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Update

CIGNA negotiating purchase of EQUICOR with Equitable, HCA

PHILADELPHIA—CIGNA Corp. is negotiating to purchase New York-based EQUICOR Inc., the 3-year-old joint venture of Equitable Life Assurance Society of the United States and Hospital Corp. of America, *Business Insurance* has learned.

Negotiations, which have been going on since at least earlier this fall, are now at a crucial stage, sources say.

Current discussions center on a purchase price for EQUICOR, which offers

Continued on next page

Insurers challenge Gillespie's plan for rate regulation

By LOUISE KERTESZ

SAN BRUNO, Calif.—An administrative law judge is expected to tentatively rule today whether the California Insurance Department can use a rate-of-return benchmark in determining whether to grant insurers relief from Proposition 103's mandated insurance charge rollbacks.

Briefs that two industry associations and an insurer recently submitted to Administrative Law Judge William J. Fernandez argue that neither the language of the controversial voter initiative nor the California Supreme Court's May 4 decision upholding most of Proposition 103's provisions expressly gives Insurance Commissioner Roxani Gillespie this authority.

A brief submitted by the Assn. of California Insurance Companies and the American Insurance Assn. and a separate brief submitted by Transamerica Insurance Co. in Los Angeles are just two of "a truckload" of briefs that have been filed in the continuing hearings on the application of Proposition 103, noted AIA and ACIC attorney Janis L. Harwell of Thelen, Marrin, Johnson & Bridges in San Francisco.

Judge Fernandez, who is presiding over hearings on implementing Proposition 103, will hear oral arguments on Nov. 28 from all parties filing briefs before making a final recommendation to Ms. Gillespie, but he is expected to make a tentative recommendation today.

However, Ms. Gillespie "can overrule (Judge Fernandez's) recommendations—she has an independent decision-making process," Ms. Harwell pointed out.

But, "obviously, she has to consider her decisions carefully because they have to stand up if it goes to the courts," she said.

The California Supreme Court upheld most of the provisions of Proposition 103, including the 20% insurance charge rollback and

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Florida OKs 37% hike in work comp rates

Employer costs up $1 billion in '90

By MEG FLETCHER

TALLAHASSEE, Fla.—An average 36.7% increase in Florida workers compensation rates could provide the bitter pill that will help cure the state's ailing workers compensation system, Insurance Department officials and some employers say.

Hardest hit will be employers in the state's Assigned Risk Plan, which face an average 63.3% increase in premium costs through both rate increases and other system changes.

Currently, 90,000—or 21%—of the state's employers purchase workers compensation coverage through the residual market.

The steady growth in Florida's ARP is "a major flaw" in the state's workers comp system, said Florida Insurance Commissioner Thomas Gallagher.

The rate increase may pressure state legislators to perform major surgery next year on the state's decade-old wage-loss workers compensation system, instead of waiting until 1991 when the state's work comp laws are set to expire under sunset provisions.

The Florida system is diagnosed as suffering from excessive litigation, inconsistent court decisions, rising medical care costs, and the high cost and questionable effectiveness of rehabilitation programs.

The Florida workers compensation system is in "a very serious crisis," Mr. Gallagher said. The system "is still overburdened by heavy losses" and needs "major" reforms now, he asserted.

"The biggest victims of this imbalance in the system to compensate injured workers are the state's hundreds of thousands of employers, who are required to pay the insurance premiums for this coverage," Mr. Gallagher said.

The rate increase, which Mr. Gallagher approved last month and which is expected to become effective Jan. 1, will hike employers' workers comp premium costs to nearly $4 billion next year from about $2.9 billion in 1989.

It is the largest workers comp insurance rate increase approved this year by any of the 37 states in which the National Council on Compensation Insurance is involved in rate setting, according to a spokeswoman for the NCCI, a statistical and advisory organization that represents work comp insurers.

And, the latest Florida rate hike follows a 28.8% average rate increase for employers in the voluntary market and the assigned risk plan last January.

However, the increase approved earlier this month is substantially less than the "conservative" 58.4% average increase the NCCI originally sought in Florida. Mr. Gallagher said that the NCCI's original request would have cost employers an additional $630 million next year.

As a result of the latest rate increase, employers that buy coverage through the voluntary work comp market face an average 29% rate increase. The NCCI had requested an average 48.5% rate increase for the voluntary market.

Specific rate increases for employers in the volun-

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Benefit cost-shifting increases: Survey

By ADRIENNE C. LOCKE

WASHINGTON—More individuals are being asked to pay a portion of their health care costs, while those already footing part of their health care bills are being asked to pay more, a new survey shows.

However, the vast majority of respondents say they are willing to pay at least some amount for their health care.

In addition, almost 60% say they are willing to increase their current monthly payments by $50 to keep existing benefits or to improve benefits, according to the survey conducted on behalf of the Employee Benefit Research Institute.

The survey, "Public Attitudes on Health Insurance Provisions," is based on 1,000 responses gathered nationwide in August by the Gallup Organization of Lincoln, Neb.

According to the survey, 25% of the respondents that have health insurance have begun to pay for a portion of their coverage within the past two years, while another 43% of those with health insurance have seen their share of the monthly premium increase during the same period.

Furthermore, 32% of those with insurance report that their deductibles have been increased in the past two years, while 42% said the copayment they must pay when they seek health care services has risen.

And, 41% said it has become more expensive to cover family members under their health insurance.

Despite rising health insurance costs, the vast majority of respondents said they were willing to pay at least something each month toward the cost of health care, the survey found.

Overall, 72% said they would be willing to pay a specific amount for health insurance, while only 7% said they would not pay anything. Twenty percent said they did not know how much they would pay, while 1% refused to answer.

Asked what amount they are willing to pay for health insurance each month, 10% said $1 to $25; 19% said $26 to $50; 7% said $51 to $75; and 16% said $76 to $100.

In addition, 2% would pay $101 to $125 per month, 5% would be willing pay $126 to $150, 1% would be willing to pay $151 to $175, 6% would be willing to pay $176 to $200 and 6% would pay more than $200 each month.

And, 59% of the respondents with health care coverage said they would be willing to pay $50 a month to keep their existing benefits if their employers said the benefits would otherwise be reduced.

In addition, 51% said they would pay $50 a month to extend benefits to family members, while 39% said

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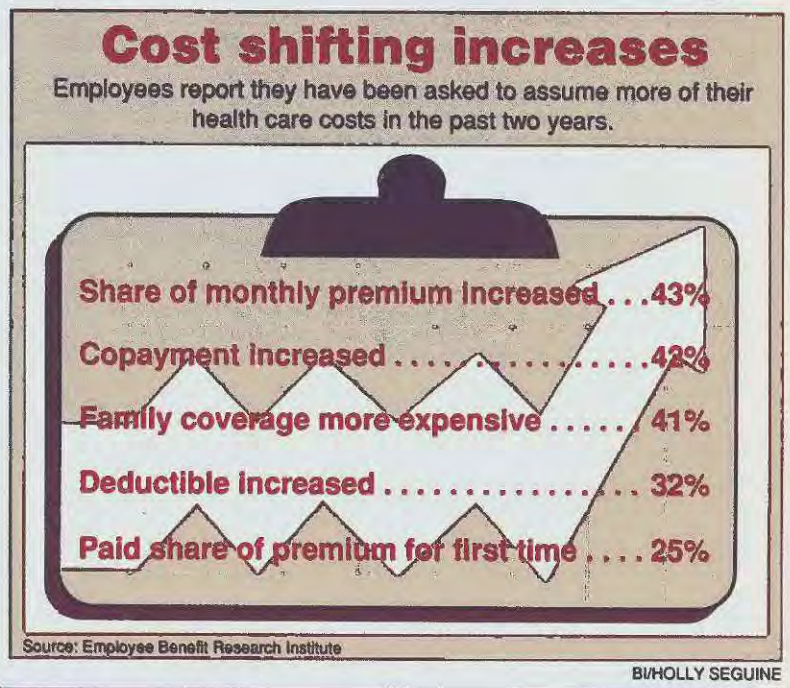

BI/HOLLY SEGUINE

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Spotlight report

Financial guarantee

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with a double-A rating, rather than that of their non-insured triple-A equivalents.

Nevertheless, observers say the future remains bright for municipal bond insurance.

Growing infrastructure needs will lead to a continuing demand for more bond issues, they note. In addition, individual investors' continuing domination of the market should help the growth of the municipal bond insurance industry, because they lack the resources of financial institutions to investigate the creditworthiness of issues. They also like the security municipal bond insurance affords, observers say. Insuring secondary issues is another opportunity for insurers.

Observers say the recent changes within the financial guarantee insurance industry signal its maturation, as well as its attraction as a long-term investment.

"I think that much of the activity is a positive statement regarding the industry as a whole," said Michael E. Satz, president and chief executive officer of New York-based Capital Reinsurance Co., a subsidiary of Capital Re Corp. that specializes in reinsuring financial guarantee business.

These changes represent a "determination on the part of large, very sophisticated financial institutions that it (the financial guarantee industry) is a good long-term investment, one to which they'd like to dedicate significant capital and enter with a degree of control."

The activity is also a sign the industry has reached "another level of maturity," which is often accompanied by a change in structure or institutional form, said Mr. Satz.

Michael J. Djordjevich, president and chief executive officer of Capital Guaranty Insurance Co., a San Francisco-based subsidiary of Capital Guaranty Corp., commented that any young and growing industry will reach a point of consolidation, where people will question how to move ahead.

The increased investment in the financial guarantee market by such powerful institutions as General Electric Capital Corp. and Citicorp may have made people who were, in effect, sitting on the fence say: "Maybe there's gold in those hills," said Mr. Djordjevich.

Many financial guarantee insurers were formed by groups of insurers or investors, "and I think, after a while, one wants control," said Joanne Morrissey, a principal with Firemark, a Morristown, N.J.-based insurance research, consulting and investment banking firm.

This has been a watershed year for the financial guarantee industry, said Richard Smith, vp of rating agency Standard & Poor's Corp. of New York.

The financial guarantee market has moved beyond its infancy, he said, noting that several of the insurers were formed during the early to mid-1980s, when municipal bond volume was at its peak.

The initial offering statements issued by the insurers to investors had included only five-year growth projections, and that period has now ended, Mr. Smith noted.

While using a five-year projection in initial offering statements is not uncommon, some of the original investors may have never intended to be in the business any longer than that, he said. They may have seen the industry only as an opportunity to invest venture capital rather than as a long-term investment, said Mr. Smith.

However, in light of the current market, "it's no longer a venture capital investment" that offers high risk and higher rewards, Mr. Smith said. The industry's current maturity calls for a "different set of investment parameters" that some investors may no longer be interested in pursuing, he added.

Dan Heimowitz, a managing director at Moody's Investor Services, the New York-based rating agency, said he believes one reason for the consolidation in the market is a shift in the type of business municipal bond insurers write.

As municipal bond insurers increasingly become involved in new areas of risk with structured products, it becomes easier to have a close working relationship with one entity than with several, he said.

Structured financings are securities that are backed by the value of a pool of assets. Municipal bond insurers have become more involved in insuring these products to regain some of the premiums lost to competition.

Despite premium pressure in the industry, "the returns are still reasonably attractive," Mr. Heimowitz said.

On the other hand, investors who have left the business may have decided they could get a better return on their investments elsewhere, said Jeffrey Noss, vp and a municipal bond analyst with Bank of New York.

For example, shareholders of municipal bond insurer Bond Investors Guaranty Insurance Co., which was acquired by competitor MBIA Inc., "apparently felt they'd rather put their money elsewhere," said Mr. Noss, who added that they had "no grand allegiance" to the business.

"Maybe they decided the best years were over in terms of profit margins," he said.

Among monoline municipal bond insurers, New York-based BIG occupied fourth place in terms of financial guarantee market share and was not even close to the No. 3 spot, said S&P's Mr. Smith.

"You could easily speculate a sense that it wasn't panning out to what the owners said it would be," he said.

White Plains, N.Y.-based MBIA, for its part, apparently saw an opportunity to add to its book of business without paying for staff or additional facilities, Mr. Smith said. "This was an opportunity for them to pick up business, some of which was written in better times" when there were better margins, he said.

Continued on page 6

Deadline near for nominees for *BI* award

The deadline for nominating outstanding risk managers for the 1990 *Business Insurance* Risk Manager of the Year competition is quickly approaching.

Nominations, which must be postmarked by Nov. 28, must be completed according to the detailed instructions contained in a special nominating package available from the *Business Insurance* editorial office in Chicago.

The 1990 Risk Manager of the Year and members of the Risk Management Honor Roll will be announced in the April 30, 1990, issue of *Business Insurance,* which will coincide with the 28th annual Risk & Insurance Management Society conference in Boston.

To nominate a candidate for the 1990 Risk Manager of the Year Award, request a special nominating packet today by calling Karen Brown at 312-649-6398.

claims received by insurers, three-quarters have been settled, said PCS Manager William A. Guillaly.

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regulator predicts. **PAGE 97**

✓ Although a turn in commercial pricing remains to be

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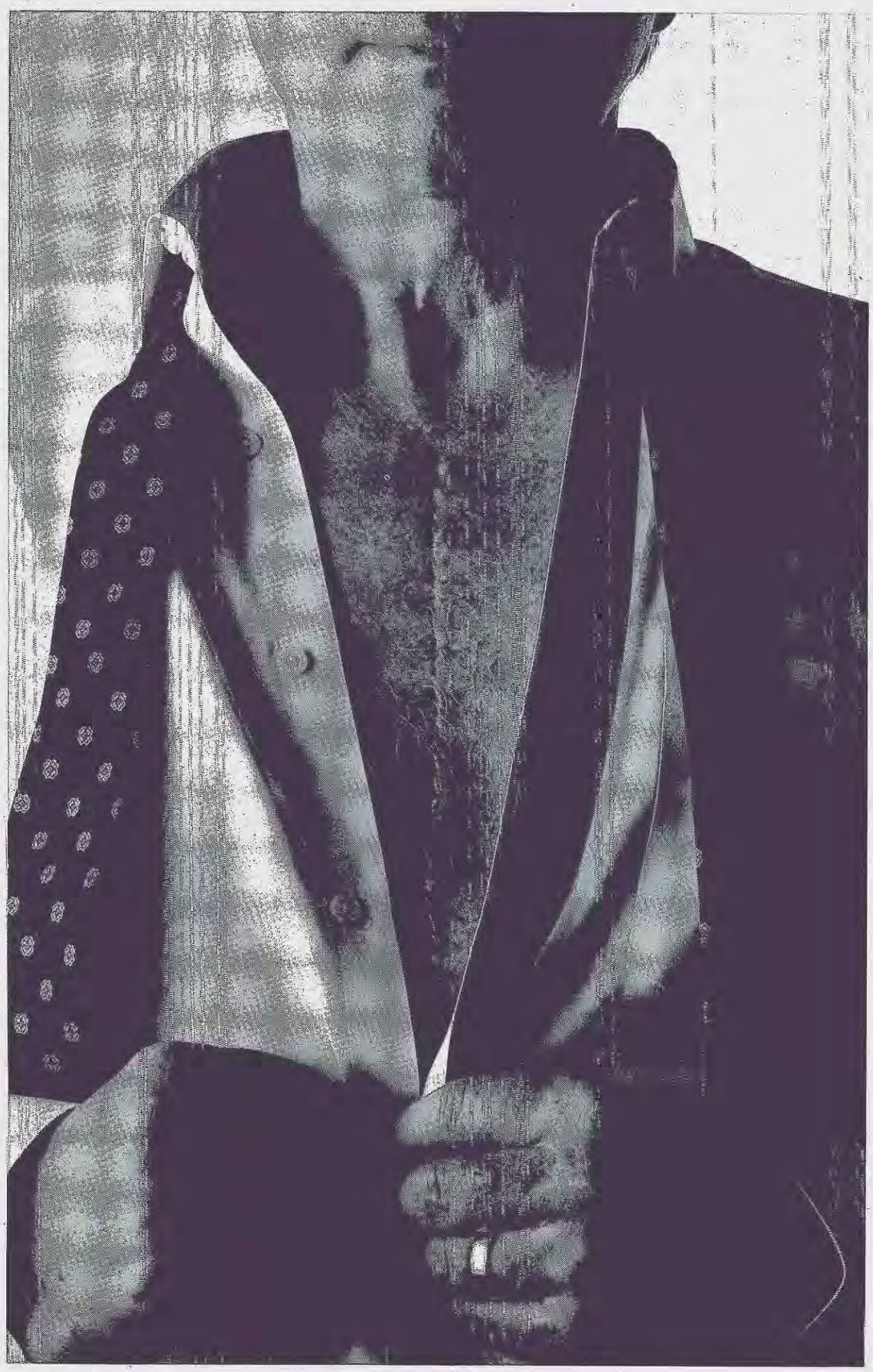

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Opinions

Tort reform off to New Start

CORPORATE RISK MANAGERS, insurers and others concerned with reducing the cost of the U.S. civil justice system have a perfect opportunity to make a difference:

Support Project New Start, a citizens' organization seeking to change state auto insurance laws to permit policyholders to choose a no-fault policy and be protected from litigation even in the face of a tort-based statewide auto liability system (see story, page 88).

This is not just a personal lines auto insurance issue. This reform effort could be the first step toward changing the civil justice system in this country and the mind-set of so many Americans to sue first and ask questions later.

Under the Project New Start proposal, state auto insurance laws would permit the consumer to decide whether to buy a limited no-fault policy or tort-related liability insurance. Two limited no-fault policyholders in an auto accident would claim against their own insurance for their damages and be done with it. No suits for pain and suffering would be permitted. However, suits for economic damages would be permitted in extraordinary circumstances, such as those involving a drunken driver or accidents caused during the commission of a felony.

Those who prefer the tort system could buy tort-related coverage and sue each other to their hearts' desire if they are in an accident together.

If a limited no-fault policyholder is involved in an accident with a tort-system policyholder, the driver with tort-system coverage would claim under his policy as though the accident involved an uninsured motorist. The no-fault policyholder would collect no-fault benefits.

Project New Start believes this system would greatly reduce auto insurance costs for purchasers of the limited no-fault option because litigation costs would be removed as well as damages for pain and suffering. Project New Start is recommending an initial rate reduction of 20% for this no-fault option, while some insurers have projected rate reductions could be 30%.

Already in Kentucky, where the limited no-fault option is far more liberal than that proposed by Project New Start, State Farm Mutual Automobile Insurance Co.'s rates for the limited no-fault option are 25% less than for tort-based coverage. And this is based on experience since 1975.

In addition to saving money, no-fault policyholders in accidents would be compensated more quickly and efficiently.

And, with predictions that as many as 80% of drivers would buy limited no-fault insurance, such reduced costs would spread quickly.

Indeed, in Kentucky, 99% of State Farm's policyholders choose the limited no-fault option.

Even employers with fleets of cars on the road would find suits filed against them greatly reduced with so many drivers holding no-fault coverage. If 83% of the drivers select limited no-fault, the chances of a no-fault policyholder colliding with a tort-based system policyholder are 1 in 12.

Furthermore, Project New Start is debating whether to seek to extend the limited no-fault option to commercial auto insurance buyers.

While some might object that employers should not be allowed to waive a driving employee's right to sue following an auto accident, the no-fault system of workers compensation sets a precedent for such a restraint on employees' litigation rights. It's certainly an issue worth debating.

More importantly, the spread of a limited no-fault policy even for only personal auto insurance and the resulting reduction in auto-related litigation and the awarding of non-economic damages could help change the prevalent attitude that lawsuits should naturally follow all injuries and that compensation for economic damages is not sufficient. People would stop expecting to be enriched by accidents.

And, auto liability reform could be the prelude to product liability reform.

But, Project New Start has a tough battle ahead. A much more watered-down reform proposal in Pennsylvania to permit a limited no-fault option under which only buyers of the no-fault option relinquish the right to sue for pain and suffering in most instances has been stalled by opposition from the plaintiffs' bar. The Pennsylvania plan would permit those who buy the no-fault option to sue for uncompensated economic damages as well as permit holders of tort-system coverage to sue the holders of no-fault coverage for both economic damages and pain and suffering.

The Pennsylvania consumer choice option may yet pass under demand from consumers who want the mandated rate rollbacks the reform would create: not less than 65% for the minimum bodily injury limits, not less than 15% for minimum medical cost limits and not less than 80% for uninsured motorist limits within six months of the effective date. The rates also would be frozen for two years.

While pure no-fault auto insurance systems with strong controls on the right to sue for both personal and commercial lines would do the most to control costs and improve the delivery of benefits to the injured, Project New Start offers a compromise that stands a better political future in the majority of states—37—that have yet to permit any no-fault coverage. Project New Start is worth supporting.

Project New Start accepts contributions from individuals and companies, whose names, by the way, are not released to the public. The address: Project New Start, P.O. Box 18899, Washington, D.C. 20036.

Letters

'MGAs are not the problem, crooks are!'

To the editor: The Nov. 6 article quoting John Goepfert, "Insurance Fraud Tough to Spot," really galls me when in essence you could insert the word "crook" every time Mr. Goepfert said managing general agent. Consider the source! Mr. Goepfert is a convicted insurance con man, but that certainly does not make all MGAs criminals!

I commend the Illinois Certified Public Accountants' Society for inviting Mr. Goepfert in to help them learn how to find such schemes in their audits of insurance companies.

But to blacken the eye of an entire segment of the industry with one swipe of the pen does not give much credit for all the upstanding MGAs operating in the country.

MGAs are not the problem, crooks are! Further, lax management of insurance companies contributes to the opportunity for abuse. The scenarios of abuse described could not happen for long if proper management controls were in place from the insurer. But to say that just because a company is doing business with an MGA, it is asking for trouble, ignores the history of many successful companies that through the years have prospered from the diligent efforts of MGAs.

No matter how good the audit techniques, the insurance regulations or even insurance company management, there will always be the opportunity for the criminal mind to exploit some weakness.

The unfortunate aspect is that even after caught in the act, many crooks like Mr. Goepfert continue to operate, finding new companies that do not do their homework and check out the player before doing business. I only hope that the

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Financial guarantee

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reinsurer of financial guarantee business entered the field. There has always been a "desperate need" for reinsurance, he said. "I don't think there is a lot of it out there," he said.

However, Mr. Satz of Capital Re said he does not believe the market could support another reinsurer dedicated solely to financial guarantee insurance, although additional multiline reinsurance support would be welcome.

Observers say the competitive situation is somewhat different for financial guarantee insurers that specialize in insuring corporate issues because their market is not as clearly defined as municipal bond insurance and to some extent, is less tapped.

"It is not an easy business to enter," said John P. Caouette, president and chief executive officer of Capital Markets Assurance Corp. of New York, which specializes in insuring corporate debt. If somebody did decide to start a new corporate bond insurer, it would take 18 to 24 months to get it up and operating and another two years to actually "get going," he said, noting that he is unaware of any companies in the planning stages.

Competition with Swiss and Japanese banks that issue letters of credit is another factor that could discourage new entrants into the field, Mr. Caouette said.

"It isn't clear to everybody the insurance industry is going to win its battle with the banks," Mr. Caouette said.

"It isn't at all clear who's going to be coming away from this doing the bigger percentage of the business," Mr. Caouette said. However, he added, "I think we're going to win."

Mr. Friedman of FGIC said his company plans to "very aggressively" move into non-municipal financial guarantee business, although the amount of business it currently writes in the area is "not material." He said he would be "perfectly content" if FGIC generated premiums of $35 million to $50 million in non-municipal business within five years.

Mr. Friedman says FGIC plans to 'very aggressively' move into non-municipal business.

It would be difficult, though, for a brand new financial guarantee insurer to enter the market, Mr. Friedman said. Four separate components would be necessary for a new entrant to be successful, he said: a triple-A rating; a "tremendous amount" of capital; the ability to understand the asset-based securities business; and "name recognition" in the business.

While some of these components may be achievable, "It's difficult to have all four," Mr. Friedman pointed out.

However, Moody's Mr. Heimowitz said there is a "lot of general discussion" about the creation of new financial guarantee insurers and reinsurers.

Moody's has received "early inquiries" both from investors already in the financial guarantee market and from those who have not entered it, he said, although he would not elaborate.

"There seem to be some ideas out there," he added.

Multiline property/casualty insurers, once an active force in the financial guarantee business, are no longer major players because of New York's financial guarantee law and changes in the tax code, observers agree.

New York's law calls for multiline insurers to either stop writing financial guarantee insurance, or form separate monoline subsidiaries.

In addition, the Tax Reform Act of 1986, among its other provisions, triggered a reduction in the issuance of limited partnership bonds, also known as investor note bonds. These bonds, many of which were tax-driven, were frequently insured by multiline companies (*BI*, June 1, 1987).

Despite these changes, Baltimore-based Fidelity & Deposit Co. of Maryland continues to write about $1 million to $1.5 million in economically driven investor notes, according to company officials.

"We're kind of hanging in there," said Dave McVikor, assistant manager in F&D's surety department, noting that even before the Tax Reform Act, the investor notes insured by F&D had strong economic components.

However, Stewart Duke, vp in charge of F&D's surety department, noted that in five years, the deadline set by New York's law for multiline insurers to leave the market, the insurer must decide to either get out of the business altogether or form a separate monoline subsidiary to write it.

F&D still has five years to "make up its mind," said Mr. Duke. "We have enough things to worry about tomorrow."

CIGNA Corp. of Philadelphia also maintains "an active, but selective interest parallel to the other companies, including the monoline companies, in the development of the market segment," a spokesman said, although he would not elaborate.

However, Continental Guaranty & Credit Corp., a unit of New York-based Continental Corp., has largely left the financial guarantee business because of the New York law, said Clifford J. Brown, senior vp of CGCC.

Continental does, though, continue to underwrite several educational loan insurance programs, the largest of which involves issuing policies on behalf of ConSern, a program developed by Washington, D.C.-based University Support Services that guarantees loans issued to middle-income students. These programs do not fall under the New York law's definition of financial guarantee insurance, Mr. Brown noted.

"We've withdrawn from the financial guarantee marketplace," he said. "We had time, but the market was flat for the past two years. We didn't write a lot," Mr. Brown said.

Continental's management felt the business did not justify the resources that would be needed to establish a monoline company, he said.

CNA Financial Corp., another multiline insurer that was once active in the financial guarantee market, in May announced that it would transfer its financial guarantee operations to FGIC. An FGIC spokesman said Chicago-based CNA had underwritten guarantees on commercial real estate transactions, which now will be serviced by FGIC, though CNA will pay any losses stemming from the business. The size of the book of business was not disclosed.

CNA said it was leaving the financial guarantee business because of tax law changes as well as changes in insurance regulations that would have meant planning to capitalize a monoline company.

CNA also said that "recent developments in the overall regulatory environment make it more important than ever for CNA management to increase the focus of its resources on CNA's core business." ■

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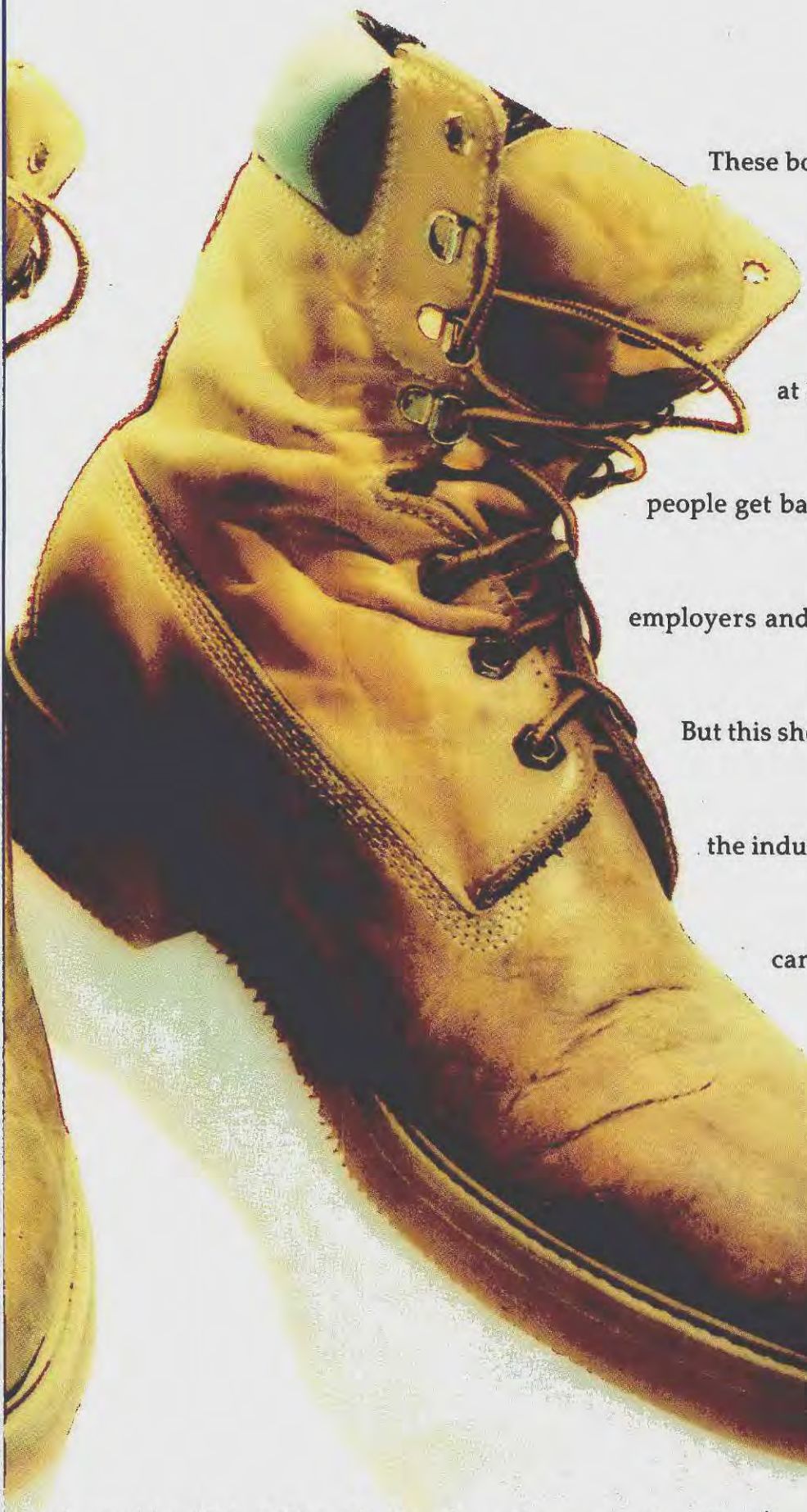

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Malpractice

Continued from page 3

brokers point out that it is difficult to purchase high limits of occurrence-based medical malpractice insurance for hospitals as insurers increasingly have switched to claims-made forms.

And, while brokers and insurers agree the hospital medical malpractice insurance marketplace is stable compared with the mid-1980s, they are hesitant to characterize the market as "soft," like the market of the early 1980s.

"The insurers we deal with don't want to say there is a softness in the market," said William R. Storie, executive vp at broker Fred S. James & Co. Inc. in Chicago. "Every submission is individually considered; some will have stable rates, some high and some low based on the merits of the risk."

"It's a soft market in a relative sense," said Corbette Doyle, co-chairman of broker Corroon & Black Corp.'s health care division in Nashville, Tenn. "But rate reductions aren't running rampant like they do in the traditional definition of 'soft market,' " she said.

Gene Marsh, director of Los Angeles-based California Hospital Insurance Co. Inc., a Hawaii-domiciled risk retention group, observed that "capacity is there, pricing is reasonable, but we're not seeing any rate wars."

"What we're really seeing is a plateau in rates; they are probably as low as they're going to be," said Jay Bikofski, senior vp at Johnson & Higgins in New York and chairman of J&H's HealthGroup.

"Insurers are being more selective and taking a good look at the

'Capacity is there, pricing is reasonable, but we're not seeing any rate wars,' says Gene Marsh.

hospitals' risk management programs. Individual rates are stabilizing, but our deductibles are rising," noted Karen McNeil, director of quality assurance and risk management at Ashtabula County Medical Center, a 235-bed facility in Ashtabula, Ohio.

"We just renewed last month and we got the same limits. There was not as huge an increase in rates this year as in the past, but the deductible has been climbing," Ms. McNeil said.

Richard Brasher, director of risk management services for Nashville, Tenn.-based Hospital Corp. of America, which operates 78 acute care hospitals, primarily in the Sun Belt, said he has seen rates stabilize as well.

For instance, Mr. Brasher says that while HCA hospitals in Texas have been hit with some rate increases, rates for facilities in other states are stable.

Bill Deemer, director of the national health care division of Alexander & Alexander Inc. in St. Louis, agreed: "The malpractice market has stabilized, and I see nothing to change that over the next six to 12 months."

Pricing in the primary marketplace "has been stable, and on an individual-risk basis we've seen premium decreases between 5% and 15% overall," he said.

Ms. Doyle said Corroon & Black also has noted some rate reductions for hospitals.

"An account with excellent loss experience should be able to negotiate a zero to 10% premium reduction if there has been no change in the risk," she said.

James saw very few rate increases for hospital professional liability insurance in 1988 or 1989, said Mr. Storie. "In the second quarter of 1988, the stabilization was in full swing," he said.

Linda Cool Miliken, a health care account executive at James in Chicago, said the broker "went through a lot of renewals and the numbers have stabilized. We've seen some reductions in premiums as well."

The rates charged to hospitals by Continental Corp. units peaked in 1986 and early 1987 and have been declining since, though not dramatically, noted Timothy P. Mitchell, president of New York-based Continental Insurance HealthCare, a division of Continental Corp.

Currently, "the average rate decrease in all medical malpractice business, including doctors and hospitals, is about 20% countrywide," he explained.

Mr. Mitchell said the rate reductions are "good news because it means the people who price this business see the frequency of claims going down. It is not just blind, silly competition."

For example, St. Paul Fire & Marine Insurance Co., the nation's largest medical malpractice insurer, reports a slight decrease in the frequency of claims filed by its insured hospitals to 3.4 claims per 100 occupied beds in 1988 from 3.5 claims in 1987 and 3.8 claims in 1985.

"Because there were fewer claims per exposure than predicted, we were able to take this improvement in experience and apply it immediately to our rates," commented Richard G. Pfeiffer, vp of medical underwriting for the St. Paul, Minn.-based insurer.

But St. Paul's rates vary widely from state to state he noted. For example, average annual premiums for a mature claims-made policy written for a hospital with limits of $1 million per claim/$3 million aggregate range from $600 per acute care bed in South Carolina to $6,900 per bed in the metropolitan Detroit area.

Earlier this year, St. Paul filed rate decreases ranging from 5% to 16% in 23 of the 47 states where the company writes medical malpractice coverage for hospitals. In addition, St. Paul reported rates would remain unchanged in 17 states and is seeking approval for rate increases ranging from 5% to 15% in seven states.

Joseph B. Nardi, president of St. Paul's Medical Services Division, said St. Paul's rate decreases averaged 2% nationwide in 1989, the first time that St. Paul has cut medical malpractice rates for hospitals in more than five years.

"Hospitals are seeing the benefits of a more stable loss trend," he explained.

PHICO Insurance Co., another leading medical malpractice insurer that writes coverage for hospitals in 18 states, also has filed rate reductions in several states.

"This is the first year since 1980 where we see reductions in rates

Continued on next page

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Continued from previous page

for hospitals and physicians in most states," said Pete Henning, senior vp at the Mechanicsburg, Pa.-based insurer. However, he said he could not furnish an overall nationwide rate projection because claims experience—and hence rates—vary greatly from state to state.

Others point out that rates for some hospitals still are rising, but not nearly at the pace that existed earlier in the decade.

"From our perspective, it appears rates are relatively stable, but some of our individual accounts may experience rate increases," said Barry Barron, assistant vp at American Home Assurance Co. in New York, a unit of American International Group Inc. that writes medical malpractice insurance for hospitals.

Ed P. Croak, vp at Lexington Insurance Co. in Boston, a surplus lines unit of AIG, said he expects rates to rise in the hospital professional liability insurance marketplace.

"We are re-evaluating our book of HPL business," Mr. Croak said. Although Lexington is not going to change its basic underwriting principles, he said the insurer is carefully analyzing its hospital book of business to be sure it is charging adequate rates.

"HPL is a high exposure, and we will get an adequate rate" for those risks, he said. "If we don't, we'll let that business go. We'll pass on an account where we feel the exposure is higher than the rate would indicate."

Yet generally, many observers expect hospital medical malpractice rates to remain stable, even in light of predictions that most property/casualty rates will rise next year after the recent series of catastrophe losses.

Corroon & Black's Ms. Doyle said she does not expect the recent San Francisco earthquake or Hurricane Hugo to have any significant effect on the medical malpractice market.

"There is so much excess capacity in the market that a couple of billion dollars (in losses) will not have a major impact," she said.

A&A's Mr. Deemer agreed: "There is nothing that would work directly to change hospital liability rates," he said. However, an indirect impact from the recent disasters is possible if there is a major decrease in excess capacity worldwide, he pointed out.

James' Mr. Storie predicted the steady marketplace will continue. "We and our best experts are predicting no erosion in the market through 1990 and even into 1991."

Others are more apprehensive.

"The medical malpractice market is somewhat insulated, but at the end of the day the industry has to pay the bills," said Mr. Marsh of California Hospital Insurance Co. "It wouldn't surprise me to see that the three catastrophes we've had will have some impact."

J&H's Mr. Bikofski also is cautious. "The industry is very reactive. Our initial forecast was no rate increases for the next 12 to 18 months, but it may happen sooner."

As rates for medical malpractice insurance have moderated, the amount of capacity available to hospitals has increased. In addition, some observers note that many hospitals are not buying the high limits they purchased during the soft market early 1980s.

"You have a situation of enough capacity. The market is very similar to 1988 and 1989 and '90 will be the same," Ms. Doyle agreed, pointing out that it is much easier to put together an excess program today than it was 10 years ago.

"It used to be to get $25 million in limits," a hospital was forced to go to the London market or to a specific insurer. "Now, there are more options and you can get those programs domestically," Ms. Doyle said.

"If you really need to put together $75 million to $100 million, you can," Mr. Storie pointed out. "But you may not get it on an occurrence basis."

Mr. Pfeiffer said St. Paul's capacity for an individual risk is approximately $50 million, written on a claims-made basis.

However, James' Ms. Miliken said that many institutions have not been buying high limits even though they are available. "They aren't buying hundreds of millions of dollars in coverage, they're just buying what they can afford," she said.

Mr. Storie agreed: "People don't see the need to buy such high limits anymore," he said, adding that

'We are predicting no erosion in the market through 1990 and even into 1991,' says Mr. Storie.

may be because hospitals are more aware of exactly how much insurance is actually necessary.

"Most health care organizations are buying limits that are mandatory, not optional—just enough to feel comfortable," he said.

"No hospital is getting lower limits than they want; they may want less coverage, but not one goes inadequately covered," said Continental's Mr. Mitchell.

American Home's Mr. Barron noted that a typical primary hospital professional liability policy has limits of $1 million per claim/$3 million aggregate and that most American Home policyholders purchase between $10 million and $15 million of excess coverage.

Although only a small number of commercial insurers write a significant amount of medical malpractice insurance for hospitals, the marketplace is not necessarily stagnant, experts say. In fact, some brokers say the market will see some new players over the next several years.

Corroon & Black's Ms. Doyle said, "There are not a lot of (commercial insurers) in health care—we're only talking about a half-dozen markets. People aren't beating down the door to write (hospital medical malpractice insurance), but more insurers than before are interested."

Corroon & Black is "getting hints" from some new players that are willing to enter the marketplace if the conditions are right, she said.

Broker Johnson & Higgins has seen interest from new players, too. "We've had overtures from U.S. insurance companies that traditionally have not wanted to get in-

Continued on next page

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Malpractice

Continued from previous page
volved with medical malpractice exploring whether they should enter the business," said Mr. Bikofski.

However, he noted that writing medical malpractice insurance requires a long-term commitment from an insurer. "We tell them, 'don't get involved unless you plan to stay around for seven to 10 years.' "

A&A's Mr. Deemer pointed out that traditional commercial insurers are interested in entering the market for the long haul, but he added that they face the risk of big underwriting losses.

Such losses caused some large commercial insurers—and many reinsurers—to bow out of the medical malpractice insurance marketplace during the crises of the 1970s and mid-1980s. Unable to accurately predict claims frequency and severity trends, many insurers and reinsurers decided to quit rather than fight, which squeezed capacity and fueled huge rate increases.

"There was a mass exodus of commercial insurers in the 1970s," explained Continental's Mr. Mitchell.

For example, Continental's Buckeye Union Insurance Co., which wrote a large number of hospital liability risks in Ohio, stopped writing the coverage for more than a decade after it incurred huge losses.

"Big companies have been in the business in the past and have been hammered by it," he said, pointing out that Continental just re-entered the fray in 1986.

Commercial insurers looking to re-enter the medical malpractice insurance market must be cautious, Mr. Mitchell advised. "It's hard to warm up to the gun that's already shot you," he said, adding that newcomers should carefully analyze whether it is worthwhile to throw their hats into such a volatile arena.

While there are not many sizable markets for hospital medical malpractice insurance, experts point out that demand for commercial coverage is slack since many hospitals have turned to alternative risk financing mechanisms, like self-insurance, pools and captives.

'Nine times out of 10, the doctor and the hospital are both named in a lawsuit,' Ms. Doyle says.

Mr. Marsh, citing statistics from the Tillinghast division of Towers, Perrin, Forster & Crosby Inc., said "more than half of the hospital beds in the U.S. are insured by non-traditional means."

For instance, he says that approximately 50 captive insurers have been formed to write hospital medical malpractice coverage.

"We've reached a point where the majority of hospitals have a significant self-insured retention. . .with some kind of trust or captive to handle that retention," Ms. Doyle noted.

While observers say that hospitals are not clamoring to form alternative facilities as they were during the hard market, hospitals still are interested in alternatives.

For instance, Mr. Marsh expects five new members to join California Hospital Insurance Co. by year-end.

The risk retention group, formed in 1988, writes $5 million in primary medical malpractice insurance limits. In addition, hospitals can purchase up to $40 million in commercial excess coverage through CHIC.

"Our initial premiums are priced very close to the (commercial) market," Mr. Marsh explained. "Each hospital is rated separately and the rate depends on their mix of business, the types of procedures they perform and the amount of self-insured retention they maintain—among other things.

"Our rates are below the commercial market's by design. It's very difficult to give an average, but it's fair to say our rates out here range between $4,000 to $6,000 per occupied acute care bed per year," he said.

Other alternative facilities also are thriving despite competition from commercial insurers.

The Chicago Hospital Risk Pooling Program, a self-insured trust consisting of 15 non-profit hospitals, is providing coverage to its members at stable rates, says Kenneth Skertich, trust administrator for CHRPP and vp of the Metropolitan Chicago Health Care Council.

By self-insuring through CHRPP, member hospitals are not as susceptible to market fluctuations, Mr. Skertich explained. And "most hospitals, if their numbers are stabilized from year to year, are less likely to go shopping" for coverage in the commercial market when bargains are available.

The pool, which the MCHC set up in 1978 in response to a coverage availability crisis, contracts with an independent actuary to calculate an individual hospital's contributions based on industry-wide data and the hospital's prior loss experience, Mr. Skertich said. CHRPP, which has $115 million in assets in primary and excess coverage trusts, offers primary coverage of up to $1 million per occurrence with no aggregate. In addition, the excess trust provides additional limits of $10 million per occurrence and $20 million aggregate.

Member hospitals also can purchase an additional $25 million in excess limits through a commercial insurer.

However, Mr. Skertich noted that only two CHRPP members now are purchasing the full $36 million limit. "When coverage was cheaper, in the early '80s, hospitals were buying high limits," Mr. Skertich said.

Some of the alternative medical malpractice insurance markets formed during the medical malpractice crisis of the 1970s—the physician-owned mutual insurers—are now contemplating writing coverage for hospitals as well as for doctors in private practice, said J&H's Mr. Bikofski.

Ms. Doyle said that with one insurer writing coverage for both a hospital and for the doctors on its staff, it will help defendants coordinate defense when a claim is filed.

"Nine times out of 10, the doctor and the hospital are both named in a lawsuit," she explained.

But "most of the doctor companies are single-state operations, so they are only good for local hospitals," as opposed to national chains, she added.

A&A's Mr. Deemer noted that hospitals also have shown interest in "staff-physician programs." Under such a program, the hospital will use its clout to help arrange malpractice insurance on a discounted basis for staff doctors, or those doctors who are not directly employed by the hospitals and usually must purchase their own malpractice coverage.

Establishing such a program "gets those doctors involved with hospital risk management," Mr. Deemer pointed out.

Staff-physician programs are a way for hospitals to attract and maintain good staff physicians, agreed Continental's Mr. Mitchell. "It's not an employee benefit, but it is a no-muss, no-fuss way to get good quality doctors," he said. ■

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Spotlight report

Outpatient care could widen liability

By CHRISTINE WOOLSEY

Changes in the U.S. health care system could be a dose of bad medicine for health care institutions' medical malpractice exposures.

While obstetrics remain the greatest source of medical malpractice claims for hospitals, the increasing use of outpatient care is creating a new medical malpractice exposure for hospital risk managers.

In addition, federal legislation limiting reimbursement for Medicare and Medicaid procedures could create more exposures, medical malpractice experts say.

Despite these emerging areas of liability, observers agree that delivering babies remains hospitals' greatest source of medical malpractice exposure.

"OB/GYN is still the highest risk and has the highest losses," said Timothy P. Mitchell, president of Continental Insurance HealthCare, a unit of Continental Corp. in New York. "It's easy to build a case around a mangled child because it's an emotional thing," he said.

"Neurosurgery has its exposures, but baby cases are still at the top" when it comes to medical malpractice claims, says Bill Deemer, director of the national health care division of broker Alexander & Alexander Inc. in St. Louis.

"Underwriters always say OB doctors have the most predictable losses," pointed out Linda Cool Miliken, a health care account executive at broker Fred S. James & Co. Inc. in Chicago.

"If you just look at the claims breakdown, OB is still the highest area of risk," said Richard G. Pfeiffer, vp of medical underwriting at St. Paul Fire & Marine Insurance Co. in St. Paul, Minn., the nation's leading underwriter of hospital liability insurance.

"The most expensive claims reported by St. Paul insured hospitals still occur in the obstetrics area, where the current average cost is $78,695" per claim, according to a 1989 statement to the insurer's policyholders.

The threat of obstetric-related lawsuits has become an increasingly difficult pill to swallow for both hospitals and obstetricians/family practitioners.

Further compounding the problem is the long latency period typically characteristic of OB claims. Hospitals and practitioners could be hit with a lawsuit years after a delivery because many birth defects do not appear immediately.

"The obstetric patient is clearly the most consistently explosive patient," commented Kenneth Skertich, vp of the Metropolitan Chicago Health Care Council and trust administrator for the Chicago Hospital Risk Pooling Program. "There is a significant and profound injury in many cases, and you have a longer period of time to find out about it."

The risk of medical malpractice lawsuits represents a serious threat to the delivery of obstetrical care in the United States, medical and legal experts say. In fact, as a result of high malpractice premiums and the ever-present threat of litigation, a large number of OB/GYN practitioners began leaving or limiting their practices to avoid the risk of a mammoth jury award (*BI*, July 13, 1987).

"We're going to have to do something creative with OB/GYN risks," Mr. Mitchell said, stressing that it is not just an insurance problem.

While obstetric and other inpatient procedures pose major malpractice exposures for most hospitals, there is a growing concern among medical malpractice underwriters that outpatient exposures may not receive appropriate attention from risk managers.

With an increasing number of ambulatory care and health maintenance organization facilities established by hospitals, "we've seen some concern that (hospital) risk management programs are not being followed and monitored in these alternative delivery sites," said A&A's Mr. Deemer.

"Hospitals spend so much time and money setting up good risk management programs on-site, but if it doesn't carry over to their outside facilities," hospitals will see a flood of claims, he warned.

"The possibility of misdiagnosis may be higher in these alternative delivery sites because the physicians there may see a patient only once," Mr. Deemer added.

However, while there is widespread recognition that outpatient health care settings create new risks, most market observers say they have not yet seen an avalanche of claims stemming from these facilities.

"They are new risks, but they are less-volatile risks," said Corbette Doyle, co-chairman of Corroon & Black Corp.'s health care division in Nashville, Tenn. The loss records "at those facilities are very good," she said.

Pete Henning, senior vp at Mechanicsburg, Pa.-based PHICO Insurance Co., agreed that "we haven't seen too many claims coming out of" outpatient facilities.

Gene Marsh, director of California Hospital Insurance Co. in Los Angeles, said outpatient facilities are "not a major source of trouble" for the risk retention group's member hospitals.

Hospitals also face new liability exposures stemming from legislation that established a system of diagnostic related groups to limit the amount the government will pay for patients who receive care through Medicare or Medicaid.

Hospitals are "being squeezed by DRGs," Ms. Doyle said. The government instituted the changes because of the belief that hospitals were abusing the subsidized system and not operating in a cost-effective manner, she explained.

Under the DRG system, a specific monetary amount is assigned to a particular diagnosis. If a hospital's cost for treating a patient in that DRG is less than the amount paid by the government for the DRG, the hospital keeps the excess money. However, the hospital must absorb the difference if the cost of care exceeds the amount payable under the DRG.

"This creates a quality of care conflict for hospitals," Ms. Doyle explained.

Physicians may release a patient sooner than they believe is necessary to comply with DRG guidelines, which could later produce medical malpractice claims, she said.

And, she said, the problem carries over to medication. "Some drugs are more expensive than others. Do you give your patients the best, most expensive drugs or the least expensive?" she asked. ■

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Observers split over longevity of malpractice market stability

By CHRISTINE WOOLSEY

Does the current stability in the medical malpractice insurance market represent a permanent trend or is it only a temporary lull in a volatile marketplace?

While many market observers say rising medical malpractice insurance rates are inevitable, some say the current rate stability is an indication that the market's peaks and valleys are leveling.

These observers point to a decline in medical malpractice lawsuits, more tort reform, improved hospital risk management programs and a commitment to higher standards of quality in health care as the foundations for a more stable marketplace.

Medical malpractice rates skyrocketed during the mid-1970s after an unprecedented increase in losses. The market shifted in the early 1980s, as insurers slashed prices to compete, but hospitals and physicians were again stung in the mid-1980s by triple-digit rate increases and severe capacity shortages (*BI* March 11, 1985).

"Coverage was really cheap in 1981, '82 and '83 but then the market went as hard as you can imagine," described Linda Cool Miliken, a health care account executive in the Chicago office of broker Fred S. James & Co. Inc.

William R. Storie, executive vp at James in Chicago, agreed: "The whole insurance market went bananas" in the early 1980s. "Too much was given away too cheaply" during the soft market, he said.

While the rate relief in the early 1980s was prompted by insurer competition instead of improved loss trends, market experts now note that medical malpractice claim frequency has declined during the past three years.

For example, in a 1989 report to its policyholders, St. Paul Fire & Marine Insurance Co. stated that "claim frequency reached 17.3 claims per 100 doctors in 1985, then declined to 15.9 in 1986." St. Paul reported a claims frequency of 13.0 per 100 doctors for 1988, the lowest rate since 1982.

Similarly, St. Paul, which is the nation's largest insurer of medical malpractice and hospital professional liability risks, also reported a decline in the number of claims against hospitals: from 3.8 claims per 100 occupied beds in 1985 to 3.4 claims per 100 beds in 1988.

Richard G. Pfeiffer, vp of medical underwriting for St. Paul's Medical Services Division, said "the public seems to be more conscious that if things get out of control they may have fewer practitioners or providers." In addition, attorneys are becoming more selective in the cases they accept, he said.

"The philosophy that the hospital has a deep pocket is eroding somewhat; people are realizing hospitals aren't loaded," said Mr. Storie.

Gene Marsh, director of Los Angeles-based California Hospital Insurance Co. Inc., a risk retention group, agreed: "Society is waking up to the fact that they are paying the bill. And, the attorneys are realizing the investment in time they make is not worth it for medium to small cases."

However, while the frequency of medical malpractice claims has declined, the severity of malpractice claims—or average cost per reported claim—continues to rise.

In its 1989 annual statement to policyholders, St. Paul reported that the average paid loss for hospitals with $1 million in medical malpractice liability insurance limits was $86,170 in 1988, a 12.3%

Continued on next page

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Claims frequency

Continued from previous page
increase from $76,736 in 1987, and a 52.4% hike from $56,537 in 1985.

The costs tracked by St. Paul include claims paid, claims closed without payment, open claims and defense costs.

Despite the increase in claims severity tracked by St. Paul, jury awards to medical malpractice plaintiffs are declining, according to Jury Verdict Research Inc. of Solon, Ohio.

"The average medical liability verdict reached $924,416 in 1987, down from an all-time high of $1,478,028 recorded in 1986," according to Jury Verdict Research's "1989 Edition of the Current Award Trends in Personal Injury."

Joseph B. Nardi, president of St. Paul's Medical Services Division, said "the challenge for all of us collectively is to determine if it is a true and sustainable improvement, not a short-term phenomenon."

While not discounting improvement in claims trends, some observers point out that medical malpractice insurance rate stability also may be a result of previous inaccurate actuarial predictions about medical malpractice losses.

"The loss experience that the most conservative actuaries were projecting hasn't been that bad; the loss experience is stabilized," James' Mr. Storie said.

Pete Henning, senior vp at Mechanicsburg, Pa.-based PHICO Insurance Co., said, "Last year when we made our rates, we projected costs to increase 10% to 15%, but those increases haven't materialized."

Mr. Henning added that he doesn't expect a great surge of claims this year.

"People finally got a handle on risks a couple of years ago," said Corbette Doyle, co-chairman of Corroon & Black Corp.'s health care division in Nashville, Tenn. "Now they can make more accurate projections on (hospital professional liability rates) than before because the picture is more stable. It's still volatile, but it's more predictable," she said.

However, some observers, particularly those affiliated with hospitals that self-insure their medical malpractice risks, say they have not seen a dramatic decline in claims frequency and they predict loss costs will increase.

For example, Mr. Marsh said, "Our actuarial view says total loss costs are continuing to climb. There has been a trend in the last few years for greater use of deductibles and self-insured retentions and that may be distorting frequency counts" tracked by commercial insurers.

"The only time the insurance industry sees professional liability losses is when they penetrate the excess" layer above a hospital's self-insured retention, James' Mr. Storie said. "Because so many hospitals are self-insured or use risk retention groups," commercial insurers aren't involved in every claim, he explained.

"I don't believe anyone is counting self-insured losses," Mr. Marsh said, pointing out that a significant number of claims may be falling through statistical cracks.

However, Kenneth Skertich, trust administrator for the Chicago Hospital Risk Pooling Program, a self-insurance pool, said: "Frequency may not be down this year over last, but it is not where it was pre-1985."

And tort reform measures have helped the situation. Legislative restrictions on filing medical malpractice suits that took effect in Illinois in 1985 have contributed to a "slow ebbing of frequency rates," Mr. Skertich said.

And, new laws that attempt to eliminate so-called nuisance suits against hospitals are contributing to lower frequency rates in other states. For example, some states now require plaintiffs' attorneys to present their complaints to a panel of experts, which decides whether the claim should be tried. In addition, states have placed specific limits on economic and non-economic damages in medical malpractice cases, which helps control claims severity (*BI*, Oct. 16; Aug. 18, 1986).

Experts say another possible reason that frequency may be declining is that beefed-up hospital risk management programs are beginning to get results.

"Because of the improvement of risk management capabilities, we're finding out about losses and potential claims earlier," Mr. Storie said. And, he said, "if there is a loss, it may be resolved through some other way than litigation, for example through waiving bills."

'The only time the insurance industry sees professional liability losses is when they penetrate the excess' layer above a hospital's self-insured retention, says Mr. Storie, who notes that commercial insurers aren't involved in every claim.

