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Update

Eagle-Picher settlement offer would create $1.5 billion fund

CINCINNATI—Eagle-Picher Industries Inc. has reached a tentative agreement with dozens of representatives of asbestos personal injury claimants on key elements of a settlement that would create a $1.5 billion trust fund to cover pending and future claims.

Under terms of the proposed settlement, the company would add $1.1 billion to $400 million in already-established reserves for asbestos liabilities stemming from an insulating cement the company manufactured

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Employers review harassment policies

By CHRISTINE WOOLSEY

WASHINGTON—Employers with tough workplace policies prohibiting sexual harassment can dodge increased liability from a Supreme Court ruling that makes it easier for plaintiffs to prove sexual harassment claims.

Corporate risk managers say they will review their existing policies, training programs and disciplinary procedures in light of the Supreme Court's decision. But most companies predict they will not have to make any substantial changes.

And, few risk managers say they are interested in purchasing additional insurance policies to cover what some attorneys and brokers see as a growing exposure to employee lawsuits over workplace issues like sexual harassment and discrimination.

"My first course of action is to get in touch with our human resource and legal departments, which are responsible for developing programs, awareness and training, to see if they feel like what we've got in place already adequately addresses the issue," said Dick Heydinger, director of risk management services for Hallmark Cards Inc. in Kansas City, Mo. "I suspect their answer will be yes."

"We will look again at our training and probably emphasize additional training to be sure employees are aware of and understand the ramifications" of the high court's decision, said Lucille Gallagher, vp of risk management for Monfort Inc. in Greeley, Colo.

"Our first mode is not to buy insurance but to be sure we are doing enough to prevent the risk; that's what's important to risk management," she said.

In a unanimous and unusually swift decision, the Supreme Court last week reversed two lower court rulings that had dismissed a woman's sexual harassment lawsuit because she failed to prove that her boss's conduct had caused her "severe psychological injury."

Writing for the court, Justice Sandra Day O'Connor said federal law does bar conduct "that would seriously affect a reasonable person's psychological well-being." But, she added, a person need not show serious psychological injury to prove sexual harassment.

In its decision—only the second

Continued on page 4

Comp fee schedules could lead to huge savings: WCRI study

By MEG FLETCHER

CAMBRIDGE, Mass.—Workers compensation medical costs could be cut by as much as 49% if states that now use medical fee schedules lowered fees to Medicare reimbursement levels, a soon-to-be-released study concludes.

Cutting fees that sharply, though, could be politically sensitive. And, higher fees may be necessary to ensure that quality health care providers will keep their doors open to injured workers, the Workers Compensation Research Institute said in the report.

For example, Pennsylvania recently capped fees at 113% of Medicare rates and hopes to cut workers comp medical costs by millions of dollars a year. A similar Pennsylvania cap on auto insurance medical payments saved $700 million (see story, page 24).

Pennsylvania's innovative, though controversial, approach is one option discussed in the WCRI study that will be released next month.

The report discusses workers comp fee schedules in general and analyzes how individual states' fee schedules relate to: providers' cost of delivering service; average charges that would otherwise be paid; gaps in fee schedule coverage that create missed opportunities for savings; and fee schedules in other states

"We are very excited about the potential this offers to state officials to develop fee schedules better-guided in fact rather than anecdote," said Richard Victor, executive director of the WCRI, an independent research organization based in Cambridge, Mass.

Current workers comp fee schedules "vary substantially in the levels of fees and comprehensiveness" and "bear little relationship to the costs of providing services," according to the report written by researchers Stacey M. Eccleston, Thomas W. Grannemann and James F. Dunleavy.

Fee schedules are "probably among the strongest medical cost control tools readily available to

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Empire strikes back

New chief executive hopes to revitalize BC/BS plan with focus on large groups

By MICHAEL SCHACHNER

NEW YORK—Embattled Empire Blue Cross & Blue Shield is trying to shed its old ways and become a lean, mean managed care machine.

With former CIGNA Corp. executive G. Robert O'Brien now at the helm, New York's largest health insurer—in terms of market share—is attempting to shift its primary focus to managed care for large groups and to restore public confidence.

Neither task will be easy.

Millions of individual and small-group policyholders have left Empire in the past five years. Some larger customers, dissatisfied with claims administration and cost control, have followed suit, reducing the number of lives Empire covers to 7.3 million from 10.5 million.

And, the problems did not end there.

Empire's largest customer, Basking Ridge, N.J.-based American Telephone & Telegraph Co., charged in a federal racketeering suit earlier this year that it had been overbilled for decades (*BI*, May 10). The two parties will part ways in April, when AT&T's current contract with Empire expires.

There are also the lingering ill-effects of reports of lavish spending and falsified records, which grabbed headlines in New York this summer. Ultimately, Empire admitted inflating the loss figures it submitted to state regulators to justify rate increases.

At the same time, reserves fell to $40 million in 1992 from more than seven times that level only two years earlier (*BI*, June 28; June 21).

But, Empire executives hope to begin shoring things up with a customer group they say was

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Earth, wind & fire

Largest U.S. catastrophe losses to date

Event	Loss
Hurricane Andrew, August 1992	$15.5 billion
Hurricane Hugo, September 1989	$4.2 billion
Blizzard of '93, March 1993	$1.75 billion
Oakland, Calif., fires, October 1991	$1.7 billion
Hurricane Iniki, September 1992	$1.6 billion
Southern California brush fires, October-November 1993	$1 billion*
Northern California earthquake, October 1989	$960 million
Arctic freeze, December 1983	$880 million
Los Angeles riots, April-May 1992	$775 million
Wind, hail, tornadoes in Texas and Oklahoma, April 1992	$760 million
Midwest floods, summer 1993	$755 million

*Estimate

Source: American Insurance Services Group Inc.

Losses spread with fires

Claims from Malibu inferno to deplete FAIR plan's reserves

By JOANNE WOJCIK

LOS ANGELES—Almost all property insurers in California will share in losses from the recent spate of arson-set brushfires that destroyed some of the state's most expensive homes.

Faced with more than $130 million in property damage claims from homeowners it covered in Malibu and Altadena, the California FAIR plan will call on its 280 insurer members to replenish reserves that will be depleted by the brushfires.

It is the first midyear cash call in the 25-year history of the plan, which is an industry-sponsored insurer of last resort for homeowners in brushfire-prone areas, among other risks.

Meanwhile, the Southern California wildfires collectively could rank among the 10 costliest U.S. insurance catastrophes on record if claims exceed $1 billion as expected.

With an industry estimate of $435 million in insured damage from the Oct. 27-28 Laguna Beach fires alone, total damage is likely to top $1 billion when losses from the subsequent fires in Malibu and Altadena are added, according to various sources in the insurance industry.

The Property Claim Services division of the American Insurance Services Group Inc. assigned catastrophe No. 74 to the fires in Or-

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Updates

Eagle-Picher asbestos fund

Continued from previous page

from 1934 to 1971.

The settlement is a key part of a final reorganization plan that would let Eagle-Picher emerge from Chapter 11 bankruptcy protection, said a spokesman for the Cincinnati-based company. Eagle-Picher, which filed for bankruptcy protection in January 1991, faces about 150,000 pending asbestos claims and an unknown number of future claims, the spokesman said.

The trust will be financed entirely by cash, debt and the common stock of a reorganized Eagle-Picher.

The company already has exhausted its $175 million in applicable insurance coverage.

Florida comp reform law

TALLAHASSEE, Fla.—Florida Gov. Lawton Chiles last week signed into law a tough workers compensation reform bill that could exceed his goal of cutting system costs by 20%.

The law, which will go into effect Jan. 1, will reduce workers comp system costs by an estimated 24%. Officials still are evaluating the potential impact on employers' premiums.

Among the changes, the law will replace the assigned risk workers comp market with a self-funded joint underwriting association. Self-insured employers are excluded from the JUA (*BI*, Nov. 8; Nov. 1).

The law also toughens benefit eligibility. It limits permanent total disability benefits to "catastrophic" injuries and restricts temporary benefits to 104 weeks from 260 weeks. It also requires mediation of disputed claims and cuts attorneys fees by 5%.

All injured workers will be required to obtain medical treatment through a managed care setting as of Jan. 1, 1997. Employees also will pay a $10 copayment for all medical services rendered after they reach maximum medical improvement.

The governor last week also signed into law measures that will: create a catastrophe reinsurance fund for property insurers that will be financed through a $500 million annual premium assessment on insurers; and allow homeowners insurers to annually cancel only 5% of policies statewide and 10% of policies per county.

Comp insurer issues refunds

LOS ANGELES—State Compensation Insurance Fund, California's largest workers compensation insurer, is refunding $22.8 million to policyholders following a seven-month Insurance Department probe into allegations of overbilling.

The refunds to some 26,500 employers are the largest ever made by a California insurer in the wake of an Insurance Department investigation, Commissioner John Garamendi said.

The department began its investigation in November 1992 after employers filed numerous formal complaints against SCIF. According to the department's findings, 10,500 new policyholders were overcharged a total of $9.4 million in premiums between July 1992 and May 1993, based on the misapplication of new-policy surcharges. These employers paid an average surcharge of 42% when they should have paid only 30%, the department found. The erroneous surcharges were applied to nearly one-third of all new policies statewide and almost half of the new policies issued in Los Angeles County, where workers comp coverage has been scarce and expensive.

The department also discovered that SCIF had doubled employer deposits since April 1992, resulting in $12 million in overcharges. Other refunds generated by individual complaints amounted to $1.4 million. SCIF has already begun processing the refunds and credits with repayment to be concluded by year end.

SCIF is a legislatively established non-profit workers comp insurance company. It insures about half of California's employers, accounting for about 22% of the state's workers comp premium volume.

U.K. investigates insurer

LONDON—The U.K. Department of Trade and Industry is examining the circumstances of a Bermuda Fire & Marine Insurance Co. Ltd. subsidiary's withdrawal from the London market in the mid-1980s.

The Bermuda insurer, voluntarily placed into provisional liquidation two weeks ago, wrote London market business through the H.S. Weavers Underwriting (Agencies) Ltd. line slip from the late 1960s until its withdrawal from the market in 1985 (*BI*, Nov. 8).

A DTI spokesman refused to comment on the details of the department's investigation but explained that the DTI's role is to ensure the company keeps sufficient assets in London to meet its liabilities. Primary regulation of the parent company rests in the hands of Bermuda officials, he said.

Bermuda Fire & Marine Chairman Charles Collis said responsibility for the U.K. subsidiary's regulatory compliance was the job of H.S. Weavers. "I can tell you that we did absolutely everything we needed to do to be in compliance," he said.

Mr. Collis said the company, which has between $50 million and $60 million in reserves, "still professes to be able to honor its obligations provided our reinsurers continue to honor theirs."

Updates continued on page 26

Errors & Omissions

• The listing for Alexander Howden Reinsurance Intermediaries Inc. was inadvertently omitted from the Nov. 1 directory of reinsurance brokers. The listing appears on page 26.

In addition, Arthur J. Gallagher Intermediaries, Heddington Brokers Ltd., Northern States Intermediaries and Willis Corroon/Advance Risk Management Services are not members of the Brokers & Reinsurance Markets Assn. as indicated in the directory.

Insurers seek to reduce brokers' cat commissions

By DOUGLAS McLEOD

NEW YORK—Reinsurance brokers are feeling pressure to cut their compensation on large London catastrophe reinsurance placements after more than a year of huge rate increases.

The cat cover capacity crunch has created new turmoil over brokers' compensation, with many in the market agreeing that the traditional 15% commission is too high given dramatically higher premium levels.

Ceding companies and reinsurers are responding to the situation in a variety of ways: ITT Hartford Insurance Group, for example, has demanded quotes from London underwriters with no brokerage commission included and has separately negotiated compensation with Guy Carpenter & Co. Inc.

At least one other broker has offered to cut commission rates, while Lloyd's of London underwriters have proposed a sliding commission scale that would reduce broker compensation on the largest programs.

Still, other programs are being quoted at traditional commission levels.

"There's lots and lots of confusion right now," observed Willis T. King Jr., chairman and chief executive of Willcox Inc. Reinsurance Intermediaries in New York. "There's no uniformity in the market."

"This renewal season is going to have many issues like this," he added.

With many ceding insurers reporting good loss experience and

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Let the risk management begin

Insurers busy with 1996 Games

By JOANNE WOJCIK

ATLANTA—The clock is already ticking on the XVII Summer Olympic Games' insurance contract, even though the torch won't officially be lit until July 20, 1996.

The Atlanta Committee for the Olympic Games has selected Fireman's Fund Insurance Co. of Novato, Calif., and its sister company Allianz Insurance Co. of Los Angeles to underwrite the property/casualty coverage for the 1996 summer games.

The two insurers, both units of German insurer Allianz A.G. Holding, will provide property, general liability, commercial auto liability and workers compensation, as well as umbrella and excess coverages for the international contest.

After having lined up the property/casualty insurers, the ACOG's broker, J&H Atlanta Sports Insurance Partners, now is concentrating on placing participants' health and personal accident coverage and broadcasting rights cancellation coverage.

An "Olympic Family Benefits" plan will cover everyone connected with the Games, including ACOG members, the International Olympic Organizing Committee, team members and support staff.

The broadcasting rights coverage will indemnify the ACOG against loss of revenues from the cancellation or partial cancellation of TV broadcasting contracts.

"It's an incredibly complex un-

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Captive earnings tax

Proposal could create burden for non-profit organizations

By DOUGLAS McLEOD

WASHINGTON—Non-profit organizations that are shareholders of offshore captive insurers could be hit with new taxes on captive earnings and dividends under a bill introduced in Congress this month.

The proposed tax is included in the Tax Simplification and Technical Corrections Act of 1993, H.R. 3419, which was adopted by the House Ways and Means Committee this month.

Among other things, the bill would require a tax-exempt shareholder controlling 10% or more of the voting power in a foreign corporation to treat underwriting and investment earnings and dividends from the corporation as taxable unrelated business income, to the extent that the income would have been taxable if earned directly by the shareholder.

The provision would take effect after Dec. 31.

Tax-exempt entities currently pay taxes on business income unrelated to their charitable purpose, though the Internal Revenue Service has generally excluded captive earnings and dividends from this tax.

If enacted, the bill could create a new tax burden for some non-profit hospitals, health care providers, educational institutions and other tax-exempt shareholders of offshore captives, said Thomas M. Jones, a lawyer with the Chicago firm of McDermott, Will & Emery.

Those affected by the tax would most likely be small group cap-

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Deadline for nominations nears

Nominations for the 1994 *Business Insurance* Risk Manager of the Year and Risk Management Honor Roll competition must be postmarked no later than Friday, Nov. 19.

Last-minute questions about the competition or the nomination process can be directed to *BI* Editor James M. Burcke at 312-649-5483.

Persons submitting nominations should make sure that all information requested by the judges is included with the entry.

Nominations will be reviewed by 10 independent judges representing risk management and various sectors of the commercial insurance industry.

The Risk Manager of the Year and members of the 1994 Honor Roll will be announced in the April 18, 1994, issue, which will coincide with the annual Risk & Insurance Management Society Conference. BI

Inside

• IBM will end its long-standing employee benefit tradition by asking its employees to contribute to the cost of their group health plans. **PAGE 6**

• Sen. Daniel Patrick Moynihan's ammunition tax proposal is a wise step toward curing society's ills, this week's editorial says. **PAGE 8**

• Business groups in Europe are gearing up for a major role in shaping E.C. pollution liability policy. **PAGE 19**

• AIDS-related claims from the tainted-blood scandal in Germany will likely be covered by the pharmaceutical industry's liability reinsurance pool. **PAGE 19**

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Clinton proposes penalties for health care fraud

WASHINGTON—President Clinton and the U.S. Senate agree on at least one element of health care reform: tougher penalties are needed to curb health insurance fraud.

Tucked into the administration's massive health care reform legislation are provisions that would make health insurance fraud a federal crime subject to specific penalties.

Under the Clinton measure, the United States Code would be amended to allow prosecutors to crack down on those who defraud proposed regional health care alliances and the health plans offered by the alliances, as well as large corporations that continue to sponsor their own health care plans.

Penalties would include up to 10 years in jail, fines, and forfeitures of property and money that health insurance crooks derive from their criminal actions.

In addition, if a crime results in serious bodily injury, a convicted felon could be sentenced to life in prison.

Health insurance fraud is defined as any actions to defraud any health plan or alliance in connection with the delivery of or payment for health care benefits items or services.

Currently, prosecutors can seek criminal penalties against health care fraud artists. But prosecutors now must rely on federal mail and wire fraud statutes, which enterprising criminals can evade by, for example, using private mail services.

"We need a specific provision dealing with health insurance fraud," said James Garcia, an assistant vp with Aetna Life & Casualty Co. in Middletown, Conn.

Meanwhile, the Senate also has approved an amendment that would, like the Clinton measure, make health insurance fraud a federal crime.

The amendment, proposed by Sen. William Cohen, R-Maine, was unanimously approved by the Senate earlier this month and added to a pending anti-crime bill. That bill, S. 1607, is expected to come up for a vote in the full Senate this week.

The Cohen amendment includes the same range of penalties as the Clinton proposal. However, insurers are concerned that the amendment was drafted in such a way that it may only apply to public health care programs, like Medicare, or health care programs partially funded by the federal government, like the Federal Employees Health Benefit Program.

However, a member of Sen. Cohen's staff said that the intent of the amendment is to apply to both public and private health care programs.

The anti-crime bill in the Senate also includes provisions—similar to those contained in a broad anti-crime bill that died in Congress in 1991—that would establish federal criminal penalties for such actions as embezzling insurance company funds and knowingly filing fraudulent statements about an insurer.

—By Jerry Geisel

More optimism in market

Few disasters, new capacity spark upbeat tone at NAII

By MARK A. HOFMANN and JAMES M. BURCKE

TORONTO—The clouds were a bit thicker and the wind a bit chillier than at the 1992 meeting in Orlando, but the mood was definitely sunnier at this year's National Assn. of Independent Insurers convention.

"I would say it was a little more upbeat, decidedly not any worse," remarked Dennis E. Hoffman, president and chief executive officer of John Deere Insurance Co. in Moline, Ill.

"There was doom and gloom last year, but Andrew had just happened. This year, we'd survived Andrew and there's lots of capacity," said Derek Hughes, vice chairman of Western World Insurance Co. of Ramsey, N.J.

Photo by Marc Romanelli/Image Bank

Toronto hosted the National Assn. of Independent Insurers' meeting.

"It was more optimistic than last year, a mood that things will get done," said Paul Ingrey, president of F&G Re in Morristown, N.J.

Last year, insurance executives gathered in Florida in the wake of Hurricane Andrew, the costliest natural disaster in U.S. history (*BI*, Nov. 9, 1992). They feared that catastrophe reinsurance, if available at all, would be unaffordable.

Tensions mounted during the 1992 meeting when Skandia America Reinsurance Group announced that it would be downsizing dramatically after its Swedish owners rejected an investment group's bid for the New York-based company.

Not surprisingly, catastrophe reinsurance dominated discussions last year, with a panel discussion of the reinsurance marketplace drawing hundreds of people (*BI*, Nov. 2, 1992).

How times change. Since the

Continued on page 10

Tight market raises European spirits

By CAROLYN ALDRED

BADEN BADEN, Germany—European reinsurers are attempting to limit their exposure to catastrophe losses as the tight reinsurance market in Europe maintains its grip.

Proposals by reinsurers to include occurrence limits—also known as loss caps—within proportional reinsurance treaties was one of the main points of discussion at the gathering of insurance and reinsurance executives in the German health resort of Baden Baden late last month.

Most underwriters agreed that the European reinsurance market remains very hard despite increased capacity for 1994 renewals. Reinsurance terms and conditions still are being tightened, and rates in most European countries continue to rise.

"There's more capacity about than last year, but reinsurance terms are not easing," observed one London underwriter.

"It's still a hard market, a really tough market," according to Christian Baumguertel, a member of the board of Gerling-Konzern Allgemeine Versicherungs A.G. in Cologne, Germany.

But "it was not as tight as I had expected," he added, noting that the rate increases and tightened terms and conditions of the last few years have increased reinsurers' confidence.

"Rate increases have occurred recently, which was absolutely necessary to return the market to profitability and stop the negative trend since 1989. Reinsurers have seen their insureds react positively and this

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A never-ending story for brokers

Despite challenges, most brokerages increase revenues in first nine months

By GAVIN SOUTER

Low insurance rates, a weak economy and uncertainty over health care reform continued to dog the publicly traded insurance brokers in the third quarter, as they had in the first six months of the year.

About the only new factor affecting brokers is another negative: charges for increased tax liabilities have been taken in the third quarter by many brokers.

Despite these old and new problems, all of the publicly held brokers—except Alexander & Alexander Services Inc.—posted revenue gains in the nine-month period. New business continued to be the main source of revenue increases. Higher insurance rates, which are largely confined to property coverage for coastal areas and reinsurance, have had little impact.

Brokers are continuing to emphasize cost control, but these techniques can only go so far, some analysts say.

"Revenue growth remains very slow, and it becomes a question of your ability to rein in expenses. But how long can you hold the horses back before you start rewarding your employees more?" asked Michael A. Smith, an insurance analyst at Lehman Bros. in New York.

The flat economy actually becomes a help rather than a hindrance to brokerages as low inflation and poor employment prospects enable them to hold on to employees without losing control of their salary costs, he said.

"The watchword is cost control," agreed John L. Ward, chief executive officer of Ward Financial Group in Cincinnati.

Indianapolis-based Acordia Inc.'s method of closely linking compensation with performance seems to be effective, said Mr. Ward. "If half of the pay of highly compensated executives is specifically tied to revenues, that's the way to do it," he said.

Besides cost control, there are a few rays of sunshine peeping through the soft-market clouds.

Property insurance rates in coastal regions continue to firm and have helped boost the revenues of brokers operating in those areas.

"We are seeing pockets where coastal property rates are increas-

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Pension simplification moves ahead

By JERRY GEISEL

WASHINGTON—A tax bill headed to the House floor represents a modest first step in peeling back the layers of rules that have made pension plan administration so expensive and complex.

Some simplification provisions—like one making it somewhat easier to run the basic 401(k) non-discrimination test—are included in the so-called technical corrections bill, H.R. 3419, approved this month by the House Ways and Means Committee.

Though modest, those provisions are being welcomed by benefit experts as a start in reversing complex rules.

"This may not be wholesale simplification, but at least it is a step in the right direction," said Henry Saveth, a principal with A. Foster Higgins & Co. Inc.

Other provisions, though, would increase employer and employees' costs by requiring multiemployer pension plans to adopt the same vesting schedules as single-employer plans and by eliminating five-year forward averaging—which plan participants can now use to reduce taxes on lump-sum pension distributions.

Various provisions in the House tax bill would:

- Simplify 401(k) plan non-discrimination testing in two ways.

First it would let employers compare salary deferrals made by lower-paid employees during the previous year with those made by high-paid employees during the current year.

By contrast, employers now have to compare current-year contributions for both groups, which requires constant monitoring of all 401(k) contributions.

If lower-paid employees defer less than expected, employers during the plan year may have to cut back deferrals by high-paid employees or return excess contributions to them, a messy administrative chore.

By allowing the previous-year comparisons, the House bill would let employers know at the start of a plan year how much high-paid employees could contribute to the plan during that year without violating the non-discrimination rules.

"You don't have to try to hit a moving target," said Gerald Uslander, a principal with William M. Mercer Inc. in Washington.

Second, the House bill would let employers completely avoid

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Harassment case

Continued from page 1

the Supreme Court has made on the subject of sexual harassment—the justices reviewed a lawsuit against a Nashville, Tenn.-based truck rental company brought by a woman who worked there as a rental manager (*BI*, Oct. 18).

In *Harris vs. Forklift Systems Inc.*, Teresa Harris alleged that she was sexually harassed by the company's president, Charles Hardy. Among other things, Ms. Harris accused Mr. Hardy of demeaning her in front of fellow employees and making her the target of unwanted sexual innuendoes.

In her lawsuit, Ms. Harris alleged that Mr. Hardy's harassment, based on her gender, created an "abusive work environment."

Therefore, she alleged, the conduct violated Title VII of the Civil Rights Act of 1964.

The U.S. District Court in Nashville agreed that Mr. Hardy's behavior was vulgar and offensive to a hypothetical "reasonable woman." But the court ruled against Ms. Harris because Mr. Hardy's conduct did not "seriously affect" her "psychological well-being."

The 6th U.S. Circuit Court of Appeals in Cincinnati upheld that decision.

In reversing the lower court rulings last week, the justices relied on a 1986 precedent set in *Meritor Savings Bank vs. Vinson*, the first sexual harassment case argued before the high court.

Writing for the court in last week's decision, Justice O'Connor said: "Title VII is violated when the workplace is permeated with discriminatory behavior that is sufficiently severe or pervasive to create a discriminatorily hostile or abusive working environment." The standard requires an objective view by a "reasonable person" that the environment is hostile or abusive, "as well as the victim's subjective perception that the environment is abusive," she added.

"So long as the environment would reasonably be perceived and is perceived as hostile or abusive, there is no need for it also to be psychologically injurious," Justice O'Connor wrote.

