuggles, a new child care center sponsored by the Baptist Memorial Health Care System and First Tennessee Bank, can accommodate up to 18 mildly ill children every day. The facility, which opened in September, accepts children who are between six weeks and 12 years old.

"The only thing worse than an employee absent from work because of a sick child is an employee who is distracted at work because of inadequate care for a sick child," said John Kelley, president of First Tennessee Bank in Memphis. "Helping employees care for their sick children means that the employees' full attention can be used to service our customers. . . .We believe that providing options for our employees when their children are sick is a strategic business decision, not just an employee benefits issue. And we estimate that the cost of lost productivity is more than 15 times what we will spend to offer this support."

First Tennessee is paying Baptist Memorial $8,000 annually so that its 2,800 employees can use the facility for their sick children for only $15 per day, according to Pat Brown, vp and manager of family matters.

In 1992, the bank estimates it lost $132,000 in productivity and customer service as a result of 1,500 days of worker absenteeism because of sick children, Ms. Brown noted.

Four other area employers have signed on to sponsor Sniffles 'n' Snuggles as well: Maybelline Inc., ServiceMaster L.P., West Union Corp. and Rhodes College. Each employer has committed to subsidizing the center for three years. Five additional employers are considering sponsoring the center as well.

Employers pay a sliding fee to sponsor the center, depending on how many employees they have and whether they want their workers to pay $15 or $25 per day for use of the center.

If an employer chooses to have employees pay the lower amount, its sponsorship would cost $1,400 if it has fewer than 250 workers; $2,800 if it has 251 to 600 employees; $8,000 if it has between 600 and 4,999 employees; and $16,000 if it has more than 5,000 workers. If an employer chooses to have workers pay $25 per day, its costs would be 50% less.

Maybelline joined the program simply to provide "an added benefit to our employees," said Judy Jones, manager of human resources. The company does not provide any other work/family benefits and has not tracked absenteeism due to caring for sick children.

Sniffles 'n' Snuggles is appealing because it is located adjacent to Baptist Memorial's newly built child care center and looks like a child care center, not a hospital, Ms. Jones noted. Therefore, "it doesn't scare the child to death" to go there, she added.

The center is just down the street from Baptist Memphis Hospital, one of 15 hospitals in the Baptist Memorial system. It is staffed by at least one nurse at all times, and operates from 6 a.m. to 6:30 p.m.



Photo by Greg Campbell

This employer-sponsored daycare center in Memphis enables employees to drop off sick children for care instead of staying home from work to care for them.

Although the number of days employees of sponsoring employers can use the center are not limited, there are certain illnesses—such as chicken pox—that the center is not prepared to cope with, noted Jenny Prascher, human resources manager for Baptist Memorial. Also, ill children must be evaluated by a physician before they will be admitted to the center. The nurses will administer medication with a doctor's authorization. The center will not accept healthy children for emergency daycare.

The cost of building the center was folded into the cost of Baptist Hospital's new child care facility, Ms. Prascher said, noting operating costs will be covered by the corporate sponsors.

Care for sick children is a "very, very hot issue" now, commented Tyler Phillips, president of The Partnership Group Inc., a work/family consultant based in Lansdale, Pa. "It's sudden, it's serious, it's disruptive."

Mr. Phillips estimated that during the last year, employers have sponsored, jointly or singly, about 20 new emergency child care centers in metropolitan areas that accept ill children or those whose regular daycare fell through.

Smooth renewals forecast for 1995

By CAROLYN ALDRED

BADEN-BADEN, Germany—Insurers and reinsurers are expecting an easier renewal season for 1995, with increased capacity for catastrophe coverage but without a massive drop in rates.

This was the consensus among attendees at the annual reinsurance gathering last month in the spa town of Baden-Baden, Germany, where rainy weather failed to dampen spirits.

Despite underwriters and brokers' running from hotel to hotel with umbrellas, most participants described the atmosphere at the meeting as calm. Indeed, it was in stark contrast to the last few years, where the mood has been gloomy. One London underwriter even described this year's mood as one of cautious optimism.

For many years, reinsurers and insurers have met in the wealthy resort town on the edge of Germany's Black Forest to discuss contracts and policies before the hectic January renewals. Traditionally, Baden-Baden is a working meeting at which many companies are actually negotiating contracts, unlike other reinsurance meetings like the Rendez-Vous de Septembre in Monte Carlo (*BI*, Sept. 19) and the Greenbrier in West Virginia (*BI*, Oct. 10).

In recent years, though, there has been a trend toward using the week more to gauge the market and iron out problems between cedants and reinsurers than to actually cross t's and dot i's on individual contracts.

This year, uncertainty in the market prevented many early commitments.

"A lot of people were playing

Continued on page 27

Allstate

Continued from page 2

Co. and Standard & Poor's Corp.

The Nov. 10 announcement of the spinoff comes 15 months after Sears offered 19.9% of Allstate in an initial public offering that raised nearly $2.4 billion—$650 million of which was used to boost Allstate's depleted property/casualty surplus after its Hurricane Andrew losses.

The giant retailer plans to distribute its remaining 80.1% stake in its 63-year-old subsidiary to Sears common shareholders in a special tax-free dividend. The distribution of Sears' 360 million Allstate shares would be at a rate of about 0.95 shares for every Sears share.

At Thursday's closing stock price of $24.125 for Allstate, a 75-cent per share drop, the dividend would be valued at $8.68 billion. Sears stock closed up $2.75 at $51.625.

The spinoff is subject to a favorable tax ruling and Sears shareholder approval.

Over time, Mr. Ward expects that Allstate will become a "very, very different company" by substantially increasing its commercial lines business. Personal and commercial lines business "tend to balance the other when times are tough," he said.

Currently, 8% of Allstate's property/casualty writings represents commercial lines business. On the life insurance side, nearly 22% of its writings represents group pension business.

But Allstate does not enjoy some of the market share and cost structure advantages that successful personal lines insurers State Farm Group, GEICO Corp. and United Services Automobile Assn. do, Mr. Ward noted.

"Allstate is a heavy cost company, which makes it difficult to compete with State Farm because they don't have the market position and with GEICO (and USAA) because they're not as lean and mean," he said.

Allstate' 1993 underwriting expense was 25%, compared with 12% for USAA, 17% for GEICO and 19% for State Farm, he said.

W. Dolson Smith, a senior financial analyst at Best, does not expect major changes at Allstate, but he wondered how the undetermined cost to Allstate to continue operating in Sears outlets will affect its distribution costs.

A spokesman for Allstate's commercial lines business said its only immediate plans are to possibly expand into Mexico and to perhaps reduce its writings in catastrophe prone areas, as its personal lines side has done. BI

Ruling

Continued from page 1

think the decision will have a wider impact on disputes between policyholders and their insurance companies.

"This is a pro-litigation, anti-settlement decision," said David Spector, an insurer attorney with the Chicago law firm of Mayer Brown & Platt. Insurance companies that can now settle after losing at the trial court level will instead press on with further appellate level litigation, he said.

Policyholder advocate Eugene Anderson, a partner in the New York law firm of Anderson, Kill, Olick & Oshinsky, said the decision favors his clients. "It simply means when an insurance company loses a case, that loss is going to stay on the books," he said.

Rulings favorable to policyholders often are erased from case law when the parties involved in the litigation ask the appellate court to vacate the lower court decision as part of the insurer's offer to settle a case (*BI*, June 15, 1992).

In this case, the Supreme Court ruled that a party to a lawsuit cannot request that a lower-court defeat be erased from the law books by reaching a settlement while the case is on appeal.

The case in question began as a bankruptcy law dispute between an insolvent real estate partnership in Idaho and its creditor, U.S. Bancorp Mortgage Co.

Bancorp lost the case before the 9th U.S. Circuit Court of Appeals in San Francisco, then asked the Supreme Court to review the appellate ruling. But after the high court agreed to hear the case, the company settled with the real estate partnership.

Although the move rendered the eventual Supreme Court's opinion moot, Bancorp urged the justices to erase the 9th Circuit ruling to eliminate the precedent.

But judgments are not the property of private litigants and cannot be disposed of by a party willing to pay for a settlement, Justice Antonin Scalia wrote for the court.

Justice Scalia noted that the practice could discourage early pretrial settlements if a party thought it could take its chances with a lower court trial, knowing that afterward an unfavorable decision could be erased.

"Some litigants, at least, may think it worthwhile to roll the dice rather than settle in the district court, or in the court of appeals if, but only if, an unfavorable outcome can be washed away by a settlement-related vacatur," he wrote.

However, Mayer Brown & Platt's Mr. Spector said that insurers are motivated to litigate cases on the appeals level if a dispute's outcome is likely to impact other, similar cases.

"Even if (an appeal) isn't cost justified in that decision, you can't just consider that case (alone)," he said. "You've got to consider all cases."

Although the Supreme Court's decision applies specifically to federal appellate courts, Mr. Spector and other attorneys said state courts and lower federal courts will likely be influenced by the decision.

Jim Otto, an insurer attorney with Cummins & White in Los Angeles, believes the decision could encourage insurance companies to settle cases before they are even tried if an unfavorable outcome would set a bad precedent.

But not all attorneys expect the decision to be so influential.

Insurer attorney Thomas Brunner of Wiley, Rein & Fielding in Washington believes the new decision will have minimal impact on the handling of insurance coverage disputes.

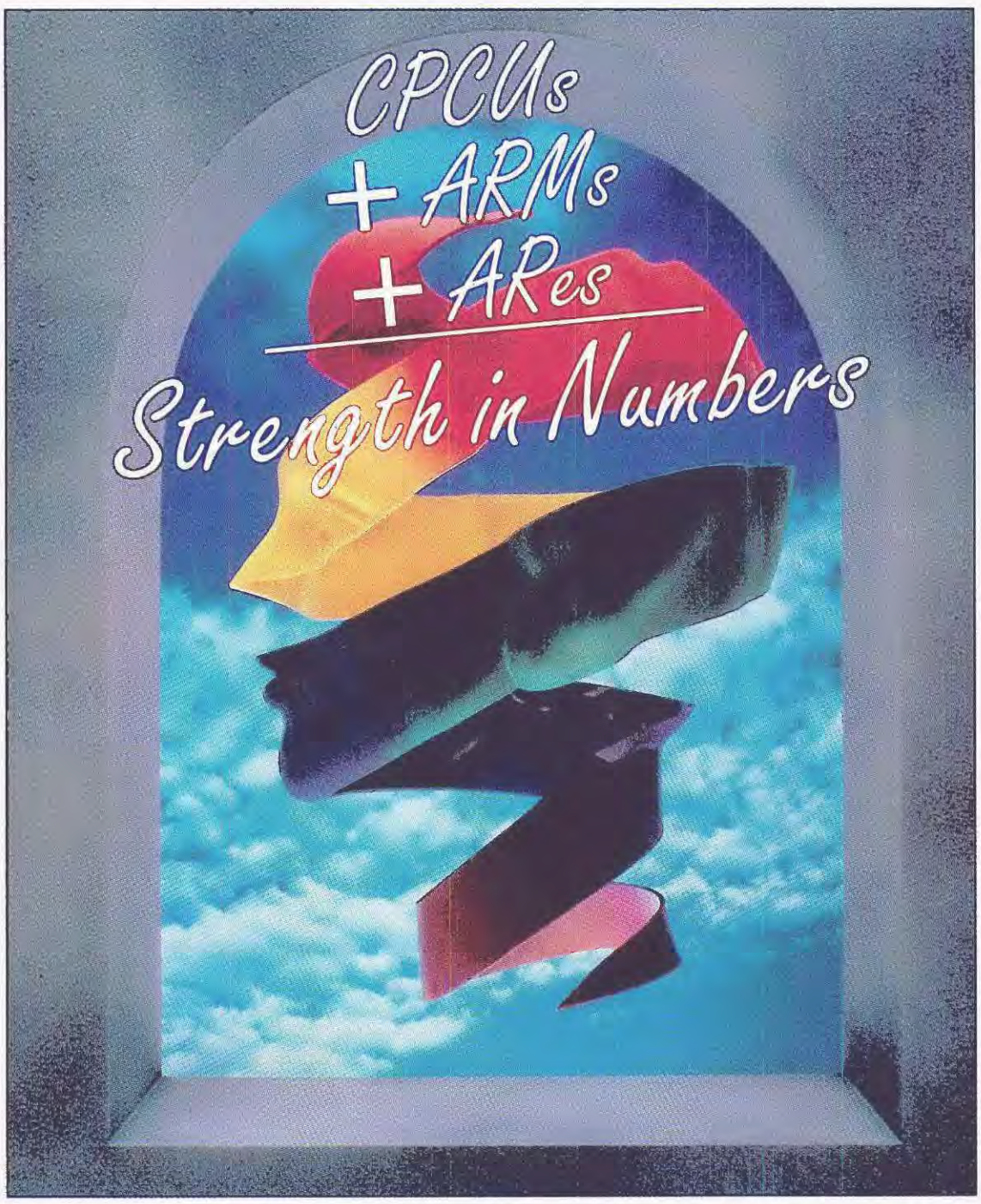
He argued that insurance companies do not routinely engage in the practice of paying additional sums to vacate decisions as part of settlement offers.

However, policyholder attorney Mr. Anderson disagreed. He has long argued that insurers often settle cases—even for hundreds of thousands of dollars more than a policyholder asked for—after a defeat to remove the precedent.

"It's a pernicious problem," he said, referring to the practice as "nullification by litigation."

•

U.S. Bancorp Mortgage Co. vs. Bonner Mall Partnership, U.S. Supreme Court, No. 93-714.



When it comes to reinsurance, our industry-designated facultative underwriters are highly qualified to provide a superior level of risk expertise. In fact, our ability to assist our producers and provide valuable insights and recommendations about coverage gaps, policy wordings and pricing pitfalls is well-known. No wonder so many insurance professionals count on Skandia America Re for solutions to their insurance challenges.

Skandia

Skandia America Reinsurance Corporation
Rated "A Excellent" by A.M. Best Company
One Liberty Plaza, New York, NY 10006
Tel: (212) 978-4700 Fax: (212) 385-2169

Branch Offices

New York
Tel: (212) 978-4925
Fax: (212) 385-8660

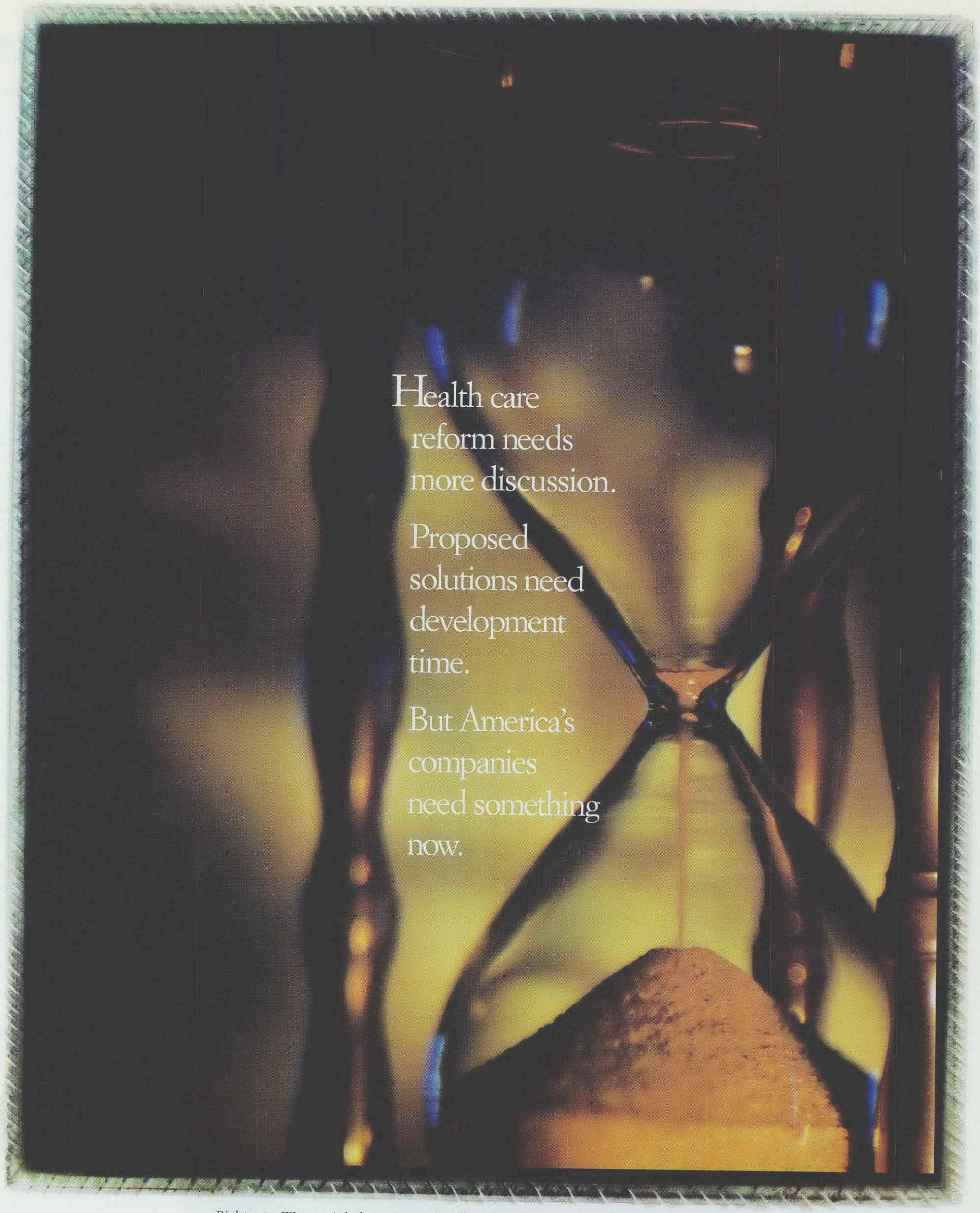
Chicago
Tel: (312) 236-7833
Fax: (312) 236-3826
(800) 621-9260

Atlanta
Tel: (404) 393-4300
Fax: (404) 393-9639
(800) 242-7044

Norwalk
Tel: (203) 854-9966
Fax: (203) 853-4005

San Francisco
Tel: (415) 398-1700
Fax: (415) 398-1544

Skandia/Facman
Tel: (203) 854-9966
Fax: (203) 853-4005



Right now, Wausau is helping group health and workers comp customers curb costs with managed care programs. Emphasizing claim accuracy. Medical case management, utilization reviews. And cost-effective provider networks. We've developed solutions companies can put to work.

WAUSAU

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

Employers tout benefits of free flu shots

Benefit Beat

Flu season is just around the corner and a growing number of companies throughout the country are taking steps to curb absenteeism by helping employees fend off the dreaded bug.

Only about 40% of large employers, and 10% of small ones, currently offer vaccination programs, A. Foster Higgins & Co. found in a recent study. But enough people take advantage of the programs to justify the nominal costs of offering them, say several benefit managers.

At the Pre-Paid Legal Services branch in Ada, Okla., about 60 of the 88 employees took advantage of a two-week program of free flu shots in its first year.

"We did it one week on site, and the second week employees could go to their doctor," said Barbara Snider, a personnel assistant.

About 120 Cincinnati Gas & Electric Co. employees were vaccinated earlier this month and their various group health insurers covered the costs. A spokesman said the utility will offer onsite vaccinations again Nov. 29.

Datasouth Computer Corp. has been offering flu shots free to employees for three years, and this year one third of its 117 employees were vaccinated.

"It's hard to measure the real impact because we don't have much absenteeism to begin with," said Beverly Dinkins, a payroll benefits administrator with the Charlotte, N.C., firm. "But for $10 a shot, it's worth it to us just to offer it."

P.J. Brosmith, quality improvement administrator for health care services with Coors Brewing Co. in Golden, Colo., said the company has been offering reduced-cost flu shots to employees since 1991. "We remain health and prevention oriented. We're simply trying to reduce employee illness and lost time."

Mr. Brosmith said Coors charges employees $5 per shot, which is a few dollars less than what someone might be charged at a local clinic or supermarket that offers similar vaccines. Shots are provided throughout the Coors plant, he said.

Participation in the program is open to all 5,100 Coors employees, retirees and dependents. Last year, about 2,200 shots were dispensed, while about 2,000 vaccines have been given this year.

"We don't track whether the shot is given to an employee or a dependent or a retiree, but the program is there primarily for employees," Mr. Brosmith said.

Leslie Schneider, a Foster Higgins consultant in Atlanta, said that companies generally feel the vaccines reduce absenteeism and that managed care plans generally cover them. "But it's also one of those employee relationship things that shows that the employer is offering something of value. And the costs are low."

—By Michael Schachner

Personal finances

HOUSTON—Baker Hughes Inc. is helping employees save for retirement by providing information on personal financial planning.

All U.S.-based employees of the Houston-headquartered provider of products and services in the oil, gas and process industries will receive "The Wealthy Barber," a book by financial planner David Chilton, and a companion video produced by WTVS, a Detroit PBS station. The video will have a special introduction for Baker Hughes employees.

Mr. Chilton is president of Financial Awareness Corp. and stars in the syndicated video program. He helped develop the Baker Hughes program, which also includes a resource guide.

"Baker Hughes wants to give each employee a wake-up call to be sure they are taking full advantage of the company's 401(k), so they will have sufficient funds reserved for retirement," according to the company.

"The goal is not to teach the employees sophisticated financial planning or budgeting, but instead to encourage them to save by 'always and consistently paying themselves first,' as David Chilton suggests," the company said.

—By Sara Marley

Flex plan outlook

With flexible benefit plans no longer in jeopardy because of some health care reform proposals, more employers plan to offer flexible benefit plans in 1995, says a recent survey.

About 80% of 760 benefits experts surveyed by the Employers Council of Flexible Compensation said they foresee a "modest to heavy" increase in the number of employers installing or expanding flexible benefit plans and flexible spending accounts in 1995.

Both House and Senate health reform bills would have wiped out the funding of health care benefits through all types of flexible benefit programs.

"Now that we have beaten back the immediate threat to flex, the flex market is growing again because employers and employees alike want to choose their benefits themselves. People want choice, not a government-dictated standard benefits package that may not fit a family's situation very well," said Kenneth Feltman, executive director of ECFC, a group of employers and other service providers interested in flexible benefits and compensation.

According to the survey, 79.5% of consultants and plan administrators anticipate an increase in the use of flexible spending accounts by client companies. They said more than half their clients had looked into flex prior to last year but held off installing a plan due to the uncertain outcome of health care reform.

Now, about 25% of those companies that held off implementing flex will go ahead with their plans, those surveyed said.

Jean Evans, director of benefits with Educational Testing Services in Princeton, N.J., which has had a flexible benefits plan for two decades, said she agrees with the survey's findings. "Employees want choice and companies have to listen. I suspect that even if some sort of tax is applied to flexible benefits, employee choice will override costs."

—By Michael Schachner

Green is an important color to us.

Green means go, full speed ahead.
Green is the color of things growing. It's the color of money.

THE

Green is also the corporate color at Hilb, Rogal and Hamilton Company, where we're building the unique and rapidly growing HRH American insurance system which gives new life to top insurance professionals and new value to their clients.

GREENING

Our initials, HRH, were little known a decade ago. Today they mean something special in nearly 50 American cities and, through HRH International, to insurers and companies overseas. They also are seen as the ticker flashes by to update investors on New York Stock Exchange listed companies.

OF AMERICA'S

HRH today means creative risk management and resourceful insurance packaging and placement that minimizes exposure for American business, industry, institutions and government entities. More than 100 local agency professionals have put the green HRH atop their businesses. HRH support enables them to do a better job for their clients and themselves.

INSURANCE

Today our name has meaning from Main Street to Wall Street.
We are definitely a green company, on the go, growing, increasing value for our employees, our clients and our shareholders, whose dividend checks get a little greener each year. We expect it to get even better.

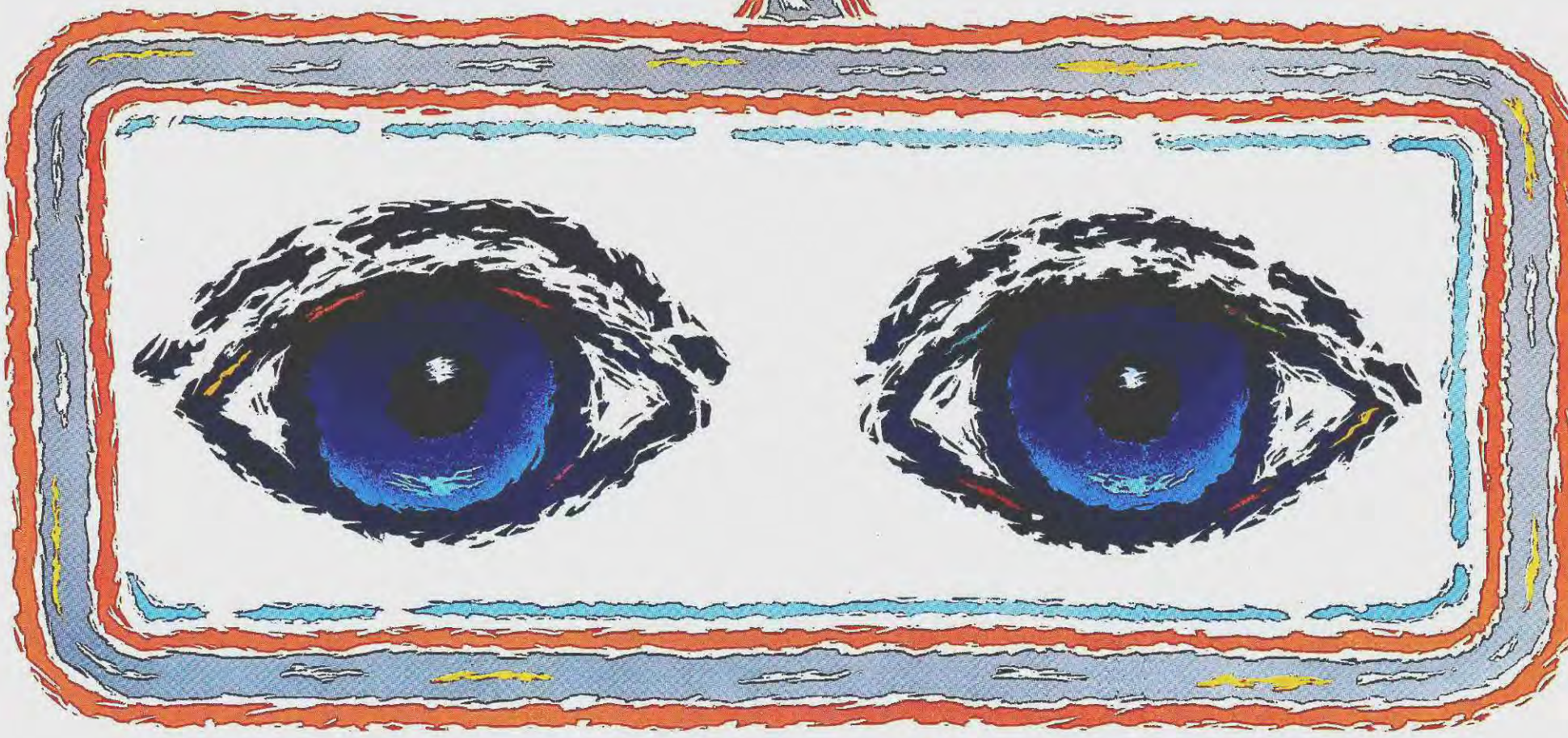
AGENCIES

Great companies have great expectations.

HRH INSURANCE

Hilb, Rogal and Hamilton Company

4235 Innslake Drive • P.O. Box 1220 • Glen Allen, Virginia 23060-1220 • (804) 747-6500 • Fax: (804) 747-6046



A Company Wanted Its Truckers To Drive Safely.

Computer analysis told us a small truck fleet was having big trouble backing up. We saw too many dents, dings and scratches. They saw too many expenses. So Liberty Mutual recommended a safety plan—including Decision Driving™ seminars **We Suggested They Drive Backwards.** and a mirror check station to help the drivers back up. Today, accidents are down and the truck fleet has a big dent in their expenses. To see solutions for your loss prevention problems, see Liberty Mutual.

FACING THE ISSUES THAT FACE OUR CUSTOMERS™

© 1994 Liberty Mutual Group

LIBERTY MUTUAL®

Opinions

Turn over a new political leaf

WE HOPE last week's elections that put Republicans in control of the 104th Congress signal an end to the old way of doing things that has proved so disastrous for the nation's employers.

Republican lawmakers have complained mightily—and often with just cause—of how the Democratic majority in Congress for years has trampled over the rights of the minority party. One of the biggest GOP complaints has been the closed-door style of the Democratic leadership.

That style has meant on too many occasions that Democrats produced massive pieces of legislation out of view of their Congressional colleagues. Then, with virtually no time to review the bills, the Democrats scheduled a vote and overwhelmed the minority.

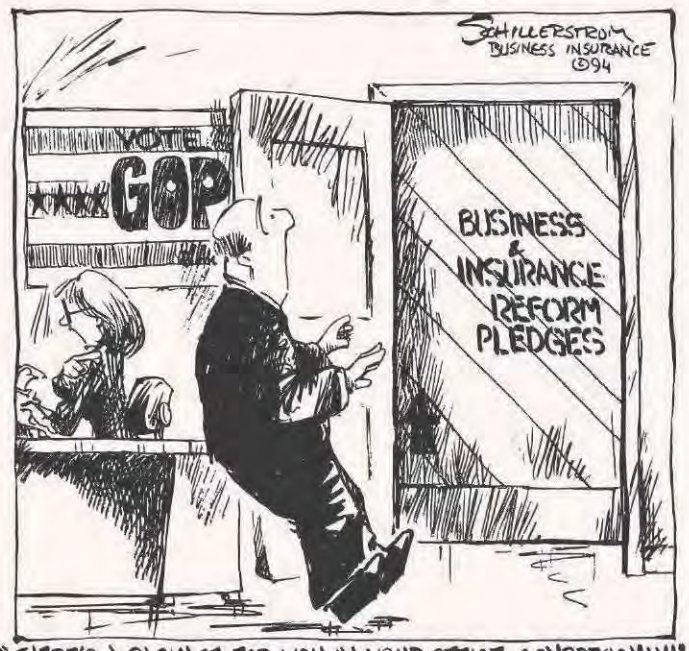
To be sure, that strategy, deployed in particular by former House Ways and Means Committee Chairman Daniel Rostenkowski, D-Ill., got bills passed. But because there often was no time for informed comment, it also excluded employer and expert input and many times resulted in terrible legislation for business.

Indeed, many such legislative turkeys in recent years—particularly benefits-related measures—were enacted without even the slightest effort by Democratic leaders to elicit the views of experts most familiar with the issues involved.

When crafting the legislation that may have been the Democratic majority's downfall—health care reform legislation—the Democratic leadership was more open on what it was doing, but it ignored the obvious: the only legislation that could be enacted would have to have broad bipartisan support.

We hope Republican lawmakers have learned from these lessons and will try to line up more bipartisan support for future legislation. Already, the next majority leaders of the House and Senate—Rep. Newt Gingrich of Georgia and Sen. Bob Dole of Kansas—have signaled a willingness to work with President Clinton and the Democrats on areas of common concern.

We also urge the Republicans to avoid the closed-door tactics of the majority that frustrated business so many times in the past. Let's keep working on behalf of the public in public.



"THERE'S A PACKAGE FOR YOU IN YOUR OFFICE, CONGRESSMAN!"

There are several areas that we hope the next Congress will address.

Republicans always have maintained that they are more sympathetic to business interests than Democrats and now is the time to prove it by supporting passage of some long-delayed legislative proposals. These include:

- An overhaul of the federal Superfund law to eliminate retroactive, as well as joint-and-several, liability.
- Federal product liability reform legislation.
- Medical malpractice liability reforms.
- Incremental health care reforms to reduce the number of uninsured without a total overhaul of the nation's health care system.

It is in the vital interests of both parties to show they can make a difference on the legislative front if they are to strengthen their respective positions in the 1996 elections.

For employers' sake, we hope both Republicans and Democrats strive to develop a consensus and enact legislation that makes a difference to employers.

Letters

Early return to work vital in cutting comp costs

To the editor: I compliment you on the attention given to the early return-to-work concept in your Oct. 17 Spotlight Report on Workers Compensation.

There is no doubt that next to accident prevention itself, returning injured workers to light-duty/modified work is the single most effective procedure for controlling workers compensation claims costs.

We've worked since 1980 at returning our employees to light duty during periods of recovery and one key component that we've adopted that was not mentioned in your issue is the importance of promptly implementing this process. We believe that, in most cases, light-duty/modified work should begin on the very day of the injury.

Physicians treating injured workers in our managed care program are asked not to answer the return-to-work question with a "yes" or "no," but to describe the physical limitations the injured worker should adhere to at *every visit* with that physician.

This spontaneous response allows our facility managers to keep people at work from the very first day of an injury. Workers are instructed to bring back to work the written physical limitations and their supervisors design a light-duty job to fit within those limitations. As the worker improves, limitations should change, indicating a successful recovery process.

This immediate effort also saves the expenses of a claims examiner, nurse and rehab counselor since they are not needed to facilitate the return-to-work process. This speedy return to work provides workers with light-duty wages during statutory waiting periods. It also discourages the filing of nebulous workers comp claims with hopes of getting time loss authorization to be away from work.

Best of all, it gives good employees—who comprise 95% of all injured workers—an opportunity to stay at work and make a significant contribution to their employer. The only person this program negatively affects is the worker who files a workers comp claim for the sole purpose of getting away from work with indemnity payments.

If you think about this approach, you'll get excited with the potential it has for speedy recovery and workers comp claims cost containment.

Mark J. Davison
Director, Risk Management
Safeway Inc.
Clackamas, Ore.

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

Headline on a chart illustrating salmonella story was in poor taste

To the editor: The Oct. 24 article, "Ice Cream Company Uninsured for Recall of Tainted Products," featured a chart illustrating the states with confirmed salmonella infections with the headline, "Sweet 16."

I'm not sure that the people who took sick would characterize their plight in quite the same way. What in the name of bad taste is going on at *Business Insurance*?

Richard E. Schmidt
Katonah, N.Y.