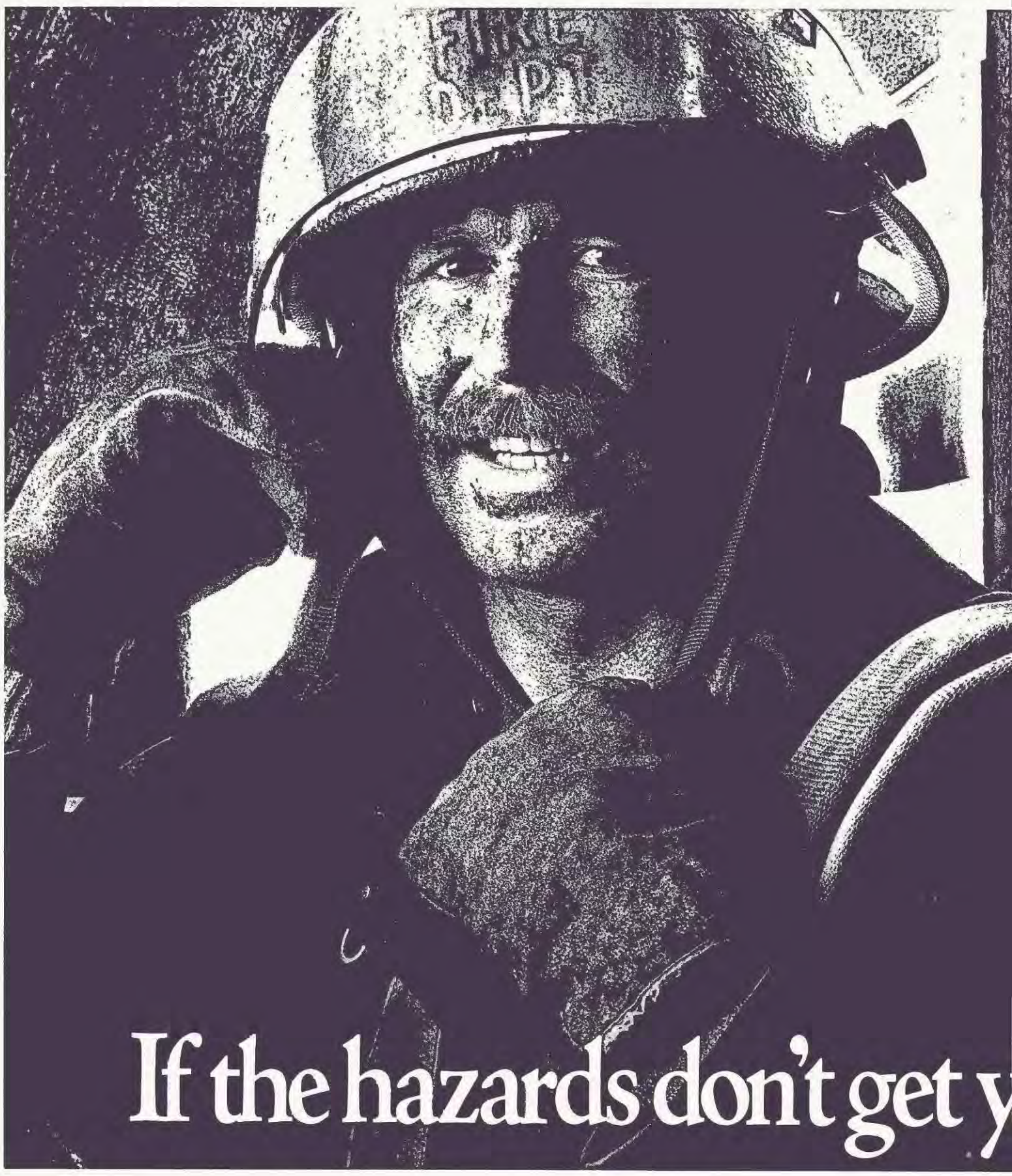
Mr. Marsh said he sees "more sophisticated risk management now —on both the medical and the (administration) side."

And, market observers note there seems to be an increased emphasis on quality health care from practitioners and providers.

"Health care is getting much better than it was in the past," said Timothy P. Mitchell, president of Continental Insurance Healthcare, a division of Continental Corp. in New York.

In addition, society's expectations about the health care industry's capabilities are more realistic than before, he said. "In the past I think our expectations have exceeded its ability to improve."

Mr. Marsh said he is seeing a genuine commitment to higher quality of care. "There is a general effort being made for higher-quality health care; it's not just lip service." ■



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EIL market

Continued from page 3

"The market has not developed to the point people thought it would," said Max Clay, president of The Planning Corp., a risk management consultant in Reston, Va.

"Many corporations self-insure or go bare, because the cost of insurance, coupled with the cost of inspections, is not worth while," Mr. Clay said.

In fact, a great many corporations are self-insuring all of their pollution risk exposure, according to brokers and consultants.

"Nobody offers good old-fashioned risk transfer anymore—there's no demand for it," said Mike Levin, a consultant with Tillinghast, a division of Towers, Perrin, Forster & Crosby Inc. in Stamford, Conn.

Part of the reason many companies are opting to self-insure pollution risks is that no existing markets for EIL coverage offer retroactive coverage, said Mr. Levin.

In addition, "People are used to self-insuring pollution risks," Mr. Levin said. "Companies are used to not being able to buy pollution coverage."

Commercial insurers, for their part, simply do not want to underwrite pollution risks, according to brokers and consultants.

"A lot of companies simply aren't comfortable with EIL coverage in general," explained consultant William Saffran, assistant vp at Anistics Inc., a subsidiary of Alexander & Alexander Services Inc. in New York.

For example, many commercial insurers currently are incurring substantial pollution losses on general liability policies that in the past covered at least sudden and accidental pollution incidents, according to experts.

"There is a great amount of financial uncertainty in this insurance market," said Dennis Connolly, senior vp at Johnson & Higgins in New York.

Pollution risks are difficult to predict, and, therefore, difficult to underwrite, explained Robert Wenger, senior vp at ENVIRON Corp. in Arlington, Va., a risk management consulting firm that specializes in environmental work.

Insurers also are concerned with how courts will interpret their policies, perhaps creating liability where none was intended, experts say.

"For the EIL market to evolve so that it becomes a viable part of the environmental world, the environmental liabilities must be defined by our courts and legislatures," Mr. Wenger said. "Right now there is so much uncertainty."

While insurers are hesitant to underwrite broad EIL coverage, they are jumping feet-first into the market for underground storage tank coverage.

This market is driven by the need to comply with U.S. Environmental Protection Agency regulations requiring owners and operators of underground petroleum tanks to demonstrate adequate financial responsibility through insurance or other risk financing mechanisms to pay for on-site cleanups, off-site cleanups and any third-party damages (*BI*, Oct. 31, 1988).

Currently, at least five insurers and two risk retention groups are providing coverage for underground storage tanks.

Another area of change in the EIL market is the expansion and creation of state funds to provide pollution coverage to meet the EPA financial responsibility requirements for underground storage tanks.

Three states—Alabama, Georgia and Mississippi—have received EPA approval for their funds, which essentially allow tank owners to pool their risks.

And, 38 others either have funds in place or expect to within the next year.

The perennial leader in providing broad EIL coverage is New York-based AIG.

Its subsidiary, National Union Fire Insurance Co. of Pittsburgh, Pa., provides both primary and excess EIL coverage.

Available on a claims-made basis with limits of $20 million per loss/$20 million aggregate, the AIG policy covers both sudden and accidental pollution incidents as well as gradual pollution.

The coverage is site-specific and requires a risk assessment by an environmental engineering firm—costing $5,000 to $7,000—before the coverage can be bound.

The policy excludes coverage for on-site cleanups, transportation of wastes, product liability, punitive damages and underground storage tanks, which are insured under a separate policy.

While AIG writes by far the most EIL coverage annually, Environmental Compliance Services Inc. of Downington, Pa., says it offers the broadest EIL coverage available.

"AIG writes more coverage, but we offer the broadest coverages," said William Kronenberg, president of ECS, which is the exclusive managing general agent for New York-based Reliance National Insurance Co., a division of Reliance Group Holdings.

ECS offers pollution coverage as well as general liability coverage and auto liability coverage to any company "whose processes can effect the environment," Mr. Kronenberg pointed out.

"A firm's pollution exposures can affect all their lines of coverage," he explained.

ECS offers four general types of EIL coverage:

- Pollution liability coverage, which protects any company with environmental exposures from third-party liability costs. Companies covered by this policy include hazardous waste treatment and storage facilities, chemical companies, utilities and manufacturers. The claims-made policy with limits of $3 million per loss/$6 million aggregate is site-specific and covers both sudden and gradual pollution.

Premiums for the coverge start at $20,000, and policyholders are required to accept a $25,000 self-insured retention.

- First-party pollution coverage, which reimburses cleanup costs associated with a policyholder's own premises. The claims-made policy has limits of $1 million per loss/$1 million aggregate, with premiums starting at $10,000.

A $25,000 self-insured retention is required (*BI*, Sept. 11).

- Contractors pollution liability coverage, which is geared toward all types of contractors—not only those

Continued on next page

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EIL market

Continued from previous page

performing waste cleanups. The claims-made policy covers both sudden and accidental and gradual pollution incidents up to limits of $3 million per loss and $6 million aggregate. It is available on either a blanket or project-specific basis.

• Consultants' environmental liability coverage—ECS's newest product—which combines pollution and professional liability coverage into one policy. The claims-made coverage is written on a project basis with limits of $3 million per claim and $6 million aggregate. The policy covers both sudden and accidental and gradual pollution. The minimum premium is $25,000, and a $25,000 self-insured retention is required.

ECS plans to raise its limits to $5 million per loss and $10 million aggregate for all lines of coverage by Jan. 1, said Mr. Kronenberg.

"There is a new awareness of environmental exposures," he said, noting that ECS receives 200 new business submissions each month.

The only risk retention group offering broad EIL coverage is Environmental Protection Insurance Co. of Chicago, brokers agree.

EPIC provides claims-made coverage with limits of $1 million per claim and $2 million aggregate. The site-specific policy covers third-party liabilities stemming from either a sudden and accidental or gradual pollution incident. Defense costs are included within the policy limits, and transportation risks are excluded.

A risk assessment—paid for by the applicant—is required prior to binding coverage. The minimum premium for the pollution policy is $10,000, and policyholders must pay a $25,000 deductible.

EPIC also is a leading provider of underground storage tank coverage that meets the EPA regulations if certain endorsements are added.

EPIC, which was formed in July 1988 with $10 million in capital and surplus, is managed by Minneapolis-based Berkeley Risk Retention Group Managers Inc.

The company plans to eventually increase its capital and surplus to $50 million so that it can raise its limits to $5 million per claim/$10 million aggregate.

"We will write any medium-sized business that has a sound risk management program in place," said President George Hillier.

Among the businesses EPIC will insure are manufacturers, waste generators, gas stations, municipalities, hospitals, landowners and banks.

Federated Mutual Insurance Co. of Owatonna, Minn., also provides primary EIL coverage.

The claims-made policy offers limits of $500,000 per loss and $1 million aggregate. There is no minimum premium for non-petroleum businesses. The minimum premium for petroleum businesses is $5,000. There is a $2,500 deductible for non-petroleum risks. The deductible for petroleum risks is $25,000, except in California, where the deductible is $50,000.

Federated's policy covers both sudden and accidental and gradual pollution incidents that commence on or after the policy's retroactive date.

Federated also offers coverage designed to coordinate with state fund programs for underground tanks.

"This is our version of writing a wraparound policy," explained Jeanne Hankerson, the insurer's environmental coordinator. The Federated policy fills in the gaps not provided by the state fund programs.

Federated focuses its marketing on auto dealers, gas stations and specialty trade contractors, such as plumbers and electricians.

St. Paul Fire & Marine Insurance Co. is the newest commercial insurer to enter the EIL market.

St. Paul offers limited claims-made coverage for above-ground pollution. The policy only covers sudden and accidental pollution incidents.

St. Paul offers limits of $1 million per claim/$1 million aggregate.

The policy covers incidents that happen entirely on or above the surface of the land, on the basement floor of any building and in any waterway or body of water.

To qualify for coverage, a pollution incident must:

- Result from an accident.
- Begin and end within 72 hours.
- Occur on or after the policy's retroactive date.
- Result in environmental damage.

Damage to a policyholder's own property is excluded, as is pollution resulting from infectious wastes, such as AIDS-contaminated syringes.

The minimum premium is $100 for risks classified as low; $250 for moderate risks; and $500 for high hazards. There is no deductible.

"We are intending to provide the coverage that was provided by general liability policies prior to the implementation of the absolute pollu-

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Spotlight report

More markets writing tank coverage

By STACY ADLER

Growth in the market for pollution coverage for storage tanks is being fueled by the need to comply with recent U.S. Environmental Protection Agency financial responsibility requirements.

At least seven markets now provide environmental impairment liability coverage for owners and operators of above- and below-ground storage tanks.

"This whole marketplace is driven by the need to comply with federal regulations—not by a need to transfer risk," said Mike Levin, a consultant with Tillinghast, a division of Towers, Perrin, Forster & Crosby Inc. in Stamford, Conn.

"Anytime you find a marketplace that is compliance driven there are lots of problems," he added.

For example, the marketplace could evaporate if EPA regulations are reduced, Mr. Levin explained. "There is no stable demand."

Under the EPA rules, which are being phased in over a two-year period that began in January, owners and operators of underground petroleum tanks must demonstrate adequate financial responsibility through insurance or other risk-financing mechanisms to pay for on-site cleanups or tank leaks and any resulting third-party damages (*BI*, Oct. 31, 1988).

Owners or operators of underground petroleum storage tanks with a monthly throughput exceeding 10,000 gallons, or owners of tanks used in petroleum production, refining or marketing, must have EIL insurance with minimum limits of $1 million per claim.

However, limits of only $500,000 per claim/$1 million aggregate are required for owners or operators of underground petroleum tanks with a monthly throughput of fewer than 10,000 gallons or those not used in petroleum production, refining or marketing.

Minimum aggregate limits of $1 million are required for owners or operators of 100 or fewer tanks and $2 million aggregate limits are required for owners or operators of more than 100 tanks.

The EPA rules specify that the EIL policies must provide "first-dollar coverage" for tank leaks, meaning an insurer must immediately respond to a claim even if the policyholder has not satisfied its deductible under the policy. However, an insurer may recover a deductible after cleanup begins.

Under the rules, insurers must also give at least 60 days' notice before canceling a policy.

Two insurers currently dominate the EIL market for underground storage tank coverage, according to consultants.

Federated Mutual Insurance Co. of Owatonna, Minn., is the largest, writing about about $30 million in premiums annually.

The second-largest provider is a risk retention group: Petroleum Marketers Mutual Insurance Co., known as Petromark, which writes about $17 million in annual premium volume.

Federated provides primary claims-made pollution liability coverage to the owners and operators of above- and below-ground storage tanks, but its coverage does not satisfy the EPA regulations for all tank owners.

For example, Federated's limits of $500,000 per loss/$1 million aggregate are not enough to satisfy the EPA rules for many owners.

However, "we are currently in the process of changing our coverage to meet the EPA regulations for underground storage tanks," said Jeanne Hankerson, environmental coordinator. "We will be offering coverage with limits of $1 million per claim and $1 million or $2 million aggregate."

As of Jan. 1, the new policy will be available in Alabama, Califor-

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EIL market

Continued from page 24

tion exclusion," explained David Kaiser, senior underwriting officer.

"We would like to write this coverage for all of our commercial general liability policyholders," Mr. Kaiser said. However, the policy is available to any business that meets St. Paul's underwriting standards.

U.S. firms can purchase up to $50 million of sudden and accidental pollution coverage from London underwriters on a claims-made basis.

A new facility—dubbed SPIL—aims to provide sudden and accidental pollution coverage for corporations with general liability insurance that provide very limited or no form of pollution coverage.

The coverage was put together by Lloyd's of London broker Alexander Howden Ltd. and parent company Alexander & Alexander Services Inc.

The facility, which began underwriting at the beginning of the year, is led in the Lloyd's market by marine underwriters Stewart Holmes and Ian Agnew and in the London company market by The Orion Insurance Co. P.L.C.

Under this policy, incidents are covered only if the pollution is discovered during the policy period and the incident causing the pollution also occurred during the policy. In addition, the incident has to be reported within a specified time period, which varies by policy.

The coverage "is for sudden and accidental pollution in its purest form. It has no intention of covering gradual pollution," explained John Henderson, a managing director of AHL's marine and energy division.

"We are trying to give sudden and accidental pollution coverage back to assureds," he said, adding that attempts by industry and the U.S. legal system to make insurers pay for costs related to gradual pollution have forced insurers to avoid writing any form of pollution coverage.

So far about a dozen policies have been underwritten, Mr. Henderson said.

Bermuda-based X.L. Insurance Co. Ltd. provides excess pollution coverage. X.L. offers claims-made coverage with limits of $100 million per loss and $100 million aggregate. The policy attaches excess of $25 million. The policy covers only sudden and accidental pollution incidents that the policyholder learns of within seven days and reports to the insurer within 20 days.

Bermuda-based A.C.E. Insurance Co. Ltd. provides high-level excess coverage. A.C.E. offers claims-made coverage with limits of $150 million per loss and $150 million aggregate. The policy attaches excess of $100 million. The policy covers only sudden and accidental pollution incidents and has the same reporting requirements as the X.L. policy.

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Associate Editor Carolyn Aldred in London contributed to this report.

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nia, Florida, Georgia, Idaho, Indiana, Iowa, Louisiana, Mississippi, Missouri, Nevada, North Carolina, Ohio, Oregon, South Dakota, Tennessee, Utah, West Virginia, Wisconsin and Wyoming.

As of Feb. 1, the policy will be available in Kansas. And on March 1, the policy will be available in Kentucky and South Carolina.

Federated's EIL policy—both the current version and the new policy—covers both sudden and accidental pollution losses that commence on or after the policy's retroactive date.

The minimum premium is $5,000 for petroleum risks. There is no minimum premium for non-petroleum risks.

The deductible is $2,500 for non-petroleum risks and $25,000 for petroleum risks, except in California where the deductible is $50,000

Petromark provides primary claims-made pollution liability coverage to petroleum marketers—gas stations and wholesalers—with both above- and below-ground storage tanks.

The policy, which covers both sudden and accidental as well as gradual pollution incidents, has limits of $1 million per incident and $2 million aggregate. The minimum premium is $2,300, with a $5,000 deductible.

Petromark, which is domiciled in Tennessee, is managed by The Planning Corp. of Reston, Va.

Another leading market for underground storage tank insurance is Environmental Protection Insurance Co., a Chicago-based risk retention group.

EPIC provides primary or excess claims-made coverage with limits of $1 million per claim and $2 million aggregate. EPIC's program complies with the EPA regulations by endorsement.

For example, while the policy only covers third-party liability costs, the policy can be extended through an endorsement to provide corrective action coverage required by the EPA regulations.

The minimum premium for tank risks is $7,500, and the minimum deductible is $25,000.

All tanks must pass a tank-tightness test, which is paid for by the applicant, prior to coverage being bound.

EPIC, which was formed in July 1988 with $10 million in capital and surplus, is managed by Minneapolis-based Berkeley Risk Retention Group Managers Inc.

One of the newest markets for tank coverage is Agricultural Excess & Surplus Insurance Co., a wholly owned subsidiary of Great American Insurance Co. in Cincinnati (*BI*, Nov. 6).

The company writes primary claims-made coverage with limits of $1 million per pollution incident and $2 million aggregate for the owners and operators of above- and below-ground petroleum storage tanks, including companies that have petroleum tanks for private use, such as companies that operate corporate auto fleets.

AESIC will write insurance to cover tanks of any age and construction, providing the tanks meet the insurer's underwriting standards.

The policy covers both sudden and accidental and gradual pollution incidents. The minimum premium is $3,500, and the minimum deductible is $5,000.

The policy also provides $100,000 in defense costs—outside policy limits—and higher limits are available.

The policy, which covers third-party property damage, third-party bodily injury and government-mandated cleanup costs, includes a 12-month reporting period, which is double the length required by the EPA. Longer reporting periods also are available.

The policy is unusual because coverage begins when a pollution incident is reported, regardless of when it occurred, explained Richard Koscielak, AESIC vp and general manager.

AESIC began providing EIL coverage in July and now writes coverage in all states except Delaware, Maine, New Hampshire, Rhode Island and Vermont.

Applications now are pending in those states.

To date, AESIC has issued 13 policies, said Mr. Koscielak. It now covers only petroleum tank risks, but may expand into non-petroleum tanks, he said.

"We must walk before we run," quipped Mr. Koscielak.

The newest stock insurer to underwrite EIL coverage for storage tanks is Front Royal Insurance Co. of McLean, Va., which was licensed Sept. 21. The company has $6 million in capital and surplus.

Front Royal provides EIL coverage in Virginia on an admitted basis and in all other states on a surplus lines basis.

The company provides primary claims-made EIL coverage to gas stations and wholesalers with above- and below-ground tanks. First Royal also provides coverage to companies, such as those with auto fleets, that have petroleum tanks for private use.

The policy, which includes both sudden and accidental and gradual pollution coverage, covers both third-party liability claims and first-party cleanup costs. Limits vary from $500,000 per incident to $1 million per incident. Aggregate limits vary from $1 million to $2 million.

The company plans to eventually underwrite coverages for non-petroleum tanks, said President John Gibson.

In April, New York-based American International Group Inc. began offering a claims-made policy for owners and operators of underground storage tanks with limits of $1 million per loss and $2 million aggregate. Higher limits are available upon request.

The minimum premium is $25,000.

The AIG policy is site-specific, and rates are determined by the number of tanks at a location, tank and pipe construction, monitoring systems, inventory methods and the surrounding environment.

The coverage is not available in all states.

Bermuda-based Oilmen's Insurance Plan also is a market for EIL coverage for tanks. The captive reinsures pollution policies fronted by Fireman's Fund Insurance Co. of Novato, Calif.

The pollution coverage is written only for gas stations and wholesalers that purchase their entire package of property/casualty insurance through Fireman's Fund, said Peter Gerken, senior vp at Oilmen's.

The claims-made policy provides limits of $500,000 per claim/$1 million aggregate. The company hopes to raise its limits by year-end to $1 million per claim/$2 million aggregate.

The minimum premium is $3,500 for owners and operators of multiple tank locations.

In addition to these larger markets, there are several smaller companies providing pollution coverage for tanks on a very limited basis, according to brokers and consultants.

For example, Program Underwriters Inc. of Fort Lauderdale, Fla., is the managing general agent for a program available only in Florida.

The policy covers only third-party bodily injury claims and property damage claims stemming from petroleum. The policy does not cover cleanup costs.

Continued on next page

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Tank coverage

Continued from previous page

The claims-made policy provides limits of either $500,000 per loss or $1 million per loss. Aggregate limits range from $1 million to $2 million.

Minimum premiums are $1,000 for a single tank risk and $3,000 for multiple tank risks.

Deductibles range from $5,000 to $50,000, depending on the risk insured, and can vary depending on the age, capacity and construction of the tank, explained Arnie Zisselman, an underwriter for Program Underwriters.

The policy is underwritten by Casualty Indemnity Exchange of Jefferson City, Mo., and Indemnity Underwriters Insurance Co. of Miami, Okla.

Program Underwriters began marketing this coverage three weeks ago and has not yet issued any policies. ■

State funds provide tank coverage

By STACY ADLER

Most states are creating funds to help storage tank owners meet the U.S. Environmental Protection Agency's financial responsibility requirements.

The funds, in which companies with tanks can participate voluntarily, allow owners of above- and below-ground storage tanks to pool their environmental impairment liability risks.

Businesses that want to participate in the funds commonly pay a fee, usually amounting to 1 cent per gallon of wholesale gasoline purchased or a per-tank fee.

However, some observers say that the funds will never collect enough money to cover the massive liabilities that they face.

In addition, many state funds do not provide third-party liability coverage as required by the EPA rules, which began to take effect last January.

State funds are one of seven risk financing mechanisms that tank owners can use to meet the EPA requirements that owners and operators of underground storage tanks demonstrate financial responsibility for on-site cleanups, tank leaks or any resulting third-party damage (*BI*, Oct. 31, 1988). Other methods include: commercial insurance, qualified self-insurance, trust funds, surety bonds, corporate guarantees from parent companies and letters of credit.

To be considered an acceptable mechanism for meeting the EPA regulations, the state funds must be approved by the EPA. However, to date, the EPA has approved only three state funds: those in Alabama, Georgia and Mississippi.

The EPA also has indicated that the funds in Oklahoma and Louisiana will soon receive its approval.

Thirty-eight other states have funds that are either in place or will be in place within the next year, according to risk management consultants.

However, "only 15 of these state funds meet the EPA regulations," said Max Clay, president of The Planning Corp., a risk management consulting firm in Reston, Va. The remainder of the state funds only provide a portion of the $1 million in coverage required by the EPA.

The 15 states whose funds meet the EPA regulations are: Illinois, Mississippi, Louisiana, Alabama, Georgia, Michigan, Utah, Colorado, Montana, Iowa, Connecticut, Oklahoma, Vermont, Nevada and Wyoming.

These funds provide $1 million in coverage for on-site cleanup and third-party liability claims, according to Mr. Clay.

State funds are "our biggest competitor," said Richard Koscielak, vp and general manager of Agricultural Excess & Surplus Insurance Co., a wholly owned subsidiary of Great American Insurance Co. of Cincinnati that provides EIL coverage to owners and operators of underground storage tanks.

"These funds help take care of demand, but when they go bankrupt in a year or two, we will still be around writing coverage," he said.

Most state funds have statutory caps—usually betwen $3 million and $20 million—on the amount of revenue they can raise, explained Myra R. Anderson, assistant vp for Environmental Insurance Management, a unit of Front Royal Group Inc. in McLean, Va.

"Depending on the number of tanks covered and the amount of coverage provided, these capitalization levels could be critically low," she said.

For example, a state fund covering 10,000 tanks, with a leak rate of 10%—or 1,000 leaking tanks—faces a potential liability of $1 billion, according to Ms. Anderson.

"Tank owners should be very cautious when deciding to use these state funds," she warned.

The National Assn. of Insurance Commissioners' Environmental Liability Task Force is studying the viability of these state funds, explained David Grubb, special deputy commissioner of New Jersey.

"In the rush to protect mom-and-pop gas stations, some states bit off more than they could chew," he said. "These states are going to have a real problem when these losses come due."

While the task force has not yet released a formal report, an advisory committee has submitted its findings to the task force.

"The general consensus of the advisory committee is that many of the funds we studied were undercapitalized," said committee member Sue Kemper, an attorney with LeBeouf, Lamb, Leiby & MacRae in New York.

The Florida Inland Protection Trust Fund, for example, faces a liability of roughly $3 billion, far more than it is expected to raise in revenues.

The Florida fund provides tank owners with $1 million in on-site and off-site cleanup costs. The fund is financed through a 10-cent-per-barrel excise tax on gasoline. If the amount of money in the fund exceeds $50 million, the excise tax would be reduced to 5 cents per barrel. Similarly, if the amount of money in the fund dips below $5 million, the excise tax would increase to 20 cents per barrel.

However, the fund does not have the ability to assess members if it runs out of money, which is a real possibility.

The EPA has already identified 10,000 tank sites in Florida that need to be cleaned, explained Bill Truman, petroleum insurance administrator at the Florida Department of Environmental Regulation. The EPA estimates that these cleanups will cost an average $300,000 per site, he said. Thus, the Florida Fund could face a $3 billion liability.

"We are not addressing this problem at this time," said Mr. Truman. ■

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Spotlight report

Pollution exposures getting closer look

By MEG FLETCHER

Risk managers for all types of businesses and public entities are taking a closer look at possible pollution exposures, experts say.

"Average risk managers face pollution problems of one type or another and are forced to deal with them whether they want to or not," said Michael Kaddatz, a principal at Advanced Risk Management Techniques Inc., Laguna Hills, Calif.

The few exceptions may be companies like travel agencies that rent space, said Robert Wenger, senior vp of Environ Corp., an Arlington, Va.-based consulting firm.

Companies generally must be concerned about effects of anything released into air or water, buried or hauled away as refuse, experts say.

Companies have become "much more sensitive" to pollution exposures in recent years because of an increasing governmental emphasis on cleanup, said Dale Bitter, assistant vp-risk management at CSX Transportation Inc. in Jacksonville, Fla.

Typically, exposure stems from ownership of property and the most common source is underground storage tanks, Mr. Kaddatz said.

"Having to come to grips with underground storage tanks has increased their awareness of pollution," said Lynn Miller, president of Environmental Strategies Corp., a consulting firm in Vienna, Va.

Though many companies facing pollution exposures may not take proper precautions, Mr. Wenger noted that pollution horror stories leave some companies thinking they have a bigger problem than they actually do.

"These issues tend to get blown out of proportion," said Corey Stein, a risk manager for the city of Harrisburg, Pa. Perception often is much worse than reality, he said.

Pollution experts recommend corporate and public entity risk managers take a basic, problem-solving approach like the following:

- Define the company's pollution loss control program goal and the resources committed to it.

Some merely want to comply with government regulations, while others want to identify and to mitigate any possible exposures, Mr. Wenger said.

A company's "environmental ethics" can depend upon many factors, including its corporate culture, added Michael Tiller, an environmental consultant and principal with Tiller Consulting Group Inc. in St. Louis.

"The mind-set should be toward solving environmental problems and not compliance," he recommended.

- Draft and circulate a questionnaire asking key employees of relevant units where pollution exposures may exist.

Ms. Miller recommends finding out: type and quantity of chemicals used on an annual basis; detailed information about underground tanks; current waste disposal practices, status of required permits and the operational unit's compliance history.

Floor plans showing drains and chemical usage or storage areas; a site description; and a map and land use description for a one-mile radius surrounding the site should also be gathered.

Workers compensation claims reports may also provide information about exposures, Mr. Stein added.

- Review answers and set priorities for further inspections.
- Make targeted visits to plant sites or departments to review operations.

"Environmental exposures are very site-specific," Ms. Miller said. A problem at one plant does not mean that all other plants will have a similar problem.

She emphasized four factors to consider in assessing environmental risk: site management; the population around the facility; environmental pathways—for example, how water flows around the site; and material use, storage and disposal.

- Evaluate environmental exposures located by the inspections.

Some companies may have sufficient technical expertise to conduct such evaluations in-house and, thus, should check these resources first before hiring an outside consultant, recommended Ms. Miller.

For example, Mr. Stein said he has found municipal fire department personnel are often helpful in evaluating exposures because they were trained to handle spills and leaks.

Also helpful are U.S. Environmental Protection Agency guidelines on the evaluation of testing laboratories. Small public entities especially have found they do not know fair fees for testing or related services like asbestos removal, Mr. Stein said.

- Draft recommendations concerning remedial actions. Such actions can range from a full-scale cleanup operation if necessary to an employee training program to minimize future risks.

For a municipal risk manager, "the biggest problem in most organizations is a lack of training," Mr. Stein noted. A risk manager wants to instill a great understanding of pollution-related hazards, like chlorine in swimming pools and the operation of waste treatment plants, and "an educated fear," he said.

- Present information to decision-makers who have the authority to allocate money for needed work.

Risk managers need to build a case for what needs to be done and educate superiors, Mr. Stein emphasized.

- Implement approved changes.
- Monitor developments and update reports and inspections. ■

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Spotlight report

University risks a course in diversity

By LOUISE KERTESZ

When university risk managers are asked to name their unusual exposures, a typical response is: "Where to begin!"

These professionals contend with widely disparate exposures, from those created by advanced research into living cancer cells to prize horses, prehistoric artwork and the use of trampolines.

Toss in a heliport, a few ocean vessels and a group of 18-year-olds setting celebratory fires and one begins to get the full picture of the potential headaches facing university risk managers.

While not every university risk manager is saddled with insuring Morgan horses or an oceanographic institute, "a university is in many ways a microcosm of our whole society," with virtually every profession and human endeavor represented on campus, points out Mary Breighner, director of risk management at Columbia University in New York.

As a result, "a university has relatively small exposures in a tremendously large variety of areas," she said.

"A state university is a huge place," pointed out James Breeding, director of risk management at Rutgers University in New Brunswick, N.J., with 48,000 students and 780 buildings. "It's a major city with a little bit of everything."

Marcia Rubish, assistant risk manager at the University of California at San Diego, agrees. A university is "a combination of a lot of different industries" and must be protected against varied exposures, she said.

At UCSD, as at many other schools, exposures include: food service operations, research involving hazardous substances, a medical center, athletic events, and decisions such as teacher tenure and student grades that are viewed as critically important to careers.

In addition to the exposures it has in common with many universities, UCSD also has unique risks such as its heliport and oceanographic institute, which includes four ships and two floating research platforms.

Campus rowdiness, however, isn't foremost among university risk managers' concerns, despite a recent incident in which students set fire to the artificial turf at Memorial Stadium at the University of Illinois in Champaign, causing more than $500,000 in property damage.

While some university risk managers claim their students are far too serious to cause such costly vandalism, others say they expect and plan for potentially costly high jinks.

"Rowdiness is routine. It's what happens," says Leta C. Finch, risk management director at the University of Vermont at Burlington. "We have enough offices and departments in place so that it is well-managed."

Besides, risk managers say most campus disturbances involve fraternities, which commonly are required to purchase their own liability insurance and assume financial responsibility for their members' actions.

The rub is that hazing incidents and sexual harassment—two of the most serious exposures faced by fraternities and universities—are standard exclusions in liability insurance policies, according to Rutgers' Mr. Breeding.

At the Massachusetts Institute of Technology in Cambridge, where students tend to be "conservative, very, very bright and academically oriented, we have our share of pranks," admitted Thomas R. Henneberry, assistant treasurer and president of the University Risk Management & Insurance Assn.

But, as befits MIT's image, the pranks are sophisticated shenanigans rather than brute mayhem, he said.

For example, "a telephone booth complete with ringing bell was once placed atop our main dome," said Mr. Henneberry.

And at a Harvard-Yale football game in the late '70s, an MIT fraternity caused an underground device to erupt and inflate a large MIT insignia midfield at a critical time in the game. "The frat paid for a large hole in the field," he said.

At least one university has devised an ingenious solution to protect against the rowdiness associated with football games: "We've installed a collapsible goalpost that can be taken down in five seconds," said Steven Holland, director of risk management at the University of Arizona in Tucson. That minimizes injury if some of the university's 34,000 students mob the field, he said.

The campus exposure "that gets the most notoriety" these days is sexual assault and "date rape," said Rutgers' Mr. Breeding.

Universities have been sued in "a few spectacular cases that created sort of an uproar," including a murder-rape, he said, without providing further details.

"Charges of date rape usually involve allegations that the university has failed to provide adequately supervised dorms and security," Mr. Breeding explained. In fact, a Pennsylvania state law puts the burden on schools to warn students about crimes on campus, he noted.

However, Rutgers, like other universities, already tries to make students aware of such dangers during orientation.

Since sexual assault cases brought to court are often combined with alcohol-related incidents, "you have to have a consistent, reasonable alcohol-use policy," Mr. Breeding said. "You try not to set rules and requirements that you don't enforce. You make sure people comply or you're worse off" than if you didn't have the rules, he said.

Fortunately, most state schools "have some form of limited immunity to help manage claims brought against them," Mr. Breeding said. In New Jersey, for example, a state law limits the conditions under which claims can be brought against a division of the state. That's a needed protection, since the market for primary liability insurance is getting "thin," said Jon Ganger executive vp at Frank B. Hall & Co. Inc. in Boston (see story, page 32).

With their increasingly business-like fund-raising efforts, universities are more likely to be viewed as a potential "deep pocket" in litigation, university risk managers said.

With state funding for research drying up, universities are being forced to become more like commercial enterprises to raise capital for their programs, Mr. Ganger said. So, while there was once a reluctance to sue the university because it was viewed as a non-profit institution, that hesitancy is disappearing.

"In the past, buying insurance was a nominal cost of doing business. You put the policy in a drawer and waited for a claim," said Robert Beth, director of risk management at Stanford University.

Now, because universities are being viewed as deep pockets, "we're

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Scripps Institution of Oceanography University of California, San Diego

One of the more unique exposures of the University of California at San Diego is its Scripps Institution of Oceanography, which boasts four research ships and two floating research platforms.

Continued from previous page

more financially oriented," explained Mr. Beth, who was the first president of the University Risk Management & Insurance Assn. when it was formed 20 years ago.

MIT's Mr. Henneberry, URMIA's current president, says the association has about 240 member institutions. "We're earnestly trying to set up a national office and we're looking at Washington, D.C.," he said.

In the past, university risk management was a matter of clearly transferring risk, said John H. Walker, director of risk management and insurance at the University of Alabama at Birmingham and manager of the school's self-insurance fund.

"We used to contract a lot of this (liability) away. But now everything goes to court. You don't know when a contract is a contract. You think you had coverage," but discover later that the university is liable for damages anyway, he said.

In addition, a court can find liability where there is the ability to pay, Mr. Walker added.

For instance, while insuring against medical malpractice is not a problem unique to universities, "there are greater risks at teaching hospitals" where "non-routine" cases are apt to turn up, Mr. Beth said.

Just last month, a man sued Stanford, alleging that the university's medical facility refused to help him when he reported he was being pursued by alien beings, Mr. Beth said.

"Malpractice is the larger part of my day," said Mr. Walker of the University of Alabama, which operates a small medical center. "It's our main exposure."

Mr. Walker says he looks to tort reform for help, since awards are "out of control now." Without state-mandated caps on judgments, juries can and have awarded from as little as $1 to as much as $25 million in damages to plaintiffs in medical malpractice cases "with no rationale" for the disparity.

Athletic competition presents another major exposure for universities.

"Athletic injuries, if they are severe, are catastrophic," with quadriplegia a not uncommon result, Mr. Beth said.

But the National Collegiate Athletic Assn. offers its members comprehensive catastrophic lifetime coverage for student athletes. The program is administered by National Sports Underwriters Inc., an Overland Park, Kan.-based third-party administrator.

The NCAA program, which is underwritten by Lincoln National Health & Casualty Co. of Fort Wayne, Ind., provides unlimited lifetime medical benefits to injured athletes. The college or university pays the premium, which varies based on the division and the types and number of sports in which an athlete participates, explained Valerie Peck, vp-operations at National Sports Underwriters.

For example, the highest premium would be $7,000 per year for an athlete who plays football in both the spring and fall for the National Assn. of Intercollegiate Athletics, she said.

Some colleges also offer student-paid no-fault, limited liability accident insurance. But with tuition and other costs so high, Alabama's Mr. Walker said he has not been able to persuade his administration to impose yet another fee on students for no-fault accident insurance.

Although risk managers said they are not now having difficulty purchasing insurance covering intercollegiate sports, "we have had problems with intercollegiate sports coverage" in the past, said Vermont's Ms. Finch.

For example, insurers have excluded protection for the use of trampolines, said Columbia's Ms. Breighner.

Some smaller, private schools including Occidental College in Los Angeles and Pepperdine University in Malibu, Calif., found it "almost impossible" to obtain athletic coverage several years ago. As a result, they formed their own captive, Honolulu-based College Liability Insurance Co., with the help of broker Fred S. James Co., according to James Senior Vp Fred Johnston in Los Angeles (*BI*, July 25, 1988).

Some of the exposures that university risk managers face are far more esoteric than athletic injuries.

Take technology transfer, for instance. The title of a panel discussion on technical licensing at URMIA's conference last April says it all: "Commercialization of Intellectual Properties—A Gravy Train or a Mine Field?"

In licensing leading-edge technology, a university must ensure that firms to which it sells ideas are financially able to assume risks involved.

"We want to make sure manufacturers and developers sufficiently protect the university from liability. It's a narrow line" between wanting the university's ideas to benefit so-

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University risks

Continued from previous page

ciety and wanting to protect the university, said Stanford's Mr. Beth.

Faced with cuts in state funding, universities have to raise money by "licensing their research for royalty income and for equity," but then universities are subject to liability—"just like GM is when it makes a car," said Hall's Mr. Ganger.

When corporate research is conducted on campus, a clearly defined, uniform contract review is needed to protect against the risks involved, said Rutgers' Mr. Breeding. "We want to make sure the sponsoring company pays all costs and assumes all risks."

If the company won't agree to that, the university shouldn't take on the research, he said, especially since the university is at times denied insurance for a research project.

For example, when Rutgers couldn't find insurance to help a company develop an ultralight crop duster, the university prudently told the company, "Develop your own program," Mr. Breeding said.

Another potential liability facing a university is the "great mind" at the institution who provides consulting services to a commercial enterprise in his field, noted Hall's Mr. Ganger. "Does he expose the university to his professional liability?"

Universities also commonly face environmental impairment liability risks.

"Any university with any research facilities is going to have environmental concerns," said the University of Arizona's Mr. Holland, who cited environmental risks first when asked about his institution's special problems.

"We have a lot of agricultural activity involving underground storage, the use of pesticides and labs which generate lots of hazardous waste. That has the potential of being a long-term liability," he said.

Vermont's Ms. Finch said she is most concerned about avoiding penalties for violating environmental laws.

"We get audited continually by our students who want us to be in full compliance. They are our best watchdogs," she said, noting that the student newspaper is vocal on the subject.

Such sophisticated emerging risks show that risk managers are no longer "just purchasing insurance," Ms. Finch stressed. Loss control is gaining increasing importance as a risk management function on campus.

For example, the risk manager at the University of Vermont also oversees loss control through the university's Office of Safety and Health, which involves monitoring compliance with regulations established by the U.S. Environmental Protection Agency and the federal Occupational Safety and Health Administration.

Part of the reason for the increasing emphasis on loss control is universities' prominent place in society, MIT's Mr. Henneberry said. Universities have a "high level of sensitivity in relations with the community where we are located," he said.

Through sizable safety departments, universities try to control loss by educating students and faculty in safety procedures. But a transient population and some students' "devil may care" attitude make it a continuous problem, Columbia's Ms. Breighner points out.

A special exposure for Mr. Walker arises from rapid expansion at the University of Alabama. "We worry in the process of excavating if we're disrupting other businesses. From time to time there may be pollutants in acquired property. The whole definition of what is a risk to the environment is very broad," he said.

Mr. Walker is also concerned because builders involved in the university's expansion often can't get insurance on their own and want to be named in the university's coverage. "That's not always easy. Now we suspect we'll have to do wrap-around coverage, and then get into the business of managing those wrap-ups, just like companies in the private sector."

There is also the dilemma caused by the university's informal association with other entities so students can do field work. "We don't live on an island—we've got about 1,000 affiliation agreements. People used to accept us as not very risky, but now they insist on coverage. It's an administrative headache," he said.

On top of that, if students are working in the field as part of a practicum, their employers may carry less insurance than the university, which is then viewed as a "deep pocket" source in a court action, Mr. Walker said.

Similarly, the university leases municipal stadiums for athletic events. Because the public entities that own these facilities are protected by a state statutory liability limit of $100,000, injured people can "try to get something from the University of Alabama," Mr. Walker said.

A problem area for Ms. Rubish at the University of California at San Diego is trying to persuade food caterers to obtain higher levels of coverage.

"Most of them are mom and pop operations, with minimal and sometimes no insurance," she said. ■

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Universities embracing alternative risk funding

By LOUISE KERTESZ

Many colleges and universities, which already have turned en masse to alternative risk financing mechanisms, are preparing for another tight market.

Although buying property coverage has not been a problem for universities, brokers and university risk managers say insurers have either refused to underwrite or have charged excessive premiums for athletic program liability coverage and school board liability insurance, which protects universities against charges of providing inadequate security, failure to perform their teaching function or grant tenure and similar exposures.

And little relief is in sight as the property/casualty insurance marketplace is expected to harden in 1990.

"That certainly will affect colleges and universities. They're the first ones to get hit when the market turns and the last to get relief," said Denis Duran, vp-national risk management sales for Arthur J. Gallagher & Co. in Rolling Meadows, Ill.

With "capacity starting to crunch next year and by 1991 becoming severe," Mr. Duran sees an increased "push on the part of smaller and medium-size colleges into different funding alternatives, such as self-insurance or pooling and risk sharing."

"Colleges and universities are not immune to market cycles," agreed Mary Breighner, director of risk management at Columbia University in New York. "We've gone through good and bad times."

Rates for universities "pretty much follow the overall market unless you have a real specialty area," she said.

In response to the last hard market, universities turned to insurance brokers to help them form alternative sources for liability coverage. Among those facilities

Continued on page 36

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Risk financing

Continued from page 34

are offshore captives, such as Bermuda-based School, College & University Underwriters Ltd., and risk retention groups, such as Vermont-based United Educators Insurance Risk Retention Group Inc.

In addition, Columbia is among a host of institutions participating in Genesis Inc., a general liability facility tailored for colleges and universities.

Other participants in the Bermuda-based facility, which is managed by Johnson & Higgins, include Princeton University, the University of Pennsylvania and New York University.

Three other alternative markets also have been formed, including:

- Higher Education Liability Mutual Inc., a Vermont captive formed by a group of six universities to underwrite high excess liability coverage (*BI,* Aug. 17, 1987).
- University College Mutual Insurance Co., formed in Tennessee to underwrite educators legal liability coverage (*BI,* Dec. 8, 1986).
- Small Colleges Mutual Insurance Co., a risk retention group formed in Vermont to underwrite general liability and educators legal liability coverages for small, private non-profit colleges (*BI,* April 20, 1987).

However, all three facilities are currently inactive, according to Robert Beth, director of risk management at Stanford University in Palo Alto, Calif.

"United Educators is really the flagship with 400 public and private schools participating," he said.

In addition to the alternative markets, broker-sponsored programs also are helping colleges and universities find coverage.

For example, Gallagher has worked with 23 medium-size colleges participating in a risk-sharing trust. In addition, the brokerage has set up a "proprietary" coverage program for three large Eastern universities, "where they have a large self-insured retention, with the excess done in the London and domestic markets," Mr Duran said. He declined to provide further details about the programs.

Although most large insurance brokers place coverage for universities, "we have chosen it as an area we want to focus on," said Mr. Duran.

Thanks to alternative risk financing vehicles, "currently, there's not a tremendous amount of difficulty" obtaining liability insurance for the special risks faced by universities, Columbia's Ms. Breighner said (see story, page 32).

"We've been getting most of the coverage we want in the past two years, but we're paying high premiums," said Leta C. Finch, director of risk management at the University of Vermont in Burlington.

Depending on the risk, most U.S. colleges and universities either assume large self-insured retentions and purchase excess coverage, or they buy commercial insurance requiring large deductibles. As a result, they end up transferring mainly their catastrophic property and liability exposures.

"To ensure there is capacity, we must self-insure to the maximum degree we can," said John H. Walker, director of risk management and insurance at the University of Alabama in Birmingham and manager of the university's self-insurance fund.

"Exclusions are troublesome to us anyway," he said. Many general liability policies exclude environmental problems, "which is one reason we're self-insured," he said.

"A soft market always connotes you're getting a bargain, but when you take substantial retention, the fluff is taken out of it," said James Breeding, director of risk management at Rutgers, the State University of New Jersey in New Brunswick. "If your goal is to cut the costs of risk transfer, there is less premium to play with."

Since 1974, when "universities were hit harder than some businesses" as many underwriters drastically raised their premiums, Rutgers has purchased commercial coverage for only catastrophic exposures. CIGNA Corp. is Rutgers' lead underwriter, though the university buys coverage from many insurers, Mr. Breeding said.

Fortunately, there's no difficulty obtaining high property and liability coverage limits in the current soft market, university risk managers say.

"It's quite available, even in hard markets," said Stanford's Mr. Beth. "The only difficulty is for earthquake" coverage.

Stanford's earthquake insurance was canceled in 1984, leaving it self-insured for the risk.

However, Stanford was prepared since it has assumed sizable self-insured retentions on many of its other property and liability exposures since 1970.

And the university's self-insurance program has paid off.

"I'm proud to say Stanford would have spent $26 million more each year—including property/casualty and employee benefits—by purchasing insurance than by assuming our own risks," Mr. Beth boasted.

The University of California system also assumes large self-insured retentions for some risks and maintains high deductibles on the commercial insurance policies it does purchase, said Marcia Rubish, assistant risk manager at the University of California at San Diego.

The University of Vermont also assumes a large self-insured retention, according to Ms. Finch.

"The hard market has forced us to be creative," she said.

Vermont participates in Gallagher's College and University Protected Self-Insurance Program.

"It's a nice program and it accommodates our needs perfectly," she said. "We're self-insured to a limit, then it's capped and we have first-dollar coverage," she said.

Finding capacity in a hard market is "unpredictable," she said. But even in today's soft market, "Our lawyers legal liability coverage has been canceled—we don't know why," she said. "Now we're desperately trying to get lawyers legal liability."

And although the market is in "the best position it's been in for a few years, we're all bracing for the next storm," said the University of Alabama's Mr. Walker.

Thomas R. Henneberry, assistant treasurer and risk manager at the Massachusetts Institute of Technology in Cambridge, agreed.

"We're now finding sufficient capacity, but it's a very current situation. It could change. It's a difficult process from year to year, but we're no different from large companies" that must maintain coverage through the cycles of the insurance market, said Mr. Henneberry, who also is president of the University Risk Management & Insurance Assn.

MIT tries to maintain $100 million in liability insurance limits, but "at the deepest part of the last hard market we were forced to get only $50 million," he said.

Currently, MIT is meeting its liability coverage goal and has property insurance covering the full $1.6 billion replacement value of the university's facilities.

However, because of the difficulty of obtaining medical malpractice insurance, MIT affiliated with Controlled Risk Insurance Co., a Barbados-domiciled group captive insurer that provides coverage for the university's small hospital, he said. ■

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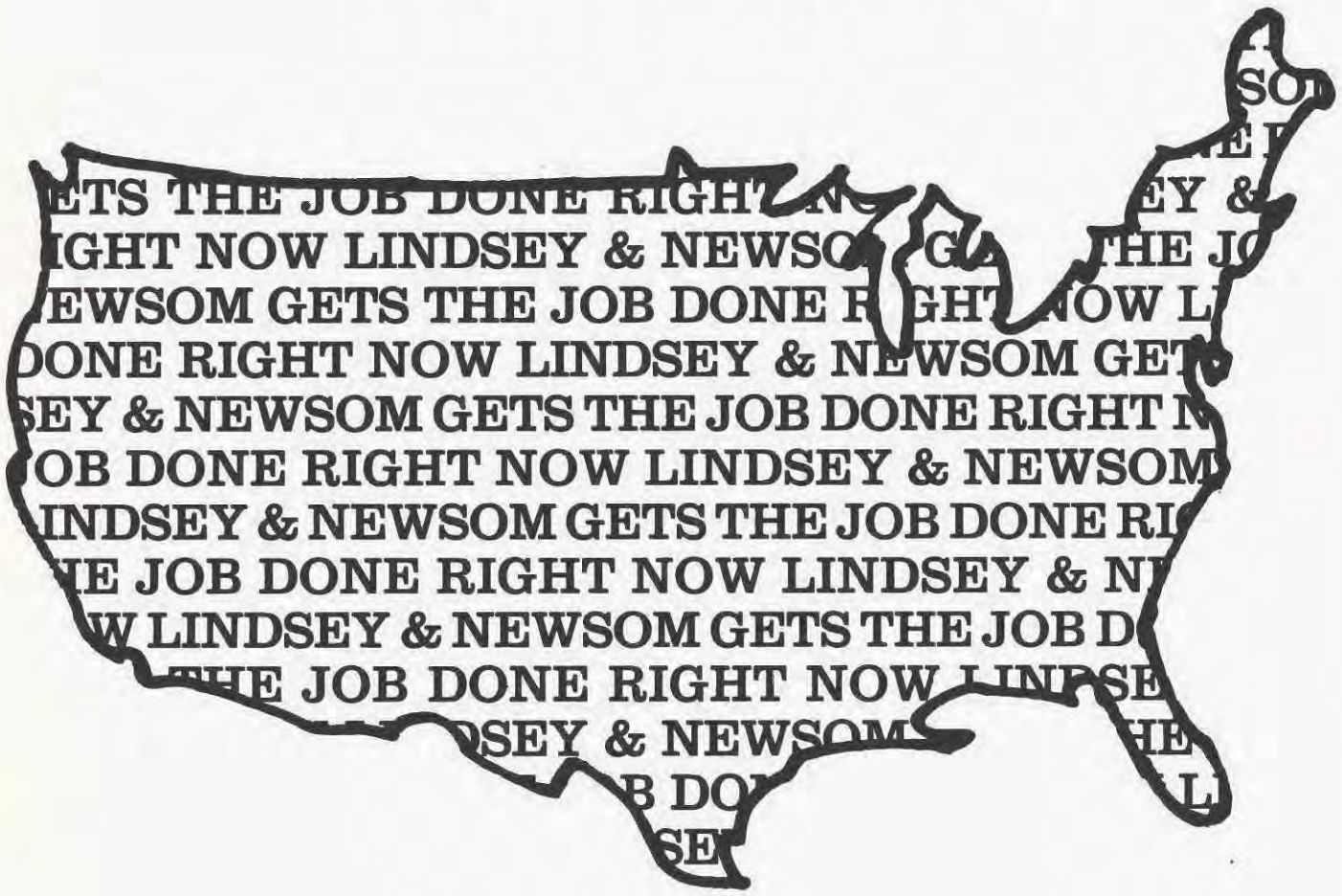

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Directory of property loss control consultants

A

AIG Consultants Inc.

72 Wall St., N nth Floor, New York, N.Y. 10270; 212-770-3653

Year founded: 1979.

Parent company: American International Group Inc.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, loss prevention publications; occasional plant security inspections, loss prevention research, client training.

Staff: 196 total staff members; 53 professionals; including two ARMs, 70 ASSEs, 20 CSPs, 12 PEs, 15 SFPEs.

Clients: Not reported; 10% with gross revenues less than $200 million, 80% with $200 million-$500

Continued on page 42

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How to use *BI* directory

The third annual directory of property loss control consultants and engineers lists companies that provide loss control services like on-site plant loss prevention inspections; fire prevention inspections; plant security inspections; hazard identification; building plan reviews; loss prevention publications; loss prevention research; and client training. Many companies list additional specialty services they offer to clients.

Companies included in the directory must provide these services on an unbundled basis directly to employers; companies that provide loss control only in conjunction with other services, like insurance brokerage, are not listed.

Business Insurance publishes the directory as an editorial service, there is no charge for companies to be included.

Following the name and address of the company, the **year founded** and **parent company** are given.

Next details on loss control **services provided** are noted. Information on total **staff** members as well as the number of professionals assigned to property loss control consulting and engineering are provided. Professional designations held at year-end 1988 follow.

If a company specializes in consulting to a particular type of business or industry, it is noted under the **specialty** heading; then cities and states of **branch offices** providing property loss control services are listed.

When reported by the company **1988 gross revenues** are provided. Names and titles of **principal officers** complete the listings.

Listings are based on each company's response to a *Business Insurance* questionnaire. There are no public documents available to allow *BI* to verify the information provided.

Following are the full professional designations for those abbreviated under the staff heading:

ABMA is member, American Boiler Manufacturers Association; **ACII** is member, Associate Chartered Insurance Institute; **ACS** is member, American Chemical Society; **AIC** is Associate in Claims; **AICE** is member, American Institute of Chemical Engineers; **AIHA** is member, American Industrial Hygiene Association; **AISE** is member, Association of Iron and Steel Engineers; **ALCM** is Associate in Loss Control Management; **ARM** is Associate in Risk Management; **ASA** is Associate in Society of Actuaries; **ASCE** is member, American Society of Civil Engineers; **ASIE** is member, American Society of Industrial Engineers; **ASIS** is member, American Society of Industrial Security; **ASME** is member, American Society of Mechanical Engineers; **ASP** is Associate Safety Professional; **ASSE** is member, American Society of Safety Engineers; **CAPP** is member, Conference of Actuaries in Public Practice; **CEI** is Certified Electrical Safety Specialist; **CEM** is Certified Energy Manager; **CET** is Certified Environmental Trainer; **CFI** is Certified Fire Investigator; **CFEI** is Certified Fire and Explosion Investigator; **CFPS** is Certified Fire Protection Specialist; **CHCM** is Certified Hazard Control Manager; **CHMM** is Certified Hazardous Materials Manager; **CHSP** is Certified Healthcare Specialist; **CIC** is Certified Insurance Counselor; **CIH** is Certified Industrial Hygienist; **CIHT** is Certified In-

Continued on page 42

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- **The North Pointe Insurance Company,** Southfield, MI, needed to quickly implement a software solution to handle new lines of liability insurance.
- **Old Republic Risk Management, Inc.,** Brookfield, WI, needed an effective system to handle high-volume transactions efficiently.
- **Pioneer Mutual Insurance Company,** Greenville, OH, needed automated Property & Casualty processing to handle growing business with its small staff.