"Whether an environment is 'hostile' or 'abusive' can be determined only by looking at all the circumstances," she wrote. "These may include: the frequency of the discriminatory conduct; its severity; whether it is physically threatening or humiliating, or a mere offensive utterance; and whether it unreasonably interferes with an employee's work performance."

'There will not be a surge in buying job-related litigation coverage. I think the way to handle this is to look at what we can do in terms of preventing (sexual harassment) with policies, training and awareness programs,' Dick Heydinger says.

Justice O'Connor said the conduct's effect on an employee's psychological well-being is relevant but added that "no single factor is required."

While women's rights groups generally hail the decision, some attorneys expect the court's broad definition of sexual harassment to lead to a flood of sexual harassment lawsuits.

"It's a pro-plaintiff, anti-defense reading of Title VII," said Gerald Maatman Jr., a lawyer at the firm Baker & McKenzie in Chicago.

Mr. Maatman said the standard does not provide one defining element but requires courts to consider a number of factors.

For that reason, judges will be less inclined to grant employers summary judgments in sexual harassment cases and more likely to leave the decision up to a jury, he predicted.

The high court's decision "invites litigation and leaves to juries the ultimate decision as to whether conduct constitutes sexual harassment," agreed Richard Simmons, an attorney with Musick, Peeler & Garrett in Los Angeles.

Allowing juries to decide such cases could cost employers a lot of money, particularly given the expanded remedies for job discrimination, including punitive damages, set forth under the Civil Rights Act of 1991.

According to Jury Verdict Research of Horsham, Pa., the average jury verdict in sexual harassment suits brought by employees was $181,847 from 1988 through 1992.

However, risk managers aren't rushing out to buy employment practices liability insurance policies, which were introduced just a few years ago (*BI*, May 31).

"There is a lot of interest in the employment practices liability insurance market, but not a lot of customers," commented Rick Betterley, president of Betterley Risk Consultants in Worcester, Mass.

"There will not be a surge in buying job-related litigation coverage," Hallmark's Mr. Heydinger said. "Most of my peers have high retentions anyway. And, I think the way to handle this is to look at what we can do in terms of preventing (sexual harassment) with policies, training and awareness programs," he said.

"As with any crisis management, there has to be a mechanism in the workplace to handle" potential problems like sexual harassment, said Cheri Hawkins, assistant treasurer and director of insurance for Weyerhaeuser Co. in Tacoma, Wash.

But, the Supreme Court's recent decision won't cause the company to alter or re-create a policy dealing with sexual harassment, Ms. Hawkins said.

Weyerhaeuser prohibits sexual harassment in its corporate code of ethics. In addition, "every employee gets a full-scale presentation on (sexual harassment), followed by a question-and-answer session," Ms. Hawkins explained. The company also maintains a "credible, non-threatening process to resolve issues."

Liability for sexual harassment would be covered under the company's existing umbrella policies, she added.

"We haven't bought niche products. Their limits fall below our normal level of retention anyway," Ms. Hawkins said.

The justices' decision sends Ms. Harris' lawsuit back to the 6th Circuit, which likely will remand it to the U.S. District Court in Nashville to reconsider her charges in light of the high court's ruling.

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Harris vs. Forklift Systems Inc., certiorari to the 6th U.S. Circuit Court of Appeals; No. 92-1168.

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IBM ends era of free health insurance

Benefit Beat

ARMONK, N.Y.—Following in the steps of scores of employers before it, International Business Machines Corp. finally has ended its policy of providing free employee health insurance.

Beginning next April, the financially battered firm will require workers to contribute toward group health insurance premiums.

The computer company hopes the move—along with other plan design changes—will help it shave at least $280 million from its 1994 and 1995 health care budgets.

Self-insured IBM paid more than $1 billion in health care claims in 1992. The company provides health care coverage to 600,000 people, including 160,000 active employees, 70,000 retirees, plus their dependents.

IBM's actions are clearly a sign of the times. Less than a quarter of employers picked up the entire tab on employees' health care coverage in 1992, according to A. Foster Higgins & Co. Inc. And, IBM has certainly seen better days: It posted a $70 million loss in the third quarter and is cutting 35 000 jobs.

The health plan changes are part of IBM's overall efforts to improve its competitiveness. "In order to continue offering employees a high-quality benefits package, we had to change our approach to delivering benefits," Gerald M. Czarnecki, IBM senior vp of human resources and administration, said in a statement.

Under a new flexible benefit plan, employees can elect coverage under one of two medical indemnity plans or can enroll in an HMO if one is available in their area.

IBM will contribute specific amounts toward employees' health care premiums based on three coverage categories: the company will pay $202 per month for employee-only coverage; $402 per month for coverage for an employee plus one dependent; and $609 per month for coverage for an employee plus two or more dependents. Employees can choose coverage under health plans that equal the amount of IBM's contribution or choose richer plans and pay the difference in the monthly premium with pretax dollars.

Among the medical plan changes:

- IBM's Medical Plan A will continue to provide employees with the current major medical, surgical and hospitalization benefits. Starting in January, however, the annual deductible for this indemnity plan will increase to a $250 per family minimum or 0.3% of the employee's previous year's salary, whichever is greater, plus the cost of the first night's hospital stay. That is up from a $150 annual deductible or 0.3% of previous year's salary. After the deductible is met, the plan pays 80% of medical and 100% of surgical and hospital expenses. There are no out-of-pocket maximums on medical services.

  Employees electing coverage under this option who also select various dental coverage and vision coverage options, could pay $34, $60 or $83 per month depending on the coverage category they choose.
- Medical Plan B, a lower-priced indemnity plan option, covers the same services as Plan A but uses a different deductible and reimbursement structure. After meeting the deductible, which ranges from $250 to $750, the plan reimburses all eligible expenses at 80% of usual and customary charges until a $2,000 out-of-pocket maximum for individuals or a $4,000 family maximum is reached. The plan then picks up 100% for the rest of the plan year. Employees selecting this plan plus dental and vision coverage options could pay nothing, $5 or $10 per month, again depending on the category they choose.
- Next April, IBM will increase the number of HMOs it offers to 149 from 129, and most will be priced below the costs of Medical Plan A. Employee contributions and benefits for HMO members from January through March 1994 will remain the same as in 1993. Beginning in April, though, employees will have to contribute toward HMO plan premiums, but the amounts will vary depending on the plan they choose.

  The company will continue to offer certain preventive care services like exercise and smoking cessation programs.
- IBM is also offering employees a health care reimbursement account for the first time. Employees can set aside up to $3,000 per year in pretax dollars to pay for eligible medical care expenses like deductibles, co-payments and other expenses not covered by IBM's health plans.

Details of the benefit plan changes are being mailed to employees. Enrollment begins in January.

—*By Christine Woolsey*

Yale domestic partners

NEW HAVEN, Conn.—Yale University last month joined a number of other colleges and universities by extending its health plan to include same-gender domestic partners of faculty members and staff.

Beginning next year, homosexual partners of Yale employees will be eligible to participate in the Yale Health Plan, a university-sponsored HMO, and in the school's dental insurance plan.

Domestic partners of heterosexual employees, however, will not be able to enroll in the extended benefits program.

"The rationale here is to extend coverage to couples who cannot, under state law, legally marry," said Ann Ameling, associate provost at Yale University.

In an unrelated benefits move, Yale announced that it will give all employees an option to enroll in a long-term care plan underwritten by Portland, Maine-based UNUM Life Insurance Co at a reduced, group rate.

Among other universities that have extended health benefits to the partners of gay and lesbian staff members are the Massachusetts Institute of Technology, the University of Chicago, Harvard University and Stanford University.

—*By Michael Schachner*

Textile workers pact

NEW YORK—Unionized clothing and textile workers secured major improvements in health care coverage, pension and savings benefits under a new 19-month labor contract with major clothing makers.

At the heart of the new agreement with the Clothing Manufacturers Assn., which runs from Oct. 1, 1993, to April 30, 1995, about 40,000 members of the Amalgamated Clothing & Textile Workers Union will now have 85% of the cost of in-office doctor visits paid for if care is provided through a limited network of doctors.

Previously, union members were not entitled to benefits for in-office doctor visits and received only $15 of coverage for outpatient medical services in hospitals.

In addition, the new contract calls for CMA member employers to pay 85% of costs related to both psychiatric treatment and physical therapy.

Previously, CMA members provided no benefits for this type of medical attention.

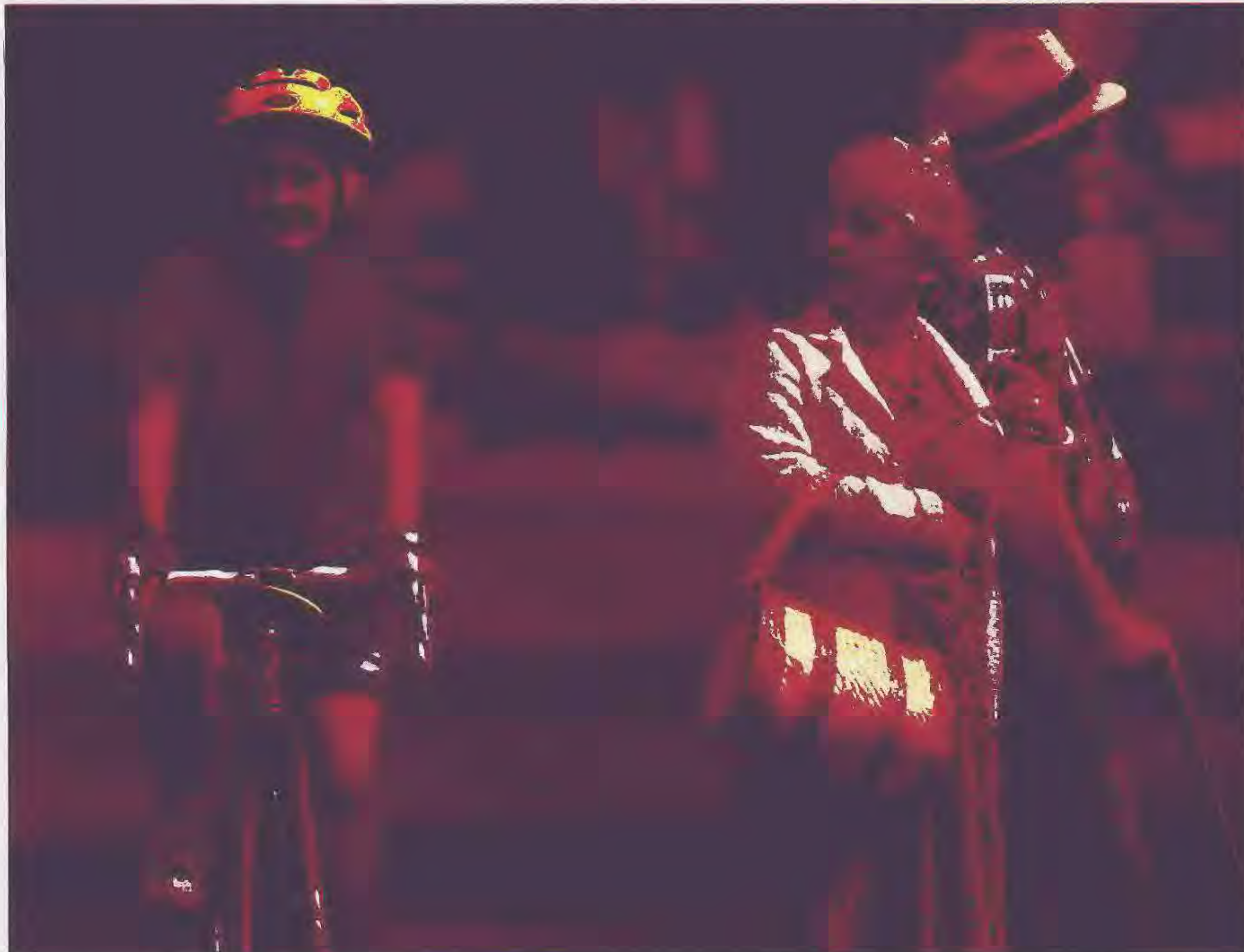
And, the contract calls for the level of paid substance abuse treatment to increase to 85% from 75%.

The contract also increases future pension benefits under the union's defined benefit pension plan. Under the new deal, monthly benefits will increase to $8.25 per month per year of service from $6.25.

Lastly, the contract establishes a new 401(k) plan, which will be fully funded and controlled by employees unless clothing manufacturers import more than 10% of their sales. In that case, employers will be required to contribute $1 per imported men's suit to the workers' 401(k) plan.

—*By Michael Schachner*

For Many Insurers, Defining The "Typical" Older American Is A Real Challenge.



Anybody who thinks the older-age market consists solely of grey-haired people in rocking chairs needs to take another look. Plenty of today's 70-year-olds prefer scuba diving to checkers. And they don't even *own* a pair of orthopedic shoes.

New wrinkles for insurance.

Many insurers are developing new products to tap the potential of this new market. From long-term care policies to accelerated benefits riders. Others are trying to figure out how to approach traditional products for the older ages.

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Baden Baden

Continued from page 3

generates confidence," explained Mr. Baumguertel.

Indeed, most executives commented that the mood of the Baden Baden meeting, like the mood at the annual meeting of the National Assn. of Independent Insurers (see story, page 3), was less tense this year compared with the 1992 meeting.

"I came away with the feeling that people were a little more bullish," this year, noted John Voisey, marketing manager of Zurich Re (U.K.) Ltd. in London.

The mood of the meeting was "very positive. For the first time in several years, reinsurers were not just recovering from a major market loss," said Keith Cummins, a senior underwriter with the international department of The Mercantile & General Reinsurance Co. Ltd. in London.

Last year's Baden Baden meeting took place just six weeks after Hurricane Andrew and one week after Hurricane Iniki, noted several underwriters.

The mood of the meeting this year "was less pessimistic than I had expected," said Mr. Baumguertel. "There was an air of realism. Not an optimistic mood but not as bad as we thought."

Underwriter Peter Hecker, a member of the board of Hannover Reinsurance Co. A.G. and Eisen & Stahl Reinsurance Co. A.G. in Hannover, Germany, agreed, describing the mood of the meeting as one of cautious optimism.

"The mood was better than last year. People were less afraid of losing their jobs," said Rolf van Dawen, head of the liability and motor department of Aachener Reinsurance Co. A.G. in Aachen, Germany.

Mr. van Dawen noted that many underwriters attended Baden Baden last year under the threat of unemployment because of the financial problems that had beset so many reinsurers, especially London market reinsurers. However, he said most people now believe the reinsurers that have survived will remain in business.

"There was more optimism from reinsurers," said Mr. van Dawen, noting that insurers' optimism was somewhat muted as "they must pay more for their reinsurance." Hence, "the reinsurers had bigger smiles" than their ceding companies, he said.

"The international non-marine reinsurance market is very tight. Capacity is there but it's not going to be easy for (insurers) to place their reinsurance," said Peter Butler, underwriter for Lloyd's of London syndicates 765 and 1179, managed by R.J. Kiln & Co. Ltd.

Underwriters, while cautious, were more "upbeat than last year," he said.

"People were more cheerful about the prospects for 1993 results" compared with those of recent years, he said.

However, Mr. Butler remarked that less business was concluded this year and last year than in prior years.

Baden Baden traditionally has been regarded as the most important European gathering for negotiating and concluding reinsurance business. Whereas the Rendez-Vous de Septembre held in Monte Carlo revolves primarily around conversations, contracts typically are signed in Baden Baden.

Baden Baden is "conducive to hard work. It is the perfect location and a good time of year," said Mr. Butler. However, this year many executives "were very reluctant to commit themselves at this stage," he noted.

Reinsurers are "asking more questions and better questions," he explained. A lack of retrocessional capacity caused by several years of massive losses from a surge of catastrophes is forcing reinsurers to evaluate and limit their exposures to a much greater degree than they had previously.

"The minds of the reinsurers are quite firm. They are looking for profitability," said Gerling's Mr. Baumguertel.

"We are very much concentrating on assessing our maximum accumulation" per geographic zone, said Mr. Hecker of Hannover Re.

"Over the last couple of years, people have become more aware of their aggregate exposure to catastrophes. Reinsurers are looking at ways of controlling their aggregates," observed one London-based insurance executive.

As a result, reinsurers are demanding more details about insurers' portfolios, underwriters noted.

"In today's market there is a greater need to meet with your reinsurer and have hands-on contact with him," an underwriter noted.

Insurance companies need to present "better and clearer figures" to their reinsurers, agreed Mr. Baumguertel. "Retrocessional capacity has faded away. (By retroceding) reinsurers could control their exposures. Now that instrument has gone so it has to be replaced by increased knowledge or a limit in the cover given."

As a result, in several markets, reinsurers are trying to cap their exposure to catastrophe losses by including limits for losses arising from any one event within proportional reinsurance treaties.

For example, a proportional reinsurance policy may include a limited payout for all claims stemming from one loss equal to a specified percentage—say 35%—of the total premium paid for the policy.

Such caps are unusual in European proportional reinsurance contracts. First introduced for 1993 in the Portuguese market for earthquake losses, there is a concerted drive by reinsurers to include similar caps in other European markets, most notably the United Kingdom and The Netherlands for windstorm losses (*BI*, Sept. 20).

"Event limits are being proposed by reinsurers" in the U.K. market, said Martin Vine, a director of SCOR (U.K.) Reinsurance Co. Ltd. in London.

"Cedants are resisting (the move) but reinsurers are standing firm," said Mr. Vine, predicting that within two years most proportional reinsurance treaties for U.K. insurers "will be carrying event limits."

The British and Dutch markets "are being attacked the most" by reinsurers, agreed one German reinsurance underwriter. However, he predicted that catastrophe caps also will gain ground in the German market during the next year or so.

"Some (capping) will be introduced into German proportional treaties this year but more will be introduced for 1995," agreed another German reinsurance executive who did not wish to be named.

However, German insurers are fighting moves by their reinsurers to limit their cover for catastrophic losses.

"I don't think event limitations will be accepted" by German insurers, said Mr. Baumguertel of

Continued on page 10

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Opinions

A sure-fire solution

THE PROPOSAL by Sen. Daniel Patrick Moynihan, D-N.Y., to increase taxes on ammunition to finance health care reform is one idea that everyone who really believes in reform—and the betterment of society—should support.

While critics from the gun lobby are assailing Sen. Moynihan's proposal, we don't see how raising the tax on ammunition is any different than raising the tax on cigarettes. And, while some believe the Constitution gives Americans an unfettered right to bear arms, nowhere does it say the bullets shot by those firearms cannot be taxed.

What's really great about Sen. Moynihan's proposal is that it is so well-conceived. For example, taxes would not be increased on .22-caliber ammunition, the type favored those who shoot targets rather than their fellow humans. However, the tax on hollow-tipped "Black Talon" cartridges, which are designed specifically to cause grotesque injuries when fired at a human, would be raised by 10,000%.

Of course, the amount of revenue raised by the ammo tax is not the big issue. Rather, it is the number of lives the tax could save and the tremendous amount of waste in our health care system it would eliminate. While no one knows the true cost of treating gunshot wounds, if the ammo tax can reduce the number of Americans killed or wounded by handguns—35,000 and 175,000 in 1989, the last year for which statistics are available—both the health care system and society at large will benefit.

"BOY, THAT LOBBYIST AGAINST THE AMMO TAX GIVES ME THE CREEPS!"

EPA should heed own study

A RECENT STUDY of Superfund costs should erase any lingering doubts about whether the federal pollution cleanup program is in dire need of reform.

Transaction costs—like legal fees to determine who is responsible for cleaning up a hazardous waste site—amount to more than one-third of what the private sector pays out in connection with Superfund sites, according to the Rand Corp. study, which was conducted on behalf of the Environmental Protection Agency (*BI*, Nov. 8). Moreover, the study points out that transaction costs incurred by small companies named as potentially responsible parties can represent as much as 60% of their Superfund-related costs.

These transaction costs fall disproportionately on smaller businesses at a time when businesses of all sizes are struggling. The fact that so much of the Superfund-related tab does not remove one molecule of toxic waste is an expense the U.S. economy can no longer tolerate.

"Our work has demonstrated that Superfund has induced considerable transaction costs and raises doubts whether Superfund's liability approach as currently implemented is an efficient way to clean up the nation's hazardous waste sites," Rand economist Lloyd S. Dixon told a Senate subcommittee holding hearings on the Superfund law.

While Mr. Dixon cautioned that any reforms to Superfund's liability provisions would entail trade-offs, now is the time to examine those trade-offs—well before the end of next year, when Superfund's authorization expires.

There's already a very good Superfund liability reform proposal on the table from the Treasury Department, which would radically overhaul the law's liability provisions. That proposal would end the current system of joint and several liability in favor of proportional liability and would abolish retroactive liability prior to Dec. 11, 1980, or another appropriate date for those PRPs whose actions complied with the law in force at the time.

The EPA, which has resisted necessary changes to Superfund like those proposed by the Treasury Department, should read its own study and finally agree that the current Superfund liability system benefits no one—except a small group of attorneys.

Letters

Quoting unnamed source called unfair to A&A

To the editor: It is true that Alexander & Alexander has gone through a difficult period (*BI*, Nov. 8). The company is addressing the problems and we are committed to improving our financial performance.

In developing your report, it was disappointing that *Business Insurance* chose to rely so heavily on negative comments from anonymous sources, some of them with obvious axes to grind.

Concluding your story with an unnamed source making a baseless assertion about values and client focus was particularly disturbing. This was an offensive and unfair attack on A&A's dedicated and highly professional employees.

Tinsley H. Irvin
Chairman and Chief Executive Officer
Alexander & Alexander Services Inc.
New York

* * *

To the editor: I write this letter as a person who is employed by Alexander & Alexander Inc., but not as a representative thereof, in reaction to your Nov. 8 article on A&A.

In the final paragraph of that article, you quote an unidentified risk manager whose comments, and your publication of them, directly impugn A&A's employees. The comments and your publication of them are mean-spirited.

I do not purport to speak on behalf of A&A employees. I can, however, share an observation that has been formed over an 18-year association with them. No one cares more about rectitude or our clients' well-being than A&A's employees. That we have not succeeded in convincing all our former and current clients of this is a failure we share with the brokerage community as a whole, and it is a failure we must all overcome if we are to continue to be the providers of choice for our clients.

I am disappointed that you saw fit to close the article with aspersions published without specific attribution.

Suzanne Douglass
Bayside, N.Y.

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SOLUTIONS FOR THE WORLD WE LIVE IN.

Baden Baden

Continued from page 7

Gerling. "There is a firm front from primary carriers against it."

Many insurers already have imposed increased deductibles for windstorm losses on policyholders and, therefore, the insurers have reduced the catastrophe exposure, insurance executives pointed out.

Although all underwriters agreed the reinsurance market remains firm throughout Europe, differences still are apparent from country to country. For example, the U.K. market, which has seen the steepest price increases in the past two years, now is stabilizing, according to underwriters.

"In markets such as the U.K., where original rates have been increasing for the last two years, that trend is leveling out," noted Mr. Voisey of Zurich Re. For example, rate increases are at most 5% where they had been 15% last year.

"We sense that catastrophe rates will not increase further for the U.K. market because many insurers have now reached a payback position," said Mr. Voisey.

In addition, several underwriters pointed out that there is much greater confidence about the London market now than in recent years, particularly following Lloyd's of London's decision to accept corporate capital.

Meanwhile, rates are rising more steeply in the French and Dutch markets, observed Mr. Voisey.

The tightening of the Dutch market was reflected in the large number of Dutch insurer executives who attended the Baden Baden meeting for the first time this year, said Mr. Cummins of M&G.

Dutch companies are "looking for catastrophe capacity. Companies are finding it hard to place their (reinsurance) programs," said Mr. Cummins, noting that several insurers "have a large hole to fill" in their programs due the withdrawal of non-life reinsurance capacity by Netherlands Reinsurance Group. As a result, "there is a meaningful increase in reinsurance rates" for Dutch insurers, he said.

Markets that have not suffered from severe windstorm losses in recent years are not suffering such severe rate increases.

For example, "reinsurers are being softer on Scandinavia," said Mr. Cummins. "Scandinavian results have not been bad compared with other countries and the windstorm exposure is less," he said.

The German insurance and reinsurance market, meanwhile, remains tight, German underwriters agreed.

Mr. Baumguertel predicted rate increases of 15%-20% for many small to medium-sized German companies. Large industrial companies, known as "peak risks," have already experienced increases of about 15%-20% in the past two years, he noted.

"We have to face the fact that German tariff rates are below international rates and we still have some way to adjust," said Mr. Baumguertel.

"The German fire and liability market is at least as tight as last year," agreed Mr. Hecker of Hannover Re.

"There is an enormous effort by German underwriters (to tighten) industrial fire business. I can't see any hesitation not to go on," said Mr. van Dawen of Aachener Re.

However, aside from the controversy over event limits, there is now some "stability" in the German reinsurance rates and conditions, said Mr. Baumguertel.

Meanwhile, the new catastrophe reinsurance capacity from Bermuda is being viewed very cautiously by the European market. For instance, most German underwriters indicated that capacity from Bermuda would have little impact on the German reinsurance market.