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

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: Dave Lenckus (Chicago), Douglas McLeod (New York)
Assistant Managing Editor/Graphics: Jeanne M. Bartels (Chicago)
Assistant Managing Editor/News: Roseanne White (Chicago)
Assistant Managing Editor/Spotlight reports: Christine Woolsey (Chicago)
Bureau Chiefs: Michael Schachner (New York), Joanne Wojcik (Los Angeles)
Copy Editors: Regis J. Coccia (Chicago), Sara J. Harty (Chicago)
Assistant Copy Editor: Kerry A. Dziubek (Chicago)
Associate Editors: Deborah Shalowitz Cowans (Chicago), Roberto Ceniceros (Los Angeles), Meg Fletcher, A.R.M. (Chicago), Judy Greenwald (San Jose), Mark A. Hofmann (Washington), Adrian Ladbury (London), Sara Marley (Chicago), Sally Roberts (Chicago), Gavin Souter (New York), Rodd Zolkos (Chicago)
Directory Editor: Kathy Welyki (Chicago)
Assistant Directory Editor: Rich Trout (Chicago)
Editorial Assistant: Ovie Dent (Chicago)
Assistant to the Publisher: Karen Brown Tucker (Chicago)
Editorial Cartoonist: Roger Schillerstrom (Chicago)

Advertising Director: Martin J. Ross III (New York)
Eastern Advertising Manager: Stephen P. Lincoln (New York)
Midwest Advertising Manager: Robert L. Niesse (Chicago)
District Managers: Cynthia Bykowski (New York), Blake Delany (New York), Barrie Harmelin (New York), Charles A. Horvath (New York), Deborah D. Neale (Chicago)
Sales Assistant: Lori Lieberman (Los Angeles)
Classified Advertising Manager: Cheryl Butler (Chicago)
Production Manager: Elmer Kerstowske (Chicago)

Director of Communications: Ronnie I. Drachman (New York)

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

Published by Crain Communications, Inc., Chicago

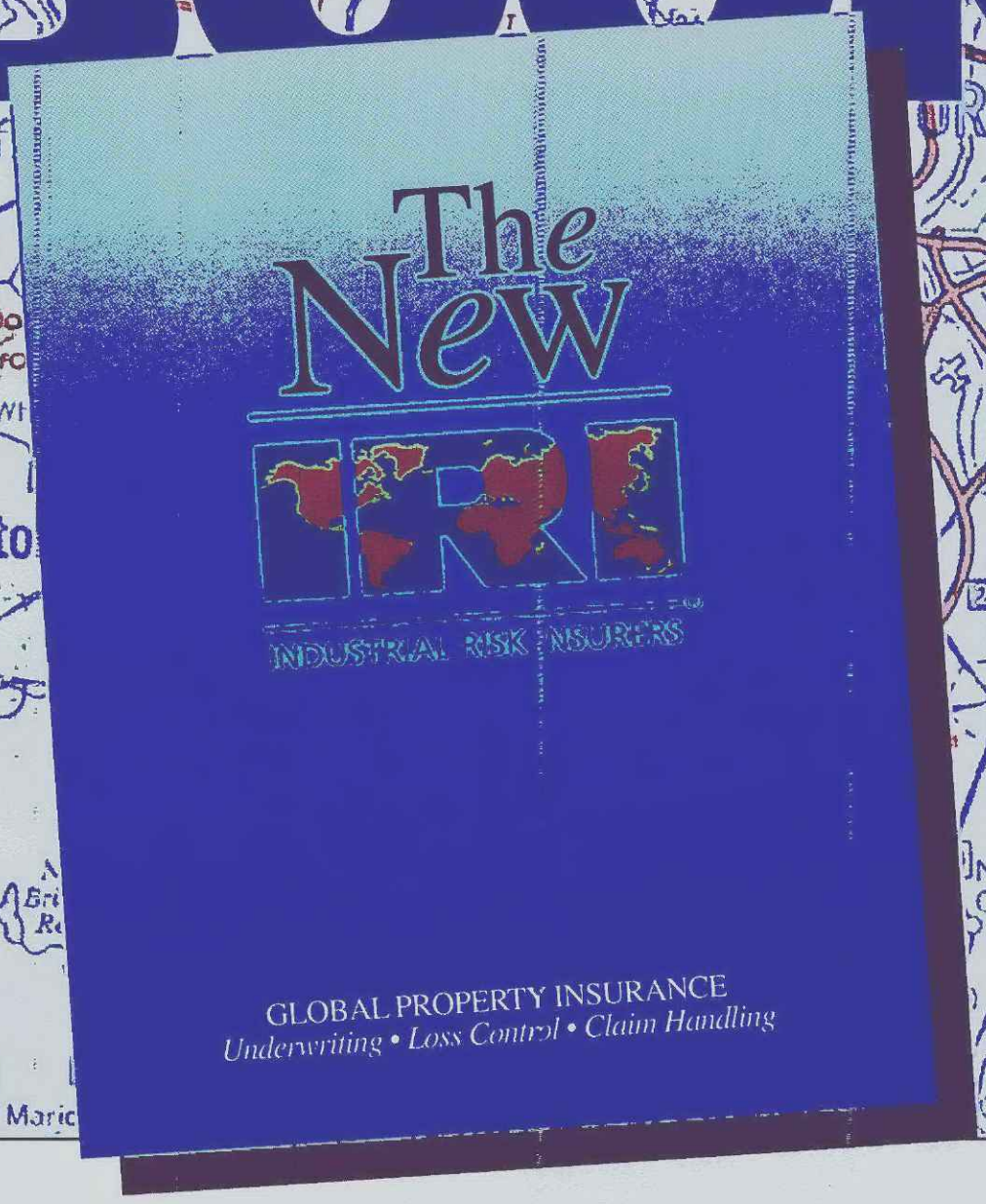
Founder: G.D. Crain Jr. (1885-1973)
Chairman: Mrs. G.D. Crain
Vice chairman: Keith Crain
President: Rance Crain
Chairman-executive committee: S.R. Bernstein (1907-1993)
Treasurer: Mary Kay Crain
Secretary: Merrilee P. Crain
Executive Vice president-operations: William A. Morrow
Vice president-circulation: William Strong
Vice president-production: Robert C. Adams

Published weekly at 740 Rush St., Chicago, Ill. 60611-2590, Telex 6871241, Fax 312/280-3174, Cable CRAINCOM. Offices: 220 E. 42nd St., New York, N.Y. 10017-5806, Fax 212/210-0704, CRAIN COM NYK; 1 Northpark, East Suite 114, 8950 N. Central Expressway, Dallas, Texas, 75231-6415, Fax 214/696-1936; Suite 814, National Press Building, Washington, D.C. 20045-1801, Fax 202/638-3155; 6500 Wilshire Blvd., Suite 2300 Los Angeles, Calif. 90048-4947, Fax 213/655-8157; 540 Latimer Circle, Campbell, Calif. 95008, Fax 408/379-3257; Cowcross Court, 2nd Floor, 75-77 Cowcross St., London EC1M 6BP, England, Fax 71/608/1173. $4 a copy. $80 a year in U.S. $126 in Canada (includes GST). First-class mail subscriptions in U.S. $175, in Canada $198 (includes GST). All other countries $200/yr (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. 48013. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Road, Wooster Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media. For information and rates to reproduce in general circulation media, contact: 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, 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 U.S.

BPA INTERNATIONAL ABP

TOUR BOOK



Here's Your Free Guide to the HPR Market

New travel kit of maps and brochures helps you access The New IRI • 8 New Underwriting Areas • 16 Technical Service Centers • Leading HPR insurer offers global capacity and stability backed by $120 Billion in assets and $30 Billion in surplus • 47,000 insured properties in over 70 countries

IRI®
INDUSTRIAL RISK INSURERS

For your free copy of The New IRI Tour Book, contact Trish Sasso, IRI Marketing at 1-800-243-8308, Ext. 7412. From outside the USA, call (203) 520-7412.

©1994 Industrial Risk Insurers, Hartford, Connecticut

SEATTLE, USA

BOEING ROLLS OUT A TRIUMPH OF TECHNOLOGY AND TEAMWORK.

WORKING TOGETHER: 7,000 EMPLOYEES, 545 SUPPLIERS IN 14 COUNTRIES, 16 AIRLINES, 3 ENGINE MAKERS.

AND ONE GLOBAL INSURANCE BROKER.



The Boeing *777*.

The concept that challenged the technology barrier. And broke it.

In creating the *777*, Boeing bypassed engineering mockups and virtually eliminated paper drawings.

For the first time, engineers used digital computers to design and electronically pre-assemble an entire aircraft, achieving unprecedented levels of accuracy and quality.

When the service-ready *777* is delivered next year, it will have come through some 4,800 test flights—the most extensive test program ever.

While 238 Boeing design/build teams, several cadres of customer-airline specialists, and hundreds of world-class subcontractors on five continents were working together on the *777*, our team was working on the massive insurance program



Boeing required.

Harnessing the power of the J&H/UNISON global network to the reputation of the 777's creator, we acted as brokers, Lloyd's brokers, surplus line brokers, reinsurance brokers and captive managers to put it together.

Now you know why global leaders want Johnson & Higgins/UNISON on their teams.

We deliver real world solutions.

JOHNSON & HIGGINS

UNISON
THE GLOBAL TEAM

REAL WORLD SOLUTIONS

Elections

Continued from page 1

his bid to become the longest-serving House member.

House Judiciary Committee Chairman Jack Brooks, D-Texas, had introduced several bills to gut McCarran over the past decade. His most recent bill, H.R. 9, was even put into the House version of the Clinton administration's moribund health care bill (*BI*, July 25).

But Rep. Brooks, so powerful that the Republicans didn't run a candidate against him in 1988, was defeated last Tuesday by GOP challenger Steve Stockman, who appealed to voters angered by Rep. Brooks' support for gun control.

The defeat of Rep. Brooks probably ends the debate on McCarran-Ferguson, at least for the present, said David M. Farmer, senior vp-federal affairs for the Alliance of American Insurers in Washington.

Another McCarran defender said even if Rep. Brooks had survived, the chances of scaling back the act's antitrust exemptions would have been slight. Now, "that threat is gone," said Lowell R. Beck, president of the National Assn. of Independent Insurers in Des Plaines, Ill. He noted that there appears to be no appetite either in the House or the Senate for changing McCarran.

"I have a hard time believing there'd be any kind of engine that would push it out of either House," agreed David Pratt, senior vp-government affairs for the American Insurance Assn., which supported amending McCarran.

But another insurance industry advocate of changing McCarran said that the effort to compromise with Rep. Brooks wasn't wasted. Paul Equale, senior vp-government affairs for the Independent Insurance Agents of America in Washington, said that while GOP dominance lessens the possibility of "any federal intrusion into our business," the McCarran issue will inevitably reappear because the soft market will someday turn hard.

There's no way to predict who will control Congress when the hardening occurs, said Mr. Equale. Because "renewed pressure" on the insurance industry is inevitable, trying to work out a compromise was a wise defensive move, he said. "We have moved the parameters of McCarran-Ferguson debate into an acceptable area" that stops short of full repeal, he said. But the IIAA won't push for McCarran changes in the new Congress, he added.

The push for federal solvency regulation is also likely to stall, even though the chief proponent of such standards—House Energy and Commerce Committee Chairman John D. Dingell, D-Mich.—won re-election.

"I think it definitely puts solvency on the back burner," said Barbara Haugen, director-federal affairs for the National Assn. of Insurance Brokers, which advocated such standards. Both Messrs. Farmer and Beck—staunch opponents of federal solvency regulation—agreed with Ms. Haugen's assessment.

"There's unlikely to be much appetite in Energy and Commerce for expansive new regulation of insurance or probably anything else," said Mr. Farmer, noting that Rep. Brooks' most likely successors as chairman of the now-GOP-dominated House Judiciary Committee—Reps. Carlos Moorhead, R-Calif., and Henry Hyde, R-Ill., are strong state regulation supporters.

Mr. Beck said that even had the Democrats retained control of the House—and thus Rep. Dingell had remained chairman of the Energy and Commerce Committee—there would still be "no surge in either the Congress or around the country" for federal solvency regulation.

He also noted that the Republican members of the committee's Oversight and Investigations Subcommittee had written a dissent to Rep. Dingell's recent report attacking state regulation, "Wishful Thinking: A World View of Insurance Solvency Regulation" (*BI*, Nov. 7). The Republican opposition to a federal regulatory role when they were in the minority should indicate that there will be continued opposition when Republicans control the committee, said Mr. Beck.

The AIA's Mr. Pratt, though, said that "Wishful Thinking" demonstrated that both GOP and Democratic lawmakers agree that solvency problems must be addressed. He said that GOP control could refocus solvency efforts on the states.

Republican control of the House also probably means the end of attempts to increase federal oversight of workplace safety, said Mark Stuart, executive assistant at UBA Inc., a Washington lobbying and research firm specializing in workers compensation and other employer issues. The chief House sponsor of labor-backed OSHA legislation, Education and Labor Chairman William Ford, D-Mich., retired.

With the GOP in charge, "the list of topics on the agenda will change. Clearly you won't see any comprehensive reforms. The question is will there be a legislative attempt to make OSHA work better or will it be an attempt to abolish various pieces of OSHA," Mr. Stuart said.

A Republican-controlled Congress is more likely than a Democratic-controlled one to assume an activist role in one area—product liability in specific and tort reform in general.

"After 12 years, procedural obstacles and barriers to hear liability reform have broken," said Victor E. Schwartz, a partner in the Washington law firm Crowell & Moring and a longtime advocate and lobbyist for a uniform product liability code.

With the defeat of Rep. Brooks and the retirement of Senate Majority Leader George Mitchell, D-Maine, who was a steadfast opponent of even debating product liability reform, bills can be judged on their own merits, Mr. Schwartz said. He predicted that new product liability legislation will be introduced in the 104th Congress that will take new approaches, such as addressing the issue of levying multiple punitive damages for one act.

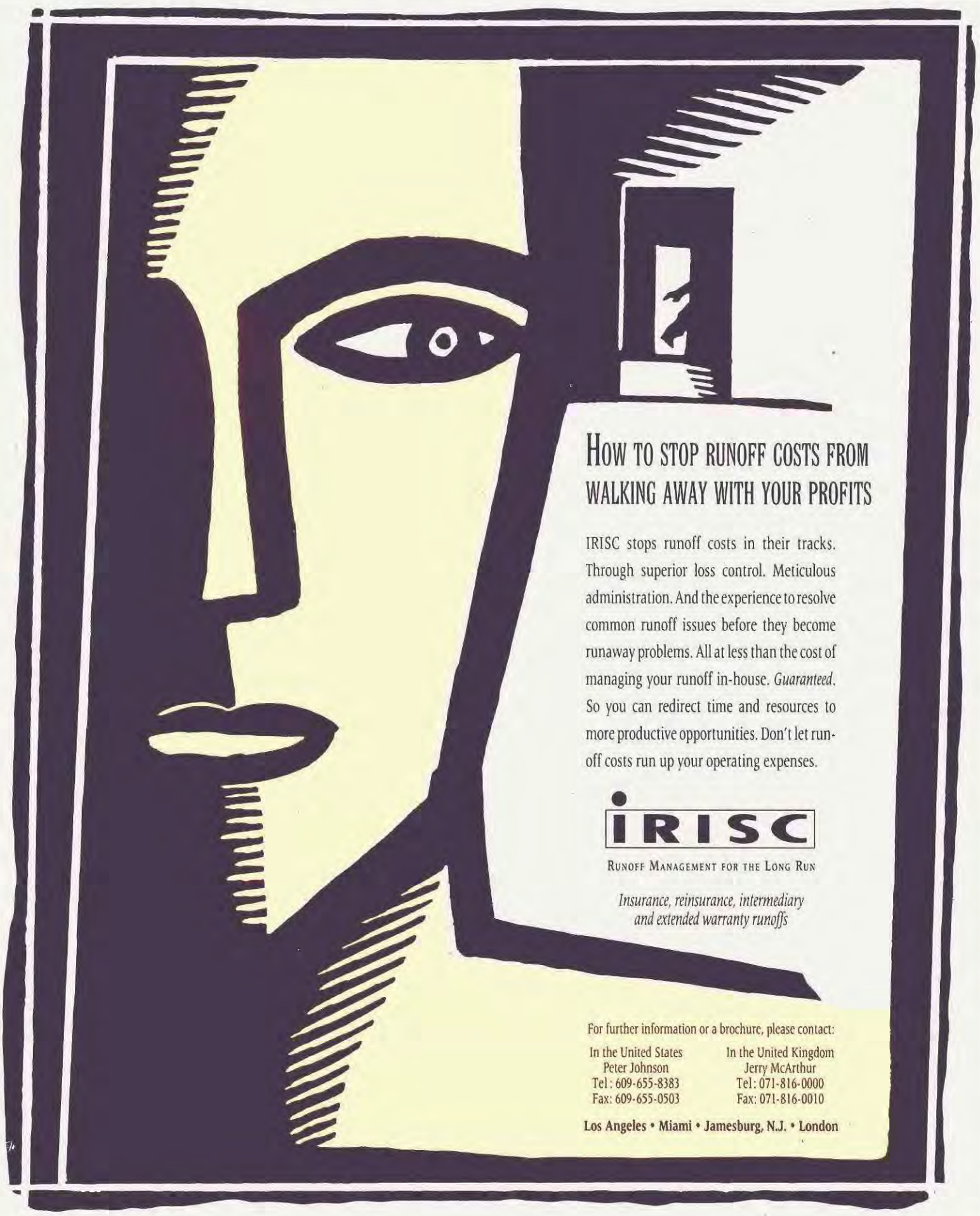
Mr. Schwartz also praised the liability section of the Republican "Contract With America," a 10-point legislative program endorsed by more than 350 GOP candidates for the House. The liability section includes, among other things, a disclosure provision that would require plaintiffs attorneys to detail the amount of time spent on their clients' cases and how it was used.

The Alliance's Mr. Farmer also foresees "more objective" debates on tort reform, product liability reform and medical malpractice reform. "This may represent an election where the American people took power back from the Assn. of Trial Lawyers of America."

Another effort, the creation of a national reinsurance pool to respond to natural catastrophes, won't be hurt by the election, said Franklin W. Nutter, president of the Reinsurance Assn. of America. "From our perspective, the election results should not adversely affect the chances of passing a natural disaster protection act. It has always enjoyed bipartisan support, including original sponsorship by such prominent Republicans as Sen. Ted Stevens, R-Alaska, and Rep. Sherwood Boehlert, R-N.Y.," he said.

The biggest question mark remaining is how the new Congress

Continued on next page



Some leaders on employer issues voted out

WASHINGTON—Among the casualties of last week's twin Republican triumphs in the House and Senate elections were several congressmen who have played commanding roles in employee benefit and risk management issues.

ELECTION 94

Among those defeated are:

• Rep. Jim Cooper, D-Tenn. Rep. Cooper was the original sponsor of the managed competition approach to reforming the health care delivery system. He lost a bid for the Senate.

• Rep. Dan Glickman, D-Kan. He pushed for legislation—passed earlier this year—to bar product liability suits against manufacturers of non-commercial, small aircraft after the planes reached a certain age (*BI*, May 23).

• Rep. Dan Rostenkowski, D-Ill. As chairman of the House Ways and Means Committee since the early 1980s, Rep. Rostenkowski and his staff helped shape more employee benefit legislation than any other member of Congress.

• Sen. Harris Wofford, D-Pa., a relative newcomer who joined the Senate in 1991, following his victory in a special election after Sen. John Heinz, R-Pa., died in a plane crash. Sen. Wofford was an early supporter of comprehensive health care reform legislation and a special advocate of a measure to prevent employers from dropping retiree health care benefit programs during litigation.

These casualties come on top of retirements and earlier defeats of other legislators who played important roles over the years on benefit issues.

Those retiring include Sens. John Danforth, R-Mo., David Durenberger, R-Minn., and David Boren, D-Okla., a trio who actively sought to reach a bipartisan compromise on health care reform, as well as Senate Majority Leader George Mitchell, D-Maine, who fought until the closing weeks of the 103rd Congress for sweeping health care reform legislation.

Also not returning to the Senate because of retirement is Sen. Howard Metzenbaum, D-Ohio, who almost single-handedly waged a successful battle to make it financially unattractive for employers to terminate overfunded pension plans to recapture surplus assets.

More recently, Sen. Metzenbaum pressed for legislation to increase penalties on employers that mishandle employees' health claims.

Last week's elections did not entirely deplete the ranks of members of Congress involved in risk management and benefit issues, though.

The survivors include:

• Rep. Sam Gibbons, D-Fla. Rep. Gibbons, who earlier this year took over control of the Ways and Means Committee after Rep. Rostenkowski was indicted on corruption charges, pushed for legislation for many years to expand the Medicare program to cover more of the uninsured.

• Sen. Edward Kennedy, chairman of the Labor and Human Resources Committee. The Massachusetts Democrat has pushed for health care reform legislation for more than two decades, longer than any other member of the Senate.

• Rep. Fortney "Pete" Stark, D-Calif. Rep. Stark was the original sponsor of the health care coverage continuation legislation that became the Consolidated Omnibus Budget Reconciliation Act, or COBRA.

This year, he used his position as chairman of the House Ways and Means Health Subcommittee—a post he now will have to relinquish—to advance the Clinton administration's health care reform legislation.

—By Jerry Geisel

Elections

Continued from previous page

will deal with Superfund. The 103rd Congress failed to reauthorize the environmental cleanup program before adjourning in October. A bitter debate over a proposed Environmental Insurance Resolution Fund designed to cut litigation between insurers and policyholders split the property/casualty industry, with most insurers opposing a provision that would levy special taxes on all underwriters to fund the EIRF (*BI*, Oct. 3).

Opponents of the EIRF proposed repealing Superfund's imposition of retroactive liability on polluters who had dumped wastes before Superfund became law.

The GOP takeover "is going to slow the reauthorization process, mainly because many of the Senate Republicans on the relevant committees are advocates of repealing retroactivity," said Leslie Cheek, director-domestic external affairs in Washington for Xerox Corp., the ultimate parent of property/casualty insurer Talegen Inc. Mr. Cheek predicted that the attempts to eliminate retroactive liability would fail and reauthorization would eventually pass. He warned, however, that insurers and commercial policyholders alike should "resist the temptation to get greedy" and demand too much.

Peter A. Lefkin, vp-government affairs for Fireman's Fund Insurance Co. said the GOP victory is "extraordinarily positive" because so many Republicans support repeal of retroactive liability.

For example, Sen. Robert Smith, R-N.H., author of a Superfund reform bill that would have, among other things, abolished retroactive liability, is likely to replace Sen. Frank Lautenberg, D-N.J., as chairman of the Senate Superfund, Recycling and Solid Waste Subcommittee. BI



GIVE a man a fish,
and you feed him for a day.

TEACH a man to fish,
and you feed him for a lifetime.

RLI Broker Salute

There is no substitute for experience. And knowledge is the gift which top wholesale brokers have to give.

As gatekeepers to the alternative marketplace, wholesalers have the unique ability to help retail agents develop submissions acceptable to the specialty underwriter.

Seasoned brokers know what their markets require—comprehensive submissions with a clear direction.

As Curt Biersch, CPCU, of Sherwood Insurance Services points out, helping his retailers determine the information necessary to generate an order separates his firm from other wholesalers. "We go to great lengths to provide the best possible submissions, which leads to the market clout retailers seek from us. Anyone can have an appointment with a company, but we have relationships."

Smart retail agents will get to know specialty lines better; this market demands detail not required by standard companies. So remember retailers, when the hard market returns, a capable wholesale broker will be your best friend.

Do yourself a favor...learn to fish. Take a wholesaler to lunch.



Curt Biersch, CPCU
Sherwood Insurance Services
Woodland Hills, CA

RLI salutes Curt Biersch as a wholesale broker from whom we can all learn a thing or two about quality submissions. Together, we're working to solve our clients' and our industry's problems.

RLI
Fundamentally Innovative

9025 North Lindbergh Dr. • Peoria, IL 61615
Ph: (309) 692-1000 • Fax: (309) 692-1068

We've invested millions of dollars in the design of something we hope you'll never use. Ironic, isn't it?

The 1880s, that is. Allendale Insurance has been a leading force in the development of modern sprinkler technology through its partnership with Factory Mutual Engineering & Research.

FIRE SPRINKLERS ARE CURIOUS THINGS. Invest a lot of money and time in their design and engineering, and if you're really fortunate, they'll never be put to use. But if ever one is activated, rest assured that it's capable of preventing the spread of fire and minimizing its damage.



WE SHOULD KNOW. WE'VE BEEN LEADING the way in sprinkler technology since the '80s.

DURING THE 1970S, ALLENDALE and Factory Mutual developed the large drop sprinkler, which greatly limits fire spread and allows customers more flexibility in the use of their warehouse storage space.

MORE RECENTLY, ALLENDALE LED THE way in the research and development of the Early Suppression Fast Response (ESFR)

sprinkler. This permits higher storage as well as the storage of more challenging commodities, usually without subsequent sprinkler retrofitting. Instead of just controlling high intensity fires, ESFR sprinklers can actually suppress them, and can normally do it for half the cost of any other protection arrangement.

AND NOW, BY INTEGRATING OUR decades of fire research with current European sprinkler designs, we have produced benchmark international guidelines for fire protection. The result?

A flexible approach which permits cost-effective use of any number of technologies anywhere in the world.

ALLENDALE IS NOT JUST AN INSURANCE company in the traditional sense of the term. We believe we should do more than compensate you for losses. We should, in fact, help you prevent property loss, minimize damage, and reduce disruptions to your business.

AFTER ALL, YOUR BUSINESS IS CHANGING every day. We are committed to helping you anticipate change, manage it, and to stay ahead of it. That way, we can offer our policyholders solutions for their particular challenges.

Allendale Insurance SINCE 1835

©1994, ALLENDALE INSURANCE, P.O. BOX 7500, JOHNSTON, RHODE ISLAND, 02919.

Colorado comp plan, other initiatives defeated

By RODD ZOLKOS

Employers last week defeated a workers compensation ballot initiative in Colorado and a single-payer health care proposition in California—both measures opposed as potentially harmful to their states' business climates.

ELECTION 94

Arizona voters, though, rejected a pair of tort reform initiatives on that state's Nov. 8 ballot. And, in Michigan, a measure that would temporarily roll back automobile insurance rates in exchange for lower benefits was beaten decisively.

The Colorado measure, Amendment 11, would have given injured workers the right to choose their own health care providers. The amendment, which was defeated by a 2-1 margin, also would have subjected fees charged by health care providers who treat work-related injuries to state regulation.

Colorado employers argued that the measure would erode the progress they have made toward containing workers compensation medical costs through the use of managed care networks.

The state's 1991 workers comp reform law allows employers to select occupational injury specialists to treat injured workers.

"We got our butt kicked," said Jack Hawkins, president of the Denver Area Labor Federation and chairman of the Committee for Choice, the organization behind Amendment 11.

According to Mike Grace, risk manager for Gary-Williams Energy Corp. in Denver and chairman of the government affairs committee for the Rocky Mountain chapter of the Risk & Insurance Management Society Inc., the media campaign waged by the measure's foes was far and away the biggest factor in defeating Amendment 11.

"That's really what I'd attribute it to: a very significant and well managed media campaign," he said.

That campaign wasn't cheap, Mr. Grace said, but "there was a lot at stake from our perspective, hundreds of millions of dollars and a lot of jobs, and the voters saw that."

Despite the defeat, Mr. Hawkins said the amendment's proponents still believe in its key provision.

"We still contend that the employees need the right to choose," he said. "There is a better, more humane way of effecting cost controls in medical."

Mr. Grace said, however, that while current law allows employers to designate physicians, it doesn't require them to do so, "which we believe is the best of all worlds."

Mr. Hawkins was uncertain whether there would be future attempts to bring the issue before Colorado voters.

"Before I even entertain the thought, I'd like to give our state Legislature an opportunity to address this," he said. "Through the whole debate the one thing I agreed with our opposition on is that the Legislature is the appropriate forum."

Mr. Grace expects the issue to come before Colorado legislators next year but believes Colorado employers will keep up their opposition to it.

In California, voters were even more decisive in rejecting Proposition 186, a measure that would have established a single-payer health care system administered by the state and financed through payroll, income and tobacco taxes.

"No" votes on the initiative outpaced "yes" votes in an unofficial vote tally by 73.4% to 26.6%.

"We are, of course, delighted," said Kirk West, president of the California Chamber of Commerce and chairman of the campaign to defeat Proposition 186. "That's a massive defeat."

Beth Capell, co-chairwoman of the campaign for Proposition 186 and director of government relations for the California Nurses Assn., said Proposition 186 supporters "knew this was going to be a long struggle to get health care reform. It's just going to take longer than expected."

The initiative's opponents "were on TV before Labor Day and stayed on TV and the radio throughout the campaign," Ms. Capell said. "The ads were effective in persuading the voters. We on the other hand were not on TV nearly as much, even in the last week."

But Mr. West said the measure's opponents "didn't really spend a lot of money on it by California standards. Less than $5 million in television and radio advertising. The other side did spend several million."

"The people just looked at it and they said 'no' to turning over about one-tenth of the California economy to the state government and the political types," Mr. West said.

Ms. Capell said the proposition's backers are pondering their next move.

"We seek the best possible system, but we are receptive to incremental improvements along the way as well," she said.

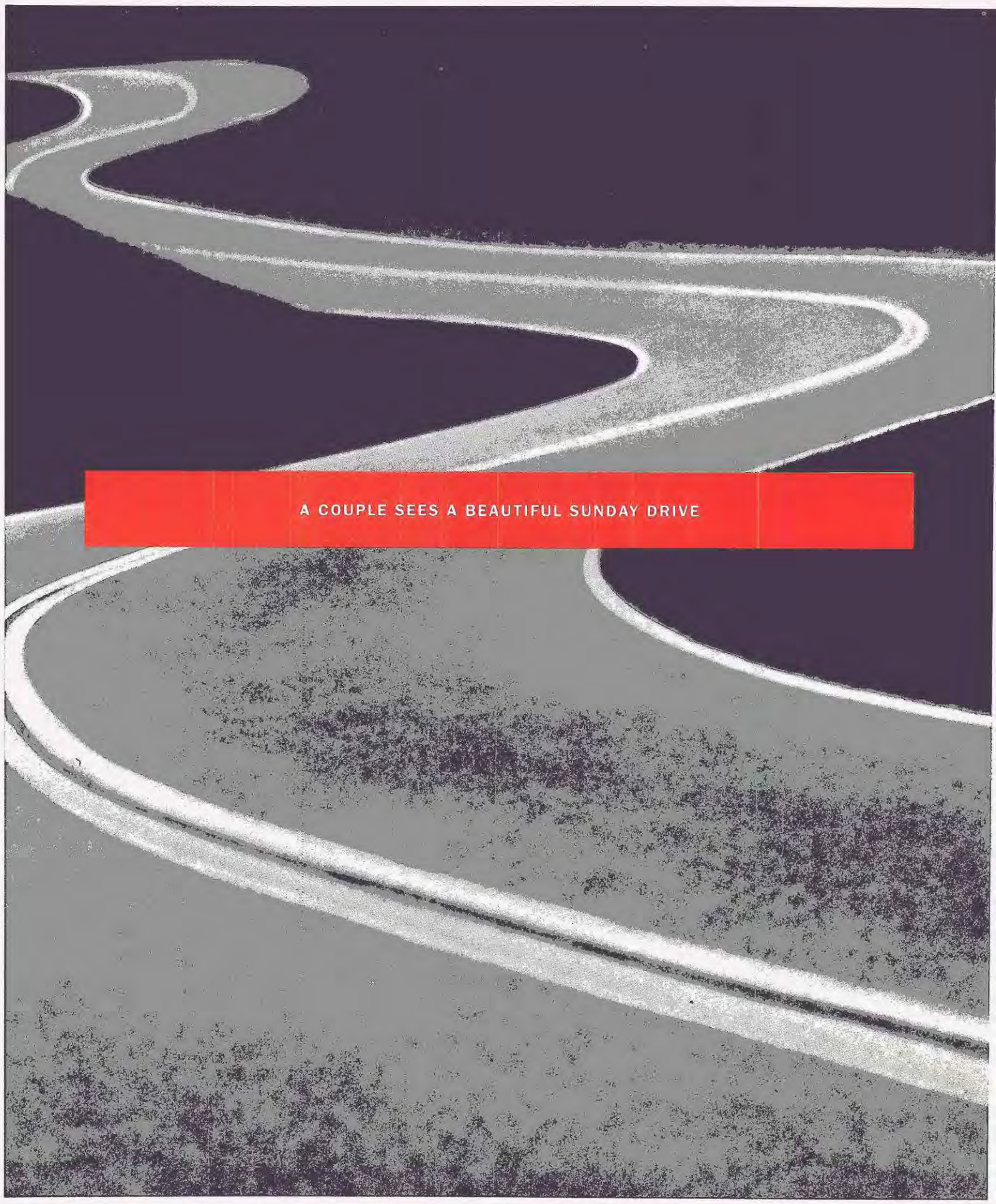
California voters also soundly rejected Proposition 188, a measure that would have reversed local smoking restrictions around the state by permitting restaurants and other businesses to allow smoking in ventilated areas. Despite millions of dollars spent by the tobacco industry supporting the measure, 'no' votes outran 'yes' votes 70.5% to 29.5%.

In Arizona, voters said no to tort reform, voting down one measure, Proposition 103, 60.7% to 39.3% and the other, Proposition 301, 61.9% to 38.1%. Together the measures would have restricted the filing of injury lawsuits and limited recoveries.

Michigan voters rejected Proposal C—a measure that would have reduced automobile insurance premiums in the state by an average of 16% from 1992 levels for six months in exchange for lower benefits—by a similar margin, 60.9% to 39.1%.

The proposal's provisions included reducing mandatory medical coverage for drivers to $1 million—with additional coverage up to $5 million available at a higher price—from the unlimited cover-

Continued on next page



A COUPLE SEES A BEAUTIFUL SUNDAY DRIVE

Continued from previous page
age currently required.

In gubernatorial races of interest from an insurance perspective, Oregon Governor Dr. John Kitzhaber, a Democrat responsible for the state's wide-ranging health care reform program, easily defeated Republican Denny Smith, a former U.S. representative.

And in Hawaii, Democratic Lt. Gov. Ben Cayetano, an advocate of replacing the state's current no-fault automobile insurance system with a so-called "pay-at-the-pump" plan, whereby much of the cost of insurance would be added to the price of gasoline, beat both of his opponents in the race for governor.

They included Republican Patricia Saiki, a former U.S. representative, and Frank Fasi, a former Honolulu mayor who ran as an independent. BI

Benefits

Continued from page 1
ing to employers from Medicare the primary responsibility for covering older workers' health care bills to increase federal revenues.

Even the immensely popular 401(k) plans were not safe from Republican attacks. On several occasions, the Reagan administration proposed eliminating 401(k) plans to help offset the cost of lowering basic tax rates.

With Republicans once again calling for rolling back basic tax increases, taxation of employee benefit plans could become a serious GOP option.

"The way (Republicans) in the past have dealt with the deficit is to focus in on other areas, like employee benefit plans," said Edward Davey, national health and welfare practice leader for Buck Consultants Inc. in New York.

"Where are the Republicans going to get the revenues needed to pay for some of their proposals, like lower basic tax rates? The answer could very well be from benefit plans," said Henry Saveth, a principal with A. Foster Higgins & Co. Inc. in New York.

In addition, when Republicans controlled the Senate, they often were no more sensitive to the administrative problems that benefits legislation imposes on employers than Democrats have been recently.

Republicans did not, for example, stand in the way of passing COBRA—the massive law that requires employers to extend health care coverage to former employees and their dependents—as it worked its way through Congress in 1985 and early 1986.

Still, the big Republican victory last week may have positive implications for employers and their benefit plans.

The new chairwoman of a key congressional committee with jurisdiction over employee benefit legislation is considered both knowledgeable on benefit issues and sympathetic to employer concerns.

Sen. Nancy Kassebaum, R-Kan., expected to be the next chairwoman of the Labor and Human Resources Committee, last year forced Sen. Howard Metzenbaum, D-Ohio, to withdraw a proposal that would have exposed benefit plan advisers and others to punitive damage awards.

In addition, a proposal to allow benefit plan participants to sue their employers for punitive damages, a measure advanced exclusively by congressional Democrats, is dead for at least the next two years.

Republican control of Congress also means no serious consideration of comprehensive health care reform legislation for at least the next two years.

With hardly an exception, Republicans this year united against the central elements of health care reform legislation including an employer mandate, federal health care cost controls and an expanded federal Medicare program for the uninsured.

With Republicans in the majority next year and controlling all committees, it is unlikely that the Clinton administration or congressional Democrats will make a serious effort to push comprehensive proposals.

Even if President Clinton pushed for comprehensive health care legislation, it is questionable how many congressional Democrats would support him.

"Surviving Democrats may feel Clinton is a liability. They are not likely to want to follow in his trail," said Frank McArdle, a consultant with Hewitt Associates L.L.C. in Washington.

Another reason that Democrats may be reluctant to push for anything close to comprehensive health care reform legislation is the fate of Sen. Harris Wofford, D-Pa.

Sen. Wofford was elected in 1991 at least in part because of his early advocacy of sweeping health care reform legislation. His election then was interpreted as a symbol of public demand for health care reform. Last week, though, Sen. Wofford was defeated by Rep. Rick Santorum, a two-term, conservative Pennsylvania congressman who opposes an expansive government role in the health care delivery system.

While comprehensive health care reform legislation is dead, the outlook for less expansive health care proposals is harder to predict.

For the last two sessions, congressional partisanship has prevented enactment of so-called incremental reform proposals, which would have curbed pre-existing medical condition exclusions and long waiting periods for coverage.

Despite broad support for such reforms, congressional Democratic leaders blocked such a proposal in 1992, a move aimed at hurting President Bush. This year, Republicans stood in the way of incremental reform to prevent President Clinton from claiming any credit.

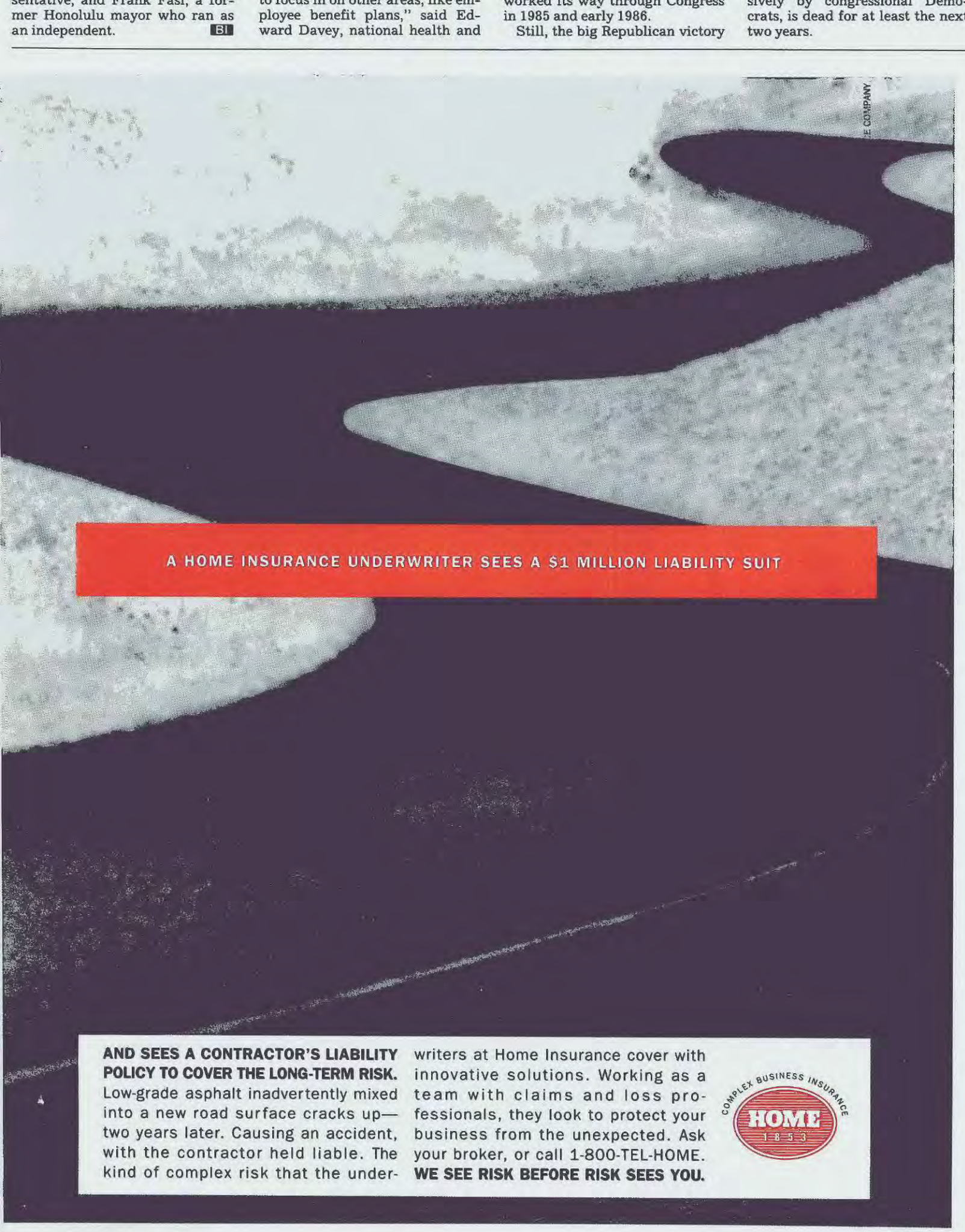
It isn't clear yet if Republicans and Democrats will be better able next year to work together to pass an incremental bill.