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Continued from page 40
million, 10% with $500 million-$1 billion.

Branch offices: Atlanta, Boston, Chicago, Cleveland, Dallas, Los Angeles, Philadelphia, San Francisco.

1988 gross revenues: $16 million, 1% from unbundled property loss control consulting and engineering.

Principal officers: Arnold Goldberg, president; Jack P. Leonard and Robert Blaunstein, vps; Michael J. Albano and Jan Andrew Young, assistant vps.

Paul Alamar, P.E., C.S.P.

P.O. Box 134, Scranton, Pa. 18510; 717-347-8665

Services provided: Frequent general on-site plant loss prevention inspections, hazard identification, loss prevention research; occasional fire prevention inspections, plant security inspections, building plan reviews, client training.

Staff: One staff member who holds ASCE, ASSE, CSP and PE designations.

Specialties: Hospitals, nursing homes, industrial warehouses.

1988 gross revenues: Not reported, 100% from unbundled property loss control consulting and engineering.

Principal officers: Paul Alamar, president.

Alexander & Alexander Services Inc.

1185 Ave. of the Americas, New York, N.Y. 10036; 212-575-8000

Year founded: 1899.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, loss prevention research, client training; occasional plant security inspections, loss prevention publications; other property loss control services include analysis of sprinkler and other fire protection systems, water supply testing and analysis, estimation of loss potential, business interruption studies.

Directory guide

Continued from page 40
dustrial Hygiene Technologist; **CIMHS** is Certified Instructor-Mine Health and Safety; **COC** is Certified Occupational Conservationist; **COST** is Certified Occupational Health and Safety Technician; **CPCU** is Certified Property Casualty Underwriter; **CPP** is Certified Protection Professional; **CPSM** is Certified Product Safety Manager; **CRM** is member, Canadian Risk Management; **CSE** is Certified Safety Executive; **CSFR** is Certified Safety Field Representative; **CSM** is Certified Safety Manager; **CSP** is Certified Safety Professional; **CSS** is Certified Safety Specialist; **CSSP** is Certified Safety an Security Professional; **CST** is Certified Safety Technician; **FCAS** is member, Fellowship Casualty Actuarial Society; **FIIC** Fellowship Insurance Institute of Canada; **IAA** is member, International Actuarial Association; **IEEE** is member, Institute of Electrical and Electronic Engineers; **IES** is member, Institute of Environmental Sciences; **IH** is Industrial Hygienist; **HFS** is member, Human Factors Society; **MAAA** is Member American Academy of Actuaries; **MBA** is masters of business administration; **NAFE** is member, National Academy of Forensic Engineers; **NAFI** is member, National Association of Fire Investigators; **NBBI** is member, National Board of Boiler and Pressure Vessel Inspectors; **NFPA** is member, National Fire Protection Association; **NFSA** is member, National Fire Sprinkler Association; **NSC** is member, National Safety Council; **NSMS** is member, National Safety Management Society; **NSPE** is member, National Society of Professional Engineers; **OHST** is Occupational Health Safety Technician; **PE** is professional engineer; **REA** is Registered Environmental Assessor; **RSP** is Registered Safety Professional; **RPSE** is Registered Professional Safety Engineer; **SES** is member, Structural Engineering Society; **SFPE** is member, Society of Fire Protection Engineers; **SME** is member, Society of Manufacturing Engineers; **SRA** is Society for Risk Analysis; **SSA** is member, Semiconductor Safety Association; **SSS** is member, System Safety Society. ■

Staff: 176 total staff members assigned to property loss control consulting/engineering; 127 professionals assigned to property loss control consulting/engineering, including 19 ARMs, two ALCMs, 56 ASCEs, 30 ASSEs, 30 CSPs, 27 PEs, 40 SFPEs, five CHCMs, three CPSMs, 55 NFPAs, 11 NSMSs.

Branch offices: Located in the U.S., Canada and other countries.

Principal officers: Tinsley H. Irvin, chairman/chief executive officer; Michael K. White, executive vp.

Alexsis Risk Management Services

41000 W. Seven Mile Road, Northville, Mich. 48167; 313-348-2202

Year founded: 1932.

Parent company: Alexander & Alexander Services Inc.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, client training; occasional building plan reviews, loss prevention research.

Staff: 1,250 total staff members; 12 professionals, including 12 ASSEs, four CSPs, three NFPAs, one CFPS.

Clients: 14 total clients; 79% with gross revenues less than $200 million, 7% with $200 million-$500 million, 7% with $500 million-$1 billion, 7% with $1 billion-$3.5 billion.

Branch offices: Livonia, Grand Rapids and Saginaw, Mich.; Louisville, Ky.; Lakeland, Fla.; Baton Rouge, La.; Philadelphia; St. Louis; Chicago.

1988 gross revenues: $65 million total; 1% from unbundled property loss control consulting and engineering; 99% from other services, including claims administration, excess insurance placement, bundled loss control services.

Principal officers: John A. Malasky, national director, M. Ollie Parker, senior vp; R.F. Proffer, president-CSI division; Joseph A. Giampetro, executive vp-Eastern division; Ernest C. Fackler, executive vp-Western division.

American Catastrophe/ Environmental Services Inc.

8131 Indiana, Kansas City, Mo. 64132; 800-950-2237

Year founded: 1981.

Services provided: Frequent general on-site plant loss prevention inspections, hazard identification; other services include consulting on reconstruction following losses.

Staff: 65 total staff members; 32 professionals, including two PEs, three SFPEs.

Clients: Total clients not reported; 80% with gross revenues less than $200 million, 20% with $200 million-$500 million.

Specialties: Electronic equipment restoration.

Branch offices: Charleston, S.C.; Houston.

1988 gross revenues: $6 million total; 5% from unbundled property loss control consulting and engineering; 95% from other services, including reconstruction consulting.

Principal officers: Dallas M. Jaekels, president; Michael J. Rice, executive vp; San Rhea, vp-operations.

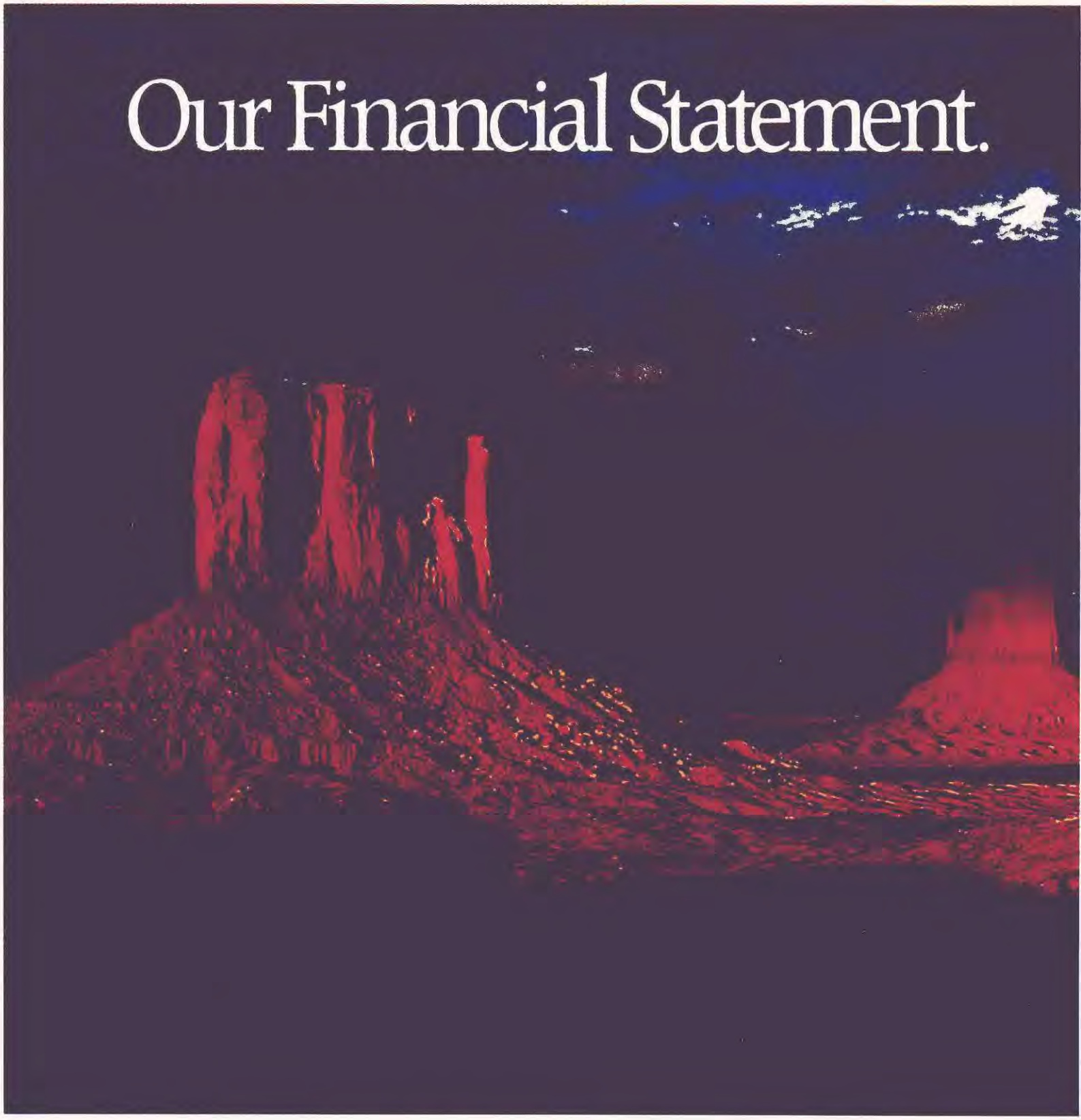
American Risk Management Corp.

One Executive Drive, P.O. Box 1383, Fort Lee, N.J. 07024; 800-882-5528

Year founded: American Risk Management Inc. was founded in 1958; name changed to American Risk Management Corp. in 1988.

Continued on next page

Our Financial Statement.



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Continued from previous page

Parent company: International Risk Management Group Ltd.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews; occasional loss prevention publications, loss prevention research, client training; other property loss control services include infrared thermographic surveys, pressure vessel and tank evaluations, boiler and machinery risk evaluations, room integrity studies.

Staff: 350 total staff members; 70 professionals, including 30 ARMs, one ALCM, one ASSE, two CSPs, three PEs, 35 SFPEs, 30 CPCUs.

Clients: 200 total clients; 2% with gross revenues less than $200 million, 3% with $200 million-$500 million, 30% with $500 million-$1 billion, 50% with $1 billion-$3.5 billion, 10% exceeding $3.5 billion.

Branch offices: Atlanta; Boston; Bridgewater, N.J.; Burlington, Vt.; Chicago; Cleveland; Dallas; Detroit; Houston; Kansas City, Mo.; Louisville, Ky.; Minneapolis; Nashville, Tenn.; San Francisco; Seattle; Youngstown, Ohio; Bridgetown, Barbados; Georgetown, Cayman Islands; Hamilton, Bermuda; Isle of Man; St. Peter Port, Guernsey; Singapore; Weybridge, England; Toronto; Vancouver, British Columbia.

1988 gross revenues: Not reported.

Principal officers: J.J. Ryan, president; W.F. Nehls, executive vp; D. Mosier and W.T. Torpey, vps; D. Doug Wharton, vp-engineering.

Anti Fire, P.E. Phillips & Associates

1963 Sycamore Trail, Las Vegas, Nev. 89108; 702-648-6757

Year founded: 1974.

Services provided: General on-site plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, client training; other services include fire detection, fire suppression, fire code compliance, fire loss investigations.

Staff: One staff member who holds ASSE, CSP, PE, SFPE, NAFI, NFPA, SSS and FDI designations.

Clients: Not reported.

1988 gross revenues: Not reported.

Principal officers: Patrick E. Phillips, president.

Applied Risk Control Corp.

100 Dutch Hill Rd., Suite 214, Orangeburg, N.Y. 10962; 914-365-2444

Year founded: 1985.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, loss prevention publications, client training; occasional building plan reviews, loss prevention research.

Staff: 12 total staff members; three professionals, including two ARMs, three CSPs, one PE.

Clients: 20 total clients; 50% with gross revenues less than $200 million, 50% with $200 million-$500 million.

Branch offices: Atlanta, Los Angeles.

1988 gross revenues: Not reported.

Principal officers: Harry P. Mirijanian, president.

Ask Safety Consultants Inc.

8195 E. Isabella County Line Road, Coleman, Mich. 48618; 517-465-6724

Year founded: 1976.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification; occasional loss prevention publications, fire prevention inspections, plant security inspections, client training; other services include OSHA compliance, mine safety.

Staff: Three total staff members; one professional who holds ASSE and PE designations.

Clients: Three total clients, 100% with gross revenues less than $200 million.

Specialties: Construction, sand and gravel and surface mining industries.

1988 gross revenues: 12% from unbundled property loss control consulting and engineering; 88% from other services, including accident investigation, document search.

Principal officers: A.R. Klashak, president.

B

W.A. Bateman, P.E., C.S.P.

P.O. Box 10196, Midland, Texas 79702; 915-697-1243

Year founded: 1979.

Services provided: General on-site plant loss prevention inspections, hazard identification, client training.

Staff: One staff member who holds ARM, ASSE, CSP, PE and NAFE designations.

Clients: Not reported.

Specialties: Petroleum industry.

1988 gross revenues: Not reported.

Principal officers: W.A. Bateman, owner/consulting engineer.

Biehl Engineering Inc.

NGGW 12659 Ravine Drive, Menomonee Falls, Wis. 53051; 414-251-8251

Year founded: 1960.

Services provided: Frequent hazard identification, building plan reviews; occasional general on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, loss prevention research, client training; other services include machine guarding, structural capacity studies, electrical hazard studies, product reviews, engineering design studies.

Staff: Three total staff members; two professionals, including one ASCE, one ASSE, one CSP, two PEs, two BCIs, one NFPA, two SEs, one CEI, one CFI, one NBEE.

Clients: Approximately 100 total clients.

1988 gross revenues: Not reported.

Principal officers: Francis W. Biehl, president; Steven F. Biehl, vp; Marna J. Biehl, secretary.

Bigler-Ketchum Inc.

1030 5th Ave., Pittsburgh, Pa. 15219; 412-391-5525

Year founded: 1976.

Parent company: The Bigler-Ketchum Group.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification; occasional building plan reviews, client training; other services include property-related risk management consulting services.

Staff: Three total staff members; two professionals, including one ARM, one ASSE, one SFPE, one CIC, one CPCU.

Clients: 400 total clients; 75% with gross revenues less than $200 million, 15% with $200 million-$500 million, 10% with $500 million-$1 billion.

1988 gross revenues: Not reported.

Principal officers: Chandler

Continued on next page

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Continued from previous page

Ketchum, chairman; Harold Bigler, president/chief executive officer; Carlton Ketchum, corporate secretary; Jonathan Persky, chief financial officer.

Biotechnics Inc.

7607 Eastmark Drive, College Station, Texas 77840; 409-696-3871

Year founded: 1981.
Services provided: General on-site plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, loss prevention publications, loss prevention research, client training; other services include quantitative risk assessments, industrial hygiene, engineering and environmental services.
Staff: Six total staff members; five professionals, including three ASSEs, four CSPs, three PEs, one SFPE, two SMEs, three SSSs, two AIHAs, two CIHs.
Clients: Total clients not reported; 50% with gross revenues less than $200 million, 25% with $200 million-$500 million, 12.5% with $500 million-$1 billion, 12.5% with $1 billion-$3.5 billion.
Specialties: Petroleum and metals industries, general manufacturing.
1988 gross revenues: $200,000 total.
Principal officers: Ralph J. Vernon, president; Lee Blank and W.W. Wallace, members-executive committee; Betty Vernon, secretary/treasurer.

Bonatus & Associates Inc.

6292 Lambda Drive, San Diego, Calif. 92120-4606; 619-582-9429

Year founded: 1979.
Services provided: Frequent loss prevention research, client training; occasional general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, loss prevention publications; other services include hazard communication programs, hazardous waste programs.
Staff: One staff member who holds ASSE, CSP, PE, SFPE, CEM and CHCM designations.
Clients: Total clients not reported; 95% with gross revenues less than $200 million, 5% with $200 million-$500 million.
Specialties: Food service and construction industries.
1988 gross revenues: $75,000 total; 10% from unbundled property loss control consulting and engineering; 90% from other services.
Principal officers: Kenneth R. Bonatus, president.

B. Gawain Bonner, Safety & Health Management Consultant

Route 3, Box 458, Huntsville, Texas 77340; 409-594-3804

Year founded: 1986.
Services provided: Occasional general on-site plant loss prevention inspections, hazard identification, building plan reviews.
Staff: One staff member who holds CSP and PE designations.
Clients: Not reported.
1988 gross revenues: Not reported.
Principal officers: B. Gawain Bonner, principal.

Joseph F. Boxmeyer, Safety Consultant

P.O. Box 143, Laurelton, Pa. 17835-0143; 717-922-4216

Year founded: 1982.
Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, client training, consulting on static electricity; occasional hazard identification.
Staff: One staff member who holds ASSE, CSP and NFPA designations.
Clients: 14 total clients; 29% with gross revenues less than $200 million, 7% with $200 million-$500 million, 21% with $500 million-$1 billion, 7% with $1 billion-$3.5 billion, 36% exceeding $3.5 billion.
Specialties: Chemical, pharmaceutical, printing, textile and tape manufacturing industries.
1988 gross revenues: $35,400 total, 100% from unbundled property loss control consulting and engineering.
Principal officers: Joseph F. Boxmeyrer, safety consultant.

Frank J. Breitsameter (P.E.) & Associates

1005 E. Cardinal Lane, Mount Prospect, Ill. 60056; 708-259-8304

Year founded: 1982.
Services provided: Frequent

Continued on page 46

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Evanston IL 60201 312 866-2800

Professional Liability and Specialty Insurance

Continued from page 44
hazard identification; occasional general on-site plant loss prevention inspections, fire prevention inspections, building plan reviews, client training; other services include accident investigation.

Staff: One staff member who holds CSP, SFPE, ASME and NSPE designations.

Clients: Total clients not reported; 50% with gross revenues $1 billion-$3.5 billion; 50% exceeding $3.5 million.

Specialties: Construction, railroad and general industry.

1988 gross revenues: Approximately 35,000 total, 100% from unbundled property loss control consulting and engineering.

Principal officers: Frank J. Breitsameter.

Morley Brickman & Associates Ltd.

5240 Galitz, Skokie, Ill. 60077; 708-674-2664

Year founded: 1986.

Services provided: General on-site plant loss prevention inspections, hazard identification, client training.

Staff: One staff member who holds ASSE, PE and CSE designations.

Clients: Not reported.

Specialties: Construction and general industry.

1988 gross revenues: Not reported; 1% from unbundled property loss control consulting and engineering; 99% from other services, including forensic engineering.

Principal officers: Morley Brickman, president; Betty Brickman, secretary/treasurer.

Ken Buhler Associates Inc.

11 Erita Lane, Smithtown, N.Y. 11787; 516-360-3770

Year founded: 1976.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, client training; occasional loss prevention publications, loss prevention research; other services include sprinkler system analysis and design, water supply analysis.

Staff: Four total staff members; three professionals, including one ASSE, one PE, one SFPE.

Clients: Total clients not reported; 25% with gross revenues less than $200 million, 50% with $200 million-$500 million, 15% with $500 million-$1 billion, 10% with $1 billion-$3.5 billion.

Specialties: Consumer electronics, hospitals, warehouses, roll paper storage.

1988 gross revenues: Not reported.

Principal officers: Kenneth Buhler, president; Randy Buhler and Sandy Relkin, vps.

C

CPI Consultants Inc.

P.O. Box 90226, Columbia, S.C. 29290-1226; 803-776-6015

Year founded: 1983.

Services provided: Occasional general on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, client training; other services include loss investigations, flood studies, business interuption studies.

Staff: One staff member who holds SFPE, AICE and NFPA designations.

Clients: Not reported.

Specialties: Chemical process industry, utilities, food processing industry, grain elevators.

1988 gross revenues: Total not reported, 100% from unbundled property loss control consulting and engineering.

Principal officers: Donald W. Baxter Jr., managing director.

Checkers, Simon & Rosner

One S. Wacker Drive, Suite 2400, Chicago, Ill. 60606; 312-346-4242

Year founded: 1931.

Services provided: Frequent plant security inspections, building plan reviews, client training; occasional general on-site plant loss prevention inspections, loss prevention publications, loss prevention research; other services include property damage and stock loss determinations, loss of business calculations, investigative accounting.

Staff: 295 total staff members, 18 professionals.

Clients: Total clients not reported; 50% with gross revenues less than $200 million, 40% with $200 million-$500 million, 10% with $500 million-$1 billion.

Specialties: Manufacturing, wholesale, distribution, retail and service industries.

Branch offices: Waukegan, Ill.

1988 gross revenues: $17 million total; 10% from unbundled property loss control consulting and engineering; 90% from other services, including accounting, tax and management advisory services.

Principal officers: Jerome A. Harris, managing partner; James R. Adler, partner-litigation services; Thomas R. Creal, partner-investigative accounting; Lawrence Kaplan and Les Hoffman, partners.

Cohen & Associates

4790 Mount Helix Drive, La Mesa, Calif. 92041; 619-464-4427

Year founded: 1988.

Services provided: Frequent general on-site plant loss prevention inspections, hazard identification, loss prevention research, client training; occasional building plan reviews, loss prevention publications.

Staff: Four total staff members; three professionals, including two ASSEs, two CSPs, one CHCM.

Clients: Total clients not reported; 60% with gross revenues less than $200 million, 20% with $200 million-$500 million, 20% with $500 million-$1 billion.

1988 gross revenues: $350,000 total.

Principal officers: H. Harvey Cohen principal.

Cohen-Seltzer Inc.

520 Pennsylvania Ave., Fort Washington, Pa. 19034; 215-542-0600

Year founded: 1926.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification; occasional plant security inspections, building plan reviews, loss prevention research, client training; other services include building valuations.

Staff: 35 total staff members; one professional assigned to property loss control consulting/engineering who holds a CSP designation.

Clients: Total clients not reported; 99% with gross revenues less than $200 million, 1% with $200 million-$500 million.

1988 gross revenues: Not reported.

Principal officers: Robert S. Seltzer, president/chief executive officer; Arthur C. Hanebury, Walter Butterworth and B. Daniel Seltzer, vps; John J. Bogansky, vp-marketing.

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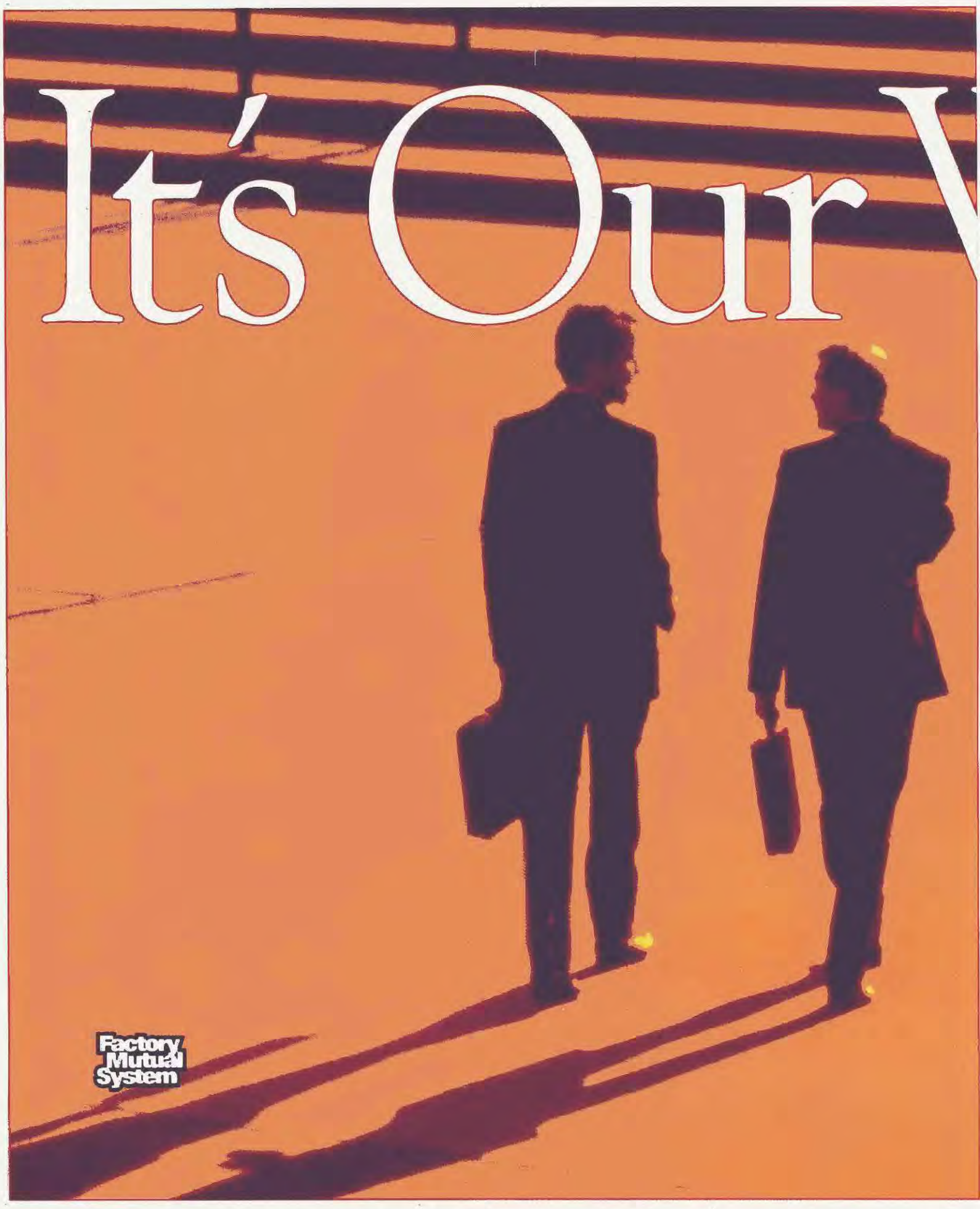

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Consultant Services Institute Inc.

651 W. Mount Pleasant Ave., Livingston, N.J. 07039; 201-992-3811

Year founded: 1969.
Services provided: Frequent general on-site plant loss prevention inspections, hazard identification, loss prevention research; occasional fire prevention inspections; other services include liability litigation and investigation.
Staff: 35 total staff members, all professionals, including five ASSEs, four CSPs, 20 PEs.
Clients: Not reported.
1988 gross revenues: Less than $1 million total; 80% from unbundled property loss control consulting and engineering; 20% from other services.
Principal officers: Richard M. Jacobs, president.

Coopers & Lybrand-Risk Management Consulting Group

1251 Ave. of the Americas, New York, N.Y. 10020; 212-536-2000.

Year founded: 1898.
Parent company: Coopers & Lybrand.
Services provided: Frequent hazard identification; occasional fire prevention inspections, plant security inspections, building plan reviews, loss prevention publications, client training; other services include analysis of insurer recommendations.
Staff: 25 total staff members; one professional assigned to loss control consulting/engineering; designations held by staff members include six ARMs, one ASSE, one CSP, one SFPE.
Clients: Not reported.
Branch offices: Atlanta; Boston; Chicago; Newport Beach, Calif.; Philadelphia; San Francisco; Seattle; Hamilton, Bermuda; Toronto.
1988 gross revenues: Not reported.
Principal officers: James A. Hall III, regional partner in charge; Frederick O. Kist and Richard E. Sherman, partners in charge; Oakley Van Slyke, partner.

Corroon & Black Co. of New York

7 Hanover Square, New York, N.Y. 10004; 212-344-8888

Year founded: 1905.
Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, loss prevention publications, loss prevention research, client training; other services include business interuption interdependency studies, computer center exposure analysis.
Staff: 13 total staff members; four professionals, including three ARMs, two ASCEs, four ASSEs, four CSPs, four PEs, four SFPEs, one CPCU.
Clients: Six total clients; four with gross revenues less than $200 million, two with $500 million-$1 billion.
1988 gross revenues: $825,000 total; 12% from unbundled property loss control consulting and engineering; 88% from other services, including bundled property loss control services.
Principal officers: John Kelly, president/chief executive officer; Ed Sweeney, chairman; William Quinn, chief operating officer/vice chairman; Hank Ehrlich, chief administrative officer; Dominick Guisto, treasurer/chief financial officer.

Crawford & Co.

5620 Glenridge Drive N.E., Atlanta, Ga. 30342; 404-256-0830

Year founded: 1941.
Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, loss prevention research, client training; occasional loss prevention publications; other services include single-site business interruption analysis, fire loss potential estimates, fire growth and speed profiles, risk control management studies, analysis of severe natural phenomena.
Staff: 42 total staff members; 34 professionals, including two ARMs, one ALCM, one ASCE, 34 ASSEs, 16 CSPs, four PEs, eight SFPEs.
Clients: 35 total clients.
Branch offices: Chicago; Detroit; St. Paul, Minn.; Mahwah and Trenton, N.J.; New York and Syracuse, New York; Boston; Hartford, Conn.; McLean, Va.; Philadelphia; Winston-Salem, N.C.; Cleveland; Baltimore; Orlando, Fla.; Memphis, Tenn.; Dallas; Houston; Baton Rouge, La.; San Francisco; Los Angeles; Seattle.
1988 gross revenues: $294.3 million total; 2% from unbundled property loss control consulting and engineering; 98% from other services, including claims administration, health an disability management, risk management information systems.
Principal officers: Forrest L. Minix, Don Chapman, Frank Semancik, Paul A. Bollinger and C.C. Lefler.

D

Thomas F. Dalton Consulting Services

12 Jerrys Drive, Burlington, N.J. 08016; 609-386-3788

Year founded: 1980.
Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, client training; occasional plant security inspections; other services include risk assessments and audits for property transfers.
Staff: Two total staff members; one professional who holds ASSE, COST, REA and CHMM designations.
Clients: Total clients not reported; 78% with gross revenues less than $200 million, 20% with $200 million-$500 million, 2% with $500 million-$1 billion.
1988 gross revenues: $150,000 total; 40% from unbundled property loss control consulting and engineering; 60% from other services, including training, spill and site remediation, consulting.
Principal officers: Thomas F. Dalton and Sally M. Dalton.

E

ESIS Inc.

1600 Arch St., Philadelphia, Pa. 19103; 215-523-2100

Year founded: 1955.
Parent company: CIGNA Corp.
Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, client training; occasional plant security inspections, building plan reviews, loss prevention research.
Staff: 580 total staff members; 150 professionals assigned to property loss control/engineering, including 25 ARMs, five ALCMs, eight ASCEs, 125 ASSEs, 75 CSPs, 25 PEs, 45 SFPEs.
Clients: Not reported.

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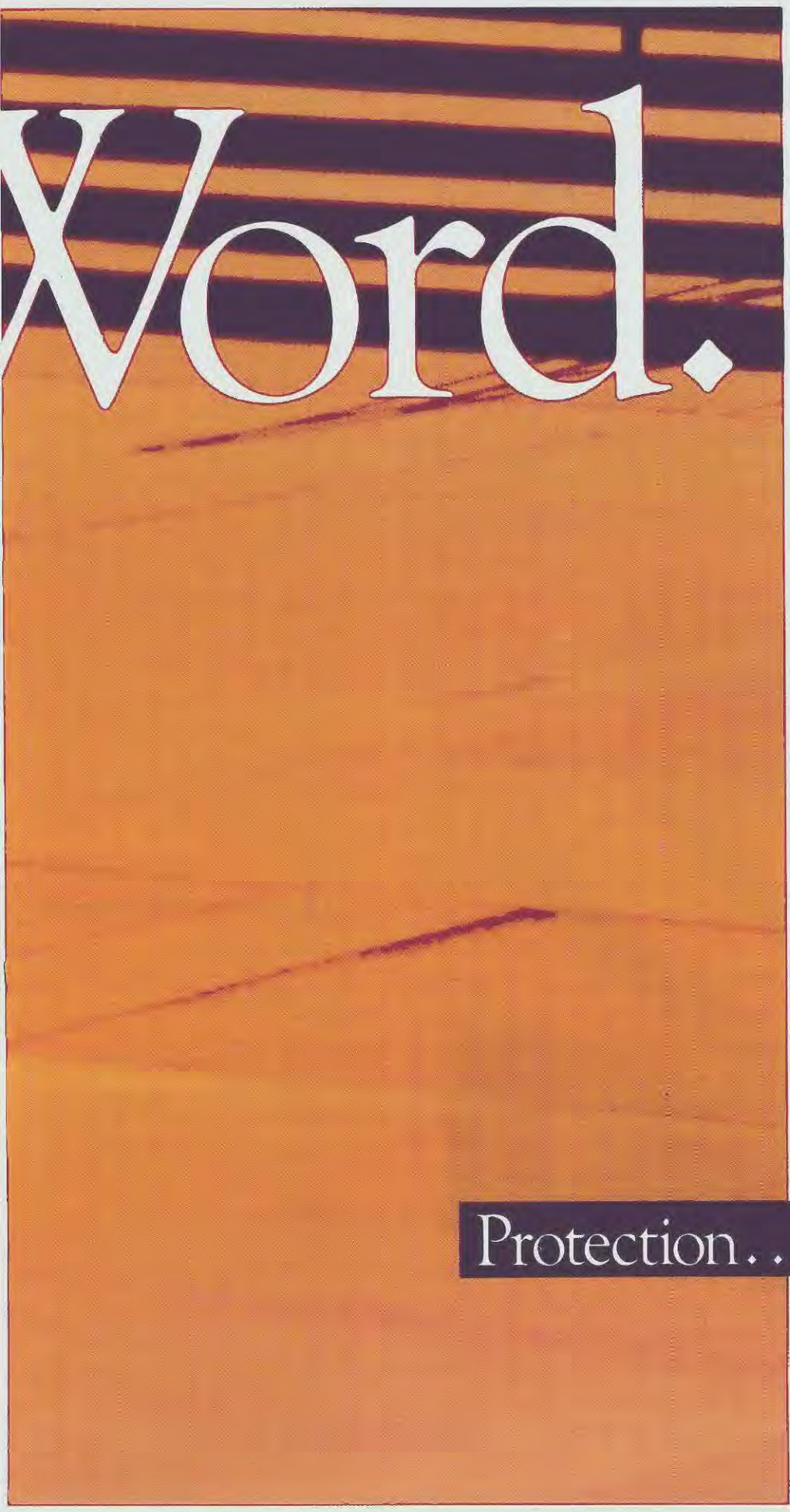

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Continued from page 48
$500 million, 15% with $500 million-$1 billion, 10% with $1 billion-$3.5 billion, 4% exceeding $3.5 billion.

Branch offices: Naperville, Ill.; Torrance, Calif.; Plainsboro, N.J.; Wichita, Kan.; Springfield, Mo.

1988 gross revenues: $4.5 million total; 70% from unbundled property loss control consulting and engineering; 30% from other services, including safety management and industrial hygiene.

Principal officers: Kenneth E. Berg, president; Robert A. Lapidus, Joseph H. Talbert, Daniel D. Cox and B.J. Walker, senior vps.

Farinacci & Associates Inc.

4676 Lakeview Ave., Suite 21[illegible], Yorba Linda, Calif. 92686; 714-779-0071

Year founded: 1981.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, client training; occasional loss prevention publications, loss prevention research.

Staff: Four total staff members; three professionals who hold ASSE designations.

Clients: Not reported.

1988 gross revenues: $1 million total; 60% from unbundled property loss control consulting and engineering; 40% from other services, including hazardous materials management and asbestos consultation.

Principal officers: John J. Farinacci, president; Marie J. Farinacci, vp/secretary.

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P.O. Box 231, East Earl, Pa. 17519; 717-354-2411; 800-222-8841

Year founded: 1980.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, client training; occasional building plan reviews, loss prevention publications, loss prevention research.

Staff: One staff member who holds ASSE and CET designations.

Clients: Total clients not reported; 30% with gross revenues less than $200 million, 20% with $200 million-$500 million, 20% with $500 million-$1 billion, 20% with $1 billion-$3.5 billion, 10% exceeding $3.5 billion.

1988 gross revenues: Not reported.

Principal officers: R. Craig Schroll, president.

Flex Fire Protection Design

201 Naperville Road, 1st Floor E., Wheaton, Ill. 60187; 708-668-8998

Year founded: 1986.

Services provided: Frequent fire prevention inspections; occasional building plan reviews, client training; other services include design of fire protection systems, project management and monitoring, drain tests, system inspections.

Staff: Five total staff members; three professionals, including two CETs.

Clients: Nine total clients, 100% with gross revenues less than $200 million.

1988 gross revenues: Not reported.

Principal officers: Mark Bromann, president.

Friedman, Fuller & Hudson Inc.

6120 Executive Blvd., 8th Floor, Rockville, Md. 20852; 301-468-6946

Year founded: 1982.

Parent company: Friedman & Fuller Group.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification; occasional building plan reviews, client training; other services include insurance replacement cost appraisals, loss experience analysis.

Staff: 12 total staff members; two professionals assigned to property loss control consulting/engineering, including one CST.

Clients: 75 total clients; 80% with gross revenues less than $200 million, 20% with $200 million-$500 million.

Specialties: Real estate developers, wholesalers, high technology industry.

1988 gross revenues: $900,000 total; 25% from unbundled property loss control consulting and engineering; 75% from other services, including insurance and risk management consulting.

Principal officers: Peter M. Hudson, president; Arthur G. Methvin, vp; Tony A. Bennett, director-loss/safety control department; Robert B. Middleton, director-marketing.

Fyrsafe Engineering Inc.

240 Howard Ave., Des Plaines, Ill. 60018; 708-397-7233

Year founded: 1986.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, client training; occasional hazard identification, building plan reviews, loss prevention publications, loss prevention research; other services include fire and explosion investigations, forensic fire and safety engineering.

Staff: Five total staff members; three professionals, including three ASSEs, two CSPs, two PEs, two SFPEs.

Clients: 80 total clients.

1988 gross revenues: Not reported.

Principal officers: John M. Mertens, president.

G

Gage Babcock & Associates Inc.

301 Maple Tower W., Suite 400A, Vienna, Va. 22180; 703-938-9132

Year founded: 1952.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, building plan reviews; occasional hazard identification, loss prevention publications, loss prevention research; other services include hazard evaluation, security audit inspections, fire protection and security systems design.

Staff: 54 total staff members; 42 professionals, including one ARM, two ASCEs, two ASSEs, 10 CSPs, 22 PEs, 30 SFPEs eight CPPs.

Clients: Total clients not reported; 50% with gross revenues less than $200 million, 20% with $200 million-$500 million, 10% with $500 million-$1 billion, 10% with $1 billion-$3.5 billion, 10% exceeding $3.5 billion.

Branch offices: Chicago; San Francisco; Los Angeles; New York; Atlanta; Washington, D.C.

1988 gross revenues: $4 million total; 40% from unbundled property loss control consulting and engineering; 60% from other services.

Principal officers: Thomas W. Jaeger, president; Alfred J. Longhitano, vp/treasurer; William E. Backes, vp/secretary; Paul D. Smith, vp.

Gallagher Bassett Services Inc.

60 Gould Center, Rolling Meadows, Ill. 60008; 312-640-8555

Year founded: 1962.

Parent company: Arthur J. Gallagher & Co.

Services provided: Frequent fire prevention inspections, hazard identification, loss prevention publications, loss prevention research, client training; occasional general on-site plant loss prevention inspections, plant security inspections; other services include toxic substance control, hazard control.

Staff: 49 total staff members who are professionals, including three ARMs, 30 ASSEs, seven CSPs, one PE, three SFPEs, one COC, one CIMHS, three CFPs one ASP, one CPP.

Clients: 328 total clients; 92% with gross revenues less than $200 million, 5% with $200 million-$500 million, 3% with $500 million-$1 billion.

Specialties: Commercial, industrial, municipal, educational, reli-

Continued on next page

Continued from previous page
gious, health care.

Branch offices: 77 offices throughout the United States.

1988 gross revenues: $4.9 million total; 25% from unbundled property loss control consulting and engineering; 75% from other services, including ergonomics, industrial hygiene, regulatory compliance, liability control, technical services, risk management training.

Principal officers: John G. Campbell, chairman; Peter J. Durkalski, president; Richard McKenna and Fred Potenza, executive vps; Richard R. Rothman, vp.

Dave Goodwin

P.O. Drawer 54-6661, Surfside, Fla. 33154; 305-531-0071

Year founded: 1963.

Services provided: Frequent fire prevention inspections, plant security inspections, hazard identification, building plan reviews, loss prevention publications; occasional loss prevention research; other services include publications of disaster manuals.

Staff: Three total staff members, one professional.

Clients: Total clients not reported, 100% with gross revenues less than $200 million.

1988 gross revenues: Total not reported; 7% from unbundled property loss control consulting and engineering; 93% from other services, including risk management consulting.

Principal officers: Dave Goodwin, owner.

Gow Management Services Inc.

344 Delaware Ave., Buffalo, N.Y. 14202; 716-856-6148

Year founded: 1982.

Parent company: S.H. Gow & Co.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, loss prevention research, client training; occasional loss prevention publications; other services include consulting on regulatory compliance.

Staff: Nine total staff members; four professionals, including two ARMs, two ASSEs, one CIC, one AIC.

Clients: 110 total clients; 80% with gross revenues less than $200 million, 10% with $200 million-$500 million, 5% exceeding $3.5 billion.

Specialties: Heavy industry, general industry, bridge and highway construction, municipalities, high-tech and aerospace industries.

Branch offices: Rochester, Syracuse and Albany, N.Y.

1988 gross revenues: $440,000 total; 60% from unbundled property loss control consulting and engineering; 40% from other services, including safety consulting, third party claims investigations.

Principal officers: Jeffrey Gow, president; Michael Gow, senior vp; Steven McCullough, assistant vp/manager.

H

The HDH Group

One Oxford Center, Suite 4400, Pittsburgh, Pa. 15219; 412-391-7300

Year founded: 1983.

Services provided: Frequent fire prevention inspections, loss prevention research, client training; occasional plant security inspections, hazard identification, building plan reviews, loss prevention publications.

Staff: 35 total staff members; one professional assigned to property loss control/engineering who has a SFPE designation.

Clients: Total clients not reported, 100% with gross revenues less than $200 million.

Specialties: Municipal governments, school districts.

1988 gross revenues: Not reported.

Principal officers: Bryan Hondru, president; Mark Horan and Joseph Deutsch, senior vps; Kathryn Turnbull, vp/secretary; Wallace Merrell, vp-engineering/loss control.

Harrington Group Inc.

3732 Highway 78, Suite 104, Snellville, Ga. 30278; 404-985-1272

Year founded: 1986.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews; occasional loss prevention publications, loss prevention research, client training; other services include fire alarm and special fire protection systems design, installation and testing; muclear audits, evaluation of insurance company recommendations, development of property conservation programs, water supply testing and analysis.

Staff: Four total staff members; two professionals, including two PEs, two SFPEs.

Clients: 15 total clients; 50% with gross revenues less than $200 million, 30% with $200 million-$500 million, 10% with $500 million-$1 billion, 10% with $1 billion-$3.5 billion.

Branch offices: Hickory, N.C.

1988 gross revenues: $110,000 total, 100% from unbundled property loss control consulting and engineering.

Principal officers: Jeff L. Harrington, president; Jim M. Rucci, executive vp.

Hartford Specialty Co.

Hartford Plaza, Hartford, Conn. 06115; 203-275-1370

Year founded: 1981.

Parent company: Hartford Insurance Group/ITT Corp.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, loss prevention research, client training; occasional plant security inspections, building plan reviews, loss prevention publications; other services include fire training laboratories, flow tests, rate and value appraisals.

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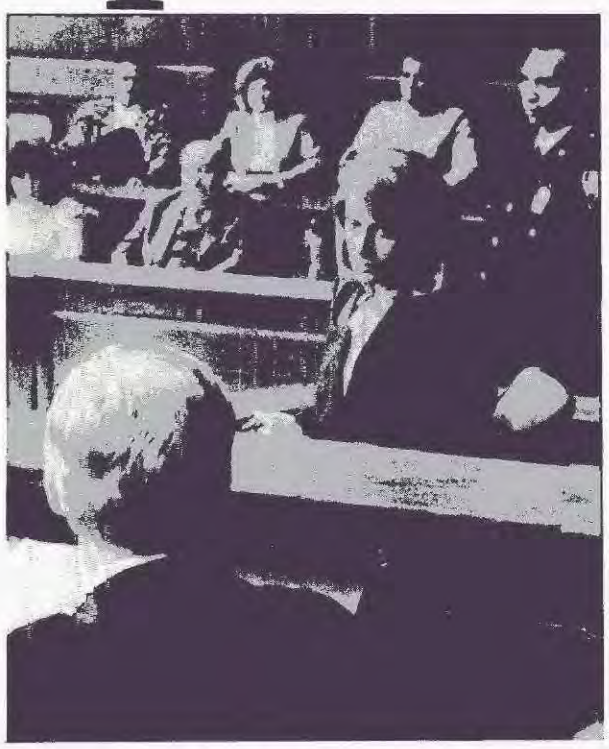

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Structured settlements

New product needed to respond to catastrophic injuries

By William L. Winslow

IN ONE SENSE, structured settlements are the norm in the field of workers compensation, since compensation claims involve multiple payments on account of injuries. From the inception of workers compensation laws in the United States, a significant operating assumption was that a substantial monetary award should not be placed all at once in the injured worker's hands. For one thing, disability benefits are intended to replace a *stream* of wage payments. There is not only the injured party to consider, but also his or her dependents, so spendthrift protection is necessary.

Nevertheless, many elements that characterize the use of structured settlements in personal injury cases are largely absent from the workers compensation field, except where settlement brokers have marketed:

- Settlement *annuities* (including rated-age annuities).
- Assignments to achieve final compromise and release that still provides multiple payments.

Nevertheless, much remains to be done; in particular, the structured settlement industry needs a new product to fully address compensation respondents' needs.

Many a structured settlement broker has worked hard to develop business among workers compensation insurers and self-insureds. Perhaps 5% to 10% of all structured settlements done by independent brokers are compromises of workers compensation claims. Some in-house programs of large commercial lines insurers may achieve more. But, generally, such settlements are still the exception rather than the rule.

One important practical obstacle is that in most jurisdictions the present value of remedies available for an industrial injury is substantially less than the value of the remedy available if the same injury gives rise to a personal injury claim. Most structured settlements other than those payable to minors involve a cost of settlement of at least $75,000. The average expenditure by the defense in cases involving at least some future payments is about $150,000 to $175,000—and usually not all of this is structured. On the other hand, any workers compensation insurer has at least a few files involving catastrophic injuries or death, and the size of the exposure on such claims would remove economic scale, at least, as a barrier to the use of a structured compromise in such cases.

When an insurer or one of its policyholders purchases a settlement annuity in connection with a structured settlement, this purchase alone does not transfer a long-term obligation.

It is helpful to analyze some representative types of industrial injuries involving serious exposure to see how structured settlement "products" match up with compensation insurers' needs.

One type of fairly large claim, call it Type I, arises from the death of a worker. Here there is a defined benefit payable periodically.

Another type, Type II, involves severe injury, say loss of an eye, but once the worker's condition is permanent and stable, future medical expenses will not be too heavy, relatively speaking. That is, the greatest expense will be permanent disability payments.

The third—the worst—exposure arises from such catastrophic injures as brain damage or severe trauma to the spinal cord, called Type III.

In the first two situations the settlement industry has a reasonably satisfactory product "response." However, it is with respect to the third category—catastrophic injury claims—that the settlement industry hears the most calls for help from the workers compensation respondents. Yet the greatest difficulty arises in providing a satisfactory product. This is because of the problem of lifetime medical care. At the same time, because of the mismatch between demand and suitable product supply, there is a substantial new opportunity that needs to be addressed.

Generally, there are two different questions that arise in considering whether a structured settlement will be helpful to respondents:

- Is the compromise really "final," so as to truly ease the administrative burden and allow a current tax deduction for the cost of effecting the compromise?
- Are the economics attractive?

The answers vary if one separately considers the three different types of claims.

When a liability insurer, a compensation insurer or one of its policyholders purchases a settlement annuity in connection with a structured settlement, this purchase alone does not transfer a long-term obligation. Buying and owning an annuity is an investment, not an assignment. That is, the obligation to make future payments is not transferred.

Contrary to a commonly held belief, assignment options for compensation cases are available. The significance of this is that, if a compensation respondent can negotiate a structured settlement with the claimant that includes an assignment and a release by the claimant of the respondent in favor of the assignee, then the respondent can close its file and probably claim a current deduction for the cost of the structured settlement. Moreover, this approach achieves a truly final compromise and an end to administrative burden.

Without such a termination of the obligation, the respondent will be prevented from deducting the cost of the settlement all at once by the Internal Revenue Code Section 461(h). This is a paramount consideration for many compensation insurers and self-insureds.

In the personal injury context, assignments of structured settlement obligations are sanctioned by IRC Section 130. There are 20 or so annuity companies with affiliates that serve as assignees of future payment obligations and own the funding annuities. But in the workers compensation field there are only three or four assignment "products," *i.e.*, companies affiliated with annuity issuers that will assume future payment obligations. Notwithstanding this smaller product choice, the good news is that these are all sound investment options.

Thanks to the work of the National Structured Settlements Trade Assn., federal legislation, H.R. 2180, has been introduced to amend IRC Section 130 to allow favorable tax treatment of assignments of all categories of compensation excludable under IRC Section 104, including assignments of obligations in compensation cases. If the bill becomes law, the product choice would expand from the three or four good options referred to above up to perhaps 15-20 choices. The NSSTA has earned a sympathetic ear in Washington, and I rate the chances of enactment of this important change at better than 50-50.

To appreciate the importance of assignments, it is helpful to consider one fairly common comment about structured settlements by claims handlers. One of the objections that I've often heard when discussing structured settlements in the workers compensation field goes something like this: "Why should I buy an annuity to fund future payments (*i.e.*, portfolio management and check issuance) when I am already organized to handle this task for hundreds or thousands of claims?" Clearly this question demonstrates the claims handler's knowledge of the fact that just purchasing an annuity does not transfer an obligation. But the response to the question, in Type I and Type II cases, is that it is possible with an assignment accompanied by a release of the original obligor, *i.e.*, a novation, to finally close the case. This puts an end to the administrative burden and allows a current deduction.

Of course, the workers compensation judge must approve the settlement, but if the future medical outlook is not too bleak and spendthrift protection is preserved, why shouldn't a compromise and release involving future payments be approved? A majority of all jurisdictions allows this on a proper showing, since they authorize final compromise and releases.

In the workers compensation field there are only three or four assignment "products," *i.e.*, companies affiliated with annuity issuers that will assume future payment obligations.

I have heard workers compensation lawyers in many jurisdictions assert that as a matter of law, compensation claims cannot be finally compromised in this way. But I have personal experience of just such settlements—using a novation (substitution) of the future payment obligor—in a substantial majority of U.S. jurisdictions.

In some cases the work comp insurer's reserving practices may be conservative enough that settlement annuities offer economies. Let's suppose the insurer must pay a death benefit of $95,000 at the rate of $224 per week, for 424 weeks. Depending on the circumstances, that is, the jurisdiction and the insurer involved, it might be necessary to set the reserve at an amount equal to the "face value" of the obligation: $95,000. But even if the reserve is based on a discount rate of 6%, then it will be set at about $75,500. If the insurer instead utilized a structured compromise and release, funded by an annuity yielding 8.5%, the cost would be about $69,200. Assuming a novation-type compromise and release, the savings would go straight to the bottom line. Moreover, for payment plans for a period of 20-30 years, the current yield on annuities is around 8.9%. Additionally, the spread will be larger since the higher rate would be compounding for a longer period of time. In short, with prospective savings in the 10% to 30% range, more compensation respondents should consider the selective use of annuities on the investment grounds alone.

There is likely to be an even more attractive spread between reserve and cost of structured settlement in cases in which the injured party's life expectancy is reduced either by his or her injury or by unrelated conditions (still leaving aside the Type III cases).

Examples might include toxic exposures, heart disease caused by work stress or other causes, heavy smoking, or gross obesity. In such cases settlement annuity underwriters will "discount-price" lifetime benefits. In other words, while the compensation insurer is required to reserve on a normal life expectancy, it might instead purchase a "rated-age" annuity, i.e., an annuity that generates the promised payments at a lower cost than for normal lives, due to the assumption by medical underwriters at the annuity company that the claimant's life expectancy has been significantly reduced.

Even this highly innovative annuity product is not

Continued on next page

Structured settlements

Continued from previous page
sufficient to the challenge of Type III cases, however. This is because with Type III cases, the potential exposure for medical expenses may fluctuate considerably. All currently available settlement annuities involve fixed payment plans. There is thus no way to achieve even an approximate "match" of future annuity payments and future liabilities.

Moreover, should the funds generated prove insufficient to defray the medical expenses, the respondent is still liable. Finally, most workers compensation judges are unwilling to consider any compromise that appears to limit the right of a gravely injured worker to lifetime medical care. In short, the normal products available from a structured settlement broker can't solve the respondent's product demand.

The result is that the structured settlement industry has had very little success with Type III cases. The irony is that *every* time I've spoken to a workers compensation claims worker about structured settlements, he or she has said: "Can't you help with these medical care cases? They are the bane of our existence."

This leads me to think that the demand for a lifetime medical care product for its Type III cases would sell very well—to large insurers, to small insurers, but perhaps best to self-insureds. The latter are often particularly anxious to rid themselves of the handful of Type III cases they have, due to the disproportionate administrative burden associated with such cases. The smaller respondents cannot achieve any economies of scale or expertise from their limited experience with these medically complicated cases.

But as matters now stand, no life insurance company offers a lifetime medical care product specifically aimed at underwriting the costs arising from grave injuries.

But as matters now stand, no life insurance company offers a lifetime medical care product specifically aimed at underwriting the costs arising from grave injuries. Who does have this product? Of course, every workers compensation insurer "makes" this "product," but only for its own use. So far as I know no compensation insurer has ever said, "We know the risk and we have the underwriting and administrative experience necessary. We'll use these tools to bring a lifetime medical care product to market." Clearly some of the larger workers compensation insurers *do* have such a volume of very serious injury cases that they have developed specialty claims staffs. They also have the necessary underwriting experience. A few may even be taking a role in research aimed at reducing costs of caring for critically injured workers. What is needed is for at least a few of these companies to make a lifetime medical care product available to the market.

As matters stand, the structured settlement industry has substantial savings in claims costs to offer compensation insurers and self-insureds, using products already on the shelf, especially with respect to Type I and II cases. In addition, an important new opportunity is available. It is to be hoped that the huge demand for a lifetime medical care product can be met by an innovative response on the part of the leading compensation insurers.

William L. Winslow is a Los Angeles-based attorney specializing in insurance litigation and structured settlement law.

Safety committee can be effective loss control tool

By Keith E. Barenklau

SAFETY COMMITTEES saw extensive use in the late '50s and early '60s. They were used to extend the reach of safety professionals and to give management additional safety contacts in the workplace. A main duty of safety committees in those early days was to spot and report unsafe working conditions. We now know that unsafe conditions—though in need of correction—are only a small part of loss prevention.

As organizations learned more about the control of accidental loss, they realized that what employees do—or fail to do—had a great impact on workplace safety. However, for various good and sufficient reasons, safety committees were reluctant to call attention to unsafe behavior, which is a major cause of workplace losses.

To quote a plant manager, "You can propagate, negotiate and legislate, but you can't make being a tattletale popular." For this reason and perhaps others, safety committees fell from favor and professional safety staffs grew.