"German companies are very conservative. They won't use new capacity," particularly if it is not viewed as long-term, said one German underwriter, who remarked that most Europeans believe the new Bermuda capacity "will only be available for two to three years."

Insurers are taking a "very cautious" approach to the new capacity from Bermuda, agreed Mr. Butler, the Lloyd's underwriter. "It is unproven and considered opportunistic."

"There is a lot of talk about Bermuda but the new capacity has got to be viewed carefully," said one London underwriter. "There is no doubt that Bermuda capacity is well-financed but continuity is important."

There is also some concern that the huge amount of cat cover now available from Bermuda reinsurance facilities will lead to a new wave of price competition.

"We are a little afraid that the new capacity may undercut the market. The shareholders (of the Bermuda companies) want a high return, so they have to write plenty of business," noted Mr. Hecker of Hannover Re. BI

NAII meeting

Continued from page 3

1992 meeting more than $4 billion of capital has flowed into new Bermuda-based catastrophe reinsurance facilities, with billions more flowing into the London and U.S. markets. This year's conference did not even have a reinsurance panel.

Adding more uncertainty in 1992 was the three-way presidential election, which took place a week after the meeting. The election seemed certain to result in new economic policies, but no one new what the policies would be, said James Lambie, president of Winston-Salem, N.C.-based Integon Corp.

The impact of last year's election reverberated through the meeting this year, but in regard to an issue not usually associated with the property/casualty insurance industry, Mr. Lambie pointed out. That issue is health care reform, which received prominent attention from most speakers and at least passing mention from virtually all of them (see stories, pages 12 and 13).

John J. Carey, chairman of Allendale Mutual Insurance Co. in Johnston, R.I., said he heard a great deal of skepticism about President Clinton's health care plan.

The doubts sprang from "the fact that the federal government hasn't successfully implemented many major programs and this is the largest thing that's ever been contemplated by the government," said Mr. Carey.

"The concerns of most of the primary insurance people were health care reform and how it would impact workers compensation and automobile insurance," agreed John Deere's Mr. Hoffman. He added that insurers' concerns extended beyond their books of businesses to their roles as employers, wondering how reform would affect their employees.

Concerns remained about catastrophe reinsurance as well, though they have abated considerably since last year.

"I didn't hear any gnashing of teeth about reinsurance prices," said Mr. Hoffman.

"Everybody was sort of settling in, taking a realistic look at the market," said Western World's Mr. Hughes.

But, Mr. Lambie said some attendees expressed fear that catastrophe reinsurance prices would increase still further in London. The new Bermuda-based catastrophe reinsurance facilities could follow those leads, he said.

Mr. Carey said he also heard some pessimism about the affordability of reinsurance.

"I'm not saying that the reinsurers aren't right about their pricing," he said. But, many insurers are finding themselves squeezed hard between the regulatory pressure for stable personal lines rates and the continued softness of most commercial lines, said Mr. Carey, whose company writes only commercial insurance.

Reinsurers themselves, looking at the market from an understandably different angle than their customers, appeared guardedly optimistic.

Regarding the reinsurance market, "I don't see any signs that it's getting worse," said Steven Gluckstern, chairman, president and CEO of New York-based Zurich Reinsurance Centre Inc. In fact, some specialty lines, such as directors and officers liability and some forms of errors and omissions coverage, were showing "some signs of firming," he said.

"Reinsurers are looking to make an underwriting profit in the third quarter. There's no reason I can see for this except for the absences of catastrophes. Certainly pricing in the non-catastrophe area hasn't improved," said F&G Re's Mr. Ingrey.

The reinsurance market hasn't bottomed out for "heavy commercial casualty" risks, said G. William Davis Jr., senior vp of Skandia America Reinsurance Corp. in New York. A 10% to 15% downturn in rates for such coverages is still possible, he said, adding that Skandia is receiving more requests for premium discounts.

Mr. Davis added that he wondered whether ceding companies will ask for even more price breaks in the light of reinsurers' positive third-quarter results.

Another topic commonly discussed was the future of the London market, especially the amount of corporate capital flowing into Lloyd's.

ZRC's Mr. Gluckstern observed that some ceding companies may be "a little more wary of London" reinsurers than had been the case in the past.

And, he noted that reinsurers in the United States and elsewhere have an "appetite" to write business that has traditionally been led in London.

More bullish on the London market is Richard E. Cole, chairman and chief executive officer of Chartwell Reinsurance Co. in Stamford, Conn.

"Lloyd's will get its money" and continue to be a market leader, said Mr. Cole, who is a director of New London Capital P.L.C., an investment company being formed by Chartwell and S.G. Warburg Securities to raise nearly 150 million pounds ($225 million) in corporate capital to invest with selected Lloyd's syndicates.

Mr. Cole also noted that besides the capital flowing into Bermuda and Lloyd's, many U.S. reinsurers—including Chartwell—are going to market to raise hundreds of millions of dollars in new capital.

The lighter mood at the NAII meeting also extended to the traditional—and sometimes non-traditional—receptions hosted by reinsurers and brokers.

The most fun-filled was what could be described as the world's biggest reinsurance reception if the criteria was its venue: ZRC and sister company Centre Reinsurance Holdings Ltd. rented Toronto's mammoth SkyDome for an afternoon and evening of softball, batting practice, football tossing and other merriment. BI

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- Bureau of Labor Statistics, U.S. Dept. of Labor, 1990

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NAII president praises state regulation

Claims federal oversight would unfairly aid big insurers

By JAMES M. BURCKE

TORONTO—State regulation of the insurance industry is not a "joke" as some large insurers would lead the public to believe, according to the president of the National Assn. of Independent Insurers.

NAII

In an impassioned, somewhat impromptu address at the association's 48th annual meeting earlier this month, NAII President Lowell Beck emphasized that state regulation and the antitrust exemptions given to insurers by the McCarran-Ferguson Act are key to the property/casualty insurance industry's well-being.

"If state regulation is such a joke, why do we have companies that are so strong financially?" Mr. Beck asked, receiving applause from executives of NAII member companies, primarily small regional insurance companies.

He charged that large insurers are advocating federal insurance solvency regulation mainly because it will give them a competitive advantage over smaller companies.

"A large segment of the industry is compromising with federal regulation. They want it for competitive advantage," Mr. Beck said.

While he did not mention the American Insurance Assn. by name, he was clearly referring to the AIA's endorsement of federal solvency regulation and its efforts to negotiate with Rep. Jack Brooks, D-Texas, who is sponsoring legislation that would remove most of insurers' McCarran-Ferguson immunities.

The AIA is composed primarily of large stock insurance companies.

Mr. Beck delivered off-the-cuff remarks during his address at the NAII meetings because other speakers, including former Vice President Dan Quayle, exceeded their allotted time.

However, in his prepared speech, Mr. Beck further discussed his call to arms for NAII members to fight federal insurance regulation.

"While some of our colleagues are eagerly cooperating to dismantle McCarran-Ferguson and destroy state regulation, we are using every political weapon at our disposal, from testimony to personal contact, to defend the state system," Mr. Beck explained.

"While some say they can live with a little federal solvency regulation or the federal reporting requirements in pending so-called redlining bills (*BI*, Nov. 1), we see them as the fingerhold of what will be inevitably an iron and one-size-fits-all scheme of the federal government," he said. "The clear result will be a strangling of competition, all brought about by those who claim to be fostering it," he said, again referring to large insurers that have endorsed aspects of federal regulation.

Mr. Beck said there is "no wide public support" for the repeal of McCarran-Ferguson, the passage of federal solvency regulation "or federal anything."

Yet, he acknowledged, state regulation of insurance is not a perfect system.

"All of us know state regulation has its weaknesses. To some very large companies, it is not uniform enough; to some, it has become strident and harsher than necessary. Examination may take too long, and rate regulation interferes with a competitive market," he observed.

"But is it truly a joke and is it weak?" Mr. Beck asked. He responded by saying that "insurance industry failures aren't taking billions upon billions from taxpayers."

In his remarks at the conference and in his prepared speech, Mr. Beck said the NAII was formed in 1945 by small insurers "who believed in independence. You weren't going to take it anymore" from large competitors that attempted to set prices and products for the entire industry.

'I am convinced that we can make things happen as we have in the past,' says Lowell Beck, NAII president.

Nothing much has changed over the past 48 years, Mr. Beck pointed out.

Many large insurers and other industry observers, Mr. Beck charged, believe the NAII's support for state regulation "is naive. They tell us...as they did in 1945...that small, independent grass-roots movements have no clout.

"Many people misjudged us and the situation in 1945, and they are misjudging us again in 1993," he said.

"Despite differences in the industry that are unprecedented and dangerous to the well-being of all property/casualty insurers, I am convinced that we can make things happen as we have in the past," he said.

Mr. Beck's defense of state regulation and his attack on federal intervention in the insurance industry was echoed by NAII Chairman John R. Graham, executive vp and chief executive officer of Farm Bureau Mutual Insurance Co. in Manhattan, Kan.

"We must acknowledge that federal regulation is far from perfect," Mr. Graham said in his speech at the NAII meeting.

"But, it compares favorably with any model of federal regulation one can find in any other industry.

"We must also recognize that state regulation will not likely go away, even with federal government intrusion.

"Thus, the debate is not between state regulation and some form of mythical, idealistic system of federal regulation. The issue is state regulation vs. dual regulation, the worst of all worlds," Mr. Graham said. BI

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Congress divided over Clinton plan, Republican says

By MARK A. HOFMANN

TORONTO—The U.S. Congress will not approve any health plan more extensive than President Clinton's, according to a Republican congressional health strategist.

In fact, President Clinton began losing the debate when the health reform plan included employer mandates, said Rep. Rick Santorum, R-Pa.

Rep. Santorum offered his assessment of the health care debate during the annual meeting of the National Assn. of Independent Insurers earlier this month.

Rep. Santorum, a member of the House Ways and Means Committee, said there's no guarantee that the president's plan will be passed.

Despite the efforts of advocates of a single-payer health care system, Rep. Santorum said the Clinton plan "is the parameter to the left" of the debate.

The president is stressing security, while many House Republicans are stressing "choice, responsibility and freedom," said Rep. Santorum, the likely 1994 GOP candidate for the U.S. Senate seat currently held by Sen. Harris Wofford, D-Pa.

In fact, the president's premise that the federal government must take over one-seventh of the economy "is a very dangerous step in the wrong direction," Rep. Santorum said.

The president's reform proposal is 'a very dangerous step in the wrong direction,' says Rep. Rick Santorum.

He offered what he considers an example of the administration's mindset: Hillary Rodham Clinton has attacked health insurers, asserting that they like to deny people coverage, because the more they exclude, the more money they make (*BI*, Nov. 8).

"The only thing we should guarantee is that everyone has the opportunity to purchase insurance if they want to," Rep. Santorum remarked.

Rather than form a federally controlled national health care system like that envisioned by the president, Rep. Santorum advocated allowing the creation of individual medical savings accounts. These accounts, which would function somewhat like individual retirement accounts, would make people more aware of what they spend on health care, he said.

David McIntosh, senior fellow for domestic affairs at the Hudson Institute's Competitiveness Center, a conservative think tank in Indianapolis, said that "virtually no one" in the United States is denied access to health care.

However, the insured end up subsidizing the uninsured, said Mr. McIntosh, who will probably run as a Republican for the House of Representatives in 1993.

A critical difference exists between access to health care and having health insurance, he said, estimating that between one-third and one-half of the uninsured have chosen not to buy coverage.

The result is a cost-shifting from the insured to the uninsured, which Mr. McIntosh said reflects about 20% of the cost of insurance.

The cost-shifting could grow worse if the health components of workers compensation and automobile insurance remain outside the global health care budgets called

Continued on next page

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Quayle vs. Clinton on health care

Former vp favors tax credits and vouchers to make insurance accessible

By JAMES M. BURCKE

TORONTO—President Clinton's national health reform bill is "the most radical piece of legislation" ever put before Congress, contends former Vice President Dan Quayle.

The proposal "is a political power grab, with government consuming 14%" of the nation's gross domestic product, asserted Mr. Quayle in what he lightheartedly described as an "objective, unbiased view of how President Clinton is doing." Mr. Quayle delivered the speech at the National Assn. of Independent Insurers' recent annual meeting.

He charged that Mr. Clinton, his wife Hillary Rodham Clinton and their advisers "want to get rid of private medicine in this country." He said that the plan includes criminal sanctions against doctors who do not follow the rules proposed by the president.

The former vice president also mocked Mr. Clinton's contention that his proposal would simplify the health care system. "The federal government is going to run the health care system from top to bottom—and it's going to be more simple?" he asked.

The Clinton proposal is based on the premise that universal health coverage is necessary, said Mr. Quayle, who now is chairman of the Competitiveness Center at The Hudson Institute, a conservative think tank in Indianapolis.

However, what is really needed is the "universal opportunity to buy coverage, not universal coverage," he said.

Though 35 million Americans may lack health insurance, said Mr. Quayle, that does not necessarily mean they lack access to health care.

Instead of the comprehensive restructuring of the health care system proposed by President Clinton, Mr. Quayle called on

What's needed is the 'universal opportunity to buy coverage, not universal coverage,' says Dan Quayle.

Congress to enact a system of tax credits and vouchers that would give individuals the opportunity to purchase health care coverage on their own.

The former vice president also called for insurance-related reforms, like the elimination of pre-existing conditions clauses in health insurance policies.

"Reform can be done in a much less draconian way than Clinton has proposed," he said.

However, the key flaw in the Clinton proposal is that the president and his aides have "failed to recognize that socialism doesn't work," Mr. Quayle said, noting that the former Communist bloc nations, the United Kingdom and France in recent years all have rejected socialist ideas in favor of free-market competition.

The president and his aides "flat out missed the biggest change taking place in the world today," Mr. Quayle suggested.

Rep. Earl Pomeroy, D-N.D, who followed Mr. Quayle to the podium, took issue with the former vice president's attacks on the president's health care policy.

Mr. Pomeroy, a former president of the National Assn. of Insurance Commissioners, noted that in his discussion of health care reform, Mr. Quayle never mentioned that health care costs have been rising out of sight.

"We cannot continue to spend at this rate," Mr. Pomeroy said. "I admire the president for identifying this as a crucial issue."

Everything in the president's reform package is subject to negotiation except for the call for universal coverage, Mr. Pomeroy noted. "We need that to make sure there is no cost shifting."

While many, like Mr. Quayle, have called for less-than-comprehensive reforms, Mr. Pomeroy said that Congress must pass strong medicine to cure the feverish pace of health care inflation.

"If we don't pass reform that contains costs this time, the next time will be even more politically invasive to your industry," he said, raising the specter that Congress could someday enact a single-payer health care system.

Universal coverage may not even be part of an eventual reform law, said ABC White House Correspondent Brit Hume, who also addressed the NAII meeting. "I'm not clear that in the end universal coverage will come out of Congress, even though "for now that is what the president wants," Mr. Hume said.

Mr. Hume said that the Clinton health care reform plan could come "unglued," just as President Carter's energy program—which was billed as the "moral equivalent of war"—was eventually ignored by Congress.

"Something may pass, but it might not turn out like President Clinton wants it to be," Mr. Hume said. BI

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Health reform debate

Continued from previous page

for under the Clinton plan.

He said there would be "enormous pressure" on health care providers to get around the global budget restraints. They would overcome those restraints by declaring that certain treatments are covered by workers comp and auto insurance, even if the injury didn't result from a peril covered by those policies.

Mr. McIntosh also warned that the health plan allows the Treasury Department to levy new taxes on employers to pay for health care if an individual state exceeds its global budget.

The third panelist, William B. Snyder, called the Clinton plan "socialized medicine," pure and simple. The retired chairman and chief executive officer of Washington-based GEICO Corp.said business will probably be asked to bear much of the cost of any health care reform plan. He urged his audience to evaluate all proposals from three perspectives: citizen, employer and NAII member.

Mr. Snyder also addressed the uncertainty over how workers comp and auto insurance would be dealt with under the Clinton proposal. The administration wants a special commission to study the possibility of merging the health care benefits of the two property/casualty coverages into the national health care system, he said.

"Whether there will continue to be any medical benefits coverage at all in auto or workers comp policies depends on the kind of health care reform that emerges," Mr. Snyder said. If the coverages are merged, then medical benefits will be removed from the policies, he said.

Rep. Santorum was later asked why he didn't call the Clinton plan "socialized medicine." He said the term is too harsh and pejorative for most of his constituents. BI

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Broker results

Continued from page 3

ing," said Cory T. Walker, vp and chief financial officer of Poe & Brown Inc. in Tampa, Fla.

Huge losses from Hurricane Andrew have driven some companies out of Florida, and rates are firming there, he said.

And, increased reinsurance rates across the board are keeping commissions buoyant for some brokers.

"Overall, we are seeing a modest growth in insurance broking but a stronger growth in reinsurance, where there are double-digit increases" in revenues, said J. Michael Bischoff, vp-corporate development at New York-based Marsh & McLennan Cos. Inc.

But, the reduction in capacity for catastrophe reinsurance, which has triggered huge rate hikes, has not been all good news for brokers.

"Buyers are refusing to pay the increases and are taking bigger deductibles, so if you don't place the business, you don't keep the commission," Lehman Bros.' Mr. Smith said.

Casualty insurance and reinsurance rates remain flat with little sign of any change in the market.

"The turn in the market has been on the horizon for seven years, but it still hasn't turned," said Robert H. Hilb, president of Hilb, Rogal & Hamilton Co. in Glen Allen, Va.

Benefit consulting revenues also have added little to most brokerages' revenues.

"People are sitting back on benefits because they want to see what is going to happen with health care reform," said Michael J. Cloherty, vp-finance at Arthur J. Gallagher & Co. in Itasca, Ill.

Benefit consulting has been paralyzed since the beginning of this year because of uncertainty over health care reform, agreed Vanessa Wilson, equity research analyst at First Boston Corp. in New York.

However, a 1% increase in benefit consulting revenues at M&M may indicate that the depressed consulting market has bottomed out, Ms. Wilson said.

"Health care inflation is still a serious problem and it has to be addressed sooner rather than later," she said.

Nine-month results for the publicly held brokers follow.

Nine-month 1993 broker results

In thousands of dollars

Broker	Gross revenues	% change	Net income	% change
Marsh & McLennan [1]	$2,383,000	6.8%	$269,800	28.8%
Alexander & Alexander [1]	976,100	(2.8)	19,200	(131.2)
Rollins Hudig Hall [1,2]	906,900	81.3	110,100	85.6
Arthur J. Gallagher [1]	234,143	10.1	23,234	43.1
Acordia	164,930	10.0	16,894	12.4
Hilb, Rogal & Hamilton	102,226	0.4	7,044	(3.7)
Poe & Brown	70,571	9.2	5,446	33.5

[1] 1992 figures have been restated [2] RHH income is pretax
Source: Company reports

GRAPHIC BY CHRIS ROY

Marsh & McLennan

Gross revenues at Marsh & McLennan Cos. Inc. increased 6.8% for the first nine months to $2.38 billion from $2.23 billion for the same period of 1992.

Net income rose 28.8% to $269.8 million from $209.4 million in 1992. But the increase is cut to 8% if a $40.1 million charge taken in the first quarter of 1992 to reflect the adoption of Financial Accounting Standards 106 and 109 is excluded.

One of the main units contributing to the increase in revenues and income is M&M's investment management subsidiary, The Putnam Cos., said Mr. Bischoff.

Boston-based Putnam increased revenues by 27.5% to $371.4 million from $291.3 million in 1992. Expanded distribution networks and new products helped boost the unit's revenues, Mr. Bischoff said.

Insurance services revenues increased by 9.6% to $1.37 billion from $1.25 billion in 1992. The strongest growth area in insurance services was reinsurance brokerage, which recorded double-digit increases, he said.

Expenses rose 6.7% to $1.9 billion in the nine-month period from $1.78 billion a year earlier.

Alexander & Alexander

Alexander & Alexander Services Inc.'s gross revenues fell to $976.1 million for the first nine months of 1993 from $1.004 billion in 1992. Net income plummeted 57% to $19.2 million from $44.4 million in 1992.

The 1992 figures are restated because subsidiary Alexander Consulting Group booked as revenues consulting bills that were never paid by clients (*BI*, Nov. 8).

A&A posted a $4.1 million net loss for the third quarter, which reflects a $13.5 million increase in reserves for professional liability claims, said Frank R. Wieczynski, corporate secretary in New York.

A&A also suffered from a soft insurance market, and uncertainty over health care reform hurt ACG's revenues, he said.

A&A does not expect to report a loss for the fourth quarter or for the year, he said.

Rollins Hudig Hall

Revenues at Rollins Hudig Hall Group Inc. soared 81.3% to $906.9 million in the first nine months of 1993 from $500.1 million in 1992. Pretax income rose 85.7% to $110.1 million from $59.3 million in 1992.

Both increases are largely attributable to the November 1992 acquisition of Frank B. Hall & Co. Inc.

However, even without the boost from Hall, underlying revenue growth during the period was in double figures, said Patrick G. Ryan, chairman and CEO of Chicago-based Aon Corp., which owns RHH.

Much of the growth in brokerage revenues has been in reinsurance, where property cat rates have increased and RHH has enlarged its market share, Mr. Ryan said.

International business has also been a significant contributor to added revenues, he said.

Benefit consulting revenues shot up 162% to $126.9 million from $48.5 million in 1992, largely due to the acquisition of Booke & Co., a Winston-Salem, N.C., benefit consulting firm, which was completed in June, according to Mr. Ryan.

Arthur J. Gallagher

Nine-month revenues rose at Arthur J. Gallagher & Co. 10.1% to $234.1 million from $212.7 million in 1992. Net income rocketed 43.2% to $23.2 million from $16.2 million.

The increases reflect strong new business growth and retention of existing business, according to Mr. Cloherty. "We are managing to generate new business in a flat market."

Part of the success has been due to new products the broker is offering to non-profit and municipal clients, he said.

The company also managed to keep expense growth to a minimum. Expenses grew 4.9% to $197.3 million in the nine-month

Continued on next page

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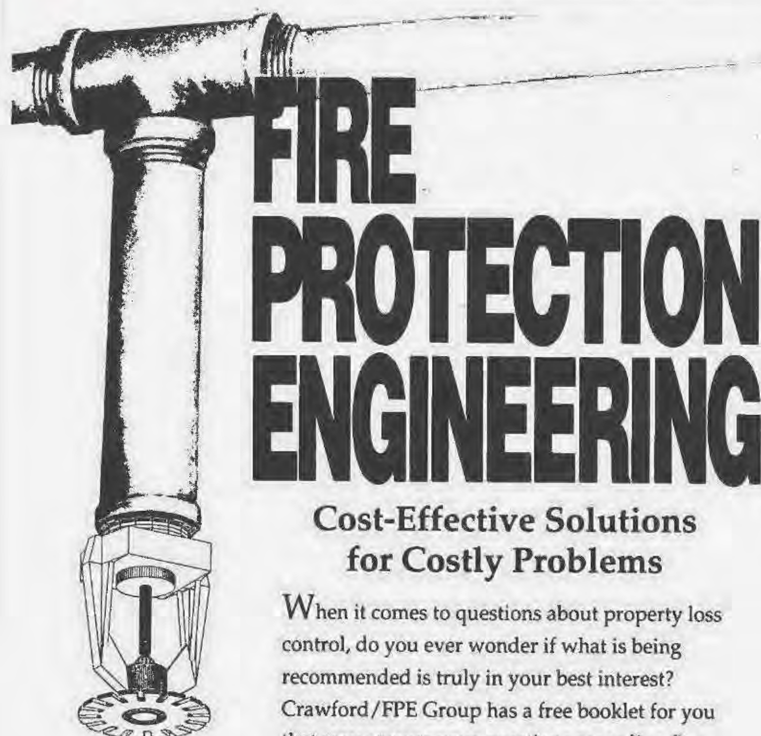

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Cat modeling systems help to picture losses

Software helping speed claim response

By MICHAEL SCHACHNER

Rapid advancements in computer software are enabling insurers to take an increasingly sophisticated approach to assessing their exposure to catastrophic loss and plotting how they will respond to claims following a catastrophe.

And, with the property/casualty industry in the midst of one of the worst strings of natural disasters on record, the boom in catastrophe planning programs is more than welcome, insurers say.

While insurers assert that they have always attempted to model potential losses in a certain catastrophic situation—for example, a severe hurricane in South Florida, a tornado in North Texas or canyon fires in Southern California—only recently has technology matured to the point that insurers can accurately model losses and plan accordingly.

"We have been analyzing catastrophic exposures for many years, and the recent advances in software have been amazing," said George Ramsdell, senior vp with Continental Insurance Co. in Cranbury, N.J. "What used to be a crude science that basically consisted of dividing maximum estimated loss for a region by one's market share has grown considerably."

A handful of software vendors now are marketing powerful, personal computer-compatible modeling programs that permit insurers to accurately forecast their losses in a certain geographic region under specific catastrophic circumstances.