"There could be congressional gridlock," said Stuart Brahs, vp-federal government relations at The Principal Financial Group in Washington.

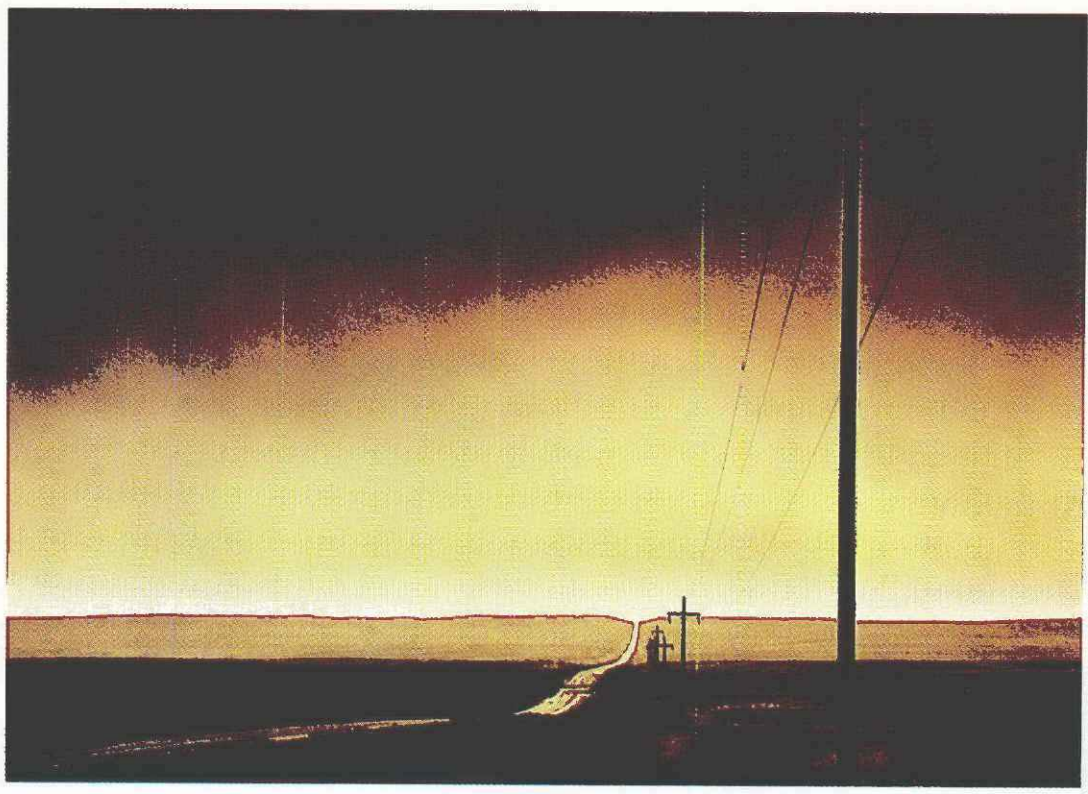
Also murky is the fate of proposals certain to be made next year to waive pre-emption provisions in the Employee Retirement Income Security Act of 1974 that bar states from passing their own health care reform plans.

Republicans, because they tend to be states-rights oriented, might be sympathetic to proposals like ERISA waivers to allow states to enact their own reforms, noted James Klein, executive director of the Assn. of Private Pension and Welfare Plans in Washington.

But many Republicans campaigned on platforms of reducing government interference, which may make them reluctant to embrace any ERISA waivers that would burden employers operating in several states, consultants say. BI



Global
Just make
know



ATLANTA BOSTON CHARLOTTE CHICAGO COLUMBUS DALLAS DENVER DETROIT HARTFORD IRVINE KANSAS CITY LOS ANGELES

is fine.
Sure You
Oklahoma.

Global is good. If it includes local. ERC does. Autonomous decision-makers act quickly in your area, wherever in the world that might be. Solid, substantial, quick. If you want more, just ask. Call 1-800-255-6931.

EMPLOYERS REINSURANCE CORPORATION



5200 METCALF, OVERLAND PARK, KS 66201 USA
A SUBSIDIARY OF GENERAL ELECTRIC CAPITAL SERVICES

NEW YORK PHILADELPHIA SAN FRANCISCO TORONTO CHELTENHAM COPENHAGEN LONDON MADRID MUNICH PARIS SINGAPORE TURIN



IT'S LIKE LIFE INSURANCE FOR YOUR PROPERTY INSURANCE COMPANY.

Blowing through your cat cover can kill your company. That's no great secret.

But not carrying enough coverage can affect your rating and even depress the price of your stock.

Even if we don't have the record-breaking catastrophes that we've seen in recent years, exposure to excessive volatility is damaging to your marketing and planning efforts and a threat to your balance sheet.

It may be your worst nightmare...but it's our business. We maintain large, liquid capital resources to help us absorb extreme volatility.

Put our property catastrophe capacity and expertise to use and keep your own company alive and well.

TempestRe

THE MONO LINE CAT RESOURCE

©1994 TRCL

Tempest Reinsurance Company, Limited, 14 Par-la-ville Road, Hamilton, HM08, Bermuda. Mailing address: Suite #653, 48 Par-la-ville Road, Hamilton, HM11, Bermuda
Phone 809 292 2603 Fax 809 292 2395

GLOBAL FOCUS

A special section sent exclusively to readers outside the U.S.

SAFETY AND LOSS CONTROL

Risk management has key role in Berlin's construction boom

By DON LEWIS KIRK

BERLIN—In the wake of German reunification, Berlin is moving quickly to remove architectural scars left by 45 years as a divided city.

The monumental rebuilding project under way in Berlin challenges both builders and risk managers to ensure worker safety.

By 1999, the German government seat will move to Berlin from Bonn. By then, more than 6 million square meters of space will be constructed at a cost well in excess of 15 billion deutsche marks ($9.89 billion). The amount of earth moved will exceed that moved in the construction of the tunnel under the English Channel.

Within five short years, government buildings, embassies, underground car and train tunnels, a central train station and a giant office complex will be built around the Brandenburg Gate. Where the Wall once stood, construction workers are building the most complex construction projects in Berlin's history: The new government and business quarter alone is expected to cost more than 10 billion deutsche marks ($6.59 billion). The project will include remodeling of the Parliament building, the Reichstag.

At least 300,000 new workers are needed to complete construction of the new government and business quarter, estimated Horst Mueller, director of Bauberufsgenossenschaft, a German construction trade cooperative that implements safety controls at Berlin construction sites.

"Safety has to be built into any project," he said. "Good coordination is the key to fewer accidents." In the next five years, Mr. Mueller and his staff will play a key role in safety at government and private construction sites in Berlin.



Photo by Hans Wolf/Image Bank

Berlin's Brandenburg Gate is in the center of a construction project that will make the city Germany's capital in 1999.

Exceptional safety procedures will be required at several Berlin projects, including a 4.5 billion deutsche mark ($2.97 billion) railway tunnel project under Berlin's Spree River, where construction workers will be going to extraordinary lengths to excavate underwater. Engineers say special measures are required because any lowering of the water table in the area could cause old buildings in the vicinity to collapse.

To trap ground water and divert the Spree, engineers will build several kilometers of 14-foot concrete retaining walls to essentially form a ground water lake. Floating excavation equipment will then dig out 13 different sites in the riverbed. Workers in diving bells will pour the concrete foundation underwater through a series of tubes. After the tunnel floor is laid, the water will be pumped out to allow the remaining construction of the rail tunnels.

"Safety is a high priority," says Wolfgang Mueller, safety planning director of rail and road projects in Berlin. "The company awarded the contract will get it because it provides a safety concept to meet our demands."

Beyond normal civil engineering safety procedures, Mr. Mueller said the contractor must come up with an exceptional emergency plan for flooding.

"The complexity of construction at the site requires an extremely deep pit," Mr. Mueller said. "We're below the ground water level and there's danger of a breach in walls when the water's pumped out, he said.

"Should the fundament leak, safety procedures must provide for a quick reaction. Water must be diverted or the whole pit flooded to avoid a break in the foundation."

Mr. Mueller admits pit dimensions are so enormous that it will be no easy task and safety procedures unique to the project must be developed.

By 1997, the city of Berlin and the German railway authority plan to connect the tunnel with a new multilevel underground train station, a new subway and an underground roadway.

Safety procedures call for escape exits every 300 meters along the train tunnel and in the new central train station. The tunnel under the 60-meter wide river will be 3½ kilometers long. "Should trains collide, we want the entire train station empty in three minutes. That's the regulation."

Where the Wall once stood, construction workers are building the most complex construction projects in Berlin's history.

The project's magnitude requires extensive coordination, said risk and safety manager Horst Wesseling, safety and health coordinator of Berlin's most prestigious project, a multibillion-dollar office complex at Potsdamer Platz.

Before World War II, Potsdamer Platz was Europe's busiest intersection. It become a no man's land when the Berlin Wall was built. The empty land at the heart of Berlin is now a huge excavation site.

"One of the major problems is logistics. Different contractors must work together and not endanger each other," he said.

Mr. Wesseling strives to coordinate the risks of building projects, to ensure that no more than one dangerous procedure is taking place at any one time. To avoid this, he may suggest alternative building procedures or measures to shield construction workers from potential injury. "In extreme cases, we'll build a shield to separate workers."

German safety regulations mandate that contractors employ at least one safety engineer, who in turn is policed by the cooperative safety control authority.

"Employees must work without danger of mishap," said Bauberufsgenossenschaft's Mr. Mueller. "The problem occurs with unusual engineering feats, like the tunnel."

Less than 30 meters away from the Spree, construction workers recently laid the cornerstone for Berlin's most prestigious project—a multibillion-dollar, 225-foot office tower complex at Potsdamer Platz.

Other office projects in the vicinity include automobile manufacturer Daimler-Benz A.G., which by 1998 plans to build an complex for its financial services subsidiary, known as "debis." Other multinational companies, including Sony Corp. and Swedish-Swiss multinational Asea Brown Boveri AB, will launch similar projects at Potsdamer Platz.

Daimler-Benz alone plans a 178,000-square-meter complex with offices and apartments, a gambling casino, a music hall and a movie house at a cost of 3.7 billion deutsche marks ($2.44 billion).

Mr. Wesseling, who is safety coordinator for the Potsdamer Platz projects, said safety procedures are often established by comparing construction plans and simulating work conditions.

"We determine the safest position for the cranes that way," he said. "If problems are targeted in planning, we are better prepared for them."

Under new European Union directives, German clients that commission a building would share responsibility for worker safety with the contractor and must hire a so-called employee safety and health coordinator, in addition to the safety engineer.

While Germany has yet to make E.U. worker safety directives law, some companies, like Daimler-Benz, adhere to E.U. regulations. "It's proven very effective," said Mr. Wesseling. "There have been

Continued on page G4

IN THIS ISSUE

SCANDINAVIA Denmark and Sweden plan project to link their coasts.....Page G2

SINGAPORE Safety is a priority in extension of Singapore's mass transit system .....Page G6

BANKING WOES U.K. bankers assess their environmental liabilities when borrowers default ..... Page G6

DOCKLANDS A U.K. project stresses safety..... Page G10

GLOBAL FOCUS

Scandinavia's Oresund project tests engineers, insurers

Environmental risk management a key concern of project to link Sweden and Denmark

By MARIA KIELMAS

Regarded in insurance and engineering circles as probably the last major infrastructure project in Scandinavia, the Oresund project—a bridge and tunnel link between Sweden and Denmark—has stringent environmental and safety management protocols.

"This is one of the most risk-managed risks which has ever taken place," said Peter Jones, technical director at Jardine Construction Services, a division of London-based broker JIB Group P.L.C., which serves as risk manager and broker for the project.

"This is the Nobel Prize for insurance," said Bjorn Johansson, managing director of Stockholm-based broker Svenska IndustriForsakringar A.B., which is the co-broker to the multibillion-dollar project in Sweden.

The project's design and construction is the responsibility of A/S Oresundkonsortiet, a company owned equally by the governments of Sweden and Denmark. Road and rail links between the land system and the bridge and tunnel system in both countries will be the responsibility of A/S Oresundforbindelsen in Denmark and Svenska-Danska Broforbindelsen A.B. (SVEDAB) in Sweden. Both are state-owned entities.

Because of the sensitivity of the project, the Oresundkonsortiet decided on a "wrap-up" insurance program that will cover all contractors and subcontractors.

"The owners want to ensure that they know what insurance has been arranged and if the security is adequate," said Mr. Jones, who declined to identify the project's underwriters or coverage limits.

Contractors and subcontractors are obliged to maintain third-party liability coverage for themselves with at least 20 million Danish kroner ($3.4 million) in limits. Each contractor's existing insurance would likely already include this risk, noted Jardine's Mr. Jones.

The project's main insurance program consists of contractors all-risk and public liability coverage placed in international insurance markets.

Earlier this month, specifications were issued for potential bidders for the first phase of the Oresund project's bridge and tunnel link between Sweden and Denmark.

The start of the project so far has been delayed for six months because of political wrangles in Sweden about its environmental impact.

It has been three years since Denmark and Sweden agreed to construct a fixed link across the Oresund Strait, a narrow channel between the Kattegat strait and the Baltic Sea.

The goal of the project was to improve road and rail transport between the two countries.

For Denmark it is part of a larger plan of bridge and tunnel-building that will first link the Danish islands and then create fixed links with Sweden and Germany.

As befitting a project of such scope, the costs are huge.

In 1990, the land-to-land link was projected to cost 12.2 billion Danish kroner ($2.05 billion at current exchange rates) and the additional construction needed on the Danish side another 5 billion Danish kroner ($840 million). No estimates are available yet on proposed construction on the Swedish side that would extend the road and rail link via a tunnel to the southern Swedish town of Malmo. A further 800,000 Danish kroner ($134,720) has been added as extra expenditure to protect the environment during construction.

Mr. Johansson projects that total costs will rise another 1 billion to 2 billion Danish kroner ($168.4 million to $336.8 million) on either side of the link before the project is completed.

Feasibility studies on the project began shortly after the 1991 binational agreement.

Swedish brokerage Svenska IndustriForsakringar did one study. It also invited Jardine into the project and jointly they participated in bidding for the project's risk management services.

"It was a beauty parade," recalls Mr. Johansson, who leads the marine, non-marine and credit insurance specialty brokerage.

After their bid was accepted, Mr. Johansson gathered together personnel from various departments at Jardine with himself heading the team. The group later was based at Jardine Construction Services in London.

Intense political wrangles developed early on in Sweden over the Oresund project, both within the government and at the popular level.

Opponents of the project argued primarily that the link would restrict or possibly even halt the flow of water from the Kattegat into the Baltic Sea.

If this were to happen, they argued, the already highly polluted Baltic would get worse, threatening the marine environment.

But opposition to the project seems to have receded as the Social Democrats, who favor the project, have gained in power since the September elections.

The project received a final go-ahead in July this year after elements of the design were changed to comply with a Swedish court ruling on the maximum water flow disruption that would be allowed in the Oresund Strait. "The biggest problem to date has been the legal problem to get the green light," observed Jardine's Mr. Jones.

"We now consider all of the political problems to be solved," said Ove Michelsen, technical manager at Copenhagen-based Bonnor & Co. A/S, which is co-broker for the Danish side of the project.

The scale of Swedish opposition irritated Danish supporters of the project and also led to modifications of the original design and the imposition of tough design criteria.

The Oresund link will extend about 16 kilometers between Kastrup on the Danish coast and Lernacken on the Swedish coast. The key elements of the link are:

- An artificial peninsula extending 430 meters from the Danish coast at Kastrup.
- Two artificial islands of 4,210 meters from end to end with a 600-meter bridge in the middle connecting the two islands. The islands will have "hammerheads"—convex-shaped land forms at either end—to the east and west to allow the waters of the Drogden and Flinetren channels to pass through with as little resistance as possible.
- An immersed tunnel about 3,750 meters long between the artificial peninsula and the artificial island.
- An elevated bridge of approximately 1 kilometer with a free span of about 490 meters and a maximum clearance height of 57 meters.
- An eastern and western approach bridge to the elevated bridge.

The eastern approach bridge from the Swedish coast to the elevated bridge will be about 3,500 meters and the western approach bridge will be 2,640 meters.

- One toll station located on the Swedish coast at Lernacken.

The bridges will be two-deck structures, with a motorway on the top deck and a railway on the lower deck.

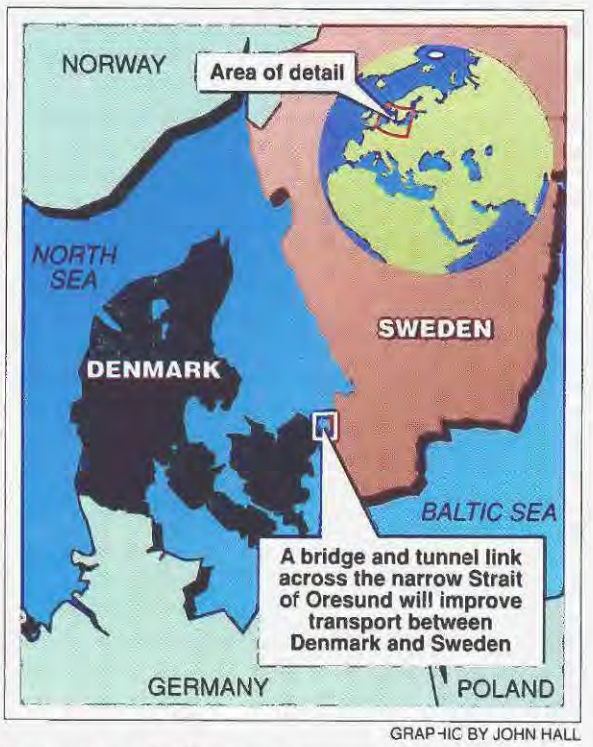
The immersed tunnels will be made of concrete and laid in dredged channels. They will consist of four tubes, two for road traffic and two for rail, and one central gallery.

The dredging for the channels required for the immersed tunnels is the fundamental environmental issue raised by the project, said Mr. Jones. "The tunnel will have to be cut out enough so that there is no narrowing effect on the water flow."

The Oresundkonsortiet has agreed to two conditions:

- The fixed link may not cause any change in the physical/chemical marine environment and thereby in the marine environment of the Baltic.
- No long-term conditions detrimental to the environment will result from the fixed link. Short-term effects will be accepted around the construction and excavation area. And, permanent effects arising from the expropriation of areas for the artificial peninsula and islands, and for the bridge piers, will be accepted, as well as local changes in water currents caused by the permanent structures.

The objective is to reach a so-called "zero-solution" for water flow to and from the Baltic and through the Oresund Strait. Sweden's Water Rights Court a year ago ruled that the fixed link could only disrupt water flow through the straits by 1%. The Oresundkonsortiet decided on a more stringent limit and lowered this to 0.5%. If the water flow disruption exceeds this limit, penalties will be assessed and further dredging will be done to compensate.



GRAPHIC BY JOHN HALL

For Denmark, it's part of a larger plan. . .first to link the Danish islands and then to build fixed links with Sweden and Germany.

About 30% of the water transfer in the Baltic takes place through the Oresund with the remainder going through waterways between the Danish islands known as the Great Belt and the Little Belt.

Construction specifications for the project went out to potential bidders earlier this month.

When stacked, the documents reached several meters in height but Oresundkonsortiet overcame this problem by issuing the documents on CD-ROM. Contractors will have only five to six months to put together their bids.

"This is a very tight process with a view to starting work on July 1, 1995," said Mr. Jones.

Because dredging is the most environmentally sensitive of the operations in the link, the contractors will be working under very strict conditions.

Spillage will be limited to 5% of the material dredged up, after which penalties will be assessed. Contractors are obliged to formulate a plan to work throughout any severe winter, which occurs in the area every five years or so, said Mr. Jones. "They have to make sure that the downtime is minimized."

The deepest excavation will be the trench for the immersed tunnel, which will extend down to hard layers of the "Copenhagen Limestone," the deeper parts of which may have to be loosened by dynamiting before excavation. This same limestone forms a reservoir for the giant Ekofisk gas field in the North Sea. Petroleum engineers who have worked on Ekofisk note that this rock is very moldable and could cause enormous problems for attempts to tunnel through it.

Mr. Johansson acknowledged this but said the Oresund link avoids such tunneling.

He also noted that since there is no tunneling of that type, the project will avoid the huge problems faced by the Storbaelt project, which is an entirely Danish undertaking to build a fixed link between the Danish islands of Zeeland and Funen.

Bonnor & Co.'s Mr. Michelsen, who is also broker to one of the contractors on the Storbaelt project, said the Storbaelt operation has been delayed over two years because of tunneling problems.

"The tunnel goes through a layer of silts and marls, making it quite unstable." A fire in the Storbaelt tunnel that occurred in June this year is believed to have been caused by a methane pocket in the sediment.

Such gas pockets are common in the kind of glacial sediments that were being tunneled through but in this case the fire severely damaged the tunnel bores by melting the concrete tunnel lining. Further damage was caused by water ingress into the tunnel bore.

Mr. Michelsen said that the total insurance loss for the fire has not yet been estimated, but engineers were only allowed into the damaged area in early November.

The Oresund brokers said there is little comparison between the Oresund and Storbaelt projects because the Oresund link will not be working through unforeseen ground conditions. Mr. Johansson noted that the Oresund project will use only well-known techniques.

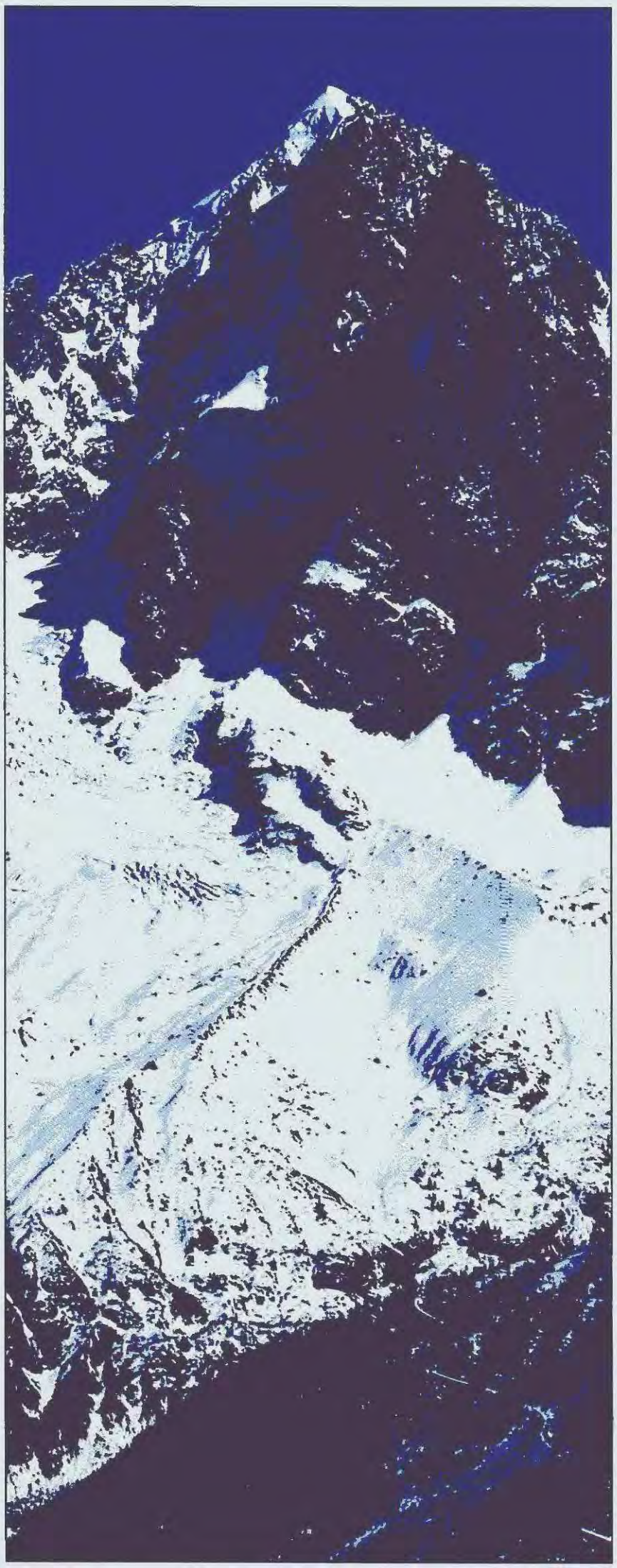
Even the artificial islands and their "hammerhead" extremities are tried-and-tested techniques, said Mr. Jones.

The locations of the islands were decided as a way to maintain the current water flow and to protect areas of fauna breeding. To date, the project is only expected to affect some mussel-breeding areas that are located in an area planned for the artificial peninsula. "The mussel banks will move one or two kilometers," Mr. Johansson said.

But human beings still pose the greatest risk. "The greatest loss potential is always the human element, and things do go wrong," said Mr. Jones.

Mr. Johansson said that there are some major exposures in constructing the high pylons for the various bridges. Each pylon will extend to a height of 200 meters above the sea surface.

"Even though we have a very skilled workforce, this is still a high risk," Mr. Johansson observed. "The biggest losses could happen on the personal accident side." BI



PEAK PERFORMANCE FROM ONE OF THE WORLD'S LEADING INSURERS

ACE is one of the world's leading high excess liability underwriters, providing Excess Liability and Directors & Officers Liability insurance to major Industrial Corporations, Service Corporations and Financial Institutions throughout the world. ACE also offers satellite insurance for launch and in-orbit operations.

ACE Limited underwrites through its wholly owned subsidiaries, A.C.E. Insurance Company Ltd, and Corporate Officers & Directors Assurance Ltd., and conducts operations through brokers from its principal office in Bermuda. Policies are written in all major currencies.

ACE LIMITED

Assets approximately U.S. $2.5 Billion.
Shareholders' Equity approximately
U.S. $1 Billion as at June 30, 1994

THE ACE BUILDING, 30 WOODBOURNE AVENUE, P.O. BOX HM 1015, HAMILTON HM DX, BERMUDA. TEL: (809)295-5200, FAX: (809)295-5221

GLOBAL FOCUS

Berlin

Continued from page G1

no accidents."

Should accidents occur, Mr. Wesseling keeps a computerized diary, which helps him identify loss trends and the cause of problems.

Jauch & Huebener KGaA, Germany's largest insurance broker, coordinates coverage for Sony's European operations and provides loss control services. The brokerage is seeking bids for Sony's construction all-risk insurance and is prepared to provide property loss control services right from the planning stage.

"Safety regulations have an effect on cost, which we try to contain," said Karl Friedrich Korfmacher, Jauch & Huebener's loss control manager.

"We are dealing with high public access buildings, where fire protection is essential," he said. "That is where we come in. We're helping Sony make decisions about safety technology, which will minimize costs."

A decision about where and how fire protection should be implemented is an investment decision that pays off, said Mr. Korfmacher.

Like Daimler-Benz, Sony's multibillion deutsche mark project will also be a mixed-use complex, including a hotel and music hall, both of which will require complete property/casualty insurance coverage.

According to Mr. Korfmacher, even the best loss control programs cannot eliminate all risks.

"A risk manager can't do much to stop an arsonist. For that reason, insurance is essential. What we can do is make sure fire is detected immediately and put out," he said.

In the construction and operation phase, Mr. Korfmacher said the risk manager is the key to lower premiums and loss control. "The risk manager keeps premiums down and avoids a loss of production, which is important for major corporations like Sony. A loss in production can mean more to a company than the damage to property. Even the best insurance can't replace what companies sometimes lose in research and development time," he said.

The insured sums of projects like Daimler-Benz's and Sony's cover a maximum possible loss of between 2 billion and 3 billion deutsche marks ($1.3 billion and $1.98 billion).

In Daimler-Benz's case, a construction all-risk policy covers third-party liability for property and personal damage, fire, flooding and even earthquake. Insurance covers a probable maximum loss in excess of $1 billion.

Risk managers in Berlin must contend with more than the usual safety concerns. Under pressure to finish by 1998, builders are battling forces that could turn Europe's largest construction project into a hazard zone.

"With so much building going on, safety and loss control are key issues," observed Bauberufsgenossenschaft's Mr. Mueller. "Only the best planning hinders more accidents."

In Berlin, builders must meet strict safety and security codes during construction. So-called "Unfallverhuettungsvorschriften" regulate everything from clothing to work methods on these projects.

But even with the best safety codes, Mr. Mueller admitted the sheer number of projects overwhelms his control authority.

Under pressure to finish by 1998, builders are battling forces that could turn Europe's largest construction project into a hazard zone.

Last year, 18 workers died at Berlin construction sites—three times as many in 1991. The death toll is expected to rise again this year, which has already seen 17 workers killed. None of these fatalities occurred at the Potsdamer Platz projects or the tunnel project. In 1992, there were 10 deaths.

Builders have paid fines of up to 20,000 deutsche marks ($13,192) for each worker death that is investigated, said Joachem Tichert, administrator of the Landesamtfuer Arbeitsschutz, an authority with responsibility for enforcement of laws governing health and safety and work conditions in Berlin. Builders may also face prison sentences if their negligence is found to have caused a worker's death.

"We believe contractors are pushing ahead too fast," Mr. Tichert said. "Regulations are not being adhered to and we think it's the pressure to complete deadlines that is causing accidents."

In August, four construction workers were killed when a World War II bomb they unearthed exploded. One company involved in the construction project has been charged with manslaughter.

"WWII munitions is just one of the risks workers in Berlin confront," said Mr. Mueller. "Safety procedures call for the earth to be scanned by metal detectors and in some cases excavation equipment has been modified with bullet-proof glass to protect workers. But we're afraid contractors may get lax under deadline pressure."

The job of loss control is made somewhat easier in Germany by mandatory trade cooperatives. Builders must join these co-ops, which implement strict safety controls and provide insurance using rates that reward good loss records.

By controlling both safety standards and insurance, building trade co-ops achieve some of the lowest insurance rates and highest safety standards in Europe.

That has not changed after reunification. "Most building safety codes that exist in West Germany were used by East Germany long before reunification," said Mr. Mueller.

In fact, East German safety codes were often better. "For example, if someone used an open flame to tar a roof, it required a special permit that we don't require," he said.

Mr. Mueller conjectured that a fire on Oct. 25, which destroyed a section of Berlin's largest cathedral, might have been avoided under East German regulations. The workers were tarring a roof when the fire started.

If regulations are the same, building methods are quite different, said Hans Peter Ibing, safety manager of Hannover Sicherheitstechnik, a subsidiary of German commercial insurer HDI Haftpflichtverband der Deutschen Industrie VaG.

"The use of lighter materials in West Germany, like plastic, actually increases the danger of fire in new buildings," said Mr. Ibing. "Building materials are often more expensive. As a result, a fire is more costly when it occurs."

With so many international workers on the job, Mr. Mueller said one problem is language. "We have workers from all over Europe. At a recent fire drill, we had a real problem getting people to go the right direction, because they didn't understand German," he said. "As a result, foreign contractors are required to have interpreters."

None of the major projects in Berlin has reported claims to date. According to Mr. Mueller, that's a good sign. But, projects are very new, very large and his team is very small in comparison. "Loss control must be everyone's effort." BI

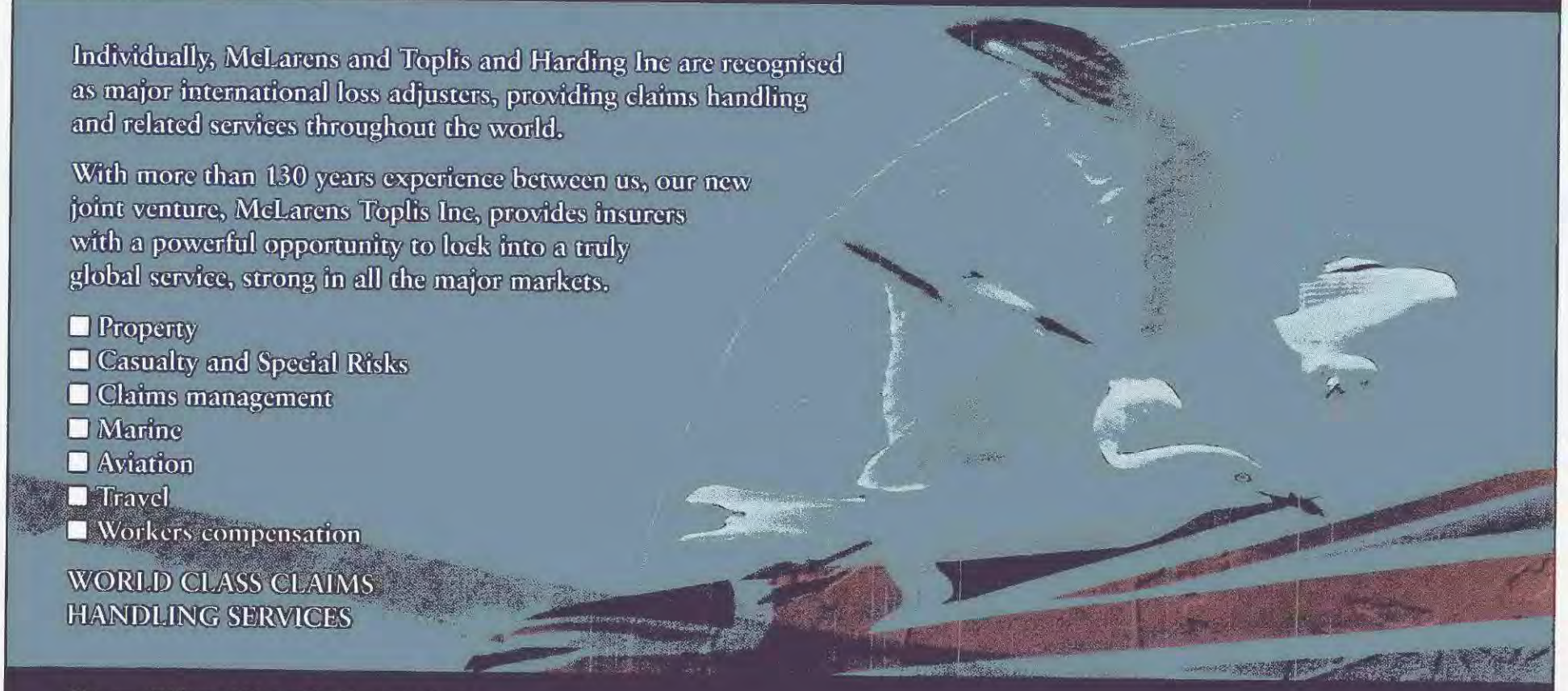
A new union to serve the global insurance market

Individually, McLarens and Toplis and Harding Inc are recognised as major international loss adjusters, providing claims handling and related services throughout the world.

With more than 130 years experience between us, our new joint venture, McLarens Toplis Inc, provides insurers with a powerful opportunity to lock into a truly global service, strong in all the major markets.

- Property
- Casualty and Special Risks
- Claims management
- Marine
- Aviation
- Travel
- Workers compensation

WORLD CLASS CLAIMS HANDLING SERVICES



Chicago Office: 222 South Riverside Plaza, Suite 730, Chicago Illinois 60606 Telephone: 312-648-1300

London Office: 4 New Street London EC2M 4TP Telephone: 071-929 2600

McLARENS TOPLIS INC

A JOINT VENTURE BETWEEN McLARENS INTERNATIONAL GROUP AND TOPLIS AND HARDING, INC - NORTH AMERICA

The Sky Shouldn't Be The Limit On Healthcare Claims

USA Medical Services offers a simple solution both health insurers and policyholders can live with.

If you do business in Latin America or the Caribbean our unique program can help you place a cap on today's sky-high healthcare expenses by avoiding unnecessary treatment, identifying fraud and establishing set prices for U.S. hospital care. And we do it all on a performance guarantee principle; if we don't save you money on claims... *we don't make a dime.*

USA Medical Services provides worldwide 24 hour medical assistance and referrals through a network of physicians and hospital facilities instantly available to your policyholders.

We monitor hospitalization expenses and avoid unnecessary charges. All claims are filed directly with USA Medical Services through which we are able to pass a 15% to 50% savings directly to you.

Call your USA Medical Services representative at (305) 666-1222 to learn how your company can start saving money before, during and after every claim is made.

U S A
Medical
Services

"When every second of your life counts"

GLOBAL FOCUS

Where a good safety record is just not good enough

Singapore railway officials look to best earlier marks

By KATE TILLEY

SINGAPORE—Now entering the third phase of construction on a $5 billion Singapore ($3.4 billion) electric commuter railroad, Singapore's safety-conscious Mass Rapid Transport Corp. aims to better its safety record from the first two phases.