After the recessions of the '70s, a wave of cost-cutting and consolidations hit the industrial workplace. Management was faced with a need to control losses and, at the same time, reduce costs. Although the times seemed to call for additional safety help, safety committees were not extensively used.

During the mid-'80s, though, with the proliferation of safety legislation and other needs to control accidental losses, organizations began to take another look at safety committees as a source of assistance in the control of costly accidental loss. For a safety committee to be effective, its development requires serious thought and study. Several questions need to be answered to determine if a safety committee is to be a workable loss control tool:

✔ Do we really need a safety committee?

The answer to this question depends on why we want it. Many feel that a change is needed to effectively control accidental loss and may jump to the conclusion that a committee will do the job for them. Safety committees are not a substitute for proper management. If the management system is weak, it must be corrected prior to the consideration of a safety committee.

An organization must also consider: Will our management system allow a committee to function? Are we willing to spend the time and research necessary to establish workable ground rules for the committee? If the answer to these questions is yes, an organization perhaps is ready to establish a safety committee.

✔ Who should serve on the safety committee?

Though the makeup of a successful safety committee varies, one fact seems clear: In order to do a proper job, the person or persons selected for the safety committee must want to serve. Many times a person is found who would make a good member, but does not want to serve on the committee. Don't force the issue. He or she may be willing to serve later on.

A mixture of labor and management on the committee also seems to work well. Continuity may be achieved by having terms expire for members at different times. Experience has shown that once a committee is up and running and showing signs of success, many people volunteer their services.

This volunteering is viewed as a sign that a safety committee is doing its job well and that those serving feel good about being on the committee.

✔ What should a safety committee do?

Many organizations with successful safety committees use them as a channel for safety communication to and from the workforce; to serve as an initial clearinghouse for worker questions regarding the safety program; to answer inquiries and passing on questions for which no ready or known answer exists; and to set a safety example for the workforce.

Safety committees can do many things. As such, there is perhaps no set list of duties. Most safety committees, however, do the following:

- Assist with inspections and accident investigations.
- Conduct or help with safety meetings.
- Answer workers' questions about the safety program.
- Set a safe example for others.
- Bring workers' safety concerns to the attention of management.
- Help develop safety incentive and award programs.
- Test new or modified safety equipment.
- Bring safety violations and achievements to the attention of those involved.
- Serve as an idea base for safety program improvement.

While the above is not a complete list of safety committee duties, it represents many of the duties performed by most successful committees.

To avoid pitfalls in the use of safety committees it is helpful to remember what a safety committee is not. A safety committee is not a replacement for management and should not become a policy setting group. It should not be used as a group of informers who are called upon to 'rat' on fellow employees.

To avoid pitfalls in the use of safety committees it is helpful to remember what a safety committee is not. A safety committee is not a replacement for management and should not become a policy setting group. It should not be used as a group of informers who are called upon to "rat" on fellow employees.

Members should use every effort to stay out of the chain of command. They should not replace supervisors nor get between a supervisor and workers.

Committee members are really volunteers with a mission and should be treated as such. Safety committee members occupy a unique position within an organization. Often they spend a great deal of time, without additional pay, to further an organization's safety goals.

Give them recognition for their efforts. Make sure they have a badge or patch to identify them as safety committee members. List committee members in in-house publications seen by the workforce. Such recognition is deserved by the committee members and it is a tangible reward for their service.

The control of accidental loss is vital to all organizations. A safety committee, when properly organized and trained, can greatly assist the loss control program. They give many additional sets of eyes and ears to a company's safety management effort, forming a great idea bank for program improvement. Above all, a safety committee can improve safety results. As one committee member said: "There ain't any of us as smart as all of us."

Keith E. Barenklau is president and principal consultant of Organizational Safety Services Inc., a Richmond, Va.-based loss control consulting firm.

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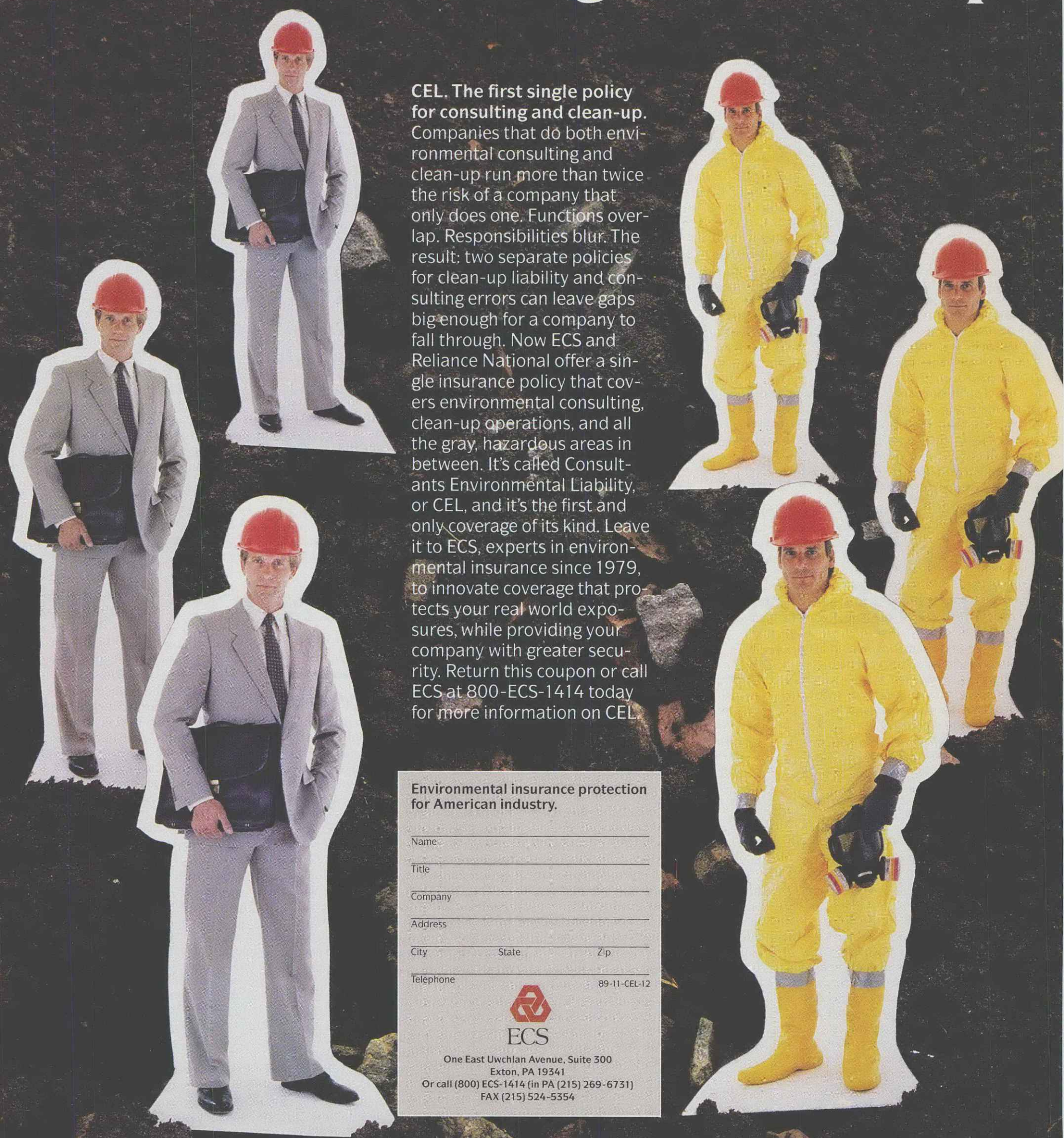

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Risk managers chained to the phone?

Book offers tips to maximize time spent on the line

"Phone Power: How to Make the Telephone Your Most Profitable Business Tool"
By George R. Walther
Published by Berkley Publishing Group, 200 Madison Ave., New York, N.Y. 10016
$3.50

By Kevin M. Quinley

Risk managers curse the ghost of Alexander Graham Bell, but they can't unplug the phone. While bemoaning the sins of telephone interruptions is common, risk professionals will not return to the quaint days when every business transaction was conducted face to face. We will as likely start drafting insurance policies with quill pen and inkwell, so we might as well make our peace with the damned contraption, the telephone.

As critical as the telephone is to the risk professional, Mr. Bell's legacy is a mixed blessing. Managers can't live without the little critter but are often driven nearly mad by its incessant ring. Phone tag and interruptions are epidemic. ("No, I'm returning the call that he returned after my call yesterday.") Risk managers are looking for a solution to telephone torment.

Just in time comes George R. Walther's "Phone Power."

Cost pressures prompt companies to handle by phone much business that heretofore was handled in person. Businesspeople and insurance professionals spend lots of time on the phone negotiating, lining up appointments and reporting to clients and policyholders. The phone is a powerful and indispensable risk management tool, but we rarely give it much thought.

Mr. Walther *has* given it a lot of thought and his book should be required reading for every risk manager. His concepts, if implemented, can help any busy businessperson improve his time management.

Books & ideas

The most critical piece of productivity hardware in the risk manager's toolshed is probably not the dictaphone, computer terminal or calculator, but the phone. Risk managers "stick it in their ear" every day.

Among Mr. Walther's tips:

- Be prepared before dialing. Know your agenda and aims.
- Make phone appointments to avoid playing telephone tag.
- Use a head set for hands-free calling.
- Put a mirror in front of your phone area. Your facial expression dictates your phone voice.
- Establish your own personal phone "command center," with pen, paper, and Rolodex.
- Use a voice mail system to call in for messages and avoid long-winded chit chat with co-workers.

As more and more business is conducted by phone, the importance of wisely using phone time will grow. Risk management courses take for granted that everyone will be good time managers, particularly with the telephone. This omission is unfortunate.

Aside from its helpful ideas on getting results by phone, "Phone Power" offers other tips useful for the bigger business picture for small and large businesses alike.

Conflict resolution? Try Chapter 6: "Wired Emotions, Deal Positively with Irate, Disinterested and Demented Callers."

Trying to deal on an equal footing in negotiating sessions with insurers and brokers? Check out Chapter 7 on "Phonegotiating: Reach Win/Win Agreements by Phone."

Like it or not, people may be judging you and your company by the number of times your phone rings or by the attitude of that $5 per hour receptionist. The solution: Have your secretary and receptionist read this book, too.

Companies in search of excellence may need to hire fewer MBAs and spend more time concentrating on answering the phone with a friendly voice on the first ring.

If you have ever felt like ripping the phone jack out of the wall. . . .

If you have ever felt like smashing the receiver with a hammer. . . .

If you have ever thought about moving into a cave and becoming a hermit. . . .Then "Phone Power" is definitely for you.

The book has a few weaknesses. Mr. Walther tantalizes the reader by mention of computer software that helps to manage phone time, although he doesn't elaborate. He should give readers the names and addresses of the software companies that produce such handy aids.

Mr. Walther also omits any discussion of the facsimile machine and how it can help or hinder phone power. One wonders how Mr. Walther views the fax machine and how business people can turn it into a useful tool, other than the obvious. Maybe he will follow up with a sequel, titled "Fax Power."

Overall, "Phone Power" is an excellent book. It is an easy read, with dozens of practical payoffs. Mr. Walther makes useful suggestions that can save risk managers time, make them better negotiators and can put them in charge of their phone time.

Excuse me, but I've got a call on line two and have been playing phone tag with this guy for a week. Of course, that was before I read "Phone Power."

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

Wrongful termination not 'occurrence': Court

An alleged wrongful termination of employment is not an "occurrence" within the meaning of a bodily injury and property damage liability policy, the Supreme Court of Montana ruled.

A former employee of Daly Ditches Irrigation District sued for breach of covenant of good faith and fair dealing and for discharge from employment in violation of state public policy. Daly requested its insurer, National Surety Corp., to defend it under a bodily injury and property damage liability policy. The insurer refused. Daly then brought this action seeking to establish that wrongful termination fell within the policy. The court ruled for the insurer.

On appeal, Daly argued that a breach of covenant of good faith and fair dealing constituted an "occurrence." The intentional nature of the firing of the employee should not preclude finding coverage, because the consequences of the employment contract were neither expected nor intended, Daly said. But, the court said that an intentional conduct exclusion did apply. *Daly Ditches Irrigation District vs. National Surety Corp.*, Supreme Court of Montana, Nov. 29, 1988, *rehearing denied* Dec. 20, 1988 (*BI*/05/July-$10).

Legal briefs

Parking lot injury compensable

An employee en route to her automobile in a company-owned parking lot who sustained injuries when struck by a vehicle, was entitled to workers compensation benefits, the Supreme Court of Tennessee ruled.

Peggy Sewell sustained injuries when she was struck by a vehicle driven by a fellow employee in a fenced-in, company-owned parking lot. Ms. Sewell had entered the lot to go to her car and drive home. She filed for benefits but was denied.

The appellate court noted that the lot in question was restricted to company employees. The court said that the hazards of congested traffic immediately after closing time were known to the employer.

The appellate court also noted that a security guard was employed to direct traffic, to close off the entrances and exits and to assure that traffic departed in an orderly manner.

"Where the employee is. . .required to use a special or restricted route or access and is there exposed to a special hazard not common to members of the general public, recovery may be permitted," the court said.

Sewell vs. American Uniform Co., Supreme Court of Tennessee, Oct. 10, 1988 (*BI*/04/July-$10).

Manifestation of property damage

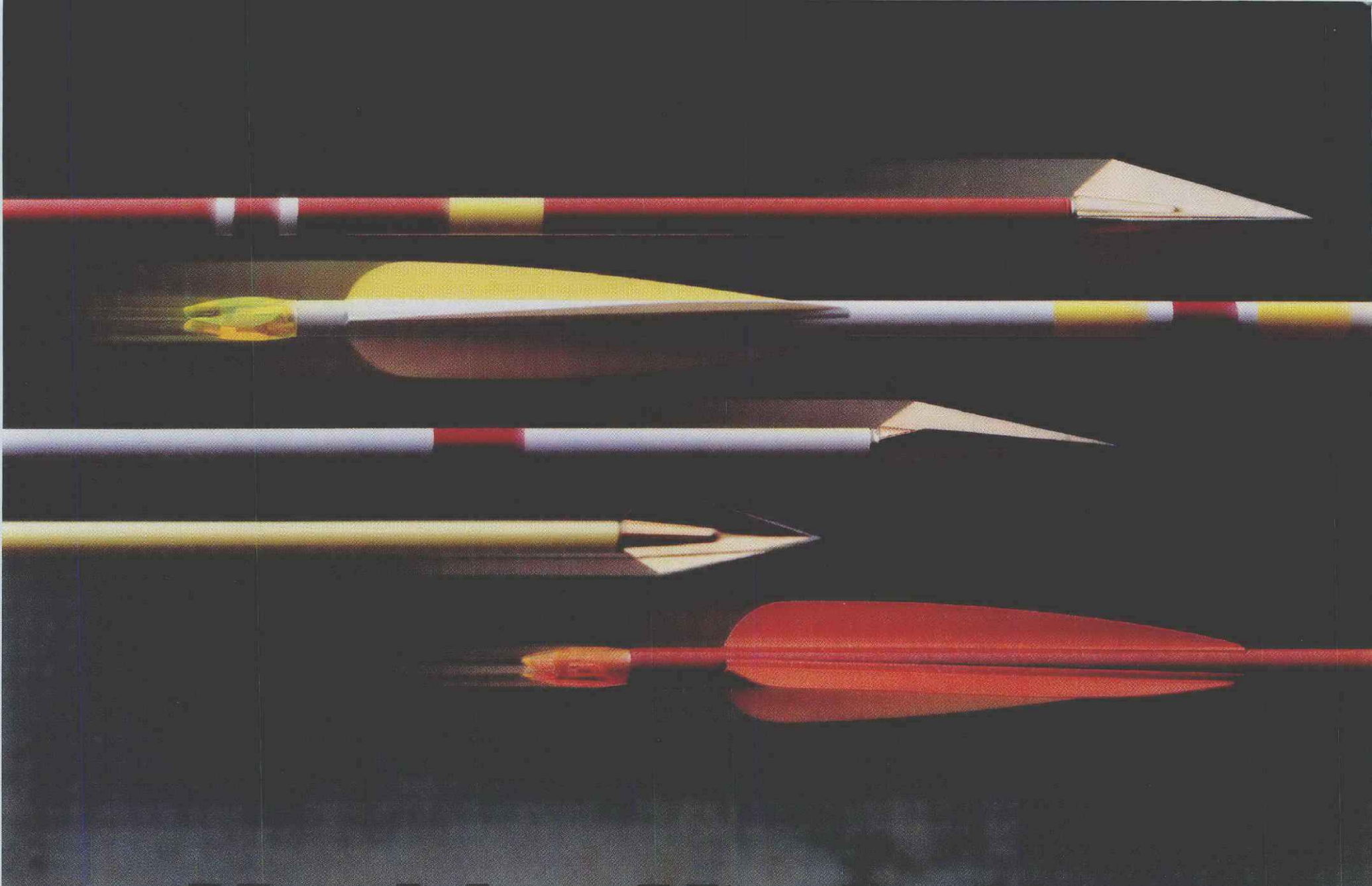
Where there are two first-party insurers, one of which was on the risk on the date of the first manifestation of property damage, and the other on the risk after the date of the first manifestation of property damage, the first insurer must pay the entire claim, a California appellate court ruled.

Home Insurance Co. and Landmark Insurance Co. were successive property damage and liability insurers of Hotel del Coronado Corp. Home was on the risk from Sept. 1, 1980, to Oct. 1, 1981. Landmark insured the hotel from Oct. 1, 1981, and for all relevant time periods thereafter, including the date the claim was made. Both policies had identical definitions of "occurrence" and "property damage." This claim arose out of construction completed in 1973 of an oceanfront building. Concrete on the exterior of the building and certain room balconies began deteriorating in or about December 1980. After Oct. 1, 1981, other room balconies began to visibly deteriorate. The deterioration was caused by defects in the design and construction of the building and balconies as well by the chemical composition of the concrete, which was affected by the sea air and spray.

The hotel made claims against both insurers. The insurers settled for $350,000, with Home contributing $285,000 and Landmark $100,000, each reserving the right to seek contribution against the other. Home then brought this action seeking a declaration as to how payment should be apportioned. The trial court ruled against Home and awarded Landmark $100,000.

The appellate court said that, in property damage cases, "manifestation" routinely refers to when the damage first becomes apparent. Thus, the court said that the date of manifestation should determine which insurer must provide indemnification. In situations involving continuous damage after the policy has expired, the insurer on the risk at the time the damage was first discovered is liable for the entire loss. The trial court decision was affirmed. *Home Insurance Co. vs. Landmark Insurance Co.*, California Court of Appeal, Nov. 18, 1988 (*BI*/02/July-$10).

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



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(Underwriting member companies: The Ætna Casualty and Surety Company; American Home Assurance Company; Continental Casualty Company; Federal Insurance Company; The Continental Insurance Company; United States Fire Insurance Company; General Accident Insurance Company of America; The Home Insurance Company; Insurance Company of North America; Maryland Casualty Company; NAC Reinsurance Corporation; Royal Insurance Company of America; The Travelers Indemnity Company; Zurich Insurance Company, U.S. Branch.)

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Continued from page 51

Staff: 502 total staff members; 30 professionals assigned to property loss control engineering/consulting, including 10 ARMs, 14 ALCMs, two ASSEs, 29 CSPs, three PEs, three CPCUs, 10 CHSs, five CIHs.

Clients: Not reported.

Branch offices: 78 offices in 39 states.

1988 gross revenues: Not reported.

Principal officers: Ramani Ayer, president; Phil Griffin, senior executive vp; Don Walker, executive vp; Don Eldridge and John A. MacDonald, senior vps.

Daniel J. Hartwig Associates Inc.

P.O. Box 80, Oregon, Wis. 53575-0080; 608-835-5781

Year founded: 1978.

Services provided: Frequent general on-site plant loss prevention inspections, hazard identification, client training; occasional fire prevention inspections, plant security inspections, building plan reviews, loss prevention publications, loss prevention research; other services include asbestos inspections.

Staff: 30 total staff members; 11 professionals, including one CSP, one CIH, one CHCM, one ASP.

Clients: Total clients not reported; 40% with gross revenues less than $200 million, 15% with $200 million-$500 million, 40% with $500 million-$1 billion, 5% with $1 billion-$3.5 billion.

Specialties: Schools, hospitals, government entities.

Branch offices: Phoenix, Ariz.

1988 gross revenues: $1.3 million total, 100% from unbundled property loss control consulting and engineering.

Principal officers: Daniel J. Hartwig, president; Diane E. Hartwig, vp.

Hewitt, Coleman & Associates Inc.

P.O. Box 3665, Greenville, S.C. 29608; 803-242-4350

Year founded: 1923.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, loss prevention publications, loss prevention research, client training; occasional plant security inspections, building plan reviews.

Staff: 10 total staff members; one professional assigned to property loss control/engineering; designations held by staff include one CSP, two CSMs, two CSSs.

Clients: Not reported.

Specialties: Municipalities, textile industry, lumber, manufacturing, surface mining, construction, health care industry.

Branch offices: Raleigh, N.C., Atlanta; Orlando, Fla.; Birmingham, Ala.; Denver.

1988 gross revenues: Total not reported; 20% from unbundled property loss control consulting and engineering; 80% from other services, including claims administration, excess insurance placement, accounting, underwriting, data management, management of risk retention groups and captive insurance companies.

Principal officers: Charles R. Warne, president; Willard L. Quinn Jr., senior vp-operations; E.J. Kaminski, senior vp-marketing; Bennie H. Attaway, vp-administration; J. Wesley Sexton, assistant vp-loss control.

J.J. Hischar & Associates

P.O. Box 741, Woodbridge, N.J. 07095; 201-272-2155

Year founded: 1986.

Services provided: General on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, loss prevention publications, loss prevention research, client training; other services include computer security and disaster recovery planning.

Staff: Eight total staff members; including one ASCE, 1 CSP, one CSFR, one IHA.

Clients: 15 total clients; 100% with gross revenues less than $200 million.

Specialties: Petroleum and construction industries.

Branch offices: Miami; Kenilworth, N.J.; Philadelphia.

1988 gross revenues: $180,000 total); 70% from unbundled property loss control consulting and engineering; 30% from other services, including industrial consulting.

Principal officers: J.J. Hischer, president; Deborah Higgins, vp/ hygienist.

Continued on next page

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Inservco Insurance Services Inc.

3461 Market St., Suite 201, Camp Hill, Pa. 17011; 717-761-7735

Year founded: 1980.
Parent company: Pennsylvania National Inusrance Cos.
Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, client training; occasional building plan reviews; other services include management consultations and property valuations.
Staff: 105 total staff members; 28 professionals, including two ARMs, five ALCMs, two ASSEs, two CSPs, one PE, one SFPE, two CPCUs, one OHST.
Clients: Not reported.
Branch offices: Harrisburg and Pittsburgh, Pa.; Bridgewater, N.J.; Baltimore; Greensboro, N.C.; Nashville, Tenn.; Birmingham, Ala.
1988 gross revenues: Not reported.
Principal officers: Marlin Wilbert, president; Robert Conrad, executive vp; Kenneth Shutts, secretary; Kenneth Shaffer, treasurer; Joseph Boslet, manager-loss control services.

Insurers Risk Services

P.O. Box 225, Three Converse Place, Winchester, Mass. 01890; 617-729-2777

Year founded: 1986.
Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification; occasional plant security inspections.
Staff: 20 total staff members; 18 professionals.
Clients: Total clients not reported; 30% with gross revenues less than $200 million, 50% with $200 million-$500 million, 10% with $500 million-$1 billion, 10% with $1 billion-$3.5 billion.
1988 gross revenues: $250,000 total.
Principal officers: L.D. Scotti, president.

Insurers Technical Services Inc.

8600 N.W. 36th St. 7th Floor, Miami, Fla. 33166; 305-599-7410

Year founded: 1983.
Parent company: Ryder System Inc.
Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification; occasional plant security inspections, building plan reviews, loss prevention research, client training; other services include accident analyses.
Staff: 20 total staff members; 10 professionals, including four ASSEs, two CSPs, one SFPE, two OHSTs, one CST.
Clients: Total clients not reported; 60% with gross revenues less than $200 million, 10% with $200 million-$500 million, 10% with $500 million-$1 billion, 10% with $1 billion-$3.5 billion, 10% exceeding $3.5 billion.
Branch offices: Maitland, Fla.
1988 gross revenues: $500,000 total; 50% from unbundled property loss control consulting and engineering; 50% from other services, including appraisals and premium auditing.
Principal officers: M. Anthony Burns, president; Louis Forster and John Marshall, vps.

International Loss Control Services Ltd.

Irish Farm Centre, Bluebell, Dublin 12, Ireland; 01-504800; 01-503266

Year founded: 1983.
Parent company: FBD Holdings P.L.C.
Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, client training; occasional hazard identification, client training; other services include loss control audits.
Staff: Six total staff members; two professionals, including one ACII.
Clients: Total clients not reported; 20% with gross revenues less than $200 million, 80% with $200 million-$500 million.
1988 gross revenues: $400,000 total; 10% from unbundled property loss control consulting and engineering; 90% from other services, including property and contingency loss control programs,
Principal officers: Patrick J. O'Reilly, senior executive director; E. Bergin, executive director; M. Carr.

Investigative/Loss Control Services Inc.

6028 150th St. S.E., Prior Lake, Minn. 55372; 612-447-1234

Year founded: 1988.
Services provided: Frequent fire prevention inspections, hazard identification, loss prevention publications, loss prevention research, client training; occasional general on-site plant loss prevention inspections; other services include fire investigations, emergency and disaster response plans.
Staff: Three total staff members; two professionals, including one SFPE, one CFI.
Clients: Eight total clients; 25% with gross revenues less than $200 million, 25% with $200 million-$500 million, 50% with $500 million-$1 billion.
Specialties: Manufacturing industry, hotel chains, resort complexes.
1988 gross revenues: $124,000 total for six months of 1988; 25% from unbundled property loss control consulting and engineering; 75% from other services, including fire investigation.
Principal officers: G. Crawford Wiestling, president; Jeffrey J. Washinger Sr., vp.

Continued on next page

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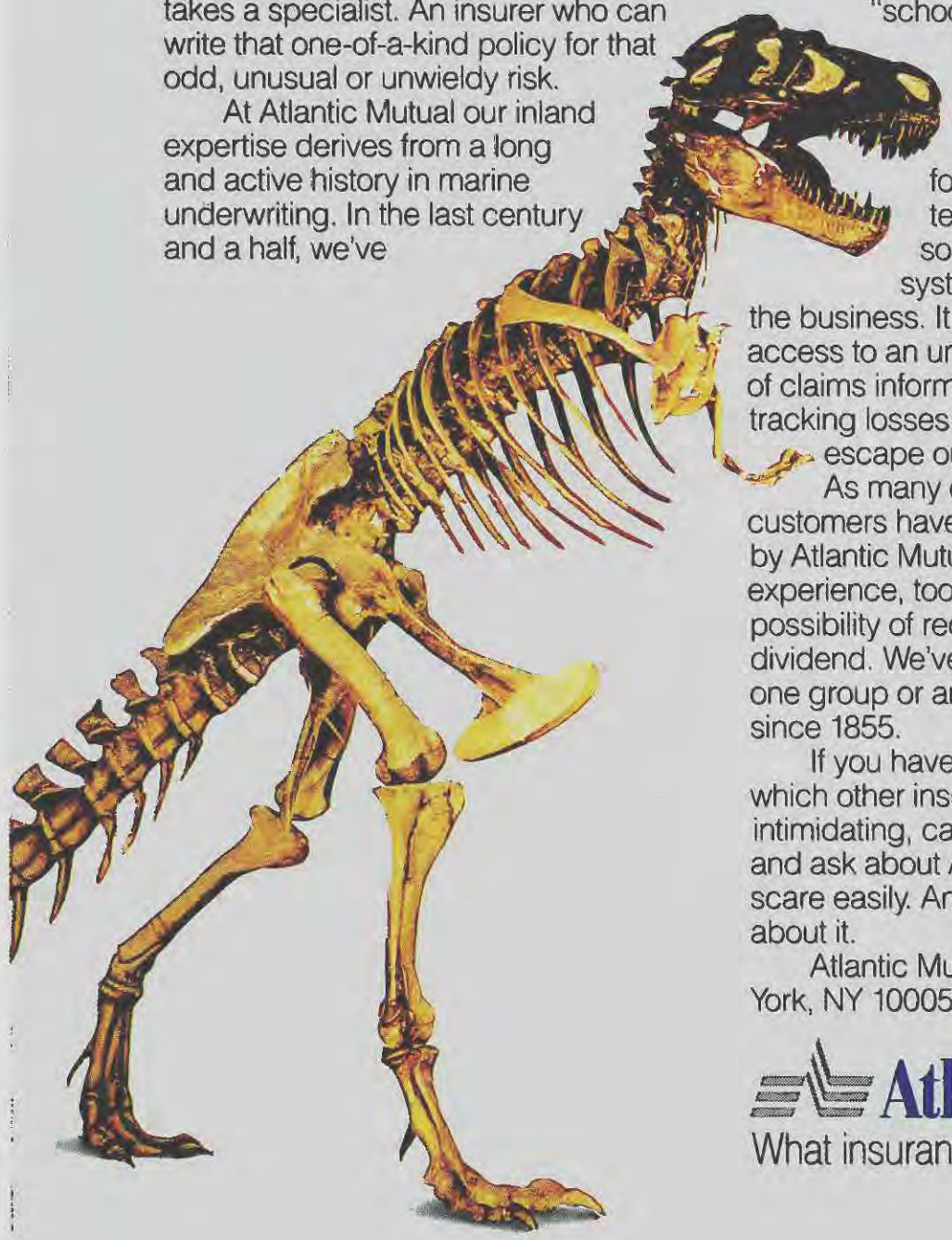

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AtlanticMutual
What insurance is supposed to be.

Continued from previous page

J

William L. Jacobs Enterprises Inc.

P.O. Box 7333, Fort Lauderdale, Fla. 33338; 305-766-9910

Year founded: 1987.
Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, loss prevention publications, loss prevention research, client training; occasional plant security inspections.
Staff: Four total staff members; three professionals, including one CSP, one PE, one CHCM.
Clients: Total clients not reported, 100% with gross revenues less than $200 million.
Specialties: Retailers, supermarkets, municipalities.
Branch offices: Osteen, Fla.
1988 gross revenues: Not reported.
Principal officers: William L. Jacobs, president.

Fred S. James & Co. Inc.- Risk Control Services

1285 Ave. of the Americas, New York, N.Y. 10019; 212-333-8900; 830 Morris Turnpike, Short Hills, N.J. 07078; 201-564-7200

Year founded: 1858.
Parent company: Sedgewick Group PLC.
Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, loss prevention publications, client training; occasional loss prevention research; other services include computerized contingency planning, loss estimates, rate analyses, property valuations, building code reviews and analyses.
Staff: 105 total staff members; 88 professionals, including 17 ARMs, two ALCMs, 39 ASSEs, 23 CSPs, five PEs, 20 SFPEs, one ACS, two AICEs, five AIHAs, one ASME, three ASPs, four CHCMs, three CPCUs, one CSE, one CSM, one CST, two EITs, one IIE, one NBBM, 27 NFPAs, one NFSA, 27 NSCs, five NSMSs, two NSPEs, one SSAs, two WSOs.
Clients: 290 total clients.
Branch offices: Atlanta; Boston; Chicago; Colombia, S.C.; Dallas; Darien, Conn.; Detroit; Fort Lauderdale and Orlando, Fla.; Harrisburg, Pittsburgh and Philadelphia, Pa.; Irvine, Calif; Kansas City, Mo.; Little Rock, Ark.; Memphis and Nashville, Tenn.; Minneapolis; Omaha, Neb.; Phoenix, Ariz.; Portland, Maine; Portland, Ore.; Rochester, N.Y.; St. Louis; Seattle.
1988 gross revenues: Total not reported; 35% from unbundled property loss control consulting and engineering; 65% from other services, including liability exposure management, expert witness testimony, consulting.
Principal officers: William G. Lauffer Jr., vp; Steven Galeotti, director.

Jardine Emett & Chandler Inc.

333 Bush St., Suite 500, San Francisco, Calif. 94104-2878; 415-391-2600

Parent company: Jardine Insurance Brokers Group.
Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification; occasional building plan reviews, loss prevention publications, loss prevention research, client training; other services include engineering for highly protected risks, chemical safety reviews, analysis of boiler and machinery exposures.
Staff: 1,027 total staff members; 10 professionals, including four ASSEs, three PEs, two SFPEs, one AIHA, four NFPAs, three NSCs, three NSMS, one IES, one CHMM, two SPSMs, one CHCM, one ASP.
Clients: Not reported.
Branch offices: New York and Schenectady, N.Y.; Los Angeles and Orange County, Calif.; Boston; Houston.
1988 gross revenues: $96 million total.
Principal officers: George W. Brown, president/chief executive officer, Richard A. Archer, chairman; Leonard P. Lawrence, executive vp.

Jarry Associates

108 Commonwealth Drive, Basking Ridge, N.J. 07920-3095; 201-647-9031

Year founded: 1980.
Services provided: Frequent general on-site plant loss prevention inspections, building plan reviews, loss prevention publications, loss prevention research, client training; occasional fire prevention inspections, plant security inspections; other services include accident investigations, interpretation of standards.
Staff: Three total staff members; two professionals, including two ASSEs, two CSPs, one PE.
Clients: Five total clients; 25% with gross revenues less than $200 million, 20% with $500 million-$1 billion, 15% with $1 billion-$3.5 billion, 40% exceeding $3.5 billion.
Specialties: Paper and textile industries, bakeries, warehouses, lumber and woodworking industries.
Branch offices: Conway, N.H.
1988 gross revenues: $45,000 total; 85% from unbundled property loss control consulting and engineering; 15% from other services.
Principal officers: Harry J. Eiermann, principal.

Phil Jaynes & Associates

7414 Sunpointe Lane, Sacramento, Calif. 95828; 916-682-5209

Year founded: 1972.
Services provided: Frequent general on-site plant loss prevention inspections, hazard identification, loss prevention publications, loss prevention research; occasional fire prevention inspections, building plan reviews, client training; other services include industrial safety.
Staff: One staff member who holds ASSE and CSP designations.
Clients: Eight total clients; 25% with gross revenues less than $200 million, 75% exceeding $3.5 billion.
Specialties: Metal industry.
1988 gross revenues: Not reported.
Principal officers: Phil Jaynes, president.

Rolf Jensen & Associates Inc.

1751 Lake Cook Road, Deerfield, Ill. 60015; 708-948-0700

Year founded: 1969.
Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, client training; occasional loss prevention publications; other services include design of fire protection systems.
Staff: 130 total staff members, including six CSPs, 31 PEs, 50 SFPEs.
Clients: Not reported.
Branch offices: Denver; Houston; Brea and Concord, Calif.; Saddle Brook, N.J.; Fairfax, Va.;

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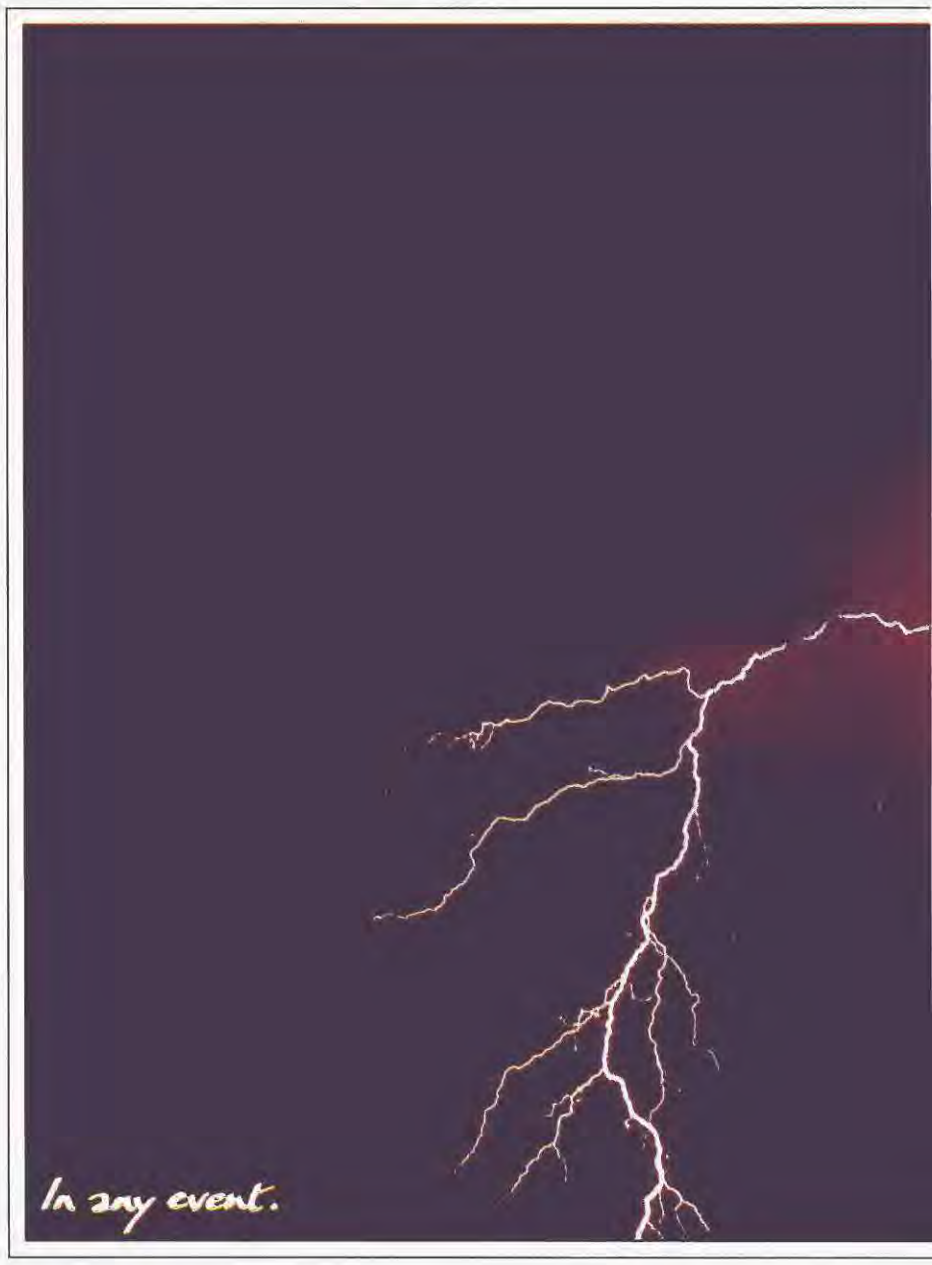

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Ottawa and Toronto, Ontario; Vancouver, British Columbia.

1988 gross revenues: $10 million total.

Principal officers: Rolf Jensen, president; Ralph E. Transue, executive vp; Roger Swiss, vp-finance; George E. Toth, vp-marketing; James Quiter, Randolph W. Tucker and William Webb, vps; Walter Miller, vp/general manager-Canadian offices.

Johnson & Higgins-Property Loss Control

125 Broad St., New York, N.Y. 10004; 212-574-7000

Year founded: 1845.

Parent company: Johnson & Higgins.

Services provided: Frequent building plan reviews, loss prevention publications, client training; occasional loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification; other services include loss control program coordination, consulting and evaluation; customized database systems for property loss control; insurance impact and business interuption studies; earthquake loss control and disaster planning; boiler and machinery loss control consulting.

Staff: 72 total staff members; 62 professionals, including two ASCEs, 10 ASSEs, nine CSPs, 23 PEs, 42 SFPEs, one ABBA, one ACS, nine AICHE, one AISE, one ASA, one ASIE, two ASISs, three ASMEs, one CPCU, one CPP, one CSSP, two IEEEs, one NBBI, 45 NFPAs, five NFSAs, four SSAs.

Clients: 1,600 total clients.

Branch offices: Atlanta; Baltimore; Boston; Charlotte, N.C.; Chicago; Cleveland; Costa Mesa, Los Angeles, San Diego and San Francisco, Calif.; Dallas; Detroit; Hartford, Conn.; Honolulu; Houston; Minneapolis; Nashville, Tenn.; Parsippany, N.J.; Philadelphia; Phoenix, Ariz.; Pittsburgh; Portland, Ore.; Richmond, Va.; St. Louis; Seattle; Stamford, Conn.

1988 gross revenues: Not reported.

Principal officers: Richard J. Rice, director/senior vp; William F. Ramonas, national manager-property loss control; Glenn H. Giles, James C. Deaton, Ralph P. Dellinger, Michael E. Gerdts, Paul F. Helweg, Edwin Lee Marshall and Stephen M. Stuart, regional managers-property loss control.

K

Kendall Insurance Inc.

90 S. Main St., P.O. Box 1840, Rochester, N.H. 03867; 603-332-5800

Year founded: 1867.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, loss prevention research, client training; occasional plant security inspections, loss prevention research.

Staff: 180 total staff members; four professionals assigned to property loss control consulting/engineering, including three ARMs and one PE.

Clients: 30 total clients; 70% with gross revenues less than $200 million, 25% with $200 million-$500 million, 5% with $500 million-$1 billion.

Specialties: Ski areas, recreation facilities, manufacturing, schools.

Branch offices: Manchester, N.H.; Salt Lake City.

1988 gross revenues: Not reported.

Principal officers: Skip Kendall, president; Dave Hampson, vp.

M. Kimbrell Associates

4024 Dunsmore St., Huntsville, Ala. 35802; 205-883-9605

Year founded: 1985.

Services provided: Frequent general on-site plant loss prevention inspections, hazard identification; occasional fire prevention inspections, client training; other services include emergency and disaster planning.

Staff: Two total staff members; one professional who holds ASSE and CSE designations.

Clients: Total clients not reported, 100% with gross revenues less than $200 million.

1988 gross revenues: Less than $25,000 total, 100% from unbundled property loss control consulting and engineering.

Principal officers: Murvin J. Kimbrell, president; Julia M. Kimbrell, vp/secretary/treasurer.

Kleckner Enterprises Inc.

P.O. Box 357, Hibernia, N.J. 07842; 201-586-2620

Year founded: 1961.

Services provided: General on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, loss prevention research, client training; other services include hazardous materials and environmental research and control.

Staff: Three total staff members; one professional who holds ASSE, RSP and CSE designations.

Clients: Not reported.

Specialties: Quarries and mines, cement plants, hydroelectric generating facilities, bottled water industry.

Branch offices: Whitehall, Pa., Lake Telemark, N.J.

1988 gross revenues: Not reported.

Principal officers: Willard R. Kleckner, chairman/president; Gladys R. Kleckner and Tamara L. Kleckner, principals.

L

Las Vegas Audit & Inspection Service

1050 E. Flamingo Road, Suite 333, Las Vegas, Nev. 89119; 702-369-7475

Year founded: 1985.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections; occasional plant security inspections, hazard identification, building plan reviews, loss prevention research, client training.

Staff: Two total staff members, one professional who holds an MBA degree.

Clients: Total clients not reported, 100% with gross revenues less than $200 million.

1988 gross revenues: Total not reported; 80% from unbundled property loss control consulting and engineering, 20% from other services, including premium audits.

Principal officers: Brenda A. Atwood-Kawa, president; K. Steven Kawa.

Collin A. Lewis, Fire Protection Consultant

P.O. Box 11792, Santa Rosa, Calif. 95406; 707-528-9617

Year founded: 1987.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, building plan reviews; occasional hazard identification, loss prevention research, client training; other services include fire protection system installations and inspections.

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Continued from previous page

Staff: One staff member who holds ARM and SFPE designations.

Clients: Not reported.

1988 gross revenues: Not reported.

Principal officers: Collin A. Lewis.

Loss Control Associates Inc.

172 Middletown Blvd., Suite 204-B, Langhorne, Pa. 19047; 215-949-0670

Year founded: 1989.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, client training; occasional loss prevention publications, loss prevention research; other services include design of fire detection systems, control and gas detention systems; hazards evaluation.

Staff: Four total staff members who are professionals, including one ASCE, two ASSEs, three PEs, two SFPEs, one AICE.

Clients: Total clients not reported; 20% with gross revenues less than $200 million, 20% with $200 million-$500 million, 20% with $500 million-$1 billion, 10% with $1 billion-$3.5 billion, 30% exceeding $3.5 billion.

Specialties: Petroleum industry.

1988 gross revenues: Total not reported, 100% from unbundled property loss control consulting and engineering.

Principal officers: Orville M. Slye Jr., president; William S. Fink, associate.

Loss Control Services Inc.

3459 N. Tipperary Road, P.O. Box 217, Poynette, Wis. 53955-0217; 608-635-7766.

Year founded: 1988.

Services provided: Frequent general on-site plant loss prevention inspections, plant security inspections, hazard identification, loss prevention research, client training; occasional fire prevention inspections, building plan reviews, loss prevention publications; other services include loss control videos.

Staff: One staff member who holds an ASSE designation.

Clients: Total clients not reported; 50% with gross revenues less than $200 million, 50% with $200 million-$500 million.

Specialties: Construction.

1988 gross revenues: $65,000 total; 80% from unbundled property loss control consulting and engineering; 20% from other services.

Principal officers: Patricia E. Ash, president; Joseph D. Ash Jr., marketing vp.

Loss Prevention Consultants Inc.

P.O. Box 54012, Jackson, Miss. 39288-4012; 601-878-2138

Year founded: 1984.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, loss prevention research, client training; occasional plant security inspections, building plan reviews; other services include accident investigation.

Staff: Two total staff members who are professionals.

Clients: Not reported.

1988 gross revenues: Total not reported; 50% from unbundled property loss control consulting and engineering; 50% from other services, including casualty loss prevention services.

Principal officers: John R. Eubanks, president; JoAnn P. Eubanks, secretary/treasurer.

M

Maxson Young Groves Associates Risk Management Services

9930 Evergreen Way, P.O. Box 5651, Everett, Wash. 98206; 206-347-2220

Year founded: 1980.

Parent company: Toplis & Harding P.L.C.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, loss prevention publications, client training; occasional plant security inspections, loss prevention research.

Staff: 126 total staff members; four professionals, including one ARM, one ALCM, four ASSEs, one CSP.

Clients: 531 total clients, 100%

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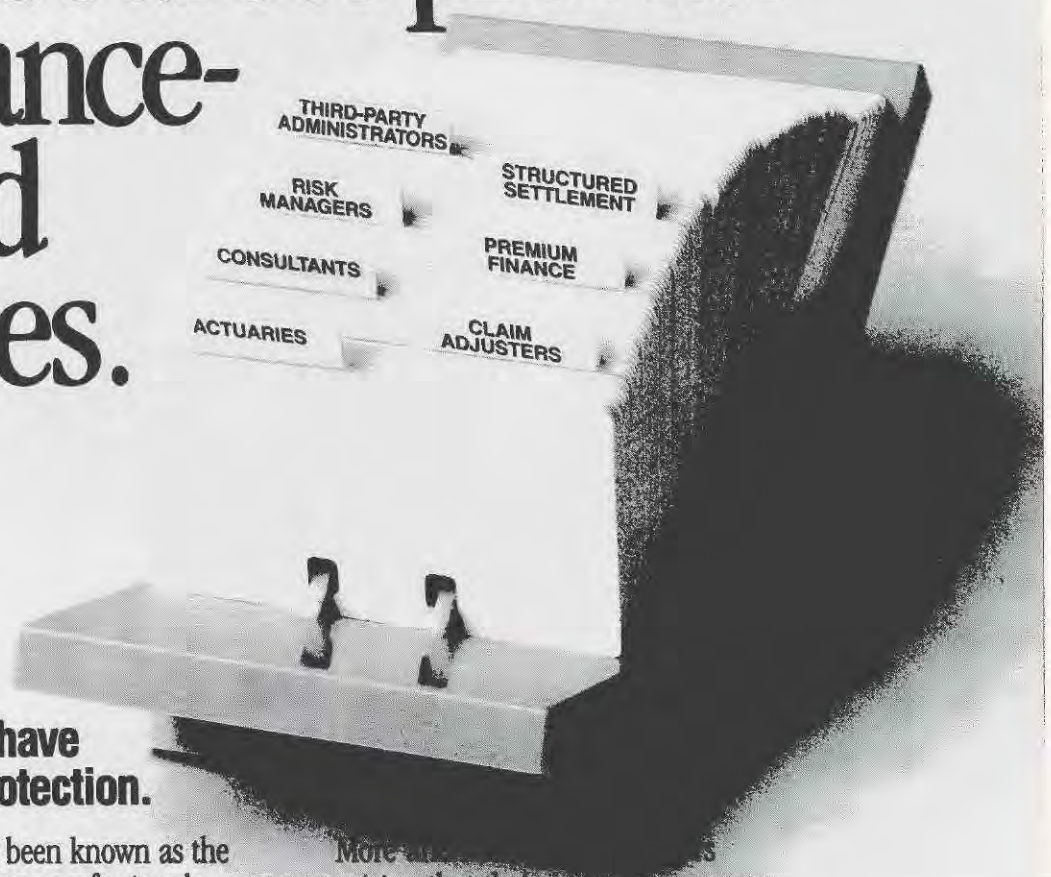
Many sources provide insurance-related services.



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Professional Liability and Specialty Insurance

Continued from previous page
with gross revenues less than $200 million.

Specialties: Health care, metal trades, wood products industry, automobile dealers.

Branch offices: Seattle and Spokane, Wash.; Portland, Ore.

1988 gross revenues: $1.7 million million total; 30% from unbundled property loss control consulting and engineering; 70% from other services, including workers compensation claims management.

Principal officers: C.S. Stafford, president; J.P. Reed and Jule Loftus, vps/general managers; Dave Holmblad, assistant vp-operations/loss control; George Secor, manager-technical services.

Donald Mayo-Fire Protection Consultant

2300 Contra Costa Blvd., Suite 430, Pleasant Hill, Calif. 94523; 415-685-3733

Year founded: 1987.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews; occasional loss prevention research, client training; other services include fire protection systems, building construction specifications and field installation supervision.

Staff: Three total staff members; two professionals, including two SFPEs, one CPCU.

Clients: Three total clients; 1% with gross revenues less than $200 million, 10% with $1 billion-$3.5 billion, 89% exceeding $3.5 billion.

1988 gross revenues: $250,000 total, 100% from unbundled property loss control consulting and engineering.

Principal officers: Donald Mayo, president/treasurer; Linda Mayo, vp/secretary.

Mead Loss Consultants Inc.

Courthouse Plaza N.E., Dayton, Ohio 45463; 513-495-7200

Year founded: 1972.

Parent company: The Mead Corp.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, client training; occasional plant security inspections, loss prevention publications, loss prevention research; other services include fire brigade training, infrared thermographic inspections.

Staff: 21 total staff members; nine professionals, including two ARMs.

Clients: 11 total clients; 9% with gross revenues less than $200 million, 18% with $200 million-$500 million, 18% with $500 million-$1 billion, 18% with $1 billion-$3.5 billion, 37% exceeding $3.5 billion.

Branch offices: Buford, Ga.

1988 gross revenues: $1.9 million total; 56% from unbundled property loss control consulting and engineering; 44% from other services.

Principal officers: Walt Luker, vp/manager; Larry Jones, vp-engineering; Curtis Doyle, vp-extended services.

Michigan Hospital Assn. Service Corp.

6215 W. Saint Joseph Highway, Lansing, Mich. 48917; 517-323-3443

Year founded: 1978.

Parent company: Michigan Hospital Assn.

Services provided: Frequent general on-site plant loss prevention inspections, loss prevention publications, client training; occasional fire prevention inspections, plant security inspections, hazard identification, loss prevention research.

Staff: Seven total staff members; five professionals, including one CSP, one PE.

Clients: 150 total clients.

Specialties: Health care industry.

Branch offices: Southfield, Mich.

1988 gross revenues: $500,000 total, 100% from unbundled property loss control consulting and engineering.

N

NATLSCO

Route 22, Kemper Drive, Long Grove, Ill. 60049-0075; 708-540-2400

Year founded: 1968.

Parent company: Kemper Corp.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention

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inspections, hazard identification, client training; occasional loss prevention research.

Staff: 88 total staff members; 35 professionals, including four ARMs, 30 ASSEs, 22 CSPs, five PEs, 19 CIHs, two CIHTs, two CHCMs.

Clients: 580 total clients.

Specialties: Nuclear power generating stations.

Branch offices: Summit, N.J.; Akron Ohio; Fairfax, Va.

1988 gross revenues: $65 million total.

Principal officers: R.W. Satterfield, president; F.G. Minchk, D.F. Benevich, A.D. Odom and G.J. Krafcisin, vps; D.G. Stahoviak, treasurer.

O

Occupational & Environmental Health Consulting Services

635 Harding Rd., Hinsdale, Ill. 60521; 708-325-2083

Year founded: 1984.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, client training; occasional building plan reviews, loss prevention research; other services include accident investigations, industrial hygiene, property transfer assessments.

Staff: Four total staff members; two professionals, including two ASSEs, two CSPs, one PE, one CIH.

Clients: Total clients not reported; 50% with gross revenues less than $200 million, 10% with $200 million-$500 million, 10% with $500 million-$1 billion, 10% with $1 billion-$3.5 billion, 20% exceeding $3.5 billion.

Specialties: Health care industry.

1988 gross revenues: $250,000 total; 75% from unbundled property loss control consulting and engineering, 25% from other services.

Principal officers: Robert C. Brandys, president; Gail Brandys, director-training.

Occupational Safety & Health Consultants

131 Isle of Cuba Road, Schriever, La. 70395; 504-446-1868

Year founded: 1984.

Services provided: Frequent general on-site plant loss prevention inspections, hazard identification, client training; occasional fire prevention inspections, building plan reviews, loss prevention publications, loss prevention research; other services include accident reconstruction.

Staff: Two total staff members; one professional who holds ASSE, CSP, CSE and CSM designations.

Clients: Two total clients; one with gross revenues less than $200 million, one with gross revenues $1 billion-$3.5 billion.

Specialties: Petroleum and maritime industries.

1988 gross revenues: Approximately $100,000 total; 70% from unbundled property loss control consulting and engineering; 30% from other services.

Principal officers: Donald G. Broussard, president; Renee S. Darsey, secretary/treasurer.

Omni Tech International Ltd.

2715 Ashman St., Suite 100, Midland, Mich. 48640; 517-631-3377

Year founded: 1986.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification; occasional plant security inspections, client training; other services include environmental reviews.

Staff: 10 professional staff members.

Clients: Total clients not reported; gross revenues of clients range from less than $200 million-$1 billion.

Specialties: Chemicals, plastics and petroleum industries.

Branch offices: Lake Jackson, Texas.

1988 gross revenues: $500,000 total; 15% from unbundled property loss control consulting and engineering; 85% from other services.

Principal officers: R.W. Belfit Jr., president/chief executive officer; R.L. Heiny, vice chairman; R.K. Avitabile, executive vp-marketing; J.H. Hanes, executive vp/secretary; W.C. Zacharias, executive vp/treasurer.

Organizational Safety Services Inc.

11831 Rothbury Drive, Richmond, Va. 23236; 804-794-0691

Year founded: 1987.

Services provided: Frequent general on-site plant loss prevention inspections, hazard identification, loss prevention publications, client training; occasional fire prevention inspections, plant security inspections, loss prevention research.

Staff: Four total staff members; two professionals, including one ARM, three ASSEs, two CSPs, two PEs.

Clients: Total clients not reported; 25% with gross revenues less than $200 million, 55% with $200 million-$500 million, 20% with $500 million-$1 billion.

Specialties: Hotels and restaurants; paper, chemical and insurance industries.

1988 gross revenues: Total not reported; 35% from unbundled property loss control consulting and engineering; 65% from other services, including safety management training, forensic safety services.

Principal officers: Keith E. Barenklau, president; Linda C. Abbott and Leroy V. Abbott, vps; Eric E. Barenklau, secretary.

P

Penrim Ltd.

16 Oaken Gateway, North York, Ontario M2P 2A1; 416-733-3100

Year founded: 1984.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections; occasional plant security inspections, hazard identification, building plan reviews.