With one of these systems in hand, the only thing an insurer must do to get a loss estimate is load data on its portfolio of business, including detailed information on property value, insured value, loss-control features and other characteristics of the risks.

That information then is run against hypothetical catastrophic conditions or past catastrophe history contained on the software.

"What this all leads to is optimum resource allocation. If insurance companies can better identify vulnerable spots in their book of business and probable maximum loss, they can plan for it by reserving, purchasing reinsurance or diversifying," said Richard L. Clinton, a consultant with EQE International, a San Francisco-based safety engineering and software design firm.

EQE markets both a windstorm modeling program and earthquake program and recently put the finishing touches on a program that assists insurers in forecasting losses from brush fires.

EQE's USWIND, which was unveiled this summer, contains 100 years of historic windstorm data along the East and Gulf coasts. The program is being used by "several" insurance companies, according to EQE Vp Earl Aurelius.

The program can project an insurer's maximum probable loss by state, county, even ZIP code, when the user inputs a desired wind speed, storm type, details of the property in the storm's path and property value.

"All the user has to do is assign the storm an intensity rating and input concentration of risk. The system then analyzes what losses are likely to be," Mr. Aurelius said.

"There's no way we can prevent these cats from happening, but with these mapping systems that show us in no uncertain detail where we're exposed and what we're exposed to, we can react better," pointed out Wayne Sorenson, vp-research with the State Farm Group in Bloomington, Ill.

EQE has also been marketing an earthquake modeling system since 1988 called EQEHAZARD, which requires the user to match up property values and characteristics against variables like soil conditions, a building's positioning on a fault line and past earthquake data. The end result is an estimate of loss that should aid insurers in assessing necessary deductibles and obtaining adequate reinsurance.

EQEFIRE, the company's brush fire modeling program, works in a similar manner.

"Products like these began to develop in the 1980s, but since Hurricane Andrew our client base has grown and existing clients have been using our programs more intensively," said Karen Clark, president of Applied Insurance Research Inc., a Boston-based pioneer in the catastrophe mapping and planning industry.

AIR's CATMAP—Catastrophe Risk Assessment and Management Package for reinsurers—models potential loss resulting from all the leading natural catastrophic perils, including windstorm, hail and earthquake.

"Catastrophic potential has proven to be so large that these programs are now considered to be vital operating tools. They won't allow an insurer to avoid loss, but they do permit them to model for better loss response," she said.

While CATMAP was originally created for reinsurers, today it is also being used by many primary insurers, said Ms. Clark.

"It helps them evaluate their exposure, spread risk if necessary and respond to losses more effectively. It can help primary companies with their reinsurance pricing and guide them in rating their policies properly. We'd like to think it's become a tool they can't do without," she said.

The third member of the "Big Three" catastrophe planning software designers is Risk Management Software Inc. of Mountain View, Calif., whose Insurance and Investment Risk Assessment System models maximum loss from wind, hail, earthquake or flooding throughout North America (*IT,* April 19).

The program, which is being expanded to model worldwide catastrophe potential by July 1994, has come of age due to the massive improvement in data availability as well as insurers' need to project losses, according to G. Thompson Hutton, president of RMS.

"Catastrophe modeling has come a remarkable distance over the past three years. Before, data from primary companies on what they were actually writing was so limited that there was little we could do," he said.

But today, software combined with detailed information on an insurer's book of business allows underwriters, reinsurers and loss control consultants to view digitized maps and model catastrophic occurrences.

"The more meaning we can add to modeling, the better we can solve business problems. Quantifying catastrophic exposure leads to better reinsurance arrangements, better primary pricing, improved capital allocation and overall business planning. It's far easier to make an executive decision when you're confident in your underlying catastrophe models," Mr. Hutton said.

Jean Taylor, senior vp with reinsurance intermediary E.W. Blanch Co. in Minneapolis, agreed that the more precise the information a primary insurer has about its book of business when seeking reinsurance, the better deal the

Continued on next page

Software

Continued from previous page

insurer can obtain.

"These systems let us analyze our clients' needs and negotiate reinsurance coverage terms based on this analysis. We encourage modeling of all portfolios because reinsurers clearly look more favorably on primary companies whose exposure is clear and decipherable," she said.

New York-based IMTI Systems Inc. also has been marketing a risk assessment software program since the late 1980s, which is used primarily to evaluate exposure to windstorm, earthquakes, flooding and fire.

"With the recent fires in Southern California, an insurer using our system could assess its probable losses by county, street or even on a per building basis," said Doug Falkenburg, president of IMTI.

"But we also try to market our program as an underwriting device and a loss-control tool," Mr. Falkenburg said, noting that the IMTI system provides an automated opinion of risk by processing data such as building height, number of floors, specific engineering and safety features and flood protection.

The end result of running the IMTI program is that the user receives a risk rating of low, medium or high in a controlled or uncontrolled setting. "You can still write it, but as an underwriter you know much better what you're dealing with and you can make recommendations to the policyholder about how to improve control of the property," Mr. Falkenburg said.

While the software programs are mainly designed to provide insurers with loss estimates, it's what the companies do with the information afterward that's most important, several insurers said.

'Information that helps us make early loss-adjusting decisions is' the goal, says Tina Kirchoff.

"Information that helps us make early loss-adjusting decisions is what we're looking for. It's all a matter of knowing what your response should be in a certain situation. If you're just reacting, you're too late," said Tina Kirchoff, catastrophe operations administrator with United Services Automobile Assn. in San Antonio, Texas, which uses its own cat planning system.

Ms. Kirchoff explained that during the first phase of recent California fires, USAA matched up its Laguna Beach portfolio with its mapping system to see exactly what policies were in force in the fire zone and what its potential maximum loss would be.

As a result, USAA was able to know how many losses it could expect, which losses would be homeowners and what endorsements policyholders had. "It allowed us to make some early loss adjusting decisions, which (will lead) to large-scale savings in time and money when it comes to actually responding to claims," she said.

And, the ability to preplan loss response is something insurers have only recently been able to do, Ms. Kirchoff said. "Prior to the advent of these systems, the whole assessment process was very unsophisticated. You knew you had losses, but the question was where and to what extent? We'd end up selecting sites for remote claims-handling offices, and then hope we were accurate and that we sent in the right number of people."

But, with the aid of mapping and loss-estimating software, the loss response process is significantly improved, she insisted. "In California, the first fires began burning on a Tuesday. By Thursday, we had run loss estimates by county and had people traveling to the fire area. By Sunday, we were conducting our first community claims meeting with policyholders. That's pretty fast," said Ms. Kirchoff.

Prudential Property & Casualty Insurance Co. uses Applied Insurance Research and RMS systems to model its exposures from both a probable loss and risk management perspective.

"Andrew was the wake-up call. None of our previous models were up to a storm of that intensity. Modeling we have done since then has shown us how overexposed we are in South Florida. That's how we came to realize that we needed to shed policies there," explained Len Guarini, an actuarial vp with PRUPAC in Holmdel, N.J. South Florida "is really the only place in the country where we're troubled, and it was the probable maximum loss modeling we did that displayed that."

Insurers must heed one caveat: Overreliance on the system is dangerous, because regardless of how much progress has been made in loss modeling, it's not foolproof.

"We don't get too bogged down in precision," said Continental's Mr. Ramsdell. "You can never be 110% accurate because storms aren't entirely predictable. One look at Hurricane Hugo tells you that you can't forecast hurricanes to hit places like Charlotte, N.C."

And, Mr. Sorenson of State Farm warned against trying to get too much from a software program. "Mapping programs are valuable, but they can get too technical and complex for some people to comprehend. Conversely, there's the problem of easy programs not providing what we need. One standard, easy-to-run program that accomplishes everything doesn't yet exist."

For competitive reasons, the software vendors declined to provide a price range for their various products. They said pricing largely depends on the number and types of disks requested by an insurer, as well as negotiable licensing fees and charges for ancillary consulting services.

"For the straight product, we're all charging basically the same price. But, actual price depends on what other services are requested," said RMS' Mr. Hutton. BI

Errors & Omissions

Due to a production error, the story continuations on pages 40D and 40B in the Oct. 18 *Insurer Topics* section were switched.

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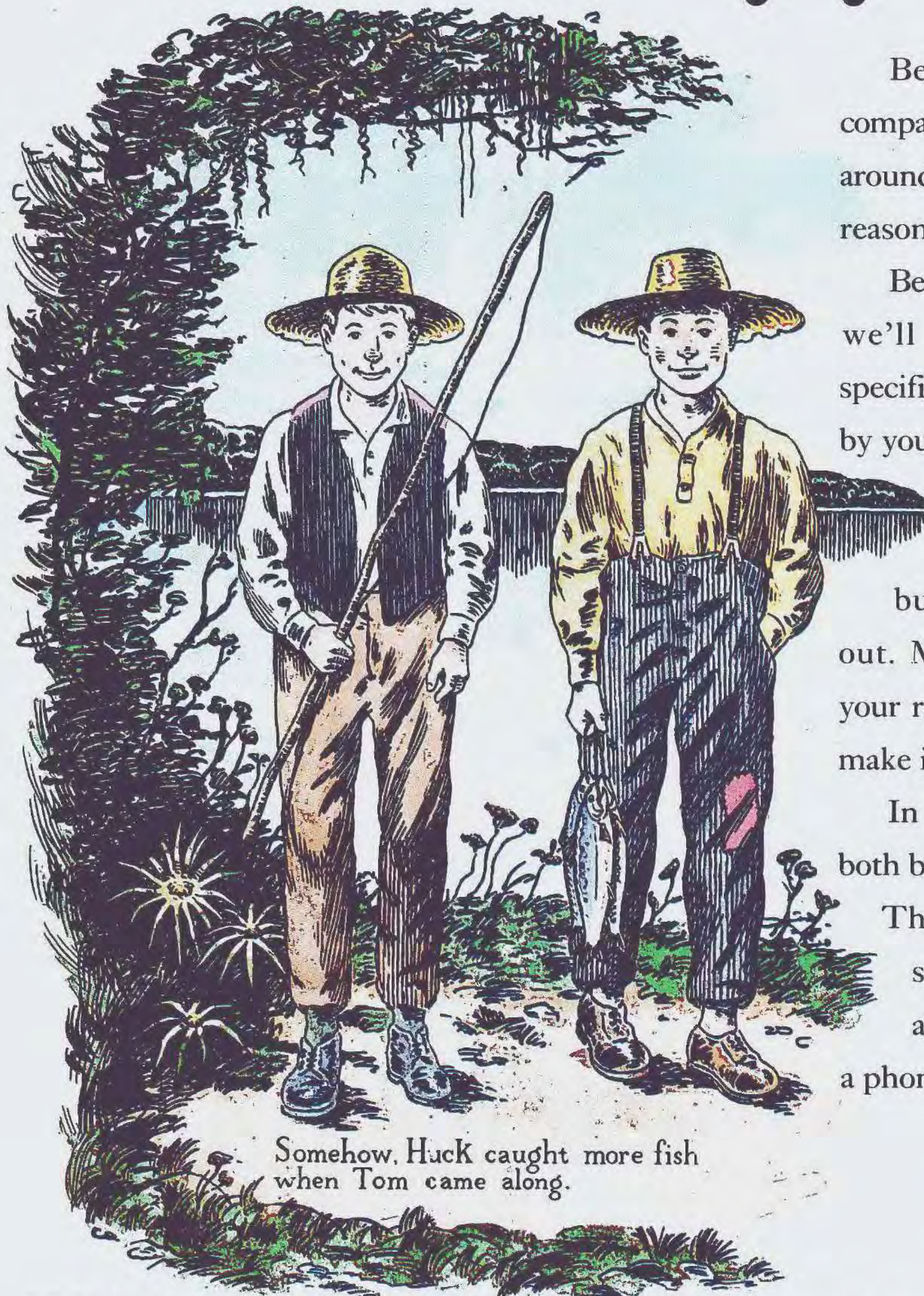
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Insurer Topics

Training policyholders pays off for some insurers

Loss control, disaster planning among the topics tackled

By GAVIN SOUTER

A good idea keeps getting better.

Insurer-operated loss control training centers have been recognized by insurers for several years as a great way to motivate policyholders to practice loss prevention. The approach is increasingly attractive as these educational facilities expand their curricula to meet the changing needs of industry.

In addition to serving clients, the training centers can help improve community relations and even generate revenue, insurers say.

At the training centers, the insurers can teach new and traditional loss control techniques in standard seminars or set up customized programs to meet clients' specific needs.

Typical facilities might offer classroom training and laboratory demonstrations of loss control equipment. Some offer on-site lodging accommodations for attendees.

Loss control training has had to expand to encompass the increasing risks of industry. For example, in recent years training centered on ergonomics has grown in importance, said Anthony Maleski, senior consultant-customer services at AXIA Services, a unit of Aetna Life & Casualty Co. in Hartford, Conn.

At the Aetna engineering facility in Windsor, Conn., risk managers and others can take ergonomics courses, he said. The curriculum was started due to the growing concerns about ailments such as tendinitis, carpal tunnel syndrome and back strains, Mr. Maleski said. The courses teach attendees to make tasks fit people rather than vice versa, he said.

Casualty loss control training is also becoming more important for Chubb Corp. in Warren, N.J., said Joseph Ciepierski, fire protection manager.

"We've had a loss control site for 35 years, but we are constantly expanding. We don't just concentrate on fire protection. . . .Problems with ergonomics and workers compensation claims is an expanding area for us," he said.

Another area of growing interest is disaster planning, said Steve Audette at Factory Mutual Engineering & Research in Norwood, Mass. "This has become a lot more popular over the past three years because of the losses which insurers have faced."

The emphasis on disaster planning and disaster training was prompted by the three insurers that comprise the Factory Mutual system: Allendale Insurance Co., Arkwright Insurance Co. and Protection Mutual Insurance Co., Mr. Audette said.

"We teach clients how to prepare for, respond to and recover from a disaster," he explained.

Courses in loss control can be customized to meet the needs of individual clients. One example of how courses can be custom-designed for clients is that the unit can analyze a specific product or production process from a loss control perspective, he said.

"So if you were a fiberglass manufacturer and you wanted specific advice on fire protection for your company, we could put that together," Mr. Audette said.

Factory Mutual teaches mainly through lectures and seminars at its site in Norwood, which includes its own hotel, Mr. Audette said.

Wausau Insurance Cos. in Wausau, Wis., conducts loss control seminars and also includes training in its onsite laboratories, said Bill Mathies, a safety education specialist at Wausau.

The company has three laboratories: a fire protection laboratory, an environmental health lab and a general loss control lab, he said.

The fire protection lab contains facilities such as sprinkler systems, foam systems and special rooms for dealing with flammable liquids, Mr. Mathies said.

The environmental health lab is a working laboratory and is used by Wausau engineers for loss control exercises such as testing substances from customers sites such as asbestos and solvents, he said.

The loss control lab contains items such as protection shields and respirators, Mr. Mathies said.

The Chubb and Aetna units also contain special labs for practical demonstrations of sprinklers and other equipment.

AXIA emphasizes that its loss control seminars are "hands-on" training courses.

"They are working seminars and people who want to just sit around for two or three days shouldn't come," said AXIA's Mr. Maleski.

The seminars include test cases and the participants have to study the situations and provide solutions to the loss control problems, he said.

AXIA offers loss control training to Aetna clients. AXIA also offers the loss control seminars to others at a fee ranging from $295 to $495, depending on the seminar.

Chubb offers free half-day and full-day seminars to clients and other organizations like fire departments, alarm companies, pipe fitters and local scouting organizations.

"We look on it as a community service," said Mr. Ciepierski.

The only users that pay a fee are competing insurers that use the facilities, he said.

Factory Mutual offers its training to clients of its controlling insurers for a $495 tuition fee. Special rates are charged to public fire services that require training.

Wausau offers its seminars free to its customers. BI

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P/C industry changed forever by Andrew

Higher property deductibles one likely result

By MARK A. HOFMANN

When the winds of Hurricane Andrew ravaged a major portion of south Florida in August 1992, they also blasted a hole in the property/casualty industry's belief that it didn't have to change the way it conducts its business.

That was the consensus of a panel of experts who sought to define "Hurricane Andrew—The Long-Term Disaster" at the Society of Chartered Property & Casualty Underwriters' annual meeting in Baltimore last month.

Just how the industry will change remains unclear. One likely response is to require higher deductibles for property insurance in catastrophe-prone areas.

"Perhaps our industry should consider Andrew the messenger, the wake-up call," said Alice B. Fielding, president of Heston-Fielding & Associates, Inc., a Jacksonville, Fla., insurance agency. Ms. Fielding moderated the discussion.

"We tend to just continue doing what we've always done," she said.

Insurers had planned and thought about dealing with "The Big One," but they had defined it in terms of 1989's Hurricane Hugo, which caused about $5 billion in insured property damage, said Frank R. Haines, vp-claims for State Farm Insurance Cos. in Bloomington, Ill. Hurricane Andrew's damage toll was three times greater than Hugo's.

But, as Ms. Fielding pointed out, the Big One could have been much bigger. Had Andrew's path taken it up the Atlantic Coast to Long Island, or through an even more densely populated area of Florida and then across the Gulf of Mexico to New Orleans, insured damages could have surpassed $100 billion and sent the property/casualty industry into insolvency.

The surplus of the entire property/casualty industry stands at about $160 billion, said Jack F. Weber, executive director of the Natural Disaster Coalition in Washington.

But, the surplus that could respond to homeowners exposures is only about $100 billion, he said.

"There is probably not another industry in the world that hangs by such a precarious thread," said Mr. Weber.

In addition, "most reinsurers see a changing pattern of catastrophes," said Clifford English Jr., executive vp of reinsurance broker E.W. Blanch Co. Inc. in New York. If average ocean temperatures rise only three or so degrees, storm winds might reach velocities as high as 275 mph, he said.

As a result of the close call, insurers are rethinking the nature of the exposure they face in south Florida—to the dismay of policyholders. "The marketplace is drying up," said Alex Soto, president of Pennekamp & Soto Insurance Agency in Miami, noting that capacity in the surplus lines market for Florida property risks in particular is becoming very tight.

"A lot of (policyholders) think, 'I'm being punished as a result of Andrew,' " said Mr. Weber. It's not punishment, he said. Insurers simply are anticipating what could happen again, be it another hurricane or a devastating earthquake.

Also, policyholders outside the hurricane zone think they are unfairly subsidizing people who live in coastal areas. But, the question is less one of subsidy than of defin-

Continued on page 14F

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Insurer Topics

'Redlining' runs up against Fair Housing Act

By MARK A. HOFMANN

Federal agencies and courts appear more and more likely to view the unavailability of homeowners insurance in urban areas—which many say amounts to redlining—as a practice that violates the Fair Housing Act because it makes housing unavailable.

And, insurers increasingly are asked to prove that denial of coverage is based on sound business reasons rather than a conscious effort to deny coverage to inner-city residents because of their race or location, according to industry experts.

The discussion about redlining took place during the recent annual meeting and seminars of the Society of Chartered Property & Casualty Underwriters in Baltimore. Coincidentally, the panel convened only one day after the House Energy and Commerce Committee passed a bill that would require insurers to provide federal authorities more data about underwriting practices as part of a study on redlining (*BI,* Nov, 1).

That bill, drafted by Rep. Cardiss Collins, D-Ill., replaced a harsher measure backed by Rep. Joseph P. Kennedy II, D-Mass.

The Federal Fair Housing Act of 1968 is "increasingly important to the business of insurance," noted Leo J. Jordan, vp and counsel of the State Farm Insurance Cos. of Bloomington, Ill. The act, in essence, says it is illegal to refuse to sell or rent "or otherwise make unavailable or deny" a dwelling to a person on the basis of race, national origin or several other factors.

Mr. Jordan said the question confronting insurers is: Does the refusal to insure a house make the house "unavailable" as defined by the law?

The courts have not given a clear answer regarding insurers' actions, though rulings have made clear that the act applies to the activities of such professionals as real estate appraisers and mortgage lenders, he said.

He added that the Department of Housing and Urban Development has adopted regulations prohibiting the refusal to provide property insurance on the basis of race.

Plaintiffs can establish prima facie cases by showing that the refusal was racially motivated or that the refusal had a racially discriminatory effect or impact, he said. Insurers can refute such charges by showing a valid, non-discriminatory reason—a "compelling business justification"—for their actions, he said.

He urged underwriters to take accusations of redlining seriously and to try to work out solutions with would-be policyholders, such as explaining how a property can be upgraded to qualify for insurance.

Robert Willis, the District of Columbia's insurance commissioner, said that in addition to considering whether conduct is discriminatory, he looks for signs of a lack of competition in the property marketplace.

If there is inadequate insurance in an urban area, he said someone is violating one of the central tenets of insurance—that there be an open and competitive marketplace.

Joseph D. Decaminada, executive vp, secretary and counsel of Atlantic Mutual Insurance Cos., who moderated the discussion, asked whether redlining could be defined as both an unfair and fair practice. Unfair redlining would be a practice based on racial discrimination. However, underwriting restrictions could be justified when based on concerns such as when buildings in an area are in such poor shape that a fire could spread quickly, he suggested.

Mr. Jordan said the insurers are authorized by state authorities to make such discriminatory decisions. He added that if neutral guidelines appear to fall most heavily on a particular group of people, insurers have an obligation to explain that their actions are based on legitimate underwriting decisions allowed by law.

Mr. Willis made clear that, as a regulator, it is his job to consider both consumer interests and solvency factors. Mr. Willis added that he believes some elected commissioners tend to lean more toward consumer interests, whereas he as an appointed regulator performs "a high-wire balancing act."

He said what he looks for in redlining examinations is "unfair discrimination," noting he would be understanding if an insurer proved that it could not underwrite profitably in a given area.

Laurence D. Pearl, a director in HUD's Office of Fair Housing and Equal Opportunity, said that if an underwriting practice is challenged, the insurer must prove that its actions were based on business necessity. BI

Cat losses

Continued from page 14D

ing property insurance in the hurricane area as insurance against catastrophe, the panelists said.

Deductibles will have to go up to reflect the catastrophic nature of the exposure, said Mr. English.

William E. Bailey, co-director of the Hurricane Insurance Information Center in Miami, concurred. Like Mr. English, Mr. Bailey said insurers will have to re-examine the nature of the risk and demand more risk-sharing with their clients.

The mere presence of seemingly tough building codes means little, the panelists said. Mr. Soto said that while the code in force in south Florida is "indeed one of the toughest on paper," building codes are "moving targets" constantly undergoing revision. Houses built in the 1950s and 1960s often fared better than newer houses built during south Florida's population boom of the 1970s and beyond. Code enforcement suffered as inspectors were overwhelmed, he said.

Despite evidence that some builders did cut corners, Mr. Bailey said he doesn't think insurers will bring many class-action suits against them. The insurance industry has concluded that the cost of such an approach would far outweigh any returns insurers might get, he noted. BI

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Focus arson fraud probes on means, method, motive

Cases lacking strong evidence can go up in smoke: Expert

By MARK A. HOFMANN

Insurers examining a claim involving possible arson-related fraud must determine the "Three Ms"—means, method and motive—before pursuing the case, warns an accountant who specializes in financial investigations.

Steven A. Rosenthal, a principal at the San Francisco accounting firm Campos & Stratis, offered his advice during a session at the annual meeting of the Society of Chartered Property & Casualty Underwriters in Baltimore late last month.

Arson accounted for about 15% of all fire insurance claims in 1991, said James D. Klauke, national general adjuster for GAB Business Services Inc. in San Francisco and the session's moderator.

But, arson fraud "is a difficult subject for the industry," he said. In effect, an insurer has to accuse a policyholder of a felony and then leave the decision up to a jury that likely perceives that insurance is too expensive and that the insurer has millions of dollars of premiums stashed away, he said.

According to Mr. Rosenthal, the insurer must determine that the policyholder had the means and motive to start the fire, and used a method that was incendiary.

Insurers confronting a suspicious claim can turn to an accountant for an independent analysis of a business or owner's financial status to uncover the policyholder's possible motive, Mr. Rosenthal said.

Two of the chief indicators of possible trouble at a business are declining sales and mounting liabilities, he said.

Declining sales may stem from general economic conditions, increased competition or the owner's lack of attention to the business.

Mounting liabilities can take a multitude of forms, he pointed out. Investigators must look for layoffs, slow payments, tax liabilities and the existence of legal judgments against the policyholder, he said.

Other indications to watch are if the policyholder increases his or her own salary or maintains an inventory that's too high for the amount of business done. Investigators should also look to see if the policyholder was about to lose his or her lease when the suspicious fire occurred, Mr. Rosenthal advised.

"It's equally important to analyze the personal financial situation" of the policyholder, Mr. Rosenthal said.

Among the questions to get answered: Is this person holding several credit cards charged to their limits? Is the policyholder going through a divorce or illness? Are pre-existing loans in default? Is a balloon payment due? Is there a trail of bounced checks?

Mr. Rosenthal predicted that as the economy continues to stagnate, the insurance industry will face more incendiary fires. He warned that if insurers don't act decisively against the threat, they will send the signal that arson is acceptable.

Declining sales and mounting liabilities are two chief signs of trouble, says Steven Rosenthal.