Even before new safety regulations took effect in the city-state on Oct. 1, the government body had set up its own, stricter, procedures for the current project—the $1 billion Singapore ($608.3 million) Woodlands extension. The 16-kilometer extension is due to be completed in 1996.

Safety has to be a major consideration for the body, explained Chan Seck Cheng, the MRTC manager whose duties include insurance and risk management. Feasibility studies are now under way for future rail links and the government will only approve the projects if it is convinced that safety is of paramount concern to the people in charge.

The MRTC is responsible both for building the network and for monitoring Singapore MRT Ltd., the private company that actually operates the rail network under government license.

Construction of the MRT—which is Singapore's first commuter rail network apart from a train line to Malaysia—began in 1983. The government-funded project first involved construction of a railway with two main lines, running east-west and north-south (*BI*, Nov. 14, 1988).

Each day, the system carries 700,000 passengers, sometimes up to 1,400 on one of its 66 six-car trains. Its 42 train stations—15 underground, 26 overhead and one at ground level—are spaced along 67 kilometers of track, about 30% of which is underground.

Although the MRTC's safety record while building the initial rail lines was good, it tightened up its standards on the Woodlands project, which employs 3,000 workers.

"MRTC management, headed by Chairman B.G. Wesley D'Aranjo, has made safety a priority and a good safety record is ranked as an equally important achievement as a successful, timely completion within the budget," Ms. Chan said.

She added that many of the changes in workplace safety standards required under new government rules have already been made at the MRTC. The body strictly evaluates contractors based on safety records, expertise, experience, resources and financial strength.

Singapore's new rules, officially known as the Factories (Building Operations and Works of Engineering Construction) Amendment Regulations 1994, apply to all contractors and are designed to cut down on construction site injuries. Under the new rules, contractors must perform overall safety management audits and independent audits of specific projects, depending on the size of the contract.

When it is completed, the Woodlands rail extension will connect an offshoot of Singapore's east-west line with the last station on the north-south line to form a loop.

An underground section of the Woodlands line is being built on a "cut and cover" basis because it is in an open area. This means that ditches can be dug and rails placed in them, which avoids more hazardous tunneling. The basic structures for the rail line have been built and the MRTC's contractors are now doing track work and electrical and mechanical installations.

More than 30 contractors are working on the project, which includes six new elevated stations and upgrades on three existing ones. When the line is finished, another 19 trains will be added to the network.

All of those contractors are required under the new rules to have a full-time safety supervisor and a safety committee, chaired by the project manager. MRTC construction managers sit in at the contractors' safety committee meetings, said Ms. Chan.

Auditing the safety programs at each of the contractors is EQE International Ltd., a San Francisco-based property loss control engineering firm chosen in part for its experience in oil refinery construction safety.

"They tendered for the job. They weren't the cheapest but have a formal safety rating system for contractors," Ms. Chan said. EQE's contract is worth about $200,000 Singapore ($136,060) a year.

Two people were killed during the construction, one in 1993 and one this year. Both died in crane accidents. Following the deaths, the accidents were analyzed and safety measures for cranes were intensified. A professional mechanical engineer must now check cranes to ensure they are safe for use.

"We take accidents very seriously, learn lessons from them and look for ways to improve," Ms. Chan said. "Our target is nil accidents."

Eventually, lessons learned on the Woodlands rail extension may be put to use on a proposed north-east line, which would extend from the Singapore marina toward Serangoon Road. Much of that line is underground and therefore much riskier to build.

After a feasibility study is done at that line early next year, the proposal will go the government for approval. Ms. Chan said she hopes construction on that line will start in early 1996, once the Woodlands extension is finished.

The MRTC buys builders' risk, third-party liability, workers compensation and marine cargo coverage in wrap-up policies that cover all contractors and subcontractors. This year, its premiums were $4 million Singapore ($2.7 million).

Sedgwick Asia Pacific Ltd. places the builders' risk and third-party coverages, which are led by the Insurance Corp. of Singapore. The reinsurance is placed in the international markets.

Initially, Sedgwick placed all coverage for the MRTC project. But, for the Woodlands extension, the workers compensation and marine cargo coverages were placed in the local Singapore market by the MRTC's Risk Management and Insurance Unit, which Ms. Chan heads. The workers comp coverage is led by Singapore-based Cosmic Insurance Corp. Ltd. The reinsurance is placed in the Singapore market.

Ms. Chan said buying wrap-up policies, rather than having individual contractors seek their own covers, means broader cover is available, and pricing is more competitive because of the volume. Broader cover is more important than price, she added. "Price is important, but cover and price must go together."

MRTC considered the financial situations of its insurers and reinsurers carefully, and found them all to be secure.

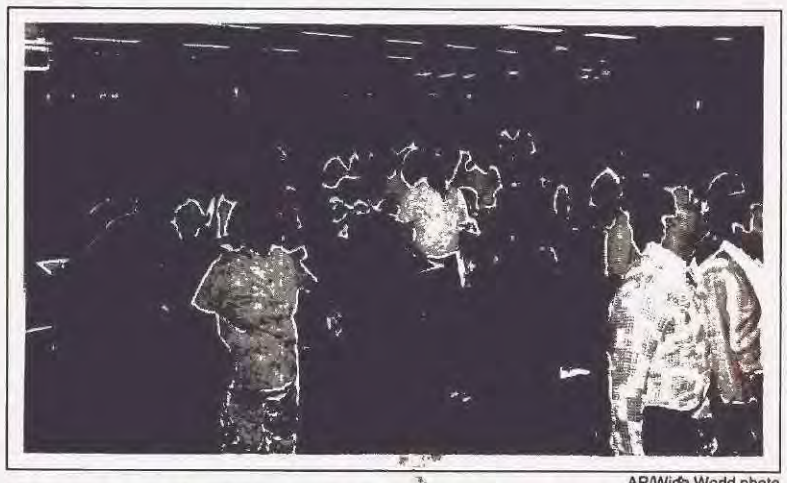
So far, the Woodlands extension construction project has produced only two property damage claims and neither was serious, Ms. Chan said. The loss experience on the other two stages was not as good, though they were more hazardous since tunneling was involved, she said.

MRTC enjoyed solid support from insurers and reinsurers because of its reputation, she said. "They carry the financial loss, but we carry the political and social loss and that's more important. Those costs are (potentially) very high for a government organization." Government bodies have a higher social responsibility than private firms, she said.

An important consideration is making sure coverages are fulfilling the needs of the corporation and its contractors. "Insurance must respond to our needs, not the other way around," she said. "Insurance cannot dictate construction needs; it must solve construction needs."

Ms. Chan said management support for the risk management and loss control programs has assisted the project's success.

Ms. Chan joined the MRTC at the outset of the project in 1983. She previously worked at Singapore Airlines Ltd., where she established the in-house risk management department. BI



AP/Wide World photo

Singaporeans go through turnstiles at Toa Payon Station of Singapore's new rail line during a training session.

U.K. banks complain of cleanup liability

New risk management tools used in face of tougher laws, more suits

By ADRIAN LADBURY

LONDON—A fast changing regulatory and legal scene is forcing British banks to rapidly upgrade their protection against pollution liability.

Regulatory standards and U.K. and European pollution laws are getting tougher. More than ever before, individuals and interest groups are willing, and able, to sue. And the U.K. government is determined to use banks in the fight against pollution.

No wonder banks are rethinking the basis on which they make loans. Credit managers used to make net asset value calculations based on just the economic prospects of businesses and the prevailing rate of interest. But now they must also factor in the extent of any contamination at a new site.

When a borrower defaults on a loan and U.K. banks repossess property, U.K. law treats the banks as the owner and, in some cases, operator of the site. Banks can be ordered to clean up contaminated land they possess, even if the cleanup costs far exceed the loan value.

Even if cleanup costs are lower, banks can lose money on such a loan because the value of the land that secures a loan will depreciate. In some cases, the value will have to be written off completely because the land is unsalable.

Environmental liability coverage for individual sites is sold by a small number of specialty insurers. Banks would prefer to buy broader coverage that would cover their entire loan portfolios, but insurers say policies covering so many risks would be difficult to underwrite.

Customized pollution insurance products are available for individual loans and some banks require them on loans that carry intermediate degrees of risk, which fall somewhere between high-risk heavy industry and low-risk residential loans, said Richard Turrin, environmental insurance manager at American International Group Europe in London.

"In the case of the banks which have required this insurance, they have found that the additional cost. . .is not a deterrent to the loan," said Mr. Turrin.

At specialty insurer ECS Underwriting Ltd., so far no policies have been sold at the insistence of lenders, said Tony Lennon, senior underwriter. "But certainly we have a lot of applications and I think there is every indication the banks may change position in the future."

Banks complain that the site-specific coverage currently available is too expensive and, as a result, have been slow to insist that borrowers buy it. The banks argue that added cost could prompt borrowers to go to other banks.

However, in the face of mounting pollution liability exposure, banks are making increased use of the fast-growing band of environmental consultants and specialist risk assessment companies to minimize their risks. They are also training their own staff to spot the problems and some have set up specialist environmental units to assist lending departments with tough decisions.

Not that banks are happy in their new role.

They complain that a shifting regulatory and legal environment makes it difficult for them to identify acceptable standards and manage the risk.

Banks constantly lobby the government for changes in the rules that would remove them from the liability chain. They argue that if liability for cleanup falls in their laps and clear guidelines are not established, many sites will simply be abandoned and investment levels will suffer.

"There is no doubt that there is a time bomb ticking away, and without clarity on the legislative side, we as bankers are forced to act as environmental policemen. I am not comfortable with that. I am a banker, not an environmentalist," John Morton-Smith, property industry adviser at Midland Bank P.L.C., told U.K. risk managers at a recent loss control conference.

But the government has told the banks in no uncertain terms that they cannot expect special treatment. If a bank becomes an owner or operator of polluted property by assuming title on default, it is treated as a responsible party.

"The polluter—the operator of a process, the person who left a polluting mess behind—has a responsibility. So, too, has every landowner. So, too, does a prudent lender," Tim Yeo, who was then environment minister, told the British Bankers Assn. last October.

"Everyone must live up to their responsibilities and not simply turn it all over to government to sort out. You also have responsibilities for including risk assessment in deciding when to lend and for including cover for the risks in managing your portfolios," said Mr. Yeo.

A spokesman for the Department of Environment confirmed last week that the government's policy has not changed

Banks may not even have to actually own or occupy land to be held liable. Lawyers say that current law would potentially permit

Continued on page G8

DID YOU KNOW THAT THE GOVERNING BODY OF A EUROPEAN CORPORATION CAN BE SUED FOR THE DECISIONS IT MAKES? THAT THE PERSONAL ASSETS OF INDIVIDUAL DIRECTORS COULD BE AT RISK?

I think.

Therefore I can be sued.

NATIONAL LEGISLATION, REGULATION, EUROPEAN HARMONIZATION, AND GLOBAL ECONOMIC REALITIES HAVE GREATLY INCREASED THE POSSIBILITY OF LAWSUITS BEING BROUGHT BY SHAREHOLDERS, EMPLOYEES, AND GOVERNMENT AGENCIES AGAINST INDIVIDUAL DIRECTORS AND OFFICERS.

THIS TREND, ALREADY WELL ESTABLISHED IN THE U.S., HAS PROMPTED A JOINT VENTURE BY UNION DES ASSURANCES DE PARIS (UAP) AND EXECUTIVE RE TO PROVIDE DIRECTORS AND OFFICERS (D&O) LIABILITY INSURANCE TO EUROPEAN CORPORATIONS.

UAP'S EXTENSIVE OPERATING NETWORK PLUS EXECUTIVE RE'S UNDERWRITING SKILLS AND ADVANCED TECHNOLOGY SYSTEMS, DEVELOPED IN THE AMERICAN D&O MARKET, MAKE THE NEW VENTURE — UAP EXECUTIVE PARTNERS — UNIQUELY SUPERIOR.

UAP EXECUTIVE PARTNERS IS ABLE TO ADAPT EVERY D&O POLICY TO THE LAWS, CUSTOMS, AND LANGUAGE OF EACH NATION.

ISN'T IT TIME TO THINK ABOUT A EUROPEAN SOLUTION FOR D&O INSURANCE? FOR A COPY OF OUR BROCHURE, POLICY WORDINGS, AND NEWSLETTER, PLEASE CALL YOUR AGENT OR BROKER, OR CONTACT UAP EXECUTIVE PARTNERS,

TÉL: (33.1) 41.25.29.00 FAX: (33.1) 41.25.29.29

UAP EXECUTIVE PARTNERS

IMMEUBLE OPÉRA E, LES COLLINES DE L'ARCHE, 92057 PARIS LA DÉFENSE, CEDEX 24
TÉL: (33.1) 41.25.29.00 FAX: (33.1) 41.25.29.29

GLOBAL FOCUS

U.K. banks

Continued from page G6

a lender to be held liable solely because it could have prevented a borrower from polluting by not making a loan.

For lenders, the liability situation is likely to get worse before it gets better.

The imminent arrival of a limited contingency fee system for personal injury cases in the United Kingdom has been grossly underestimated and will lead to a big increase in environmental litigation, said Martin Edwards, an environmental lawyer at Titmuss Sainer Dechert in London.

Mr. Edwards also said that the prospect of third-party and special interest group actions is now very real and will come sooner than most think. He predicted that the planned European Commission civil liability directive, based on last year's E.U. "Green Paper on Remedying Environmental Damage," will allow for such actions and expects a draft directive to be released in January (*BI*, Oct. 21).

In addition, a recent policy statement, "In Trust for Tomorrow," published by the opposition Labour Party—already favored to win in the next U.K. elections in two years—will not put smiles back on the faces of bankers, said Brian Street, director of operations at ECS Underwriting.

The Labour Party calls for the creation of a tough new regulatory authority with the will and funding to do the cleanup job that current environmental regulators are unable to do. The party also favors retroactive liability with no time limit, pointed out Mr. Street.

In the absence of political and legal support—and with the lenders as yet loathe to transfer the risk by requiring borrowers to purchase the limited insurance coverage available—the banking industry has been forced to extend its loss control and risk assessment techniques to encompass environmental risks.

Mike Pummell, head of risk management at Barclays P.L.C. and chairman of the British Bankers Assn.'s environment committee, said that his and most other British banks have stepped up their environmental risk assessment activity.

"We certainly are improving our environmental controls and risk assessment procedures. For example, we are looking at the impact of changing legislation standards and liabilities on the land as security. This is only one of many risks facing lenders. Environmental risks should not necessarily be No. 1, but they should be one concern. We don't do audits because we are bankers, not environmental consultants," he said.

Bankers generally are not keen to call in independent environmental consultants because the vast majority of lending proposals are too small to merit the cost of external audits. The Bank of England calculates that more than two-thirds of all commercial lending is for amounts of 20,000 pounds ($32,290) or less.

The fact that consultants are also finding it increasingly difficult to locate professional liability coverage without environmental exclusions is also making life more difficult for the banks when choosing an environmental consultant.

However, banks are expected to increase their use of such consultants. Rarely do banks request a full audit, but they do sometimes want less-comprehensive environmental assessments, said Mr. Pummell. Barclays has a short list of environmental consultants it uses when necessary, he said.

Midland's Mr. Morton-Smith pointed out that the number of environmental consultants has mushroomed over the last few years and made quality control difficult. Lack of accreditation and regulation of such consultants is indicative of the wider lack of control and uncertainty facing the banks, he said. "Who is it that is assessing the risk who claims to have experience? There is no form of accreditation," he said.

National Westminster Bank P.L.C. has been among the more active banks in efforts to face up to the threats posed by contaminated land.

The bank set up an environmental management unit in 1990 that educates and advises managers and lenders on how to best cope with the risks and opportunities involved and which reports directly to the chief executive, Derek Wanless.

Mr. Wanless is currently chairman of the U.K. government's Advisory Committee on Business and the Environment, a joint Department of the Environment and Department of Trade and Industry committee that reports industry's views on the environment to the secretary of state for the DOE and the president of the Board of Trade.

In May 1992, NatWest signed and helped draft the "Statement by Banks on Environment and Sustainable Development" at the United Nations in New York, along with four other international banks. Among other things, the statement committed the signatories to "recognize that environmental risks should be part of the normal checklist of risk assessment and management. As part of our credit risk assessment, we recommend, when appropriate, environmental risk assessments."

Hilary Thompson, head of NatWest's environmental unit, predicts that lenders will have to consider environmental risks as a matter of course in the future.

"In practical terms, it is likely that lenders will alter their risk assessment procedures to take account of these issues. It is a matter of good business sense that a lender's practices should include environmental risk considerations and possibly that the pricing practices should be amended to reflect the true risk being carried in their books," wrote Ms. Thompson in a recent NatWest report, "Contaminated Land: Counting the Cost of Our Past."

Despite NatWest's intentions and statements, however, it is no more likely than any of the other U.K. banks to meekly accept liability for the actions of its clients and gladly play the role of policeman.

For the foreseeable future, at least, it appears that pressure on the government and European Union to change policy will be at the top of the bank's list of loss control strategies.

"We strongly believe that it is not, nor should it be, the responsibility of lenders to police, or to try to manage, their customers' businesses. Whilst banks are the providers of finance to business, they are not involved in and do not control the investment decisions made by a business not under its management. A lender's decision to provide funds is based upon a risk assessment of a business' ability to repay such borrowing and not upon the worthiness or otherwise of the investment," NatWest stated in a response to last year's U.K. government review of contaminated land and liability.

The ultimate loss control option open to the banks—an option some banks have threatened to take if the political and legal environment gets too hot—is to stop lending altogether.

"We may be seen as owner and operator under the Environmental Protection Act (1990) and that scares me. The risk is that a situation may develop where business is unfavorable and we cannot lend money," warned Mr. Morton-Smith.

"Lenders and insurers are being deterred from conducting business by the prospect of significant legislative changes. Where contingent liabilities are deemed too great or are indeterminable or open-ended, whether in time or amount, or where the future approach for liability is uncertain, lenders will not lend and this could seriously impair capital flows to certain sectors of industry," according to a February 1993 report by the ACBE. BI

Business Insurance®

presents

GLOBAL FOCUS

Global Focus
will appear six times in 1995
as a regular section
distributed exclusively
to non-U.S. subscribers.
It will address the specific
risk management and
employee benefits concerns
of executives in countries
other than the United States.

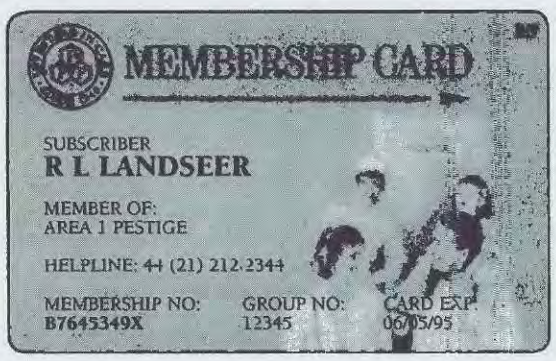
PUBLISHING DATES	AD CLOSING DATES
February 13	February 1
April 10	March 29
May 29	May 17
August 28	August 16
October 2	September 20
November 6	October 25

Contact: Martin J. Ross, Advertising Sales Director, 220 E. 42nd Street, New York, NY 10017 • Phone: 212-210-0228 • Fax: 212-210-0704



Wave goodbye to your clients . . . *and still keep their business.*

A new life abroad for your clients means a new sales opportunity for you - one that will earn commission year after year.



For people living or working abroad, the protection of a quality overseas medical insurance scheme is a necessity, not a luxury. The country in which they will reside may have inadequate state health care facilities and the the cost of private medical treatment may be prohibitively expensive. These negative points provide a very positive **sales opportunity for you.**

Private Patients Plan (PPP), one of the UK's leading medical insurance companies with over 2 million members, provides quality overseas medical insurance through its International Division.

The PPP International Health Plan is a popular choice amongst people living or working overseas for long periods and for companies posting employees abroad. It offers them the security of knowing they can afford the best medical care, should the need arise. And it offers you a convincing sales argument.

So find out how you and your clients can benefit from PPP International Health Plan.

INVESTING IN CARE · SINCE 1940 ·

PPP International

International Healthcare Finance

SEND IN THE COUPON OR PHONE
International Corporate Sales Unit
44 (0) 892 512345

PPP International Corporate Sales Unit, PriPlan House, Tunbridge Wells, Kent, TN1 2PL, England.
Or fax to 44 (0) 892 503329.

I would like details of Plans for individuals. ☐
or of the Corporate Plans - (under 50 people). ☐
(over 50 people). ☐

FORENAMES:

SURNAME:

JOB TITLE:

COMPANY NAME:

ADDRESS:

COUNTRY:

area code number

TEL NO:

FAX NO:

I already sell overseas medical insurance YES ☐ NO ☐

Global Focus

GLOBAL FOCUS

Safety management is part of Docklands infrastructure

By CAROLYN ALDRED

LONDON—Safety is valued highly by the management of London's Docklands, one of the largest urban regeneration projects in Europe.

"Making Docklands a safe and secure place to live, work and visit is of the highest priority," Eric Sorenson, chief executive of the London Docklands Development Corp., wrote in the company's latest annual report.

The LDDC is a government-sponsored corporation set up in 1981 to redevelop 22.1 square kilometers of derelict land around London's former docks along the River Thames. So far, it has acquired 867.2 hectares of urban development land and water and reclaimed 660 hectares of derelict land at a cost of about 128 million pounds ($206.7 million).

With private-sector investment to date of 6 billion pounds ($9.69 billion) and public-sector investment of 1.6 billion pounds ($2.58 billion), the massive redevelopment program has included the construction of a new railway connecting the Docklands with the City of London, the creation of the London City Airport, an international airport with flights to 10 European cities, and the construction or improvement of 97.6 kilometers of roads and highways.

Canary Wharf, a commercial development that is the flagship of the multibillion pound project, has dramatically changed London's landscape. About 396,000 square meters of office space have so far been constructed in the Canary Wharf complex, and the completed 243-meter central tower is Britain's tallest building. Construction of the development began in October 1987 and was completed in November 1990.

During the construction, 5,500 people were employed on site. Though there were some accidents, no deaths or litigation resulted from the injuries. In fact, the safety precautions and record of the contractor, Olympia & York Canary Wharf Ltd., were deemed to be excellent by the government agency responsible for health and safety.

In all, more than 2.2 million square meters of commercial and industrial redevelopment has been completed or is under construction, boosting the number of businesses in the area to 2,500 from 1,000, with 45,000 new jobs created. Tens of thousands of new homes and residents have been added, as well.

The project's scale and diversity mean lots of work for Angela Jenkins, the LDDC's director of safety development. Her responsibilities include the overall safety management of: the corporation's derelict land and buildings; demolition and construction projects; 21 kilometers of highway, including two tunnels for which the LDDC acts as a highway authority; the Docklands Light Railway; and the docks, which are no longer heavily used by ships but remain the heart of the development.

Her key tasks, as set out by the board of the LDDC, are to "ensure that the LDDC's safety policy is implemented effectively and efficiently and to promote a safety culture, raise safety consciousness and spread best safety practice" throughout the company and its subsidiaries.

Since joining the LDDC two years ago from the predecessor of AA Technology Consultancy Services, Ms. Jenkins has been instilling a sense of safety in the company.

"I believe that safety management is the responsibility of every individual and every manager" within the LDDC, said Ms. Jenkins, who has a degree in engineering and science industrial management and a doctorate in the reliability of engineering systems.

"My remit is to create a positive safety culture and to try to raise awareness of safety," she said.

To do that, she conducts regular seminars for LDDC staff to bring them up to date on new safety regulations and how to manage risks. For example, she recently organized seminars on new construction, design and management regulations that the government is expected to pass, which will extend liability to architects and designers of construction projects.

While Ms. Jenkins is responsible for the corporation's safety policy and strategy, she is assisted by resident safety auditor Anne-Marie Ellis and outside safety consultants.

She also is helped by a regard for safety ingrained in the corporation's management.

"LDDC aims for excellence in all safety matters which arise from its actions as the owner and developer of property, highways, waterways, dock estate and a light railway," the LDDC's official Safety Policy states.

According to the policy, LDDC seeks to "achieve its remit of urban regeneration with the highest regard for health, safety and security." It lists its duties and responsibilities as:

- The safety of the general public traveling, visiting, living and working on its property.
- The safety of the general public outside LDDC property who may be affected by LDDC's undertakings.
- The strategic oversight of the management of safety by its subsidiary, DLR Ltd., which is responsible for operating the new light railway.

Among the corporation's goals are:

- Compliance with all current legislation, approved codes of practice and authoritative guidance literature relating to health and safety issues.
- Active cooperation with landowners in the interests of general public safety.
- Achieving the highest reasonably practicable standards of health, safety and welfare for its employees.
- Encouraging its contractors and subsidiaries to promote their employees' health, safety and welfare.

To achieve these aims, staff, consultants and contractors are required to comply with the LDDC Safety Policy, instructions, warning notices and all statutory requirements.

In addition, all LDDC staff, consultants and contractors should know that the primary responsibility for achieving high health and safety standards on a daily basis rests with them, the policy says.

LDDC executives and managers are required to develop, implement and monitor safety management regimes and safety objectives for all their undertakings.

Ms. Jenkins was appointed as director of safety development to advise on the application of best practice in the formation and implementation of safety management programs, to promote and develop a good safety culture and to organize training on safety management for LDDC's staff and consultants.

Implementation of the safety policy is independently monitored and safety management program audits are conducted by the LDDC Safety Audit Committee. LDDC's commitment to safety is evident in the chief executive's remarks in the 1993-1994 Annual Report and Accounts, in which he highlights developments in the LDDC's safety program.

"During the year, we worked with the police, local authorities and local business in planning for all types of emergency. The LDDC also continues to sponsor and promote the education of local children and all water users on safety in and around the docks," Mr. Sorenson wrote.

"There is similarly strong commitment to ensuring the safety of the public on the LDDC's highway network through vigilance and rapid managerial response," he wrote, concluding that "in the area of infrastructure development, preparations are being made to ensure effective implementation of forthcoming safety regulations affecting design and management in the construction industry."

One of the LDDC's most public areas of safety concern in recent years has been security, following an abortive attempt by the Irish Republican Army two years ago to bomb the Canary Wharf tower, the Docklands' most prominent development.

Although the van concealing the IRA bomb was spotted and the bomb detonated by the anti-terrorist police squad, the IRA caused considerable disruption to the businesses operating from the building and achieved widespread publicity.

In fact, the Daily Telegraph, one of Britain's best-selling national daily newspapers and a resident of Canary Wharf, was unable to print its front page the following day because of the disruption to its production schedule.

Security arrangements in the Docklands' business area have been tightened dramatically since the bomb scare, employees in the area note.

Indeed, the security arrangements of the City of London, London's financial district, are among the tightest in the world, following the targeting of London's commercial and business activities by the IRA. In the last few years the area has suffered several bombs, including one that caused hundreds of millions of pounds' worth of damage to buildings near Lloyd's of London's Lime Street headquarters (*BI*, April 20, 1992).

As a result, police operate security checkpoints on all roads leading to the square mile that represents the City of London.

Although the Docklands development is east of the City, the security arrangements are equally stringent because the development is regarded as a high-profile commercial development—a target area of the IRA in recent years.

All entrances to the Canary Wharf development are sealed and visitors and employees in the complex must show identification cards at each separate level of the building, said one employee of the Daily Telegraph.

Bomb squad cars also regularly patrol the area, and police officers, often disguised as window cleaners or office workers, are on site to spot anything suspicious, noted one employee who did not wish to be identified.

Also in the aftermath of the IRA bombing attempt, the LDDC held a conference at Canary Wharf jointly with the Metropolitan Police to advise businesses on how to deal with the dangers of terrorist attacks, said Ms. Jenkins.

Security against possible attacks remains rigid despite the recent ceasefire between the warring factions in Northern Ireland, said Ms. Jenkins.

Another high-profile area of her responsibility is the safety of the Light Docklands Railway.

The first 12 kilometer section of the elevated railway was opened in 1987, but other sections and new stations opened this year.

One fatal accident occurred during the construction of the railway, as well as a handful of less serious accidents. The project was deemed to have a good safety record for a project of its size by the government agency responsible for health and safety.

Despite early operating problems, the railway achieved a 98% reliability rate last year, carrying on average 26,000 passengers every weekday, according to the LDDC. The introduction of a new fleet of trains this year is expected to double the number running on the system at twice the frequency, the corporation predicts.

The most important safety aspect of the railway lies with the automatic signaling system, since the trains operate with no drivers, Ms. Jenkins explained. In fact, the safety approval of the railway took longer than for a conventional railway system because it was the first totally automatic computer controlled railway in the United Kingdom, said a spokeswoman for the government's health and safety agency.

Although DLR Ltd. is responsible for the day-to-day safety management of the network, Ms. Jenkins takes overall responsibility.

Security video monitors operate at every station on the DLR, and on the Docklands Highways, "suitable crossing points are signaled by changes in the pavement surface and pedestrian barriers."

Meanwhile, individual contractors working on LDDC property are each responsible for the safety of their operations, though it is part of Ms. Jenkins' role to ensure all contractors employed meet LDDC safety standards. Every project has an onsite resident consultant engineer who is responsible for monitoring progress and "keeping an eye on safety issues," said Ms. Jenkins.

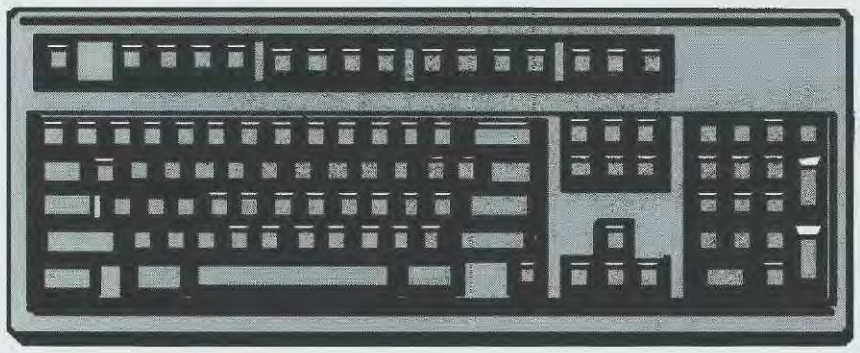
Aside from Canary Wharf, the LDDC has initiated many major construction projects, including: the creation of a mile-long road tunnel, called the Limehouse Link; the Royal Docks, which won a major London planning award; a wide selection of new shopping centers; and two colleges.

The LDDC has an estate maintenance team and a security company that help ensure the safety of its vast areas of derelict land and land in the process of being developed. BI



Photo courtesy London Docklands Develpment Corp.

London's Canary Wharf and Docklands Light Railway.



Corporate buyers are a keystroke away.

BI's Directory of U.S.-Based Corporate Buyers of Insurance, Benefit Plans and Risk Management Services, published for 12 years in a printed volume, now is available in an electronic edition for IBM-PC and compatible computer users. Now, you can print your own labels or reports in a variety of formats with the touch of a key.

The new **BID Software** is a self-contained program ... just load it in and put it to work. Each alphabetical listing includes:

- company name, address, telephone and fax
- nature of business
- company size in assets or sales
- number of employees
- corporate buying influentials by name, title and area of responsibility.

The **BID Software**

- puts more than 14,000 corporate buying influentials from nearly 2,700 companies throughout the U.S. at your fingertips
- puts the facts and figures you need easily at hand
- lets you search by company name; geographic location – including city, state or zip code; company size – by range in assets, sales or number of employees; or indiviual's name, title or area of responsibility.

And, with **BID Software**

- mailing labels or hard copy reports are just a keystroke away.

To install and use the **BID Software** you must have:

- an IBM-PC or 100% compatible computer
- 3.5" or 5.25" low density floppy
- 7MB free hard disk space
- 512K RAM
- DOS version 3.1 or above

To order the 1994/95 **BID Software** for the ***Business Insurance Directory of U.S.-Based Corporate Buyers*** for only $595, complete the form below and mail to:

Dorothy Wood, BID Software
Business Insurance
965 East Jefferson Avenue, Detroit, MI 48207

Or, fax your order to: Dorothy Wood, BID Software, 313-446-1650

Format for BID Software: ❑ **3.5" disk** ❑ **5.25" disk**

Residents of the following states are required to pay corresponding sales tax:
CA ... 7¼% IL ... 8% MI ... 6% NY ... 4% NYC ... 8¼% OH ... 6¼%

Enclosed is a check for $ _____ payable to *Business Insurance*,
or charge my: ❑ VISA ❑ AmEx ❑ MasterCard ❑ Discover

Account # _____ Expiration Date: _____

Name _____

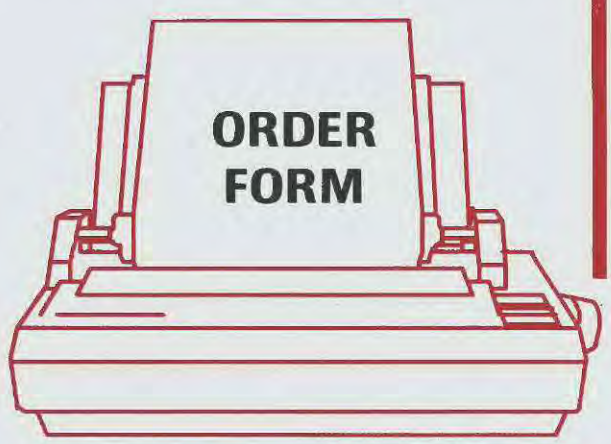
Title _____

Company _____

Address _____

City _____ State _____ Zip _____

Phone (____) _____ Fax (____) _____



Business Insurance®

INTERNAZIONALE

International

Internacional



国際的

Protection.



Long before the trend toward global risk management programs, our policyholders enjoyed the benefits of multi-national insurance, based on principles developed by the Factory Mutual System. For more than 30 years, our affiliate, Factory Mutual International has provided our "Highly Protected Risk" policyholders with fundamental loss prevention research, engineering sevice and effective employee training programs.

As boundaries disappear and policyholders are presented with new opportunities for growth, we are ready to meet the challenge of protecting critical assets from the devastating effects of loss. To meet changing business needs, we are concentrating our efforts on service that brings the most value to our policyholders. From 13 offices around the world, our international service network brings its vast knowledge and experience to each and every policyholder. As we continue to provide superior global insurance programs, we are pleased to announce the formation of Protection International Limited, with headquarters in London.

For more information about Protection International Limited, contact David Wilkinson, Managing Director.

INTERNACIONAL

Protection International Limited

London Office:
Number 1 Minster Court
London EC3R 7AA
(071) 369.5400 Telephone
(071) 369.0206 Facsimile

Amsterdam Office:
Prinses Irenestraat, 43
1077 WV Amsterdam
(31) 20.661.3223 Telephone
(31) 20.661.2168 Facsimile

International Protection

It's Our Word.

Factory Mutual System

Factory Mutual International

International Service Network:
Annecy, Brussels, Frankfurt, Madrid, Manchester, Melbourne, Paris, São Paulo, Singapore, Tokyo, Turin

Protection International Limited

Commissioner races bring in new blood

By MEG FLETCHER

The power of the incumbency did not generate electoral victories last week for insurance commissioners Tim Ryles of Georgia or Ron Todd of Kansas.

ELECTION 94

Among the insurance commissioner contests nationwide, newcomers to the post also were elected in California, Florida and Oklahoma, where incumbents did not run (*BI*, Oct. 31).

The biggest surprise was the defeat of Mr. Ryles, who was bested 51% to 49% by GOP newcomer John Oxendine, an attorney from Duluth, Ga.

The outspoken Democrat's pride in protecting consumers and refusing auto and workers comp rate increases apparently could not overcome allegations of ethical misconduct and "the Republican tidal wave that just rolled over people," said Bill Florence, a spokesman for the Georgia State Democratic Party.

In Florida, Democratic candidate Bill Nelson defeated Republican Tim Ireland with 51.8% of the vote for the single office of insurance commissioner/treasurer/fire marshal. Mr. Nelson is a lawyer, ex-astronaut and previously served in the Florida House and U.S. Congress.

"People remember him. He's got a good record as a public servant before," said Jon Shebel, president and CEO of Associated Industries of Florida Inc., an employer trade association in Tallahassee.

Mr. Nelson's success echoed that of fellow Democrat Lawton Chiles, who retained his governor's seat.

Brian May, Mr. Nelson's campaign manager, credited Mr. Nelson's willingness to discuss insurance-related issues in the campaign. "The pressing crisis is the homeowners' insurance problem and the issue of the availability and affordability of property/casualty insurance in the wake of Hurricane Andrew," Mr. May said.

California Insurance Commissioner-elect Chuck Quackenbush joined Republicans in a near-sweep of state election races, receiving 48.8% of the vote compared with the 43.4% garnered by State Sen. Art Torres.

The new commissioner, an assemblyman with Silicon Valley roots and strong insurance industry backing, campaigned more against crime than on insurance issues.

"Although Quackenbush successfully addressed the insurance issues that were most important to Californians, as a campaign tactic, we highlighted what we felt was the primary difference between the two candidates, which was their diverse position on crime," said Quackenbush spokeswoman Lynne Anderson.

In his new post, Mr. Quackenbush said he plans to seek lower rates for policyholders, increased consumer protection, "aggressively attack insurance fraud and spur an unresponsive bureaucracy to offer a variety of competitively priced and available insurance products."

"The GOP ticket did well because consumers want to see a pro-business platform and they want to see business succeed," said Theodore G. Huntington, senior vp of the Professional Insurance Agents of California and Nevada in Van Nuys, Calif.