Staff: Two total staff members; one professional who holds PE, SFPE, FIIC and CRM designations.

Clients: Three total clients, 100% with gross revenues less than $200 million.

Specialties: Chemical and textile industries, hotels, electronics and computer industries, art galleries and jewelry stores.

1988 gross revenues: Total not reported; 15% from unbundled property loss control consulting and engineering; 85% from other services, including risk management and insurance consulting.

Principal officers: Owen Kurin, president.

Glenn D. Peterson, P.E.

2651 Carisbrook Drive, Oakland, Calif. 94611; 415-482-2704

Year founded: 1983.

Services provided: Frequent general on-site plant loss preven-

Continued on next page

Sun World Chose Us Because We Understand Money Does Grow On

At Sun World, the only thing growing faster than its highly prized, gourmet fruit and vegetables was the company itself.

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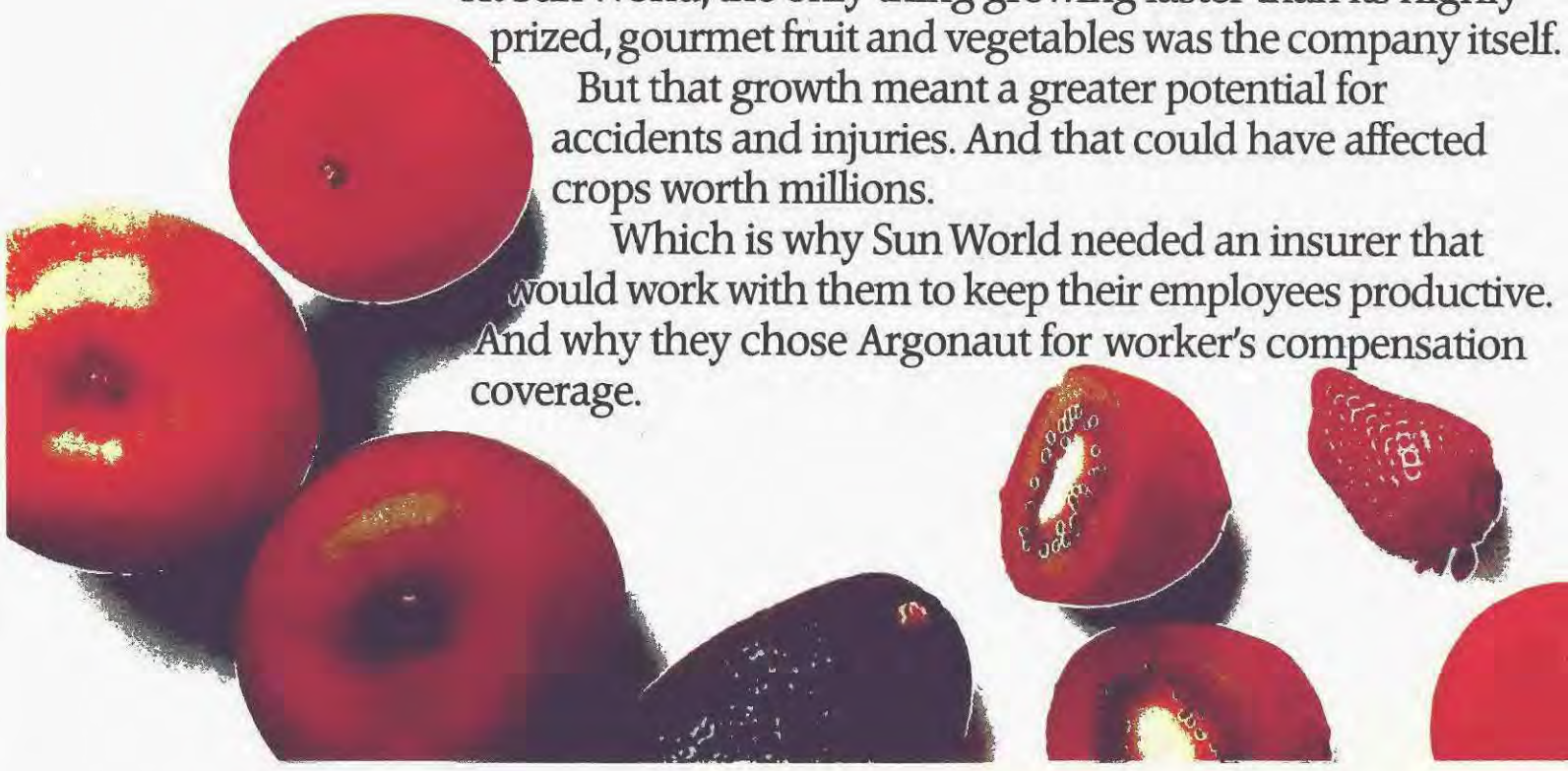

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tion inspections, fire prevention inspections, hazard identification, building plan reviews; occasional loss prevention publications, loss prevention research, client training; other services include loss investigations, design of fire protection systems, fire safety plan review, fire code consulting.

Staff: One staff member who holds PE, SFPE and NSPE designations.

Clients: Total clients not reported, 100% with gross revenues less than $200 million.

Specialties: Wineries, shopping centers, high rise buildings, offshore oil platforms, hospitals, schools, warehouses.

1988 gross revenues: Approximately $500,000 total, 100% from unbundled property loss control consulting and engineering.

Principal officers: Glenn D. Peterson, principal.

Professional Safety Consultant Service Inc.

424 S.E. 30th Ave., Ocala, Fla. 32671; 904-694-4601; 800-780-7233

Year founded: 1975.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, client training; occasional plant security inspections, building plan reviews, loss prevention publications, loss prevention research; other services include accident investigation and reconstruction.

Staff: One staff member who holds ASSE, CSP, PE, CPSM, CHCM, CHSP, CHMM, CSSP, CSE, CSM, CSS, NAFI, NSMS and NIFS designations.

Clients: 50 total clients, 100% with gross revenues less than $200 million.

1988 gross revenues: Total not reported, 100% from unbundled property loss control consulting and engineering.

Principal officers: Herbert T. Bogert, president.

R

RPF Associates

300 Motor Parkway, Suite 100, Hauppauge, N.Y. 11788; 516-231-1285

Year founded: 1985.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, client training; occasional building plan reviews, loss prevention publications, loss prevention research; other services include property conservation programs, emergency preparedness programs, hazardous materials transport programs and training.

Staff: Three total staff members; two professionals, including one ARM, two ASSEs, two CSPs, one SFPE.

Clients: Total clients not reported; 35% with gross revenues less than $200 million, 25% with $200 million-$500 million, 25% with $500 million-$1 billion, 15% with $1 billion-$3.5 billion.

Specialties: Petroleum and printing industries, heavy manufacturing, electronics stores, real estate.

Branch offices: Dix Hills, N.Y.

1988 gross revenues: $170,000 total; 55% from unbundled property loss control consulting and engineering, 45% from other services.

Principal officers: Robert P. Firmbach, president.

Rahn & Co. Inc. Healthcare Risk Management Services

1809 Seventh Ave., Seattle, Wash. 98101; 206-624-7917; 800-426-5223 outside Washington; 800-437-7717 in Washington

Year founded: 1928.

Parent company: Rahn & Co. Inc.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, loss prevention publications, loss prevention research, client training; occasional plant security inspections, building plan reviews.

Staff: Five total staff members; three professionals, including one ASSE, one CIH, one ASP, one CPCU.

Clients: Not reported.

Specialties: Health care industry.

Branch offices: Gold Beach, Ore.

1988 gross revenues: Not reported.

Principal officers: Frederick J. Rahn, president; David L. Bosworth, vp.

Frederick Rauh & Co.

3300 Central Parkway, Cincinnati, Ohio 45225-2384; 513-559-0500

Year founded: 1870.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews, loss prevention research; occasional plant security inspections, client training; other services include fire protection equipment testing, water supply testing and analysis, property appraisals.

Staff: Three total staff members who are professionals, including one ASSE, one SFPE, three CSSs, one CSE.

Clients: 14 total clients; 93% with gross revenues less than $200 million, 7% with $200 million-$500 million.

1988 gross revenues: $74,145 total; 40% from unbundled property loss control consulting and engineering; 60% from other services, including appraisals, videotaping services, safety consulting services.

Principal officers: S.H. Wolter, president; Mark Erion, chief financial officer; D. Eslick and Tom Schaefer, executive vps; Bob Stone, vp/technical services manager.

Republic Hogg Robinson Inc./ Penn General Services Inc.

20 Custom House St., Boston, Mass. 02110; 800-338-9865

Year founded: 1970.

Parent company: Hogg Robinson & Gardner Mountain P.L.C.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, building plan reviews, loss prevention research, client training; occasional loss prevention publications.

Staff: 800 total staff members; eight professionals assigned to property loss control consulting/engineering, including five ASSEs, two CSPs, three PEs.

Clients: 20 total clients; 15% with gross revenues less than $200 million, 50% with $200 million-$500 million, 15% with $500 million-$1 billion, 20% with $1 billion-$3.5 billion.

Specialties: Retail, wholesale, manufacturing, food industry, hotels, hospitals, contractors, airlines.

Branch offices: Atlanta; Southfield, Mich.; Cleveland; Irving,

Continued on next page

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Argonaut

Continued from previous page
Texas.

1988 gross revenues: $58 million total.

Principal officers: Arnold Bergson, chairman; Charles Keller, president; Donald Benyas, regional vp/president-Penn General Services; Don Bercu, Louis Kohn and Eugene Oberdorfer, regional vps.

Risk Consultants Inc.

P.O. Box 490850, Atlanta, Ga. 30349; 800-322-0733

Year founded: 1979.

Services provided: General on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, loss prevention research, client training; other services include driver training, replacement appraisals.

Staff: 100 total staff members; 75 professionals, including four ARMs, four ASSEs, three CSPs, 45 PEs, one attorney.

Clients: 303 total clients, 100% with gross revenues less than $200 million.

Branch offices: Richmond, Va.; Houston and San Antonio, Texas; Memphis, Tenn.; Greensboro, N.C.; Jackson, Miss.; Winter Park, Fla.; Washington D.C ; Little Rock Ark.; New Orleans; Minneapolis; New York.

1988 gross revenues: More than $2 million total, 100% from unbundled property loss control consulting and engineering.

Principal officers: R. Michael Malone, president; Michael D. Williford, executive vp.

Risk Engineering Inc.

2500 City West Blvd., Suite 2105, Houston, Texas 77042; 713-952-3334

Year founded: 1985.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, hazard identification, building plan reviews; occasional plant security inspections, loss prevention publications, loss prevention research, client training; other services include underwriting risk analysis, evaluation of highly protected risk loss control programs, business interruption assessments, review of automatic extinguishing systems, water supply testing and analysis.

Staff: Five total staff members; two professionals, including one ASSE, one CSP, one PE, one SFPE, one NFPA, one ASME, one SSS, one NSPE, one NSMS.

Clients: 20 total clients.

1988 gross revenues: Total not reported; 80% from unbundled property loss control consulting and engineering, 20% from other services.

Principal officers: Peter Rollinger president.

Roth Asbestos & Environmental Consultants Inc.

1900 W. 47th Place, Westwood, Kan. 66205; 913-831-4795

Year founded: 1983.

Services provided: Frequent hazard identification, building plan reviews, client training.

Staff: 35 total staff members, including three AIAs, two CIHs.

Clients: Total clients not reported, 100% with gross revenues less than $200 million.

Specialties: Government institutions, schools, owners and managers of office buildings and shopping centers, lending institutions.

Branch offices: St. Louis, Denver, Dallas.

1988 gross revenues: $2.8 million total.

Principal officers: E. Allen Roth, president; R H. Erickson, vp-operations; Tim Maupin, vp-administration.

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S

Safety & Hazard Associates

P.O. Box 249, Annapolis, Md. 21404; 301-267-7171

Year founded: 1984.

Services provided: Occasional fire prevention inspections, plant security inspections, hazard identification, building plan reviews, loss prevention publications, loss prevention research, client training.

Staff: Two total staff members who are professionals; including including two ASSEs, one CSP, one PE.

Clients: Eight total clients; 87.5% with gross revenues less than $200 million, 12.5% with $200 million-$500 million.

Specialties: Construction and manufacturing.

1988 gross revenues: $70,000 total; 70% from unbundled property loss control consulting and engineering, 30% from other services.

Principal officers: Richard C. Knapp, president.

Safety & Health Management Consultants Inc.

161 William St., New York, N.Y. 10038; 212-349-1221

Year founded: 1985.

Services provided: Frequent general on-site plant loss prevention inspections, hazard identification, client training; occasional building plan reviews, loss prevention publications, loss prevention research.

Staff: Seven total staff members; five professionals, including five ASSEs, three CSPs, one PE.

Clients: 400 total clients; 70% with gross revenues less than $200 million, 20% with $200 million-$500 million, 10% with $500 million-$1 billion.

Specialties: Construction, health care facilities, manufacturing, public entities.

1988 gross revenues: Not reported.

Principal officers: Steven S. Lovell, president; Richard F. Andree, executive vp; Susan Solomon, director-marketing/training; Gerard Baril, senior environmental consultant; William Helmstadt, senior safety consultant.

Safety & Loss Control Associates

P.O. Box 440, Prospect Heights, Ill. 60070; 708-296-5989

Year founded: 1984.

Services provided: Frequent plant security inspections, hazard identification, loss prevention publications, client training; occasional fire prevention inspections, building plan reviews, loss prevention research.

Staff: Two total staff members, one CSE.

Clients: Total clients not reported, 100% with gross revenues less than $200 million.

Specialties: Heavy industry, construction.

1988 gross revenues: Total not reported, 100% from unbundled property loss control consulting and engineering.

Principal officers: Donald A. Neslund, owner.

Safety Management Associates

P.O. Box 693, Springfield, Va. 22150-0693; 703-978-3000

Year founded: 1981.

Services provided: Frequent fire prevention inspections, hazard identification, building plan reviews, loss prevention research; occasional loss prevention publications, client training; other ser-

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vices include accident reconstruction.

Staff: Three total staff members; two professionals, including two CSPs, one CHCM.

Clients: 10 total clients, 100% with gross revenues less than $200 million.

1988 gross revenues: Total not reported; 30% from unbundled property loss control consulting and engineering; 70% from other services, including occupational safety and health services.

Principal officers: Neil R. Temple, president.

Safety Management Services Inc.

126 Heymann Blvd., Oilcente Building, Suite 11, P.O. Box 51927, Lafayette, La. 70505; 318-235-6524

Year founded: 1981.

Services provided: Frequent loss prevention research, client training; occasional general on-site plant loss prevention inspections, fire prevention inspections, hazard identification.

Staff: One staff member with ASSE and CSP designations.

Clients: Not reported.

1988 gross revenues: Not reported.

Principal officers: Jack R. Barnidge, president.

Safety Management Systems

250 Honey Jane Drive, Beavercreek, Ohio 45385; 513-429-2943

Year founded: 1985.

Services provided: Frequent hazard identification, loss prevention publications, loss prevention research, client training; occasional fire prevention inspections, plant security inspections, building plan reviews; other services include safety consulting services.

Staff: One staff member who holds ASSE, CSP and CHCM designations.

Clients: 40 total clients; 20% with gross revenues less than $200 million, 20% with $200 million-$500 million, 20% with $500 million-$1 billion, 20% with $1 billion-$3.5 billion, 20% exceeding $3.5 billion.

1988 gross revenues: Not reported.

Principal officers: Jack Truitt, president.

Schirmer Engineering Corp.

707 Lake Cook Road, Deerfield, Ill. 60015-4997; 708-272-8340

Year founded: 1939.

Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, building plan reviews, client training; occasional plant security inspections, hazard identification, loss prevention publications, loss prevention research; other services include frequent building and fire code consultation, fire suppression system design, fire and security alarm system design, litigation support services.

Staff: 112 total staff members; 66 professionals, including two ARMs, four ASSEs, five CSPs, 29 PEs, 34 SFPEs, 53 NFPAs, two AICEs.

Clients: Not reported.

Specialties: Commercial, industrial, public entities.

Branch offices: Concord, Calif.; Dallas; Falls Church, Va.

1988 gross revenues: $7 million total; 50% from unbundled property loss control consulting and engineering; 50% from other services.

Principal officers: Chester W. Schirmer, president; Richard R. Osman, executive vp; Raymond G. Weigand, Gary L. Jordan and Carl F. Baldassarra, vps.

Self Insured Services Co.

P.O. Box 28, Dubuque, Iowa 52001; 319-583-7301

Year founded: 1981.

Services provided: Frequent general on-site plant loss prevention inspections, hazard identification, loss prevention publications, loss prevention research, client training; occasional fire prevention inspections, plant security inspections, building plan reviews.

Staff: Three total staff members; two professionals, including two ASSEs.

Clients: 75 total clients; 90% with gross revenues less than $200 million, 10% with $200 million-$500 million.

1988 gross revenues: Total not reported; 10% from unbundled property loss control consulting and engineering, 90% from other services, including claims adminis-

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tration and bundled property loss control consulting and engineering.

Principal officers: John E. Butler, president; Timm Johnson, Richard V. McKay and Willy Schuller, vps; Mike Pederson, vp/manager loss control.

Self Insurers Service

11 E. Wacker, Chicago, Ill. 60601; 312-616-2100

Year founded: 1956.
Parent company: Rollins Burdick Hunter Group Inc.
Services provided: Frequent general on-site plant loss prevention inspections, hazard identification, loss prevention publications, client training; occasional fire prevention inspections, plant security inspections, loss prevention research.
Staff: 150 total staff members; four professionals assigned to property loss control consulting/engineering, including four ASSEs, one CSP, two CSEs, one NFPA, one ASIS.
Clients: 47 total clients.
Specialties: Government agencies, health care facilities, general industry.
Branch offices: Atlanta; Las Vegas, Nev.
1988 gross revenues: Not reported.
Principal officers: Jane Stapleton, managing director; Helen Brickfield, vp-operations; Dick Hill, vp-central region; Mark Cafaro, vp-eastern region; Lucretia Marcus, vp-western region.

Sigma Associates Ltd.

105 Timber Ridge Blvd., Pass Christian, Miss. 39571; 601-452-4866

Year founded: 1974.
Services provided: Frequent hazard identification, building plan reviews, client training; occasional general on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, loss prevention publications, loss prevention research.
Staff: Five total staff members; professional designations held by staff include one ASSE, one PE, one CHCM, one CFEI, one CSSP.
Clients: Total clients not reported; 19% with $200 million-$500 million, 81% exceeding $3.5 billion.
Specialties: Construction, petroleum and marine industries.
1988 gross revenues: Total not reported; 80% from unbundled property loss control consulting and engineering; 20% from other services, including forensic services and seminars.
Principal officers: A.J. Scardino Jr., president.

System Engineering & Laboratories Corp.

Route 7, Box 917, Tyler, Texas 75707; 214-566-1980

Year founded: 1981.
Services provided: Occasional general on-site plant loss prevention inspections, hazard identification, loss prevention research, client training; other services include forensic engineering, system safety and safety analysis, accident reconstruction, electrical evaluations, structural evaluations.
Staff: 20 total staff members; 12 professionals, including four CSPs, seven PEs, one CST, two Ph.D.s.
Clients: Not reported.
Branch offices: Houston and Arlington, Texas; New Orleans.
1988 gross revenues: Not reported.
Principal officers: Franklin H. Johnson, president/chief executive officer; Dixie R. Johnson, executive vp.

F.J. Szymanski Safety Services

5258 Forest Circle S., Stevens Point, Wis. 54481; 715-344-4127

Year founded: 1984.
Services provided: Frequent general on-site plant loss prevention inspections, hazard identification, loss prevention publications, loss prevention research, client training; occasional fire prevention inspections, plant security inspections.
Staff: Two total staff members, one professional.
Clients: Total clients not reported, 100% with gross revenues less than $200 million.
1988 gross revenues: $75,000 total, 100% from unbundled property loss control consulting and engineering.
Principal officers: Frank J. Szymanski, principal.

T

Tiller Consulting Group Inc.

2833 N. Geyer Road, St. Louis, Mo. 63131; 314-567-7480

Year founded: 1984.
Services provided: Frequent hazard identification; occasional general on-site plant loss prevention inspections, plant security inspections, building plan reviews, loss prevention publications, loss prevention research, client training; other services include environmental risk assessments.
Staff: Two total staff members; professional designations held by staff include two ARMs, one ASCE, one FCAS, one AIHA, one AICE, one SRA, one ACS, one ASA, one MAAA, one CAPP, one IAA, one CPCU.
Clients: Not reported.
Specialties: Chemical industry, waterfront operations.
1988 gross revenues: Not reported.
Principal officers: Margaret Wilkinson Tiller, president; Michael H. Tiller, principal.

W

Scott Wetzel Services Inc.

500 Pacific Ave., Suite 700, Bremerton, Wash. 98310; 206-479-3200

Year founded: 1941.
Services provided: Frequent general on-site plant loss prevention inspections, fire prevention inspections, plant security inspections, hazard identification, loss prevention research, client training; occasional building plan reviews, loss prevention publications; other services include asbestos management, accident investigation.
Staff: 335 total staff members; nine professionals assigned to property loss control consulting/engineering, including three CSPs, thee PEs, one SFPE.
Clients: Total clients not reported; 86% with gross revenues less than $200 million, 5% with $200 million-$500 million, 6% with $500 million-$1 billion, 3% with $1 billion-$3.5 billion.
Specialties: Municipalities, retail trade, construction, health care facilities, manufacturers.
Branch offices: Chicago; Orange and Concord, Calif.; Dallas; Tampa, Fla.; Atlanta; Knoxville, Tenn.; Portland, Ore.; Manchester, N.H.; Houston; Middletown, Conn.; Salt Lake City; Spokane and Seattle, Wash.
1988 gross revenues: Not reported.
Principal officers: John Harrold, president/chief executive officer; Robert Spratt, executive vp; Terry Neal, executive vp-finance; Warren Zimmerman, vp-corporate services; Vic Teti, vp-information systems; Doug Alsop, vp-marketing. ■

Hugo knocked the power out of almost

When Hurricane Hugo swept through the Carolinas devastating homes and businesses, much of metropolitan Charlotte—including the Kemper office—was left without power for days.

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Rather than wait for the power to come on, Kemper's emergency claim teams began handling the massive job of resolving the thousands of incoming claims by candlelight.

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The lights are back on now, most of the claims have been resolved, and most of the special task force members have returned to their home territories.

Loss control consultants listed by state

Alabama

Birmingham
Hewitt, Coleman & Associates Inc.
Inservco Insurance Services
Huntsville
M. Kimbrell Associates

Arizona

Phoenix
Daniel J. Hartwig Associates Inc.
Fred S. James & Co. Inc.
(Risk Control Services)
Johnson & Higgins-
Property Loss Control

Arkansas

Little Rock
Fred S. James & Co. Inc.
(Risk Control Services)
Risk Consultants Inc.

California

Concord
Schirmer Engineering Corp.
Scott Wetzel Services Inc.
Costa Mesa
Johnson & Higgins-
Property Loss Control
Irvine
Fred S. James & Co. Inc.
(Risk Control Services)
Lafayette
The FPE Group
La Mesa
Cohen & Associates
Los Angeles
AIG Consultants Inc.
Applied Risk Control Corp.
Crawford & Co.
ESIS Inc.
Gage-Babcock & Associates
Jardine Emett & Chandler Inc.
Rolf Jensen & Associates Inc.
Johnson & Higgins-
Property Loss Control
Newport Beach
Coopers & Lybrand-Risk
Management Consulting Group
Oakland
Glenn D. Peterson P.E.
Orange
Scott Wetzel Services Inc.
Orange County
Jardine Emett & Chandler Inc.
Pleasant Hill
Donald Mayo-
Fire Protection Consultant
Sacramento
Phil Jaymes & Associates
San Diego
Bonatus & Associates
Johnson & Higgins-
Property Loss Control
San Francisco
AIG Consultants
American Risk Management Corp.
Coopers & Lybrand-Risk
Management Consulting Group
Crawford & Co.
ESIS Inc.
Gage-Babcock & Associates
Jardine Emett & Chandler Inc.
Rolf Jensen & Associates Inc.
Johnson & Higgins-
Property Loss Control
Santa Rosa
Collin A. Lewis,
Fire Protection Consultant
Torrance
The FPE Group
Yorba Linda
Farinacci & Associates Inc

Colorado

Denver
Hewitt, Coleman & Associates Inc.
Rolf Jensen & Associates Inc.
Roth Asbestos &
Environmental Consultants Inc.

Connecticut

Bloomfield
Environmental Risk Ltd.
Darien
Fred S. James & Co. Inc.
(Risk Control Services)
Hartford
Crawford & Co.
Hartford Specialty Co.
Johnson & Higgins-
Property Loss Control
Middletown
Scott Wetzel Services Inc.
Stamford
Johnson & Higgins-
Property Loss Control

District of Columbia

Gage-Babcock & Associates Inc.
Rolf Jensen & Associates Inc.
Risk Consultants Inc.

Florida

Fort Lauderdale
William L. Jacobs Enterprises Inc.
Fred S. James & Co. Inc.
(Risk Control Services)
Lakeland
Alexsis Risk Management Services
Maitland
Insurers Technical Services Inc.
Miami
J.J. Hischar & Associates
Insurers Technical Services Inc.
Ocala
Professional Safety
Consultant Service Inc.
Orlando
Crawford & Co.
Hewitt, Coleman & Associates Inc.
Fred S. James & Co. Inc.
(Risk Control Services)
Osteen
William L. Jacobs Enterprises Inc.
Surfside
Dave Goodwin
Tallahassee
The Environmental
Management Group Inc.
Tampa
Scott Wetzel Services Inc.
Winter Park
Risk Consultants Inc.

Georgia

Atlanta
AIG Consultants Inc.
American Risk Management Corp.
Applied Risk Control Corp.
Coopers & Lybrand-Risk
Management Consulting Group
Crawford & Co.
ESIS Inc.
The Environmental
Management Group
Gage-Babcock & Associates Inc.
Hewitt Coleman & Associates Inc.
Fred S. James & Co. Inc.
(Risk Control Services)
Johnson & Higgins-
Property Loss Control
Republic Hogg Robinson Inc./
Penn General Services Inc.
Risk Consultants Inc.
Self Insurers Service
Scott Wetzel Services Inc.
Buford
Mead Loss Control Consultants Inc.
Marietta
The Environmental Management
Group
Snellville
Harrington Group Inc.

Hawaii

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Property Loss Control

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AIG Consultants Inc.
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American Risk Management Group
Checkers, Simon & Rosner

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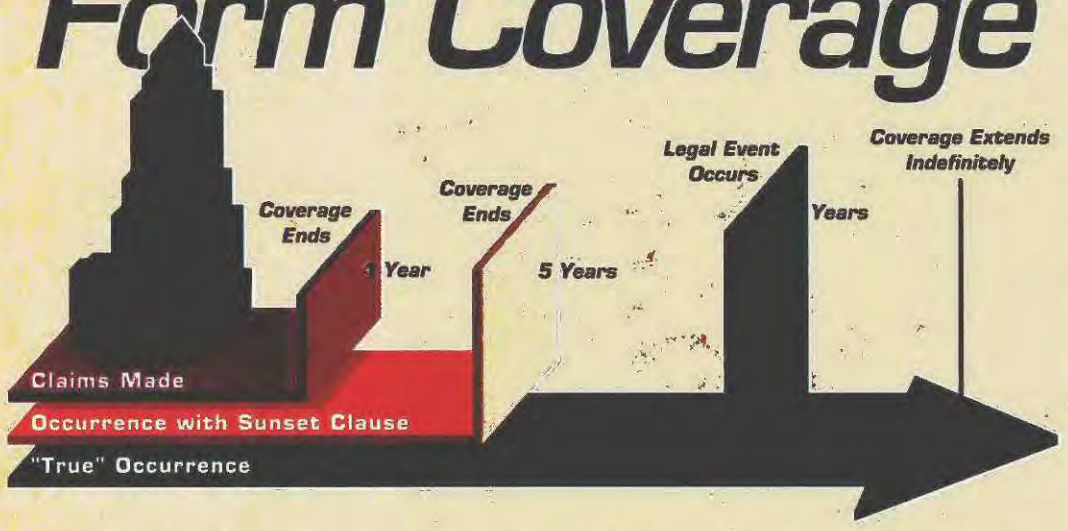

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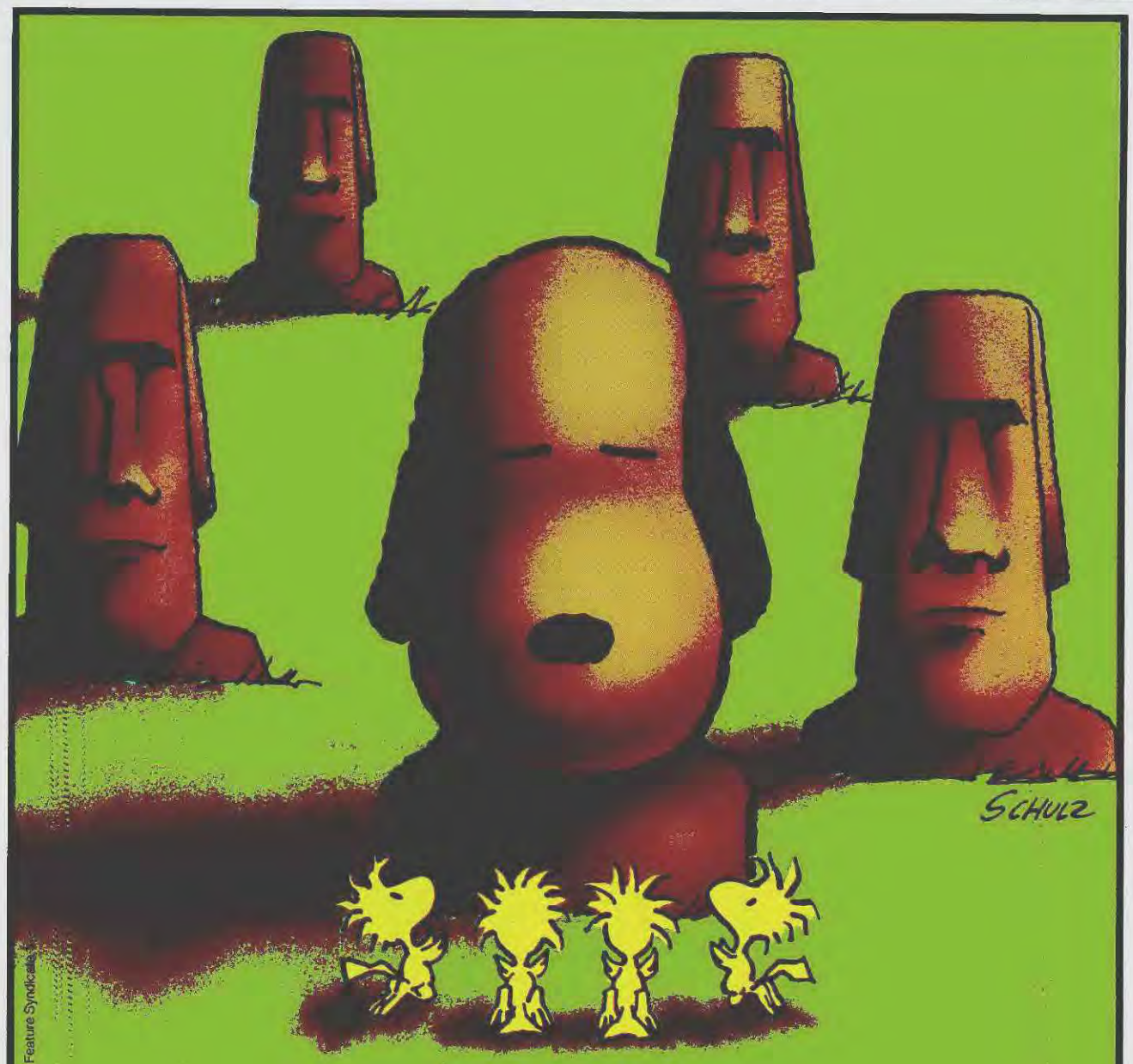

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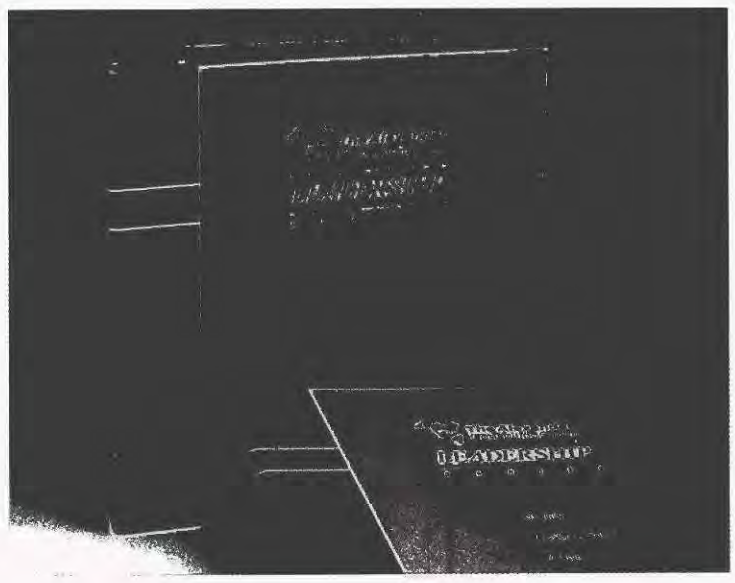

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Loss control coming into its own

Long an also-ran, more professionals are showing interest

By MARK A. HOFMANN

Loss control, once a homely cousin to more dynamic disciplines such as risk financing and captive formation, now appears to be receiving a bigger share of the risk management education spotlight.

As an example of the heightened interest, a loss control interest section formed by the Malvern, Pa.-based Society of Chartered Property & Casualty Underwriters attracted nearly 80 dues-paying members within a few months of its creation.

"I do believe there's renewed interest in loss control," said Andrew F. Harasim, manager of property risk and risk control at Cleveland-based TRW Corp., and a member of the Society of CPCU's loss-control section committee.

More and more corporations are realizing that many losses can be prevented in a cost-effective manner, Mr. Harasim said, noting that the California earthquake and Hurricane Hugo have reinforced that perception within the past two months.

"There sure is an increase" in interest in loss control, pointed out Theodore Wire, manager of occupational safety and health at Moline, Ill.-based Deere & Co. and vp-professional development for the American Society of Safety Engineers in Des Plaines, Ill.

'This has really taken off,' says Joe Boslet, loss control manager at Pennsylvania National Mutual.

Mr. Wire credited a greater awareness of the cost of preventable losses and "increased emphasis on occupational health" for the resurgence in interest in loss control.

But, "we'd like to see more," said Joe Boslet, manager of loss control and premium audit at Pennsylvania National Mutual Insurance Co. in Harrisburg, Pa., and chairman of the Society of CPCU's loss control section committee.

The drive to form the society's eighth interest group began in 1987, when Mr. Boslet mailed questionnaires to 1,100 society members asking if they would support forming an interest section. The response, he said, demonstrated that "there's a hidden interest in society members."

The enthusiasm led to the approval of the loss control interest section in March 1989, Mr. Boslet said.

The interest section is designed to fulfill five goals:

- Promoting a clear understanding of the loss-control discipline and helping foster positive attitudes toward its practices.
- Funding improved techniques and methodology to better utilize loss control services to benefit members' own organizations and the insurance industry in general.
- Keeping Society of CPCU members updated and informed on changes in the loss control field and determining the possible impact of those changes on insurance company operations.
- Providing a liaison between the Society of CPCU and professional safety, loss control and risk management organizations such as the Risk & Insurance Management Society Inc., the American Society of Safety Engineers and the National Safety Council.
- Enhancing and expanding the scope of awareness, knowledge and skill development in members' professional performance.

"This has really taken off," said Mr. Boslet.

The section had attracted 62 members—who will pay $20 in annual dues to belong to the section—as of the beginning of the society's annual meeting in mid-October in Anaheim, Calif. Three weeks later, membership in the section had grown to 79, said a spokeswoman for the Society of CPCU.

TRW's Mr. Harasim said that membership in the loss-control section enables loss control professionals to share information and to communicate better with management on the reasons losses occur. The creation of the section should also encourage loss-control professionals who might not have had an interest in pursuing the CPCU professional designation to do so, he said.

Mr. Harasim said that the section will probably focus on mitigating specific types of losses as the section develops.

Minimizing computer-related losses, including those caused by computer viruses, "was one of the major topics of discussion" among section members at the Society of CPCU's annual meeting, according to Mr. Harasim.

In addition to its other educational efforts, Mr. Boslet noted that the section hopes to begin publishing its own newsletter early next year. "Loss Control Quarterly" will provide information on developments in the loss control discipline, he said.

Other groups also are placing an emphasis on loss control education.

The Insurance Institute of America has been offering a program leading to the Associate in Loss Control Management designation since the late 1970s, according to George L. Head, vp and director of the Malvern, Pa.-based institute's risk management and loss control management programs.

Mr. Head said that about 750 people have earned the designation. Candidates for the designation must complete five examinations, two of which also are required for the CPCU designation.

The three courses specific to the ALCM program are "Accident Prevention," "Property Protection" and "Industrial and Environmen-

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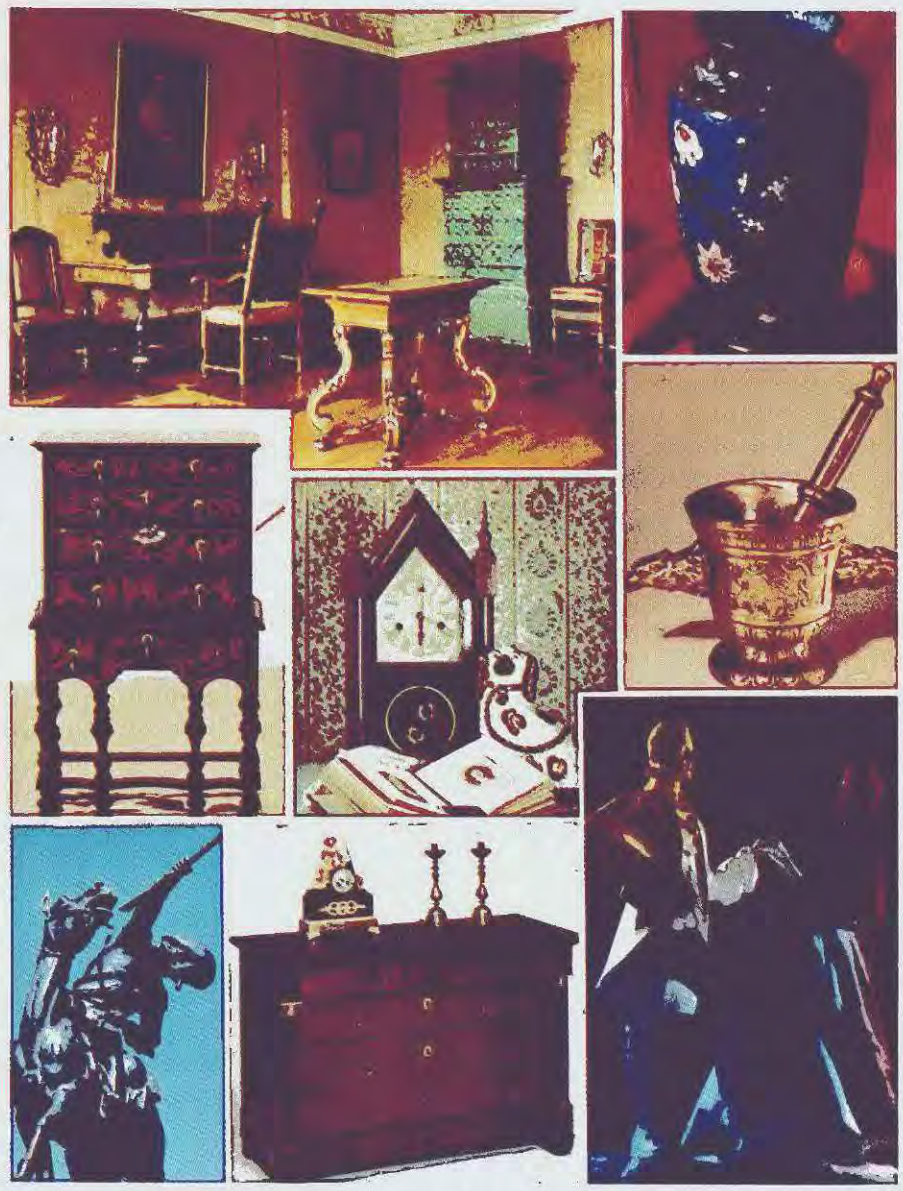

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Loss control

Continued from previous page
tal Hygiene."

In addition, ALCM candidates must complete two of three CPCU courses: "Principles of Risk Management and Insurance," "Insurance Company Operations" or "Management," said Mr. Head.

Insurance company loss control representatives are the "primary target" of the program, he explained.

However, risk managers and brokerage loss control professionals have also completed the courses, he noted.

"We're increasing slowly, primarily because these are technical courses," said Mr. Head. The ALCM courses include such specific areas as: "Occupation Safety: Machine Tools and Metal-Forming Presses," "Industrial Hygiene: Skin, Lung and Ear Irritants," and "Fire Safety: Automatic Fire Detection, Signaling and Suppression."

"We are considering putting more loss control material of a less technical nature" in other programs offered by the institutes, Mr. Head added. However, ALCM courses still would retain their highly technical character, he said.

At The College of Insurance in New York, Mr. Head and Laurie J. Bilik, professor of psychology and human relations at the college, next April will present a one-day seminar on "Human Factors in Loss Control."

"I think there's a terrific interest" in the various elements of loss control, said Ms. Bilik, who has been on the college's staff for about 20 years. "There's certainly a heightened awareness" of what she called "the human element" in loss control.

This includes such matters as the impact of a highly stressed working atmosphere on the incidence of workplace accidents, according to Ms. Bilik.

"My emphasis is that in order to get the job done, you need to understand the human element of loss control," she said. All people involved in workplace safety and insurance, including risk managers, safety engineers, loss managers and insurance underwriters, need to understand that loss control involves more than nuts and bolts, she said.

'I think there's a terrific interest' in the various elements of loss control, says Laurie J. Bilik, professor of psychology and human relations at the College of Insurance. 'There's certainly a heightened awareness' of what she calls 'the human element' in loss control. This includes such matters as the impact of a highly stressed working atmosphere on the incidence of workplace accidents.

Ms. Bilik noted that The College of Insurance conducts several loss-control seminars a year. In addition to the one-day symposium to be held at the college in April, presentations have been requested by risk managers, insurance brokerages and insurance companies, she said.

"Loss control is something we take seriously. It's an integral part of insurance education," Ms. Bilik said.

The New York-based Risk & Insurance Management Society conducts 2½-day courses on "Techniques of Loss Control" as part of its continuing education program. The courses, open to both RIMS members and non-members, cover issues ranging from the basic elements of a loss control program to using claim handling and loss runs as a loss control tool and a discussion of federal regulations and their effect on risk managers.

Interest in loss control education extends beyond professionals involved directly with insurance. The American Society of Safety Engineers, an organization of safety engineers and safety directors, holds an annual professional development conference in June, said Deere's Mr. Wire.

Recent conferences have drawn between 1,500 and 1,600 participants, he said, "and it's increasing every year."

Like The College of Insurance, the ASSE provides private seminars on various aspects of safety for corporations, Mr. Wire said. The organization currently is developing home study courses, with the first being a refresher course for people who hold the Certified Safety Professional designation, he said.

The CSP designation is earned by meeting a set of criteria established by the Savoy, Ill.-based Board of Certified Safety Professionals, a professional peer review group sponsored by four professional organizations, including the ASSE. The other sponsors are the Akron, Ohio-based American Industrial Hygiene Assn., the Boston-based Society of Fire Protection Engineers and the Sterling, Va.-based System Safety Society.

To achieve the CSP designation, an applicant must have a bachelor's degree in safety, or an equivalent combination of safety experience; four years of professional safety experience; and passing scores on a series of two, one-day examinations.

The examinations consist of a core exam covering safety fundamentals and a comprehensive speciality examination in one of four areas: engineering aspects, management aspects, product safety aspects or system safety aspects.

Mr. Wire pointed out that certification does not end with the conferring of the designations. CSPs must be recertified every five years by meeting continuing education requirements, he said.

"This keeps everyone current," he said.

•

For further information on the organizations mentioned, contact:

- *The Society of Chartered Property & Casualty Underwriters, 720 Providence Road, CB No. 9, Malvern, Pa. 19355-0709; 215-251-2728.*
- *The Insurance Institute of America, Field Services Department, 720 Providence Road, Malvern, Pa. 19355-0770, 215-644-2100, extension 7518.*
- *The Risk & Insurance Management Society Inc., 205 E. 42nd Street, New York, N.Y. 10017; 212-286-9292.*
- *The College of Insurance, 1 Insurance Plaza, 101 Murray St., New York, N.Y. 10017; 212-962-4111.*
- *The American Society of Safety Engineers, 1800 East Oakton St., Des Plaines, Ill. 60016; 708-692-4121.*
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Competition rages among movie insurers

By MICHAEL BRADFORD

Insurance costs for motion picture studios and filmmakers are falling like a shooting star—as much as 25% on some packages—since a new player entered what had been a dormant two-company market.

In addition, Transamerica Insurance Co.'s debut in the motion picture insurance market is triggering a Hollywood-style feud between it and the longtime featured player in the market.

After years of stability among underwriters of production package insurance for studios, independent filmmakers and television producers, Transamerica in August signed an exclusive agreement with Albert G. Ruben & Co. Inc., a Los Angeles-based broker and widely recognized leader in entertainment insurance (*BI*, Aug. 28).

Ruben for 24 years had been the exclusive producer for Fireman's Fund Insurance Co., the longtime leader in entertainment coverage.

Ruben, an Alexander & Alexander Inc. subsidiary, last year produced $125 million in gross premiums on motion picture accounts, or about 75% of the market, for Fireman's Fund, said Robert A. Jellen, president of the brokerage. Among the films for which the brokerage has placed coverage were summertime hits like "Batman," "Lethal Weapon II" and "Honey, I Shrunk the Kids."

With the entry of Woodland Hills, Calif.-based Transamerica into the market, rates for motion picture production packages have been pushed down by 5% to 25%.

And, the Transamerica-Ruben combination is claiming that it is already writing the lion's share of the business.

"Virtually every major production account that has come up for renewal has gone to Transamerica," including accounts that Fireman's Fund had been writing for 30 years, said Mr. Jellen. "Very little has stayed in Fireman's Fund."

However, a Fireman's Fund spokesman disagreed, explaining that Entertainment Brokers International Inc., the Los Angeles brokerage that now places coverage with Fireman's Fund, "has taken major accounts from Ruben. We remain the major player."

Both insurers underwrite production packages. The packages, which generally carry limits equal to a film's budget, usually cover revenue lost from filming delays caused by illness or death of a director or cast member; faulty or damaged film; film processing errors; damage to props, wardrobes and equipment; and losses from other production-related mishaps.

Ruben-Transamerica and Fireman's Fund-EBI also provide entertainment risk coverages for live theater performances and concerts.

Transamerica also entered the completion bond insurance market last April, signing an exclusive agreement with The Completion Bond Co. in Beverly Hills, the dominant producer of such bonds.

A production company often will seek a completion bond if it is denied backing from banks or other investors. If the bonding company is satisfied that the chances are good the film will be completed, it issues the bond guaranteeing completion. Reassured investors then provide the film's finances.

The bond is a guarantee that funds will be available to complete the picture should it go over budget and that investors will see a finished product that could provide a return on their investments.

Since it entered the marketplace earlier this year, Transamerica has written 900 production package and completion bond policies for 150 to 200 clients, said Bob Anders, resident vp in Transamerica's entertainment insurance department. The coverages should produce annualized premium volume of $80 million to $100 million, he said.

Transamerica "will be a major player very fast. It will be interesting to see if Fireman's Fund remains a major player in this market. . . .If they want to be a major player, they will be," said a production company risk manager who asked not to be identified.

Executives at Fireman's Fund would not comment directly on the market. However, the company said in a written statement it plans to remain a leading market for entertainment coverage and in the long haul it "would be there for our insured studios and production companies."

Acknowledging current competition, Fireman's Fund pointed out that the company "has weathered this condition several times before and, over the long run, has remained one of the dominant competitors in the entertainment insurance industry."

In addition, the Fireman's Fund spokesman likened Ruben's behavior to that of a "spurned spouse": "Some business relationships are like marriages. Unfortunately, not all will go to the golden anniversary."

Other insurers and brokers in the motion picture insurance market note that the rate competition between Transamerica and Fireman's Fund has gotten out of hand.

Until earlier this year, Fireman's Fund and Pacific Indemnity Co. in Los Angeles, a unit of Chubb Corp., were the major underwriters of production insurance for American films. Other markets writing the coverage include American International Group Inc. in New York and syndicates at Lloyd's of London.

Transamerica's entry sparked "an intense rate war. It's terrible. Rates were soft to begin with," said Michael B. McAllister, president of Rollins Entertainment Brokers in Los Angeles, a division of Chicago-based Rollins Burdick Hunter Group Inc.

"There's no way for them to make a profit," said Mr. McAllister, adding that rates for production packages are at least 15% below the minimum for insurers to make a profit.

However, he predicts rates will rise in 1990.

Calling the current competition "unrealistic," Edward O. Darwin, senior vp at Chubb & Son Inc. in Warren, N.J., said Pacific Indemnity will count on its reputation to weather this storm.

Mr. Darwin said Pacific Indemnity has lowered rates in the face of competition, though he would not say how much. "We have to be responsive to a point. But when we believe the competition goes beyond prudence, we will let them go by themselves," Mr. Darwin said.

"We will not follow them to the sewer, and that's where prices are headed," he added.

"In the entertainment world, there is a finite number of risks, particularly the larger ones," said Mr. Darwin. "When you introduce additional carriers, they are chasing the same business."

To Pacific Indemnity, which has written the coverage since 1962, the

Continued on next page

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Movie risks

Continued from previous page
market disruption is "worrisome in a temporary sense, with this account under attack or that account under attack," Mr. Darwin noted. "But in a reasonably short period, a couple of years or so, the whole market is going to settle.

"Those who charge unrealistic premiums, maybe they won't be here. Maybe their principals will have another look at the results and say, 'That's not for us,' " he said.

Even Transamerica's Mr. Anders concedes that "rates are a little lower than perhaps we would like to see," or down an average 10%-15%. 'But we still feel we can make money."

For now, risk managers are enjoying the rate decreases.

"The market is extremely favorable to the buyer," said the production and communications company risk manager who asked not to be named. "And it is mainly because of what is going on with the Ruben Co."

He noted that Ruben's defection to Transamerica pits the leading broker of entertainment coverage against the leading underwriter. "It's a pretty favorable situation for the insured if you play it right."

The risk manager said his own coverage costs dropped 25% after switching to Transamerica from Fireman's Fund.

Tanya Karn, risk manager-entertainment insurance for The Walt Disney Co. in Burbank, Calif., said her production package coverage with Pacific Indemnity is expected to cost between 5% and 10% less when it is renewed Jan. 1.

Apart from the current competition, motion picture insurers also must contend with other problems, including the fact that there are now simply fewer movies to insure.

During the first 10 months of this year, the motion picture industry began work on one-third fewer films than during the same period in 1988, according to Fireman's Fund.

In addition, market observers point out, underwriters insuring motion pictures can sustain huge losses.

While brokers and underwriters say there have been no catastrophic production losses recently, there have been plenty of major claims.

"Entertainment losses, particularly in cast insurance, can be very large," said Mr. McAllister of Rollins Entertainment. "If you lose one day of filming, it can run from $50,000 to $125,000 or higher. It doesn't take a long time to blow through a deductible."

He said deductibles for cast insurance, which is part of the production package policy, range from $25,000-$100,000.

Mr. McAllister said claims for delays because of a sick or injured cast member "are very common."

The recent illness of an actor who also directed a major movie caused a two-week shutdown and a claim of $750,000. said Mr. McAllister.

However, that loss is small in comparison to insurer's potential losses, like that stemming from the box office flop "Heaven's Gate," a 1980 United Artists release that soared $27 million over its $18 million budget. However, the studio did not purchase a completion guarantee for the picture (*BI,* May 14, 1984).

Steven Ransohofs, vp of Film Finances Inc. in Hollywood, a leading completion bond issuer, said only about 25% of studio-produced films are backed by completion bonds. He estimated the figure for independently made films is about 90%.

Like the market for production package insurance, the completion bond marketplace is becoming a little more crowded.

In addition to the entry of Transamerica into the market, Tekla Morgan, senior vp of the Cohen Entertainment Division of Chicago-based Near North Insurance Agency, said Cohen's Los Angeles office anticipates providing motion picture completion bonds in January.

Ms. Morgan would not say which insurer will actually underwrite the coverage, but she noted that Cohen has "talked to London markets as well as a major domestic insurance company."

She said her company "wanted to move into feature films" after years of writing what is known as DICE coverages, or insurance for documentaries, institutional films, commercials and educational films.

Mary Kay Foy, account executive with Near North in Chicago, said Near North has placed entertainment coverage for films and special events for around seven years. The agency represents insurers including syndicates at Lloyd's, AIG, Pacific Indemnity and Fireman's Fund.

"If you are going to offer the other products you need to offer to be competitive, you need to offer the completion bond. We want to be a one-stop shop," said Ms. Morgan. ■

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Safety in spotlight of movie production

Insurers, motion picture studios and unions increasingly are stressing safety on movie sets, experts say.

Following the deaths in 1982 of actor Vic Morrow and two children during the filming of "The Twilight Zone" (*BI,* Aug. 2, 1982), "the industry really woke up and paid more attention to safety," said Michael B. McAllister, president of Rollins Entertainment Brokers in Los Angeles, a division of Chicago-based Rollins Burdick Hunter Group Inc.

"A lot of good things are being done by insurance (companies)," he noted, adding that "studios have their own loss control people and the unions and guilds are involved."

Mr. McAllister pointed out that since the Twilight Zone accident, unions have been particularly careful to implement "strict safety measures regarding any stunt."

Tanya Karn, risk manager-entertainment insurance for The Walt Disney Co. in Burbank, Calif., said loss control at the studio begins with a reading of the script "to see what the project will call for. Then we have weekly meetings with the Disney production staff."

Because production personnel act in a loss control capacity, Disney does not send a member of its risk management department to each set, Ms. Karn noted. "Our production people act in that capacity on a day-to-day basis."

Bob Anders, resident vp in Transamerica Insurance Co.'s entertainment insurance department in Woodland Hills, Calif., noted that "some of the loss control is built right into normal underwriting" of motion picture insurance.

For example, he said, medical exams are required of anyone covered under a film's cast insurance.

And, he added, "we use the Transamerica loss control departments for general liability and workers comp" when writing those coverages for a production.

Robert Boyar, senior vp with broker Marsh & McLennan Inc. in New York, added that M&M borrows loss control expertise from other departments for its entertainment accounts when it places an entertainment risk.

"You have to get your people in to work with the special effects people retained by the producer," Mr. Boyar explained. "If you have a lot of aircraft, you have specialists come in to do the job on the aircraft that they would do for a major client's company planes."

—By Michael Bradford

Quake barely rattles entertainment clients

The show went on.

The Oct. 17 California earthquake only slightly disrupted the entertainment industry, say insurance brokers.

Though it delayed the World Series, the temblor hit when few films were being shot in Northern California.

Michael B. McAllister, president of Rollins Entertainment Brokers in Los Angeles, a division of Chicago-based broker Rollins Burdick Hunter Group Inc., said two of his clients filed claims for quake-related damage to movie facilities.

"They were motion picture extra expense claims, in the neighborhood of $100,000," he said.

Bob Jellen, president of entertainment insurance broker Albert G. Ruben & Co. in Beverly Hills, Calif., said any production delays caused by an earthquake are covered under a filmmaker's production package.

"Say there was an earthquake and you couldn't get to the set. Extra expense because of a delay in production is covered," he said.

None of Ruben's clients were filming in the San Francisco Bay Area during the quake, Mr. Jellen said.

An ABC-TV spokesman would not say whether the delay in the World Series caused any losses or whether insurance would cover such losses.