But they must be careful how that signal is sent, members of the panel agreed. "An arson claim is still a property claim," and insurers must adhere to sound claims practices, said Edward J. Ozog, a partner and director in the Chicago law firm Clausen, Miller, Gorman, Caffrey & Witous.

He warned his audience to document carefully all of the steps preceding a claim denial. Insurers should make sure the claim file is in the best possible shape to avoid a sure loss later, he said.

"It is sheer folly to deny a claim where you know you cannot prove (your case,)" he said.

Some steps that must be taken are: verifying the coverage in the policy, fairly considering each of the positions taken by or presentations made by the policyholder, preparing and considering a draft denial letter, and making certain the action will conform to the fair claims practices act of the state involved, said Mr. Ozog.

Mr. Klauke warned that an insurer must be careful about what goes into a claim file. Even a seemingly trivial act, such as including a disparaging remark about the policyholder in the file, can return to haunt the insurer in court when the jury sees that remark blown up in big letters as an exhibit, he said.

Trying an arson case is more expensive than trying other types of cases and requires specialized legal advice, said Winston H. Hankins, vp and counsel for United Services Automobile Assn. in San Antonio, Texas.

Insurers must be careful that they don't hurt innocent policyholders and must remember that bad-faith cases can result in punitive damages, he said.

Mr. Hankins urged his audience to consider establishing a formal arson investigation organization that includes such professionals as the claims handler, a cause-and-origin expert, a defense attorney, investigative specialist and an arson coordinator.

"You have to make sure that the information gets to the people who need to know it," Mr. Hankins said. BI

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Insurer Topics

NAII panelists fear for U.S. economy under Clinton

Despite generally gloomy predictions, economists see some reasons for hope

By MARK A. HOFMANN

The Clinton administration could end the tax deductibility of pension contributions as it scrambles to find sources of revenue to finance its health care reforms, a conservative economist predicts.

"Private pensions are the last source of wealth" that can be tapped by the government, said Paul Craig Roberts, a distinguished fellow at the Washington-based Nato Institute, a libertarian think tank.

Mr. Roberts, a former Wall Street Journal editor and columnist whose work appears in Business Week and other journals, made his remarks during a panel discussion at the recent annual meeting of the National Assn. of Independent Insurers in Toronto.

He offered a generally gloomy assessment of how the economy is likely to fare under the Clinton administration.

Other speakers also expressed their disagreement with the Clinton administration's health reform and other proposals, but still see some reason for optimism on the economic front.

"Redistribution is the goal of the Clinton administration," Mr. Roberts said bluntly. The new taxes already won by the administration amount to nothing more than an attempt to punish the successful, he said.

The president's health care proposal, according to Mr. Roberts, would create a "vast new entitlement" three times the size of Social Security with no means of support.

As a result, Mr. Roberts predicted that the Clinton administration will seek to end the tax deductibility of pension contributions in an effort to help pay for health care reform.

Mr. Roberts listed other developments that he believes threaten the economy:

- Unfunded federal mandates on states and municipalities are creating new demands for taxes at the local level, though governors have begun rebelling against the mandates in the name of the 10th Amendment, which guarantees states' rights, he said.
- The rising rate of illegitimate births among all segments of society, combined with widespread drug problems, is spawning urban violence.
- The seizure of property in the name of environmental protection by regulators; prosecutors' seizure of assets believed related to the drug trade, even if the property owners are never charged with a crime; and the "criminalization of accidents" such as the Exxon Valdez oil spill are other threats to the economy, he said.

Mr. Roberts' fellow panelists were equally scornful of the Clinton administration's economic policy.

Chicago economist Robert J. Genetski of Robert Genetski & Associates awarded the administration a "solid F" in economics. He charged the administration with simply wanting to put more power in the hands of the federal government and not increasing prosperity.

In fact, Mr. Genetski called the Clinton health care proposal "the most blatant attempt to impose socialism on this country that we've ever seen."

"Redistribution is the goal of the Clinton administration," says economist Paul Craig Roberts.

Mr. Genetski also predicted that inflation will increase to an annual rate of about 6% within the next two to three years.

But Mr. Genetski was not all gloom.

Three developments—the computer chip, the revolution in telecommunications and the spread of democracy throughout the world—will counteract the drive toward economic centralization in the United States and the world as a whole, he said.

Lawrence A. Kudlow, chief economist and senior managing director of Bear, Stearns & Co. Inc. in New York, also expressed some optimism about a change in economic direction.

Mr. Kudlow said New Jersey provides a "laboratory model" of the damage that high taxes can do to an economy.

Mr. Kudlow, who advised New Jersey Republican Gov.-elect Christine Whitman in her victory over incumbent Democratic Gov. James Florio on Nov. 2, said the results of that election showed that voters understand the difference between high taxes and pro-growth policies.

However, Mr. Kudlow added, "there are a bunch of threats to our stock market," which include government policies that penalize savings, investment and entrepreneurship.

Mr. Kudlow also said the health care reforms advocated by President Clintonwill take an additional $200 billion in new taxes from the economy each year in the late 1990s and put a damper on growth.

The panel was moderated by NAII Chairman John R. Graham. Mr. Graham is also executive vp and chief executive officer of Farm Bureau Mutual Insurance Co. of Manhattan, Kan. BI

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Insurer Topics

Woman pioneer served best as an agent for change

By CHRISTINE WOOLSEY

It's not unusual for a top-selling agent to win a Man of the Year award for surpassing every other agent's insurance sales. It's not even that unusual for an agent to win the award twice.

But it is unusual when the "Man of the Year" is named Helen.

Helen Feely Millett, who died last month at the age of 91, was a pioneer among women insurance agents during an era when there were few women in the field.

Ms. Millett made quite an impression working for Penn Mutual Insurance Co. in Minneapolis. She began selling insurance for the company in 1949, retired at the age of 65, but continued to service her clients and provide new prospects to other Penn Mutual agents well into her 80s, according to her daughter, Sally Millett Rau, of Bellevue, Neb.

"She liked all the people she dealt with. She was their insurance agent, but she wound up becoming best friends with half her clients," Ms. Rau recalled.

In fact, she was responsible for recruiting at least one person into her chosen profession.

"My mother-in-law, Mable Thorson, was Helen's best friend in college and they kept in contact throughout their lives," said Myron Setzler, a retired manager of the Penn Mutual Insurance Co. agency Ms. Millett worked for in Minneapolis.

Mr. Setzler was dissatisfied with his job as a buyer at Land O'Lakes Creameries. "My mother-in-law used to talk about Helen all the time. So Helen suggested I come to talk to her and she sold me on the merits of going into insurance sales. She pointed out that insurance was a hard business but that easy jobs didn't pay much."

She also sold him on the idea of being his own boss. "At Land O'Lakes, I felt everyone was deciding my future but me. But in this business you are paid by performance. And, ultimately I could decide when to work and when not to work," Mr. Setzler said.

In February 1958, Mr. Setzler joined the Penn Mutual agency where Helen worked. "Seven years later, after the general agent passed away, I went into management training and I took over the agency."

Ms. Millett retired from the agency a few years later, but Mr. Setzler credits her for getting him on the right career track. "She said, 'You don't have much security except what you build for yourself.' And, looking back, I see that."

Ms. Millett was born in Farmington, Minn. She graduated from the University of Minnesota in 1924 and taught high school English for four years. She and her husband moved to St. Paul in 1933. When her marriage ended in divorce, she faced the challenge of raising and supporting three daughters.

"When she first went into the business"—in 1949—"she had no car; she rode a streetcar, which is a pretty tough way to start out in this business," remarked Mr. Setzler.

Ms. Millett was one of a small handful of female insurance agents in the business during the 1950s and she found her niche in the women's market. "Mother specialized in selling to women, which was an untapped market at that time," Ms. Rau said. "She primarily sold retirement income insurance to women in a day when no one worried about what women did when they retired." Her clients were primarily schoolteachers and nurses.

There were only two other women in the office at that time, Mr. Setzler recalled. "In those days, if you had one lady in the agency, that was considered one too many. It was considered a man's world," he said.

He remembers Helen as "impeccably dressed, a beautiful woman, precise in her work, who had a lot of integrity. She also explained things well, probably because she was a teacher. She was very intelligent, and she quickly caught on to new concepts and ideas. And, if she didn't understand, she'd call you up and ask you to explain it again."

Ms. Millett also was eager to get additional information. "She would question beyond what most people would question. She didn't always need to know something; she just wanted to know it. Sometimes she'd call me up with some technical question, and I would have to find out more about the subject myself," Mr. Setzler recalled.

In 1961, Ms. Millett was chosen chairwoman of the Women Leaders Round Table, a group of insurance saleswomen from Canada, Puerto Rico, the United States and the West Indies.

Ms. Millett's retirement in 1967 "was kind of a joke," her daughter said. "She said she was retiring, but she never really quit at all. She just meant she wouldn't look for new prospects."

Besides her daughter Sally, Ms. Millett is survived by: daughters Kate Millett of New York, and Mallory Millett Danaher of Beverly Hills, Calif.; five grandchildren; and five great-grandchildren. BI

Coalition

Continued from previous page

that keeps the federal role as small as possible," Mr. Weber said. "A federal reinsurance program would only provide coverage at truly catastrophic levels. Insurers would continue to work with the private reinsurance market at lower levels'

"If we can get the insurance industry to fight like hell, this issue can win," he said. "The message is positive. There is no organization against it. But we desperately need grassroots help."

The costs related to the bill are minimal, particularly with universal participation, Mr. Weber said.

If the bill is passed, the average homeowner's California earthquake premium could be reduced to less than $50 from the current average of $240, he said.

Broadening the scope of the bill beyond earthquake losses will improve its chances of passage, Mr. Weber said.

"Most members of Congress do not think they have an earthquake problem," Mr. Weber said. When all natural disasters that reach a given severity are included, however, "all parts of the country are at risk equally."

Nearly half of the U.S. population lives within 45 miles of a coastline, he said. And, the populated area with the worst hurricane risk is not Miami but New York City and Long Island.

"This will not encourage people to live in disaster-prone areas," Mr. Weber said. "They're already there. The question is whether we will have affordable insurance for them."

—By Sara Marley

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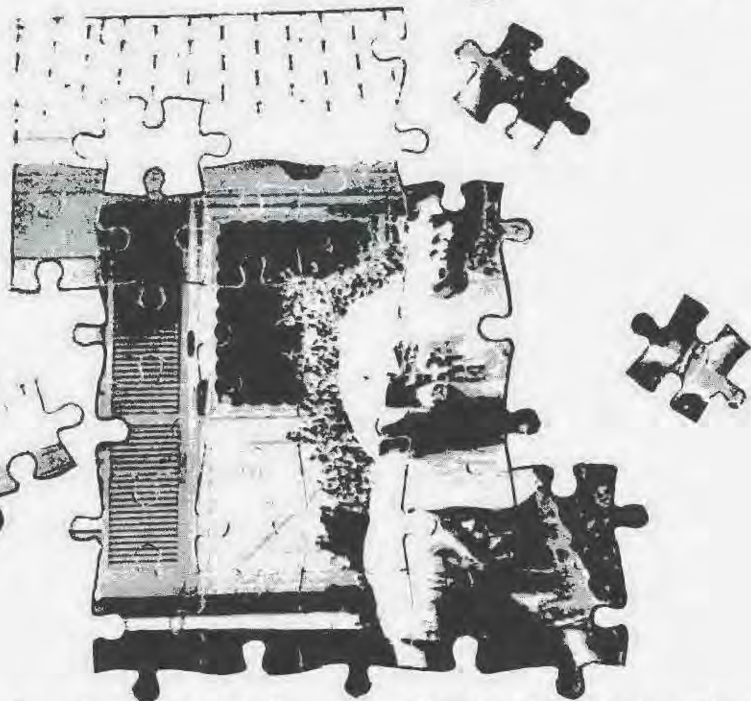

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Insurer Topics

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period from $188 million a year earlier.

Acordia

Acordia Inc.'s revenues increased 10% to $164.9 million in the first nine months of 1993 from $149.9 million a year earlier. During the same period, net income increased 12.7% to $16.9 million from $15 million.

The figures do not include results from the acquisition of American Business Insurance Inc., which was completed during the fourth quarter (*BI*, Aug. 30).

"We continued to increase our operating margins and keep our costs down," said Executive Vp Patrick M. Sheridan.

Employees were motivated to produce better results due to Acordia's performance-related bonus program, he said.

Hilb, Rogal & Hamilton

Nine-month revenues at Hilb, Rogal & Hamilton Co. inched up 0.4% to $102.2 million from $101.8 million a year ago. Net income dropped 4% during the same period to $7 million from $7.3 million.

Reasons for the lackluster performance include computer problems, the soft market and the additional tax charge, said Robert H. Hilb.

An 8-month-old software system at HRH's third-party administration unit "just isn't working," he said. The additional staff needed to carry out the functions by hand cut into the broker's earnings, Mr. Hilb said.

"That might be a major problem for our shareholders, but it is not a long-term problem for the company," he added.

If the software problem is not fixed within weeks, the company will buy another system, he said.

The company will also look at ways to improve its performance next year, he said. For example, HRH plans to set up a new sales team that will be on call for offices that need additional expertise in specialty areas.

Poe & Brown

Revenues at Poe & Brown Inc. rose 9.3% in the first nine months of the year to $70.6 million from $64.6 million.

"Over the last six quarters that has got to be one of our strongest revenue growths without any acquisitions," said Mr. Walker.

In addition, net income surged 31.7% to $5.4 million from $4.1 million.

The main reason for the leap in net income was a $500,000 tax reserve made in the third quarter last year for Brown & Brown Inc., which merged with Poe & Associates in April, he said.

The increase in coastal property rates in Florida also helped boost revenues for the brokerage during the period, Mr. Walker said.

Poe & Brown also kept a lid on its expenses by trimming 80 people from its workforce, he said.

Also during the quarter, the brokerage sold two minor operations that employed 15 people, Mr. Walker said. BI

Claims estimates from recent cats continue to rise

RAHWAY, N.J.—Insured property damages from two of the year's biggest catastrophes continue to mount, growing by more than $212 million, according to the Property Claim Services division of the American Insurance Services Group.

The Property Claim Services division now estimates damage from the blizzard that struck the East Coast last March to be $1.75 billion.

Earlier estimates put the insured damage at $1.625 billion (*BI*, April 5).

The new figure reflects higher damage estimates in Florida, New York, Pennsylvania and South Carolina.

Insured damage estimates for a portion of this summer's Midwestern floods were raised from $375 million to $475 million. That brings the total for the flooding to $755 million.

In an unrelated matter, the division estimated that insured property damage from wind, hail, tornadoes and flooding that struck much of Texas Oct. 17 through 20 would total $60 million.

—*By Mark A. Hofmann*

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MARKET UPDATE: E&S CASUALTY

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ARM Exercises

By The Insurance Institute of America

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

This question and answer, taken from a recent national examination in ARM 54, Essentials of Risk Management, deals with how an organization can get the most out of the money it spends on risk financing by acting appropriately both before and after loses occur. Before-loss considerations should include how an organization's risk financing choices affect its overall financial position; post-loss concerns should encompass effective ways of settling insured claims.

Q: The Jones Furniture Co. is a major regional manufacturer and retailer of home furniture. Recently the company has experienced several significant fire losses.

1. The property insurer for Jones Furniture has determined that it will not renew the property insurance covering damage to the items of furniture that the company leases to others. Therefore, Jones Furniture's management recognizes that it will need some other way of financing the repair or replacement of furniture damaged or destroyed while in the possession of renters.

Describe how, if at all, the cash flows of Jones Furniture are likely to change when, instead of paying premiums for insurance on rented furniture, the company pays for these losses through each of the following techniques:

- A current expense charged against current revenues.
- A funded reserve.
- Borrowing from a bank.
- Requiring furniture renters to agree to indemnify the company for any damage to rented furniture.

2. The risk manager for Jones Furniture is negotiating with its property insurer the amount of an insured fire loss to its building, which was constructed for $1.2 million four years ago. The risk manager and the adjuster differ on the percentage of building value lost in the fire. They also differ on the rate of change in the value of the building between its construction and the date of the fire.

The risk manager contends that the value of the building increased an average of 6% annually during the four years between its construction and the fire and that 45% of the building's value was lost in the fire. If the risk manager is correct, what is the amount of the loss?

The risk manager believes that getting the adjuster to agree to the rate of growth in the building's value, particularly on the older buildings the company owns, is more important than disputing the amount of any one loss. Is the risk manager correct in this belief? Explain.

A: 1. When Jones Furniture insures against rented furniture damage, its only cash outflow is the insurance premium, which probably is quite constant regardless of the amount of covered damage. The insurer's payments for losses are not a net cash inflow to Jones Furniture because these indemnity payments presumably are used immediately to repair or replace the damaged rental furniture.

If, instead, Jones Furniture were to pay for this damage as a current expense charged against current revenue, the company would: no longer have a cash outflow for insurance premiums; have a cash outflow for losses as they were paid; be required to wait to take a tax deduction (and thus reduce its cash outflow for income taxes) until these retained losses were paid instead of taking an earlier deduction (and an earlier cash saving) when insurance premiums were paid (usually before losses occur); and experience larger fluctuations in cash outflows, paying for actual losses rather than paying more constant insurance premiums.

If Jones Furniture were to abandon its property insurance and instead pay losses out of a funded reserve, the company would experience the same cash-flow effects as it would with current expensing, except that the funds in the reserve would generate some cash inflows as investment earnings (but probably a lower rate of earnings than the same funds would yield if devoted to the company's normal furniture operations).

If Jones Furniture were to rely on borrowed funds rather than insurance, the company would: have no cash outlay for insurance premiums; pay out cash as tax-deductible interest on the borrowed funds; be forced to defer accounting recognition of the interest expense until paid (probably later than it would have paid insurance premiums to cover the same losses); and probably reduce its borrowing capacity for other purposes (thus reducing the funds available from creditors generally).

Asking rental customers rather than an insurer to pay for damage to furniture would again have much the same cash-flow effects for Jones Furniture as current expensing of these losses, except that: indemnity payments from customers probably would be smaller, slower and less predictable; and Jones' cash outflows for the cost of collecting from customers might be substantial.

2. Successfully negotiating settlement of any loss, even a relatively simple property loss such as this, usually requires flexibility from the policyholder and insurer.

The value of the building just before the loss would have been its original cost increased by 6% a year for four years, or $1,514,972.20. The 45% damage to this building would have created a financial loss of $681,737.40. (Note: Because students may have rounded numbers in these calculations, a reasonable range of answers around $681,000 earned full credit.)

Reaching agreement on whatever factor most affects the amount of the indemnity payment is most important. Here, that factor could be either the rate of change in the value of the building or the extent of the damage to it. (Note: A well-reasoned answer supporting either factor received full examination credit.)

The rate of growth in the building's value would be the more important factor, and the risk manager would be correct if the adjuster's and the risk manager's estimates of the proper rate were quite different. Because of the exponential effect of compounding over several years, the rate of growth in value becomes increasingly important as the property in question ages. The percentage of damage would be the more important factor if the risk manager and the adjuster were far apart in their estimates of the severity of the loss but not widely separated in their pre-loss valuations of the building. BI

The sample questions and answers used in this column are taken from the Associate in Risk Management designation curriculum of the IIA. For more information on the content of the ARM program, write Dr. George L. Head, Vp, Insurance Institute of America, P.O. Box 3016, Malvern, Pa. 19355-0716.

Mapping the way to appropriate D&O coverage

Books & Ideas

"D&O MAPS"
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$275

By Kevin M. Quinley

IN ALL ITS gut-busting, three-volume heft comes The Wyatt Co.'s D&O MAPS. In this case, MAPS is an acronym standing for Market Analysis Policy Service. The Wyatt Co. is well-known as an actuary and risk management consultant. One of its fortes is directors and officers insurance. In that regard, D&O MAPS may be the standard by which other D&O resource materials are hereafter judged. Any organization that has D&O insurance or is contemplating purchasing it should consider making D&O MAPS part of its resource library.

The non-standard nature of D&O coverage makes it challenging for buyers to make informed decisions. While it is easier to compare one commercial general liability quote with another—since these tend to be on standard ISO forms—D&O policies are non-standard and extremely varied. The sheer variety makes it difficult for buyers to make apples-to-apples comparisons of insurance products.

But the reference will guide purchasers who seek the broadest coverage at the lowest cost for D&O insurance.

Behind each tab in this three-volume set is an explanation of coverage terms from all major insurers and players on the D&O scene from ACE to Zurich American. In addition, this resource offers the names of contact people at each D&O insurer, cites how long they have been in the field and generally what types of coverage limits are available. It should also be noted that the purchase price—which may seem quite high—also includes a one-year subscription to periodic updates.

Wyatt considers the big picture, though, recognizing that a close-in view of the insurance policy is vital, but not the be-all and end-all of a buying decision. Other relevant factors extraneous to policy language are: available policy limits, the importance of continuity with the same insurer, solvency and financial strength of the insurer, the service ability and reputation of any given insurer, and, of course, price.

Armed with the policy dissections in D&O MAPS, risk managers and insurance buyers can attempt to negotiate modifications in coverage where needed, pick the D&O policy that best suits their requirements and enter the insurance relationship with open eyes, knowing what a D&O policy does and does not cover.

Criticisms of D&O MAPS are hard to come by. But the sheer heft of this magnum opus may intimidate even the most grizzled risk manager or insurance professional. The size makes this work susceptible to being one of those publications that looks impressive on the office bookshelf but is rarely used. To overcome the intimidation factor, remember that D&O MAPS is not a book to be read cover to cover but rather a resource to be consulted as needed.

Freeze-framing the state of any insurance market—much less D&O—is like trying to hit a moving target. By the time you get something in print, it already runs the risk of obsolescence or of having a very limited shelf-life. Wyatt gets around this problem through its commitment to periodic updates, ensuring currency with regard to its D&O market surveys.

If you're a broker who taps the D&O market, if you're a risk manager who buys D&O insurance, or if you're an insurer seeking market information on what your competitors are doing, then Wyatt's D&O MAPS should be part of your essential office resource library. BI

Kevin M. Quinley is vp of risk services for MEDMARC Insurance Co. Inc. and subsidiary Hamilton Resources Corp., both of Fairfax, Va. Mr. Quinley holds the Chartered Property & Casualty Underwriter and Associate in Risk Management designations.

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Pension legislation

Continued from page 3

401(k) non-discrimination testing if they beefed up their plan contributions to qualify for two new safe harbors.

Under one 401(k) plan safe harbor, an employer would have to match 100% of employees' elective contributions, up to 3% of employee compensation. It also would have to provide matching contributions equal to 50% of employee contributions between 3% and 5% of compensation.

Under the other safe harbor, an employer would have to make contributions equal to at least 3% of employee compensation regardless of whether an employee actually contributed to the plan.

Most 401(k) plans, as currently designed, would not qualify for either safe harbor. Many employers only now match 50% of employee deferrals, up to 6% of employee compensation.

The bill defines highly compensated employees as those who own at least 5% of a company or earn at least $64,245 per year, an amount that would be increased annually with inflation and rounded to the nearest $1,000.

• Allow non-governmental tax-exempt employers, like trade associations, to sponsor 401(k) plans.

The 1986 tax law barred tax-exempt employers from setting up 401(k) plans, though it allowed plans already established to remain in place.

• Simplify the definition of "highly compensated employee" for pension plan non-discrimination testing purposes.

Highly compensated employees would be those who own at least 5% of a company or earn at least $64,245 per year, an amount that would be increased annually with inflation and rounded to the nearest $1,000.

By contrast, current law contains numerous definitions.

• Require rounding of cost-of-living adjustments.

The Internal Revenue Service would have to round up to the nearest $1,000 or $100, respectively, annual cost-of-living adjustments to the maximum amount of benefits that could be funded through a defined benefit plan or deferred to a 401(k) plan.

• Require more advance notice of cost-of-living adjustment increases.

The IRS would be required to publish the new defined benefit plan funding limit and the maximum 401(k) plan deferral limit before the end of the year. This way, employees would know before the start of a plan year how much they could defer to a 401(k) plan.

"It is a good change. Employers can tell employees what the plan contribution limits are before the year starts," said Mercer's Mr. Uslander.

By contrast, under current law, the IRS does not publish the adjustments to the maximum benefits and deferral limits until mid-January. That is often after employees decide how much they plan to defer that year.

The legislation, though, would raise costs for employers that participate in multiemployer pension plans. Those plans would have to adopt a vesting schedule in which employees are first and fully vested after five years of service or adopt another schedule under which employees become 20% vested after three years, with vesting continuing at the rate of 20% annually until an employee is fully vested after seven years of service.

Multiemployer pension plans now typically use a vesting schedule in which employees first and fully vest after 10 years of service. In 1986, Congress banned 10-year vesting schedules for employer plans in favor of five-year cliff and seven-year graded vesting schedules, but exempted multiemployer plans from the faster vesting schedules. BI

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INTERNATIONAL

E.C. pollution liability debate heats up

By ADRIAN LADBURY

LONDON—Europe is once again a battleground as business groups, insurers and environmentalists struggle to influence the European Commission as it drafts a policy on environmental cleanups.