In Kansas, Democratic State Rep. Kathleen Sebelius of Topeka defeated Mr. Todd with 59% of the vote.

Her victory ended a near half-century dynasty created by three commissioners from Lawrence, Kan., who selected their successors, she said.

She plans to open up the office's operation to better serve consumers' and insurers' needs.

Oklahoma voters elected Republican John Crawford, a consulting actuary in private practice and former department regulator. BI

Want pest control coverage you can count on?
Call Bryan.

Or Brendan.

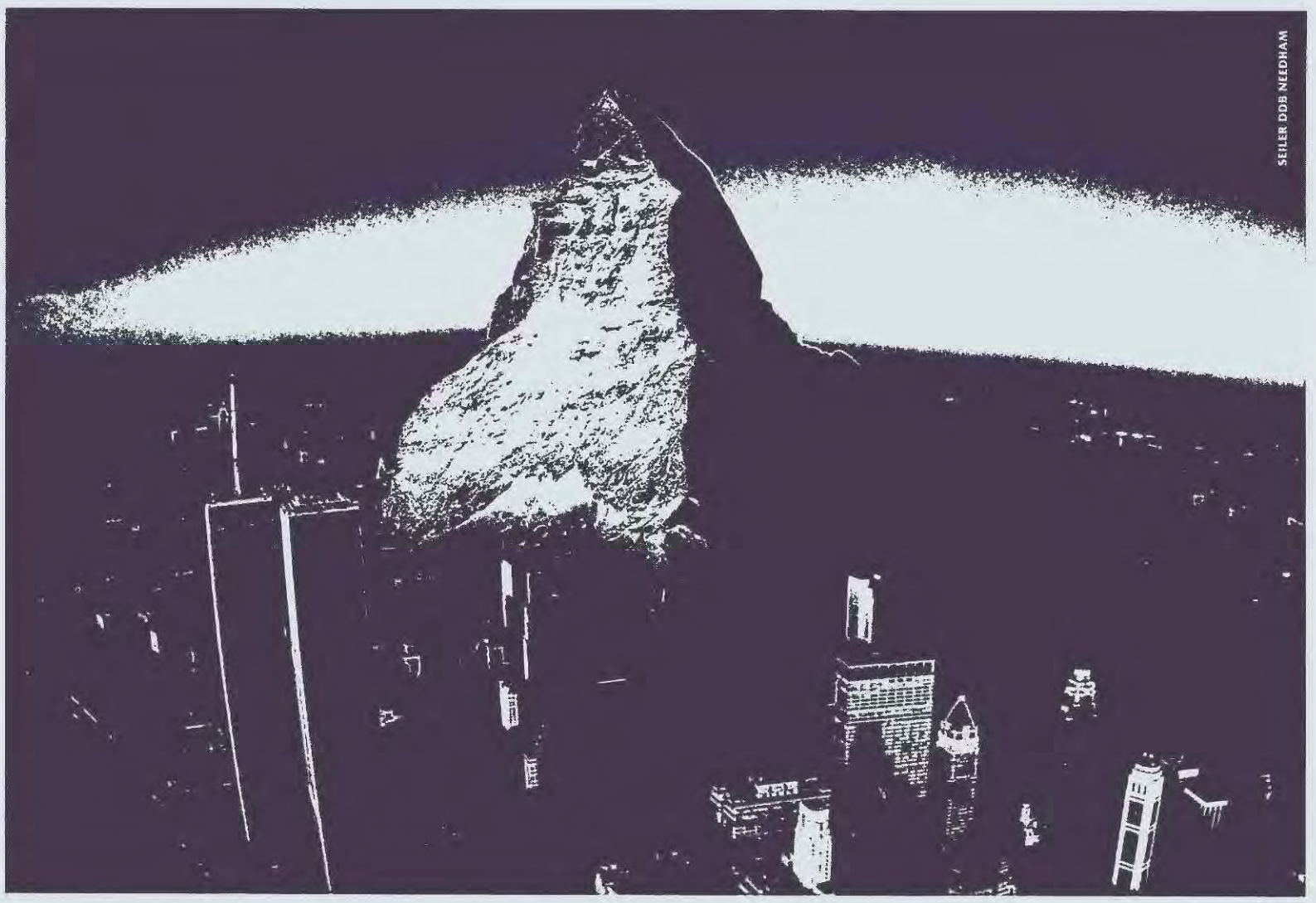
The last thing you want is short-term solutions to long-term needs for pest control liability insurance.

The Brownyards are committed to providing a market for those coverages through hard and soft markets alike–just as they've done for the security guard industry for nearly 40 years.


Bryan Brownyard

Whether it's pest control, security guard or country club coverage, you can count on the Brownyards year after year. Because–like you–they're in business for the long haul. **Talk to the Brownyards.**

THE BROWNYARD GROUP
21 Maple Avenue, CN9175
Bay Shore, New York 11706-9175
(800) 645-5820 • In NY: (516) 666-5050 • FAX: (516) 666-5723


SEILER DDB NEEDHAM

THE STABILITY AND STRENGTH YOU'RE LOOKING FOR ARE SITTING RIGHT NEXT DOOR.

It's known that the Swiss move mountains in business. That's one reason we play such a major role in business-related insurance worldwide.

But maybe you didn't know just how close we are to you right now. Swiss Life is the world's leading international network of life insurers, also represented throughout the EU and in Eastern Europe.

We provide multinationals with first class employee benefit plans as well as the information you need to control benefit levels and achieve significant financial savings. And we're there at once when you need us.

You'll find your Swiss Life Network Partner understands the pressures you face. He'll meet your most demanding insurance needs with solutions backed by our immense international expertise and the local, personal and flexible response you expect. Plus, highly competitive investment returns.

That's when the Swiss Life Feeling, the quiet certainty that you've chosen the right insurance partner, begins to grow on you.

Why not perform a little business miracle? Call Swiss Life Zurich (+411/284-3797) or your local Network Partner – and see how fast the mountain moves.

Swiss Life
THE RIGHT DECISION

Head Office: Swiss Life, General Guisan-Quai 40, 8022 Zurich / Switzerland; Telephone 411 / 284 37 97, Telefax 411 / 202 19 80; Argentina: Los Andes; Australia: Colonial; Austria: Wiener Städtische; Belgium: Swiss Life (Belgium); Brazil: Iochpe; Canada: Canada Life; Chile: Euroamérica; Colombia: Bolívar; Czech Republic: Kooperativa; Denmark: Danica / International Health Insurance / PFA Pension; Finland: Ilmarinen / Suomi-Salama; France: Société suisse (Swiss Life); Germany: Schweizerische Rentenanstalt (Swiss Life); Greece: Laiki Life; Guatemala: Occidente; Hong Kong: Jardine CMG Life; Hungary: Glória; Indonesia: Lippo Life; Ireland: Irish Life; Israel: La Nationale; Italy: Swiss Life (Italia); Japan: Meiji Life / Yasuda Life; Korea: Korea Life; Luxembourg: Swiss Life (Luxembourg); Mexico: La Comercial; Netherlands: ZwitserLeven (Swiss Life); New Zealand: Colonial; Norway: Vital; Panama: Aseguradora Mundial; Philippines: Jardine CMG Life; Poland: PZU; Portugal: Império; Russia: Rosgosstrakh; Singapore: NTUC Income; Slovakia: Kooperativa; South Africa: Southern Life; Spain: Swiss Life (España); Switzerland: La Suisse / Swiss Mobiliar (both non-life); Taiwan: Kuo Hua Life; Thailand: Bangkok Life; United Kingdom: Swiss Life (UK) plc; USA: Swiss Life North American Services (Advisory Services) / The Guardian / Mass Mutual; Venezuela: Orinoco.



Your Environmental Insurer's Motto Shouldn't Be "Run For Your Lives."

Today, you need the courage and creativity that our specialists have shown since the days when they pioneered the industry. You need an ever-evolving company willing to take the intelligent, informed risks that progressive risk management demands.

By forming an active partnership with our agents, brokers and customers, the Zurich-American Environmental Group forges a bond of shared expertise that recognizes no boundaries when it comes to creative risk management products and solutions. We're willing to take risks other companies won't. And we'll service our policies in a way other companies can't. Because we're backed by the financial strength, stability and The Power of Partnership only The Worldwide Zurich Insurance Group can provide. For more information, contact your agent or broker, or call 1-800-382-2150.

ZURICH-AMERICAN
INSURANCE GROUP

The Power of Partnership™ in Environmental Insurance

A MEMBER OF THE WORLDWIDE ZURICH INSURANCE GROUP

ASK A CASUALTY ACTUARY

Retention level depends on more than past luck

Q **Does the existence or absence of excess coverage make any difference in terms of the recommended confidence level for funding a self-insurance program?**

A In the great majority of cases, the answer is decidedly "yes." Unless your organization, be it a corporation or public entity, has vast resources—in comparison with the magnitude of catastrophic claims that could occur—it should fund at a much higher confidence level if it has no excess coverage.

I have encountered a number of risk managers who seem to think that because their self-insurance program has been a success to date, and they have not had any very large claims, they don't really need excess coverage. I find it difficult to agree with them. The need for excess coverage should be driven by the financial capabilities of your organization and its willingness to assume risk rather than whether or not self-insurance has worked out well so far in not experiencing serious losses. Quite often, the latter is at least in part the result of good luck—in not having incurred any catastrophic claims. Good luck is not a guarantee that bad luck won't meet you in the future.

The first step in approaching the question of whether or not to purchase excess coverage is to assess your organization's flinch point—the size of the loss that it would be willing and able to absorb from any one occurrence—with the magnitude of catastrophic claims to which it is currently exposed. If you are self-insuring workers compensation, you are often looking at claims that can reach $1 million to $5 million for one injured employee. If your management is only willing and able to absorb $250,000 from any single injury, then it should seriously explore the purchase of excess coverage with a retention in the vicinity of $250,000. This is not to say that you should not buy excess coverage if your organization can readily handle a $5 million claim. That is more a question of how reasonably priced the available excess coverage is. It is only to say that the financial constraints of small to medium-sized organizations often dictate the need for excess coverage because of the need to protect the organization's assets.

Any organization that has a self-insurance program should periodically go through the exercise of contingency planning for catastrophic losses. Quite simply, this consists of painting a number of possible pictures of serious losses which could conceivably occur and determining how your organization would deal with them financially. To the extent that there is an unwillingness or an inability to handle such events of ill fortune, the need for excess coverage becomes evident. It should also draw into clearer focus the desirable SIR level and the appropriate limit of liability on the excess policy.

What is a confidence level? We often hear weather forecasts like, "There is a 70% chance of rain tomorrow." Everyone knows this means that seven times out of ten it will rain and three times out of ten it will not. When an actuarial study gives a reserve or funding indication at the 70% confidence level, it means much the same kind of thing. The main difference is that the forecasted event will not finish occurring for many years into the future. If a reserve indication of $10 million is purportedly at the 70% confidence level, it means that the total future payout on that reserve should be less than $10 million seven times out of ten. Correspondingly, total future payments are expected to be greater than $10 million three times out of ten.

There are a couple reasons why it is often wise to fund a self-insurance program with excess coverage at a confidence level like 75%:

- First, the magnitude of losses which might exceed such funding is most likely a relatively small proportion of the total assets of a corporation or public entity. It should be understood, however, that it is relatively small because of the protection afforded by excess coverage.
- Second, if a funding shortfall becomes evident, it is often unlikely that all of those payments will become due right away. Given time, most organizations can grapple with higher-than-expected losses.

These same reasons are usually not present when funding a self-insurance program with no excess coverage at 75% confidence level:

- First, the magnitude of losses which might exceed funding is a much larger percentage of the organization's total assets.
- Second, making up that difference may well take more time than is available between discovery of the shortfall and when the losses are due and payable. This is especially true of property losses, where losses tend to be immediately due.

One alternative to purchasing excess coverage is to build up a self-insurance fund at a very high confidence level, such as 95% or 98% or 99%. Doing so means you will already have pre-funded that major loss that might occur once every 20, 50 or 100 years, respectively. For many organizations, however, it is more reasonable to purchase excess coverage at a reasonable retention level and to fund losses within the SIR at, say, a 75% confidence level.

Many organizations have successfully moved from a 75% confidence level reserve position to a 90% or 95% reserve position over three or five or 10 years by consciously building up a fund for catastrophic losses or by funding at a confidence level like 75% and having average or better than average loss experience. When this occurs, the fund builds up naturally over a number of years. Having such a catastrophic fund has the advantage of giving your organization independence from the swings of the underwriting cycle and the wide fluctuations in the cost and availability of excess coverage that are a part of that cycle. On the other hand, maintaining such a fund can tie up some of the financial assets of your organization in such a way that they are not available for various other high priority activities. BI

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

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



Mr. Sherman

This month's column on actuarial issues in the casualty field is written by Richard E. Sherman, president of Richard E. Sherman & Associates Inc. in Ashland, Ore. William J. Miner, an actuary with The Wyatt Co. in Chicago, answers actuarial questions in the benefits field. Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C., answers risk management questions. And Dennis J. Nirtaut, managing director of compensation & benefits worldwide at Arthur Andersen & Co. S.C. in Chicago, answers questions on employee benefit plans.

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

Court upholds limitation of benefits for mental illness

The 8th U.S. Circuit Court of Appeals held that an employee's disability was due to "mental illness" and therefore subject to a mental illness limit in a group disability benefit plan.

Leland Stauch, an employee of Unisys Corp., was covered under a group disability policy from by First Unum Life Insurance Co., which was part of a group health care plan governed by ERISA.

The policy limited benefits for disability due to mental illness to 24 months unless certain conditions were met. The policy defined "mental illness" as "mental, nervous or emotional diseases or disorders of any type." Mr. Stauch filed a claim for benefits in 1986 and was paid from Nov. 20, 1986, to Oct. 20, 1988.

The employer and insurer extended benefits through June 20, 1989, while the claim for further benefits was investigated. They concluded his disability was due to mental illness and that he failed to meet the conditions for extended benefits beyond the 24-month limit. Mr. Stauch sued and lost in trial court.

The appellate court said medical opinions differed on the cause of illness, but the symptoms were the same—depression, fatigue, irritability, sleeplessness, poor appetite and impaired concentration and memory. The court ruled that based on the symptoms, he had what laypersons would consider a "mental, nervous or emotional disease or disorder of any type." The trial ruling was affirmed.

Stauch vs. Unisys Corp., 8th U.S. Circuit Court of Appeals, May 23, 1994 (*BI*/05/D.-$10)

Legal Briefs

No vesting in health policy

The Texas Supreme Court has ruled that a group health policy does not create a vested right in unlimited lifetime benefits and ruled that benefits in this case were limited to medical supplies for services furnished before the policy was terminated.

In March 1985, Amy Miller, then 14, suffered serious, permanent and disabling injuries in an auto accident. She was covered as a dependent under her father's group health policy issued by Aetna Life Insurance Co. After the accident, Aetna paid her medical expenses as incurred until April 30, 1985, when the father's employer terminated the group contract with Aetna. Benefits were continued, however, for one year under the policy's one-year extension of benefits clause. Aetna denied further benefits thereafter.

This suit resulted in an award of $283,000 in past damages, $2.5 million in future damages and $500,000 in attorneys fees. A state appeals court reversed and found for Aetna.

The Supreme Court of Texas noted the policy stated Aetna would pay for "covered medical expenses incurred during a calendar year for treatment of a covered family member."

Coverage for an employee and dependents ends when the policy has been discontinued or the individual is no longer employed by the policy's sponsor, the court said. Since the policy stated that it did not cover charges incurred while a person was not a covered family member, the court ruled Aetna was not liable beyond the extension clause.

Forbau vs. Aetna Life Insurance Co., Supreme Court of Texas, Jan. 5, 1994 (*BI*/01/D.-$10). BI

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

Motives for some regulatory efforts questioned

By MARK A. HOFMANN

HONOLULU—Private pension plans may soon become vulnerable to government pressure to invest in ways deemed to be socially desirable—regardless of whether those investments pay a good return.

And property/casualty insurance companies might decide they would be better off accepting federal solvency regulation in return for immunity from rate regulation.

Those were two of the cautionary notes sounded by William A. Niskanen, president of the Washington-based libertarian think tank the Cato Institute, during a session last month at the annual National Assn. of Independent Insurers meeting in Honolulu.

Joining the former Reagan administration economic adviser in discussing "The Role of Private Insurance in the Age of Entitlements" was Robert L. Bailey, chairman and chief executive officer of the State Auto Insurance Cos. of Columbus, Ohio.

Mr. Niskanen pointed to pension funds as the area of the insurance industry most likely to be subject to further regulations. He predicted that the government could someday direct private funds to invest in areas favored by public officials, regardless of potentially lower returns.

"For years, state and local government pension funds have been vulnerable to mandates to make politically favored 'social investments.' Several studies have found that the average yield on public funds with these investments is substantially lower than on other funds," he said.

Mr. Niskanen noted that public employees often end up paying more for fewer benefits by receiving lower wages because a higher share of their pay must be set aside to fund the benefits. "The rationale for financing politically targeted investments at the expense of public employees has never been made quite clear," he said.

"For the most part, private pensions have not yet been required to make investments in politically favored groups," said Mr. Niskanen. He said this has been the case because the Employee Retirement Income Security Act—which requires investments to be in the best interest of beneficiaries—"has been interpreted to preclude investments that are not expected to yield the prevailing rate on other investments of the same risk and liquidity."

But federal regulators have indicated that lower yields could be acceptable if they are caused by pension managers investing in desirable areas, such as companies that "invest in (programs benefiting) their own workforce," he said. The loosening of investment yield requirements "is only a cloud on the horizon, but it is a dark and ominous cloud."

Instead of easing the rules, regulators should "assure that ERISA is administered as intended—to protect the safety and soundness of private pensions against the consequences of irresponsible private pension sponsors. It would be a sad irony if the officials responsible for administering ERISA undermine pensions in the interests of politically targeted investments," Mr. Niskanen said.

Property/casualty insurers are also feeling the pressure to put their money where activists want it, Mr. Niskanen said.

As an example, he cited 20th Century Insurance Co. of Woodland Hills, Calif., which sought substantial rate increases to help offset losses from the January Northridge earthquake that hit the Los Angeles area (*BI*, May 16).

Community activists objected to the increase until the insurer agreed to deposit money in specified banks, sell its policies in certain areas of the state and give $50,000 to local organizations, said Mr. Niskanen. He called the demands "extortion" and said that the insurer should have been "defended by some association of insurance companies to avoid setting a precedent for more such outrages."

Mr. Niskanen also blasted attempts to extend federal regulation to property/casualty insurers, notably the proposal by House Energy and Commerce Committee Chairman John D. Dingell, D-Mich., to create national solvency regulation for interstate insurers (*BI*, Nov. 7).

"The primary problem of the Dingell bill is the separation of solvency and rate regulation. In that case, state insurance commissioners would have even less incentive to be concerned with insurer solvency in setting insurance rates. The other problem of that proposed bill is that there is probably no way to avoid an implicit federal guarantee of a national reinsurance fund, with all of the consequent problems of the deposit insurance funds and the several federal credit programs," Mr. Niskanen said.

"The Dingell bill is seriously flawed but could provide the basis for useful legislation. One productive outcome would allow national insurers to elect federal solvency regulation in exchange for full immunity from federal or state rate regulation. In the absence of such a provision, the seriously flawed system of state insurance regulation is probably better than any federal regulation," he said.

Mr. Niskanen said that creating a system of interstate insurance compacts that would set both the solvency rules and the guaranty system for companies that agree to abide by the compact would also be an improvement over the current system. Such a system would be "more likely to lead to a spread of good rules than either the separate actions of the states or the likely outcome of the process to establish a federal insurance code."

State Auto's Mr. Bailey also decried government involvement in the insurance marketplace.

In addition to the 20th Century case, Mr. Bailey said "basic auto policies are routinely mandated" by the states and insurers are expected to solve many problems of the inner cities.

Costs are being shifted to insurers and other businesses to pay for programs that taxpayers are unwilling to pay for directly, he said.

But Mr. Bailey said that there are signs that the pendulum has begun to swing in the other direction, with the public growing wary of government social efforts. There have been public outcries over perceived overregulation, particularly in regard to the environment, he said.

There are also signs that the public is more willing to support a business-backed political agenda than was the case only a few years ago, Mr. Bailey said. BI

Mathwich named chairman of NAII

HONOLULU—Dale F. Mathwich will serve as chairman of the National Assn. of Independent Insurers for 1995, following his election to the group's top post during its 49th annual meeting earlier this month.

Mr. Mathwich, chairman and chief executive officer of American Family Mutual Insurance Co. of Madison, Wis., succeeds Robert M. Plunk, president and chief executive officer of Preferred Risk Group of West Des Moines, Iowa.

Robert L. Bailey, chairman, president and chief executive officer of State Auto Insurance Cos. of Columbus, Ohio, succeeded Mr. Mathwich as vice chairman of the NAII.

The NAII, based in Des Plaines, Ill., is a trade association representing more than 575 property/casualty insurance companies.

—By Mark A. Hofmann

Walsh

Continued from page 3

antitrust exemption in theory. He added that he doesn't like the best-known proposal for modifying McCarran-Ferguson, either—H.R. 9, sponsored by House Judiciary Chairman Jack Brooks, D-Texas, who lost his reelection bid last week.

Supporters of H.R. 9 must show how changing the law would benefit consumers, Mr. Walsh said. They also must tell the public how small, well-run companies in sparsely populated states like Alaska could continue to do business without the protection of the McCarran-Ferguson Act.

"There are many communities and businesses that rely on small and medium-sized insurers to provide them a stable market. If repeal of McCarran-Ferguson will put these insurers out of business, it will also do great harm to the businesses and communities which these insurers serve," said Mr. Walsh.

"Before I want to mess with the system that works, I want to find out what's going to happen to that company," he said.

Health insurance will remain a public issue as long as people get sick, said Mr. Walsh. The question facing society is whether health insurance should be treated as a public utility or as a private product people buy. He left no doubt that he thought insurance—health or any other kind—should not be treated as public utility.

Mr. Walsh described a letter he had received from the owner of a small business in Alaska. The owner complained that the cheapest health insurance available would cost $9,000 a month. Mr. Walsh said he checked into the matter and found that $9,000 a month was indeed the wrong price—$17,000 or so a month would have been justified, he said. Of the four people connected with the business, two were grossly overweight, drank and smoked heavily and had a predictable history of high medical bills. And another had used cocaine, he said.

"You have the right to kill yourself, but I don't think you have the right for me to pay for it," he said.

House Energy and Commerce Committee Chairman John Dingell, D-Mich., released an indictment of state regulation, "Wishful Thinking," the day before Mr. Walsh spoke (*BI*, Nov. 7). Traditionally, Rep. Dingell, who has long advocated federal insurance regulation, has called the president of the NAIC before him to answer exactly what regulators are doing to improve their jobs, but did not this year.

Mr. Walsh said he missed appearing before Rep. Dingell, because he already had his speech prepared. Mr. Walsh then launched into an imitation of Ross Perot, saying, "John, we've got the hood up and we're tinkering with the engine. You can do two things for me—hand me that wrench and shut the hell up," he said, invoking roars of laughter from his audience.

Mr. Walsh said foreign observers have told him that the United States has the best system of insurance regulation in the world. He urged his audience to spread the word that state regulation works.

"You need to communicate better with public policy makers that the existing regulatory system offers consumers the widest variety of products at the lowest possible price and the highest degree of safety. The rest of the world knows that; why don't we?" he asked. BI

Regulation battles ahead

A united stand is key to industry's successes, says Beck

By MARK A. HOFMANN

HONOLULU—There's no point in property/casualty insurers being united on federal issues if they are united behind the wrong proposals.

That is the unmistakable message delivered last month by Lowell R. Beck, president of the National Assn. of Independent Insurers, at the trade group's 49th annual meeting.

By insisting on "standing firm" during the 103rd Congress, NAII members emerged "unscathed," said Mr. Beck. But he warned of the return of all the insurance-related issues that the 103rd Congress failed to resolve—health care reform, federal solvency regulation, Superfund reauthorization, reform or repeal of the McCarran-Ferguson Act and new health plan data reporting requirements.

Mr. Beck noted that he has been associated with the NAII for almost 15 years, and that during that time "there hasn't been a year that we had any let up in fighting one battle after another" in the political, regulatory and judicial arenas.

"Many times I am asked why isn't the industry united in facing these political challenges and, in particular, should the NAII be compromising? Shouldn't we be more realistic and, at the very least, stop fighting so hard to keep Washington away from regulating our business? Surely, we are told, it is inevitable that federal laws will be enacted and we should get on this train now or we will be left behind," said Mr. Beck.

"My answer is pretty simple and straightforward: It would be much better if we were all working together. A united industry clearly would be stronger and would win more victories," he said.

But, he continued by taking an obvious swipe at the American Insurance Assn.—which supports changes in the McCarran-Ferguson Act, some degree of federal regulation of insurers and the levying of a special tax on insurers to pay for a proposed Environmental Insurance Resolution Fund to settle some Superfund related claims.

"We can't be united when, even though there is no demonstrated public benefit, one segment gives in to the demands of a few industry critics in Congress, when one segment makes these concessions without first reaching consensus within the industry that this is the best course of action, when one segment of our industry makes these deals on its own without showing there are valid reasons for change, and then leaves the rest of us the choice of either foregoing our principles and beliefs or fighting. In that case, we don't have any choice but to fight," said Mr. Beck.

Mr. Beck's assessment of the political situation in which the NAII operates was shared by Robert Plunk, the then-chairman of the NAII and president and chief executive officer of Preferred Risk Group of West Des Moines, Iowa.

Mr. Plunk cut his prepared remarks short because a breakfast speaker ran over schedule, but in his written address he had commented on the Superfund dispute in particular, in which the AIA supported the EIRF tax so bitterly opposed by the rest of the industry.

"We've just come through a hard fight over Superfund reform. It was ill-conceived legislation that would have relieved a handful of companies of their liability for pollution coverage by forcing other insurers, many of whom wrote no environmental coverages, to pay potentially as much as $40 billion," wrote Mr. Plunk.

"The unfairness of this deal, worked out in private by the administration and the companies that stood to benefit most, was so glaring that it fell to its knees when the NAII and other trades exposed it. But it took steady, hard work."

Mr. Plunk wrote that by fighting the EIRF, insurers weren't merely fighting to avoid a new tax burden upon themselves but were instead trying to help their policyholders. "Our victory is their victory," he said.

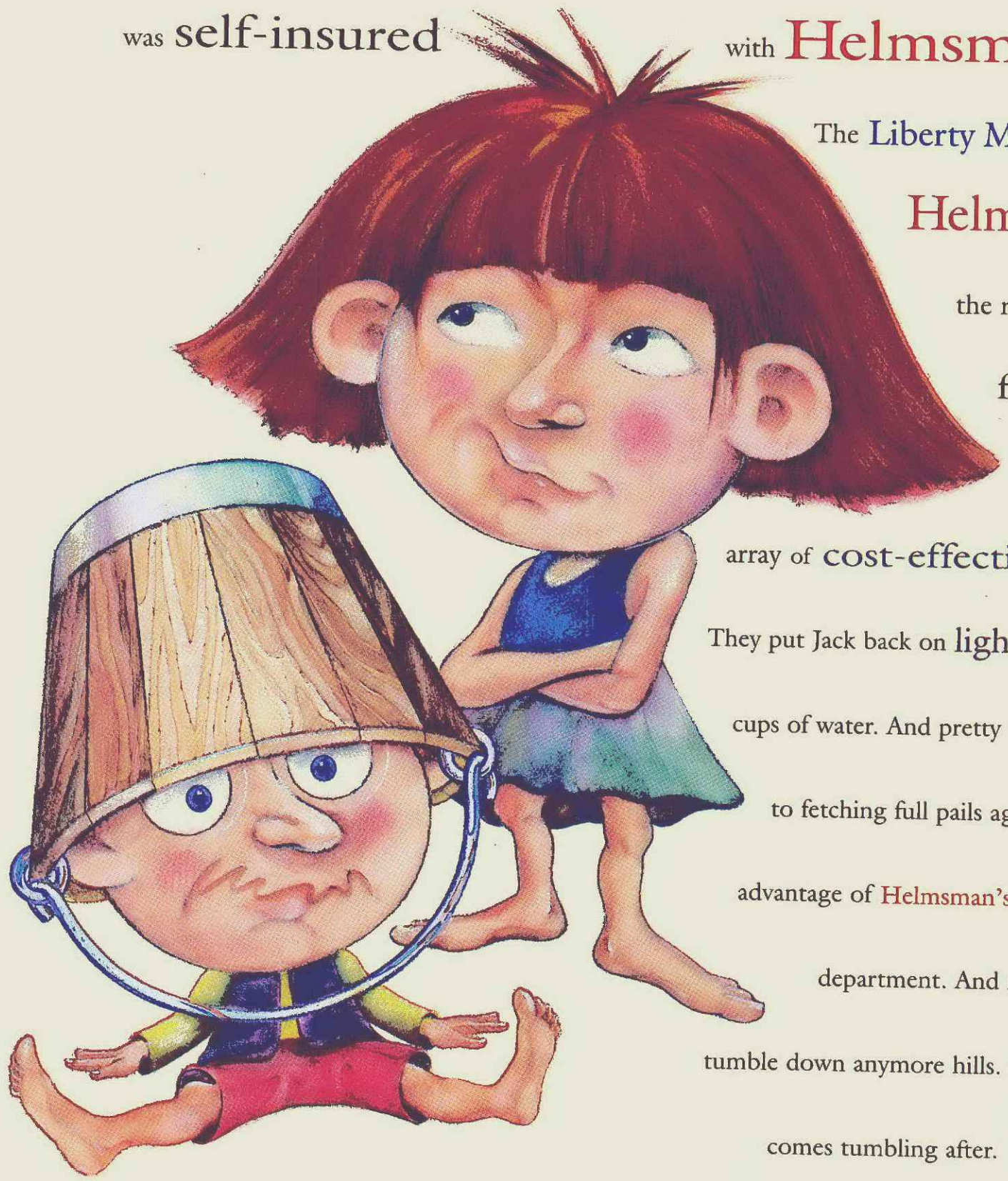
He noted that the unpopularity of imposing new taxes in general has meant turning regulation "into a mechanism of indirect taxation" that costs the economy hundreds of billions of dollars annually.

"Every dime that insurers have to pay to satisfy some regulation is a dime more that is actually paid by our policyholders; so we are doing the right thing by them when we resist excessive regulation."

Mr. Plunk added that not every regulation increase "is driven by the need to disguise a new tax, nor is it necessarily bad. Much of it is reasonable and appropriate, and we support strong state regulation. But it takes constant vigilance to separate the effective from the useless. And it takes fast, organized action to promote good regulation." BI

Jack and Jill went up the hill

to fetch a pail of water. And as you'd expect when you mix water and hills, Jack fell down and broke his crown. He also threw his back out and had to go on disability. Now Jill was the brains of the operation, which isn't surprising since her partner wore a crown around the office. She made sure Jack & Jill Water Holdings, Inc. was self-insured with Helmsman, part of The Liberty Mutual Group.



Helmsman has the resources and the flexibility to design an array of cost-effective programs. They put Jack back on light duty, fetching cups of water. And pretty soon he was back to fetching full pails again. Then Jill took advantage of Helmsman's loss prevention department. And now Jack doesn't tumble down anymore hills. And Jill never comes tumbling after.

Helmsman Management Services, Inc.

LIBERTY FOR THE SELF-INSURED

© 1994 Helmsman Management Services, Inc.

Politics threaten to undermine sound underwriting: A.M. Best

By MARK A. HOFMANN

HONOLULU—Insurers face numerous political threats to their ability to underwrite in a sound manner, contends a leading rating agency executive.

"Politics and regulation have become synonymous," John H. Snyder, senior vp of A.M. Best Co., said at the annual National Assn. of Independent Insurers meeting on Oct. 31. "Slowly but surely the industry is losing its underwriting tools."

The issue of alleged redlining by insurers has reached the "boiling point" in many areas of the country, but regulators themselves share some of the blame for insurance problems in the inner cities, Mr. Snyder said.

"By limiting underwriting factors and forcing companies to use only one rate, regulators have contributed to companies appointing agents only in those areas where they can make a profit," he said.

Mr. Snyder said the different markets require different agents, and society should encourage specialization to serve underserved markets. "Right now, we're trying to embarrass companies into serving these markets," he said.

Some natural disaster insurance programs are also failing to deliver what they promise, he said.

Mr. Snyder praised the proposed Natural Disaster Protection Partnership Act, which is likely to be reintroduced early in the 104th Congress, for encouraging policyholders to "become better managers of their own risk."

But he said existing federal programs like the National Flood Insurance Program actually encourage abuse of the system. "By watching the Weather Channel, consumers can rig the system to purchase coverage only when they need it," he said.

And, regulators are not always helpful in their efforts to correct perceived problems in the insurance industry, he said.

While Mr. Snyder praised the National Assn. of Insurance Commissioners' risk-based capital program as a welcome way to identify financially weak insurers and improve guaranty fund assessments, he said that another NAIC initiative—the model investment law—probably isn't justified.

"We don't need it if we have the risk-based capital proposal. This is a case where the pendulum has swung too far and regulators want to micromanage companies' investment portfolios," he said.

In a similar vein, he criticized a recent California Supreme Court decision upholding Proposition 103 as bad public policy. The ruling in *20th Century vs. Garamendi* allowed enforcement of the initiative's required rollbacks against insurers with a greater than 10% return on equity (*BI*, Aug. 22).

By allowing regulation of insurer profitability, Mr. Snyder argued, the decision treats insurers like public utilities and discourages innovation and competition.

He cited two other examples of what he called bad public policy.

First, he faulted states for not adequately distinguishing between admitted insurers with guaranty fund protection and surplus lines insurers that lack it.

Consumers should be given an "up front" choice between the two and if they choose an insurer with guaranty fund protection, they should pay more for it than for similar coverage through a surplus insurer without guaranty fund protection, he said.

Second, he criticized the insurance industry antitrust litigation's recent settlement, which limits insurers' role in the Insurance Services Office Inc. (*BI*, Oct. 10).

Such a reduced role could lead to a proliferation of ISO-like bodies, possibly state-based, Mr. Snyder said. The credibility of insurance data under such a system will deteriorate and expenses will increase, adding to the overhead of small and medium-sized underwriters, he predicted. BI

Not business as usual this time

Temptations of Hawaii slow usual pattern of official meetings

By MARK A. HOFMANN

HONOLULU—With warm breezes enticing executives out of the corporate hotel suites and onto the fairways, the 49th annual meeting of the National Assn. of Independent Insurers will not be remembered as the year of the deal.

Given that an open air seating area catercorner from an open air hotel bar served as the conference's official business lounge, it was hardly surprising that more people didn't seem to be congregating for informal discussions the way they usually do at NAII meetings.

Registered attendance, including spouses and guests, was off as well, down about 15% to 1,350 from 1,600 at last year's meeting in Toronto.

Nevertheless, Honolulu seemed to be a hit with those who attended, judging from the number of casually attired NAII attendees strolling through the shops of the Hilton Hawaiian Village complex.

"A lot of the (companies) didn't send as many people," as they had in the past because of the location, observed Richard Cole, president of Chartwell Reinsurance Corp. in Stamford, Conn.

Only four Chartwell representatives were in Honolulu, compared with 10 sent to Toronto in 1993. "Nobody wants to go that far when you know the attendance was going to be down," said Mr. Cole.

"I had half as many meetings here this year as I did last year and half as many as I hope to have next year," said Paul Ingrey, president of F&G Re Inc. of Morristown, N.J.

Next year's meeting in Chicago, Mr. Ingrey noted, should be more conducive to doing business, even if the market hasn't changed, simply because more people will be wearing suits and will be geared up for more business meetings.

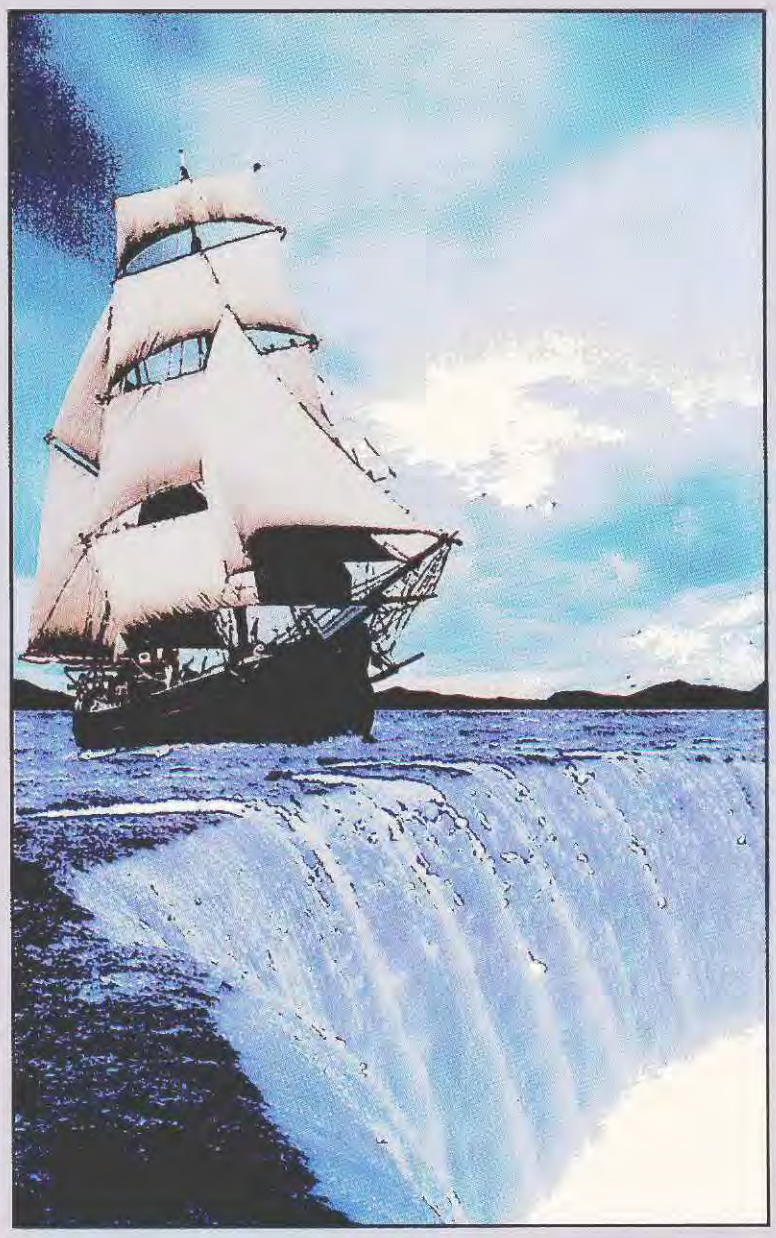
Other executives said the casual air of the conference was a bit deceptive, as undercurrents of concern ran through chance conversations.