"There are coverages available" that would pay lost ad revenues, said Bob Anders, Transamerica Insurance Co.'s resident vp of entertainment insurance.

"I have done similar type things for ABC in the past," said Mr. Anders, though he added that he did not know whether ABC had such coverage for the World Series.

Mr. Anders said Woodland Hills, Calif.-based Transamerica had not received any quake-related claims from its entertainment clients.

—By Michael Bradford

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Tap is open for liquor liability coverage

By MICHAEL SCHACHNER

New Year's revelers should not have any trouble finding a restaurant or lounge next month where they can toast in the new decade.

Liquor servers nationwide can obtain affordable and adequate coverage—commonly at least $1 million in occurrence-based limits with no deductibles—to cover their liquor liability exposures, according to brokers and insurers.

Some insurers, though, stipulate that policyholders implement one of many national or regional programs designed to help drinking establishments reduce their liability exposures by training servers when to stop serving patrons. Other insurers discount premiums for policyholders that voluntarily offer these programs.

There are a greater number of markets for liquor liability insurance and the coverage is generally less expensive for liquor servers that count on food sales for a significant portion of their gross receipts, but the coverage is offered by some insurers only in combination with other lines of property/casualty coverage.

Bars and taverns, though, also can find more expensive—although still affordable—liquor liability insurance from markets that do not write the coverage only as part of a package, brokers and insurers say.

Even corporate hosts of one-time events, such as Christmas parties, can easily find coverage, observers say.

However, liquor liability policyholders soon may be facing a tighter marketplace, because of massive losses stemming from Hurricane Hugo, the California earthquake and the destruction of the Phillips Petroleum Co. plant in Pasadena, Texas, some sources say.

"Within the next 12 to 18 months there will be a substantial reduction in the availability of liquor liability coverage," predicted Frank Neuhauser, senior vp with the risk management division of American International Group Inc. in New York, whose National Union Fire Insurance Co. of Pittsburgh, Pa., unit writes liquor liability insurance.

"Historically, as the market tightens, insurers restrict coverage. Traditionally, liquor has been excluded, then given away, depending on the cycle."

"The market will tighten, which will have some effect on the companies writing packages for restaurants including liquor," said Jim Joyce, vp-underwriting for Frontier Insurance Co. of Monticello, N.Y.

"If the market tightens, they may not offer the liquor coverage," he said. "But we don't anticipate the recent catastrophes affecting how we offer liquor liability, especially because we offer it in regions unaffected by the catastrophes," Mr. Joyce added.

Walter Adler, product manager with Unifax Insurance Systems Inc., the managing general agent for Crusader Insurance Co. of Woodland Hills, Calif., said that while he expects "fewer carriers will enter" the liquor liability market, "those writing it now will probably continue."

"Existing carriers will continue to provide it, although there won't be any further diminishing of rates. We may even see a slight increase in rates next year," said Richard Corrado, assistant vp with Alexander & Alexander of New York Inc. in Melville, N.Y.

Today's liquor liability market stands in stark contrast to the near bone-dry conditions at the height of the hard property/casualty insurance market in 1985.

A striking example is in Michigan, where courts have leveled million-dollar punitive damage awards against establishments that served liquor to patrons who later injured others while under the influence of alcohol.

In 1987, only a couple of insurers were writing liquor liability coverage in the state, according to Jim Holycross, liquor liability underwriter with North Pointe Insurance Co. of Southfield, Mich., one of those insurers.

"Now, there are 90 to 100 writers" of liquor liability coverage in Michigan that can help liquor-serving establishments comply with a 1988 state law requiring all establishments with liquor licenses to carry at least $50,000 in liability insurance or post a $50,000 cash bond (*BI.* Feb. 29, 1988).

Establishments that lacked adequate coverage or stopped serving alcohol during the hard market now can find adequate coverage.

For example, the Park Place Hotel in Traverse City, Mich., has reopened its bar and now has "adequate" coverage through a commercial insurer, according to General Manager Gary Hall, who declined to elaborate about the coverage. The former owner halted alcoholic beverage sales in 1985 after the Park Place's liquor liability coverage was slashed by 90% and its premium nearly tripled (*BI.* Dec. 23, 1985).

The situation is much the same nationwide, according to brokers and insurers.

"Bars and taverns in the past had to get into groups or use gimmicks" to find affordable coverage, said A&A's Mr. Corrado.

But, now, "rates are about 50% lower than in 1985, especially for your better class of risk such as restaurants, inns or anyone selling food," he said.

The softening of the liquor liability market occurred mostly during 1988 as the soft commercial liability insurance marketplace hit full stride, according to brokers.

The market has remained stable throughout 1989.

"The market hasn't changed much since a year ago," Mr. Corrado said.

John Black, senior vp and chief operating officer of the Philadelphia office of Fred S. James & Co. Inc., agreed.

"There are more writers today, but rates are not necessarily down over a year ago. But compared with 1985, rates are about one-half," Mr. Black said.

Insurers generally will write liquor liability coverage on an occurrence basis, and $1 million in limits is easily obtainable, up from the $100,000 to $300,000 in limits that were commonly offered by liquor liability insurers during the hard market.

But liquor liability coverage is much cheaper and more widely available for restaurants and hotels that purchase a property/casualty package policy, said James' Mr. Black.

Writing package policies provides insurers with a greater spread of risk, he explained.

In fact, many insurers—particularly major admitted insurers—will write liquor liability coverage only if it is written in conjunction with other coverages, he said.

"There is a lot more flexibility with more premium," Mr. Black said. "Therefore, chains of restaurants and

Continued on next page

Liquor liability

Continued from previous page
hotels can easily negotiate liquor into their package policies."

For example, Beverly Hills, Calif.-based Hilton Hotels Corp.'s liquor liability exposure is insured in combination with other liability exposures, said Michelle Patton, assistant treasurer and risk manager.

In 1986, at the height of the hard market, Hilton was self-insuring its liquor liability exposure along with most of its other liability risks.

"But in 1987, as liability insurance became easy to obtain, we rolled liquor into our overall liability umbrella," she explained, declining to detail Hilton's insurance program.

Liquor liability coverage was easy to come by because Hilton caters to business travelers, Ms. Patton said. "We're not a disco-type hotel."

Also, "the face of the exposure has changed. People are more cognizant of drinking and driving," she said, noting that all Hilton bartenders must participate in a program designed to teach them when to stop serving patrons.

Indeed, brokers, insurers and other observers say that besides the general softening of the property/casualty insurance market, the liquor liability insurance market has loosened because of society's heightened awareness of the dangers of drunk driving.

And, dramshop liability statutes, as well as case law and the proliferation of liquor-server training courses, have combined to make establishments more responsible, say brokers and insurers.

Consequently, the risk undertaken by liquor liability insurers is smaller than ever, and insurers have had good loss experience and underwriting profits in recent years, observers say.

Some observers give high marks to server training courses.

"It's my opinion that it makes a substantial difference, but we do not have any data," said AIG's Mr. Neuhauser. "It changes the attitude of the establishment and that is positive."

"Server training courses, from an underwriting standpoint, make insurers a lot more willing to entertain the coverage," said A&A's Mr. Corrado.

"But bartenders are still susceptible to human wants and will serve them, but hopefully if it's a good customer, they will serve them an alternative drink or take their keys away," he said.

Liquor-serving establishments that train and certify their servers in these programs often are eligible for premium discounts of up to 25%.

For example, Mr. Hall at the Park Place Hotel said he receives a "recognizable" discount for training and certifying all his servers. The hotel enrolls its liquor servers in the Training for Intervention Procedures by Servers of Alcohol, or TIPS, offered nationwide by Health Communication Inc. (see related story).

Among the insurers that will write liquor liability coverage under a separate policy are:

- Frontier Insurance Co., which writes up to $500,000 in occurrence-based limits with no aggregate for all types of liquor serving risks in New York, Vermont and Pennsylvania.

Frontier is the largest market for stand-alone liquor liability coverage in New York with nearly $4 million in direct written premiums in 1988, according to Mr. Joyce.

Frontier requires policyholders to pay a $10,000 deductible for claims stemming from assaults by patrons at the establishment.

The insurer rates establishments that derive more than 30% of gross receipts from liquor sales as tavern risks, which pay higher premiums than restaurants or liquor stores, according to Mr. Joyce.

In addition, Frontier adds a 10% premium surcharge for each violation of a state's Alcohol and Beverage Control laws. Common infractions include serving minors and violating state closing hours, he said.

However, Frontier discounts premiums 15% for policyholders that require bartenders to participate in a server training course and another 10% if policyholders belong to an approved program that arranges transportation for intoxicated customers.

Mr. Joyce offered several examples of average premiums for typical New York risks: A tavern risk in Newburg, N.Y., with $140,000 in annual liquor sales paid $4,465 in premiums for $100,000 limits in 1988; a restaurant in Canastota, N.Y., with $21,000 in annual liquor sales paid Frontier's minimum premium of $820 last year for $100,000 in coverage; and a catering service in Warwick, N.Y., with $44,000 in annual liquor sales paid $1,793 for $500,000 in limits in 1988.

- Surplus lines insurer First State Insurance Co., a unit of Hartford, Conn.-based Hartford Insurance Group, which offers $1 million in first-dollar liquor liability coverage with a $1 million aggregate to restaurants and liquor stores in seven states: Florida, Maine, Massachusetts, New Hampshire, North Carolina, Pennsylvania and Rhode Island.

First State also writes claims-made policies in Florida and New Hampshire.

First State avoids establishments that boast drink promotions like happy hours or beer busts and offers premium discounts to policyholders that implement the TIPS program.

Continued on next page

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Consistent state laws, training aid risk control

By MICHAEL SCHACHNER

States should enact several measures to ensure an equitable liquor liability forum for both plaintiffs and defendants, asserts a liquor liability expert.

But, in the meantime, states with liquor liability statutes offer the best legal climate for liquor servers because the laws clearly define their liability, said Alan Jay Kaufman, an attorney with Kaufman & Payton in Farmington Hills, Mich., which specializes in liquor liability cases.

Thirty-seven states have dramshop liability laws, although some aspects of liquor servers' liability in some of these states has been set by case law, according to Mr. Kaufman.

In five states—Hawaii, Oklahoma, South Carolina, Washington and West Virginia—dramshop liability has been established solely through court decisions, Mr. Kaufman said.

Only eight states do not have any form of dramshop liability law: Arkansas, Delaware, Kansas, Maryland, Nebraska, Nevada, South Dakota and Virginia, he said.

The outcomes of liquor liability cases in states with dramshop liability statutes are far more predictable than similar cases in other states, Mr. Kaufman said. However, awards in states with dramshop liability statutes tend to be larger, he noted.

Mr. Kaufman advocates many measures that he says would help all states establish a fair liquor liability forum, including:

- Establishing a comparative negligence standard, which would allow courts to reduce liquor liability awards by the percentage a plaintiff is to blame for injuries or damages.
- Raising compulsory auto liability insurance limits to at least $100,000. Because the majority of liquor liability claims involve drunk driving, this would shift some of the compensation burden to drunk drivers and auto insurers from liquor-serving establishments and liability insurers.

Such a provision also would better protect plaintiffs in cases when the server lacks adequate coverage.

- Capping liability awards against liquor servers.

Currently, eight states cap such awards, with limits ranging from $30,000 in Illinois to $500,000 in North Carolina.

Meanwhile, scores of server-training programs designed to help liquor-serving establishments reduce their exposures have sprung up nationwide over the past several years.

Among the best-known is the Training for Intervention Procedures by Servers of Alcohol, or TIPS, offered since 1983 by Washington, D.C.-based Health Communication Inc.

HCI Vp Adam F. Chafetz said there are about 50 national and regional services throughout the country.

TIPS has educated 175,000 liquor servers since its inception—more than any other program, he says.

And, only TIPS keeps complete records of every person that has completed the course, Mr. Chafetz said. "Therefore, if insurers want to check up on servers they can access test records," Mr. Chafetz explained.

During the two-day TIPS program that costs $500 per person, participants study and evaluate real-life situations. At the end of the course, students are tested for certification.

Syracuse, N.Y.-based "I'm Smart" of Central New York Inc. trains liquor servers, and also offers certified liquor establishments the service of driving home patrons whose sobriety appears questionable.

More than 130 liquor-serving establishments in Syracuse belong to "I'm Smart" for an annual fee of $400, said its president, Martin Yenawine.

And, the "I'm Smart" service offers an employee awareness program for corporations in addition to training liquor servers.

The "I'm Smart" corporate program, which costs a minimum of $250, also shows companies how to reduce liability at corporate-sponsored functions in an entertaining guide that "clearly demonstrates that extraordinary care must be used when putting a party together. If done properly, liability will be no more than minimal. In New York, to be liable you must be grossly negligent, and to disprove that one is liable you must show that reasonable care was displayed," Mr. Yenawine said.

About 300 corporations in the Syracuse area are members, he said.

Mr. Yenawine said his program may be partially responsible for reducing the number of alcohol-related deaths in the Syracuse area to nine last year from 25-35 per year in the early 1980s.

The "I'm Smart" program will soon expand into neighboring Oswego County, N.Y., said Mr. Yenawine, who hopes to franchise the program nationally. ■

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Continued from previous page

However, premiums vary depending on the dramshop liability laws in the state a policyholder is based.

• National Union, which offers up to $2 million in first-dollar occurrence-based limits to members of a New York-based risk purchasing group, Select Establishment Purchasing Group Inc.

Under the program, which is available nationwide, purchasing group members must accept the American Express card and at least 25% of policyholders' gross receipts must come from non-liquor sales.

A purchasing group member's premium will be cut 20% if half its employees successfully finish one of 17 certified server training programs.

American Express Co., which organized the program, recently announced that first-year participants in the 2-year-old program received a 28% dividend due to "excellent first-year results."

Pre-dividend premiums are not the lowest in the market because the program is "designed to flourish over the long-term, especially during a hard market," Mr. Neuhauser acknowledged.

However, discounts and dividends give it "the possibility of having the lowest conceivable price," he said.

Rating factors like gross liquor sales, dramshop liability laws in a member's home state and use of the server training programs leaves premiums "all over the place," Mr. Neuhauser said.

Establishments with liquor law violations are ineligible for coverage.

• North Pointe Insurance Co., which offers up to $1 million in first dollar occurrence-based limits in Michigan for all types of liquor serving establishments, as well as for corporate hosts and hosts of special events, such as weekend street fairs.

North Pointe writes five levels of limits: $50,000 per occurrence/$50,000 aggregate; $100,000/$100,000; $300,000/$300,000; $500,000/$500,000; and $1 million/$1 million.

The coverage is offered through managing general agent Affiliated International Services Inc. of Southfield, Mich.

A bar risk with $50,000 in annual liquor sales can obtain $50,000 in coverage for about $1,800, compared with about $3,000 in 1987, said Mr. Holycross.

North Pointe is the largest underwriter of liquor liability insurance in the state, insuring more than 4,000 of the state's 17,000 licensees, Mr. Holycross said.

Gross liquor premiums in the last year were more than $7 million, he said.

• Surplus lines insurer United National Insurance Co. of Philadelphia, which offers up to $50,000 in occurrence-based coverage only in Pennsylvania and up to $1 million of claims-made coverage in Florida and Georgia.

While the insurer has not specifically excluded any particular risks, it is not looking to insure convenience stores in Florida or Georgia because "the reward is not worth the risk," said Patricia Rodman, vp-underwriting.

Among the insurers that will write liquor liability coverage only as part of a package policy are:

• Novato, Calif.-based Fireman's Fund Insurance Cos., which offers occurrence-based policies nationwide to restaurants, hotels and country clubs that derive no more than 50% of gross receipts from liquor sales.

Fireman's Fund's first-dollar coverage ranges from $500,000 to $3 million with a $3 million aggregate. Policyholders commonly obtain about $1 million in limits, said Mary Beth Wheeler, vp-general liability.

Limits are determined by the severity of dramshop liability laws and the track record of courts in individual states, she explained.

In addition, Fireman's Fund offers the same coverage to California wineries that have public wine tastings through a stand-alone liquor liability policy.

The company plans to expand its vineyard program to other states soon, Ms. Wheeler said.

The insurer requires all policyholders to implement an approved training program for servers.

• Anaheim, Calif.-based AIM Insurance Co., which writes up to $500,000 in first-dollar occurrence-based limits with no aggregate for liquor liability coverage for all types of liquor serving establishments in California and Arizona.

It also markets package policies only for taverns in Idaho, Montana and Oregon.

The minimum premium is $250 for restaurants and $350 for taverns for minimum limits of $100,000.

AIM currently has about 7,000 policyholders in those states and is preparing to expand into Utah, a spokeswoman said.

In addition, a facultative reinsurance arrangement allows AIM to offer up to $2 million in limits for sponsors of one-day events in California, the spokeswoman said.

• Crusader Insurance Co. of Woodland Hills, Calif., which offers up to $1 million in first-dollar occurrence-based liquor liability coverage with no aggregate in California to liquor stores, bars taverns and restaurants.

Crusader has been writing the coverage for five years with "good loss experience," said Mr. Adler of Unifax.

Premiums are based on square footage. For example, a 3,000-square foot liquor store might pay about $3,000 for a package liability policy with $1 million in limits. He said the liquor liability portion would account for about $400 of the total package premium.

Premiums on the liquor portion can be cut up to 25% if a policyholder's staff and management are trained in proper serving techniques.

In addition, policyholders without a liquor liability loss are eligible for a 10% discount on the liquor liability portion of their premium upon renewal.

The basic premium for a restaurant obtaining $500,000 in limits would be $900, said Mr. Adler.

• The Massachusetts Joint Underwriting Assn., which offers both claims-made and occurrence-based liquor liability coverage.

The JUA persists in Massachusetts because, regardless of how loose the marketplace is, factors such as poor loss history and liquor code violations will prevent commercial insurers from insuring some establishments, said Robert Walsh, an assistant account executive with Republic Hogg Robinson Inc. in Boston.

The JUA began writing liquor liability insurance in 1985 under a two-year charter, which was renewed for another two years in 1987.

And a spokeswoman for the Massachusetts Division of Insurance said it is likely the liquor liability JUA will be extended into 1990.

The JUA writes three levels of limits: $100,000 per occurrence or per claim/$200,000 aggregate; $250,000/$500,000; and $500,000/$1 million.

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Transit vows to collect reinsurance

By ROGER SCOTTON

HAMILTON, Bermuda—An official of the Transit Casualty Co. liquidation is warning Transit's reinsurers that if they unnecessarily delay payments to the insolvent insurer, "we'll invoke all the remedies we have at our disposal."

"We are committed, if necessary, to spending $1.50 to collect $1 to make an example of a reinsurer who does not honor his commitment to deal in a businesslike manner," said Paul Dassenko, Transit's director of insurance operations, at the Third International Reinsurance Congress co-sponsored by Coopers & Lybrand and Hawksmere Ltd. in Bermuda Nov. 9-10.

While the liquidator is beginning negotiations in a businesslike manner, "obviously, this strategy applies only at the outset. If indeed reinsurers choose to litigate and prove our strategy of businesslike dealing to have been the wrong strategy, they will find an aggressive sparring partner in this receivership," he said.

The collapse of Transit Casualty, which is estimated to be insolvent by at least $2.5 billion, currently is being investigated by a Missouri grand jury. Transit's former president has been indicted on criminal charges of falsifying an annual statement (*BI*, Nov. 13).

The liquidator's litigation unit is monitoring more than 200 suits in various stages of development, which have been filed primarily against policyholders for additional premiums, said Mr. Dassenko, an attorney who joined the Transit liquidation in February.

3rd International Reinsurance Congress

In addition to suits against policyholders, Transit is defending itself in direct actions and subrogations, while suing Transit's former directors and officers, he said.

Mr. Dassenko described D&O and errors and omissions litigation as "an area the receivership is pursuing aggressively and will continue to do so."

"The commitment to this goes far beyond the marshaling of additional assets through judgment or settlement," he told conference participants. "It really is a public policy decision where, as trustees for policyholders and other creditors, we feel it our duty to make Transit's prior management provide a full accounting of their conduct to a jury and face any appropriate civil consequence."

But he said none of the suits' allegations "goes to the issue of good faith dealing with reinsurers," most of which dealt directly with managing general agents that wrote business for Transit.

"At no point in the relationship with reinsurers did Transit figure heavily since nearly all the duties of a carrier were delegated to the MGA," he said.

Mr. Dassenko said that Transit's undoing began in January 1981 at its Palm Springs, Calif., division management meeting when the concept of writing business through MGAs was "wholeheartedly embraced" as the key to Transit's future.

"In short order, Transit then proceeded to appoint 17 MGAs who, in turn, appointed sub-agents and producers totaling, we believe, about 1,000," he said.

When Transit was ordered liquidated Dec. 5, 1985, Mr. Dassenko said there was no evidence of necessary underwriting and pricing controls (*BI*, Dec. 9, 1985).

"Of course, if adequate letters of credit had been secured, the quality of the reinsurance would have been less critical. But without control of the claims handling and reserving, LOCs could not reflect the true claims picture in their amounts."

Mr. Dassenko said that the Transit liquidation is "truly proud" of its accomplishments in the last four years, given the lack of information available at the outset. "The lack of data makes it impossible to calculate the precise size of the receivership or to reconstruct annual statements at this time.

"These tasks, while important, have taken a back seat to our most important task: collecting reinsurance." But he said the systems and staff are now in place to bill reinsurers, manage claims information and proofs of claims, and to electronically interface with state guaranty funds.

More than $100 million has been collected from reinsurers and more than $200 million is "in the pipeline," he said. And, he said the liquidators' expenses, "while substantial," are less than spent in other liquidations "by almost any measure."

"We have a strategic plan as well as tightly managed task plans to achieve our ends," Mr. Dassenko said.

"We had expected a number of defenses to coverage and some reinsurers have not disappointed us," Mr. Dassenko said. "Mostly, I have been surprised at how conscious reinsurers are and were of Transit's business. It now seems unlikely reinsurers were unaware of what was being written. In fact, there is plenty of evidence Transit was encouraged by its reinsurers."

Commutations are only being considered with those reinsurers that Transit believes will have financial difficulty attempting to meet their liabilities to Transit.

But Mr. Dassenko is not optimistic about an early payment to creditors from Transit's estate. "Since the losses processed are so heavily dependent on the reinsurance, we will have had to process most all of the losses to fully realize the available pool of assets for distribution," he said.

Mr. Dassenko said he has emphasized working with reinsurers as an ongoing company would. Therefore, he has established a notification procedure to allow reinsurers to raise questions or audit Transit files before a loss is allowed and the reinsurer is billed.

And, reluctant reinsurers may find the liquidator's positions strengthened by increased congressional scrutiny of insurer insolvencies and the House Oversight and Investigation Subcommittee inquiry into Transit's insolvency (*BI*, April 17, April 10).

Mr. Dassenko pointed out that he would usually prefer to settle disputes through arbitration rather than litigation.

"I would prefer to tell our story to a panel who understands the industry," he said.

"I expect those of you who represent reinsurers to reciprocate on our commitment to deal in good faith and in a businesslike manner, avoiding litigation where possible," he said. ■

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Update U.S. insolvency laws: Attorney

By ROGER SCOTTON

HAMILTON, Bermuda—U.S. insurance law is outdated and unable to address the myriad problems involved in reinsurer insolvencies, a Chicago attorney contends.

Although the business of reinsurance has changed and the insolvency process has become increasingly complex, administrators of reinsurance companies undergoing supervision, conservation, rehabilitation or liquidation must work with "dated, ill-fitting tools," said Stephen Schwab, partner with Rudnick & Wolfe, a Chicago firm.

Mr. Schwab delivered a paper at the Third International Reinsurance Congress co-sponsored by Coopers & Lybrand and Hawksmere Ltd. Nov. 9-10 in Bermuda.

Mr. Schwab and his co-authors—Debra Anderson, general counsel to Illinois Office of Special Deputy Receiver, and attorneys Carolyn Reed and David Mendelsohn of Rudnick & Wolfe—advocate reform of many conflicting statutory and regulatory provisions applicable to reinsurer insolvencies.

"The effects of this morass have been visited on the insurance and reinsurance industry and ultimately the world community through restrictive approaches to the valuation of contingent claims and the applicability of setoffs," Mr. Schwab said.

Mr. Schwab defined contingent claims as those for which an insolvent party's liability remains uncertain. These claims can and should be valued and paid or applied either through offsets or the doctrine of recoupment, he said.

Contributing to the problem is that some states treat the claims of reinsureds as those of general creditors, he noted. They are not deemed claims of policyholders for purposes of asset distribution because reinsurance contracts are viewed not as insurance policies, but as indemnity contracts.

3rd International Reinsurance Congress

And, reinsurance claims in some states, whether for paid losses, outstanding reserves or incurred-but-not-reported losses, are not specifically addressed in the contingent claims provisions of insurance codes, he said.

"Depending on the wording and interpretation of such provisions, reinsurance claims for outstanding reserves and IBNR. . .might not be recognized as allowable contingent claims. Unfortunately, current insurance insolvency statutes give no clue as to how such claims could be estimated or valued," he said.

Mr. Schwab's paper, however, points out that even without statutory mechanisms for valuing contingent reinsurance claims, legal mechanisms do exist that allow for the valuation of contingent claims in other contexts and other jurisdictions "whose principles may shed light on the suggested approach to valuations of reinsurance claims in insurance insolvencies."

He said that although the U.S. Bankruptcy Reform Act of 1978 does not apply to the liquidation of insurance or reinsurance companies, "it does deal with the filing and payment of contingency claims in U.S. law." The act significantly changed the treatment of contingent and unliquidated claims in bankruptcies, requiring estimation and discharge of all contingent claims, Mr. Schwab said.

"Thus, despite the inherent difficulty of valuing contingent claims, the U.S. Congress chose the imprecise estimation process for such claims rather than continued application of doctrines that rendered contingent claims worthless," he pointed out.

Mr. Schwab said that another problem with valuing any kind of contingent claim is that the process is slow and may be expensive. In addition, creditors risk losing the time value of money, while administrative costs diminish the assets of the insolvent estate, he said.

But, Mr. Schwab argued that U.S. bankruptcy law has kept pace with changes in insolvency practice in non-insurance fields, and Bermuda also is adopting actuarial methods for the valuation and allowance of contingency claims in insurer insolvencies.

Setoffs, which he said involve the "netting off" of debts arising from different transactions between two parties, are another controversial issue among insurance regulators and the insurance industry.

The insurance industry, Mr. Schwab said, tends to favor the broadest interpretation of setoffs.

"However, many receivers contend that permitting reinsurance setoffs at all is contrary to the scheme of pro rata distribution," he said. Priority distribution statutes adopted by many states favor the claims of policyholders over those of general creditors, including reinsureds, he said.

"Receivers take the position that setoffs strip policyholders of their favored position under the priority statutes, as setoffs enable the party setting off to recover 100% of his claim before policyholders can recover any portion of the unsecured claims," the paper said. "At least one trial court has held that reinsurance setoffs may be permitted only after all policyholder obligations have been fully paid," the paper added.

These divergent views, Mr. Schwab told the conference, have spurred attempts to both enlarge and restrict setoff rights, with both sides prepared to continue their battle in court.

"Whatever the end result of the current controversy, two things are clear: The doctrine of setoff in the United States will change and that change will not be the result of compromise," he said.

The time is also ripe for an overhaul of other U.S. state laws governing insurance insolvency procedures, Mr. Schwab stated. He pointed out that substantial portions of these laws were enacted in the 1930s and were designed to address problems confronting receivers at that time. "Those laws are now inadequate," he contends.

Receivers administering the liquidations of companies that folded in the last five years are, in many cases, nearing the point where they will be able to value claims and render accounts to their reinsurers, he noted.

"Now they must make difficult decisions concerning policies and procedures to be followed with respect to issues such as the liquidation or contingent claims, the valuation of reinsurance claims and the extent to which claims can be set off in the insolvency proceeding," Mr. Schwab said. "These issues are not susceptible of easy resolution and their determination will have a significant impact upon the insurance industry and the way in which the business of insurance is conducted in the future.

"Unless receivers and industry work together to achieve needed change, drastic solutions may be forced upon them," he warned. ■

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January 1, 1990

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InsurerTopics

A special editorial section sent exclusively to insurers and reinsurers

Building long-term relationships

Reinsurers stress stability to attract wary cedants

By MARK A. HOFMANN

Ceding insurers are looking for long-term relationships with their reinsurers instead of fiscal one-night stands, agree insurer and reinsurer executives.

Financial stability, as well as timely payment of claims and value-added services, will keep ceding companies faithful to their reinsurers, both sides agree.

"When you buy a house, they say the three most important things are 'location, location, location.' In reinsurance, the three most important things are 'security, security, security,' " said James Talley, vp and manager of the reinsurance department of Warren, N.J.-based Chubb Corp.

"Price is not our first issue," said Richard H. Hershman, executive vp of Public Service Mutual Insurance Co. of New York, which specializes in writing property/casualty insurance for such risks as co-ops and condominiums in the Northeast.

"We're looking for security. We want to make sure they're going to be there," Mr. Hershman said.

"Who would we like to be doing business with five years from now?" is a question that Transamerica Insurance Co. seeks to answer when examining its reinsurance program, said Jeff Cooper, director of ceded reinsurance for the Woodland Hills, Calif.-based insurer.

Mr. Cooper stressed that Transamerica seeks long-term relationships with its reinsurers.

West Chester, Pa.-based Penn Mutual Insurance Co. has the same philosophy, according to Howard Stevens, chairman, president and chief executive officer of the regional property/casualty insurer, which operates in six states, primarily in the Mid-Atlantic area.

"We look at the reinsurer as a long-time friend," he said. "We don't allow just anyone to come in the door," noted Mr. Stevens, who recently became chairman of the Bensenville, Ill.-based American Assn. of Insurance Services, which consists primarily of small and mid-sized property/casualty insurers.

But, ceding companies will move on to different reinsurers if they feel their reinsurers do not satisfy their concerns, said Andrew Barile, president of Andrew Edwards & Co., a New York-based reinsurance intermediary.

"Historically, you wouldn't move your reinsurance program as a risk manager would his account," Mr. Barile said.

But ceding companies found that they could do without as much reinsurance when that market got tight, he said. "Now reinsurers are saying, 'We want more buyers,' " he said.

"Basically, what you are witnessing in the business is buyer vs. seller," Mr. Barile said. "It's very analogous to the corporate risk manager."

"If I see one trend in the reinsurance business, I see the clients making a real flight to quality," said Joel W. Cipolla, senior vp—reinsurance at Baltimore-based Maryland Casualty Co., a unit of Zurich Insurance Co. of Zurich, Switzerland.

Both the reinsurer and the ceding company must work at maintaining the relationship, said Edward Jobe, president of Princeton, N.J.-based American Re-Insurance Co., a unit of Hartford, Conn.-based Aetna Casualty & Surety Co.

Long-term trading relationships come about "where the seller doesn't reallocate surplus to temporary bigger profit margins in a seller's market and the buyer doesn't leave the seller for temporary price cuts in a buyer's market—a relationship structured to outlast underwriting cycles," Mr. Jobe said.

Ceding companies' chief concern about reinsurers is their financial stability.

No one knows exactly how much reinsurance is unrecoverable. However, Myron M. Picoult, senior vp with Oppenheimer & Co. in New York, recently estimated that total unrecoverable reinsurance balances for the property/casualty insurance industry is about $20 billion, or approximately 17% of the industry's year-end 1988 surplus of $118.2 billion (*BI*, Nov. 6).

Mr. Picoult said that the reinsurance recoverables of 27 major property/casualty insurance groups amounted to an average of 82% of the insurers' 1988 year-end surplus.

Mr. Picoult included reinsurance recoverables on paid losses and balances due from affiliates in his calculations.

For 1,948 property/casualty companies in 1988, reinsurance recoverables represented 53.7% of year-end surplus of $118.2 billion, or about $63.5 billion, reported Oldwick, N.J.-based A.M. Best Co.

Best's figures include unpaid and incurred-but-not-reported losses and unearned premium reserves but not paid losses and balances due from affiliates.

The figures are also net of funds withheld by ceding companies for balances due from unauthorized reinsurers.

Reinsurance recoverables "are a huge issue," said Maryland Casualty's Mr. Cipolla.

Transamerica generally has little trouble with recoverables, Mr. Cooper said.

However, there are "some pockets where we have problems," he acknowledged, predicting that "a lot will come home to roost" when insurers find that what looked like bargain reinsurance turns out to be unrecoverable.

At Public Service Mutual, "recoverables are not a significant problem," Mr. Hershman said. "We're comfortable that we do not have a recoverable problem," he said, expressing confidence in the ability of Public

Continued on next page

Reinsurer relations

Continued from previous page

Service Mutual's internal security and reinsurance committees to spot trouble.

But, for property/casualty insurers as a whole, recoverables are a concern, he said.

Not surprisingly, "customers want to know that they're dealing with a financially sound and stable company," not one that's in the market one day and out the next, said Mike Pinter, executive vp of Kemper Reinsurance Co., a unit of Long Grove, Ill.-based Kemper Corp.

But, like Mr. Cooper, Mr. Pinter said that uncollectible reinsurance is not a problem "across the board."

Ceding insurers also are making other demands from reinsurers, said Maryland Casualty's Mr. Cipolla.

Ceding insurers want reinsurers that are "not only able to pay, but willing to pay," he said.

"Service is the name of the game today, and when I say service, I include prompt payment," Mr. Pinter agreed.

Mr. Pinter cited the recently announced model catastrophe payment plan endorsed by the Olympia Fields, Ill.-based Brokers & Reinsurance Markets Assn. as an example of the reinsurance marketplace putting its "best foot forward" (see story, page 84H).

The plan is designed to speed reinsurance payments after a major disaster strikes.

Under the BRMA model, when a reinsurance contract is written, a bank trust is created for the ceding company. No funds go into the account until there is a loss that is likely to be covered under the reinsurance contract.

The reinsurer then deposits money into the trust fund but retains control of the money until a satisfactory proof of loss is submitted.

Within as little as one day after the reinsurer is satisfied with the proof of loss, the funds in the account can be released to the ceding company.

Not surprisingly, 'customers want to know that they're dealing with a financially sound and stable company,' not one that's in the market one day and out the next, says Mike Pinter, executive vp of Kemper Reinsurance Co., a unit of Kemper Corp.

"When a client has a claim, they want to be paid quickly," pointed out Maryland Casualty's Mr. Cipolla.

"I very much support the concept" of the BRMA model plan, said Mr. Cipolla, who will become president and chief executive officer of the new Stamford, Conn.-based Zurich Reinsurance Co. of America when it begins operations early next year.

The BRMA plan also was praised by reinsurance intermediaries as an example of how reinsurers that use intermediaries can better meet the needs of ceding companies.

"Through BRMA, we have just come up with a method of paying catastrophe claims that literally means one-day payments," said Ronald J. Taylor, president of New Hyde Park, N.Y.-based G.L. Hodson & Son, Inc., a unit of Corroon & Black Corp.

"This is done for the benefit of our clients, but it is influenced by the direct writers that say one payment/one check," he said.

But, reinsurers' efforts to make timely payment transcends differences in distribution systems.

For example, direct writer American Re takes particular pride in its speed of payment, Mr. Jobe said. "You can count on the fingers of one hand the number of days it takes us to pay a claim," he said, quoting an American Re advertisement.

Another growing concern for ceding companies is the quality of reinsurance company personnel.

"Both ceding companies and intermediaries expect more responsiveness and professionalism from reinsurers, and they will be graded accordingly," said Robert F. O'Leary, president and chief operating officer of Willcox Inc., a New York-based reinsurance brokerage subsidiary of Johnson & Higgins.

"The depth of the experience of the account representative" is an important consideration in dealing with reinsurers, said Henry H. Gibbel, president and chief executive officer of Lititz, Pa.-based Lititz Mutual Insurance Co., a regional property/casualty insurer in the East and Midwest.

The best reinsurers make a "long-term commitment to train their people," he said.

Both ceding companies and reinsurers generally agree that the quality of reinsurance professionals is on the upswing.

"I am very satisfied with the quality of the people I deal with in this company, our intermediaries and our reinsurers," said Chubb's Mr. Talley.

"We're reasonably pleased with the expertise" reinsurers are bringing to bear, said Transamerica's Mr. Cooper.

"I think five years ago the talent was stretched pretty thin," but the situation has been improving during the past few years, he said.

"In past soft markets, companies tended to close down their training centers. That was the wrong thing to do," said American Re's Mr. Jobe.

"Today, I think things are looking a lot better," he said. Reinsurers are drawing "bright young people" into the business, and "that bodes well for the future," he said.

Still, "the pool is not what it needs to be," although it is getting larger, he said, noting that American Re now is recruiting some employees directly out of college.

"I don't see an overabundance of qualified technicians," agreed Maryland Casualty's Mr. Cipolla, who believes that a good primary insurance background provides the firmest foundation for reinsurance professionals.

But Kemper Re's Mr. Pinter asserted that the reinsurance industry "has to develop some training system" of its own.

Mr. Pinter praised the efforts of the Malvern, Pa.-based Insurance Institute of America, which is developing the texts for a new associate in reinsurance professional designation. The IIA is expected to begin offering classes for the designation, the first of its kind, next fall.

Mr. Pinter also commended the New York-based College of Insurance, which holds reinsurance seminars for reinsurance and insurance professionals.

In addition to better service and employees, ceding companies are demanding more customized products, pointed out Mr. Jobe. "They want customized terms and conditions, not shelf products," he said.

Lititz's Mr. Gibbel agreed.

He said he looks for reinsurers with "creative ideas," regardless of

Continued on page 84D

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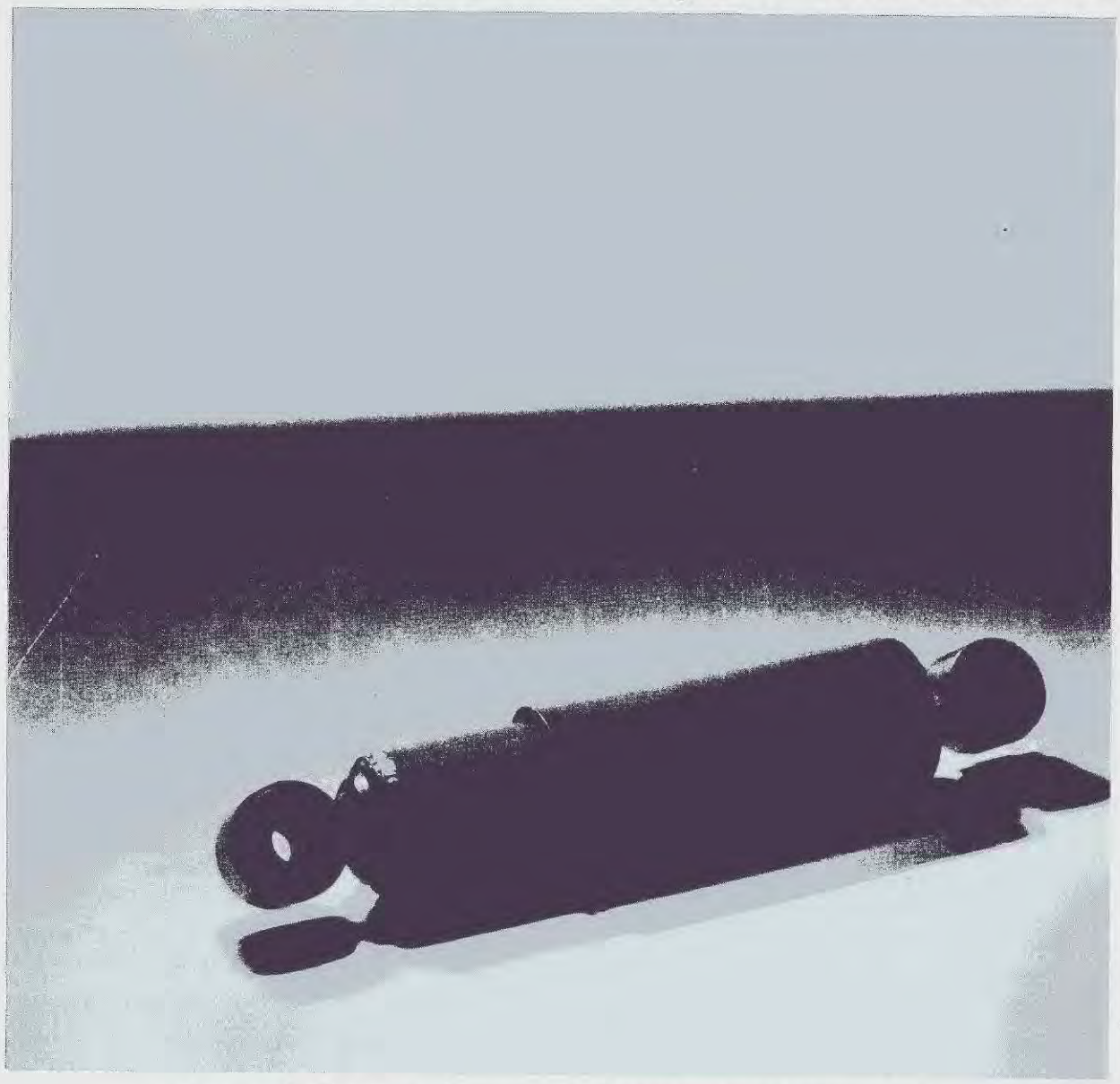

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Insurer Topics

Reinsurer relations

Continued from page 84B

which distribution system they use. Mr. Gibbel deals with both direct-writing reinsurers and those that use intermediaries.

Mr. Gibbel stressed that reinsurers that maintain long-term relationships with ceding companies have a built-in advantage in spawning such creative ideas. "With a long-term relationship, they understand not only your numbers but your territory and your operating philosophy as well," he said.

Public Service Mutual's Mr. Hershman shared the concern. "When we go into the reinsurance marketplace, we want whoever we're talking with to communicate your underwriting philosophy and results in the program," he said.

For example, Public Service Mutual has no California license and has no exposures in South Carolina even though it is licensed there, Mr. Hershman said. Therefore, the insurer was not affected by the Oct. 17 earthquake or Hurricane Hugo and should not face higher reinsurance rates, he said.

Reinsurers also have to respond to the fact that "the customer is changing," said American Re's Mr. Jobe. "As they change, so do their needs. The successful reinsurers will be those who identify and then respond to those needs."

Mr. Jobe cited the growth of alternative markets as an example of this change. "The alternative market needs a lot of services that many large primary companies are in a position to provide for themselves," he said.

Reinsurers that want to offer coverage to alternative markets must provide a "specialist response rather than a generalist response," Mr. Jobe said.

For example, a reinsurer dealing with captive insurers might provide specialized claims management; advise captives on how to handle difficult claims, such as massive injury and arson claims; and offer consulting services, such as actuarial, tax, management information and automated processing services, he said.

Captive insurers often cannot provide these services for themselves, he said.

But, small ceding companies also look for these services, said Penn Mutual's Mr. Stevens.

"Once you get past stability, we look for value-added services," said Mr. Stevens, who deals with both direct writers and with reinsurers that use intermediaries.

Mr. Stevens said that American Re, which he described as his major reinsurer, provided him with assistance in his computer operations, including help in purchasing and leasing hardware.

The reinsurer also helped train new claims employees and underwriters, aided in creating a human resources department and conducted underwriting audits, he said.

"Service is very important to us," said Paul A. Steiner, chairman, president and chief executive officer of Brotherhood Mutual Insurance Co. in Fort Wayne, Ind., a regional property/casualty insurance company that writes in 19 states, primarily in the Midwest.

"We found that working through the intermediary," he said, referring to Philadelphia-based Balis & Co., a subsidiary of Guy Carpenter & Co. Inc., which in turn is a unit of Marsh & McLennan Cos. Inc.

Mr. Steiner said Balis provided more flexibility than direct writers did.

"They could tailor some contracts for us. We felt they were standing up for us," Mr. Steiner said.

He also said working through a reinsurance intermediary helped spread Brotherhood's risk.

"We felt they had our interest at heart—they were working somewhat as a consultant," Mr. Steiner said.

For example, the intermediary was able to "analyze geographic areas where we had a large interest" and advise the insurer about its exposures.

Specifically, Balis advised Brotherhood Mutual about the potential size of its hurricane exposures in Florida, he said.

"I'm very pleased with the service," Mr. Steiner said.

Meanwhile, some intermediaries also are taking steps to compete with direct writers.

"By paying attention to contracts, claims and accounting, we are capable of reacting far quicker than are direct writers," said Willis T. King Jr., chairman and chief executive officer of Willcox Inc.

"We find from clients that direct writers are years behind in things like contract wording. And, with the increased capacity available in the market, ceding companies can be more particular relative to demanding the best service," Mr. King said.

But, Thomas A. Greene, president and chief executive officer of Thomas A. Greene & Co., a unit of Alexander & Alexander Services Inc., said the intermediary is not doing anything differently.

"We always felt we did a good job against direct writers and we continue to think so," he said.

Each form of reinsurance distribution though, has its own strengths and weaknesses, said Mr. Hershman of Public Service Mutual, which uses both direct writers and intermediaries.

By using intermediaries, Public Service Mutual company can monitor "the pulse of the market," he said. "They can probably help bring better prices and better conditions."

Direct writers, though, are generally quicker to respond to claims, he said. But direct writers are generally unwilling to take on certain levels of risk, so "you need both," Mr. Hershman said. "We find our program's working very well," he said.

The larger the ceding company, the fewer services the company is likely to demand, but reinsurers and intermediaries can provide those companies with information that they might not be able to gather elsewhere, said Chubb's Mr. Talley.

"I think reinsurers can give us certain information about certain exposures that are common to the industry, such as the earthquake exposure," he said.

Computerized loss forecasting models, such as Minneapolis-based E.W. Blanch Inc.'s CATALYST and Hartford, Conn.-based Travelers Corp.'s Natural Hazard Research Service unit, can provide such extra information. The forecasts are intended for clients attempting to estimate their earthquake and hurricane exposures and are "perfect examples" of the kind of information services large ceding companies might seek, Mr. Talley said (*IT*, Oct. 16; *BI*, Aug. 22, 1988).

Andrew Edwards' Mr. Barile said the changes in the reinsurance marketplace of the past decade have shaken the industry to its roots. Thirty years ago, "reinsurance was a club business," he said. "The business was a business of gentlemen" and based on "very personal relationships," he said.

"Those relationships will never again exist," Mr. Barile predicted. "More people will ask: 'What are you doing for me now?'"

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Agent/Broker Editor Linda J. Collins also contributed to this report.

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First Nine Months 1989

First Boston Client	Description of Transaction	Approximate Size of Transaction
Aetna Life and Casualty Company	Divestiture of Aetna Life and Casualty Ltd. to Prudential Corporation PLC	$ 94,000,000
American General Corporation	Divestiture of Maryland Casualty Company to Zurich Insurance Company	740,000,000
American General Corporation	Divestiture of American General Group Insurance Companies to Associated Insurance Companies, Inc. (Pending)	195,000,000
Georgia US Corp., a subsidiary of Nationale-Nederlanden NV	Acquisition of Southland Life Insurance Company from The Franklin Life Insurance Company, a subsidiary of American Brands, Inc.	433,000,000
Kaufman & Broad, Inc.	Acquisition of Annuity Operations of Commercial Life Insurance Company from The Continental Corporation	65,000,000
Lincoln National Corporation	Divestiture of National Reinsurance Corporation to a group led by The Robert M. Bass Group Inc. (Pending)	*395,000,000
New England Life Insurance Company and Guardian Royal Exchange Assurance plc	Divestiture of 51% Equity in Connecticut National Life Insurance Company to Empire Life Insurance Company. (Pending)	Not Disclosed
Republic American Corporation	Merger for Cash with Penn Central Corporation	290,000,000
The Tokio Marine & Fire Insurance Co., Ltd.	Acquisition of 40% Equity Interest in First Insurance Company of Hawaii, Ltd. from The Continental Corporation	28,000,000
Travelers Corporation	Divestiture of Keystone Provident Life Insurance Company to Liberty Mutual Insurance Company	Not Disclosed
UNUM Corporation	Acquisition of Commercial Life Insurance Company from The Continental Corporation	179,000,000

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Insurer Topics

Attrition expected in reinsurance arena

By MARK A. HOFMANN

The reinsurance marketplace of the next decade will be dominated by fewer—but financially stronger—players, say reinsurers and ceding companies.

This may not be the result of pure economic Darwinism, with the strongest players simply gobbling up or killing off their weaker competitors, but surviving reinsurers and reinsurance intermediaries will be the more innovative and financially stable of their respective breeds, the experts agree.

And, critical innovation for many companies could mean greater reliance on automated operations, experts say.

"I think in 10 years there will be fewer reinsurers," said Edward Jobe, president of American Re-Insurance Co., a Princeton, N.J.-based unit of Hartford, Conn.-based Aetna Casualty & Surety Co.

Currently, "a lot of capacity in the aggregate" consists of "small bits and pieces" from a lot of reinsurers, and those markets will find survival increasingly difficult, he said.

"Certainly, there's been a lot of turmoil in the broker marketplace with the thought that there would be some consolidation," said Mike Pinter, executive vp of Long Grove, Ill.-based Kemper Reinsurance Co., a unit of Kemper Corp. "I think we'll continue to see some consolidation," he added.

Joel W. Cipolla, senior vp-reinsurance at Baltimore-based Maryland Casualty Co., a unit of Zurich Insurance Co. of Zurich, Switzerland, agreed: "I think the number of reinsurers will diminish over time."

But Mr. Cipolla, who has been named president and chief executive officer of Stamford, Conn.-based Zurich Reinsurance Co. of New York, which will begin expanded operations early next year, thinks the changes in the broker marketplace will be even more sweeping.

Zurich Reinsurance of New York will write business formerly underwritten by the assumed reinsurance division of the Maryland Casualty, as well as a segment of the portfolio underwritten by Zurich itself in Switzerland.

There will be "a dramatic shrinking of the number of intermediaries," Mr. Cipolla predicted. Perhaps as few as five to seven large national brokerages will remain, complemented by smaller brokers filling specialty niches, he said.

Current and future consolidations simply reflect the changing needs of the marketplace, said Richard H. Hershman, executive vp of New York-based Public Service Mutual Insurance Co.

"The amount of surplus considered necessary to run an operation continues to grow," he said. Given that trend, smaller reinsurers will not be able to attract customers, he added.

"Hopefully, there will be enough big companies around that we will still have a choice in the marketplace," Mr. Hershman said. "Right now, there's a very good nucleus" of companies likely to provide needed competition, he said.

American Re's Mr. Jobe said that reinsurers also will be affected by consolidation among primary insurers. Small companies now buy a lot of reinsurance, but as small insurers merge, the resulting larger entities will be able to assume more risk and buy smaller treaties, he said.

On the other hand, the new conglomerates will create a greater market for facultative reinsurance, Mr. Jobe said.

"There will be an increasing need for facultative reinsurance by the conglomerates to satisfy line-guide concerns," he said. "I see a lot of business going to facultative."

At the same time, alternative risk financing mechanisms, like captive insurance companies, will continue to need reinsurance, Mr. Jobe said.

Maryland Casualty's Mr. Cipolla expects foreign interest in the U.S. reinsurance marketplace to continue, citing his own company as an example.

Foreign companies will substantially increase the capital of their U.S. companies, said Mr. Cippola. That, in turn, will increase their underwriting capacity, he said.

Change is also likely in the amount of automation used in the reinsurance industry.

The reinsurance industry has lagged behind the primary property/casualty industry in automation, said Robert Baxter, president of Tarrytown, N.Y.-based Insurance Software & Systems Inc., an affiliate of Elmsford, N.Y.-based Swiss Re Services Inc.

"The reinsurance industry is probably 10 years behind the primary insurers" in terms of automation, said Mr. Baxter.

The sophistication of reinsurance transactions and the smaller size of the reinsurance marketplace are two major reasons for the lag. Although most large reinsurers have sophisticated automated systems, the complexity of reinsurance makes it difficult for small reinsurers to cost-effectively create computer programs, he said.

In contrast, primary insurers can realize cost savings from automation very quickly through improved policy administration and more efficient personnel allocation, said Mr. Baxter.

That simply isn't possible for reinsurers because they don't have the volume of policies that primary insurers handle, he said.

But marketplace realities have forced reinsurers to rethink the role of automation, Mr. Baxter said.

Communication demands will force a greater dependence on automation, said Jeff Cooper, director of ceded reinsurance for Woodland Hills, Calif.-based Transamerica Insurance Co.

"The technology exists today, but it's certainly not being used," said Mr. Cooper.

In addition, regulators' demands for more information and the questions of insurer insolvency and unrecoverable reinsurance also are pushing more reinsurers toward automation, he said.

Kemper Re's Mr. Pinter agreed. Because of increased regulatory demands, reinsurers have a greater need to review and develop data bases than they did before, he said.

Ceding companies also are increasingly interested in automating their own reinsurance tracking systems. While most ceding companies' routine operations are already computerized, "they need to track and report this maze of reinsurance" as well, Mr. Baxter pointed out. ■

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Insurer Topics

Reinsurers, intermediaries pursue goals

By MARK A. HOFMANN

OLYMPIA FIELDS, Ill.—For more than two years, reinsurers and intermediaries have been working through the Brokers & Reinsurance Markets Assn. to improve the efficiency of the reinsurance marketplace.

One of the Olympia Fields, Ill.-based group's main projects is the Catastrophe Claims Trust Fund. The group has designed the model fund to speed claims payments (see story, page 84H).

The organization also is working on standardized accounting forms, a new arbitration clause and a contract wording reference book, according to BRMA President William J. Gilmartin, a former senior vp with Chicago-based CNA Financial Corp.

The reference book attempts to "gather together the clauses in current use," he said.

In addition, BRMA and the Malvern, Pa.-based Insurance Institute of America are working on a curriculum for an Associate in Reinsurance designation (*BI*, Oct. 31, 1988).

Classwork is expected to begin next fall, said an institute spokeswoman.

BRMA's role in developing the designation primarily has been to find authors and reviewers for the new reinsurance texts to be used in the curriculum for the Associate in Reinsurance designation.

BRMA has been involved in finding authors and reviewers for the new reinsurance texts.

The designation will require completion of four courses, two of which—"Principles of Reinsurance" and "The Practice of Reinsurance"—are being developed specifically for the program.

The other two required courses—"Insurance Company Operations" and "Accounting and Finance"—are also part of the curriculum for the Chartered Property & Casualty Underwriter designation.

BRMA currently has 31 members: 20 reinsurers and 11 intermediaries.

Reinsurance companies seeking membership must meet criteria including:

- $50 million in capital and surplus.
- $50 million in annual net written premium volume.
- Not be owned directly or indirectly by a foreign government.
- Cannot be an affiliate, subsidiary or sister company of a direct insurer.
- Must have at least a B-plus rating from Oldwick, N.J.-based A.M. Best Co.

In addition, underwriting members that are underwriting managers must be at least 80% owned by their policy-issuing company and must write at least 90% of their U.S. reinsurance business through intermediaries.

Reinsurance brokers seeking membership must meet criteria including:

- A minimum net worth of $2.5 million.
- Must be based in U.S. domiciles.
- Brokerage income from U.S. treaty business must account for more than 50% of total brokerage income.
- Must not be majority-owned or controlled by a foreign government.
- Must have been in business in the U.S. market for at least five years.
- Must be licensed as a reinsurance broker by the state of New York or substantially meet those requirements.
- Must not be part of a holding company system that includes an active insurance or reinsurance company unless 75% of the broker's business is not affiliated business; and must not be part of a holding company that includes an active reinsurance company that assumes more than 25% of its business on a direct basis.

For more information, contact the Brokers & Reinsurance Market Assn. at P.O. Box 317, Suite 104, 19900 Governors Office Park, Olympia Fields, Ill., 60461-0317; 708-747-8400. ■

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Insurer Topics

Plan expedites reinsurance claims payments

By MARK A. HOFMANN

OLYMPIA FIELDS, Ill.—Ceding insurers may receive funds for windstorm and natural catastrophe claims more quickly than previously under a model trust fund plan developed by a reinsurance trade association.