At issue is who would be required to pay for cleaning up polluted sites and how to develop a set of standards that would be fair to all European Community member nations.

Risk managers, insurers and businesses in general are desperate to persuade the European Commission that it should not make them pay to clean up more than 200 years of industrial pollution. Society as a whole should bear the cost, they argue, because society in general has benefited from the wealth that accompanied industrialization.

Business groups also want the commission to create what they see as a fair system for preventing pollution and for assessing liability for future cleanups. Adopting a retroactive, strict, joint and several liability approach throughout Europe—which many consumer and environmental groups favor—would simply stunt further industrial growth across the continent, they contend.

Insurers say they cannot pay for retroactive cleanups, and a proposed compulsory pollution insurance scheme would simply chase the remaining capacity for pollution risks out of the market.

The debate centers on the European Commission's decision that Europe's industrial landscape must be cleaned up and a framework put in place to prevent future pollution without giving any member state a competitive advantage over another.

The commission is determined to avoid copying what many consider the ineffective and expensive U.S. pollution liability system. The European Commission therefore took the unusual step of issuing a discussion document to canvass views before making a policy statement.

In May, the commission issued the "Green Paper on Remedying Environmental Damage." The Green Paper asks whether civil liability is an effective way of allocating responsibility for the cleanup and how to remedy damages for which no responsible party can be found.

It also asks whether European pollution laws and standards should be harmonized to prevent some regions gaining a competitive advantage over others because of differing standards and penalties.

Interest groups and European governments were given the chance to comment on the paper by Oct. 1. Earlier this month, the European Parliament's Committee on the Environment, Public Health and Consumer Protection held a public hearing that let parties air their views.

All parties seem to agree the polluter should pay. But, beyond that, opinions differ sharply.

Consumer and environmental groups at the hearing were unanimous in calling for a system of strict, joint and several, and retrospective liability for pollution cleanups, according to the meeting summary. Among the groups arguing for such a system were the World Wide Fund for Nature, Greenpeace

Continued on next page

Pollution coverage restricted in France

By ALINE SULLIVAN

PARIS—Assurpol, the French insurance pool for pollution risks, will stop underwriting most types of gradual pollution coverage in January when it switches to claims-made policies from occurrence forms.

The high-risk pollution pool will restrict industrial pollution coverage to events that not only are reported during the policy's coverage period but have occurred during that period, said Pierre de Meule Emester, an Assurpol claims evaluator.

The decision is an additional blow to industrial policyholders in France, because three direct-writing insurers in France informed policyholders last month that Assurpol may be the only source of pollution coverage next year (*BI*, Oct. 11).

Assurpol will only cover pollution that occurs from independent incidents that could not have been anticipated, Mr. de Meule Emester said. "It has to be for something unexpected. We will no longer cover gradual pollution if it is caused by faulty machines," he said.

Assurpol plans to send copies of its new policies to members prior to Jan. 1 renewals.

Fifty French insurers and 15 reinsurers belong to the pool, which is currently the only source of both sudden and gradual pollution liability coverage in France.

Underwriters throughout Europe have been following the example of their U.S. counterparts, switching liability coverage from an occurrence to claims-made basis, especially for long-tail risks like pollution and product liability.

However, recent court decisions have ruled against such moves by insurers. France's appeals court, the Cour de Cassation, ruled in June 1992 that claims-made clauses deprive the policyholder of the benefit of insurance because incidents that trigger coverage are acts over which the policyholder has no control. Claims-made forms allow insurers to receive premium without carrying any obligation, the court said.

European reinsurers, worried by France's tightening environmental laws and increasing litigation, have pressured insurers to remove pollution coverage from standard indus-

Continued on next page

AP/Wide World Photo

Stolen art works uninsured

STOCKHOLM—Art works valued at $60 million that were stolen Nov. 8 from Sweden's museum of modern art are not insured.

"It is a policy of the government not to insure property of the state," said a spokeswoman for the Moderna Museet in Stockholm. "This also applies to other Swedish state-owned museums." The cost of such insurance would be prohibitive, she said.

Among the eight works stolen are Pablo Picasso's "The Spring," painted in 1921 (pictured above); "The Painter," 1920; "Woman with the Blue Collar," 1941; and two versions of "Woman with Black Eyes" painted in 1941 and 1943.

The thieves also took a Picasso sculpture, "The Arm," done in 1931; two paintings by French painter Georges Braque, "Le Chateau de La Roche-Guyon," 1909, and "La Nappe Blanche," 1928.

The thieves lowered themselves through a hole in the museum's roof and deactivated heat sensitive alarms on the museum walls. The museum ceiling was not protected by a security alarm, according to a Swedish embassy spokesman in London.

AIDS claims to hit German liability reinsurance pool

By DON LEWIS KIRK

MUNICH—A product liability reinsurance pool for the German pharmaceutical industry is expected to cover claims arising from a recent AIDS scandal involving a German blood products company.

It's still too early, though, to assess the cost to underwriters of potential claims stemming from the scandal, reinsurance executives say.

Blood products have been recalled in Austria, Greece, Sweden, Switzerland and other countries after evidence surfaced that the German company, UB Plasma, failed to test each unit of blood for the human immunodeficiency virus that causes acquired immune deficiency syndrome.

The Koblenz, Germany-based company was shut down by German authorities on Oct. 28.

Speaking of the UB Plasma scandal at a press conference for Munich Reinsurance Co.'s latest results, Hans-Dieter Sellschopp, a member of the reinsurer's board, said a product liability insurance pool for the German pharmaceutical industry may respond to claims.

The so-called "pharma pool" of 130 insurance and reinsurance companies "could be called on to regulate claims" arising from UB Plasma blood products, Mr. Sellschopp said, adding that he believes that the pool will make payments in the UB Plasma case.

Munich Re is a member of the pool, which was established in 1978.

The reinsurance pool pays up to 190 million deutsche marks ($112.1 million) above a ceding company's 10 million deutsche mark ($5.9 million) retention for all product liability claims that stem from a single product.

A spokesman for Gerling Versicherungs A.G., UB Plasma's liability insurer and a member of the pool, said that currently there are three AIDS cases allegedly connected to UB Plasma products, though no links had been proved as of last week.

Anyone who has received plasma from UB Plasma worldwide will receive an AIDS test.

"Only then will we know the true

Continued on next page

UIC insurance to cease underwriting

LONDON

By ADRIAN LADBURY

LONDON—The London market has lost another leading reinsurer as the two shareholders of UIC Insurance Co. Ltd. announced last week that it will cease underwriting new and renewal business immediately.

Petrofina S.A., the Belgian oil company that owns two-thirds of the reinsurer, and TSB Group, the U.K. banking and financial services group that owns one-third, said in a joint announcement that their decision "was not a reflection on the performance of the management and staff of UIC but a corporate decision to withdraw from the area of reinsurance underwriting."

"The company is financially sound. It will continue to meet its commitments as they become due," the announcement stated.

Lloyd's trust canceled

A second Lloyd's investment trust was forced to cancel its launch because of lack of support last week.

Nelson Lloyd's Trust P.L.C. was shelved because its backers—Lloyd's agent Octavian Group Ltd., merchant bank Lazard Freres & Co. and stockbroker Cazenove & Co.—had failed to drum up sufficient interest.

But, rival stockbroker UBS Ltd. and merchant banker Rea Brothers Ltd. were forced to turn money away as the 7.5 million pound ($11.1 million) share offer portion of their 30 million pound ($44.4 million) Finsbury Underwriting Investment Trust P.L.C. was vastly oversubscribed (*BI*, Nov. 8).

Also, Roberts & Hiscox Ltd., the Lloyd's agency run by Lloyd's Deputy Chairman Robert Hiscox, launched its second fund last week called Hiscox Dedicated. The 25 million pound fund ($37 million) will only invest in Hiscox syndicates.

Schemes proposed

Price Waterhouse, the provisional liquidators of two insolvent London market insurers, Bryanston Insurance Co. Ltd. and Andrew Weir Insurance Co. Ltd., will send proposed schemes of arrangement to about 35,000 creditors and policyholders this week.

The schemes would pay creditors a percentage of their claims as they are settled and attempt to retain enough money to pay long-tail creditors the same percentage. The creditors will vote on the proposal in January.

Bryanston underwrote property and casualty reinsurance between 1979 and 1990 and was a member of the H.S. Weavers (Underwriting) Agencies Ltd. line slip for three years. It has approximately 10,000 creditors.

As of the last audited accounts published in December 1992, Bryanston's estimated liabilities totaled 216 million pounds ($327.1 million).

Andrew Weir Insurance Co. was a member of the Institute of London Underwriters between 1940 and 1991 and underwrote marine, aviation and commercial liability business. It has about 25,000 creditors and estimated liabilities as of Dec. 31, 1992, of 142 million pounds ($215.1 million).

Runoff firms merge

Four runoff companies have joined forces to create a new operation called Market Group Management P.L.C. The new company has a combined annual fee income of more than 20 million pounds ($29.6 million).

The new London operation encompasses: Market Syndicate Management Ltd., which handles 40 Lloyd's syndicates; Market Run-Off Services P.L.C.; Montrose Underwriting Services Ltd.; and Chiltington International Ltd. BI

INTERNATIONAL

E.C. pollution law

Continued from previous page
and Friends of the Earth.

However, the arguments made by European banking, insurance and industrial groups were in direct contrast.

"Strict liability should not be linked to the operator," argued representatives of the International Chamber of Commerce.

"There should be no extension of liability beyond injury to persons and loss of or damage to property. No compulsory insurance; no liability for historic pollution, except when clear legal liability at the time the pollution was caused can be established; no retroactive liability on the basis of the standards of the day; and, finally, cleaning up costs for historic pollution should be brought up by society at large," the ICC said.

The committee will report its findings to the European Commission by the end of this month, said Ken Collins, president of the committee and a member of the European Parliament representing Strathclyde East in Scotland. He would not comment on the committee's opinion of the arguments.

But the meeting summary did note the committee's apparent "dislike" of the ICC's rejection of the idea that special interest groups should be able to bring civil actions against potentially responsible parties in situations where no individual is able to litigate. This scenario may occur, for example, when a public park is polluted and an environmental group sues on behalf of society in general.

Representatives of the European Insurance Committee stressed the negative effects of joint and several liability, which they said encourages a "deep pocket" approach and would force insurers out of the pollution insurance market.

Topping the insurers' list of changes to be avoided is the introduction of retroactive liability, and they were not alone.

The Confederation of British Industry—a British business group that was represented at the hearing by UNICE, a European employers association—had argued strongly against retroactive liability in a written response to the commission's Green Paper.

The issue of retroactive liability is particularly pressing in the United Kingdom because of a recent decision by the U.K. Court of Appeal. The court upheld an earlier ruling that ordered a leather company to pay a water company for pollution to ground water it unknowingly caused at least nine years before a 1985 E.C. directive determined the water was polluted. The House of Lords is scheduled to hear an appeal of the case by year end.

Allan Rickmann, environmental director of Willis Corroon P.L.C. in London, said the prospect of retroactive liability and lack of common standards are risk managers' chief worries. "The 'polluter pays' principle is right for prospective litigation, but it cannot go beyond that," he said.

The impact of uncertainty in Europe over the cleanup question is already being felt, Mr. Rickmann said. He estimated that about 20% of the clients for which his company assesses land for possible development reject the investment because they fear possible contamination. A growing number of his clients are banks, pension funds and institutional investors that are concerned about becoming embroiled in cleanup litigation "through the back door," he said.

A wider political dimension was added during the public hearing. Mr. Collins told his committee of 50 that on Nov. 1 he had received a letter from U.K. Minister of the Environment Tim Yeo in which Mr. Yeo stated: "Our clear view is that community action is neither needed nor justified in this area. . . Harmonization of laws is never justified merely for its own sake. So, we need to scrutinize all proposals to ensure that we do not take any action which is not justified and to ensure that unnecessary or excessive burdens are not imposed on industry and commerce."

Mr. Yeo said he believes the United Kingdom has an adequate environmental policy that balances regulations with a tradition of common law civil liability.

Mr. Collins, whose own district in Scotland has been heavily polluted over the years, said in an interview that it is difficult to predict whether the U.K. government will be alone in its forthright rejection of the European Commission's proposed initiative. He warned of a possible repeat of the United Kingdom's dogged isolationist stance taken over the Maastricht Treaty.

"It seems that we are likely to see a repetition of what happened with the social chapter and Maastricht in that the U.K. government may sacrifice long-term benefits for short-term political goals. The government's stance is worrying because if you have different types of liability in the member states with different penalties, we run the risk of disrupting the internal market," said Mr. Collins.

But, U.K. interests may not be alone in this stance.

"We already have the German environmental law as of Jan. 1, 1991, so we are a little suspicious of what is going on in Brussels," said Fritz-Jurgen Cremer, chairman of Hoechst Versicherungs A.G., the Frankfurt-based captive insurer of chemical maker Hoechst A.G.

"I think the German law is fairly well balanced between the victims on the one hand and industry on the other. I do not see any urgent necessity to broaden it," he said. BI

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Assurpol

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trial liability policies. As a result, France's leading insurers—L'Union des Assurances de Paris, Assurances Generales de France and Groupe des Assurances Nationales, and some foreign insurers operating in France—have informed policyholders that this coverage may only be available from Assurpol.

According to Mr. de Meule Emester, Assurpol policyholders will be able to obtain annual insurance contracts to cover pollution damage at industrial plants that have already been shut down. But, these supplemental contracts will only be available for up to three years after the plant's closure.

Assurpol's new policies will exclude coverage for industrial sites in the United States and Canada and for some Eastern European countries in which the cost and/or severity of claims may be particularly high, Mr. de Meule Emester said. The new policies will also exclude damage caused by subcontractors and co-contractors, and damage to plant and animal life.

Policyholders may be able to obtain additional coverage from foreign insurers or foreign insurance pools, he said.

Assurpol, which has about 300 subscribers representing 3,000 sites, offers coverage of up to 192 million French francs ($32.6 million) per year per occurrence.

Mr. de Meule Emester said there have been few big claims since the pool was formed five years ago. BI

AIDS scandal

Continued from previous page
extent of the problem," said Munich Re's Mr. Sellschopp.

Since 1987, the reinsurance pool has made settlements amounting to 120 million deutsche marks ($70.9 million) for AIDS-related claims. Most claims to date have been made by hemophiliacs infected with the virus that causes AIDS by tainted blood products, like anticoagulants.

The settlements have ranged between 20,000 and 500,000 deutsche marks ($11,822 and $295,550) on average and have been made on an individual rather than a group basis, Mr. Sellschopp said.

New liability questions are raised by the UB Plasma case. For example, Mr. Sellschopp said it is not yet clear whether plasma is considered a product or just a substance.

However, according to a spokesman for Gerling, blood and plasma are legally defined as products.

Reinsurance companies are in danger of overextending liability in many areas, warned Hans-Jurgen Schinzler, chief executive officer of Munich Re at the reinsurer's press conference. "We must calculate risk that no one dares to imagine," he said. In many respects, the liability risks associated with AIDS, the environment, pharmaceutical products and gene technology have reached the "limit of insurability," he said.

Meanwhile, the German federal government is currently talking to the pharmaceutical industry, local governments and insurers about establishing a compensation fund of 25 million deutsche marks ($11.8 million) for hemophiliacs infected with HIV. The government has proposed that financing of the fund would begin in January 1994.

Insurers have balked, though, at the prospect of making payments to the fund in addition to paying product liability claims.

However, the government last week indicated it may change product liability laws pertaining to the pharmaceutical industry to compel creation of the fund.

"Laws must be changed so that we won't have to go begging in the future, as we have in the last few months," said Health Minister Horst Seehofer. BI

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INTERNATIONAL

UAP chairman named head of Credit Lyonnais

PARIS—Jean Peyrelevade, chairman of France's largest insurer, state-owned L'Union des Assurances de Paris, has been appointed chairman of banking group Credit Lyonnais as part of a government shakeup of top management at state-owned companies.

Jacques Friedmann, a senior civil servant and an unofficial economic adviser to Prime Minister Edouard Balladur, will succeed Mr. Peyrelevade as chairman of UAP.

Mr. Friedmann will oversee the sale of UAP to the public sometime next year. However, the exact date of the privatization has not yet been determined by the government.

Mr. Peyrelevade, who was an adviser to the Socialist Party that was ousted in the March 29 election, has repeatedly said that he would prefer to stay at the helm of UAP (*BI*, Oct. 4).

But the chairmanship of UAP, which is the biggest institutional investor on the Paris Bourse, is the most politically important role in the country's insurance market.

The prime minister's appointment of Mr. Peyrelevade to Credit Lyonnais comes despite Mr. Peyrelevade's recent success at negotiating a settlement over the status of Groupe Victoire, an insurer jointly owned by UAP and French financial group Cie. de Suez.

UAP had sought to trade its stake in Victoire for a controlling interest in Suez's German subsidiary, Colonia Versicherung A.G., which is Germany's third-largest insurer. The German insurer has been controlled by Groupe Victoire.

But, talks with Suez broke down late last year over problems in valuing UAP's stake in Victoire. UAP finally acquired a majority stake in Colonia Versicherung last month.

Mr. Peyrelevade, who worked as a banker before joining UAP in 1988, will have his hands full at Credit Lyonnais.

The state-run bank has incurred heavy losses over the past few years and must prepare for privatization.

Credit Lyonnais' current chairman, Jean Yves Haberer, will move to Credit National, a smaller bank.

—By Aline Sullivan

GLOBAL BRIEFS

Skandia sells stake

STOCKHOLM, Sweden—Sweden's Skandia Insurance Co. has sold its 26% stake in German life insurer Hamburg-Mannheimer Versicherungs A.G. to Munich Reinsurance Co.

The stake was sold for 450 million deutsche marks ($266 million) and will give the Swedish insurer a pretax capital gain of 1.9 billion Swedish kronor ($232.4 million). Skandia said the transaction will increase the Swedish insurer's solvency margin to 65% from 60% as of June 30.

Bjorn Wolrath, Skandia's chief executive officer, said that the insurer plans to shed its minority holdings in the life insurance sector and will use the funds for investments in wholly owned subsidiaries.

Mr. Wolrath previously has stated that Skandia will become predominantly a life company and that the insurer plans to expand its international life insurance and financial services division (*BI*, Sept. 20).

Skandia has held a stake in Hamburg-Mannheimer since the 1930s.

Munich Re, which owned 54% of the German life insurer before the Skandia sale, will now hold 81% of the company.

The sale is pending approval by Hamburg-Mannheimer's board of directors.

—By Maria Kielmas

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Broker fees

Continued from page 2

with new catastrophe capacity in the market, reinsurance buyers will be less inclined to accept whatever terms they must to get capacity, Mr. King explained.

"Last year, we took a licking and kept on ticking," but ceding companies this year are in a better position to bargain over terms other than price, he said.

Dramatic increases in catastrophe rates are a principal reason for the pressure on London brokerage commissions for large programs, reinsurance observers agree.

As catastrophe prices have doubled or tripled, intermediaries have collected two or three times more in commissions with no proportionate increase in their workload, some point out.

The traditional 15% London commission is generally split 5% for the London broker and 10% for the ceding company's U.S. broker.

The same commission rate is applied to large programs and small ones, even though "quite often, the (large account) is not 1,000% more work," said one Lloyd's underwriter who asked not to be identified.

"We all have to give better value for the money," the underwriter said.

Hartford addressed the problem by demanding renewal quotations net of brokerage and separately negotiating a fee with Guy Carpenter, an arrangement some Lloyd's underwriters reluctantly agreed to.

"With the dramatic rate changes in property catastrophe particularly, our premiums are a multiple of what they used to be. The commission structure didn't work effectively anymore," said Dennis Zettervall, chief executive of Hartford Re Management Co.

In switching to a fee-for-service brokerage arrangement, Hartford is following what many Fortune 500 companies have done with their insurance brokers, he added.

"It's important that (compensation) be negotiated and not be subject to fluctuating premiums," he said.

Although Hartford is the only program to be quoted this way so far, more could follow.

"You have to believe that when other large stock companies hear about this, they're going to say, 'We want the same deal,'" said Steven Bolland, senior vp with Gill & Roeser Inc. in New York.

Whether similar deals will—or should—be done is a matter of debate.

The Lloyd's underwriter called the net-of-brokerage placements a "bad move," saying among other things that it becomes "bloody messy" for brokers and ceding companies to negotiate compensation for every transaction.

Ceding insurers' relationships with reinsurers and brokers should be long-term, and "I don't think a fee structure is conducive to that," he added, predicting that fees would lead ceding insurers to switch brokers based on cost.

"We would be comfortable with any reinsurer who is leading a program quoting net (of brokerage)," said Willcox's Mr. King.

However, he added that he doesn't expect the practice to become widespread, in part because of Lloyd's underwriters' resistance to it.

Mr. Bolland also said that a fixed brokerage rate produces commissions that swing with reinsurance pricing but that probably average out to reasonable compensation over time.

"When prices are high, maybe it's too much money. When they

Continued on next page

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Fee schedules

Continued from page 1

state workers compensation policymakers," the researchers say. As of Jan. 1, 37 states had adopted or were planning to adopt fee schedules.

Advocates of fee schedules fault charge-based systems as inflationary and likely to lead to conflict. Some critics of fee schedules counter that schedules based on usual and customary charges will standardize rather than reduce fees. And, others caution that overly restrictive schedules could prompt providers to turn away injured workers and shift costs to non-workers comp cases.

The WCRI researchers said the most important question to ask when developing a fee schedule is: Does the schedule contain costs while maintaining access to quality care? However, some states have trouble answering that question, and fees tend to be set as a result of political processes and historical charges, they said.

"Although the majority of states use workers comp fee schedules, there is little empirical evidence on the effectiveness of fee schedules as a cost containment tool," the researchers said.

The study covers 27 state fee schedules for non-hospital medical providers. All were in effect at the beginning of 1992. In states with more than one fee schedule, the one covering the state's major metropolitan area generally was studied.

Researchers developed a "workers compensation medical price index" modeled after the Consumer Price Index and based on a "market basket" of 150 medical procedures. When combined, these procedures represent 76% of workers comp charges for non-hospital medical care in three states: North Carolina, Washington and West Virginia.

The index should allow comparisons of costs among different states because of the differences in the industrial bases, fee schedules, workers comp systems and workforce demographics among the three states used to compile the index, the study said.

Researchers then compared individual state fee schedules with Medicare, using the fully phased-in version of the Resource-Based Relative Value Scale, the Medicare physician fee schedule that will be fully in effect in 1996. However, the equivalent of 1992 Medicare price levels were used so their comparisons with state fee schedules would be valid.

Among the study's key findings:

- By making "very little use" of benchmarks in developing fee schedules, states have created "unexpected interstate variation in fee levels and inequities in fee level reimbursement."

Fees vary widely from state to state, with levels in the highest state (Hawaii) double those of the lowest state (Florida). Yet, many state fee levels fall within 10% of the median.

- Interstate variation in state workers comp fee schedules "is apparently unrelated to cost differences" such as geographic variation in wage levels.

For example, a state with a low wage or low average physician charges for non-workers compensation services may have a very high fee schedule (such as North Carolina) while a state with high wages or high charges for non-workers compensation procedures may have a relatively low fee schedule (like Massachusetts).

In contrast, provider charges and Medicare reimbursement rates are highly correlated with local wages.

- The federal Medicare fee schedule "is emerging as an important benchmark for analyzing workers compensation fee schedules."

The Medicare schedule is based on the providers' costs of delivering different services and accounts for interstate variation in these costs.

"In the average state, the Medicare fee schedule is 66% of the workers compensation fee schedule—raising the potential for substantial savings from a change like the one Pennsylvania made," the researchers said.

A change to the Medicare fee schedule would reduce fees, overall, in every state, though it would affect fees for general medicine far less than those for radiology and surgery.

Workers comp fees for general medicine in a few states would go up, for example, by 15% in Michigan.

"Because the Medicare schedules are much lower in most states, workers comp policymakers can inquire about access to care issues for Medicare recipients in their state. If they are comfortable with the level of access attached to Medicare, they might be comfortable with lowering the workers compensation fee schedule to a level that more nearly approximates Medicare," researchers concluded.

Doctors, though, contend that workers comp fee schedules

Continued on next page

What could be saved with Medicare fee schedule

States could cut work comp medical costs by up to 49% by adopting the Medicare schedule.

State	Estimated % savings	State	Estimated % savings
New Mexico	49	West Virginia	28
North Carolina	47	Wyoming	28
Oklahoma	46	Montana	24
Nebraska	43	California	23
Hawaii	40	Maine	23
Minnesota	40	Nevada	22
Texas	39	Maryland	21
Arizona	38	North Dakota	19
Georgia	38	Utah	16
Oregon	36	Michigan	15
South Carolina	33	Washington	15
New York	31	Massachusetts	9
Colorado	29	Florida	1
Kentucky	29		

Source: Workers Compensation Research Institute

GRAPHIC BY JERRY PARKS

Broker fees

Continued from previous page

are low, maybe it isn't. It tends to work itself out," he observed.