"The mood was more restrained, more muted than in past years. More generally, (there were) con-

Continued on next page

Avoid surprises

Without complete and up-to-date information, the decisions you make that affect your business could be disastrous. With the best information available, you'll be prepared for all the challenges and opportunities that can arise.



Continued from previous page

cerns about the protracted soft market," said G. William Davis, senior vp of the Skandia American Reinsurance Corp. in New York.

"I think the mood among reinsurers was a rather somber one. They don't see any bright lights on the horizon in regard to the marketplace," said John Cashin, executive vp and director of marketing at Willis Faber in New York.

"And the demise of CIGNA Re added to the sense of doom and gloom in the marketplace," said Mr. Cashin, referring to CIGNA Corp.'s recent decision to stop writing new domestic property/casualty reinsurance and to sell off most of its international reinsurance business (*BI*, Nov. 7).

"The mood was that there was no real change in the marketplace. All of the discussion was around the shutting down of CIGNA Re," said Chartwell's Mr. Cole.

Not that CIGNA's withdrawal from the reinsurance business was the only damper on the conference.

Various expanding liabilities were of concern to many executives, said Skandia's Mr. Davis. Of particular interest were "the continuing concerns about environmental impairment liability, general discussion of adequacy of reserving of the industry as a whole regarding not only asbestos but also pollution liability," he said.

Other executives were also troubled about potential new liabilities associated with hazards such as lead and electromagnetic fields.

And, as might be expected a few days before the midterm elections, executives spent considerable time thinking about political, as well as more traditional, liabilities, noted William L. Pollard, executive vp and general manager of the North Carolina Farm Bureau Mutual Insurance Co. in Raleigh. BI

Reinsurers

Continued from page 3

their cards close to their chests," said Victor Blake, chairman of CNA International Reinsurance Co. Ltd. in London. "The market is clearly waiting with bated breath to see what will happen."

Several ceding companies placed their property catastrophe reinsurance early last year and then saw the market soften between November and January, Mr. Blake said. This year, there's a strong belief that the property catastrophe market will soften further, so cedants are unwilling to buy too early, he said.

"I think there's been a weakening in the market" for property catastrophe reinsurance business, said Ortwin Kroeninger, director of outward reinsurance at Gerling-Konzern Allgemeine Versicherungs A.G. in Cologne, Germany. But, he predicted that any fall in rates would not be dramatic. "Premiums may go down 10% or so, although it depends very much on the treaty. A loss-free treaty should easily get a 10% reduction," he said.

"There are definite signs of the market loosening up," agreed Tony Dodd, manager of British & European Reinsurance Co. Ltd., a London-based subsidiary of Commercial Union P.L.C.

Softening in the catastrophe reinsurance market is caused by excess capacity, he said. He added, though, that the additional capacity is not causing a massive rate weakening.

Mr. Dodd predicts that property cat rates are likely to fall between 10% and 20% generally, though the amount will vary based on individual exposures and loss records.

But not everyone expects rates to keep falling. "People are expecting a softening of the catastrophe market. I am not sure whether this will happen," said Peter Hecker, a board member at Hannover, Germany-based Hannover Reinsurance Co./ Eisen & Stahl Reinsurance Co.

There is still "enormous pressure on catastrophe underwriters to generate a profit and there's not much patience on the part of shareholders," said Mr. Hecker, noting that this could keep rates firm, despite new capacity in the market.

Gerling-Konzern's Mr. Kroeninger agreed that German reinsurers are still keeping an eye on profitability after several years of restructuring and reducing costs. But they are also trying to increase revenues, so some competition is increasing, he added. Moreover, European reinsurers could well soften rates simply from fear of competition from Bermuda, said Mr. Hecker.

Amid talk of potentially lower rates, one underwriter said there is a growing consensus among insurers and reinsurers that a stable market is needed to encourage long-term relationships.

There is an increasing recognition "that all parties in the market have to make a profit in the long run and any easing in rates will be modest," said Gary Rutherford, assistant general manager of Employers Reinsurance International Ltd. in London.

"The collapse of several major reinsurers in recent years has brought home the fact that (cedants) can't buy the cheapest reinsurance forever," he said.

Reinsurance buyers may "use any easing in rates to buy more cover or be more selective in buying their reinsurance," said Mr. Rutherford.

He said he also believes that the increasing focus on security will encourage cedants to place business with fewer but bigger companies (*BI*, Oct. 31).

"Some companies have come in to make the most of the market while rates are good," said Mr. Dodd.

"There is a lot more capacity in Bermuda, Dublin and London, and it will affect rates," he said, adding that any softening in the catastrophe reinsurance market may be short-lived if the losses of the late 1980s and early 1990s prove to be the norm rather than an exception.

The view of most Baden-Baden attendees is that the market is holding a steady, sensible course.

"At the present time, an atmosphere of good sense prevails. The early indications of the few renewals we've seen suggest there's reasonable common sense" in the market, said Mr. Rutherford.

Apart from overall reinsurance market trends, other topics of conversation at the annual gathering focused on market-specific situations.

For example, employers liability was one of the greatest concerns of U.K. ceding companies and reinsurers. The U.K. reinsurance industry plans to scrap unlimited employers liability coverage from the beginning of next year, and available capacity was the source of much conjecture at the meeting.

Also, U.K. reinsurers are continuing to use event limitations in proportional contracts, Mr. Dodd said. Although unusual in European policies, reinsurers made a concerted drive last year to try to cap their exposure to catastrophe losses by including sublimits for multiple losses from any one event within proportional treaties (*BI*, Nov. 15, 1993).

Event limitations were less of a concern among German underwriters this year than last, Mr. Kroeninger said.

"The German market hasn't introduced limitations in proportional treaties and there was not much talk about it this year," he said. Germany's market is looking at other means to try to improve cedants' and reinsurers' ability to assess their exposures to any one loss. BI



INSource®: The Red Books on CD-ROM

Every American insurance business needs to know the state laws and regulations that affect their business. And INSource is your most comprehensive source for that information.

Every month INSource provides instant desktop access to the complete text of insurance statutes and regulations for all 53 U.S. jurisdictions—on a single CD-ROM.

INSource is available in both single-PC and PC-network versions, so you can put the problem-solving power of INSource information on every desktop and eliminate surprises.

NILS Publishing offers additional references for insurance professionals

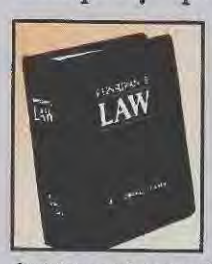
Hard-working.



Insurance Periodicals Index
For news on large losses, the competition or new products, let the **Insurance Periodicals Index** be your guide. This annual index to 35 of the industry's most important publications turns your magazine back-issues into a valuable information resource.

Softbound • Two volumes • New edition issued annually with invoice • 30-day No-Risk Trial • $120.00 per set

Uniquely qualified.



Reinsurance Law
The most complete reference available on the fundamentals of reinsurance law. Benefit from expert analysis of the decisions and events that have shaped the American and British markets.

Looseleaf • Single volume • Revision service invoiced annually • 30-day No-Risk Trial • $240.00 per copy

Cost-effective.



National Insurance Law Review
A quarterly collection of articles selected from the nation's most respected publications—covering topics like workers' compensation, product liability, and claims settlement. It's like subscribing to every major law review in the country at a fraction of the cost!

Softbound • Four quarterly issues • Annual subscription • $95.00

Highly recommended.



Rupp's Insurance & Risk Management Glossary
The industry's premier reference defines more than 4,800 terms. Covers all facets of insurance, and legal and economic concepts that affect insurance and risk management. PLUS 10,000 cross-references to synonyms, antonyms, and related terms; foreign terms; and a guide to the industry's "alphabet soup" of acronyms.

Softbound • Single volume • $29.95

Well organized.



Comply: An Insurer's Guide To Permitted Investments
Put information on the state-by-state regulation of insurance company investments at your fingertips. Quickly determine which investments insurers can make—and in what amounts.

Looseleaf • Two volumes • 90 days free regular revision service • Regular revisions accompanied by invoice • **Comply** Advance Laws free • 30-day No-Risk Trial • $360.00 per set.

Attention to detail.



The Captive Insurance Manual
A guide to forming, operating, and evaluating captives, risk retention groups and purchasing groups. Expert analysis plus the full text of laws, regulations and forms from all U.S. and foreign domiciles.

Looseleaf • Two volumes • Revision service invoiced annually • 30-day No-Risk Trial • $185.00 per set.

All orders subject to applicable sales taxes, GST (in Canada) and shipping and handling. Call for complete information.

For more information or to order, call **TOLL FREE**

1-800-423-5910

Outside the U.S. 818-998-8830

NILS Publishing Company • P.O. Box 2507 • Chatsworth, CA 91313-2507

0102351594

Quality

Continued from page 3

sure how timely first report of injury claims are being reported within the company, said Jay T. Deragon, chief quality officer for Willis Corroon and one of the instructors of the course.

However, the "hot item" was benchmarking, he said. Not only did risk managers learn about the concept behind benchmarking, they also learned the right and wrong way to do it and the tools necessary to do it correctly.

Many risk managers have traditionally thought that benchmarking meant comparing insurance limits, deductibles and the cost of risk with other companies, said Mr. Laborde, who also was an instructor for the course.

Effective benchmarking is getting back to the underlying issues to evaluate why limits and deductibles are set where they are, he said. For example, instead of comparing output like loss levels, risk managers should be evaluating different processes of preventing losses or of managing litigation, he said.

Quality is not so much a revolutionary idea as it is a way of looking at old problems and taking a different approach to solving them, Mr. Laborde said.

"CEOs are saying 'Do benchmarking and best practices,' but what they haven't done is provide (risk managers) with the educational tools to do it," Mr. Deragon said. "Everyone is screaming about it, but they do not understand how to do it."

Of 101 risk managers surveyed recently by Elmhurst Management Services Inc., a Chicago-area marketing research and strategy assistance firm, only 28% said quality is part of their overall department and could also define exactly what tools and quality processes they are implementing.

Nearly two-thirds said quality is a part of everything they do, but were unable to cite specific activities and processes. The remaining risk managers did not know.

Additionally, only half of the risk managers that participated in this study, which was commissioned by Willis Corroon in preparation for the RIMS course, said they have received any quality training. Of those, 65% said the content of their quality training was not tailored to risk management, while 27% said their training was directly tailored to risk management.

It was pressure and encouragement from senior management that prompted Denise Estes, assistant risk manager for Orange County, Fla., in Orlando, to learn more about TQM for her department.

"TQM is now becoming better defined for risk management functions," she said.

"We've come up with areas that need to be reviewed" and are beginning to look at each process and bring it up to current times, said Ms. Estes, citing a 10-year-old claims processing system that the department is looking to update.

'TQM is now becoming better defined for risk management,' says Denise Estes.

"But we're still struggling to figure out how to apply this to other parts of the organization," she added.

Ms. Estes said her goal is to "gain a better educational voice" to influence quality management in other departments within the county that are producing losses.

Mary L. DeCampli-Stewart, risk manager for the Metropolitan Washington Airports Authority in Alexandria, Va., said her organization has just recently caught on to the quality movement.

Currently, "we are trying to get people in the organization to use benchmarking," she said.

Ms. DeCampli-Stewart, who attended the RIMS course to learn how to benchmark her risk management functions, said she has now picked one area—tracking and reporting of all property/casualty claims—and is now evaluating who the best-of-the-best are, and where her organization is in relation to those companies.

"The comments I've heard have always been that risk managers have a unique job in the organization and there are difficulties in how to put quality practices into the risk management area," Ms. DeCampli-Stewart said. However, "there is a way, and we now have to go back and re-educate ourselves."

Striving for quality requires "turning the world inside out and upside down and looking past the old way of doing things," said Ms. Fleming of Bell Atlantic.

Risk managers tend to figure out the problems and fix them, but they don't go back and see if the problem is really fixed or not, she said. Quality management is just talk "until you apply the tools to what you do," Ms. Fleming said.

"We live in a very inefficient industry right now," observed Mr. Laborde of Willis Corroon. "The insurance and risk management community, in comparison to what is taking place in other financial services industries, is not leading the curve by any stretch of the imagination," he said, referring to TQM.

"If it is going to be a viable place for all parties involved, we must work together more cooperatively, efficiently and effectively," Mr. Laborde said.

The Quality Insurance Congress, which was developed last year by a group of industry executives as a means of coordinating efforts to improve the quality of the insurance industry, is now focusing on gaining more risk manager support (*BI*, Oct. 4, 1993; Sept. 6, 1993).

The QIC, which currently consists of 120 agent, broker and insurer members, wants to know what their customers are demanding and what dissatisfies them when buying insurance and receiving insurance services, said Mr. Deragon, who is also executive director of the body.

"We need more customers telling the industry what's wrong," he said.

One of the priorities for the QIC next year is to solicit risk manager memberships, said Mr. Deragon, adding that risk managers will be allowed to join the group at no cost.

The QIC hopes risk managers can help push the quality movement along by voicing their complaints and suggestions to industry members through an electronic bulletin board developed by the QIC, among other means of communication.

Since its inception a little more than a year ago, the QIC has formed a board of directors, approved a business plan, hired a staff, built a database, and formed committees to explore various quality improvement issues.

The QIC's education committee will hold its first-ever quality management conference next week in Buena Vista, Fla. The QIC will hold another such conference Dec. 8-9 in San Diego, which will focus on the future of the insurance industry and what changes must occur to meet customers' needs, Mr. Deragon said.

The education committee's 1995 plans also include the launch of a magazine devoted to quality and the production of an educational video on quality.

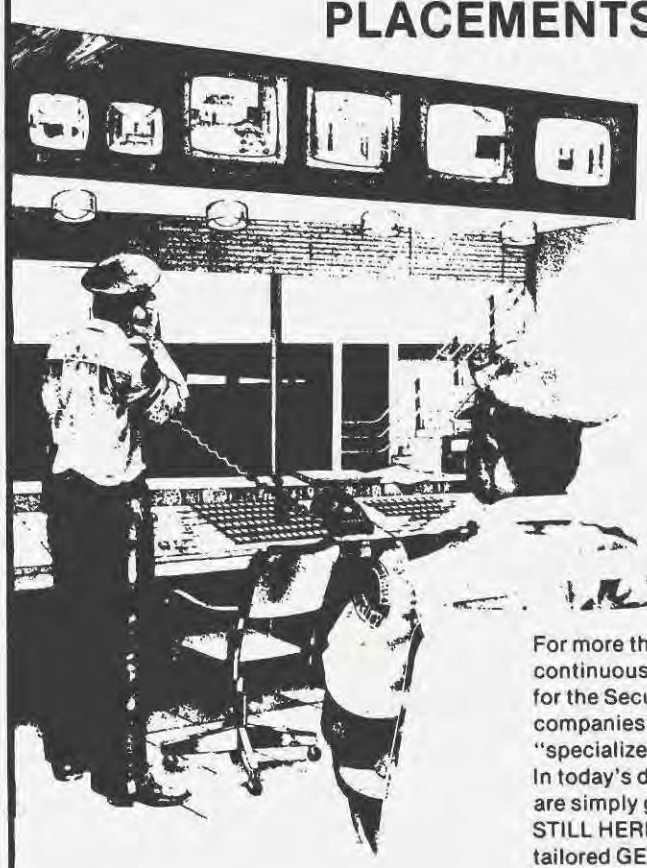
Another goal for the QIC in 1995 is to coordinate its quality efforts with all the insurance industry associations—including RIMS—so no quality research or educational efforts overlap, Mr. Deragon said.

•

For more information about upcoming courses on "Quality and the Risk Management Process" offered through RIMS, contact Fran Jordan at 212-286-9292.

For more information about the Quality Insurance Congress, call 800-445-3433.

A BRIEF MESSAGE ABOUT INSURANCE PLACEMENTS FOR



- Security Guards,
- Patrol Services,
- Detective Agencies,
- Armored Car Service,
- Alarm Monitoring and
- Alarm Installation

For more than a decade CoverX Corporation has continuously provided a stable insurance product for the Security Industry. During that time many companies and agencies professing to "specialize" in this industry have come and gone. In today's difficult insurance marketplace most are simply gone. COVERX CORPORATION IS STILL HERE, providing that industry with custom tailored GENERAL LIABILITY AND PROFESSIONAL LIABILITY.

If you have current or potential clients in the security industry whose long range interests lie in obtaining a quality insurance product in a stable market then you owe them a CoverX quotation.

For further information or applications call or write . . .

COVERX CORPORATION

P. O. Box 5096, Southfield, Michigan 48086
Telephone: (810) 358-4010
Facsimile: (810) 358-2459

ADVERTISER INDEX

Issue of November 14

Advertiser	Page #
AIG Corporate	29
Allendale Insurance	14-15
Assurex International	30
Brownyard Group	21
Business Insurance	33
Cover X	28
Employers Reinsurance Corp.	18-19
FHP Corp.	12A,12B
Helmsman Management Svcs.	25
Hilb Rogal & Hamilton	6
Home Insurance	16-17
Industrial Risk Insurers	9
I.R.I.S.C.	12
Johnson & Higgins	10-11
Liberty Mutual	7
NILS Publishing Company	26-27
Pepper Hamilton & Scheetz	32
Reliance National	40
RLI Corp.	13
Skandia America Group	4
Swiss Life	21
Tempest Re	20
Toplis & Harding	32
Wausau Insurance Company	5
Zurich American Insurance	22

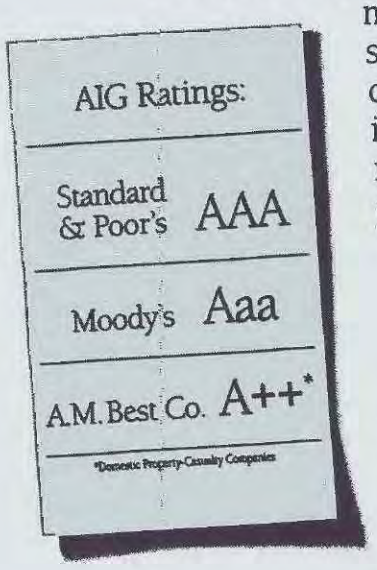
In today's uncertain markets, when are "strength and stability" more than just buzzwords?

When they're backed by an impeccable balance sheet and healthy profits.

If you're concerned about the financial strength of your insurance and financial services organization, here are some questions you should ask.

What's the clearest indicator of financial health?

A balance sheet of impeccable quality, conservatively managed. Look at AIG's financial statements. You'll find $16 billion in capital funds; $18 billion of general insurance net loss and loss expense reserves; and $1.9 billion in after-tax profits in 1993.

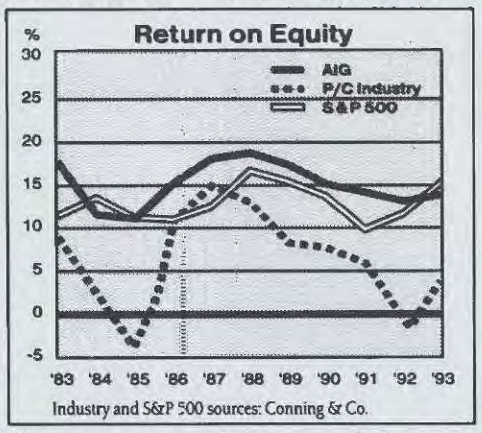


How important are the designations awarded by the rating agencies?

Very important. They provide an impartial, thoroughly researched measure of a company's financial strength. AIG holds the highest ratings awarded by the principal agencies. They are a prized asset, enabling us to capitalize on business opportunities not open to those without these credentials.

Are there substantial differences in the way insurance organizations are managed?

Yes. Take investment and underwriting philosophies. In investing, AIG has an insignificant exposure to high-yield securities and commercial real estate, which have caused so many problems for other companies.



The overall quality of our assets is excellent, with new cash flow invested primarily in investment-grade fixed-income securities.

We also believe underwriting profits are fundamental to the long-term stability and health of a company.

For years these beliefs have produced outstanding results. Including a return on equity that has consistently exceeded the industry average by a wide margin.

What other qualities should I look for?

A strong commitment to its basic business, a diversified business portfolio and global presence. AIG is the largest underwriter of commercial and industrial coverages in the U.S. We also have an international network second to none.

So if you're looking for financial strength, stability and commitment for the long term, consider the insurance and financial services organization that has demonstrated exactly those characteristics for decades.

AIG World leaders in insurance and financial services.

American International Group, Inc., Dept. A, 70 Pine Street, New York, NY 10270.

Annuities

Continued from page 2

the department expects employers to follow when purchasing pension annuities. Department officials declined to comment on the standards, saying that it would be premature to do so before the bulletin is published.

But employers and insurers that have met with Labor Department officials worry that the department may produce annuity purchase rules that could be impossible to follow and cause upheaval in the multibillion-dollar pension annuity market.

In particular, buyers and sellers are concerned that the Labor Department is likely to propose that employers must purchase the "safest available" annuity. They say such a term is impossible to define.

"No one knows what that means," said Klaus Shigley, a vp with John Hancock Mutual Life Insurance Co. in Boston.

At the same time, insurers and others say the term "safest available" annuity suggests that only one company could provide the coverage. In fact, though, a number of providers could be equally safe.

In particular, buyers and sellers are concerned that the Labor Department is likely to propose that employers must purchase the 'safest available' annuity. 'No one knows what that means,' says Klaus Shigley.

"It is impossible to say there is one safe company. We would argue there is a range of highly safe carriers," said Melissa Kahn, senior counsel at the American Council of Life Insurance in Washington.

Annuity experts say it is likely that one of the criteria the department will include in attempting to define safest available annuity is the credit evaluations an annuity provider receives from the major rating agencies.

But such ratings have their limitations, experts say. They note, for example, that Executive Life received the highest ratings from several agencies only a year before the junk bond-laden insurer was seized by the California Department of Insurance (*BI*, April 26, 1993).

"Rating agencies can be wrong," said the ACLI's Ms. Kahn.

Annuity experts also object to the way the department is developing its guidance on annuity purchases.

Interpretative bulletins—unlike the normal rule-making process—are final upon publication. Through this procedure, insurers and employers lose their ability to formally suggest changes.

"We would like to have a chance to comment to be sure there are no unintended consequences," said John Hancock's Mr. Shigley.

Others, though, say that by at least meeting with annuity experts—as it has done—the Labor Department is trying to get a better handle on employer and insurer concerns.

"Department officials are trying to educate themselves," said Rhoni Seguin, a senior consultant with PRIMCO Capital Management, a pension plan investment manager and annuity consulting firm in Portland, Ore.

The scope of the interpretative bulletin isn't known yet. It isn't clear if the bulletin only would apply to annuities that employers purchase when terminating a pension plan or to other situations, such as when an employer buys an annuity for an individual retiree but does not actually terminate the plan.

The purchase of pension annuities began to receive national attention in the early and mid-1980s when hundreds of employers terminated their pension plans to recapture billions of dollars in surplus assets.

Sen. Howard Metzenbaum, D-Ohio, a critic of the practice, estimated that between 1984 and 1990, approximately 2,000 employers terminated their plans and recovered $22 billion in excess assets.

Several dozen major employers during this period terminated their overfunded pension plans, purchased annuities from Executive Life and recovered about $800 million in surplus assets.

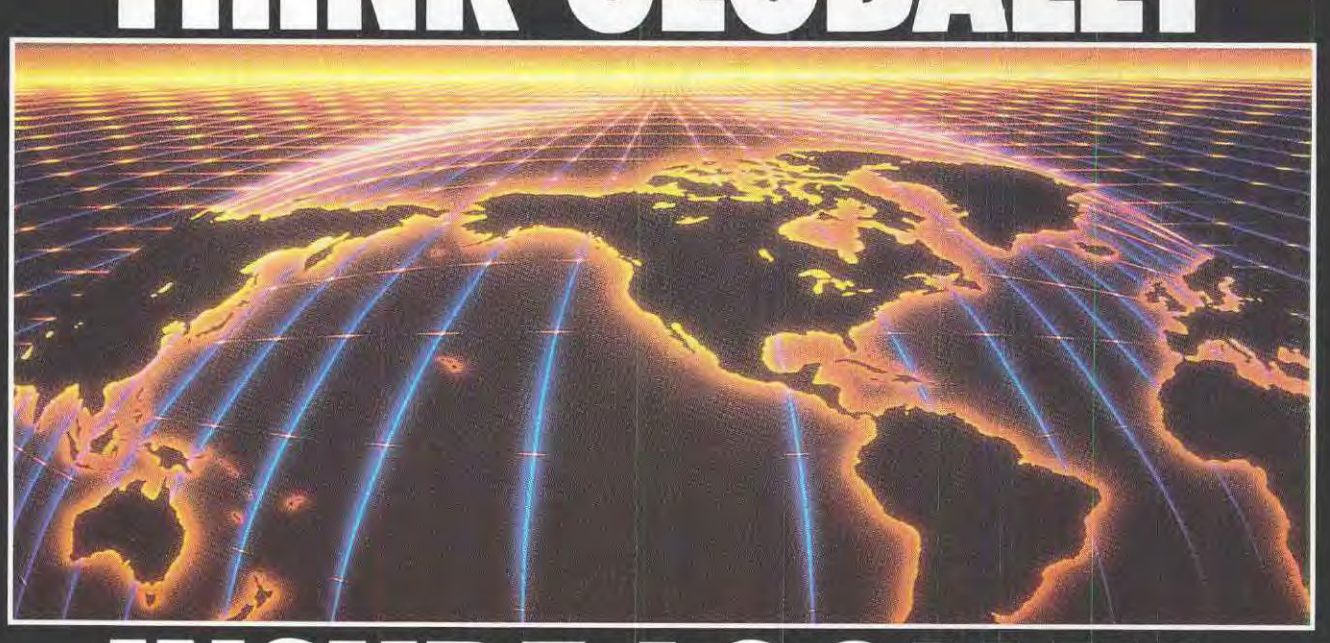
After California regulators seized Executive Life in 1991, pension plan annuitants' benefits were cut by 30%. Some employers voluntarily agreed to make up the difference, while others agreed to do so to settle Labor Department lawsuits or investigations.

In other cases, through the combination of payments from state guaranty associations and Aurora National Life Assurance Co.—the successor to Executive Life—most annuitants should receive promised benefits, said a spokeswoman for the National Organization of Life & Health Guaranty Assns. in Herndon, Va.

The practice of employers terminating pension plans to recover surplus assets ended several years ago after Congress enacted legislation that imposed hefty taxes on reversions.

But terminations—about 5,000 annually—continue for a variety of reasons. Many employers no longer want to sponsor a defined benefit plan because of investment risk and administrative costs. Plans also are terminated during corporate takeovers and when companies go out of business. BI

THINK GLOBALLY



INSURE LOCALLY

When it comes to risk management, insurance and related financial services, no one does it better than a strong local company. Assurex International partner agencies are each strong, respected leaders in their regions. Our combined annual premiums exceed $3 billion, and our international associates and worldwide network enable our partners to provide global service. Local services, worldwide—that's Assurex International.

UNITED STATES

ALABAMA
McGriff, Seibels & Williams, Inc.
Thames Batré Mattei Beville & Ison
ARIZONA
The Mahoney Group
CALIFORNIA
Barney & Barney
Bolton/RGV Insurance Brokers
Woodruff-Sawyer & Co.
COLORADO
Van Gilder Insurance Corporation
CONNECTICUT
Arthur A. Watson & Co., Inc.
FLORIDA
J. Rolfe Davis Insurance Agency, Inc.
Seitlin & Company
GEORGIA
Hamilton Dorsey Alston Company
Palmer & Cay/Carswell, Inc.
HAWAII
American Mutual Underwriters, Ltd.
ILLINOIS
Mack and Parker, Inc.
INDIANA
Insurance & Risk Management
IOWA
Cottingham & Butler, Inc.
La Mair-Mulock-Condon Co.
KANSAS
Insurance Management Associates, Inc.
KENTUCKY
Powell-Walton-Milward, Inc.
LOUISIANA
Gillis, Ellis & Baker, Inc.
MAINE
Morse, Payson & Noyes Insurance
MARYLAND
Early, Cassidy & Schilling, Inc.
Riggs, Counselman, Michaels & Downes, Inc.
MASSACHUSETTS
Fred C. Church, Inc.
MICHIGAN
General Underwriters, Inc.
MINNESOTA
Brandow Howard Kohler & Rosenbloom, Inc.
MISSISSIPPI
Fox-Everett, Inc.
MISSOURI
The Daniel and Henry Co.
Gilbert-Magill Company
NEBRASKA
The Harry A. Koch Co.
NEW JERSEY
NIA, Ltd.
NEW MEXICO
Daniels Insurance Agency, Inc.
NEW YORK
Frenkel & Co., Inc.
Hatch-Leonard/Markin-Shaw, Inc.
NORTH CAROLINA
Cameron M. Harris & Co.
OHIO
The McElroy-Minister Company
The James B. Oswald Company
Picton Cavanaugh, Inc.
Schiff, Kreidler-Shell, Inc.
OKLAHOMA
North American Insurance Agency, Inc.
OREGON
Jewett, Barton, Leavy & Kern, Inc.
PENNSYLVANIA
Clair Odell Group
Engle-Hambright & Davies, Inc.
The HDH Group, Inc.
RHODE ISLAND
Starkweather & Shepley, Inc.
SOUTH CAROLINA
Boyle-Vaughan Associates, Inc.
TENNESSEE
Polk & Sullivan Group, Inc.
Treadwell & Harry Insurance Agency, Inc.
TEXAS
Roach Howard Smith & Hunter
John L. Wortham & Son, L.L.P.
UTAH
Fred A. Moreton & Company
VERMONT
Kinney, Pike, Bell & Conner, Inc.
VIRGINIA
DeJarnette & Paul, Inc.
Henderson & Phillips, Inc.
WASHINGTON
Parker, Smith & Feek, Inc.
WISCONSIN
Laub Group Inc.

CANADA

BRITISH COLUMBIA
Parsons Brown & Company Ltd.
MANITOBA
Ryan Gateway Insurance Brokers Inc.
NEW BRUNSWICK
Wilson Insurance Ltd.
NEWFOUNDLAND
Anthony Insurance Inc.
NOVA SCOTIA
Fraser & Hoyt Insurance Ltd.
ONTARIO
Stevenson & Hunt Insurance Brokers Ltd.
Tower-Chisholm Ferguson Limited

INTERNATIONAL

AUSTRALIA
J.M.D. Ross Insurance Brokers Pty. Ltd.
BELGIUM
S.A. Menage & Jowa N.V.
BRAZIL
Adams & Porter Ltda.
CHINA
New World Indosuez
Insurance Services (China) Limited
ENGLAND
Robert Fleming Insurance Brokers Limited
GERMANY
Wesselhoeft Ahlers & Schües
HONG KONG
New World Indosuez
Insurance Services Limited
ITALY
Assiteca S.p.A.
IRELAND
Coyle Hamilton Limited
MACAU
New World Indosuez
Insurance Services Limited
MALAYSIA
NWI Risk Management Consultants Sdn Bhd
MEXICO
Lorant Martinez Salas y Cía
NETHERLANDS
Kamerbeek Assurantiemakelaars B.V.
NEW ZEALAND
International Insurance Brokers Ltd.
SINGAPORE
New World Indosuez
Insurance Brokers Pte Limited
THAILAND
PAP New World Indosuez (Thailand) Limited

Assurex INTERNATIONAL

Assurex International · Community Corporate Center
445 Hutchinson Ave. · Columbus, OH 43235

INTERNATIONAL

Market state leads Mann to reduce capacity for 1995

By ADRIAN LADBURY

LONDON—Leading Lloyd's of London managing agency D.P. Mann Underwriting Agency Ltd. plans to reduce the 1995 capacity of its market-leading syndicate 435 by up to nearly 10%.

London and international reinsurance markets have more than enough capacity going into 1995, and current market conditions do not justify further expansion, explained David Mann, active underwriter and director.

As a result, the agency will shrink the syndicate's capacity for the 1995 underwriting year to between 185 million and 190 million pounds ($299.7 million to $307.8 million) from 205 million pounds ($332.1 million) in 1994.

Director Robert Mackenzie said the reduction would be achieved through attrition, with 10% of current members resigning. Under Lloyd's rules, managing agents may not force members to reduce their existing capacity levels on syndicates.

From only 3 million pounds ($4.9 million at current exchange rates) of capacity in 1984, syndicate 435 has grown rapidly. This year, it is Lloyd's sixth-largest by capacity and was a favorite last year among corporate investors. With the loss of individual members' capacity, the proportion of 435's capital derived from corporate members will certainly rise from its current 17%.

D.P. Mann had been considered one of the most likely Lloyd's agents to launch a dedicated vehicle to back the syndicate for 1995. Although Mr. Mann confirmed he had "plenty of offers" from big prospective external backers, he and the agency's shareholders ultimately decided new capital is not needed and are unsure of the benefits of the dedicated structure.

Mr. Mann said the world reinsurance market in general has reached a natural "plateau." Rapid growth over the next few years will be possible only if reinsurers cut rates and pick up bad business, he said.

The syndicate is downsizing "to achieve effective capital management," he said. "We have gone through a period of unprecedented growth. Our business plan says the market has reached a plateau. If you look at the reinsurers at Lloyd's and outside, you will find a lot of existing capacity that is going to be underutilized."

Mr. Mann also said that the agency and its shareholders want to retain their independence and do not relish the prospect of having their decision-making ability restricted by a single dominant external shareholder.

One of Lloyd's great strengths is its syndicates' ability to make quick decisions and grasp oppor-

Continued on next page

Managing risks in Latin America

Economic expansion benefits profession

By GAVIN SOUTER

CANCUN, Mexico—Risk management is becoming more important in the rapidly maturing economies of Latin America.

ALARYS

Economic expansion fueled by trade accords like the North American Free Trade Agreement, the Mercosur pact between Brazil, Argentina, Paraguay and Uruguay, and the Andean Pact between Peru, Venezuela, Colombia, Ecuador and Bolivia have helped Latin American risk managers develop and expand their roles as their companies grow and gain international exposures, several risk managers say.

And foreign investors are bringing loss control and risk analysis techniques, as well as cash, into the region, they said early this month at the first Latin American Conference of Risk and Insurance Management, sponsored by Asociacion Latinoamericana de Administradores de Riesgos y Seguros, a risk management trade group.

But risk managers in Latin America still must strive to increase their influence if their companies are to approach the risk management standards of more developed economies, they say.

In Mexico, for example, most small and medium-sized companies do not have risk management departments, said Graciela Soto, risk manager at Mexico City-based JV Corp. and president of Instituto Mexicano de Administradores de Riesgos.

And, in large companies, risks are handled by personnel ranging from full-fledged risk managers to insurance managers working within finance departments, she said.

"There are companies in Mexico where the risk management area is developing and the management is finding out how important our function is and they are supporting us," Ms. Soto said.

The development of risk management in Mexican companies has been restricted, however, by financial cutbacks made by companies trying to survive in a poor economic

Continued on page 35

Loss prevention lacking: Consultant

By GAVIN SOUTER

CANCUN, Mexico—Ignorance of safety procedures and strained financial resources are preventing Latin American companies from cutting down their preventable losses, says an engineering consultant.

ALARYS

The willingness of state reinsurance facilities to accept all business, regardless of the losses it may generate, has not encouraged more active loss control, said Rodolfo Leza of Leza, Escrina y Asociados S.A. in Buenos Aires, Argentina.

To prevent losses and improve safety, Latin American companies should implement some of the process safety management systems that are now being developed in the United States and Europe, added John F.P. Thorpe, chairman of engineering consulting firm IES Ltd. in London.

Limited investment in safety and loss prevention is a common problem among companies in Latin America, said Mr. Leza earlier this month at the first Latin American Conference of Risk & Insurance Management. "People are often not aware of loss prevention measures and they are not taken into account."

Even if middle managers make loss reduction or prevention recommendations, senior management often gives priority to other investments that will more likely generate an immediate profit, he said.

Continued on page 35



AP/Wide World photo

This worker clearing a highway near Nice was among cleanup brigades deployed last week after flooding in France and Italy.

Insurance to cover fraction of flood loss

By MARIA KIELMAS

Floods that devastated areas of northwestern Italy last week are expected to produce insured losses of up to $190 million, though total losses will be much higher.