"The real purpose of this is to make certain the client is paid quickly," said William J. Gilmartin, president of the Olympia Fields, Ill.-based Brokers & Reinsurance Markets Assn.

The plan involves establishing a trust fund to pay catastrophe claims more rapidly than would be possible through normal market practices. The plan is initiated by a voluntary agreement between a reinsurer, one or more intermediaries and a bank, which serves as the trustee.

Mr. Gilmartin said that BRMA members had worked on the plan for about a year and a half, with the assistance of Morgan Guaranty Trust Co. of New York.

The plan's key points are:

- A reinsurer that agrees to the program signs a Catastrophe Claims Trust Fund Agreement with a trustee, thereby setting up a trust to pay catastrophe claims.

Participating intermediaries then sign Notices of Broker Acceptance to the Trust Fund Agreements. In addition, Schedule I forms, which list existing reinsurance contracts to be covered by the trust fund, are prepared for each intermediary. The Schedule I forms can be updated quarterly, semiannually or annually, as agreed upon by the reinsurer and intermediaries.

- Although the agreement establishes a mechanism for funding catastrophe claims through the trust, it does not automatically commit the reinsurer to funding all claims.

The reinsurer retains the right to refuse or to agree to include a new reinsurance contract in the plan at the time of original contract negotiations with a ceding company.

- If the reinsurer agrees to include a specific contract in the plan, a Trust Fund Settlement Clause is added to the reinsurance contract that, subject to certain requirements, commits the reinsurer to fund losses via the trust.

One such requirement, typically, is that the loss is subject to the terms and conditions of the contract. Therefore, the reinsurer is never required to automatically fund a loss that it believes is not covered.

Eligible claims are described by BRMA as "plain vanilla" windstorm catastrophes as defined in the contract of reinsurance.

- After a catastrophe occurs that is subject to funding, the ceding company estimates its net losses and informs its intermediary whether the loss will exhaust individual layers of its catastrophe program.

The intermediary then asks the reinsurer to fund losses on a layer-by-layer basis.

- The reinsurer wire transfers funds to the trustee, which opens catastrophe claim trust accounts and invests the funds.

Separate accounts are established by the trustee for each contract and where more than one reinsurer participate on a single contract. Thus, there will be neither commingling of various reinsurers' funds on a specific contract nor commingling of funds of one reinsurer on different contracts.

- The reinsurer may treat payments made into the trust fund as cash loss advances or cash deposits. A cash loss advance is accounted for as either a paid loss or a prepaid expense, which usually is classified for accounting purposes as "funds held" or "other assets."

- After intermediaries receive proof-of-loss notices from ceding companies, they instruct the trustee to wire transfer funds from the reinsurer's catastrophe claim trust accounts directly into the cedants' accounts.

- Proof of loss and billing notices are sent to the reinsurer as would be the case if no trust fund existed. However, instead of requesting payment, the billing notice will simply indicate that funds will be withdrawn from the reinsurer's trust fund account for a specific contract.

- The trustee sends both the reinsurer and the intermediary notices of each transaction affecting a trust fund account including the deposit or withdrawal of funds and the payment of interest on invested funds.

At any point in the process, the reinsurer retains the right to withdraw funding under individual contracts if the terms of the trust fund settlement clause are not met, according to BRMA.

Trust fund accounts are invested in nationally recognized, short-term taxable money market funds and earn interest from the date of investment until the date they are paid or returned to the reinsurer.

Under current market conditions, it is anticipated that the trustee's compensation will be less than the current average cost of letters of credit, according to BRMA.

Although the idea of paying reinsurance claims through trust funds is not new, U.S. reinsurers and intermediaries lacked a forum for hammering out the details of such an approach before BRMA was formed two years ago, Mr. Gilmartin said.

He cited several reasons for BRMA's endorsement of trust funds.

"Reinsurers providing catastrophe protection through brokers have an excellent record of responding to natural disasters in a timely fashion. However, the industry should always seek to develop more efficient methods for moving funds from reinsurers to reinsureds," he pointed out.

According to Mr. Gilmartin, the trust fund can deliver funds to ceding companies within a day or two of receiving a request.

The model plan was announced only a few months before the twin catastrophes of Hurricane Hugo and the Oct. 17 California earthquake rocked the property/casualty insurance market.

"It's now being used in real-life cases," said Mr. Gilmartin. For example, Kemper Reinsurance Co. is aleady using the approach in the wake of Hurricane Hugo, Hurricane Jerry and the California earthquake.

However, "it's a little difficult to get an assessment at this time" of how well the concept will work for reinsurers using the plan to respond to the most recent natural disasters, he said.

Mr. Gilmartin stressed that the plan is not designed to be used only by BRMA members. It simply is a model devised by the association for all reinsurers to use, he said. ■

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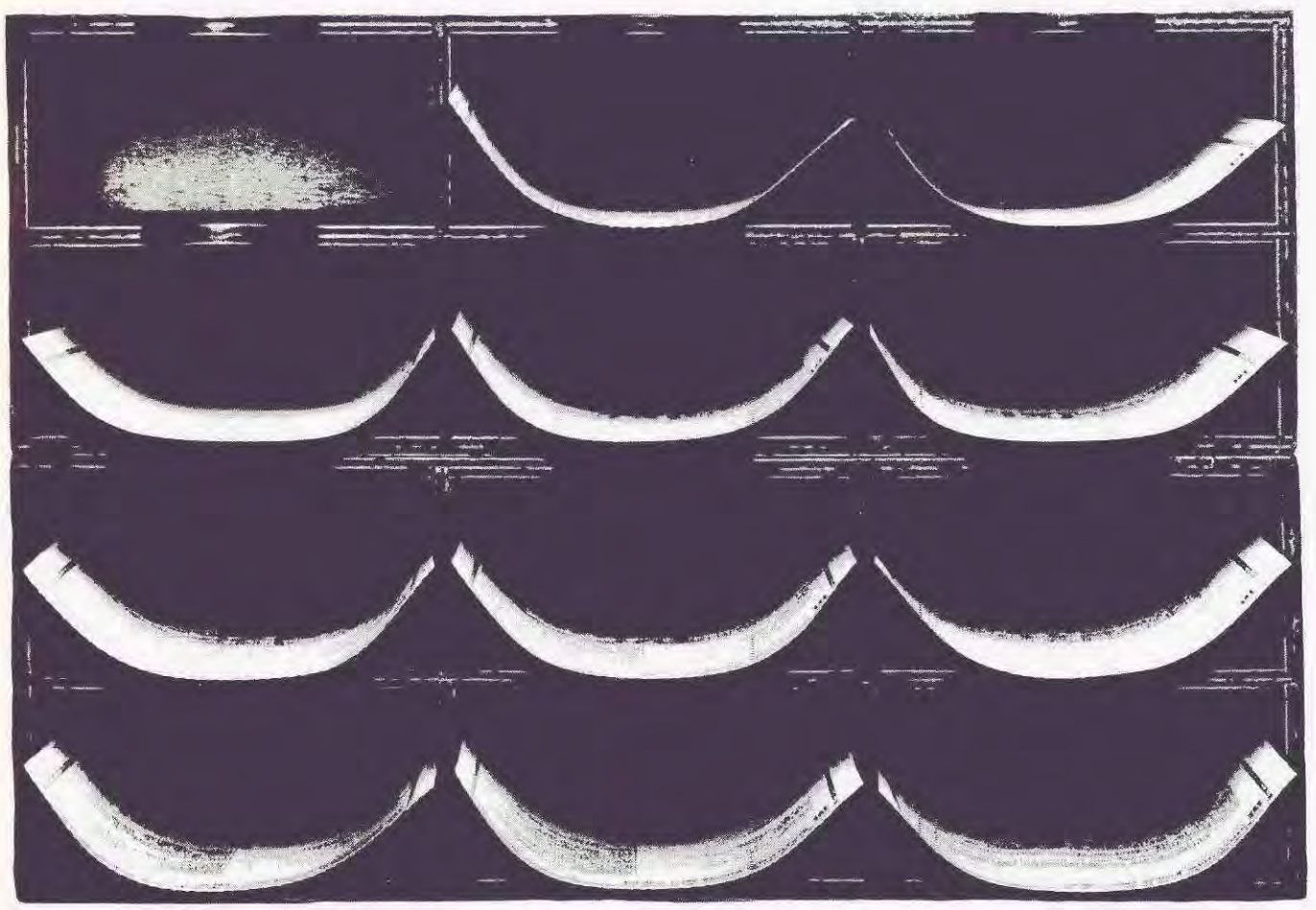

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Insurer Topics

Drivers report own insurers better with accident claims

Personal auto insurance policyholders are much more likely to be satisfied with insurer claims handling after an accident when dealing with their own insurance company rather than with another driver's insurer, a survey shows.

Fifty percent of the policyholders surveyed who had been involved in an auto accident said they were "completely satisfied" with the handling of their claim when that claim was submitted to their own insurer, the survey found. Only 28% were "completely satisfied" when their claim was submitted to the other driver's insurer.

However, drivers generally were more likely to be satisfied with claims handling than dissatisfied, no matter which insurer settled the claim.

The survey, conducted by the All-Industry Research Advisory Council, is based on the responses of more than 2,800 people from households involved in auto accidents between October 1982 and July 1986.

Of those who submitted claims to their own insurer, 50% said that they were "completely satisfied" with the insurance company's handling and settlement of the claim, while another 21% said they were "very satisfied," 15% were "fairly well satisfied," 9% were "somewhat dissatisfied" and 6% were "very dissatisfied."

The total does not equal 100% due to rounding.

Policyholder satisfaction was lower when the claim was handled by another driver's insurer.

Besides the 28% that were completely satisfied with the way another driver's insurer handled their claim, another 21% said they were very satisfied, 20% said they were fairly well satisfied, 14% said they were somewhat dissatisfied and 17% said they were very dissatisfied.

As expected, policyholder satisfaction decreased as the size of the claim increased.

For example, 72% of the policyholders filing claims with their own insurers in cases where their cars were not "totaled" said they were completely satisfied or very satisfied with the way the claim was handled and settled, while only 61% of those policyholders whose cars were totaled were completely satisfied or very satisfied with their insurer's claims handling practices.

Likewise, while 59% of those individuals filing an auto damage claim worth less than $500 with another driver's insurer were completely satisfied or very satisfied, only 47% of those with a claim of more than $500 were completely satisfied or very satisfied, and only 34% of the policyholders whose cars were totaled were completely or very satisfied with the way another driver's insurer handled their claim.

Not surprisingly, a claimant whose claim is settled quickly is more likely to be satisfied with the claims handling process.

Ninety percent of policyholders whose claims were settled by their own insurer within six days said they were completely satisfied or very satisfied with the claims handling process. However, that satisfaction rate dropped to 81% when it took the claimant's own insurer seven to 14 days to settle the claim, 66% when it took 15 to 30 days to settle, 59% when it took 31 to 45 days to settle, 40% when it took 46 to 90 days to settle and 38% when it took more than 90 days to settle.

Likewise, while 88% of those surveyed whose claim was settled by another driver's insurer within six days were completely satisfied or very satisfied, that level of satisfaction dropped to 73% when it took seven to 14 days to settle the claim, 60% when it took 15 to 30 days to settle the claim, 37% when it took 31 to 45 days to settle the claim, 28% when it took 46 to 90 days to settle the claim and 17% when it took more than 90 days.

•

Single copies of the report, "Claimant Satisfaction in Auto Accident Cases," are available free in the United States and Canada from the All-Industry Research Advisory Council, 1200 Hager Road, Suite 310, Oak Brook, Ill. 60521.

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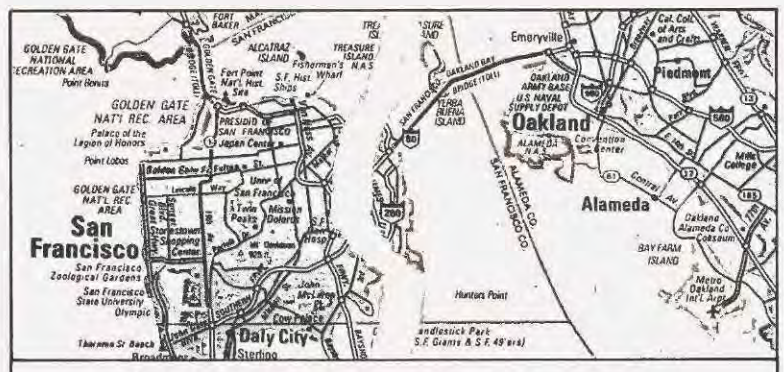

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Insurer Topics

Insurers help victims of catastrophes

By MARK A. HOFMANN

COLUMBIA, S.C.—An elderly woman's plight in the wake of Hurricane Hugo may help the insurance industry accomplish something that millions of dollars in recent public relations and advertising expenditures have failed to do: burnish its tarnished image.

After the woman's misfortune was described in a television newscast, insurers and agents—led by an insurance company executive—established a relief fund to help her and thousands of other uninsured victims of the costliest hurricane in U.S. history (*BI*, Oct. 9).

The industry, meanwhile is mounting a similar undertaking for the victims of the California earthquake.

The effort to help uninsured victims of Hurricane Hugo has been led by Sterling E. Beale, chairman of insurance holding company Seibels Bruce Group Inc. of Columbia, S.C., whose property/casualty units' operations are concentrated in the Southeast.

The first night power was restored to Mr. Beale's home—about 100 miles inland from the devastated Charleston area—he saw a television newscast on the hurricane's aftermath.

"The first episode I saw was a relief line that was some two hours in length," Mr. Beale said. The segment showed Charleston-area residents queued up for such necessities as food and ice.

A television reporter asked a woman standing in a relief line, "How are you doing?"

She replied she had been coping well until the previous night, when someone broke into her storm-damaged house and stole her candles and milk.

"That made a tremendous impression on me," Mr. Beale said.

"Here I was, wondering when my lights would come on so I could watch television, but I could still get in my car and drive down to a local fast-food restaurant when I got hungry," he said.

And, his office had power when his home did not.

He said he had been feeling inconvenienced until he saw people like the woman in line who had nothing and had hardly any way to get any of life's necessities.

"It appeared fairly obvious from the interview that all of the billions of dollars in claims were not going to help her."

Mr. Beale said that seeing the old woman waiting for necessities in front of the store made his hurricane-related frustrations seem minor. "When you stack them up against someone who's lost all, they don't carry much weight," he said.

Mr. Beale wrote to insurers and agents Oct. 2 to propose creating the South Carolina Hugo Relief Fund to "meet the non-insured emergency needs" of Hurricane Hugo's victims (*BI*, Oct. 9).

He appealed to insurers writing in South Carolina to donate 0.1% of the net premiums they had written in South Carolina.

"Here was an opportunity to do something that was above and beyond our contractual obligations," said Mr. Beale, whose group pledged $20,800.

The appeal went out at the annual joint meeting of the National Assn. of Casualty & Surety Agents and the National Assn. of Casualty & Surety Executives in White Sulphur Springs, W.Va., in October.

By early November, approximately 700 insurers, agents and others had donated about $166,000, with contributions ranging from $2 to $15,000, he said.

About 400 of the donations were made by individual company employees; 130 by individual agents and agent associations, especially in Florida, where the wrath of hurricanes is well known; 50 by insurers and reinsurers; and the remainder from claims adjusters, attorneys and company directors.

Mr. Beale hopes to present the $166,000 to South Carolina Gov. Carroll A. Campbell Jr. in a few weeks.

"I hope there will be additional funds as well," said Mr. Beale, who has sent follow-up letters to companies and agents.

Doing something to ease the pain of those whose lives were ripped apart by Hugo's winds has "been a rewarding effort," Mr. Beale commented.

Responding to the needs of the uninsured victims of Hugo would not only help those who were unable to help themselves, but might also enhance public understanding of the insurance industry, he said.

Contributions to the South Carolina Hugo Relief Fund should be sent to Sterling E. Beale, Chairman, The Seibels Bruce Group Inc., P.O. Box 1, Columbia, S.C. 29202.

On the other side of the continent, victims of the San Francisco Bay Area earthquake also will be the beneficiaries of insurer largesse.

Within two days of the Oct. 17 temblor, John J. Byrne, chairman of Fireman's Fund Corp., announced the insurer would triple employee donations to Red Cross relief efforts up to $150,000.

However, Fireman's Fund soon expanded its relief effort, including dropping its initial limit on Red Cross matching funds.

The Red Cross on Oct. 30 received $100,000 from Fireman's Fund, which had combined corporate and employee contributions.

In addition, Fireman's Fund donated another $100,000 to the Salvation Army, which provides food for victims near the epicenter south of the Bay, a company spokesman said.

A Fireman's Fund spokesman said that an additional $100,000 in corporate and employee donations should be made to the earthquake relief effort by the end of November.

The insurer also turned over its old Novato, Calif., executive dining room to the Salvation Army, which used it to prepare 1,000 meals a day that were transported to San Francisco, he said.

Transamerica Corp. donated $50,000 to radio station KNBR's care fund, the company announced Oct. 20. The radio station had raised about $15,000 in the first two days of its fund drive. ■

Ocean marine insurance scholarships available

IT briefs

NEW YORK—The College of Insurance is accepting applications for the Harold P. Jackson Scholarship for the study of ocean marine insurance in England.

The recipient of the scholarship will receive transportation to London and up to $6,500 for tuition and living expenses during the course of study.

The length and content of the academic program will be formulated by the recipient in consultation with The College of Insurance and the American Institute of Marine Underwriters.

The deadline for applications is Jan. 31.

The scholarship was established by the will of the late Harold P. Jackson, former president of underwriting manager William H. McGee & Co. Inc. of New York. It is awarded on the basis of competitive examinations prepared by the Malvern, Pa.-based Insurance Institute of America and a two-page report on an ocean marine insurance topic.

The Harold P. Jackson scholarship will be awarded to the candidate with the highest score on the Associate in Marine Insurance Management 121 exam and the report. The exam will next be administered on Dec. 7.

To obtain an application or for more information on the scholarship, contact Margaret Montano, Business Manager, The College of Insurance, 101 Murray St., New York, N.Y. 10007; 212-962-4111.

Loss cost data

The Insurance Services Office Inc. will begin its conversion to prospective loss costs from advisory rates on a line-by-line and state-by-state basis beginning with personal auto insurance rates in the second quarter of 1990, said ISO Executive Vp Michael Fusco.

Mr. Fusco said last month at a seminar sponsored by Coopers & Lybrand that ISO will file advisory loss costs for regulators' approval in states that require prior approval of rates.

Insurers then could reference ISO's approved advisory prospective loss costs in their individual rate filings, he said.

New AAIS officers

SEATTLE—The American Assn. of Insurance Services announced new officers at the rating group's annual meeting last month.

Howard C. Stevens, president of West Chester, Pa.-based Penn Mutual Insurance Co., succeeded David H. Elsbree, president of Greeneville, N.Y.-based Pioneer Insurance Co., as chairman of the Bensenville, Ill.-based association.

Keith H. Langston, president of Buckeye State Mutual Insurance Co. of Covington, Ohio, succeeded Mr. Stevens as AAIS chairman-elect. Kirk M. Hayes, president of Druggists Mutual Insurance Co. in Algona, Iowa, became vice chairman.

Highway deaths

WASHINGTON—Highway fatalities have increased 21% in the 38 states that raised the speed limit to 65 mph in 1987, according to a report by the National Highway Traffic Safety Administration.

In contrast, the death rate remained the same in states that have retained the 55-mph speed limit, the NHTSA reported.

However, the NHTSA said that state-to-state variations in fatality rates could be the result of chance. The report made no conclusion, because the agency said it is up to the states to make decisions on speed limit issues. ■

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Advertiser Index

Insurer Topics

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'Hostility' is increasing in reinsurance disputes

By ROGER SCOTTON

HAMILTON, Bermuda—The reinsurance industry's inability to effectively resolve disputes is a growing problem, contends the general counsel of a U.S. reinsurer.

Where "accommodation and the avoidance of conflict" were once the order of the day, there is now not only an increase in the number and types of disputes, but also in the "level of hostility in those disputes," said Marvin J. Cashion, assistant general counsel at General Reinsurance Corp. of Stamford, Conn.

"Ladies and gentlemen, we have reached the stage of disputing over how we are going to settle our disputes," he told attendees of the Third International Reinsurance Congress co-sponsored by Coopers & Lybrand and Hawksmere Ltd. in Bermuda Nov. 9-10.

The increased complexity of modern reinsurance transactions is partly to blame for the rising number of reinsurance disputes, according to Mr. Cashion.

He cited litigation over the backdated coverage written in the aftermath of the November 1980 MGM Grand Hotel fire in Las Vegas, Nev., as "a classic illustration of the things

3rd International Reinsurance Congress

that can go wrong."

Litigation in the MGM Grand fire involved "otherwise sophisticated insurance industry officials misunderstanding their deal, not anticipating consequences and putting together coverages that did not match," said Mr. Cashion.

MGM Grand ultimately reached a $75.9 million settlement with its insurers in a coverage dispute regarding the $170 million of back-dated liability insurance it bought to cover damages from the fire (*BI*, April 8, 1985).

Another cause of reinsurance disputes are distinctions between loss in excess of policy limits and extra-contractual obligations, Mr. Cashion said.

The focus of loss in excess of policy limits, or LEPL, is on the original reinsured risk that was first transferred from the policyholder to the ceding company, Mr. Cashion explained. When a reinsurer writes a contract reinsuring a portion of that original risk, LEPL coverage may be logically added if the underlying risk becomes enlarged because of an excess judgment against the policyholder.

Extra-contractual obligations insurance, or ECO insurance, by contrast, is intended to provide coverage for losses to the ceding company, not the policyholder, Mr. Cashion said.

ECO insurance "is really errors and omissions coverage for insurers and, by all rights, does not belong in a reinsurance contract," according to Mr. Cashion.

However, "ceding companies contend that both are folded into the reinsurance contract," he said.

"By routinely muddying the distinction, reinsurers have not helped themselves, but I would predict that in the future, the distinction will be pressed, no doubt giving rise to an increased number of disputes," said Mr. Cashion.

"Objectively, the distinction is clear enough," Mr. Cashion said. "In practice, however, things get hazy. Wordings in LEPL clauses often include, inadvertently or otherwise, ECO coverage and vice versa."

Another factor that makes dispute resolution difficult, Mr. Cashion said, is that the term "bad faith" is used to mean both lack of good faith and malicious or evil conduct. But court decisions often do not differentiate between compensatory damages for breach of good faith or punitive damages for malice or ill will, he said.

"Add. . .the multiplicity of standards that courts use to find bad faith and its related torts, and you have a fertile ground for differences to arise between ceding companies and their reinsurers," he said.

Mr. Cashion also was critical of the reinsurance industry's approach to arbitration.

"One of the most professionally frustrating things to me is the industry's apparent inability—at least in the United States—to conduct an arbitration without it taking on all the characteristics of full-blown litigation," he said.

Mr. Cashion was not the only attorney speaking at the conference who criticized arbitration hearings that resemble jury trials.

Ronald A. Jacks, a partner with the Chicago law firm Mayer, Brown & Platt, said that arbitration proceedings that once were "relatively brief informal affairs" are becoming more extensive and complex.

"To a large extent, this reflects a general tendency on the part of lawyers to convert arbitrations into litigation by another name, which, of

Continued on next page

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Reinsurance growth may lag in EC 1992

By ROGER SCOTTON

HAMILTON, Bermuda—The creation of a single European market in 1992 will increase premium volume for primary insurers, but may not boost reinsurance business to the same extent, a British insurance lawyer contends.

Although business for insurers in the European Community is expected to increase following the removal of trade barriers among EC nations, a greater number of large insurers will be capable of coping with large retentions, said Stephen Lewis, an attorney with Clifford Chance in London, at the Third International Reinsurance Congress sponsored by Coopers & Lybrand and Hawksmere Ltd.

Beginning in July 1990, cross-border placement of direct non-life insurance will be possible, as prescribed by the EC Commission's Second Non-Life Directive, also known as the Services Directive. The entire package of EC directives leading to a single European market is scheduled to be in place by the end of 1992.

Mr. Lewis predicted that the increased competition associated with 1992 could pressure insurers to cut their costs and "a reduction in the amount of reinsurance premiums ceded is one way to save money."

"Whether the reduction in demand resulting from greater retentions and cost saving will outweigh the growth in demand for reinsurance arising from the growth in direct insurance for industrial Europewide and worldwide risks remains to be seen," he said.

Regardless of whether reinsurance volume changes, Mr. Lewis predicted the kind of insurance protection that will be sought in the single EC market will differ from today's needs.

"Direct insurers will be increasingly looking for reinsurance against potential accumulations of losses resulting from natural and man-made catastrophes. This may lead to a shift of demand from proportional to non-proportional forms of reinsurance," according to Mr. Lewis.

He pointed out that ceding practices differ between European and U.S. companies: About 18% of European premiums are ceded, while the U.S. figure is closer to 12%.

"It is therefore possible that there could be a once-and-for-all shift downward in reinsurance demand to the U.S. level, but that thereafter demand for reinsurance would grow at the same rate as demand for direct insurance," he said.

Because a prime objective of the single European market is to create the freedom to provide cross-border services based on home country controls, Mr. Lewis said that large insurance brokers in the EC can expect to benefit from 1992.

"They will be in a position to exploit the demand for Europewide insurance cover for large industrial risks and the trend toward larger international broker groups will therefore continue," he said.

But, he added, "The position of reinsurance brokers is somewhat less certain."

In addition to the expected increase in ceding insurers' retention levels, the creation of electronic networks such as the London Insurance Market Network, or LIMNET, which links Lloyd's underwriters and brokers, insurers and reinsurers throughout London,

3rd International Reinsurance Congress

"will reduce or in some cases even eliminate the role of the reinsurance broker."

But he pointed out that reinsurance brokers could capitalize on the greater demand for non-proportional reinsurance because they play a bigger role in placing this type of contract than in placing proportional reinsurance.

"The survival and prosperity of reinsurance brokers will probably depend on their diversifying into consultancy services and, more basically, their capacity to devise solutions to the problems of direct insurers in the form of optimum reinsurance programs," Mr. Lewis said.

But he warned against believing that a single European market will not have a big effect on the reinsurance industry. In fact, he predicted "radical perestroika" and far more competition among reinsurers.

"Overall, the insurance industry —and thus the reinsurance industry—is likely to enjoy an above-average share of the rapid economic growth expected in the EC. Contractors' all-risk and property insurance will benefit from the expansion in investment and consumption," he said.

Large industrial and commercial insurance buyers may consider forming captives or mutual insurers and will be able to engage in cross-border insurance buying, he said.

However, Mr. Lewis pointed out several things that the directives leading to a single European market will not produce.

There will be no standardization of EC insurance legislation and no regulatory body to oversee insurance throughout the EC, Mr. Lewis said.

"Nor will there be a single insurance authorization valid and required to be recognized in all member states" along the lines of the EC's Single Banking License, he added.

In addition to causing a shift in demand to non-proportional from proportional reinsurance products, the changes in 1992 will reduce demand for financial reinsurance products that provide balance sheet protection and solvency relief, Mr. Lewis predicted.

But his prediction was in sharp contrast to that of Maralyn Fichte, managing director of the London office of Centre Reinsurance Holdings Ltd., a Bermuda-based financial reinsurer.

She said she expects increasing use and growing acceptance of financial reinsurance concepts and products in Europe.

To establish European representation, many non-EC companies are seeking to acquire business by purchasing existing insurance companies or arranging joint ventures with European groups, Ms. Fichte noted.

"In these instances, the use of financial reinsurance to protect the old book of business is ideal," she said. "This presents one of the best opportunities for financial reinsurance in Europe."

Ms. Fichte explained that a purchasing company nervous about the liabilities it may be inheriting can purchase loss portfolio transfers, a type of financial reinsurance in which an insurer cedes its loss reserves on a discounted basis to a reinsurer. And, if a seller is having difficulty reaching a sale agreement without guaranteeing its outstanding loss reserves, it also can purchase loss portfolio reinsurance, she said.

Ms. Fichte noted that companies' ability to underwrite increased financial reinsurance business depends on the legal framework in individual countries.

"The harmonization of Europe in 1992 is not likely to immediately affect the insurance community since insurance, and particularly reinsurance legislation, traditionally lags company legislation because of complexity," she said. ■

Reinsurance disputes

Continued from previous page

course, is exactly what lawyers would prefer since it corresponds to their training," said Mr. Jacks, a reinsurance arbitration specialist and the founding president of the Reinsurance Assn. of America.

Because of this tendency, the real challenge facing an arbitration panel is to establish and maintain some degree of control over the proceedings so that they do not become extended mini-trials, he said.

"There are several ways this can be done, not the least of which is to establish a time limit on the hearing, which forces counsel to be more selective in the preparation and presentation of their case," Mr. Jacks said. "Another useful device is for the panel to identify those issues which it believes to be determinative and then ask counsel to concentrate on those questions before proceeding with the rest of the case," he added.

Arbitrators, according to Mr. Jacks, are generally opposed to granting recision of a reinsurance contract except in cases of hard, cold, calculating fraud, such as the falsification of underwriting or claims documents.

"While this reticence undoubtedly springs from the inclination of most businessmen to uphold a contract whenever possible, it is also reflective of the arbitrators' desire to reject further attempts to convert the process into litigation," Mr. Jacks said.

An arbitration panel's more customary approach is to determine the original intent of the parties, to establish who did what to whom and why, and then decide what it takes to restore the parties to where they would be "if they had carried out what the panel believes to have been their original intent," he said.

"In the process of arriving at this result, panels often engage in a comparative negligence type of analysis, which may involve a discounting of amounts alleged due and owing," Mr. Jacks said. "In other cases, the panel may find some means of reforming the terms and conditions of the contract, short of recision. In either case, what the panel is attempting to do is to bring the parties back to where they should have been in light of past promises and present realities."

Mr. Jacks warned that arbitration, by definition, is not an exact science, "especially in the field of reinsurance where the rules are still evolving."

But, he said that although arbitrators' decisions are not always perfect, there appears to be general agreement that when the process works, the result is usually just. ■

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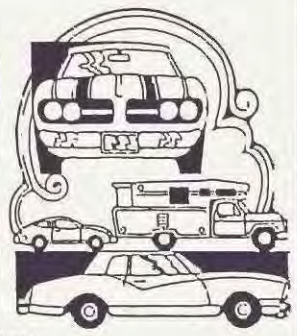

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Accounting differences blur reinsurer analysis

By ROGER SCOTTON

HAMILTON, Bermuda—Assessing a reinsurer's financial strength is hampered by the differing accounting and financial disclosure practices used around the world, an accountant says.

Judgment and intuition have to be applied to allow for a different accounting basis and possibly inadequate financial disclosure requirements in a reinsurer's domicile, said Peter Mynors, a Coopers & Lybrand partner in London and head of its U.K. insurance industry group.

In reviewing international reinsurance accounting and financial disclosure practices, Mr. Mynors said he tries to determine whether the figures in reinsurers' financial statements are meaningful and to establish how helpful the disclosures would be in a security assessment.

"Current practice around the world, like the curate's egg, is only good in part," he told attendees of the Third International Reinsurance Congress co-sponsored by Coopers & Lybrand and Hawksmere Ltd. in Bermuda Nov. 9-10.

The main reasons for this inconsistency, Mr. Mynors said, are:

- Many complex reinsurance accounting issues have not been addressed by accountants or regulators in many countries.

3rd International Reinsurance Congress

- This lack of accounting guidance has led to variations in accounting practices not just from country to country, but from reinsurer to reinsurer within the same country.
- The tradition of secrecy is still very strong among companies and reinsurers' financial statements in some nations include far less information than is necessary to perform a proper security assessment.
- Some reinsurers maintain the "tradition" of undervaluing their assets and overvaluing their liabilities "often with little or no disclosure of what has been done."
- This lack of disclosure obfuscates true shareholders' equity and operating results, he said.

And, as for the usefulness of financial returns filed with regulators, "the answer is again a curate's egg," Mr. Mynors said. "In some countries, they (the returns) contain much valuable information but in many countries the returns are not so informative or are not publicly available."

In countries where regulatory returns are available—such as the United States, the United Kingdom, South Korea, Hong Kong and, on a partial form, Sweden and France—it is important to understand the basis on which the figures are compiled, Mr. Mynors said.

"Regulatory accounting requirements and asset valuation rules are often, but not always, different from those which are used in shareholders' financial statements," he said. But, "this is often a positive factor as regulatory authorities are concerned with solvency and therefore tend to require more conservative principles to be applied. However, the difference between net assets on a regulatory basis and net assets shown in the financial statements is hardly ever disclosed in the financial statements."

Mr. Mynors also warned of items that do not appear on the balance sheet and said some liabilities may not even be recognized in a company's financial statements, including:

- Deferred tax liabilities for which provision is not required in Italy, Japan, South Korea, Sweden and Switzerland. Provisions in West Germany, Hong Kong and the United Kingdom are required to the extent that such a liability is likely to develop.
- Lease commitments. Finance leases are generally capitalized and recognized in financial statements, but disclosure of commitments under operating leases varies. It is not made, for example, in West Germany, Italy, Japan and Sweden.
- Pension fund obligations.

Reserves are another potential problem for the analyst preparing a security assessment of a reinsurer, Mr. Mynors said. In Europe, some insurers have built up substantial hidden reserves, he said.

"The origin of this practice lies largely in public policy, in order to generate confidence in the financial stability of insurance companies," he said.

When this happens, Mr. Mynors said, it is impossible to determine whether reserves are, in fact, excessive or adequate.

"While the historical reason for setting up such reserves may have been to protect the solvency position of companies, there remain doubts in the current environment as to whether some companies are using these reserves to cover expected liabilities," Mr. Mynors said.

Financial reinsurance contracts also are not easily identified from the financial statements in either the United Kingdom or the United States and there is little consistency in the accounting treatment or disclosure of these products, he said.

U.K. regulations require reinsurance contracts to be accounted for "having regard to their economic substance," and in the United States, financial reinsurance is required to be accounted for as a deposit if there is no transfer of risk, Mr. Mynors said.

However, only accountants in countries with sophisticated reinsurance markets seem to have considered this problem, he said.

"In many countries, it is likely that financial reinsurances have simply gone unnoticed by regulators and auditors and have therefore been accounted for as normal reinsurance transactions," he said.

Of all the components of a reinsurance security assessment, Mr. Mynors stressed that outstanding losses and provisions for incurred-but-not-reported losses are the "most crucial."

"These reserves are so material to the accounts that even a small percentage under provision may be greater than the reported underwriting result. It is therefore important to understand the basis on which these reserves are calculated," he said.

Mr. Mynors drew particular attention to the method used to estimate ultimate losses and whether statistical techniques are used and certification is required of loss reserve adequacy. Canada is introducing such a requirement and many U.S. states now require actuarial certification, he noted. But no other countries have such requirements, he warned.

Mr. Mynors also cautioned that accounting practice diversity is especially prevalent in "offshore insurance centers and countries with a relatively undeveloped regulatory system and/or flexible accounting standards."

"In some countries, the accounting and reporting requirements for insurance companies are mandated by the government, " he said. But other countries lack such mandates.

"These practices are often difficult to reconcile with the concept of 'true and fair' or 'fairly presenting a financial position' and so complicate the assessment of the security of a reinsurer," Mr. Mynors said. ■

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'Consumer choice' auto insurance touted

Supporters foresee 20% rate cuts

By KATHRYN J. McINTYRE

SEATTLE—A significant change in the tort liability system and a new approach by insurers to the media, regulators and consumers could result from insurance industry efforts to appease angry personal auto insurance buyers.

Proposals for these changes in response to the uproar of personal auto insurance buyers over rising premiums were debated, and for the most part endorsed, by a four-person panel representing consumers, insurers, agents and the media at the 66th annual meeting of the National Assn. of Independent Insurers.

The most sweeping proposal would give auto insurance buyers the choice between less-expensive, first-party benefit auto insurance and protection from liability suits or higher-priced conventional tort-related auto coverage.

This so-called "consumer choice" approach "neatly fits the economics of an auto insurance reparation system but also addresses the political choices that legislators in every state have to make," said James L. Brown, co-founder of Project New Start and an associate professor and director of the Center for Consumer Affairs at the University of Wisconsin-Milwaukee.

Washington D.C.-based Project New Start is a year-old citizens' group of 60,000 promoting this change in auto insurance laws.

Robert W. Pike, senior vp and general counsel of Allstate Insurance Group in Northbrook, Ill., suggested that insurers also need to change their strategy, including their approach to the media, consumers and regulators.

Southgate Jones Jr., president of the Independent Insurance Agents of America, called on insurers to improve their communications with the public, improve their service and act on the IIAA's agenda for reform (see related story).

Kenneth Reich, a Los Angeles Times staff writer who reports on insurance issues, advised that insurers need to use more "straight talk" with consumers when explaining the cost of insurance.

No one disagreed with panel moderator Robert F. McDermott, chairman of United Services Automobile Assn. of San Antonio, Texas, that the auto insurance system "is broke and needs fixing."

Under Project New Start's proposal, first-party benefit—or no-fault—policyholders would largely relinquish their right to sue others in an accident and claim all their first-party accident losses against their own insurer. These policyholders would be able to sue for economic damages only in extraordinary cases, like accidents involving drunken driving or a motorist involved in a felony. They could not sue for non-economic damages.

Drivers with conventional tort-related coverage could sue each other following an accident.

If an accident involves a holder of no-fault coverage and a holder of tort-related coverage, the driver with the tort-related coverage would file a claim with his or her insurer as though the accident involved an uninsured motorist.

The increased cost of the uninsured motorist premium for those choosing tort-system coverage could be offset by the reduction in the number of suits created by those choosing no-fault coverage, Mr. Brown said.

Project New Start's proposal puts more constraints on litigation than the limited no-fault, consumer choice options already available in New Jersey and Kentucky.

Under its proposal, the advocacy group projects that auto liability insurance costs could be reduced about 20%. Some insurers, however, put potential savings at up to 30%.

Project New Start also is debating within its own ranks whether laws should be changed to make the optional no-fault coverage available to commercial auto insurance buyers.

One side argues that an employer should not usurp an employee's or employee's family's right to sue following a work-related auto accident. But those supporting this option for commercial insurance buyers contend reform of auto insurance laws toward no-fault should be as broad as possible.

Whether or not commercial buyers are given this no-fault option, a personal auto insurance consumer choice option is expected to greatly reduce the number of auto-related liability suits. Project New Start estimates that more than 80% of personal auto insurance policyholders would opt for no-fault and that their number would grow over time, based on a University of Nevada at Las Vegas study that found that such a personal protection policy was preferred by more than 76% of Nevada residents surveyed.

Noting that legislators are told by plaintiffs' attorneys that high insurance costs are created by "greedy insurers" and insurers say the cause is "greedy lawyers," Mr. Brown said during the panel discussion that legislators can adopt the so-called "consumer choice" to auto insurance without having to choose sides between attorneys and insurers.

In attempting to reform auto insurance, "we thought our only opponent would be the trial bar," Mr. Brown said.

Instead, the citizen advocacy group has found "there's insurance industry inertia, legislative lethargy and contingency cash that forms a tripartite alliance that consistently stymies efforts to bring consumers the proven effects of real no-fault insurance."

Mr. Brown

Mr. Pike

Mr. Brown complained that "too many companies in the insurance business seem to like the status quo just fine. That's unfortunate and extremely short-sighted.

"The insurance industry should be in the forefront to provide consumers' choice" in purchasing auto insurance, he said.

Supporting consumer choice auto insurance could help the insurance industry "recapture some of its tattered political reputation," he advised.

Furthermore, "without changes of this type and this magnitude," insurers can expect more regulation like California's Proposition 103, he warned.

"In many states, the auto insurance system is not perceived to be working. It takes too long to get paid, it's perceived to be unfair, it's perceived to be inequitable, it's perceived to be too costly and increasing in price too fast."

Whether or not these perceptions are accurate or fair, "is a separate question," Mr. Brown said. "You may say the consumers are unfair, but you have to accept that they are the only consumers out there."

And the consumer is demanding that auto insurers "play a role in fixing" the auto insurance system, he said.

Project New Start is targeting Arizona for the first full-fledged battle over consumer choice auto insurance legislation because "conditions are right for reform—skyrocketing premiums, the proximity to California, the potential for rollback initiatives and pending elections," Mr. Brown said.

Already, Arizona New Start has 30,000 individual members and is growing, he reported.

Project New Start had campaigned for consumer-choice auto insurance in Nevada, after being invited late in the legislative session by a proponent to help promote a bill. However, the legislation was left stranded at the end of the session for unrelated political reasons.

A limited consumer choice auto insurance bill also is pending in the Pennsylvania Legislature and is supported by Gov. Robert Casey.

The bill would only restrict the right of purchasers of limited no-fault insurance to sue other drivers for pain and suffering damages. They still would be permitted to sue for economic damages not otherwise recovered from any insurance policy and for pain and suffering in cases of death or clearly defined serious injury.

And, holders of tort-system liability coverage would be permitted to sue those with limited no-fault coverage for both economic and non-economic damages.

The bill, however, also would cap reimbursement for medical services delivered for an auto injury to 110% of the prevailing Medicare rates, as well as make other auto insurance law changes.

While passed by the House, the consumer choice option failed in the Senate following strong lobbying by plaintiffs' attorneys. The bill's sponsors now are trying to rally public support to force passage of the consumer choice option by the Senate, which accepted

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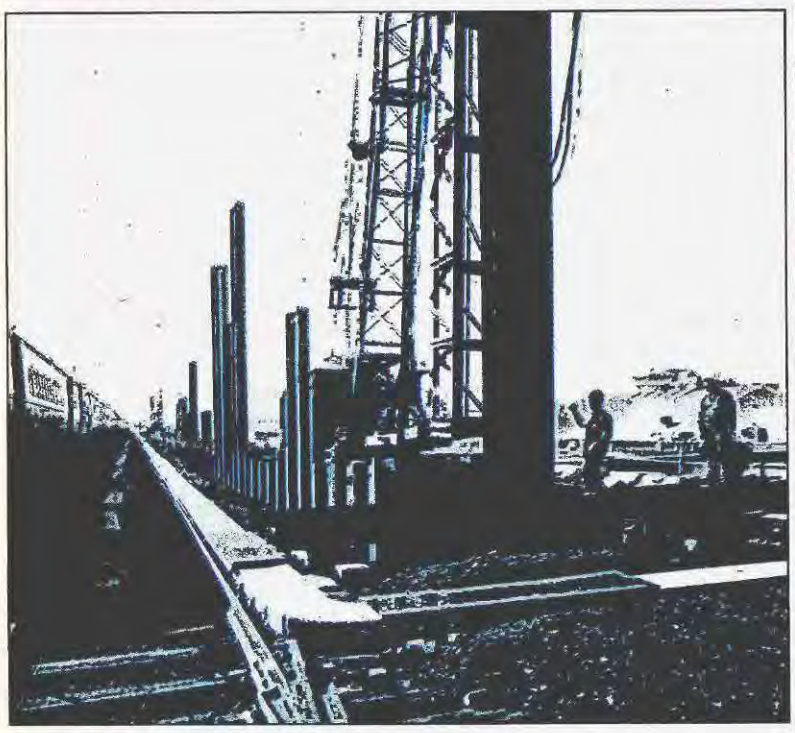

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some aspects of auto insurance reform, including capping medical reimbursement rates.

The fate of the consumer choice effort is expected to be decided before year-end, and its supporters are optimistic about passage.

Project New Start is not active in Pennsylvania because "we're still small and young and struggling," said Milton Benjamin, the group's finance chairman, in a separate interview. "We are recruiting members in Pennsylvania and will become active there at some point."

Despite a plea to "enlightened insurance companies," only about six insurers support Project New Start, Mr. Brown told the NAII audience.

Among its supporters are United Services Automobile Assn. and Aetna Life & Casualty Co., whose representatives sit on the Project New Start board. Allstate and State Farm Insurance Co. also support the group's efforts.

Responding to the suggestion that industry support could backfire on Project New Start, Mr. Brown pointed out that the co-founder, the Rev. Robert J. McEwen, is a Jesuit priest and former president of the Consumer Federation of America.

"Who is going to accuse him of selling out?" Mr. Brown asked.

Mr. McEwen also is a Boston College economics professor.

Mr. Reich of The Los Angeles Times said that plaintiffs' attorneys oppose consumer choice on auto insurance because it is "perceived as opening the way to no-fault."

Opposition from the plaintiffs' bar means consumer choice on auto insurance "is not in the cards in California," he said.

More than such a consumer choice plan, California needs "a strong no-fault plan, with strong rate regulation, with the mandatory assignment of territories to insurers and, what may be the hardest, some change in the promise of full reimbursement, let alone enrichment, of the public" from auto accidents, he suggested.

"Full reimbursement does not encourage people to drive safely or put a rein on doctors when they recommend unreasonable medical treatment," he said.

Mr. Jones of the IIAA noted that "we have supported effective no-fault" auto insurance. "If consumer choice is effective no-fault, we will support it," he added.

Allstate's Mr. Pike commented after the panel discussion that "Allstate supports any program that brings more fairness and efficiency back to the civil justice system."

Noting that a consumer choice auto insurance system is a form of no-fault that would provide benefits to no-fault policyholders that might not recover any damages under the tort system, Mr. Pike also praised the proposal for allowing consumers to decide which system they prefer.

Mr. Pike also observed during the panel discussion that opposition to no-fault on the grounds that pain and suffering damages are not available could be overcome by including such coverage in the policy. The coverage could be based on a multiple of the compensatory damages and priced accordingly, he said.

Meanwhile, insurers can work with the existing system to improve customer satisfaction, panelists agreed.

Mr. Pike commented that "the media's ability to add spin to an article has probably, more than any other factor, framed the way the public debate has been framed, and more importantly the way the insurance industry has been perceived."

The lesson, he said, is, "We have not as an industry done nearly the job we needed to do in dealing with the media. They will frame the issues, and the industry has not acquainted the media with the issues we are dealing with."

Mr. Pike also suggested that the insurance industry "has to address its role vis-a-vis the regulator."

Historically, he explained, "the industry has gone out of its way to develop a cozy, close relationship with regulators." Perhaps a more "arm's length" relationship would be better, he said.

Most important to changing public perception, however, is "to change your behavior," Mr. Pike told insurers. "We have not been the responsive, sensitive industry that we always told ourselves we were.

"When we change that behavior and convince the public that our product is efficient and superior to alternatives, we will see a gradual swing of the pendulum" of public opinion, he predicted.

Mr. Jones of the IIAA suggested that insurers need to both improve their communication with policyholders and their performance.

Insurers could improve their performance, for example, by simply responding more quickly to claims and hiring more professional claims personnel.

Insurers also need to update territories for insurance rating, he said. "Insurers could have avoided the sudden problem in the inner city" of rising auto insurance prices if they had more promptly updated rating territories, he said. Some suburban drivers still are being rated as though they live in the former rural community their homes now occupy, he said.

Mr. Brown also suggested that insurers could improve their image with consumers if they stopped "bashing lawyers. It's not productive and it doesn't enhance your image to get into name calling with lawyers."

The professor also chided insurers to stop complaining about Ralph Nader. "He's probably more than any other individual trusted by the public —rightly or wrongly is immaterial. He's out there, he is a fact of life. You can beat your breast and say it's unfair, but so what. Former President Carter told you, 'Whoever said life was fair?'"

Mr. Reich advised insurers to use more "hard-nosed, realistic language" with consumers, instead of "treating everybody as if they were in the first grade."

Insurers should tell consumers that "consumer demand for a free lunch, enrichment by accidents and claiming for inordinate pain and suffering —that, more than lawyers—are your real problems," he said.

"I have yet to hear a company say, 'Hey look folks, we can't take it anymore. Demands have grown beyond all reason and are driving up prices,' " Mr. Reich said.

"Most of the communications from companies to consumers seem to just get them madder," he added.

Mr. Brown agreed. "Too often, talk has not been straight talk to the consumer."

From the audience, NAII President Lowell Beck pointed out that for the past year the NAII has provided members with "plain talk material on insurance" for distribution to policyholders.

Mr. Brown also suggested that part of the insurance industry's image problem stems from "selling a product that is inherently suspicious," because there is no gratification from buying insurance as there is when buying a "new suit or a new car."

While agreeing that insurers can improve the auto insurance system and their service in many states, the panelists generally appear to have little hope for California.

"The future will be worse than the past," predicted Mr. Pike, commenting that insurers' efforts to obtain a fair rate of return on business written in California is viewed by consumers as the industry looking for loopholes in the law they passed with Proposition 103 (see story, page 1).

Mr. Reich warned that consumers will not accept a rate of return for insurers higher than the 11.2% quoted initially by Insurance Commissioner Roxani Gillespie.

Commenting that in many controversial issues, the ultimate correct outcome is clear but the process for achieving it is not, Mr. Reich said of the auto insurance issue: "I can't envision what's going to happen when it has been resolved. The industry may well be hurt in the process." ■

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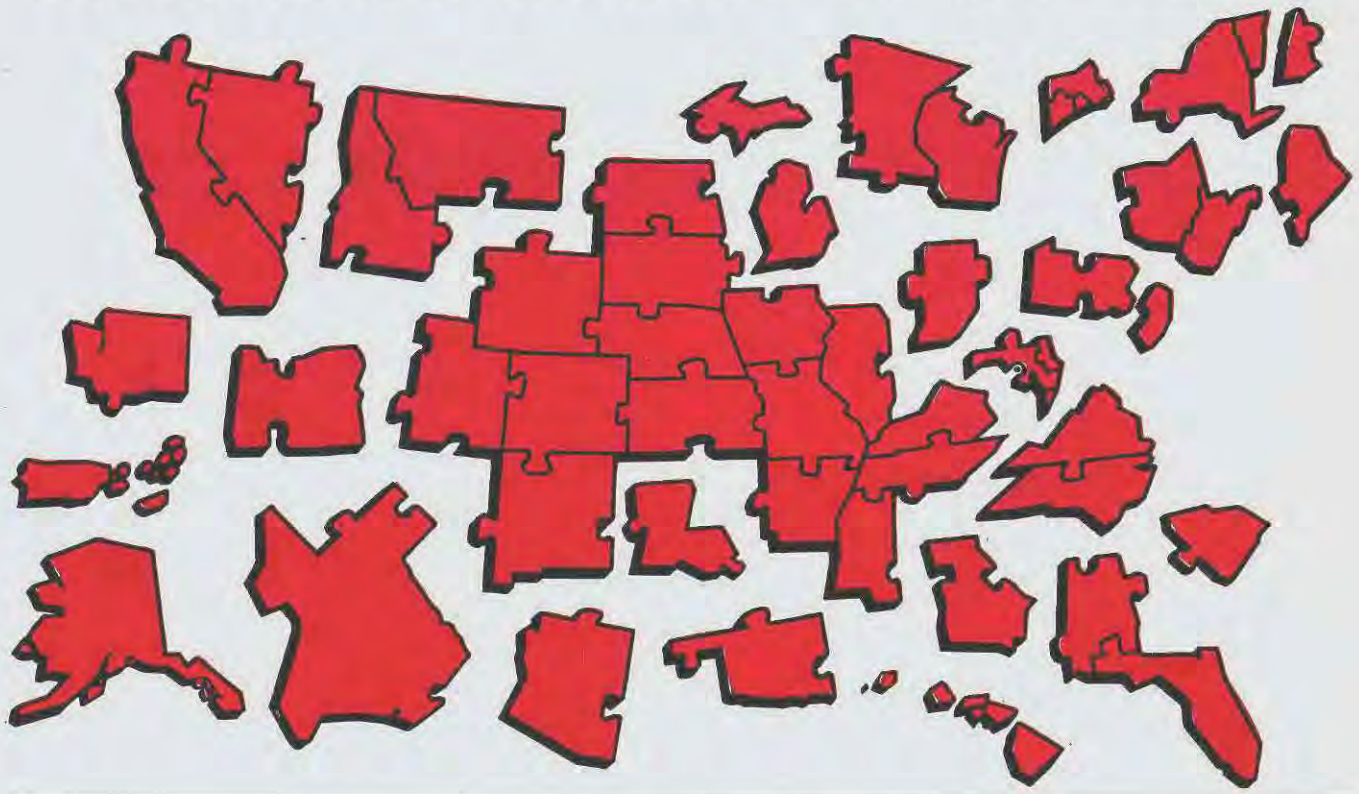

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NAII outlines auto insurance proposals

By KATHRYN J. McINTYRE

SEATTLE—Wide-ranging reforms targeting auto insurance laws, medical costs, highway safety, the civil justice system and other issues are needed to control rising auto insurance premiums, according to the National Assn. of Independent Insurers.

A detailed, 10-page "Public Policy Plan for Containing Auto Insurance Costs" was approved by the NAII board of governors at its annual meeting in Seattle earlier this month.

The recommended reforms fall into eight categories:

- State auto insurance laws.
- Medical costs.
- Automobile design and repair and insurance rating.
- Highway safety.
- Theft and fraud.
- Alcohol and drug use and driving.
- Civil justice reform.
- Automobile use.

Targeting state auto insurance laws, the NAII advocates that no-fault auto insurance laws be adopted in states where the tort liability system has proved ineffective. Those statutes should include a mandatory first-party personal injury and wage-loss package, coupled with a "strong verbal tort threshold and optional higher limit first-party benefit packages."

A verbal threshold is a word description of those injuries that are serious enough to permit the filing of a lawsuit to recover non-economic damages. It is different from the "monetary threshold" approach, which uses a dollar amount of medical bills as a condition for filing suit for non-economic damages.

"The latter methodology is undermined by inflationary-prone medical expenses and the natural inducement to over-consume medical services to pierce the dollar threshold," according to the report.

No-fault auto insurance can deliver claims payments more promptly to more accident victims, return more of the premium dollar to policyholders, reduce court dockets and stabilize auto insurance costs, the NAII says.

In addition, regardless of whether a state has a no-fault system, the NAII recommends lower minimum financial responsibility laws, repealing compulsory liability insurance laws and permitting first-party benefits insurance to satisfy financial responsibility or compulsory insurance laws.

Pointing out that rising medical costs have contributed to the rising cost of auto insurance, the NAII recommends eliminating duplication of benefits under medical expense and disability coverages, adopting a schedule of benefits for reimbursement of medical bills incurred as a result of auto accidents and exploring use of managed care networks.

Noting that 51% of auto insurance claim dollars pay for property damage liability, collision and comprehensive claims and loss adjustment expenses, the NAII calls for a "greater emphasis on automobile design, crash worthiness and repairability."

In addition, with 49% of the auto insurance claim dollar covering bodily injury claims, "attention must continue to be focused on occupant crash protection and maximizing the automaker technology available in this area."

Specific recommendations include improved federal motor vehicle safety standards and adoption of "crash avoidance" traffic control rules.

The organization encourages auto insurers to recognize advances in design and reflect resultant cost savings in rating programs "as promptly as possible."

Merely improving enforcement of existing traffic control and safety laws also would reduce fatalities and injuries in auto accidents, the NAII says. In addition, driver education, testing and licensing programs could be improved and mandatory seat belt laws adopted in more states, the NAII points out.

Auto theft, fraud and vandalism also must be properly investigated and punished, the NAII says. It warns that "until public policymakers devote the financial and manpower resources necessary to attack these insidious crimes, any optimism in controlling auto comprehensive coverage expenses must be guarded at best."

Eleven recommendations for accomplishing these goals are aimed at both insurance companies and law enforcement.

Attacking the problem of drunk drivers and those under the influence of drugs, which relates to as many as one-half of highway fatalities, the NAII recommends enactment of administrative license suspension/revocation laws in the approximately 25 states lacking such laws and reducing the alcohol level impairment benchmark, among other law enforcement reforms.

The civil justice reforms the NAII recommends for all states are: abolishing the collateral source rule to eliminate duplication of recovery; eliminating joint and several liability; replacing the modified comparative fault standard for pure comparative fault; creating disincentives for spurious lawsuits; and encouraging alternative dispute resolution.

Finally, the NAII policy statement points out that the urbanization of the United States and its automobile dependent culture create "formidable social costs," including vehicle-clogged roads, longer commuting times, inadequate ground transportation and more auto-related claims in urban areas.