Another U.S. broker added that a ceding company would be better off accepting a commission rebate from its broker than switching to fee-based compensation. Brokers sometimes rebate part of their commission to ceding companies when insurers perform accounting or other services for their own accounts that the broker would otherwise provide.

The ceding company has better control of its costs under the rebate method, since the ceding company negotiates the size of the rebate directly with the broker rather than relying on the underwriter to build the discount into the premium, the U.S. broker explained.

As an alternative to the net-of-brokerage option, some Lloyd's underwriters have proposed a sliding commission scale based on the premium volume generated by a catastrophe program.

The proposal calls for:

- The traditional 15% commission for small programs generating up to $8 million in reinsurance premiums.
- A 12.5% commission for programs generating between $8 million and $30 million, subject to a $1.2 million minimum commission. The 12.5% would presumably be divided in the traditional one-third/two-thirds fashion by the London and U.S. brokers, the Lloyd's underwriter said.
- A negotiable commission not exceeding 12.5% with a $3.75 million minimum for programs generating more than $30 million in reinsurance premiums. The commission on these placements would likely be 11%, the Lloyd's underwriter said.

Meanwhile, Lloyd's broker R.K. Carvill & Co. Ltd. earlier this year offered to reduce total commission costs on catastrophe reinsurance business placed through a newly formed affiliate, Carvill Syndicated Catastrophe Capacity Ltd. in London.

CSCC collects total commissions of 7.5% on large programs—half the traditional 15%—by dealing directly with the U.S. ceding company, bypassing the insurer's U.S. broker, a Carvill official confirmed.

The official insisted that Carvill is not "treading on the toes of the U.S. brokerage community" with the facility, which he said has been well-received by Lloyd's underwriters and Carvill's existing clients.

The Carvill official also said that cutting commissions is not the broker's main goal.

"The brokerage is secondary as far as we are concerned," he said. "The importance in our view is improving the communication level between the buyer and the London market."

While the pressure to cut brokerage commissions may be more widespread this year, that pressure will last only as long as the catastrophe market remains tight, Mr. Bolland suggested.

"It's going to be a one- or two-year phenomenon. Sooner or later it's going to go away," Mr. Bolland said. BI

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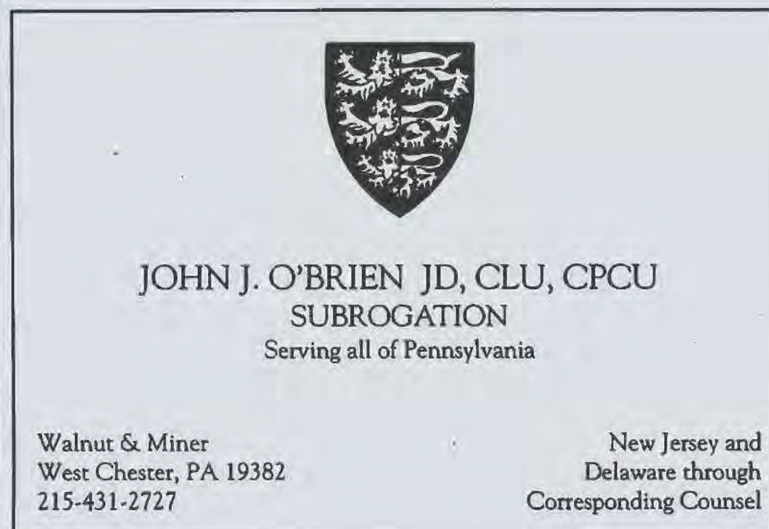

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Fee schedules

Continued from previous page

should be higher than the Medicare schedule. Malpractice suits are more likely in workers comp cases, they point out. And, some doctors say workers comp patients are less apt to follow instructions and may be less professionally rewarding to treat, say the WCRI researchers.

• Many states miss opportunities to further contain costs when they fail to set fee schedules for important services.

Fifteen states with fee schedules do not fully include radiological procedures, and nine states' schedules do not fully cover surgical procedures or physical therapy and related treatment.

Early next month, the WCRI will unveil a computer model designed to measure the potential outcomes of fee schedule changes in particular states. The service will be available at nominal or no cost depending on the amount of work required.

•

"Benchmarks for Designing Workers' Compensation Medical Fee Schedules" will be available in early December for $50 from Workers Compensation Research Institute Publications Department, 101 Main St., Cambridge, Mass. 02142; 617-494-1240.

Hopes are high for Pennsylvania fee schedule

HARRISBURG, Pa.—Pennsylvania's new workers compensation medical fee schedule already is being given primary credit for a 6.7% premium reduction that could save businesses $300 million per year.

That reduction is to take effect Dec. 1, three months to the day since Pennsylvania implemented a schedule that sets workers comp medical fees at 113% of Medicare fees. The schedule was part of a law known as Act 44.

The cost containment portions of that law will save more than 14% on medical and wage-loss costs, predicts Timothy Wisecarver, president of the state workers comp rating bureau.

Pennsylvania officials think they have good reason to be optimistic about further savings.

A medical fee schedule instituted in 1990 for auto accident victims has already saved auto insurers more than $700 million, said Patrick Musick, director of the Insurance Department's property/casualty bureau.

One potential problem with any fee schedule is restricted access to care, and there have been reports that some specialists will not treat injured workers.

"In general, accessibility has not been a problem in auto, and we don't think it will be in workers comp," said Tom Foley, Pennsylvania's secretary of labor and industry.

Meanwhile, the new fee schedule has disrupted the market for managed care networks.

InterGroup Services Corp. suspended the discount-fee portion of contracts with 60 hospitals and 6,000 physicians because the schedule gives it no chance to negotiate fees, said John Strube, vp of client services.

The fee schedule bill was adopted only after a "ferocious" multiyear battle, said Phil DiMartile, executive assistant to Roger Madigan, a Republican state senator and co-sponsor.

The bill passed only because of strong support from insurers, employers and top legislators, as well as a lack of opposition from labor, several sources said.

Doctors fought it bitterly and as a concession to them the law ties future updates of the fee schedule to changes in the state average weekly wage, beginning Jan. 1, 1995.

The law was a good step toward cost saving and signalled that Pennsylvania is rebuilding its business climate, said a spokesman for the 3,400-member Pennsylvania Chamber of Business & Industry.

Other states are hesitating to adopt Medicare-based fee schedules because Medicare reimbursement rates are considered inadequate, said Brenda Trolin, program director for labor and insurance issues for the National Conference of State Legislatures.

—*By Meg Fletcher*

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What's right.

OSHA not near needed overhaul: Official

By MARK A. HOFMANN

WASHINGTON—The Occupational Safety and Health Act seems destined for reform but probably not for at least another year, predicts the nation's former top workplace safety enforcer.

But that schedule is likely to change overnight if a major workplace tragedy like the 1991 fire that killed 25 workers at a North Carolina poultry processing plant occurs again, warned Gerard F. Scannell, former head of the Occupational Safety and Health Administration and the current vp-corporate safety affairs for Johnson & Johnson in New Brunswick, N.J.

No matter what their schedule, risk managers and safety officials who want to help shape OSHA reform legislation ought to make their concerns known on Capitol Hill, added Mr. Scannell, who spoke at Liberty Mutual Insurance Co.'s annual risk management forum in Washington last month.

Despite the fact that labor-supported OSHA reform bills have been introduced in both Houses of Congress, "no one knows what it's going to look like, if and when it's passed," Mr. Scannell said.

He added that he believes the current law "has all the flexibility to allow the administration. . .to do lots more" to promote workplace safety.

If the act isn't changed, Mr. Scannell said, he thinks the Clinton administration will continue doing what he did: Focus enforcement efforts on companies with bad records.

"OSHA should be going after those companies that are out there killing and injuring workers," said Mr. Scannell.

The administration would probably also focus on some new safety standards and increase penalties for flagrant violations, which Mr. Scannell said he had "ratcheted up" as high as he could as President Bush's OSHA chief. Penalties must be significant to get companies' attention, he added.

If legislation such as S. 575, sponsored by Sens. Edward M. Kennedy, D-Mass., and Howard Metzenbaum, D-Ohio, passes without what he called significant Republican input, employers will find a mixed bag of reforms, he said.

One of the key labor-backed components of the Kennedy-Metzenbaum bill and similar legislation in the House of Representatives is the creation of mandatory labor-management safety and health committees in nearly all workplaces. Mr. Scannell said he doubted such committees would work in every workplace.

Mr. Scannell added that while it's probably justified that the bills under consideration stiffen OSHA's criminal rather than civil penalties, there's danger of "going to excess" because the legislation doesn't define what constitutes the "serious bodily injury" subject to criminal sanctions. He asked whether the loss of a fingertip, which the injured person would consider a serious bodily injury, should lead to the same criminal charges as an incapacitating injury.

Mr. Scannell added, however, that he thought the proposal to strengthen "anti-discrimination" sanctions to protect workers who blow the whistle on unsafe conditions is warranted. He also said that bringing public employees under OSHA jurisdiction is probably a good idea, as was stepping up the federal government's oversight of state workplace safety plans.

An OSHA overhaul bill could be passed in 1994, but he said he thinks 1995 is more likely.

"However, all bets are off" if a workplace disaster that results in multiple deaths occurs, he said. In the wake of another tragedy such as the Sept. 3, 1991, fire that killed 25 workers at a poultry processing plant in Hamlet, N.C., which had never been visited by state workplace safety inspectors (*BI*, Sept. 9, 1991), an OSHA reform bill will be passed very quickly, he said.

Risk managers and safety personnel need to participate in the OSHA reform debate, said Mr. Scannell. But "business usually does a poor job in trying to influence Congress."

Risk managers and others in the safety field need to let their representatives and senators know what they think about issues and should meet with their lawmakers face-to-face if possible, he said. They should also attend hearings if they have the opportunity.

"They can't do a better job down here in Washington unless you tell them," he said. BI

Empire BC/BS

Continued from page 1

never really hurt by past mismanagement: big business. The insurer is banking on the idea that large-group customers will welcome—and Empire can deliver—cost-effective managed care products backed by quality service.

In an interview last week, Mr. O'Brien, formerly president of CIGNA Employee Benefits Co., promised that by Jan. 1 Empire will have an entirely new mission in place and will begin "regaining whatever has been lost over this past period of time."

What specifically has been lost, other than customers, is Empire's financial strength and its ability to provide the best customer service in the 28 eastern New York counties it serves, Mr. O'Brien said.

"We haven't fully recovered from the beating we took this summer, much of which was exaggerated but not misreported. We've made some real progress, but we have to (build) an organization that's financially strong and gives good service. Until that is done, we're in a recovery mode," he said. "But, we have some things going in our favor, such as employees who know what to do, excellent market share and a large group of loyal customers, hospitals and physicians."

One of those loyal customers is Merrill Lynch & Co. Inc., which switched to Empire from CIGNA in 1992 with the hopes of taking advantage of the cost savings offered by the 13% discount Empire receives from New York hospitals.

"We're a national account that only uses Empire's network, and we weren't serviced by the unit that had all the problems. Empire's administration and services have been even tighter than we expected," said Ken Reifert, Merrill Lynch's director of employee benefits.

Still, he could not escape the fallout from the revelations of shoddy bookkeeping and the sudden resignation of Albert Cardone as Empire's CEO.

"On one hand, we have had a very effective, economical relationship with Empire," said Mr. Reifert. "But, I was constantly being forced to defend this relationship against complaints by our top executives, who were legitimately questioning why we were doing business with a troubled carrier."

Now Empire is on the right track, he said. "They should do just fine under Bob O'Brien. They have such good market share, they shouldn't fail."

In addition to market share, Mr. O'Brien insisted that good people are the key to success. Since taking over as the day-to-day chief in August, he and Chairman Philip Briggs, former vice chairman of Metropolitan Life Insurance Co., have rebuilt Empire's senior management team. Only two members of the team in place before the summer remain; the others either resigned or were fired. Four Empire officials were promoted to senior vp and four other senior vps were hired from outside.

"This is an outstanding group of people that our customers should be impressed with," said Mr. O'Brien. "We're starting out with a flat organization that is of the 1990s, not the 1970s."

Topping his list of priorities is restoring public confidence in an insurer whose surplus plunged to $40 million at year-end 1992 from $295 million two years earlier. To achieve his goal of boosting surplus to $170 million by the end of this year, Mr. O'Brien said Empire will have to improve on past performance and service. Two areas of emphasis in the service improvement effort will be claims processing systems and customer service training for employees.

"We're going to run a first-rate company here that will have a dominant position in this marketplace. We're going to accomplish this through open communication with our customers, our employees, our prospective customers, the Legislature and the press," he insisted.

Central to that strategy is a big move into managed care.

Empire used to believe that "managed care would go away," but now the company champions managed care networks, he said. "There's absolutely no reason we shouldn't have the best network, bar none, because we have the market share and the name to go with it. We should be the leader in this marketplace—and we will be."

New York-area health care consultants say that is a reasonable goal for a company that has contracts with about 80% of the hospitals in the region it serves and business relationships with thousands of doctors.

"They already contract with most hospitals and doctors, so they have a leg up on the relationships they need to foster managed care. The only problem is that they haven't done it yet, so they're behind the competition," said Bob Braddick, a principal with A. Foster Higgins & Co. in New York. "This is a significant change in operating perspective. Basically, Empire is moving from the 18th century to the 21st century."

Many New Yorkers have moved as slowly as Empire. New York residents have balked at enrolling in managed care networks, especially compared with people on the West Coast and in other areas of the nation. So it may take a few years to see if Empire's strategy can work.

"The New York market is behind the curve on managed care. But that is changing, and with a good network to market, our position will improve," Mr. O'Brien said. "At CIGNA, we bet on managed care while Empire held out. Previous management didn't feel it was necessary to stay ahead of U.S. Healthcare, Oxford or Prudential. But we're fully committed to it, and by 1994 you'll see dramatic improvements in our managed care book."

Only about $200 million of Empire's estimated $5.7 billion in 1993 premiums will come from its HealthNet HMO. And, with nearly $4 billion in premiums coming from 6.2 million people enrolled in various types of group plans for 50 employees or more, Mr. O'Brien said there's plenty of room for a large-scale shift to managed care.

"There's no reason we can't do $15 billion in business here. We have the biggest region in the state, maybe even the country. But we need to gradually move our book of business into a managed care environment, where the sickest people can get the best, most cost-effective care," he said.

Charlie Blanksteen, managing director at William M. Mercer Inc. in New York, said Empire is in a position to focus on managed care if its employer clients will allow it.

"With the regional market share they have, they can do a lot of things others can't. Nobody has brought an HMO without 'walls' to the 1,000-to-3,000-employee group. Maybe they can do this," he said, referring to a network-based plan that features stringent utilization review and large-case management but freedom of choice of provider.

Lastly, Mr. O'Brien said, Empire will improve its customer service. This should be music to the ears of the benefit managers who deal with Empire.

"I've had Empire for different plans for about 20 years now, and my hope is that they won't just become a lean, mean managed care machine, but also a lean, mean claims payment and service company, which they haven't been at all times," said Don Alverson, director of benefits at the American Stock Exchange in New York, which purchases hospitalization coverage from Empire for its 750 employees.

"With any insurer, you have to stay on them about responsiveness, claims paying and adherence to your specific contract. Over the past 30 years in this business, I've seen CEOs come and go. So, for me, performance is what counts. I hope his commitment to customer service is real," he said. BI

California fires

Continued from page 1

ange County, which includes Laguna Beach, and catastrophe No. 75 to the Malibu blaze. No catastrophe number was given to the Altadena brushfire.

The fires, which burned close to 200,000 acres over a two-week period, either damaged or destroyed more than 1,500 homes. Believed to be the work of arsonists, the 25 fires left three people dead and 160 injured.

One of the insurance companies hardest hit by fire claims also is one of the least well-known: the California FAIR plan.

The industry-supported FAIR plan—which stands for Fair Access to Insurance Requirements—was founded in 1968 to provide coverage to homes and businesses in hard-to-insure urban areas and designated brushfire zones.

Other states formed similar high-risk insurance plans after passage of federal legislation aimed at providing insurance for businesses and homes in the inner city following the 1965 Watts riots.

The California FAIR plan insures 51% of the properties in the Santa Monica Mountains west of Los Angeles—the area devastated by the Malibu fire.

With claims still coming in, the FAIR plan already had set aside reserves last week of $107.5 million for the Malibu fire and $23.5 million for the Altadena fire, a spokesman said. The plan recorded no losses from the Laguna Beach blaze because that area is not a designated brushfire zone.

Because the claims are expected to deplete the FAIR plan's reserves, "we will make an assessment on members," the spokesman said. He wouldn't comment on current reserves or the size of the assessment.

All California insurers will be assessed amounts based on their individual market shares in fire, homeowners and allied lines.

It is the first time the FAIR plan has assessed members midyear. The company usually has sufficient reserves to wait until the end of its fiscal year, which runs from Oct. 1 through Sept. 30, he explained.

Even last year, when it paid out more than $40 million in claims from the Los Angeles riots, there was still enough of a surplus to avoid a cash call, he said.

Despite its losses, the FAIR plan doesn't intend to raise rates or reduce coverage terms.

Among the other insurer losses reported last week:

- State Farm Group, the largest homeowners insurer in the state with about 25% of the market, upgraded its loss estimate last week to $140 million for all of the fires.
- Farmers Group Inc. estimated its total claims at $65 million.
- Allstate Insurance Co. reported $57 million in claims as of Thursday, not including those from the Malibu fire.
- SAFECO Insurance Co. expects about $15 million in fire losses.
- TIG Group Inc., the spun-off property/casualty unit of Transamerica Corp., will face just $3.1 million in claims thanks to the insurer's decision following the 1991 Oakland Hills blaze to phase out coverage in brushfire-prone areas, a spokeswoman said.
- Fireman's Fund Insurance Co. would not provide an estimate of losses, but its 108 claims received as of last week include seven commercial claims. One of those claims is for a radio tower that was destroyed by fire in the Santa Monica Mountains (*BI*, Nov. 1).

While most of the insured losses so far involve personal lines, at least 10% of the $435 million in damage from the Laguna Beach blaze consists of damage to commercial buildings and insured school and government buildings, according to PCS.

PCS expects to have an estimate of fire damage from the Malibu fire by early this week.

The fires collectively could exceed $1 billion in insured damage since the affected areas, especially Malibu, are known for their expensive homes, many of which are owned by entertainment industry luminaries (*BI*, Nov. 8).

The fire losses come on top of $4.8 million in estimated claims from 32 U.S. catastrophes in the first nine months of this year. BI

Lead liability litigation

Attorney suggests creation of a no-fault mechanism

By DOUGLAS McLEOD and GAVIN SOUTER

NEW YORK—A government-mandated liability insurance fund should be established to adjudicate and pay claims in lead liability cases, a legal expert says.

The current tort system "is inherently unfair not only to plaintiffs as a group but to real estate owners as a group," said Joseph J. Giamboi, a lawyer with Stroock & Stroock & Lavan in New York.

In addition to cleanup liabilities, landlords face lawsuits for injuries to tenants—principally children—stemming from lead in peeling paint or in drinking water passed through lead plumbing.

Jury trials have become a kind of lottery, in which plaintiffs with virtually identical lead-related injuries obtain wildly varying damage awards in different cases, Mr. Giamboi told an audience at a lead liability litigation seminar in New York sponsored by Law Journal Seminars.

The awards can differ based on the makeup of the jury, the trial location, the depth of the defendant's pockets and the sympathy generated by the plaintiff, he observed.

Mr. Giamboi also questioned whether such trials adequately address the fact that lead contamination can come from sources other than a defendant landlord's building. When a child has been injured by lead poisoning, for example, a trial may not thoroughly examine whether at least some of the injury could have been caused by lead paint in schools or sites where the child plays, he said.

Defendant property owners also have a tough time bringing other potentially responsible parties into lawsuits, such as paint and pigment manufacturers and lead smelters, Mr. Giamboi said.

"While the tort system is sorting these things out, real estate owners are having to pay the bills," he remarked. "It's almost like Nero fiddling as Rome burns."

And, the current system has other problems, Mr. Giamboi said. Judges with heavy caseloads are not always willing to hear extensive pretrial motions in lead liability cases, which may restrict the defendant's litigation strategy, Mr. Giamboi suggested. And property owners often don't have the money to pursue costly litigation against better-funded manufacturers.

Landlords "are facing these claims alone, and they don't have the resources," Mr. Giamboi said.

As an alternative, he proposed a mandatory no-fault system with claims paid by a lead liability insurance fund. Contributors to the fund would include:

- Building owners whose buildings contain lead hazards.

Premiums charged to the owners should take into account: the income from the building and its value; the number of children six years old or younger living in the building; the building's maintenance history, prior lead-related claims and the existence of a lead abatement and maintenance program.

- Paint and pigment manufacturers and makers of lead plumbing supplies.

Paint manufacturers' payments into the fund, for example, might be based on the average market share of a given manufacturer during the period it sold lead paint, he said.

Adjudication of claims would be similar to arbitration, with a panel of legal, medical or property damage experts paid by the fund to hear claims.

The system would also operate on a no-fault basis, with the panels determining only whether a claim is valid and how much should be paid for bodily injury, property damage or cleanup costs, Mr. Giamboi explained.

There would be no appeals outside the system, he added.

Among other things, this system would bring greater consistency to damage awards and would more fairly distribute the burden of paying the claims, he suggested.

Meanwhile, Edward E. Shea, a lawyer with Windels, Marx, Davies & Ives in New York, offered the audience some tips on managing lead liability cases.

Mr. Shea suggested that defendants conduct thorough discovery proceedings as early in the case as possible.

"If you get right on that case at the beginning and get control of it, things will go as well as they can afterward," he advised.

Despite prospects of settlements, defendants should always be ready to go to trial, he added, "because plaintiffs' attorneys will be."

Corporate defendants' general counsel should be involved in setting overall litigation strategy but should leave strategy in individual cases to the outside counsel handling those cases, he said.

"If you have done your job, your counsel by the time of trial shouldn't need you anymore," Mr. Shea observed.

Defendants can also save money and trouble by cutting back on pretrial motions as much as possible, he said. In a dramatic, high-profile case, for example, a defendant may have a hard time winning a motion to dismiss the complaint. The ruling rejecting dismissal may only make the defendant look bad by reinforcing the strength of the complaint's allegations.

"You can get killed on motions to dismiss," Mr. Shea noted.

Defendants also face problems with their insurers, which will take all possible measures to avoid paying for damages in lead poisoning suits in the same way that they tried to avoid liability in suits concerning asbestos, said Edward D. Tanenhaus, managing partner at The Law Firm of Edward D. Tanenhaus in New York.

However, the insurers will have weaker defenses in the lead-poisoning cases, he said.

The main difference is that insurers will not be able to argue that the events happened too far in the past for liability to be determined, Mr. Tanenhaus said.

"Lead poisoning is happening in the present and the future," he said.

However, the volume of lead-poisoning suits will not match the volume of asbestos suits for several reasons, Mr. Tanenhaus said.

The groups affected have "a lack of knowledge of the children's rights," he said.

Also, potential plaintiffs will be reluctant to sue their landlords, Mr. Tanenhaus said. "If I brought a lawsuit against my landlord, I would find myself out on the street," he said. BI

Risk facility groups threaten to sue NAIC over Vermont status

BURLINGTON, Vt.—The Vermont Captive Insurance Assn. and the National Risk Retention Assn. expect to file suit against the National Assn. of Insurance Commissioners next month unless the NAIC changes its decision not to accredit the Vermont Insurance Department.

"It is our belief that Vermont has wrongly not been accredited," said Jeffrey Johnson, counsel for the VCIA.

Alternative risk transfer organizations in Vermont have been threatening legal action for several months, in response to the suspension of the NAIC's review of Vermont's accreditation status in August (*BI* Sept. 27).

The NAIC found, among other things, that Vermont regulates risk retention groups more liberally than required by the NAIC's accreditation standard.

For example, Vermont allows groups to use generally accepted accounting principles, rather than the more conservative statutory accounting standards.

However, in attempting to influence the way Vermont regulates risk retention groups the NAIC is acting outside of its authority, according to Mr. Johnson.

Under the federal Risk Retention Act of 1986, the NAIC is not allowed to regulate risk retention groups for solvency, he said.

Vermont is home to about 30 risk retention groups, about half the total established under the federal law. In addition, it is the leading onshore domicile for captive insurers.

Under the NAIC's accreditation program, sanctions against non-accredited states will take effect on Jan. 1, 1994. Unless Vermont is accredited by then, zone examination reports for insurers domiciled there will not be accepted by other states.

The VCIA and NRRA expect to file suit in U.S. District Court early next month, unless the NAIC changes its position and accredits Vermont, Mr. Johnson said.

A decision on the accreditation is expected by year-end, NAIC officials said at the group's September meeting in Boston.

—By Gavin Souter

Errors & Omissions

This listing was inadvertently omitted from the Nov. 1 reinsurance brokers directory.

Alexander Howden Reinsurance Intermediaries Inc.