The floods, which destroyed homes and farmland and closed hundreds of businesses in the Piemonte region, caused up 10 trillion lire ($6.36 billion) in damage, the Italian government estimated late last week. The death toll is expected to reach 100 and 8,000 are now homeless.

Italian insurers are expecting maximum losses of between 200 billion and 300 billion lire ($127.2 million to $190.8 million), said Gianni Ferraresi, president of the technical section for fire and engineering risks at Italian insurance association Associazione Nazionale Imprese Assicuratrici.

Areas most damaged by the floods were in the Piemonte region between the towns of Asti, Alessandria, Alba and Cuneo. One-sixth of the region is covered in mud. Alba, a town of 30,000, was devastated, and its famous white truffle crop was destroyed. Parts of France and Spain were also affected by flooding.

Italy's government has declared a state of emergency in the Piemonte region and has promised $2.5 billion in aid.

The floods were caused by unusual meteorological conditions. A high-pressure and low-pressure zone collided over the mountainous region, causing about 24 inches of rain to fall in a single day.

But even worse damage could occur as floodwaters flow along the River Po to the Adriatic coast. The north central region of Reggio nell Emilia was at risk late last week and officials had closed road and rail bridges in the area. Most at risk are the cities of Ferrara and Rovigo in the Po delta plain, which is an important agricultural and industrial area. The last severe flooding in Pianure Padana was in 1951.

"If (flooding) happens here, it will be much more severe than in the Piemonte," said Mr. Ferraresi, who also is head of fire and industrial insurance at Assicurazioni Generali S.p.A.'s Mogliano office.

Insured losses are not expected to be very high. "The insurance losses are severe but

Continued on page 35

Lloyd's debt collecting woes continue

By ADRIAN LADBURY

LONDON—Several recent developments raise questions about Lloyd's of London's ability to pressure members into paying their debts, and also may clear the way for a members to sue the society in U.S. courts.

Chief Executive Peter Middleton told a press conference last Wednesday that as of Oct. 31, Lloyd's Central Fund is still owed 1 billion pounds ($1.62 billion) from members. He added, though, that it is recovering about "10 million pounds ($16.2 million) a week."

However, members action groups claim that a U.K. Court of Appeal ruling last week will make it impossible for Lloyd's to force members to pay for losses with assets not held by the market.

Lloyd's also learned last week that a leading British savings and loan institution has frozen a member's assets in the Isle of Man to keep them out of Lloyd's clutches. Many other members are likely to seek the same protection for their assets.

And, mixed news arrived from the United States, where a federal court judge ruled in a preliminary opinion that a U.S. member must pay his debts but ordered a trial to proceed in January on the member's fraud allegations against Lloyd's. This would be the first such case to proceed against the market in U.S. rather than U.K. courts.

Lloyd's is vowing to fight these decisions.

The U.K. Court of Appeals ruling stems from two cases brought against Lloyd's by members John Stewart Clementson and Gian Carlo Mason. Both had been sued by Lloyd's for payment of their outstanding losses.

The members fought the suits arguing that Lloyd's bylaws and the operation of its Central Fund violated European Union competition law because Lloyd's unique structure gives it a competitive advantage over other European insurers.

They both also argued that they shouldn't have to pay because Lloyd's owes them an implied duty of care to minimize their losses under their membership contracts. Mr. Mason also alleged that Lloyd's had defrauded him.

Justice Saville of the Commercial Court last year chose to hear as preliminary issues the members' defenses based on the European law and contractual duty. In December, he ruled in favor of Lloyd's on both counts.

The Court of Appeal upheld Justice Saville's decision on the contractual issue, but the appellate justices said they did not have enough facts to decide European law.

Members claim the court's decision to reserve judgment on European law as a victory. They argue that without a decision from the

Continued on next page

Mann

Continued from previous page
tunities when they arise, Mr. Mann said. If Lloyd's becomes a market of syndicates that are simply subsidiaries of insurance and reinsurance companies, it could lose its "cutting edge," Mr. Mann said.

The decision not to allow in "large slugs of capital" will not prevent the agency from changing its capital base in the long term, Mr. Mackenzie added.

By the end of next year, the agency hopes to have a plan in place that would allow syndicate 435's individual members to convert to limited liability corporate status, he said. If it can do so, syndicate 435 would become a corporate syndicate as envisaged by the market in its "Value at Lloyd's" document.

Last week, Lloyd's took a big step toward achieving the goals outlined in the Value Group document as the Council passed interim measures that will allow 1995 members to transfer to limited liability status for the first time.

The mechanism will enable members to transfer to a limited liability basis next year but only for future underwriting. Lloyd's hopes that by the beginning of 1996 it will have developed a way for members to transfer all past and future underwriting into a limited liability corporate vehicle.

Under next year's plan, members could transfer their still open 1993 and 1994 years of account into the corporate vehicle by paying the corporate vehicle a reserve amount equal to their estimated liabilities.

If actual liabilities exceeded that amount, members would still be liable for the difference.

The premium will be adjusted up or down every year for five years depending on the member's underwriting performance. The individual member's corporate vehicle will underwrite on the same basis as normal corporate members with a 2-to-1 capital-to-capacity ratio. But, Lloyd's has dropped the amount of net tangible assets required at Lloyd's to 100,000 pounds ($162,000) for individuals who wish to convert from the 1.5 million pounds ($2.4 million) required for corporate investors.

Peter Middleton, Lloyd's chief executive, conceded that he expects only a small number of members to take up the new option in time for 1995. But, he reiterated his prediction that within five years only about 3,000 to 3,500 members will elect to retain unlimited liability status. BI

Lloyd's

Continued from previous page
Court of Appeal, European law controls and they do not have to pay Lloyd's.

The members claim that Lloyd's will now have to take the members back to court to fight the issue, which could take years.

"We believe that the judgment will effectively stop Lloyd's debt collectors from attacking names' assets held outside Lloyd's for the next two years or more," said Alan Porter, chairman of the Devonshire Names Action Group, one of the larger action groups. "Since the debts they are pursuing are, in our view, not based on normal commercial losses but on negligence, misrepresentation and regulatory failure, we think this is a fair outcome," he said.

Lloyd's rejected the members' interpretation of the Court of Appeals' decision.

"It was simply that (the court) did not have the facts to decide the issue at this stage. One lord justice of appeal expressed the view that he considered that the names' European law defenses would ultimately fail," said a statement from Lloyd's. "Lloyd's debt recovery processes are not in question as a result of this decision and will be maintained," the statement added.

The debt collecting effort at Lloyd's also is under attack on another front. Alliance & Leicester Building Society, in Leicester, England, has decided to freeze the assets of a Lloyd's member in the Isle of Man. That member has run out of funds at Lloyd's to cover his losses and the market is now looking to collect from his personal assets.

A spokesman for the building society said that it "took legal advice and decided to freeze the account," in what it described as a "neutral stance." He said that the building society hopes Lloyd's and the member would come to an agreement on the amount owed, but without agreement the market would have to petition the High Court of the Isle of Man to release the funds.

Meanwhile, in the United States, U.S. District Judge John Rainey paved the way for a full trial of *Leslie vs. Lloyd's*, when he rejected an application by U.S. member Charles Leslie for an extension to an injunction won by Mr. Leslie in May. That injunction prevented Lloyd's from drawing down on his deposit held by Texas Commerce Bank N.A. while he pursued his case against Lloyd's.

The judge explained in a Nov. 2 opinion that he would not allow an extension to the injunction because: Mr. Leslie has a good chance of recouping any money paid to Lloyd's by suing the corporation for fraud; any fraudulent action on the part of Lloyd's would not "vitiate his entire transaction with Lloyd's"; and because Mr. Leslie could afford to pay the losses anyway.

In the decision, Judge Rainey made a scathing attack on Lloyd's. "The great weight of evidence presented by Leslie indicates potentially fraudulent actions on the part of Lloyd's subsequent to Leslie's solicitation as a name and the initial posting of the letters of credit," Judge Rainey said.

"In response to his direct question, Leslie was told (by his members agent) that the most he could actually expect to lose in a bad year was approximately 10%. . .Leslie was placed into syndicates in Lloyd's that contained high-risk, long-tail exposure, such as asbestosis and other pollution risks. Accordingly Leslie, like numerous other names, is faced with limitless, continuing liability, a consequence clearly contrary to the representations used to entice Leslie to invest," the judge said.

And Judge Rainey did not attack only the members agents. He also lambasted the Corporation of Lloyd's, saying that by the mid-1980s it was fully aware of the likely losses on the horizon but failed to warn the members and may even have helped facilitate a "transfer of exposure to various volatile risks from insiders to external names."

Until now, Lloyd's has successfully kept allegations of fraud brought against it by U.S. and Canadian members out of the courts in those countries. U.S. members would prefer U.S. jurisdiction since U.S. attorneys have far wider powers of discovery and U.K. commercial courts do not use juries. Three U.S. courts have previously upheld Lloyd's claim that members were bound by agreements they signed that any suits brought against the society must be brought in the U.K. courts.

A spokesman for Lloyd's said that it would attempt to have the litigation transferred to U.K. courts, but added that if it failed, it would provide a "full defense."

Lloyd's reacted with surprise to the news that Judge Rainey had seemingly already condemned Lloyd's as fraudulent during the preliminary hearing on Nov. 2.

"Lloyd's is extremely surprised by the findings of the judge in the case of *Leslie vs. Lloyd's*. The findings of Judge Rainey as to the alleged fraud in this case were reached solely on the basis of documents and submissions made by Leslie and his counsel. At no time was it appropriate for Lloyd's to raise an argument or put in any evidence of its own to the allegations," stated Lloyd's. BI

Aon to acquire London broker

LONDON—In an effort to increase its presence in the London market, Aon Corp. plans to acquire London brokerage Jenner Fenton Slade Group Ltd.

The deal had not been finalized late last week and no terms were released.

The JFS group is made up of three brokerages: Jenner Fenton Slade Ltd., a Lloyd's direct brokerage that specializes in marine and energy business; Jenner Fenton Slade Reinsurance Brokers Ltd., which also specializes in the energy sector; and JH Blades & Co. Inc. of Houston, which specializes in energy surplus lines.

Jenner Fenton Slade's group operating revenues totaled 23.4 million pounds ($35.4 million) in 1992.

Direct brokerage accounted for 15.7 million pounds ($23.8 million) of that revenue, while the reinsurance brokerage accounted for 4.2 million pounds ($6.4 million), and JH Blades & Co. generated the remainder.

—By Adrian Ladbury

A focused approach to your Workers' Comp needs...

Toplis and Harding specializes in filling the unique needs of your company. We take the time to focus on *your* objectives—then design flexible, innovative approaches to these objectives. We've been providing this kind of quality service to the insurance industry for over 75 years.

Our service starts with our people
Toplis and Harding professionals are good listeners and creative thinkers. They combine skill and experience to provide efficient claims administration and cost containment. Their case loads are manageable so you receive the personal attention you need.

The Toplis and Harding Advantage
Quality. Innovation. Communication. Small enough to focus on your needs. Experienced enough to see both the opportunities and the potential pitfalls in your workers' comp program.

Toplis and Harding —
A Focused Approach to Workers' Comp



TOPLIS AND HARDING, INC.
NORTH AMERICA
For more information, call Barry W. Belknap
1-800-472-4128
195 Broadway, New York, NY 10007

CHANCELLOR INSURANCE COMPANY LIMITED

NOTICE OF PERMANENT INJUNCTION

YOU ARE HEREBY NOTIFIED THAT ON OCTOBER 25, 1994, THE UNITED STATES BANKRUPTCY COURT FOR THE SOUTHERN DISTRICT OF NEW YORK GRANTED THE APPLICATION OF THE JOINT PROVISIONAL LIQUIDATORS' OF CHANCELLOR INSURANCE COMPANY LIMITED ("CHANCELLOR"), CASE NO. 93B-41539 (PBA), FOR A PERMANENT INJUNCTION ENJOINING AND RESTRAINING ALL PERSONS FROM:

(1) RELINQUISHING OR DISPOSING OF ANY PROPERTY OF CHANCELLOR IN THE UNITED STATES, OR THE PROCEEDS OF SUCH PROPERTY, TO THIRD PARTIES;

(2) INSOFAR AS IT RELATES TO CHANCELLOR, COMMENCING OR CONTINUING ANY JUDICIAL, ADMINISTRATIVE OR REGULATORY ACTION OR PROCEEDING OR ANY ARBITRATION PROCEEDING INVOLVING CHANCELLOR OR ANY OF ITS PROPERTY, EXCEPT AS PROVIDED IN THE SCHEME OF ARRANGEMENT BETWEEN CHANCELLOR AND ITS CREDITORS AS SANCTIONED BY ORDER OF THE HIGH COURT OF JUSTICE IN LONDON, ENGLAND ON OCTOBER 12, 1994 ("SCHEME OF ARRANGEMENT"); OR

(3) ENFORCING ANY JUDICIAL, ADMINISTRATIVE, OR REGULATORY JUDGMENT, ASSESSMENT OR ORDER OR ANY ARBITRATION AWARD OR DECISION OR COMMENCING OR CONTINUING ANY ACT OR ANY JUDICIAL, ADMINISTRATIVE, ARBITRATION OR REGULATORY PROCEEDING TO CREATE, PERFECT OR ENFORCE ANY LIEN, SET-OFF OR OTHER CLAIM AGAINST CHANCELLOR OR ANY OF ITS PROPERTY, EXCEPT AS EXPRESSLY PERMITTED IN THE SCHEME OF ARRANGEMENT.

IF YOU BELIEVE THAT YOU MAY BE AFFECTED BY THE PERMANENT INJUNCTION, YOU SHOULD REVIEW THE ORDER ENTERED BY THE BANKRUPTCY COURT. A COPY OF THE PERMANENT INJUNCTION MAY BE OBTAINED, FREE OF CHARGE, BY SENDING A WRITTEN REQUEST TO THE ADDRESS BELOW.

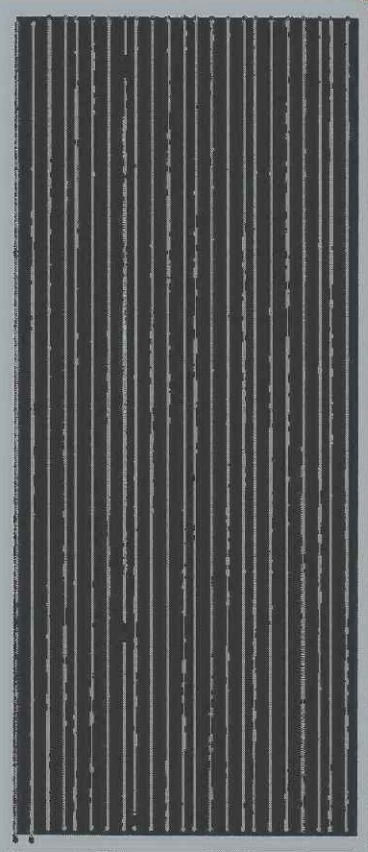
DAVID B. STRATTON
PEPPER, HAMILTON & SCHEETZ
1201 MARKET STREET, SUITE 1401
WILMINGTON, DELAWARE 19801
(302) 656-8865 (FAX)

This Spring at RIMS in San Francisco everyone will be watching...

Business Insurance®

presents

RIMS TV 1995



For details call: Martin Ross 212 210-0228

In 1995 *BI* will expand its news coverage of the Risk & Insurance Management Society's annual conference to include televised conference reporting.

Business Insurance's RIMSTV will be shown on exclusive channels in major official conference hotels and on monitors around the exhibit hall.

Original programs, shown 24 hours daily, Monday, Tuesday and Wednesday, will include coverage of major conference sessions, interviews with association leaders, industry leaders, conference speakers, attendees and exhibitors, plus daily conference highlights and updates.

Executives attending the conference will tune in to *Business Insurance's* RIMSTV for the same timely, accurate news reporting that nearly 146,000* readers rely on each week in print. Book your time now on the conference's official daily television program.

* Includes pass-along readership

California

Continued from page 1

occupational injury specialists to employers in search of preferred providers.

None of the providers identified by authorities has been formally charged with any crime. In fact, state and county officials say that only within the past year have they become aware of these doctors marketing their work-injury clinics and services to employers.

Insurance investigators, though, are fully aware of the trend. Some even know of former mill doctors joining the swelling ranks of providers touting their services as managed workers comp providers.

Fremont investigators track doctors and health care providers who sign workers comp treatment forms, noting which ones have worked from addresses suspected of housing former mills, Mr. Pageler said.

Fremont is keeping an eye on this trend to make sure that its health maintenance organization, Fremont Health, does not sign contracts with doctors formerly linked to the mills that it is now investigating, he said.

Other insurers also track public records and claims to keep tabs on doctors they consider suspicious.

Self-insurers, though, may not be receiving the same level of fraud detection and deterrence, said Jerry W. Treadway, a Los Angeles bureau chief for the California Department of Insurance's fraud division. Mr. Treadway said his division is on a campaign to solicit more cooperation in fraud reporting from self-insurers and third-party administrators.

"Companies have to be very careful when (they) start selecting their designated medical clinics," Mr. Treadway said. "You better know who you are dealing with."

Unlike insurance companies, third-party administrators and self-insurers are not required by state law to have special investigations units.

But Joseph Markey, president of the California Self Insurers' Assn. in Sacramento and chairman of the state's Fraud Assessment Commission, said TPAs routinely review claims for suspicious patterns. In addition, he said, the nature of self-insured plans tends to make them more difficult targets for fraud perpetrators.

In self-insured companies, Mr. Markey explained, "There is a closer relationship from the claims department to the employees and in many cases there is a close relationship between the claims department and doctors."

Take Freedom Communications Inc., for example. The self-insured newspaper company in Irvine, Calif., has not fallen victim to medical provider fraud because it maintains a close relationship with the clinics it uses to treat workers, said Diana Rich, workers comp manager.

Freedom also has two workers comp staff members who personally supervise benefits for injured workers. "They are the face of our work comp program," Ms. Rich said. "We're large enough to have that luxury."

Insurance companies, though, are at the forefront of monitoring the changing role of doctors and clinics suspected of abuse.

Their medical evaluation capabilities keep them one step ahead—even of state regulators—in tracking workers comp trends, said Mr. Treadway of the Department of Insurance.

Unscrupulous doctors may be targeting employers because of workers comp reform and successful prosecution efforts that have forced mill operators to lay low or move out of state, according to Mr. Treadway.

In fact, California's neighboring states are reporting an increase in providers exploiting their workers comp systems for profit (see related story).

Those providers that remained in California appear to be primarily taking advantage of the change wrought by last year's reforms that allow employers to designate medical treatment of injured workers.

"Those same operators have gone back and opened up industrial medical clinics," Mr. Treadway said. "And now, knowing the laws have shifted in favor of employers controlling the cost, they are going back to these same employers under a different hat and disguise and saying, 'Hey, we're here to offer you a full range of treatment facilities and we will be happy to treat your workers and be your designated clinic.' "

"Basically, it's the same animals," agreed John Benson, Zenith Insurance Co.'s vp of claims/special investigation units in Woodland Hills, Calif. "They've just changed their spots."

And it's not just employers that are being taken advantage of.

California law still allows workers, any time before an injury, to choose their own doctors. As a result, whole groups of workers are being recruited to designate certain providers as their treating physician.

Often those providers turn out to be someone who had been associated with a workers comp mill, according to George Griffith, manager of workers compensation for the National Insurance Crime Bureau office in Glendora, Calif.

"We're seeing more people opting to designate a doctor than they have in the past," Mr. Griffith said. "Obviously if they are naming a doctor, how did they get that name unless someone is marketing that doctor?"

As a result of these developments, public officials are closely watching for new forms of workers comp abuses.

Ed Feldman, head deputy district attorney overseeing a Los Angeles County workers comp fraud unit, said prosecution efforts are likely to focus more on treatment problems because reforms took the profit out of other abuses of the system, such as excessive medical-legal evaluations.

Consequently, investigators are now seeing unscrupulous health care providers lengthen treatment times or unbundle services, charging fees for different parts of a treatment rather than charging one flat rate as is customary.

However, insurance investigators warn that not all of the questionable medical providers or their front men will be as obvious, or quick to start a new scam, as the doctor who is now in hiding from state and county authorities.

That doctor has been under investigation for various instances of alleged insurance fraud. However, the state attorney general recently initiated proceedings to revoke his medical license in connection with those fraud allegations.

The doctor, who until last year owned a workers comp mill in Los Angeles, this year set up a clinic in nearby Kern County and was soliciting employer referrals. County authorities fined him for operating an unlicensed clinic and, when they sought payment of those fines, the doctor fled.

Other fraudulent providers may not be so easy to spot.

"Whenever you cut back in one place, they're going to find a way to run up charges somewhere else," said Mr. Griffith of the National Insurance Crime Bureau. BI

New wave of work comp providers under increased scrutiny in Arizona

Squeeze one end of water balloon, the old crime-fighting analogy goes, and it bulges out elsewhere.

True to form, following California's crack down on workers compensation billing scams in recent years, perpetrators of these schemes now appear to be bulging out in Arizona.

Insurance investigators say Arizona is the new home of an industry built around workers compensation attorneys, chiropractors, doctors and others who exploit the system for profit. It's an industry that thrived in California before reform and high-publicity prosecution efforts reduced the state's appeal.

"I know of an (attorney record) copy service that has picked up their whole operation and moved to Arizona and I have heard of doctors doing the same thing," said Steve Friedman, a SAFECO Insurance Co. regional special investigations unit manager in Fountain Valley, Calif.

Arizona is not the only state that has inherited California's workers comp fraud refugees, though it is one that observers are keeping an eye on, according to the Coalition Against Insurance Fraud in Washington.

Investigators say there are signs that Arizona's workers comp "service" industry is off to an auspicious start. Newspapers, telephone books and even public buses contain millions of dollars worth of advertisements for services that are similar to those commonly used by California workers comp mills to recruit a steady stream of potential claimants.

Arizona does not have the "cappers" who gathered claimants out of unemployment lines, as was common in California, said Steve Lebo, manager of the investigations department of the Arizona State Compensation Fund.

But Mr. Lebo suspects that many of the professionals advertising workers comp services are billing insurers more for treatments than is usual or customary.

"I think we're seeing the beginning of it, and we've got to keep our finger on it," he said.

In July, it became a felony in Arizona to file false statements to obtain workers comp benefits or payments. A Department of Insurance fraud unit was formed at the same time and has a budget for seven investigators but currently employs four.

Gay Ann Williams, deputy director of the Arizona Department of Insurance, said there is anecdotal evidence that professionals who profited from workers comp fraud and abuse in California are gearing up to do the same in her state.

In the meantime, there are signs of billing abuse, she said.

"We've seen our (workers comp) rates continue to climb and climb," Ms. Williams said.

Investigators say some of Arizona's workers comp laws allow abuses to flourish. For example, Arizona does not require that a medical office be owned by a doctor, as is the case in California.

Jerry Treadway, a Los Angeles bureau chief for the California Department of Insurance, said Arizona, like other bordering states, has demographic characteristics common to California.

For example, workforces of Latino laborers are often preyed on by practitioners of fraud, who lure them in for evaluation and treatment scams.

"The profile of the typical workers comp claimant who was going through the mills was predominantly Hispanic in this area," Mr. Treadway said. "You have the same Hispanic worker base in Arizona, New Mexico and Texas. And those people are being targeted again."

Others who profited from California's pre-reform policies have followed workers out of the state.

Ranney Pageler, vp of the fraud investigations department at Fremont Compensation Insurance Co. in Glendale, Calif., tracks medical clinic operators suspected of submitting questionable claims.

Mr. Pageler said he noticed that when a company moved its workers from Canoga Park, Calif., to Tucson, Ariz., several of the clinics he was watching also moved to Tucson.

"There were guys who were down the street from them in Canoga Park and now they are down the street from them in Tucson," Mr. Pageler said.

The practice of following companies and their workers out of state is not a new pattern, investigators say.

"When you take 20,000 jobs and move them elsewhere, that's like dragging baitfish across the ocean," Mr. Pageler said. "The sharks are watching that."

—By Roberto Ceniceros

"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.

	Surface Mail	By Air
USA	$80	$175
Canada	$126*	$198*
All other countries by expedited air.		$200

*Price includes Canadian GST.

Business Insurance.

Subscription Dept.
965 E. Jefferson
Detroit, MI 48207

Court rejects employee suit for holdup

By JOANNE WOJCIK

SAN FRANCISCO—Employers that don't take adequate security measures despite a known risk of harm to their employees are protected from tort liability under the exclusive remedy provisions of workers compensation law, a California appellate court has ruled.

In affirming a trial court ruling last month in *Arendell vs. Auto Parts Club Inc.*, the California 1st District Court of Appeal in San Francisco found that employees assaulted in a store robbery were not entitled to pursue a tort claim against their employer for negligent or reckless failure to provide adequate security.

The employees, Thomas Arendell and Chase Wilson, filed suit against their employer, Auto Parts Club Inc. of Oakland, in 1993 after they were assaulted by three youths at gunpoint.

They argued that the store was located in a high crime area where there had been two armed robberies on the premises in the previous seven months and, despite employee complaints, the store had no security system, no guards and inadequate exterior lighting.

But both the trial and appellate courts found that workers compensation law should apply to the case since the complaint alleged only negligence and recklessness, not a desire on the employer's part to cause the injurious consequences to the workers or a belief that such consequences were substantially certain to result.

The state's Corporate Criminal Liability Act imposes severe penalties on companies and managers that don't report workplace hazards or dangers in products.

•

Arendell vs. Auto Parts Club Inc., C.A. 1st, No. A064765, Oct. 18, 1994.

Coalitions

Continued from page 1

price controls. Corporate purchasers are also a contributing force.

"Local initiatives are very important and will become even more important given the outcome of (last week's) elections," said Bill Hembree, director of the Health Research Institute, a Walnut Creek, Calif.-based health education and policy organization. "My guess is it'll be a decade before we see another flurry of activity designed to achieve comprehensive reform on the federal level."

The health care cost problem won't go away, though, Mr. Hembree said. Following a year in which some providers held down cost increases in an attempt to shed their image as the main culprits behind the health care cost crisis, "there is a pent-up desire in the medical system to raise costs," he said.

Armed with that foresight, many employers have forged ahead with their own reform efforts. Individual business coalitions are putting a number of interesting twists to reform, but the common desire is to bring rationality to the purchasing process.

In 1992, the Business Health Care Action Group, a coalition of 14 employers in the Minneapolis/St. Paul area that has since grown to 22 members, started a group purchasing initiative designed to improve health care quality and efficiency—thereby reducing costs (*BI*, July 13, 1992). Members are mostly large, self-insured companies that collectively cover 250,000 people.

As a result of their initiative, HealthPartners, a large HMO that is the product of a 1992 merger of Group Health Inc., MedCenters Health Plan and St. Paul-Ramsey Medical Center, created a custom-built managed care plan specifically for BHCAG members.

Today, 100,000 participants of the member companies are enrolled in that product at an average cost of $100 per member per month, according to Steve Wetzell, executive director of the BHCAG. That price, which is based on 1993 claims data, is 11% lower than the average commercially available plan that member companies offer, he said.

The savings have so pleased three BHCAG members that they replaced all of their former health plans with the HealthPartners plan. Eighteen other member companies offer only the HealthPartners plan and an indemnity plan.

The health care trend for BHCAG members is running about 4% to 5% annually, Mr. Wetzell said, while the general trend for managed care plans in the area is closer to 8%. The health care cost trend, which helps plans determine annual cost increases, includes such factors as inflation, utilization, technology and demographics.

Now, competing health care plans in the Twin Cities area want to create products to meet the BHCAG's standards, so they can compete for the business.

One rival company, Allina Health System, which is the result of a recent merger of Medica, an HMO, and HealthSpan, the Twin Cities' largest hospital system, says it will refine its managed care products to meet the needs of the BHCAG.

"Employer activity is absolutely, without a doubt, driving a lot of health care consolidation and changing the way we provide care," said Jim Eppel, vp of commercial products for Medica. "The BHCAG served as a huge wakeup call to managed care companies, insurers and the medical and provider communities here."

Market forces have shaped the Twin Cities provider community into three dominant factions: HealthPartners; Allina; and Blue Cross & Blue Shield of Minnesota and its affiliates. Other independent managed care companies and preferred provider networks play only minor roles.

It remains to be seen whether the dominance of three big players will help or hinder purchasers in the long run.

Other coalitions are also now realizing the fruits of their cost containment and quality improvement labors.

Members of the Houston Health-Care Purchasing Organization report a 33% reduction in hospital costs on average over the last 10 months.

The coalition, which currently has 13 employer members covering 75,000 people, is one of the few business coalitions to get an antitrust waiver from the U.S. Justice Department, allowing it to become a managed care network. The group directly contracts with 51 hospitals and 4,000 physicians who agreed to meet its cost and quality standards.

'Employer activity is absolutely, without a doubt, driving a lot of health care consolidation and changing the way we provide care,' says Jim Eppel, vp of Minneapolis-based Medica. 'The BHCAG served as a huge wakeup call.'

"Our goal and single focus is on quality health care. It makes a difference because quality medicine tends to cost less," said Ralph Smith, president of the Texas Business Group on Health, a Houston-based umbrella organization that oversees 10 business coalitions in the state.

"We built our network contrary to accepted norms in managed care," which typically require a narrow network and a strict gatekeeper approach, Mr. Smith said. "We think that is one method, but not the only method. We feel those types of networks are price driven, and you can only go after price for so long."

The coalition aims to improve quality and thereby cut costs. The group requires all its hospitals to submit patient discharge data and upon analysis will determine which facilities are providing the best care. The providers are very involved in the project.

"The goal is to form a partnership with the medical community," said Mr. Smith, noting that the coalition promised not to release any findings from the data to the public on the first leg of the study. The results will be presented to providers and over the next two years be used in benchmarking, he said.

After that, the group will narrow its network to hospitals and physicians that can meet its quality improvement standards.

The employer-created network has become so well known that several commercial insurers have approached the group asking that they be allowed to lease it for their own clients, Mr. Smith noted.

The coalition's activities, and the activities of other large purchasing organizations in the area, are dramatically changing the Houston health care marketplace. "Two to three years ago, the marketplace did not welcome managed care and now it's embraced it in a very positive way," Mr. Smith said.

"The employer groups came together several years ago and are very well organized. The provider groups realized they have to play ball with them," said Eugene Beck, president of the Greater Houston Hospital Council, which represents 53 hospitals in the area. "Employers don't want to just buy on price anymore, they also want quality. And, employers are willing to put resources into data collection systems—something we as hospitals haven't been able to come together and do."

Massive overcapacity has been pushing down prices in Houston for several years and now has hospitals scrambling to adjust.

"Over the last 12 months, managed care has really begun to assert itself and is reforming this market," said Larry Mathis, president and chief executive officer of Methodist Hospital System in Houston.

A great overcapacity of hospitals, beds and physicians is one reason. "If you look at other well-developed managed care markets, like Minneapolis and Los Angeles, you find utilization rates of 200 inpatient days per 1,000 population. In Houston, we have an average of 800 inpatient days per 1,000 population," Mr. Mathis explained.

A year ago, occupancy rates among Houston hospitals ranged from 45% to 46%, and it's generally agreed that only a third of the hospital beds now in the community are necessary.

"With all that excess capacity, price becomes the driving force in the market, and prices are going through the floor," Mr. Mathis said. That is causing tremendous consolidation—and elimination—of medical providers in Houston. "Hospitals are cutting staffs dramatically and there will definitely be closures of units and hospitals."

So far, it's shaking out into a market dominated by three major competing health systems. One is run by Columbia Hospital Systems Corp., which entered the Houston market this year and acquired a number of for-profit hospitals. The second is a managed care venture being developed by Memorial Health Care System, a community hospital, and Sisters of St. Joseph, the Catholic charity hospital. And in September Methodist Hospital announced plans to merge with St. Luke's Episcopal Hospital.

All three systems will offer comprehensive managed care products to purchasers.

"The push for managed care comes from large employers who hired insurers to put together preferred provider networks and point-of-service plans," Mr. Mathis said. But, he noted, competition from HMOs is another major factor. Houston now has about 17 HMOs in the market, compared with about eight a year ago.

Employers in well-developed managed care markets are also seeing success. In California, for example, managed care companies are cooperating in lowering costs and improving quality.

The Bay Area Business Group on Health has been able to achieve significant rate reductions from health plans over the last few years. The group has 21 corporate members throughout California, covering 2.5 million people. Eleven member companies participate in group purchasing.

"When I started with the coalition in 1989, most of these companies experienced double-digit rate increases," said associate director Tracy Rodriguez in San Francisco. "In 1994, many experienced double-digit decreases."

Health plan premiums in California generally have remained flat or decreased by 1% to 2% this year, but members of the business coalition were able to get 10% reductions on average.

Ms. Rodriguez attributes the rate reductions to the group's ability to work with providers and build a foundation for quality.

"Quality purchasing is really the wave of the future," said Mr. Hembree of the Health Research Institute. "Coalitions have plowed original ground in combining purchasing power to affect costs. But what will make the difference in the future is when they begin purchasing based on quality."

Mr. Hembree estimates that, on a scale of one to 10 in terms of effectiveness, volume purchasing represents a two or three, while buying based on quality is closer to a five or six.

Conducting employee satisfaction surveys and analyzing outcomes data from the health plans is leading the Bay Area Business Group to its next phase of quality-based purchasing.

This summer the group negotiated a performance-based payment system with the health plans that serve its membership. All the plans agreed to put 2% of their premium at risk to meet certain standards set by the Bay Area Business Group. The group established a number of performance-based indicators, such as rate of Caesarean section deliveries, and if health plans do not meet them, they must forfeit 2% of the premiums charged to employers. "Two percent of premium may not sound like a lot, but for a plan with 3,000 to 4,000 lives, it can really add up," Ms. Rodriguez noted.

As part of the pact, the health plans also agreed not to shift costs to other purchasers to make up for any losses.

In fact, large purchasing coalitions fairly frequently negotiate with providers that want to participate in their projects an agreement that prohibits cost-shifting to non-participants.

That was a central component of the Massachusetts Health Care Purchaser Group's strategy, according to Michael Bailet, assistant commissioner for managed care contracts and development for the Massachusetts' state Medicaid agency, which is an MHCP member.

In 1993, that group issued a Cost/Quality Challenge to 26 HMOs in Massachusetts, requesting that they restructure their premium growth to match the Consumer Price Index plus a specified percentage that would decrease over a four-year period.

For example, in 1993, health plans were not to increase premiums more than the CPI plus 4%, which equaled 6.4% in the Boston metropolitan area, Mr. Bailet explained.

The health plans were required to adhere to the growth factor for all payers, not just members of the MHCP, which includes 45 purchasers covering more than 1 million people.

In March, the group reported its first results, which found that community rate filings for Massachusetts HMOs averaged 3.2% in 1993. However, the group is changing the rate increase formula for 1994, which would have been CPI plus 3%, because health care prices in the market have been falling.

"We felt it was too generous, so this year we are requiring plans to issue 0% rate increases," Mr. Bailet said.

The group's efforts appear to be paying off. Earlier this year, Harvard Community Health Plan in a newspaper ad proclaimed 0% premium increases for the year.

"Health premium increases have been dropping significantly for the last three years. We can't take full credit for that, but I think our efforts have contributed," Mr. Bailet said. BI

Employers lead the way

Home-grown health reforms show lawmakers what works

By JOANNE WOJCIK

Before Congress tackles health care reform again, it may want to take a closer look at how employers across the nation have been quietly implementing reforms of their own.

At least one of the concepts that was on the table in Washington—managed competition—has already been tried by large employers like BankAmerica Corp. and Pacific Telesis Co., both of which have been forcing their health maintenance organizations to compete since early in the decade.

One employer that has embraced a single-payer-like program since the 1920s—Southern California Edison Co.—recently abandoned that concept due to high costs.

Other employers, such as Kellogg Co. of Battle Creek, Mich., are marketing managed care plans in a different manner to make them more palatable options for employees.

San Francisco-based BankAmerica has found that HMOs are aggressively competing on price since it began consolidating its offerings in 1990.

"For the first time, they're having to justify the prices they quote," said Sherrie Matza, vp in BankAmerica's corporate benefits department.

The bank has pared the number of HMOs it offers to three in 1994 from 15 in 1990. BankAmerica will offer four HMOs in 1995 because of its participation in the Bay Area Business Group on Health, a regional purchasing coalition that negotiated HMO premium discounts averaging 10% last year (*BI*, June 27).

Ms. Matza believes that BankAmerica and other employers in the San Francisco Bay area have successfully exerted downward pressure on health insurance premiums by pitting the HMOs in the market against one another. This system mirrors the managed competition proposal espoused by the Jackson Hole Group.

To compare the value of the HMOs it is offering, BankAmerica currently is developing quality report cards for the plans, which is similar to the proposed review process for the accountable health plans contained in the various managed competition plans.

Ms. Matza attributes much of the success of BankAmerica's consolidation activities to the cooperative posture it has taken with the HMOs.

"To the extent that we can partner ourselves with the plans, we're in the position to provide better service to our employees. Otherwise, we're just like a broker," she said.

Indeed, even though BankAmerica's coalition activities were con-

Continued on next page

Healthy

Continued from previous page
centrated in California, by negotiating prices with all of its HMOs it was able to keep rate increases to less than 1% for most of the 30 plans it offers nationwide.

In addition to the HMO offerings, BankAmerica offers its employees a point-of-service plan that is administered by CIGNA Corp. and will add an Aetna Health Plans POS option next year.

It also offers employees indemnity coverage with access to Blue Shield of California's preferred provider network where the network is available.

Currently, about 55% of BankAmerica's 70,000 employees in 48 states are enrolled in HMOs, while 12% are in POS plans. The remainder are in the indemnity plan.

Pacific Telesis is another employer that decided to try the managed competition model to reduce its health care costs. In 1991, the San Francisco-based telecommunications company slashed its HMO offerings to four from 20 and eliminated its indemnity plan, replacing it with a self-insured point-of-service program administered by CIGNA.

"We got rid of a great deal of administrative hassle by doing that, and we made it vastly more simple to communicate," recounted Paul Nordine, manager of health program planning. "We also got rid of those that didn't have quality measures and those with rates that were a little out of line."

He estimated the consolidation cut PacTel's benefit administration costs between 20% and 25% and reduced the company's benefit administration staff by nearly 15%.

While in the past "cost containment" was the objective, today "quality" and "data" are the buzzwords used by the benefit industry, he explained.

Today, 74% of PacTel's 60,000 employees and 42,000 retirees are enrolled in one of four HMOs: Kaiser Foundation Health Plan Inc., PacifiCare Health Systems, HealthNet and Hospital Health Plan of Nevada.

The remaining 26% are enrolled in the CIGNA-administered POS plan, but "we'd like to wean them from the POS in a very gentle way," Mr. Nordine said.

The HMOs and POS plan are all providing outcomes data to Pacific Telesis as part of the National Committee for Quality Assurance's HMO Employer Data and Information Set, or HEDIS, program.

"Now we can actually look at their measurements" for the purpose of comparison, Mr. Nordine said.

Southern California Edison's experience with a single-payer system could serve as a case study for state and federal lawmakers who had considered establishing such a system.

After operating its own onsite clinics and preferred provider network for several years, health care became Edison's fourth-largest expense.

"But that's not Edison's core business," said Suzanne Mercure, benefits administration manager for the Rosemead, Calif.-based utility.

So, Edison decided this year to stick to its knitting and outsource the health provider role.

Under the new arrangement, Edison has selected five HMOs and two POS providers, which will include in their network the company's onsite clinics and administer them.

The move to offer new options is expected to slash administrative costs considerably for the utility, according to Ms. Mercure, who said it was too early in the transition to estimate the potential savings from the move.

Open enrollment began in October and will conclude in January, she said.

Previously, 88% of Edison employees were covered by a self-insured indemnity plan that provided 80% coverage and an Edison-run PPO that provided 100% coverage.

Only 22% of Edison employees were enrolled in the seven HMOs that Edison began offering in 1989.

Edison had little difficulty selling the plan to its union workers—who make up about 45% of the total workforce of 17,000—since the new program will give employees more choice and improved benefits.

Employees can select from HMOs operated by CIGNA, PacifiCare, PruCare and Kaiser and either an HMO or from POS plans offered by HealthNet and Blue Shield of California, all of whose networks are larger than the Edison PPO, Ms. Mercure pointed out.

About 7,000 doctors had participated in the PPO.

In addition, all of the plans provide preventive care services that were not covered under Edison's former plan, she said.

Ms. Mercure likened Edison's move to the growing trend to privatize some government-funded services.

"The objective is to be a purchaser as opposed to a provider," she said.

In the heartland, Kellogg found that redefining "managed care" was enough to lead 42% of its employees away from a rich, self-funded indemnity plan to an HMO in just one year.

This outstrips the first-time sign-up numbers for other U.S. companies offering similar managed care plans, said Marlene LaRoe, president of Wentletrap Creative Associates, the Houston firm that Kellogg used to communicate its new Health Care Plus program to employees.

The new plan is essentially a self-insured closed-network HMO. But rather than call it an "HMO," Kellogg referred to it as a "coordinated care program," explaining that it ensures high-quality care by having primary care physicians, or gatekeepers, direct employees through the mazelike health care system.

In fact, in a videotape describing the program, the Kellogg medical director compared the plan's primary care physician to "an old-fashioned family doctor."

This approach helped Kellogg win an Award of Excellence in the multimedia category of *Business Insurance*'s 1994 Employee Benefits Communication Awards competition (*BI*, Nov. 7).

While cost figures are not available yet, the cereal maker is running an equally aggressive campaign for this year's open enrollment.

In addition to Health Care Plus, Kellogg offers its 6,000 employees and 3,000 retirees the choice of a self-funded indemnity plan administered by Travelers Corp. and at least one HMO at each of its six cereal plants. BI

Home

Continued from page 2
million, which included a $290 million addition to reserves.

For the first nine months of 1994, Home reported a net loss of $121 million compared with a loss of $162 million a year earlier.

The company last week announced plans to raise $250 million in new capital through any combination of a public offering of debt and/or equity securities, a private placement of debt and/or equity securities, and/or a credit facility from a bank.

Additionally, Trygg-Hansa A.B., the Swedish insurance company that is the majority shareholder of Home, committed to exchange all or a substantial part of its $170 million loan to Home for equity.

Home's performance has also hurt Trygg-Hansa.

The Swedish insurance company's third-quarter results plunged to an 813 million Swedish kronor ($110 million) net loss this year, compared with a 1.1 billion kronor ($149.7 million) profit in the same period of 1993. Much of the quarterly loss is attributed to Home.

Despite the insurer's attempts to raise additional capital, both A.M. Best Co. and Standard & Poor's Corp. last week downgraded Home.

Best downgraded its rating of The Home Insurance Cos. to B+ from A-. S&P downgraded The Home Insurance Cos.' claims-paying ability to BBB- from A- and lowered its rating of Home Holdings' senior debt to BB- from BBB-.

Home will likely have difficulty raising new capital, said Eric Simpson, vp at A.M. Best in Oldwick, N.J. "It has a debt-to-equity ratio of 125% and, when you combine that with the downgrading of its debt rating, which is now at junk bond status, it will be very difficult for it to go out and issue more debt."

If Home takes that tack, it will have to make the deal under extremely unfavorable terms, Mr. Simpson said.

Home will also have problems raising cash through an equity issue, which would further dilute shareholdings, he said.

In its initial public offering last year, Home raised $17 per share. Home shares closed Friday at $4.88, off 31.6% for the week and about 72% for the year.

Even if Home is successful in raising the additional capital, it will still need more money in the future, said Peter Wade, associate director at S&P in New York.

"They will need more than $250 million to meet their environmental liabilities and their ongoing book of business is not growing enough to do that," he said.

The insurer's position is made more precarious by the apparent unwillingness of Trygg-Hansa to pour more new money into Home, Mr. Wade said.

"I believe that they view Home as a non-core investment that is not very profitable," he said.

Home's Mr. Nilsson disagreed. "Trygg-Hansa is continuing to build up its international presence and Home is part of that."

He also disagreed with the rationale for the downgrades: "While our results for the year have been disappointing, based on the steps to be taken we think these actions regarding Home Holdings and Home Insurance are simply unjustified." BI

Updates

FAA won't ground fleet

Continued from page 2
The NTSB recommended prohibiting both ATR-72s and ATR-42s from flying in icing conditions until a special certification review of the aircraft is undertaken.

The FAA said it will not ground the aircraft while it works jointly with its French counterpart and develops instructions for operating the aircraft during icing conditions.

Maxwell settlement talks begin

LONDON—Settlement talks are under way between the trustees of pension funds ransacked by the late newspaper tycoon Robert Maxwell and financial institutions that advised and managed the funds.

Some of the financial advisers and institutions have agreed to take part in a planned global settlement. Details were not released on which firms would take part or how much they would pay.

Sir Peter Webster, a former U.K. High Court judge who was brought in to mediate the dispute last year, met with trustees of the four main Maxwell pension funds last Wednesday. The four main funds are: The Mirror Group Pension Trust, Maxwell Communications Works Scheme, Maxwell Communications Staff Plan and the AGB Scheme, a plan run by several Maxwell units.

The Mirror Group plan has already settled with four institutions, including Bank of America (*BI*, Jan. 16) and Lehman Bros. (*BI*, Feb. 7), but is pursuing a further court action against Goldman Sachs & Co. and Credit Suisse, said Colin Cornwall, the trust's chairman.

Lloyd's seeks EU rules waiver

LONDON—Lloyd's of London will apply for exemption from European Union competition rules to invalidate two members' claims that the market's structure violates those rules.

The members, who had been sued by Lloyd's for payment of their losses, allege in a suit that the market's bylaws and the operation of its Central Fund give it a competitive advantage over other European insurers. A lower court decided in Lloyd's favor in December. Last week, the U.K. Court of Appeal overturned that decision but said that it did not have enough facts to determine whether Lloyd's is subject to EU law on these specific cases.

Lloyd's will apply to the European Commission for exemption from EU competition rules in the Treaty of Rome. Lloyd's will argue that the fund is a necessary reserve to protect Lloyd's policyholders, which, unlike those of other U.K. insurers, are not covered by the U.K. Policyholders Protection Act.

Lloyd's also denied allegations that the appellate ruling threatens the market's solvency, despite members' claims that the decision will make it harder to force members to pay. Lloyd's also said that if the cases are tested in the House of Lords, the market's position will be vindicated.

State initiatives discouraged

WASHINGTON—Congress should not modify the Employee Retirement Income Security Act to allow states to unilaterally set their own rules for employee benefit plans, an advisory council recommends.

Any exemptions from the ERISA pre-emption provisions should be limited to comprehensive state health care reform initiatives, not incremental reforms, said the Advisory Council on Employee Welfare and Pension Benefit Plans, which advises the secretary of labor.

Before any waivers are given, a state initiative should have to meet specified federal requirements in areas where uniformity is needed to ensure effective plan administration, the panel said.

Monfort sees no beef losses

GREELEY, Colo.—Monfort Inc. expects no liability losses from the voluntary recall of 9,000 pounds of ground beef after inspectors in Florida found the bacteria E. coli during routine testing.

A similar bacteria last year was responsible for the deaths of four children in the Northwest. Hundreds of other consumers became ill.

There have been no reported illnesses related to the recalled ground beef, a spokeswoman for the ConAgra Red Meat Cos. unit said.

The spokeswoman said company records show that none of the recalled meat was contaminated with the bacteria, but the company took the measure as a precaution.

Briefly noted

A.M. Best Co. raised the claims-paying ability rating of San Diego-based **Golden Eagle Insurance Co.** to B- (adequate) from C++ (fair).... Health officials have allowed ice cream producer **Schwan's Sales Enterprises Inc.** to reopen its Marshall, Minn., plant after determining that its salmonella-tainted products probably were contaminated when ice cream mix was hauled to the plant in trucks that previously had carried raw eggs (*BI*, Oct. 24)....Denmark's Den Danske Bank plans to increase its holding in **Baltica Forsikring** to 65.9% at a cost of 2.55 billion kroner ($431.2 billion). Den Danske now controls 98.2% of the voting shares...**Kemper Corp., Dean Witter Discovery & Co. and SunAmerica Corp.** all refused to comment on reports that Dean Witter and SunAmerica are both interested in making bids for Kemper. This could happen if a takeover agreement Kemper already has with Conseco Inc. is overturned. Conseco has told Kemper it would like to lower its bid, which could lead to overturning the agreement....Bjorn Wolrath, president and CEO of **Skandia Insurance Co. Ltd.**, will also become chairman and CEO of Skandia U.S. Holding Corp. Hakan Lindkvist, currently managing director of Skandia U.K. Holdings Ltd., will take over as chairman and CEO of Skandia's U.S. property/casualty operation, taking over for Johannes Norrby, who plans to retire.

For the Record

J&H launches new facility for OPA '90 coverage

HAMILTON, Bermuda—Johnson & Higgins has established an insurance facility in Bermuda to meet the financial responsibility requirements that the Oil Pollution Act 1990 places on vessels trading in U.S. waters.

First Line—created by J&H with the assistance of London-based Bancassure, an Aon Corp. unit—will provide financial guarantees to the U.S. Coast Guard. The Coast Guard then will issue to shipowners covered by First Line the certificates of financial responsibility required by the law, which goes into effect at year end for some ships (*BI*, Oct. 3).

The premium for tankers will be 50 cents per gross registered ton annually, plus an added premium of 10 cents to 40 cents per GRT per voyage, depending on the vessel and the cargo. The minimum premium will be $50,000 per vessel. Non-tankers will pay 25 cents per GRT annually, with a $5,000 minimum premium. J&H has applied to the Coast Guard for approval of First Line.

Meanwhile, the American Institute of Marine Underwriters blasted as exorbitant last week proposed federal pollution regulations to assess damages after oil spills. The damage assessment models are required under OPA '90 to simplify and reduce the costs of assessing environmental damage after a spill. But the proposals would lead to sharp rises in premiums that the U.S. maritime industry could not afford to pay, the AIMU said.

The environmental damage assessment models proposed by the National Oceanic and Atmospheric Administration greatly overstate the damage caused by oil spills, AIMU President Walter M. Kramer said in a letter to NOAA.

One computer model would assume the death of 400,000 birds for each barrel of oil spilled in some areas, an AIMU study said. Under that model, a spill of only 10 gallons of heavy crude oil could result in nearly $1.3 million in damage assessments, the study said.

Carpal tunnel claim against NCR dismissed

BATON ROUGE, La.—A U.S. District Court judge dismissed a bank worker's product liability claim that her use of a check encoding machine manufactured by NCR Corp., an AT&T unit, caused her carpal tunnel syndrome.

U.S. Magistrate Judge Christine Noland in Baton Rouge, La., ruled late last month that the plaintiff's expert testimony was not substantial enough to support her claims that the machine caused her injury. The judge also ruled that the plaintiff failed to prove that NCR should have been required to warn against the dangers of repeated use.

"The law does not require the manufacturer to protect a person from what is self-evident in the ordinary use of that product," for example, "that gasoline is flammable, and driving at high speed in the rain at night is dangerous, that typing non-stop can lead to fatigue in the hands," the judge said.

Plaintiff Marilyn Hopkins is appealing the decision, said her attorney, Jack Harris, of DeSalvo & Harris in Baton Rouge.

Similar cases involving keyboards and scanners have generally resulted in victories by manufacturers because plaintiffs have been unable to prove causality (*BI*, Feb. 28). Thousands of cases are pending.

Vested health benefits can't be terminated: Court

ST. LOUIS—Despite a reservation of rights clause in a retiree health plan, a plan sponsor may not cut benefits if outside evidence indicates that the sponsor originally had intended the benefits to be vested, a court has ruled.

The 8th U.S. Circuit Court of Appeals ruled last month that by adding language to a summary plan description asserting the right to "terminate, discontinue, modify or change" its plan, meat packing company SIPCO Inc. at most assured its right to cut benefits prospectively.

The ruling came in a class action by 800 people who retired from the ConAgra Inc. unit before March 2, 1989. In January 1989, retirees, all of whom had fully paid medical benefits under one of two retiree health plans, received an SPD that for the first time contained the reservation of rights. Two months later, ConAgra terminated the original plans and replaced them with plans that could have required retirees to pay premiums.

Retirees sued Omaha, Neb.-based ConAgra and its Monfort Inc. unit, which administered its sister company's benefit plans, charging the original plans had guaranteed fully paid benefits for life. They won in trial court.

On appeal, the 8th Circuit looked at extrinsic evidence—such as all previous retiree benefit changes being prospective only, and testimony by a benefit manager at SIPCO that it had intentionally not included a reservation of rights in the earlier plans—in finding that the fully paid medical benefits were vested. BI

A&A results

Continued from page 2

lion for the third quarter against revenues of $332.6 million. For the same period in 1993, A&A reported $327.1 million in revenue and a net loss of $2.6 million.

Operating income was $4.2 million for the third quarter of 1994, compared with $200,000 in the same period in 1993. The broker's third-quarter report last year included a $13.5 million reduction in operating income, however, resulting from an increase in reserves for professional indemnity claims.

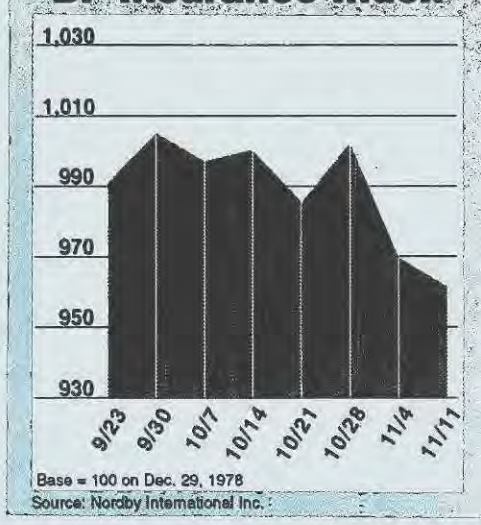
The Sphere Drake transaction involves A&A discharging Sphere Drake from debt due in 1995, in exchange for Sphere Drake's releasing the broker from much of its indemnity obligation. The agreement also includes an $11 million payment to A&A by Sphere Drake, of which about $6 million relates to tax payments.

"We're going to receive $5 million on a net-cash basis," Mr. Wieczynski said. "So it's looked upon by us as a favorable event because one, it provides cash, and two, it eliminates a contingency."

While other indemnity arrangements between A&A and Sphere Drake remain, Mr. Wieczynski noted the broker reinsured those earlier this year, "so we have considerable insulation, if you will, to any other contingencies from Sphere Drake that might pop up in the future."

In October, Alexander & Alexander took further steps to cut expenses, announcing the layoff of more than 200 employees in its U.S. brokerage unit and early retirement offers to another 200 employees (*BI*, Oct. 31). Those moves are expected to result in a $12 million charge against the broker's fourth-quarter earnings. BI

BI Insurance Index



Insurance stocks fell last week, as the *Business Insurance* Index lost 8.4 points to 961.4 Nov. 11 from 969.8 on Nov. 4. Advancing issues were led by: Safeguard Health Enterprises, up 8.5%; HCC Insurance Holdings, up 6.3%; and Zurich Reinsurance Centre, up 6.3%. Declining issues followed: Home Holdings Inc., down 31.6%; Frontier Insurance Group, down 20.7%; and Acceptance Insurance Cos., down 17.0%. The most active issue was UNUM Corp., 6.2 million shares traded. The *BI* Index fell 0.9%; the Dow Jones 30 Industrials lost 0.2%; the NYSE Composite fell 0.4%; and the S&P 500 rose 0.02%.

British Issues

Nov. 10 Companies	Price pence	P/E*	Div.* pence	Yield %	1 week high—low
Comml Union	545	17.3	31.0	5.7	545—542
Genl Accident	575	11 5	34.4	6.0	583—575
Gdn Royal Exch	190	12 2	9.5	5.0	192—190
Independent	245	8.0	10.4	4.2	248—245
Royal	295	12 9	9.4	3.2	301—295
Sun Alliance	331	14.8	18.4	5.6	335—331
Brokers					
Bradstock	92	10.4	6.9	7.5	94—92
Fenchurch	143	11.1	9.0	6.3	143—140
CE Heath	220	7.9	20.0	9.1	232—220
JIB Group	125	11.0	9.4	7.5	129—125
Lloyd Thmpson	180	12.6	9.8	5.4	192—176
Lowndes Lmbrt	158	10.0	9.4	5.9	163—158
Nelson Hurst	173	17.0	7.0	4.0	173—173
PWS Holdings	35	N/M	1.9	5.4	35—35
Sedgwick Grp	146	16.2	7.5	5.1	147—146
Steel Brl Jones	115	N/M	11.3	9.8	115—115
Willis Corroon	137	12.5	8.3	6.1	139—137

Source: Philip Olsen, London * Latest actual year

BI Industry Stock Report NOV. 7, 1994, THROUGH NOV. 11, 1994

		Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
BROKERS												
Acordia Inc.	NYS	27.50	-1.35	11.68	28.75	21.00	9	0.60	2.18	14	13.24	2.08
Alexander & Alexander	NYS	19.75	0.64	-0.63	22.75	14.00	172	0.10	0.51	-152	6.08	3.25
E.W. Blanch Holdings Inc.	NYS	19.25	-0.65	10.79	23.00	15.75	15	0.32	1.66	16	4.55	4.23
Gallagher Arthur J. & Co.	NYS	33.00	-0.38	-7.69	37.13	28.13	152	0.88	2.67	17	6.48	5.09
Hilb, Rogal & Hamilton	NYS	11.88	0.00	-9.52	13.63	11.13	23	0.56	4.72	14	4.72	2.52
Marsh & McLennan	NYS	74.75	-0.33	-8.14	88.75	73.75	723	2.90	3.88	15	19.40	3.85
Poe & Brown	NDQ	20.75	-1.19	15.28	22.75	16.88	10	0.48	2.31	14	4.49	4.62
BROKERS	AVERAGE		-0.5	1.7					2.6	-9		
INSURERS/REINSURERS												
ACE Ltd.	NYS	23.88	6.11	-21.72	31.50	22.00	433	0.44	1.84	-22	22.45	1.06
Acceptance Insurance Cos.	NYS	14.00	-17.04	20.43	18.00	11.13	341	0.00	0.00	13	9.83	1.42
AEGON N.V.	NYS	62.13	0.81	13.47	64.00	49.00	48	2.94	4.72	11	43.84	1.42
Aetna Life & Casualty	NYS	46.88	0.00	-22.20	65.75	44.00	813	2.76	5.89	-6	57.21	0.82
Allied Group Inc.	NDQ	26.50	-4.50	6.00	31.00	22.75	317	0.60	2.26	6	23.43	1.13
Allmerica Prop. & Casualty	NYS	15.88	-0.78	-26.31	22.16	14.25	118	0.16	1.01	10	19.45	0.82
Allstate Corp.	NYS	23.38	-6.50	-21.43	30.13	22.63	1430	0.72	3.08	18	19.60	1.19
American General	NYS	27.75	2.78	-2.63	30.50	24.88	1792	1.16	4.18	18	20.39	1.36
American Heritage Life Ins.	NYS	17.63	2.17	-5.37	20.13	16.50	89	0.66	3.74	11	12.42	1.42
American Indemnity/Fin'l	NDQ	10.75	1.18	-17.31	14.75	10.00	63	0.24	2.23	4	15.92	0.68
American International	NYS	92.88	-1.33	5.39	96.88	81.75	1997	0.46	0.50	14	49.75	1.87
American Re Corp.	NYS	27.88	-5.51	-1.33	35.75	23.50	56	0.00	0.00	15	16.85	1.65
Aon Corp.	NYS	32.00	-0.39	-0.52	35.75	30.00	513	1.28	4.00	10	21.96	1.46
Argonaut Group	NDQ	28.38	0.44	-6.97	33.75	26.25	84	1.16	4.09	8	29.80	0.95
AVEMCO Corp.	NYS	15.25	0.83	-18.67	20.25	13.75	9	0.44	2.89	13	6.30	2.42
Baldwin & Lyons Inc.	NDQ	15.00	0.00	0.84	16.25	13.75	7	0.24	1.60	9	13.56	1.11
Berkley W.R. Corp.	NDQ	34.50	-4.17	5.34	42.00	32.00	120	0.44	1.28	21	36.47	0.95
Berkshire Hathaway Inc.	NYS	19895.00	0.73	21.87	20475.00	15150.00	0	0.00	0.00	25	9157.79	2.17
Capital RE Corporation	NYS	22.63	3.43	-12.14	25.75	18.50	22	0.20	0.88	9	21.48	1.05
Capsure Holdings Corp.	NYS	12.63	-3.81	-6.48	16.13	12.13	22	0.00	0.00	13	13.72	0.92
Chubb Corp.	NYS	71.00	2.34	-9.70	83.13	68.63	1212	1.84	2.59	12	48.40	1.47
CIGNA Corp.	NYS	68.25	0.74	7.91	74.00	57.00	1620	3.04	4.45	9	80.98	0.84
CNA Financial Corp.	NYS	63.63	2.21	19.21	82.25	60.00	47	0.00	0.00	67	73.83	0.86
Continental Corp.	NYS	14.63	-2.50	-47.06	30.38	12.00	480	0.00	0.00	-2	29.69	0.49
EMC Insurance Group Inc.	NDQ	10.20	2.03	7.40	10.75	8.50	44	0.52	5.10	8	10.77	N.A.
Emphesys Financial Gr. Inc.	NYS	32.50	0.78	NA	38.50	21.25	271	0.60	1.85	9	N.A.	N.A.
EXEL Ltd.	NYS	39.88	0.63	-11.39	45.75	36.00	462	1.32	3.31	9	31.62	1.26
Fremont General Corp.	NYS	24.13	-0.52	0.00	26.00	21.50	160	0.76	3.15	7	22.90	1.05
Frontier Insurance Group	NYS	20.63	-20.67	-52.99	37.50	18.75	1157	0.48	2.33	17	14.94	1.38
Gainsco Inc.	ASE	8.38	-1.47	-6.94	9.41	7.47	107	0.04	0.48	12	3.79	2.21
General RE Corp.	NYS	114.50	0.00	7.76	125.50	101.75	732	1.92	1.68	15	57.17	2.00
Guaranty National Corp.	NYS	16.00	-3.76	-8.57	20.50	13.75	5	0.50	3.13	10	11.84	1.35
Harleysville Group	NDQ	23.75	-2.06	-16.67	30.25	19.75	4	0.68	2.86	17	20.18	1.18
Hartford Steam Boiler	NYS	42.25	-2.31	-5.06	53.38	42.13	80	2.20	5.21	17	14.62	2.89
HCC Insurance Holdings	NDQ	21.00	6.33	4.13	23.09	15.00	135	0.00	0.00	16	10.75	1.95
Home Holdings Inc.	NYS	4.88	-31.58	-71.74	18.50	4.88	241	0.00	0.00	-2	22.36	0.22
ITT (Hartford Group)	NYS	85.00	-0.73	-7.36	95.97	78.63	1777	1.98	2.33	11	49.95	1.70
Kemper Corp.	NYS	50.88	0.99	41.81	65.00	33.13	2009	0.92	1.81	14	28.68	1.77
Lincoln National	NYS	37.00	-1.00	-13.95	44.88	34.63	826	1.72	4.65	13	31.99	1.16
Markel Corp.	NDQ	42.00	3.07	9.09	44.50	37.50	25	0.00	0.00	11	25.15	1.67
Mid Ocean Ltd.	NDQ	22.50	-2.17	-20.35	30.50	22.38	257	0.00	0.00	11	20.24	1.11
Mutual Risk Mgmt. Ltd.	NYS	26.75	-6.55	-10.83	32.25	21.13	28	0.32	1.20	15	9.11	2.94
NAC Re Corp.	NDQ	26.25	-3.67	-9.87	32.00	24.00	51	0.16	0.61	13	19.75	1.33
National Re Corp.	NYS	24.13	0.52	-21.22	33.75	23.50	115	0.16	0.66	10	17.3	1.39
Navigators Group	NDQ	15.75	1.61	-55.00	39.00	14.25	7	0.00	0.00	-6	10.21	1.54
Nobel Insurance Ltd.	NDQ	8.25	-1.49	8.20	8.75	6.88	26	0.20	2.42	4	6.84	1.21
NWNL Companies	NYS	29.13	1.75	-10.38	34.50	27.00	331	0.90	3.09	10	24.81	1.17
Ohio Casualty Corp.	NDQ	30.38	-2.80	-4.71	33.75	26.50	502	1.46	4.81	11	24.66	1.23
Old Republic Int'l	NYS	20.00	-1.23	-11.11	24.50	20.00	157	0.48	2.40	7	24.60	0.81
Orion Capital Corp.	NYS	30.50	0.83	-1.21	34.75	28.13	48	0.80	2.62	8	25.86	1.18
Partner Re Holdings Ltd.	NDQ	20.25	-3.57	-6.90	22.25	18.50	596	0.40	1.98	17	N.A.	N.A.
Penn-America Group, Inc.	NDQ	6.75	-3.57	-12.20	9.00	6.50	65	0.00	0.00	9	6.21	1.09
Phoenix RE Corp.	NDQ	24.13	-7.21	-12.27	32.00	18.50	192	0.30	1.24	5	22.86	1.06
Provident Life	NYS	23.38	-4.59	-26.09	31.88	23.38	173	1.04	4.45	7	27.09	0.86
Re Capital Corp.	NDQ	13.25	3.92	-2.75	14.88	12.25	24	0.32	2.42	11	17.63	0.75
Reliance Group Holdings	NYS	5.63	2.27	-27.42	8.13	4.88	513	0.32	5.69	14	3.48	1.62
RLI Corp.	NYS	20.63	-0.60	-22.90	27.75	20.38	47	0.60	2.91	-28	20.51	1.01
St. Paul Companies	NYS	41.38	-2.36	-7.80	46.19	37.69	539	1.50	3.63	9	31.88	1.30
SAFECO Corp.	NDQ	48.25	-3.02	-11.67	59.75	48.25	1555	1.96	4.06	9	46.94	1.03
SCOR U.S. Corp.	NYS	10.13	-4.71	-19.80	14.25	10.13	65	0.36	3.56	-46	13.60	0.74
Seibels Bruce Group	NDQ	2.63	-12.50	50.00	3.50	0.94	209	0.00	0.00	-6	1.05	2.50
Selective Ins. Group	NDQ	25.50	2.00	-15.70	30.75	23.00	66	1.12	4.39	10	23.36	1.09
Sphere Drake Holdings	NYS	12.25	-1.01	-25.76	18.25	12.13	28	0.12	0.98	5	13.15	0.93
TIG Holdings	NYS	18.25	-3.95	-19.34	23.88	17.25	1052	0.20	1.10	23	17.25	1.06
Titan Holdings, Inc.	NYS	9.38	-11.76	-13.79	12.00	7.75	112	0.28	2.99	8	9.31	1.01
Tokio Marine & Fire	NDQ	57.00	-1.94	5.56	66.00	49.25	11	0.41	0.71	-	57.72	0.99
Torchmark Corp.	NYS	35.88	-2.71	-19.83	49.50	35.63	662	1.12	3.12	9	17.49	2.05
Transatlantic Holdings	NYS	52.25	-1.42	-2.11	56.38	45.38	70	0.36	0.69	13	32.43	1.61
Transnational Re Corp.	NDQ	19.38	-1.27	-28.24	27.00	17.25	243	0.00	0.00	9	N.A.	N.A.
Travelers Corp.	NYS	33.13	0.00	-14.79	43.25	31.00	3514	0.60	1.81	8	24.26	1.37
Trenwick Group Inc.	NDQ	36.75	-1.67	-5.16	43.75	33.25	13	1.00	2.72	13	29.20	1.26
United Fire & Casualty	NDQ	40.50	-3.57	12.50	44.00	36.00	3	1.08	2.67	9	28.96	1.40
Unitrin	NDQ	44.50	-0.56	4.71	51.50	38.50	134	1.60	3.60	21	38.64	1.15
UNUM Corp.	NYS	38.75	-15.76	-26.19	58.00	38.75	6190	0.96	2.48	16	27.78	1.39
US Facilities Corp.	NDQ	10.75	2.99	-9.47	14.63	8.25	164	0.00	0.00	13	11.07	0.97
USF&G Corp.	NYS	14.13	2.73	-6.61	16.13	11.69	1811	0.20	1.42	7	10.04	1.41
USLICO Corp.	NYS	20.13	0.63	21.97	24.00	15.75	40	0.24	1.19	10	24.44	0.82
USLIFE Corp.	NYS	32.25	0.39	-16.77	41.38	30.88	159	1.32	4.09	7	40.82	0.79
Washington National	NYS	20.75	-2.35	-14.43	26.13	20.63	79	1.08	5.20	7	23.61	0.88
Zenith National Ins.	NYS	22.38	-4.79	1.13	27.38	20.63	35	1.00	4.47	10	17.54	1.28
Zurich Reinsurance Centr.	NYS	27.38	6.31	-3.10	31.13	24.25	127	0.00	0.00	-26	22.26	1.23
INSURERS/REINSURERS	AVERAGE			-1.9	-8.7							
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	NDQ	26.50	-4.93	1.92	31.00	20.25	727	0.00	0.00	15	12.22	2.17
Humana Inc.	NYS	23.25	-0.53	26.53	25.38	14.88	1449	0.00	0.00	24	6.04	3.85
Pacificare Health Sys.	NDQ	67.13	-1.65	77.81	79.50	36.00	192	0.00	0.00	24	14.21	4.72
Safeguard Health Enter.	NDQ	9.63	8.45	-23.00	15.50	8.50	15	0.00	0.00	22	6.16	1.56
Sierra Health Services	NYS	29.88	-6.27	34.27	33.50	15.50	280	0.00	0.00	18	6.04	4.95
United Healthcare Corp.	NYS	48.88	1.03	30.77	55.38	35.25	3456	0.03	0.06	32	6.57	7.44
U.S. Healthcare	NDQ	44.75	0.00	16.74	49.00	33.75	4965	0.84	1.88	19	5.04	8.88
Wellpoint Health Networks	NYS	26.63	1.91	-13.77	37.00	24.25	329	0.00	0.00	13	12.73	2.09
HMOs	AVERAGE		-0.2	18.9					0.2	18		
ALL COMPANIES	AVERAGE		-0.9	4.0					2.5	11		

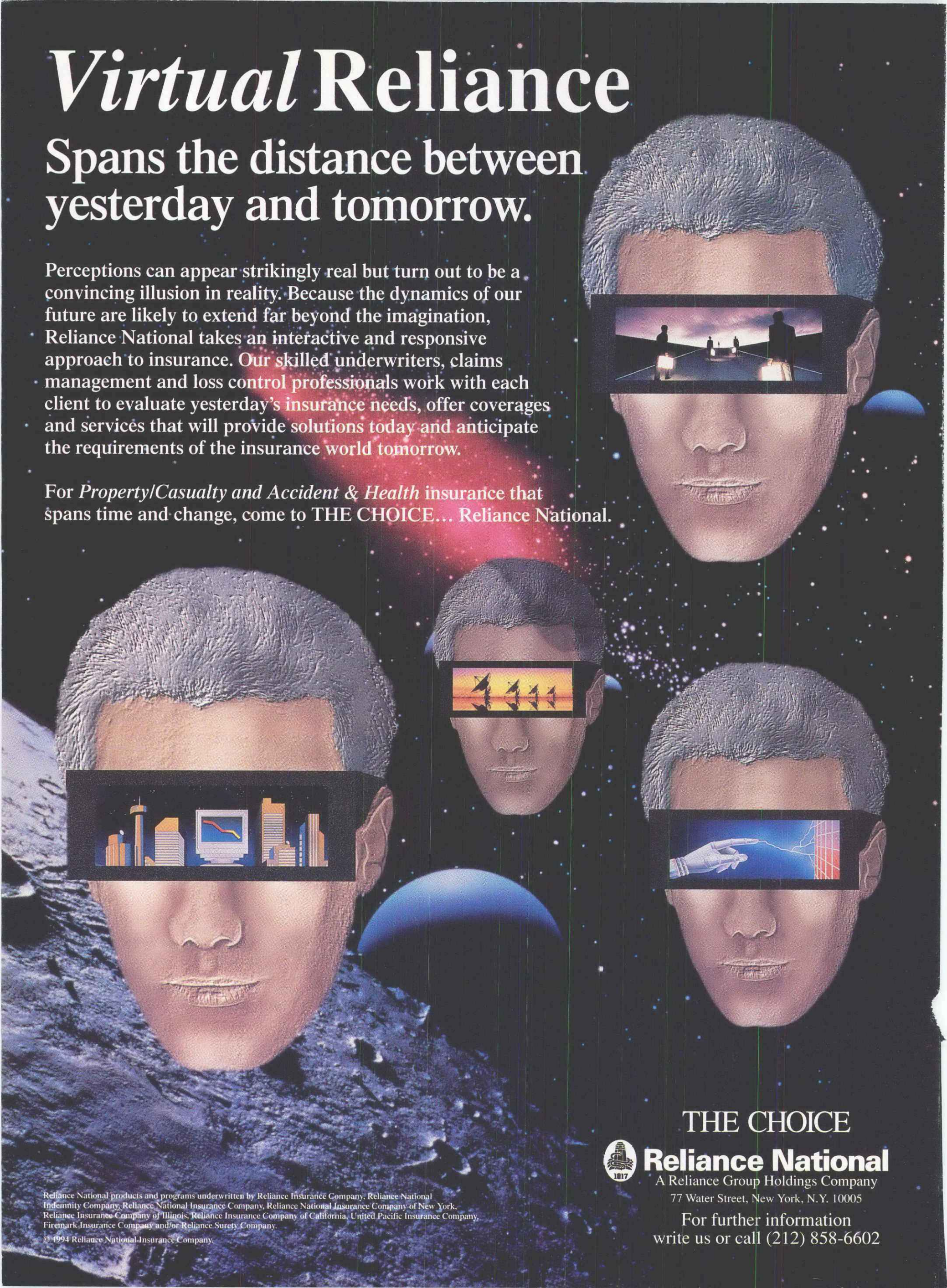
System design: Nordby International Inc.

Virtual Reliance

Spans the distance between yesterday and tomorrow.

Perceptions can appear strikingly real but turn out to be a convincing illusion in reality. Because the dynamics of our future are likely to extend far beyond the imagination, Reliance National takes an interactive and responsive approach to insurance. Our skilled underwriters, claims management and loss control professionals work with each client to evaluate yesterday's insurance needs, offer coverages and services that will provide solutions today and anticipate the requirements of the insurance world tomorrow.

For *Property/Casualty and Accident & Health* insurance that spans time and change, come to THE CHOICE... Reliance National.



THE CHOICE

Reliance National

A Reliance Group Holdings Company

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

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

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

© 1994 Reliance National Insurance Company.