1270 Avenue of the Americas, New York, N.Y. 10020; 212-408-3860; fax: 212-977-9471

	1992	1991
Premium volume	NA	NA
% Treaty	95%	95%
% Facultative	5%	5%
Gross revenues	NA	NA
Total employees	11	11
Treaty	9	9
Facultative	2	2

Founded: 1988.
Parent: Alexander & Alexander Services Inc.
Branch offices: Coral Gables, Fla.
Specialties: International treaty.
Licensed in: New York.
Officers: Joseph Artel, senior vp.

Updates

Weill names Travelers team

NEW YORK—When Primerica Corp.'s acquisition of Travelers Corp. is complete, the merged entity will be called The Travelers, but no Travelers executives will be in the top ranks.

Instead, four Primerica executives will join Primerica Chairman and Chief Executive Sanford I. Weill in an Office of the Chairman: James Dimon, president and chief financial officer, who has been named to the additional post of chief operating officer; Robert I. Lipp, vice chairman and group chief executive, who will head The Travelers' insurance businesses, among other operations; Frank G. Zarb, vice chairman and group chief executive in charge of two life insurance operations, among other operations; and Robert F. Greenhill, chairman and CEO of Smith Barney Shearson.

In connection with the merger, expected to be completed by year end, Travelers Corp. has announced it will eliminate 300 positions, primarily in the Hartford, Conn., area. That brings to 4,000 the number of jobs eliminated since 1992. The company has said it would cut 5,000 jobs by the end of 1994 (*BI*, Sept. 28, 1992).

Colorado captive reform plan

DENVER—Radical changes to Colorado's captive law that, among other things, would permit employers to use single-parent and group captives to insure employee benefit programs will be introduced in the state Legislature in January.

The proposal, drafted by members of the Colorado Assn. of Captive Entities working with state regulators, also would permit captives to write coverage for non-majority-owned units of the parent, said Richard A. Johnson, president and chief executive officer of Alternative Insurance Management Services Inc. in Englewood, Colo.

Sentences in Ginnie Mae scam

DALLAS—A federal judge has sentenced a confessed con artist to 57 months in prison for his role in a conspiracy to sell phony Government National Mortgage Assn. securities to insurers and others.

Carlos O. Hill was sentenced in U.S. District Court in Dallas this month after pleading guilty to a conspiracy charge in September. He is one of six men indicted in May on charges of peddling fraudulent Ginnie Maes to companies looking to use the securities as assets.

The defendants created a fictitious person, Rosa Kant, who was purportedly the wealthy owner of the Ginnie Maes that the defendants assigned to insurers and others for use on their balance sheets or as collateral for loans.

The five other defendants have also pleaded guilty to various charges in the indictment. They are: Dennis A. Jamieson and Ronald D. Creasman, sentenced in August to 27 months in jail; Ronald M. Brewen, sentenced in October to 24 months; Doy B. Ballard Jr., scheduled to be sentenced on Friday after pleading guilty to a conspiracy charge; and David A. Lloyd, scheduled for sentencing in December on conspiracy and wire fraud charges.

Briefly noted

Opponents to proposed changes in court procedures designed to **streamline civil litigation** could claim victory this week. A bill deleting controversial rule 26(A)(1) of the amendments to Federal Rules of Civil Procedure was passed by the House of Representatives earlier this month and is expected to be heard by the Senate this week (*BI*, July 26). . . . **American International Group Inc.** announced that it has settled all disputes with Howard Sosin, the former head of AIG Financial Products Corp. AIGFP is the company's ailing derivatives division, which posted losses in the second and third quarters of this year, forcing AIG to take $240 million in charges (*BI*, Nov. 1). . . . **Peter T. Pruitt**, former president of Frank B. Hall & Co. Inc., has been named executive vp at Willis Corroon Corp. . . . **J. Harold Chandler** has been named president and chief executive officer of Provident Life & Accident Insurance Co. in Chattanooga, Tenn. He replaces Winston W. Walker, who resigned for personal and family reasons. . . .The Senate last week confirmed the appointment of Joe Dear to head the **Occupational Health and Safety Administration**. . . .The monthly **Medicare Part B premium**, which covers physician services and outpatient hospital services, will increase next year to $41.10 from $36.60. About 5% to 10% of employers with retiree health care plans pay Part B premiums on behalf of retirees. . . . **Home Holdings Inc.** reported a net loss of $174 million for the three months ended Sept. 30, compared with net income of $15 million in the third quarter of 1992. A $290 million addition to its insurance units' reserves and losses from recent natural disasters are responsible for its lackluster results, the company said. . . .A new bipartisan group of about 20 moderate and conservative congressmen, informally known as the "mainstreamers," has begun to meet to try to develop an **alternative to President Clinton's health care reform** legislation. . . . **Vicki Caldeira** will join the Assn. of Private Pension & Welfare Plans this week as director of congressional and federal affairs. Ms. Caldeira had been an aide to Sen. James Jeffords, R-Vt. . . . A consumer coalition in California will try to qualify an initiative on the November 1994 ballot that would introduce a **"pay at the pump" system** of no-fault insurance, which would be financed by a 25-cent per gallon surcharge. . . A.M. Best Co. last week affirmed its A- pooled rating for **CIGNA Corp.'s** property/casualty group, which had been under review (*BI*, Nov. 8). . . . **Faith Wohl**, director of human resources initiatives at E.I. du Pont de Nemours & Co. Inc., is leaving DuPont to head a new federal Office of Workplace Initiatives in Washington. . . . SCOR S.A. has put on hold plans for **Compass Re Ltd.**, a Bermuda catastrophe reinsurance facility with projected capital of $300 million. The huge flow of capital to Bermuda is among the reasons for the decision. . . . **Henry Bartholomay III**, a retired senior vp and director of Alexander & Alexander Services Inc., died Nov. 7 at his home in Vero Beach, Fla.

Olympics

Continued from page 2

dertaking," said Rich Grayson, a J&H vp in Atlanta who served as project director. "It's equivalent to assembling a Fortune 500 company and dismantling it in four years."

Indeed, the comprehensive property/casualty insurance program has taken almost a year to complete. ACOG in February awarded the brokerage contract to J&H Atlanta Sports, a joint venture formed by Johnson & Higgins of Georgia Inc. with five local minority- or woman-owned insurance organizations.

Each of the participants was selected based on their various areas of expertise, Mr. Grayson said.

Primary responsibilities for each of J&H's partners under the 4½-year contract, which runs until July 1, 1997, are:

- G. Briggs & Associates: claims consulting services.
- Franks & Associates Insurance Agency: Primary casualty, property and miscellaneous special risk programs.
- D.H. Lloyd & Associates of Georgia Inc.: Administration of construction-related insurance programs.
- Morgan Insurance Group Inc.: Minority-, woman- and individually-owned contractor surety programs for construction projects.
- Ken Payne & Associates: Olympic Family Benefits program.

In its role as the joint venture's manager, J&H also is responsible for the Olympic Games' property/casualty loss control services and insurance-related information systems.

In fact, J&H Senior Vp Earl Adams was recently transferred to Atlanta from New York to begin assembling a risk management information system with ACOG Risk Manager Deborah Collins.

Among the risks that will be tracked by the RMIS and covered by the Olympic insurance program are:

- Twenty-six sporting venues, including an 85,000-seat stadium, a 15,000-seat auditorium and a 10,000-seat velodrome.
- More than 17,000 athletes and team officials.
- More than 50,000 volunteers.

With construction now beginning on Olympic facilities in downtown Atlanta, Mr. Adams is discussing the possibility of establishing an owner-controlled wrap-up program with ACOG and its numerous contractors.

ACOG declined to reveal the premium or the coverage limits for the property/casualty insurance program.

For the 1992 Olympics in Barcelona, for which J&H acted as co-broker, the organizing committee paid about $6.4 million in premium for: $150 million of TV rights coverage, $100 million in liability insurance and $80 million in property coverage.

The organization also bought accident and medical insurance with limits of $53,000 per person in the so-called Olympic family and $26,500 per person for spectators (*BI*, July 20, 1992). BI

Senate panel clears product liability bill

WASHINGTON—The U.S. Senate could vote on a product liability reform bill as early as February after a key panel approved the measure last week, proponents say.

The Product Liability Fairness Act, S.687, won the approval of the Senate Commerce Committee by a 16-4 vote on Nov. 9. The bill, whose chief sponsors are Sens. John D. Rockefeller IV, D-W.Va., and Slade Gorton, R-Wash., is the most recent in a series of bills designed to create uniform federal guidelines on product liability.

Unlike its immediate predecessor—S. 640, which passed the Commerce Committee but never came to a Senate vote—S.687 would not penalize plaintiffs who refuse to use alternative dispute resolution methods and who subsequently lose in court (*BI*, April 5).

In addition, a House subcommittee has scheduled January hearings on companion legislation.

—By Mark A. Hofmann

Tax rule

Continued from page 2

tives—in which shareholders each own more than 10% of the stock—and owners of single-parent captives that write unrelated business, Mr. Jones said.

Those not affected, on the other hand, would include tax-exempt entities that own less than 10% of a captive or those that own single-parent captives that do not insure any unrelated business, he explained.

Thus, large group captives with numerous shareholders would probably not be affected by the tax, Mr. Jones said.

The tax was originally proposed as part of the House version of the 1989 tax bill. The Senate did not include the tax in its version of the bill, and a House/Senate conference committee later deleted it from the final package, Mr. Jones said.

This year, the House has "dusted it off word for word" and reinserted it in the pending bill, Mr. Jones said.

"It's like swatting a roach: It just keeps coming back," said Fred Howard, senior vp with Johnson & Higgins in New York.

The Clinton administration is opposed to the new tax.

In testimony before a House Ways and Means subcommittee in September, Leslie B. Samuels, a Treasury Department assistant secretary for tax policy, called the proposed tax too broad.

"If there is a perception that offshore captives are engaging in abuse, a proposal that focuses more narrowly on that concern should be developed," Mr. Samuels said.

By targeting shareholders with as little as 10% of a foreign company's stock, the tax would apply to "a level of investment that is closer to the type of portfolio investment that has historically generated passive" investment income, he said.

The American Council on Education has argued that the tax would hurt colleges and universities that invest their endowments in equity securities of foreign companies. The tax would apply to the institutions' current holdings, even if investment decisions were made before the tax went into effect.

While H.R. 3419 is on a "fast track" in the House, observers are uncertain whether the final tax bill will include the new provision on tax-exempt entities.

However, if the new tax is enacted, J&H's Mr. Howard expressed concern that Congress could eventually expand the provision to apply to larger group captives whose shareholders own less than 10% stakes.

"Even if I were a big association captive, I would be worried about this one," Mr. Howard said.

"It would be awful easy in the next tax act just to take out the 10%." BI

BI Insurance Index

1010
990
970
950
930
910
9/24 10/1 10/8 10/15 10/22 10/29 11/5 11/12

Base = 100 on Dec. 29, 1978

Source: Nordby International Inc.

Insurance stocks rebounded last week, as the *Business Insurance* index climbed 7.7 points to 978.6 Nov. 12 from 970.9 on Nov. 5. Advancing issues were led by: Chandler Insurance, up 14.3%; Safeguard Health Enterprises, up 12.5%; and FHP International, up 10.1%. Declining issues followed: US Facilities Corp., down 10.2%; Acceptance Insurance Cos., down 8.0%; and AVEMCO Corp., down 6.4%. The most active issue was U.S. Healthcare, 8.4 million shares traded. The *BI* index gained 0.8%; the Dow Jones 30 Industrials rose 1.1%; the NYSE Composite rose 1.3%; and the Standard & Poor's 500 increased 1.3%.

British Issues

Nov. 11 Companies	Price pence	P/E	Div. pence	Yield %	1 week High—Low pence pence
Comml Union	613	N/M	29.8	4.9	613—600
Genl Accident	691	N/M	33.8	4.9	693—683
Gdn Royal Exch	206	N/M	9.0	4.4	206—203
Royal	316	N/M	8.0	2.5	316—305
Sun Alliance	368	N/M	17.8	4.8	370—361
Brokers					
Bradstock	136	16.0	6.4	4.7	136—136
CE Heath	403	19.3	20.0	5.0	404—403
Hogg Group	164	18.2*	10.4	6.3	165—164
JIB Group	174	17.1	9.5	5.4	175—174
Lloyd Thmpson	289	19.5	8.4	2.9	292—289
Lowndes Lmbrt	430	15.6	16.8	3.9	430—430
PWS Holdings	69	10.3	5.0	7.2	69—69
Sedgwick Grp	182	21.8	7.5	4.1	183—181
Steel Brl Jones	145	N/M	15.0	10.3	145—144
Willis Corroon	224	20.9	8.3	3.7	224—222

Source: Philip Olsen, London * Estimated

BI Industry Stock Report

NOV. 8, 1993 THROUGH NOV. 12, 1993

		Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
BROKERS												
Acordia Inc.	NYS	23.13	-3.65	7.56	27.63	18.38	20	0.44	1.90	13	9.57	2.42
Alexander & Alexander	NYS	19.75	-2.47	-25.47	28.88	18.75	143	1.00	5.06	36	5.02	3.93
E.W. Blanch Holdings Inc.	NYS	21.25	-0.58	N.A.	23.50	16.50	55	0.32	1.51	20	3.60	5.90
Gallagher Arthur J. & Co.	NYS	36.75	2.80	30.09	37.38	25.50	121	0.72	1.96	19	6.26	5.87
Hilb, Rogal & Hamilton	NYS	12.50	2.04	-20.00	16.88	11.38	166	0.48	3.84	19	2.73	4.58
Marsh & McLennan	NYS	81.75	2.67	-10.53	97.63	79.00	764	2.68	3.28	18	15.03	5.44
Poe & Brown	OTC	18.25	-3.31	8.96	21.25	13.50	53	0.40	2.19	31	2.60	7.02
BROKERS	AVERAGE		-0.4	-1.6					2.8	22		
INSURERS/REINSURERS												
ACE Ltd.	NYS	31.63	4.98	N.A.	36.00	25.50	216	0.40	1.26	6	25.37	1.25
Acceptance Insurance Cos.	NYS	13.00	-7.96	35.06	15.63	8.25	95	0.00	0.00	14	9.11	1.43
AEGON N.V.	NYS	50.38	0.25	21.02	51.75	40.38	50	1.22	2.42	9	32.78	1.54
Aetna Life & Casualty	NYS	59.75	-1.65	28.49	66.25	42.63	942	2.76	4.62	21	65.43	0.91
Allied Group Inc.	OTC	28.00	0.00	32.28	32.75	18.16	167	0.52	1.86	9	10.45	2.68
Allmerica Prop. & Casualty	NYS	58.75	-1.26	16.34	62.50	47.75	73	0.44	0.75	5	46.94	1.25
Allstate Corp.	NYS	29.63	-1.25	N.A.	34.25	27.13	2192	0.72	2.43	14	12.26	2.42
American General	NYS	28.75	2.22	0.88	36.50	25.75	2197	1.08	3.76	11	21.31	1.35
American Heritage Life Ins.	NYS	19.00	-2.56	-5.79	25.34	18.50	28	0.60	3.16	12	12.44	1.53
American Indemnity/Fin'l	OTC	13.00	8.33	116.67	16.25	5.75	2	0.12	0.92	5	16.18	0.80
American International	NYS	88.75	2.60	14.76	100.25	73.00	2633	0.40	0.45	15	40.25	2.20
American RE Corp.	NYS	29.00	3.57	-21.62	41.75	26.00	338	0.00	0.00	24	6.67	4.35
Aon Corp.	NYS	51.63	2.74	-4.40	58.50	49.00	337	1.80	3.49	16	31.79	1.62
Argonaut Group	OTC	32.25	2.38	5.74	35.50	27.75	124	1.00	3.10	11	25.52	1.26
AVEMCO Corp.	NYS	18.25	-6.41	-21.93	25.50	16.75	15	0.44	2.41	15	7.75	2.35
Baldwin & Lyons Inc.	OTC	45.00	1.12	23.29	45.00	33.50	0	0.60	1.33	11	34.75	1.29
Berkley W.R. Corp.	OTC	36.00	-5.26	-16.28	50.50	35.50	845	0.40	1.11	13	26.31	1.37
Berkshire Hathaway Inc.	NYS	17575.00	0.72	49.57	17800.00	9425.00	0	0.00	0.00	-	7742.67	2.27
Chandler Insurance	OTC	5.00	14.29	5.26	5.25	3.50	74	0.00	0.00	19	8.87	0.56
Chubb Corp.	NYS	78.50	-0.79	-11.67	96.38	78.13	2106	1.72	2.19	18	45.65	1.72
CIGNA Corp.	NYS	65.00	0.58	10.87	68.38	52.50	895	3.04	4.68	11	79.82	0.81
CNA Financial Corp.	NYS	79.75	-1.85	-18.62	102.88	79.00	56	0.00	0.00	-15	75.07	1.06
Continental Corp.	NYS	30.25	0.00	12.56	34.63	24.38	730	1.00	3.31	14	34.73	0.87
EXEL Ltd.	NYS	45.13	1.98	-4.50	52.25	42.00	622	1.20	2.66	7	29.54	1.53
Fremont General Corp.	NYS	25.13	-1.95	-27.17	28.75	16.84	498	0.72	2.87	8	19.81	1.27
Frontier Insurance Group	NYS	44.50	-1.66	2.30	50.00	31.81	58	0.60	1.35	15	14.78	3.01
Gainsco Inc.	ASE	10.00	2.56	-29.20	17.69	9.50	276	0.04	0.40	13	3.27	3.06
General RE Corp.	NYS	111.88	3.71	-3.35	133.38	107.00	1490	1.88	1.68	14	49.90	2.24
Guaranty National Corp.	NYS	20.25	2.53	2.53	24.75	17.00	129	0.48	2.37	11	10.44	1.94
Harleysville Group	OTC	27.00	5.88	-4.42	32.75	22.63	53	0.64	2.37	13	18.35	1.47
Hartford Steam Boiler	NYS	47.00	0.27	-18.61	59.88	43.75	168	2.12	4.51	55	18.03	2.61
HCC Insurance Holdings	OTC	34.50	5.34	70.37	35.75	14.75	272	0.00	0.00	24	10.12	3.41
ITT (Hartford Group)	NYS	91.75	1.24	27.43	94.75	68.25	912	1.96	2.14	-	55.03	1.67
Kemper Corp.	NYS	38.00	5.56	28.27	43.00	21.63	2078	0.92	2.42	-7	33.69	1.13
Lawrence Insurance Group	ASE	5.25	5.00	-39.13	9.00	4.00	4	0.16	3.05	-	4.17	1.26
Liberty Corp.	NYS	25.00	-2.91	-11.50	34.75	25.00	249	0.56	2.24	10	20.00	1.25
Lincoln National	NYS	43.13	-1.15	-41.03	48.25	34.19	712	1.52	3.52	9	31.41	1.37
Markel Corp.	OTC	39.13	-1.26	25.20	40.50	27.75	43	0.00	0.00	11	20.21	1.94
Mid Ocean Ltd.	OTC	28.25	6.60	N.A.	34.75	25.00	1056	0.00	0.00	23	20.24	1.40
Mutual Risk Mgmt. Ltd.	NYS	31.88	0.39	18.06	32.75	21.16	91	0.28	0.88	22	11.39	2.80
NAC Re Corp.	NYS	28.75	-1.71	-29.01	44.75	26.75	472	0.16	0.56	16	17.23	1.67
National Re Corp.	NYS	32.50	1.96	9.70	39.63	27.00	82	0.12	0.37	10	14.18	2.29
Navigators Group	OTC	39.00	0.00	20.00	39.00	28.50	1	0.00	0.00	28	16.99	2.30
Nobel Insurance LTD.	OTC	7.00	0.89	19.15	8.25	5.00	25	0.00	0.00	3	6.84	1.02
NWNL Companies	NYS	32.63	-0.38	28.26	38.75	20.81	249	0.80	2.45	13	21.65	1.51
Ohio Casualty Corp.	OTC	62.88	-0.98	-0.40	72.00	59.25	136	2.84	4.52	11	45.85	1.37
Old Republic Int'l	NYS	23.00	-3.66	-7.54	27.63	21.50	649	0.44	1.91	8	21.06	1.09
Orion Capital Corp.	NYS	38.25	-2.24	8.13	46.88	29.81	124	0.88	2.30	9	24.32	1.57
Phoenix RE Corp.	OTC	31.50	4.13	100.00	38.25	12.75	349	0.20	0.63	-	11.88	2.65
Provident Life	NYS	31.63	5.42	10.96	31.75	25.00	228	1.04	3.29	12	30.72	1.03
Re Capital Corp.	OTC	14.88	2.59	-9.85	16.63	13.25	78	0.28	1.88	16	14.76	1.01
Reliance Group Holdings	NYS	8.00	3.23	30.61	10.38	5.25	2781	0.32	4.00	3	2.99	2.68
RLI Corp.	NYS	25.50	0.49	3.03	28.63	23.00	12	0.56	2.20	13	18.62	1.37
St. Paul Companies	NYS	89.13	0.00	15.75	98.00	70.38	542	2.80	3.14	-41	52.24	1.71
SAFECO Corp.	OTC	59.00	4.42	3.96	66.75	54.75	661	1.80	3.05	11	38.95	1.51
SCOR U.S. Corp.	NYS	14.25	-0.87	-18.57	20.75	14.13	8	0.32	2.25	22	14.69	0.97
Seibels Bruce Group	OTC	1.06	-5.51	-43.31	2.38	0.31	325	0.00	0.00	0	1.90	0.56
Selective Ins. Group	OTC	29.75	-1.65	35.23	31.00	20.50	40	1.12	3.76	20	22.92	1.30
Sphere Drake Holdings	NYS	17.38	-4.14	N.A.	21.63	16.75	364	0.00	0.00	-	N.A.	N.A.
Statesman Group Inc.	OTC	13.63	5.83		15.72	8.94	463	0.16	1.17	6	8.65	1.58
TIG Holdings	NYS	24.00	0.00	N.A.	28.00	22.88	679	0.20	0.83	-10	17.14	1.40
Tokio Marine & Fire	OTC	62.25	5.51	29.69	67.00	43.25	32	0.37	0.59	-	57.72	1.08
Torchmark Corp.	NYS	42.25	1.81	-25.55	64.75	41.13	1016	1.12	2.65	12	15.15	2.79
Transatlantic Holdings	NYS	51.50	2.23	-8.24	61.50	49.00	103	0.28	0.54	13	24.57	2.10
Travelers Corp.	NYS	32.75	1.16	20.18	38.88	22.38	2270	1.60	4.89	-8	31.77	1.03
Trenwick Group Inc.	OTC	39.88	0.31	-2.15	49.75	37.25	135	0.88	2.21	12	26.00	1.53
United Fire & Casualty	OTC	36.13	-6.17	-12.95	43.00	34.75	32	1.00	2.77	-	28.96	1.25
Unitrin	OTC	42.50	2.41	-0.58	46.75	36.25	260	1.40	3.29	15	37.69	1.13
UNUM Corp.	NYS	50.38	4.13	-4.95	60.13	47.63	871	0.80	1.59	13	21.25	2.37
US Facilities Corp.	OTC	11.00	-10.20	10.00	14.00	6.50	559	0.00	0.00	13	10.48	1.05
USF&G Corp.	NYS	13.50	-0.92	9.09	19.63	11.13	1307	0.20	1.48	-	9.63	1.40
USLICO Corp.	NYS	17.25	-0.72	-4.17	20.00	15.00	39	0.24	1.39	-6	23.61	0.73
USLIFE Corp.	NYS	39.88	-0.31	10.00	45.75	32.09	233	1.24	3.11	11	39.48	1.01
Washington National	NYS	24.00	2.13	4.35	28.00	21.75	124	1.08	4.50	10	28.84	0.83
Zenith National Ins.	NYS	23.25	-5.58	17.72	29.25	16.50	526	1.00	4.30	11	15.82	1.47
Zurich Reinsurance Centr.	NYS	30.38	2.10	N.A.	36.38	29.13	304	0.00	0.00	-	23.99	1.27
INSURERS/REINSURERS	AVERAGE		0.8	7.1					2.0	9.6		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	OTC	24.50	10.11	22.50	30.00	17.38	2564	0.00	0.00	17	9.50	2.58
Pacificare Health Sys.	OTC	40.00	6.67	-21.57	57.50	25.50	340	0.00	0.00	19	3.90	10.26
Safeguard Health Enter.	OTC	11.25	12.50	15.38	12.25	7.75	55	0.00	0.00	14	5.04	2.23
Sierra Health Services	ASE	16.38	-2.24	-24.28	22.00	11.50	273	0.00	0.00	12	1.73	9.47
TakeCare Inc.	OTC	46.75	4.47	5.06	50.25	25.75	358	0.00	0.00	16	13.84	3.38
United Healthcare Corp.	NYS	74.00	1.02	30.11	76.38	40.00	1822	0.03	0.04	33	9.46	7.82
U.S. Healthcare	OTC	54.50	3.32	22.13	59.75	36.75	8433	0.64	1.17	22	5.21	10.46
Wellpoint Health Networks	NYS	28.25	-1.74	N.A.	39.75	23.00	314	0.00	0.00	17	-	-
HMOs	AVERAGE		4.3	4.5					0.1	17		
ALL COMPANIES	AVERAGE		1.6	3.4					2.1	13		

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