To respond to these problems, the NAII recommends that the government and private sector organize a federal or state symposium to analyze ground transportation problems and develop short-term as well as long-term solutions and that more federal money go to public transportation.

In suggesting these reforms, the NAII stressed that "countermeasures to rising automobile insurance premiums must be tailored to fit the unique conditions and cost catalysts in every state."

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Copies of the NAII's "Public Policy Plan for Containing Auto Insurance Costs" are available free of charge by writing Public Relations Division, National Assn. of Independent Insurers, 2600 River Road, Des Plaines, Ill. 60018.

IIAA committed to reform, president says

By KATHRYN J. McINTYRE

SEATTLE—The Independent Insurance Agents of America Inc. is promoting its agenda for reform to improve the property/casualty insurance business, pledges President Southgate Jones Jr.

"We believe it's critical to pursue these reforms," Mr. Jones told the National Assn. of Independent Insurers meeting earlier this month in Seattle.

The IIAA is committed to seeking the reforms despite criticism from some insurers.

Some insurers "criticized us for our paper. They said we should have stonewalled and it would go away," Mr. Jones reported.

Among the reforms that the IIAA calls for in its policy statement, titled "Restoring Public Confidence in the Property-Casualty Insurance Business," are:

- Insurance companies and independent agents should restructure their operations to be more consumer-oriented.

"In addition to addressing those day-to-day decisions and procedures that are causing stress with the public," the IIAA suggests that "insurance companies should designate a senior executive to bring the consumer perspective forward when decisions are made and to set up and manage a well-publicized mechanism to resolve customer problems brought forth by policyholders and their agents."

Mr. Jones

To regain consumer confidence, insurers also "should provide regular communications to their agents and policyholders explaining the reasons for price changes," the IIAA says.

- Broad-based groups of businesses and consumers should lobby for states to enact meaningful no-fault automobile insurance laws to reduce the cost of auto insurance.
- To provide more consistently priced insurance policies, insurers should consider offering their policyholders multiple year policies with a guaranteed renewal rate or a cap on each year's renewal premium and with non-cancellation provisions. A change in risk exposure would dictate a change in price, while reasons for non-renewal could be listed in the policy.
- Market assistance mechanisms, with regulator involvement, should be maintained on a continuing basis to assist agents and policyholders who do not have markets for particular risks.
- Insurance regulators should "put

Continued on next page

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Industry stresses fairness, respect: Beck

By KATHRYN J. McINTYRE

SEATTLE—The insurance industry "bases its positions and programs on a basically simple premise: fairness to the greatest number and respect for other people's money," says the president of the National Assn. of Independent Insurers.

In his remarks at the NAII's 44th annual meeting earlier this month in Seattle, Lowell Beck concentrated on the insurance industry's "fiduciary role," which, he contends, is "at the heart of the business" but not discussed very often.

Mr. Beck

"With the exception of the net profit that insurers earn through their skill or good fortune, every dollar they handle belongs to someone else," explained Mr. Beck.

While "good companies never forget it," some insurance industry critics "would like us to forget it" and act as though the money "belonged to the entire population, to the government, or even to them," Mr. Beck said.

"You get an idea of how some would handle other people's money by looking at Proposition 103 and its imitations," Mr. Beck said, referring to the California voter initiative that mandates rollbacks in insurance charges and greatly reduces the use of territorial rating for auto insurance.

While "the promoters of these initiatives promise rate cuts and talk about competition and fairness, in reality they are talking about a hidden subsidy system," asserted the NAII president.

"That system takes money from good risks and uses that money to reduce the rates of higher risks or those who function in high risk areas," he said.

However, that subsidy will not be hidden under California's new rating system, Mr. Beck suggested, citing a Stanford Research Institute report that 70% of the state's drivers will pay more to subsidize the remaining 30%.

"When you look at them closely, the (Proposition) 103s of this world turn out to be a ploy to get other people's money without telling them clearly what they are paying for," Mr. Beck said.

Acknowledging that the risk-sharing mechanism requires that policyholders pay not only for their own personal experience but also for the experience of countless others, Mr. Beck declared that "the risk-sharing mechanism must be fair and equitable or it no longer is insurance; it is transfer payment instead."

The association president asked: "How much can we, as a society, punish the good risks and the profitable insurance companies by compelling them to subsidize others and to pay for a new regulatory bureaucracy that will inflict the punishment?"

Insurers should work hard to point out to their policyholders that insurers "oppose subsidy systems because they extract such a penalty from good risks," Mr. Beck said.

Insurers' concern for "other peoples' money" is exhibited in other ways that can cause confusion, Mr. Beck noted.

"When we resist dubious claims, it's because we are concerned for all the policyholders, not because we are slow and recalcitrant claims handlers.

"We work hard for air bags, crash-resistant cars and cost-savings in auto repairs, certainly not because we are against automakers or are trying to make profits at their expense, but because we see first hand the human tragedy and the dollar costs of accidents and are trying to help the accident victims," he said.

"We try to hold down medical costs and promote tort reform knowing that we'll face the wrath in the medical and legal professions, which we do not relish at all. But somebody has to work to contain the ever-spiraling costs of the system."

While "the structure of the business and insurers' fiduciary role rule out easy answers" to the problems insurers face, there are two important answers, Mr. Beck suggested.

"First, each company, constantly looking inward, must always ask: 'Are we truly serving the customers' needs? Are we offering products and services that are wanted and needed in today's environment? Are we doing everything possible within the company—not just outside—to keep costs low? Are we sensitive and understanding? Are we listening?'

"You might add the questions: 'Are we good businessmen and women, responsive to our stockholders?' I submit that the answer to that appropriate question is an emphatic 'yes' if we answer the others correctly."

Mr. Beck continued: "Secondly, we need a long and steady effort to educate the public about the value and indeed the importance of a strong, financially sound, private enterprise insurance system, and the important changes that are needed to reduce costs."

The insurance industry and the NAII are working to achieve that goal "through our legislative and regulatory work, public education programs, our ongoing research and a greater emphasis on coalition building at all levels and with many interested groups," Mr. Beck said.

Insurers responding to Hurricane Hugo claims demonstrated the value of the private enterprise insurance system, Mr. Beck reported, based on his tour of the devastated area with claim adjusters.

"The insurance men and women I met down there, who were rushed to the scene in large numbers, weren't just doing a job. They worked 12 to 18 hours a day. In the historic districts of Charleston, they wrote checks on the spot for unusual losses like antique tin building trimmings more than 150 years old, checks to help people find shelter until necessary repairs could be made.

"They seemed as counselors to stunned people, the only counselors, I should add. They personally built temporary roofs and arranged for emergency oxygen units."

This performance was not only a "strong antidote to this bad image poison," Mr. Beck said. "Just as important, it shows something about the way insurers handle the money they are entrusted with. The emergency teams were able to get in there—and into the damage zone of Northern California as well—because companies could afford that extraordinary effort.

"Adjusters could write checks immediately because companies were solvent and strong. That service is built on reserves and surplus, and they are built on profits, after taxes have been paid."

The insurance industry's "troubles may never be over, but they will be considerably lessened when consumers understand and believe that the insurance industry" is committed to "fairness to the greatest number and respect for other people's money," Mr. Beck said. ■

Rules shalt improve image of industry, regulator sayeth

SEATTLE—Insurance companies could improve their public image by obeying three simple commandments, advises an insurance regulator.

Washington Insurance Commissioner Richard D. Marquardt outlined the commandments in a welcome address at the 44th annual meeting of the National Assn. of Independent Insurers earlier this month in Seattle.

"Thou shalt not do false advertising," he advised, saying television commercials in which an adjuster hands over a claim check "while the house is still smoldering" are false because "it doesn't work that way."

Instead, insurance company advertisements should be "meaningful," Mr. Marquardt said, suggesting they discuss such issues as how to complete an accident form or the different types of life insurance.

"Thou shalt keep thyself solvent," was the second commandment.

While advocating the lowest rates possible, Mr. Marquardt admonished insurers to eliminate wide fluctuations insurance costs.

Mr. Marquardt

And, he warned that to the extent too many insurers become insolvent, state legislators will demand more insurance laws. Legislators want to protect state tax revenues, which are reduced by insurance company insolvencies because insurers can offset premium tax payments with assessments paid to guaranty funds.

"Thou shall not berate or ignore the consumer" was the third commandment.

Insurers need to listen to their consumers more through established procedures for seeking consumers' viewpoints, Mr. Marquardt advised.

"Form consumer groups and listen to what they say," he suggested. "They pay the freight."

—By Kathryn J. McIntyre

IIAA proposals

Continued from previous page

greater emphasis on the solvency implications of proposed legislation and rate decisions and not rely on guaranty funds as a safety net."

Several of the reforms recommended in the policy statement, issued in January, have occurred.

For example, the IIAA called for insurance rating organizations to eliminate final advisory rates, which The Insurance Services Office Inc. said in April it would do (*BI*, April 10).

And, the IIAA called on rating organizations to broaden their boards of directors to include policyholder, regulator and insurance agent/broker interests as voting members. ISO and the National Council on Compensation Insurance both will broaden their boards.

"We intend to communicate with the public, industry and legislatures, acting as a voice of reason," Mr. Jones said. "We believe it is critical to pursue these reforms. Our purpose is to lead to better understanding, seek solutions through understanding, to tell the public that we, the industry, are aware of their concerns and we are seeking improvements."

The IIAA also "will seek out and talk with mainstream consumer organizations with agendas they want to solve, not perpetuate," Mr. Jones said.

"I always felt I was a consumer representative, and I am," he added.

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Copies of the IIAA policy statement "Restoring Public Confidence in the Property-Casualty Insurance Business" are available free of charge by writing The Public Relations Department, The Independent Insurance Agents of America Inc., 127 South Peyton St., Alexandria, Va. 22314.

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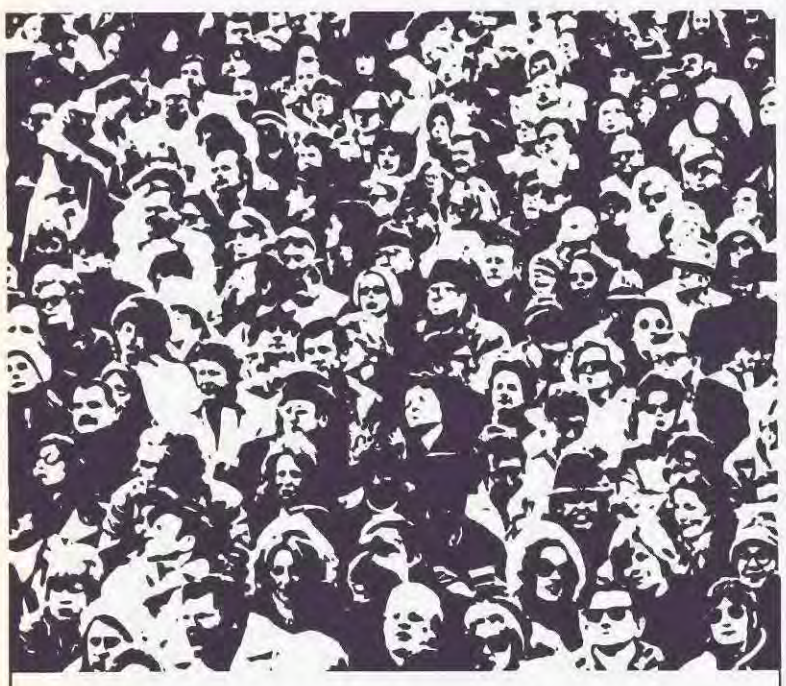

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Industry executives differ on probability of rate hikes

By KATHRYN J. McINTYRE

SEATTLE—The soft property/casualty insurance and reinsurance market could survive the spate of fall property disasters.

As major primary insurance company executives were announcing the need for rate increases from their home offices (*BI*, Nov. 13), some insurance, reinsurance and reinsurance brokerage executives attending the annual meeting of the National Assn. of Independent Insurers earlier this month were questioning if rates would start to rise at year-end.

Others, however, held firm to their predictions that property insurance prices will increase soon, followed possibly by casualty insurance rates later in 1990.

The NAII annual meeting, the year's last large gathering of property/casualty insurance and reinsurance executives, is the traditional barometer for pricing conditions for a large percentage of insurance and reinsurance policies up for renewal at year-end.

But this year's meeting left many participants wondering about year-end pricing conditions.

"Spooky," said one reinsurance company executive about the lack of consensus at the meeting.

Many participants traveled to the meeting expecting to hear everyone talking about raising rates following three major property losses within two months that together could cost the insurance business at least $6 billion: Hurricane Hugo, the California earthquake and the Philips Petroleum Co. plant explosion.

While some sentiment was expressed that the marketplace will harden fairly rapidly, there was more talk of "wait-and-see" than expected.

"The reinsurers are waiting to see what the primary companies are going to do before deciding what they will do," explained one primary company reinsurance buyer.

"Reinsurers are waiting to see what the LMX market will do," said a London broker, referring to underwriters of London market excess-of-loss reinsurance.

While it's generally accepted that LMX underwriters will be increasing rates at year-end due to the three catastrophes, some question whether other property catastrophe reinsurance covers will cost more—especially those not hit by the three losses.

Some participants attributed the lack of a clear signal about the near-term future of the marketplace on the large attendance and its diversity—from one-state insurance companies to one-product insurers to regional insurers writing multiple lines.

Others blamed hotel logistics: Participants were booked into three hotels and rainy weather reduced the foot traffic among them. As a result, there was less contact among participants than in previous years.

As in past years, far more people conduct business in private meetings in hotel suites and lobbies and area restaurants than attend the formal presentations.

"Not all the work is done in this room," acknowledged NAII President Lowell Beck in announcing record attendance of 1,800 to an assembled group of 400.

His remark was more elegant than that of an attorney attending the meeting for the first time who quipped: "This meeting is just a front for a lot of private meetings."

In the private meetings, there was both optimism and pessimism about industry pricing trends, some of which was reported to *Business Insurance* on the condition that names not be used.

"Brokers are no longer saying they need 25% off," reported one primary insurance company executive. "Some property prices are leveling off. I expect to see price hikes in the first quarter on property and then casualty follow about six months later," he said.

"I hear from the reinsurance market 10% to 15% increases," said Ken Nitz, director of insurance market relations in North America for Minet International Professional Indemnity Ltd. "They've been hit badly."

While generally London is expected to raise its property catastrophe and LMX prices, one U.S. reinsurance broker questioned if it can. "London underwriters are in a cash bind and they can't afford to lose premiums. Therefore, they may do what is necessary to keep the dollars flowing in," he said.

"LMX will go up as much as they are saying," predicted Paul B. Ingrey, president of F&G Re Inc., the reinsurance underwriting unit of USF&G Corp., citing not only the cost of the recent U.S. losses but also the 1987 European windstorm and Hurricane Gilbert in 1988.

With LMX rates expected to increase 25% to 30%, F&G Re expects to write more LMX covers this year than it has in the past. But, Mr. Ingrey stressed, F&G Re is interested in writing coverage for physical damage occurrence losses and "not the rest of the lines underwriters have wanted to throw in it.'

For example, much to its astonishment, F&G Re received a political risk loss under an LMX cover it wrote in the past, he said.

However, Mr. Ingrey didn't detect a commitment to increased pricing in the general primary market.

And, he stressed that the London and U.S. reinsurance markets should respond "accordingly" to ceding companies that don't deserve increases in the cost of their property catastrophe coverage because they've built up more premiums with reinsurers than they've recovered in losses.

Continued on next page

NAII conference in Seattle draws record crowd

SEATTLE—The National Assn. of Independent Insurers' 44th annual meeting in Seattle Nov. 5-9 attracted a record 1,800 attendees.

The NAII represents 553 member insurance companies, which collectively write about 27% of all U.S. property/casualty premiums.

The annual NAII meeting attracts not only the top executives of member insurance companies interested in association business and the formal programs, but also reinsurers and reinsurance intermediaries from the United States and London who meet privately to take the pulse of the marketplace as year-end renewals approach (see related story).

In association business, the NAII board of governors adopted a policy statement on controlling auto insurance costs (see story, page 90).

In addition, the NAII elected William B. Snyder, chairman and chief executive officer of Government Employees Insurance Co. in Washington, D.C., as its chairman. He succeeds John W. Head, executive vp and chief executive officer of Southern Farm Bureau Casualty Insurance Group in Jackson, Miss.

B. Phil Richardson, executive vp-operations of Alfa Mutual Insurance Co. in Montgomery, Ala., was named vice chairman.

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Continued from previous page
The loss experience in the LMX market and the U.S. reinsurance market is "very different," he said.

Reflecting on the marketplace, Ajit Jain, president of the professional liability and special risks division of Berkshire Hathaway Insurance Group in New York, commented: "Maybe some companies or specific segments of the market may be short of capital, but I don't see a shortage across the board as of yet."

"Rates won't continue to go down," said the executive of a large reinsurance company, "but they won't be turning around either." He added: "I hope I am wrong."

"The reinsurance market appears to be relatively stable," commented Ward Gordon, chairman of Intere Intermediaries Inc. in New York.

"Where there are known losses, there may be some adjustments, but we don't sense a dramatic impact on rating in the next few weeks like one might have anticipated," he said, referring to three major property losses.

While initially reports were that London underwriters would raise prices for all ceding companies, "it's not happening," Mr. Gordon said.

That doesn't mean, however, that the property catastrophe losses won't at some point cause pricing to increase.

Mr. Gordon recalled that the year-end renewal season following the devastation of Hurricane Betsy in 1965 was not affected greatly by the loss. "A lot of losses were not very well defined, communication was slower and it was a huge marine loss. It took six to eight months to fully realize the impact."

While reinsurers are paying their losses promptly, the impact of Hugo losses also could be delayed, he suggested, because it's unclear what effect the losses will have on the retrocessional market. Many reinsurers buy their retrocessions at other than year-end—such as April, July, September—so that they know their own capacity at year-end, Mr. Gordon pointed out.

As a result, the impact of the property losses may not be felt until reinsurers renew their own protections over the next 12 months, he said.

Still, Mr. Gordon is expecting a very late renewal season, with December lasting the proverbial 45 to 60 days, as reinsurers calculate their protections and some ceding companies agonize over terms.

Intere, for its part, is encouraging clients to negotiate renewals "reasonably early" to avoid any possible capacity shortage at the end of the renewal season that could be created if reinsurers realize their protections are short of what they wanted.

One topic that surfaced often was the $100 million in capacity available at Berkshire Hathaway for property catastrophe reinstatement covers.

Berkshire had written 35 reinstatement covers for about $15 million in premiums before the NAII meeting, said Mr. Jain. The largest was for $30 million in limits.

The covers, written to dovetail with the cedant's existing programs, cover a second or third event, depending on the ceding company's need.

Pricing has been "flexible," said Mr. Jain, noting that Berkshire has even sold options to purchase reinstatement coverage. If, for example, earthquake losses do not deplete a ceding company's coverage, the company would not pay any more premium. Berkshire also has built in no-claims bonuses into contracts.

"We are taking all this net, so unlike most players, we can go in with a clean piece of paper and have the buyer tell us what he wants to buy," Mr. Jain said.

Buyers have included London underwriters as well as U.S. companies and even a few cedants from continental Europe.

These clients needed Berkshire's capacity either because their traditional underwriters didn't have the appetite to underwrite a third-event cover or they didn't have the retrocessional protection to issue third-event coverage, Mr. Jain noted.

Buyers also were attracted to one-stop shopping for the large limits that Berkshire offered and its security: Berkshire's $5.5 billion in surplus ranks it second only to State Farm Mutual Automobile Insurance Co.

A few brokers characterized Berkshire's entry into the property catastrophe reinsurance market as "opportunistic," which Mr. Jain disputed.

Berkshire will be willing to write property catastrophe covers next year "if pricing reflects our view of the risk," said Mr. Jain.

And, he added, these transactions have been negotiated with "sophisticated reinsurance buyers."

Berkshire is active in a market, he said, "when we can sell the product at an adequate price. We are committed to making a profit."

By offering its capacity at these times, Berkshire also "helps reduce some of the volatility in the industry," Mr. Jain said. ■

NAII exec says critics quieted by insurers' storm response

SEATTLE—Catastrophes give insurers "a chance to brag," says the outgoing chairman of the National Assn. of Independent Insurers.

"If anything good can come out of a disaster, it's the public attention focused on this industry and the reflection of the job we do under pressure," said John W. Head, who also is executive vp and chief executive officer of Southern Farm Bureau Casualty Insurance Group in Jackson, Miss.

By noon the day after Hurricane Hugo struck the South Carolina coast, Southern Farm Bureau had issued its first claim payment. The policyholder "couldn't deposit it," however, because banks were not open yet, he pointed out.

"This is not unusual," according to Mr. Head. "We issue many claim checks the same day we get notice of the claim."

"Our goal is to deliver the absolute first class product every time, on time—something all of us need to do."

Mr. Head also said he surveyed company claims representatives to check for policyholder complaints "about high premiums, too much surplus or reserves" being too high.

"There was not one complaint, not one question," he reported.

"It's curious how the accusations vanish before the wind dies down or the earth stops shaking, when it is obvious we need financially strong insurance companies," he said.

Agreeing that insurance is an intangible product, "a storm like Hugo and an earthquake give us an opportunity to brag," Mr. Head said.

"We have to let people know that we don't perform like this just after a catastrophe. . . .It's our goal to do it throughout the year."

—By Kathryn J. McIntyre

C&B names Cuthbert CFO

Comings & goings: industry

Robert P. Cuthbert has been appointed first vp and chief financial officer of Corroon & Black Corp. in New York.

Mr. Cuthbert, who had been controller, vp and investor relations officer, replaces Stephen A. Crane, who recently was promoted to president and chief executive officer of Corroon & Black Corp.'s Reinsurance Brokerage Group.

Also at Corroon & Black, **Rod Okimoto** named executive vp and unit manager of the broker's San Jose, Calif., branch.

Other broker changes:

Cecil C. Taber Jr. named vp and international sales executive of a new Alexander & Alexander Services Inc. unit in Houston. He is responsible for multinational business development in the Southwest.

A&A also named **Luther T. Griffith** manager vp of the Atlanta office. He currently is chairman/chief executive officer of A&A's Risk Management Services Group, but will give up that position early next year.

Theodore D. Ruddock III named manager of Johnson & Higgins' New Orleans office. He was elected vp in 1984.

Susan Randall joined Rollins Burdick Hunter International Inc. as vp and international manager for Northern California. She will be based in Palo Alto, Calif.

Insurers

Joseph L. Folz named resident vp of The Harleyville Insurance Cos.' New Jersey branch, replacing **Stephen M. Duncan**, who will retire March 1.

Brent E. Snelgrove elected vp-field operations at Baltimore-based United States Fidelity & Guaranty Co.

Bruce D. Silverman appointed vp-claims for Delta Dental Plan of New Jersey Inc. in Parsippany.

Paul W. Glover and **John H. Stearns** promoted to senior vp from vp of The Travelers Corp. of Hartford, Conn. ■

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Colorado's new regulator

Auditor for state programs moves to commissioner's post

DENVER—Joanne Hill's ability to audit and analyze financial records has earned her the appointment as Colorado insurance commissioner.

Ms. Hill, 41, took office last month for an unspecified term following her appointment by Democratic Gov. Roy Romer.

Her appointment is subject to approval by the state Senate, which will convene in January.

She succeeds John Kezer, who resigned in June. Bruce Smith, who served as acting commissioner in the interim, will resume his duties as deputy commissioner.

Ms. Hill has no insurance industry experience, but Gov. Romer praised her as "an extremely intelligent and able person" who has proven herself in financial analysis and accounting.

Ms. Hill was selected by the governor from candidates recommended by a 12-member task force of consumer, business and insurance interests. More than 40 applicants were reviewed, according to the governor's office.

"Joanne impressed us in our interviews as being extremely bright and capable," said Jean Dubofsky, an attorney and former Colorado Supreme Court justice, who headed the task force.

For five years, Ms. Hill had been a manager in the state auditor's office, where she supervised audits of the banking and insurance divisions and some state educational institutions.

Prior to that, she worked for the state Department of Labor and Employment as assistant director of two federal programs designed to help the poor find jobs.

Ms. Hill is a certified public accountant and holds a master's degree in business administration, with a concentration in finance, from the University of Colorado.

In addition, she has a master's degree in political science and public administration from the University of California at Los Angeles and a bachelor's degree in political science from Rutgers University.

Ms. Hill plans to continue implementing dozens of changes recommended in an exhaustive performance audit of the Insurance Division, which was released in August (*BI*, Sept. 25).

Her role in the audit was limited, she said.

The changes recommended in the 132-page report are designed to improve the quality and effectiveness of regulatory practices observed between September 1988 amd June 1989. While praising some of the division's work, the report called for strengthening many regulatory practices.

Ms. Hill praised Mr. Smith for doing "an outstanding job" in implementing the changes or developing plans to do so.

Ms. Hill

She said she also plans to review carefully other insurance-related issues, including auto insurance, but would not elaborate.

Ms. Hill, who is a native of New Jersey, has lived in Colorado since 1974.

She is is married and has two children.

—By Meg Fletcher

Illinois approves work comp reforms

By MEG FLETCHER

SPRINGFIELD, Ill.—Legislation passed by the Illinois General Assembly earlier this month is expected to streamline the state workers compensation system.

"These badly needed reforms will allow us to. . .speed the delivery of benefits to injured workers," according to a statement by Gov. James Thompson, who is expected to sign the bill.

The measure, H.B. 86, is designed to expedite cases before the Illinois Industrial Commission by hiring additional arbitrators, encouraging pretrial conferences and prohibiting the introduction of new evidence during the second stage of case review.

The bill also calls for allocating an additional $2.8 million in fiscal 1990 to pay additional staff members, to provide information to injured workers and to help a task force study and implement a new data information system.

In addition, the measure calls for establishing a formal training program for all arbitrators and commissioners and measures to make those officials more accountable.

"It's a major step forward," said Lester W. Brann Jr., president of the Illinois State Chamber of Commerce. Improved efficiency should benefit employers, he said.

The measure "strengthens the structure of the Illinois Industrial Commission in dealing with cases," said Douglas Stevenson, a Chicago attorney and executive director of the National Council of Self-Insurers. However, "it does nothing about substantive problems that are still there and will have to addressed soon," he added.

For instance, employers have called on the Legislature to strengthen the exclusive remedy provisions in the Illinois workers compensation law.

"We think it is a modest reform effort," said Steve Millikan, vp and director of workers compensation for the Alliance of American Insurers in Schaumburg, Ill. "It is a good first step."

The provisions included in the legislation were drafted by business and labor officials called together by Gov. Thompson in the wake of a state-sponsored study of system problems by workers compensation expert John Lewis.

The bill, which passed both houses without opposition, is similar to the proposal that was stymied by plaintiffs' attorneys in the waning days of the General Assembly's regular session this summer (*BI*, July 31).

However, the final version allows for limited appeals in voluntarily arbitrated cases.

Generally, the bill passed by the General Assembly seeks to improve the performance and accountability of the industrial commission with the help of a new, nine-member advisory board to be appointed by Gov. Thompson.

Employer, labor and citizen groups are to be equally represented on the advisory board.

A temporary appointed panel of three arbitrators will also hear backlog cases.

In addition, arbitrators will be appointed only for six-year terms. Currently, arbitrators are hired as civil servants who can be discharged only for cause.

In addition, the measure also seeks to streamline claims processing by reducing the number of automatic appeals. Drafters hope lengthening the time for filing an appeal to 30 days from 15 will reduce such appeals by allowing time for additional deliberation.

Changes included in the legislation that directly affect some employers include new fines of up to $500 per day against employers that fail to provide workers compensation coverage, either through the purchase of commercial insurance or through a self-insurance program.

In addition, employers are expected to provide work comp coverage for more farm workers because the measure reduces the minimum number of work hours required for eligibility.

In addition, the bill offers tax credits for work comp insurers that write coverage for mostly small employers with good experience that are currently buying insurance through the state's assigned risk pool because they cannot find affordable coverage elsewhere. ■

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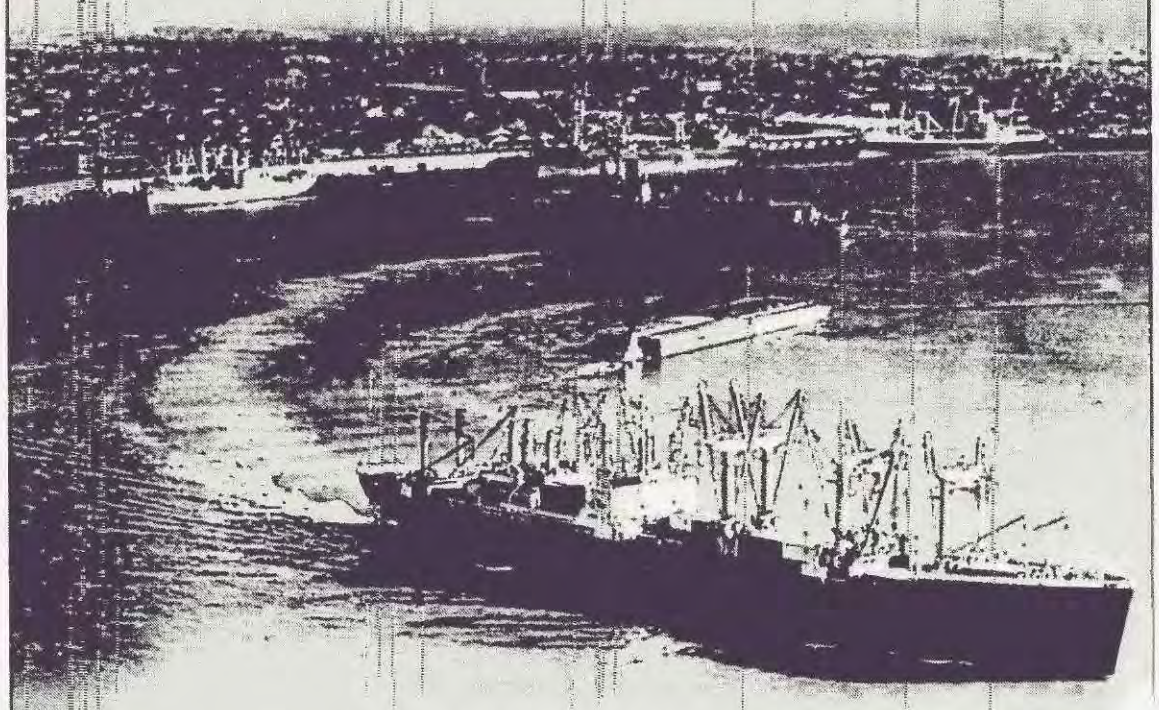

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Report card on state regulation mixed

By MEG FLETCHER

CHICAGO—State insurance departments generally regulate insurer solvency "well," despite several problems in recent years, a Michigan regulator contends.

However, state regulation of insurance is not perfect, agreed the Michigan regulator and the president of an insurance trade group.

Indeed, a business professor was highly critical of life insurance regulation, saying companies had inadequate disclosure requirements and used deceptive advertising and sales techniques.

The three discussed their views during a panel discussion at the 1989 Insurance Conference sponsored earlier this month by the Illinois CPA Foundation in Chicago.

The system of state-based insurance regulation is a historical accident that began with 19th century court rulings, said Jean Carlson, deputy commissioner-policy in the Michigan Insurance Bureau.

While state-based regulation of a national industry does not appear to be the most rational approach, states have developed programs and laws that allow them to perform most of their duties effectively, she said.

Ms. Carlson listed several areas in which state regulation of the insurance industry excels.

For example, the National Assn. of Insurance Commissioners promotes insurer solvency by requiring most insurers to file financial data and meet other reporting requirements, including obtaining actuarial certification of loss reserves.

And the NAIC's recently enhanced computer capabilities allow it to better use the Insurance Regulatory Information System to analyze that data, compare them with industry norms and disseminate them to state insurance departments, she said.

In addition, the NAIC has beefed up its oversight of insurers' management practices, she said. For example, a new NAIC model law gives guidelines for insurers working with managing general agents, an area where regulators have found a "remarkable amount of bad management," Ms. Carlson said.

The NAIC also has adopted tighter guidelines for insurance departments to follow in allowing insurers to take credit for reinsurance.

State regulation also does a good job of ensuring the quality of insurance products by establishing minimum standards and non-forfeiture requirements for policies with cash values, such as life insurance policies, she said.

Ms. Carlson said that state regulators also oversee marketing well by outlawing unfair trade practices, requiring agents and insurers to meet their fiduciary responsibilities and overseeing insurance product rating.

State regulators, she acknowledged, need to do a better job of sharing information about troubled companies, standardizing procedures and educating and aiding consumers.

And, Ms. Carlson said, several insurance-related problems are beyond the scope of regulators' powers, including: coverage availability; stopping drastic swings in the underwriting cycle; and protecting consumers with self-funded plans or those who buy from unlicensed sources.

In addition, "many of the trends affecting property/casualty insurance are driven by public trends that go well beyond the insurance industry," said Franklin W. Nutter, president of the Alliance of American Insurers in Schaumburg, Ill.

For example, voters are becoming increasingly single-issue oriented at the same time they are basing decisions more on sentiment than fact, Mr. Nutter said. This is occurring, in part, because of a deterioration of political leadership, the fragmentation of political parties and politicians' short-term perspectives.

But, Joseph Belth, an insurance professor at Indiana University in Bloomington, is more critical of the current regulatory system, particularly as it affects life insurers.

Mr. Belth, who also is editor of The Insurance Forum, a monthly newsletter, gained access to three previously confidential IRIS reports after a District of Columbia court upheld his Freedom of Information Act request in 1987 (*BI*, Nov. 23, 1987; July 20, 1987).

Last fall, NAIC for the first time voluntarily released its statistical analysis of insurer finances. Mr. Belth and others have questioned the usefulness of the limited disclosures, saying the analyses do not readily identify troubled companies (*BI*, Sept. 19, 1988).

"There are many areas in which consumers have justifiable concerns about the effectiveness of state regulation" of life insurance, Mr. Belth said.

Consumers still lack requirements for "rigorous disclosure" of the real price of life insurance and the rate of return on the savings component of cash-value life insurance, he said.

In addition, there is "widespread use of deceptive sales and advertising practices," including the use of gross rather than net interest rates and a failure to recognize the time value of money, Mr. Belth charged.

He also questioned the financial soundness of insurance companies and the appropriateness of the NAIC continuing to keep some key IRIS-generated analyses from consumers.

Mr. Belth was especially critical of methods he said insurers use to circumvent statutory accounting principles, including the use of surplus notes from lending institutions, surplus relief reinsurance, sale and leaseback of non-admitted assets, use of back-dated assets and use of surplus relief provided by banks.

While Ms. Carlson supports state regulation, she suggested that it could be enhanced by a partnership between state and federal regulators.

For example, the Securities and Exchange Commission has helped by requiring sellers of variable annuity and life contracts to obtain SEC licenses.

In addition, she supports repeal of the McCarran-Ferguson Act, which gives states primary responsibility for regulating insurers and grants insurers limited immunity from federal antitrust laws.

Repeal of McCarran-Ferguson would eliminate a "giant red herring" without unduly hurting the insurance industry and may help focus attention on the real causes of underlying loss costs, Ms. Carlson said.

Mr. Nutter—who quipped that Ms. Carlson's credentials as a state regulator should be questioned—said repeal of McCarran-Ferguson would be "disastrous" because the industry needs the antitrust exemption and prefers to be regulated by states.

In addition, repeal would not help solve the problem of high auto insurance rates in some urban areas, he said.

Mr. Belth added that he doubts that the law could be repealed outright, but that it might be modified.

The panel was moderated by Kathryn J. McIntyre, associate publisher and editor of *Business Insurance*. ■

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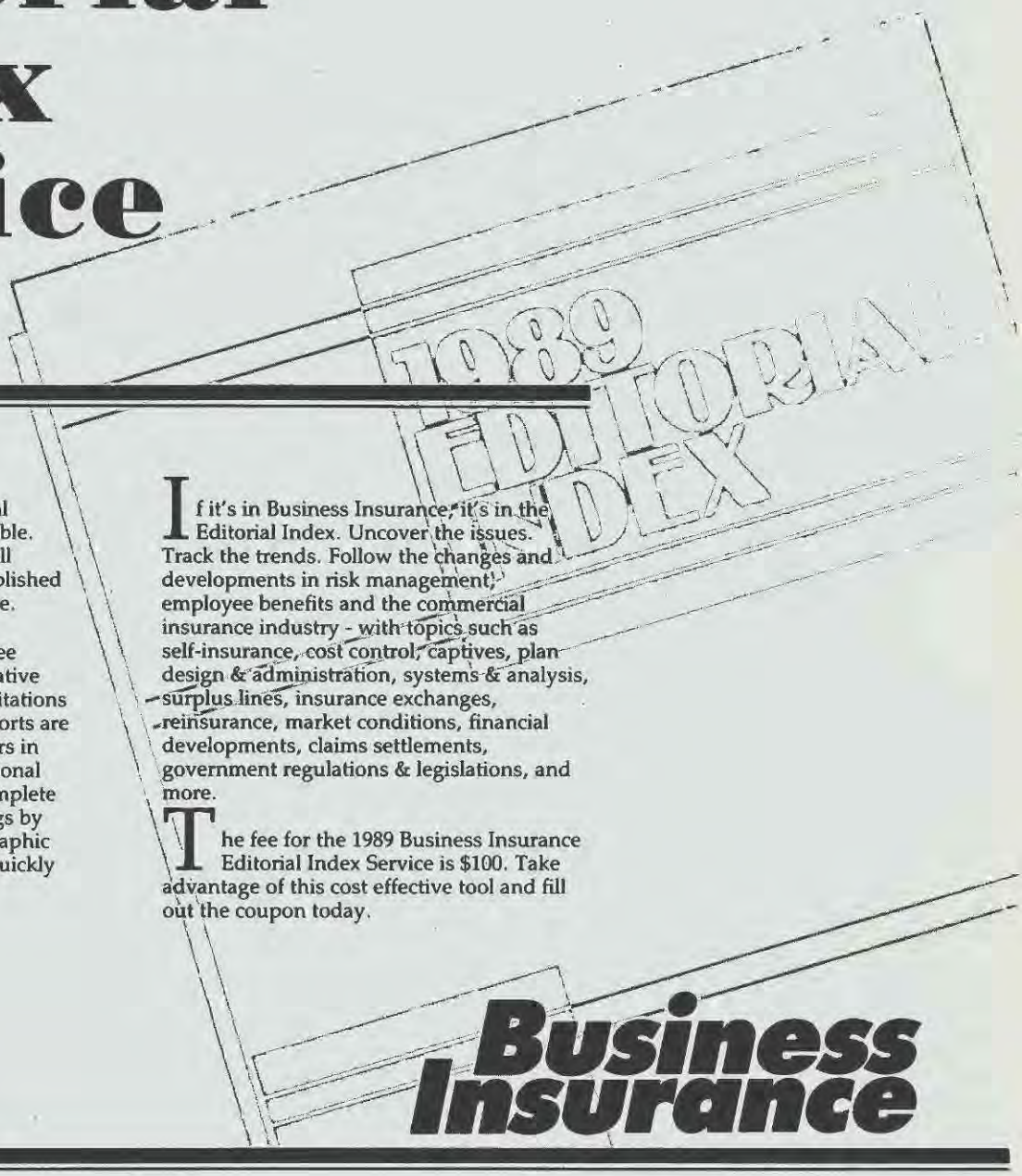

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Joint effort aids hospital programs

ORLANDO, Fla.—Health care organizations should establish a link between risk management and quality assurance departments, two hospital risk management professionals say.

The Joint Commission on Accreditation of Healthcare Organizations will look for communication and collaboration between the two departments, whether formal or informal, pointed out Susan L. Marr, director of risk management at Lakeland Regional Medical Center in Lakeland, Fla., which recently was the subject of a JCAHO accreditation survey.

In addition to JCAHO requirements, statutory and regulatory mandates passed by state and federal governments and third-party payers are requiring that information gathered by the two departments be combined and presented to hospital administrators, said Brian Regan, associate vp at Montefiore Medical Center in Bronx, N.Y.

Ms. Marr and Mr. Regan made their remarks during a session at the American Society for Healthcare Risk Management conference.

While the two departments traditionally have been adversaries, Mr. Regan said "quality assurance reviews may complement the risk management department's assessment of liability." For example, risk management is more able to directly assign a dollar cost to an incident, but quality assurance is better-equipped to provide data about similar incidents or other cases involving the same practitioners.

"By combining RM's malpractice or pre-suit cases and QA's pattern data, a joint effort to prevent future problems can be better supported to administration," Mr. Regan said.

He suggested that hospitals hold RM/QA meetings at least monthly and that they provide a forum for the two staffs to meet and coordinate a common agenda. "The idea is rather than have a divided effort going off in different directions, we'll consolidate our resources."

A formal tracking system should be established, Mr. Regan continued. Each incident that is discussed during a RM/QA meeting would be assigned a log number based on the point of origin—in a formal meeting or by word of mouth, for example—and the date of the first discussion. The log sheet will serve as a follow-up document, and both departments will have access to any information related to that incident and any follow-up actions taken.

"We all tend to think we're spinning our wheels sometimes, not doing all we should," Mr. Regan said. But if quality assurance and risk management professionals are able to track the progress of every incident, they will see how many are successfully resolved.

"The ultimate measure of RM/QA is the success of follow-up efforts," he pointed out, adding that when given a mechanism to record and track issues, hospitals may find they are pleasantly surprised.

Risk management/quality assurance links should be described in the hospital's bylaws, which should also contain job descriptions and responsibilities of both positions, Mr. Regan added.

And, "risk managers should work side by side with QA in educational presentations, showing the administration the differences between the two departments and the fact that they are working together as a team."

Ms. Marr said forging a common link between the departments will be invaluable to the risk manager who faces a JCAHO survey. "The theme of our survey was the same standard of care for everything."

—By Christine Woolsey

Credentialing, peer review help reduce hospital losses

By CHRISTINE WOOLSEY

ORLANDO, Fla.—An appropriately structured physician peer review and credentialing process can minimize a hospital's medical malpractice risks, says a leading medical malpractice attorney.

While those functions have not traditionally been a part of hospital risk management, they should now be a central focus, said Henry M. Casale, an attorney with Horty, Springer & Mattern in Pittsburgh.

"Recent court decisions addressing legal liability as well as the federal Health Care Quality Improvement Act of 1986 have placed hospitals under a legal obligation" to become involved with the peer review process, Mr. Casale said during a session at the American Society for Healthcare Risk Management conference held earlier this month in Orlando.

"The courts are placing a legal duty on hospitals to properly credential physicians and, more importantly, holding the hospitals liable for their failure to credential physicians," he said.

"As risk managers, you can help in assessing the hospital's potential for liability and can help minimize losses in the institution by having a working knowledge of the hospital's peer review process," he said.

"It is now clear that there is a direct possibility that any physician who provides services in the hospital, inappropriately or improperly, can lead to the hospital's liability under any of the several theories which have evolved over the last 30 years."

Risk managers should recognize the importance of peer review as a way to avoid appointing problem physicians who increase the hospital's exposure. "An effective credentialing process can be your best defense against the threat of malpractice," Mr. Casale said.

He noted the Health Care Quality Improvement Act, which sets peer review requirements, was "founded on high expectations that the incidence of injuries caused by poor medical practice can be reduced by effective professional peer review."

Prior to 1986, most physicians who had been denied medical staff appointment or reappointment by a hospital usually claimed the denials were part of an effort to suppress competition, he noted. "The vast majority of antitrust cases in the health care field stem from a denial of appointment to the medical staff or the revocation of clinical privileges."

Physicians who were required to participate in peer review not only viewed the process as time-consuming, but faced the threat of being named in antitrust litigation by a fellow physician.

As a result, the act gave limited immunity to individuals participating in the peer review process, as well as the hospital itself. "The assumption is that physicians are likely to be more candid and aggressive in the performance of peer review if the threat of antitrust exposure is removed," he said.

However, he pointed out the "immunity provided for professional review activities is not absolute." For example, "it does not apply to actions brought under the federal civil rights laws, injunction or declaratory judgment actions, actions by governmental agencies such as the Federal Trade Commission or criminal proceedings."

And the immunity also does not apply to actions brought by non-physician practitioners, such as podiatrists or chiropractors.

Immunity can be lost if the action was based on improper motives, Mr. Casale said. For example, immunity would not apply if "professional review actions (are) not based on the competence or professional behavior of the physician," but instead based on a doctor's affiliation or lack of one with a professional association or his fees, advertising practices or business solicitation methods.

He said hospital administrators and risk managers can avoid the risk of losing immunity by carefully defining the hospital's formal review process in the hospital's bylaws.

"The initial credentialing process, including the verification of information provided in the application, meaningful references from physicians familiar with the clinical competence of the applicant and an interview with the applicant must be thorough and meticulous," Mr. Casale suggested.

Risk managers and administrators should develop a handbook detailing the hospital and medical staff's bylaws, rules and regulations. And, they should review all existing corporate or medical staff documents to eliminate conflict or ambiguity.

To minimize the potential for antitrust action when an applicant is denied appointment or reappointment or clinical privileges are revoked or suspended, hearing panels should be carefully selected, he continued. "It's extremely important that as risk managers you're in this loop somehow," he stressed.

For example, risk managers should be certain the hearing panel "isn't composed of economic competitors" of the doctor being reviewed, Mr. Casale pointed out. If, for instance, a speciality category is voted closed—meaning no more specialists in that area can be hired by the hospital—the hospital should be certain that the vote was not cast exclusively by members of that specialty.

In fact, the hearing panel does not have to include peers or physicians at all, although "that is often desirable, especially when the appropriateness of certain medical care is at issue," Mr. Casale said.

He suggested that the hearing panel be composed of three physicians from the hospital's medical staff, if possible, and at least one physician in the specialty of the physician in question. "If there is any issue of economic competition, then it is better to include on the panel a specialist whose practice does not geographically compete with the practice of the physician under review," Mr. Casale added.

And, he said when a physician is accused of inappropriate medical care, review panels should turn to outside experts, including expert witnesses and individuals or organizations that study the quality of care issue. ■

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ASHRM draws 1,000 people to conference

ORLANDO, Fla.—The 11th annual American Society for Healthcare Risk Management conference Nov. 1-4 drew approximately 1,000 hospital risk managers, administrators and insurance industry representatives from around the nation.

Registrants attended a variety of educational workshops and special sessions on hospital risk management at the Buena Vista Palace in Walt Disney World Village.

In addition, attendees perused a professional trade exhibit featuring health care products and services of nearly 50 vendors.

Next year's ASHRM conference will be held Oct. 16-20 in Dallas. For more information, contact Trudy A. Goldman, Director-ASHRM, American Hospital Assn. 840 N. Lake Shore Drive, Chicago, Ill. 60611; 312-280-6430.

Insolvency toll likely to grow: Regulator

Failures taking capacity from marketplace

By STACY ADLER

CHICAGO—The insurer insolvencies of tomorrow will involve large, multiline companies that will fail within one year of reporting healthy financial statements, predicts James W. Schacht, chief deputy director of the Illinois Department of Insurance.

"One annual statement can look fine, and the next year the insurer fails," he explained.

Mr. Schacht was one of several insurance experts that gathered earlier this month in Chicago to discuss the future of the industry at an "Insurer Symposium" sponsored by the Chicago-based law firm of Hinshaw, Culbertson, Moelmann, Hoban & Fuller.

"No longer are small, local or regional specialized carriers becoming insolvent, but large, multiline companies are becoming insolvent," Mr. Schacht pointed out.

And, the failing companies include both companies that write primary business and reinsurers, he said.

"For the first time in history, insolvencies have removed capacity from the marketplace," said Mr. Schacht.

"In the past insolvencies were disruptive, but policyholders could find coverage elsewhere."

Specifically, Mr. Schacht pointed to the failure of Mission Insurance Co. and Transit Casualty Co. as examples of insolvencies that have drained capacity from the market.

In addition, more and more parent companies are abandoning their insurance subsidiaries when they fail, according to Mr. Schacht.

For example, Chicago-based Borg-Warner Corp. is trying to deny liability for its failed insurance subsidiary, Centaur Insurance Co. (*BI*, July 11, 1988; March 14, 1988).

One of the key causes of insurer insolvencies is increased competition in the marketplace, explained Mr. Schacht.

As a result, the number of insurance insolvencies varies as the insurance industry market cycle progresses, he said.

For example, during the 1981-1983 soft market there were 23 property/casualty insurer insolvencies in the United States. In comparison, between 1984 and 1986—when the market hardened—there were 83 property/casualty insurer insolvencies caused by the fallout from the low rates charged earlier in the decade.

In 1987 and 1988, there were only 35 insolvencies, and there have been 11 so far in 1989.

Mr. Schacht also examined some of the causes of insurer insolvencies.

Specifically, he pointed to four main causes of insurer insolvency:

- Delegation of authority to third parties without oversight and control.
- Substantial expansion of business in new lines.
- The use of financial reinsurance to disguise problems.
- Uncollectible reinsurance.

The solutions to these problems are not easy, said Mr. Schacht. But, several programs have been developed by the National Assn. of Insurance Commissioners to help regulators identify troubled companies quicker.

"The goal of insurance regulation is not to stop insolvencies, but to catch them as early as possible," explained Mr. Schacht.

To help regulators meet that goal, in June the NAIC adopted financial regulation standards that regulators can use to monitor insurer solvency (*BI*, June 19).

And the NAIC has developed a "Troubled Company Manual" that gives regulators a "cookbook" for handling insolvencies, said Mr. Schacht.

Risk-based capital requirements could also help curb insurer solvencies, he said.

Insurance company capital requirements currently are based on the rule of thumb that the ratio between an insurer's net premium volume and its surplus should not exceed 3-to-1, regardless of the type of coverage written.

"I don't think that we can continue to regulate the industry using rules of thumb," said Mr. Schacht. Rather, there must be an ongoing, statutorily based minimum capital requirement that is linked to the type of coverage an insurer writes, he urged.

In addition, Mr. Schacht suggested that state insurance regulators change the focus of financial examinations to become audits of an insurer's entire operation rather than merely a review of an insurer's books. ■

Courts try to curb class suits

CHICAGO—Courts nationwide are struggling to curb and control the filing of massive class-action lawsuits, says John F. Shea Jr., vp and claim counsel of Aetna Life & Casualty Co. in Hartford, Conn.

Mr. Shea was one of several prominent insurance experts that met earlier this month in Chicago to discuss the future of the insurance industry at an "Insurer Symposium" sponsored by the Chicago-based law firm Hinshaw, Culbertson, Moelmann, Hoban & Fuller.

"The basic problem is that all together too often class-action lawsuits indiscriminately target too many unrelated defendants," explained Mr. Shea.

To help get these massive cases off their dockets, judges often certify huge classes in an attempt to force defendants to settle the disputes, said Mr. Shea.

"When class-actions are approved, they become forced settlements," he said.

"This has been a successful tactic for courts, enabling them to clear their dockets," said Mr. Shea. "But I'm not sure it is a viable solution."

Another tool used by the courts is fining attorneys who file frivolous lawsuits.

Courts are also requiring plaintiffs to show adequate grounds for lawsuits, including showing a causal connection between the allege misconduct and the damage, he said.

—By Stacy Adler

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PROPOSALS

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Business Insurance Circulation Breakdown*
Commercial Consumers

Administrative:	
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Vice-Presidents, General Managers and Other Administrative Personnel	4,006
Financial:	
Chief Financial Officers and Vice-presidents of Finance	2,795
Secretaries, Treasurers, controllers and other Financial Personnel	3,842
Risk/Employee Benefits:	
Vice-presidents, directors, managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations	10,719
Sub-total	**24,021**
Associations	554
Government, Unions and Educational Institutions	1,417
Commercial Consumers	
Sub-total	**25,992**
Insurance Agents and Brokers	10,515
Insurance Companies	7,673
Actuaries, Consultants, Attorneys, Adjusters, Appraisers and Third Party Administrators	3,800
Others Allied to the Field	2,771
TOTAL	**50,751**

* Source Business/Occupational breakdown of qualified circulation, May 29, 1989 issue, as submitted to BPA for June1989 BPA Publisher's Statement.

Proposition 103

Continued from page 1

a provision subjecting the insurance industry in California to a prior approval rating system effective Nov. 8.

However, the court struck down as unconstitutional a provision that would have required insurers to be "substantially threatened with insolvency" before they could receive relief from the mandated rollbacks. The court instead ruled that rates cannot be "excessive, inadequate or unfairly discriminatory."

Furthermore, the court commented that "over the long term, the state must permit insurers a fair rate of return" (*BI*, May 8).

The ACIC earlier announced that it would not appeal the court's decision because the court essentially rewrote Proposition 103 by ruling that insurers need not be threatened with insolvency to obtain relief from the law's insurance charge rollback provision (*BI*, May 29).

"But that does not mean the ACIC is completely acquiescent to" actions the commissioner might take based on her interpretation of the court decision, Ms. Harwell explained.

Ms. Gillespie said after the Supreme Court's ruling that the Insurance Department would determine a "fair and reasonable" rate of return for each line of business for which insurers sought relief from the rollbacks on a case-by-case basis (*BI*, May 15).

When the department last summer ordered seven property/casualty insurers to roll back premiums for selected commercial and personal lines of insurance, it said it had determined the insurers' return on equity for those lines exceeded a benchmark 11.2% rate of return (*BI*, Aug. 7).

The AIA and ACIC brief asks for an order limiting the scope of the Proposition 103 hearings by excluding discussions of insurers' rate of return by line of coverage when determining whether insurers should be granted relief from Proposition 103's mandated rollbacks.

Neither Proposition 103 nor the Supreme Court decision authorizes the use of the rate-of-return standard, which is properly applied to the regulation of public utilities, the brief argues.

Transamerica agrees. "The rate rollback hearing process has revealed a preference for a 'public utility' regulation model. Both the insurance commissioner and the attorney general have implicitly recommended that as the appropriate approach to pursue," the brief observes.

"A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments and other business undertakings which are attended by corresponding risks and certainties, and has no constitutional right to profit such as realized or anticipated in highly profitable enterprises or speculative ventures," the brief explains.

However, the Transamerica brief argues: "Nowhere in the opinion did the court state that Proposition 103 required 'rate of return regulation,' " which would defeat Proposition 103 proponents' intent to encourage competition among insurers in California. The actual language of Proposition 103 "is virtually identical to the statutory standard that has governed insurance rates in California" for decades, the associations' brief says.

The brief argues that the California Insurance Code has specified for 40 years that "rates shall not be excessive (nor) inadequate. . .nor shall they be unfairly discriminatory. During that time, no one ever suggested and no insurance commissioner nor court ever held that this language required or permitted rates to be reviewed by reference to overall rates of return."

"Everyone concedes that the statute is designed to achieve fair and reasonable rates," said Gary L. Fontana, also of Thelen, Marrin. "Our point is no one has ever suggested that the language 'fair and reasonable rates' means you use the methodology for regulating public utilities."

"The statute is a complex one," Ms. Harwell said, referring to Proposition 103. "It's tough for people to understand what the fight is all about. Part of the problem in my judgment is that the statute is not well drafted, so at the outset there's an issue of what exactly is the scope of the commissioner's authority under the statute.

"In our view you have to go back to the basics, go back to look at the law (and) figure out what it means, not do creative writing of the statute," she said.

The associations' brief further points out that although insurers are subject to prior approval of rates under statutes in many other states, those statutes do not authorize state regulators to consider a rate of return in reviewing rate requests.

And, the two states that "regulate insurance rates by using public utility principles," Texas and Massachusetts, "have express statutory authority to do so," the brief states.

Both the associations' and Transamerica's briefs argue that had the drafters of Proposition 103 wanted to change prior law, they would have clearly done so.

An Insurance Department spokeswoman refused to comment on the briefs, calling them "routine." An Insurance Department attorney could not be reached for comment.

"I think (insurers) would love to be guaranteed a rate of return," said Harvey Rosenfield, director of Voters' Revolt to Cut Insurance Rates, the Los Angeles-based group that sponsored Proposition 103.

But, insurers "seem to be in a panic mode about utility rate regulation," he observed.

"The court said insurance companies were entitled to a reasonable rate of return, but only for those companies that are efficient and competitive. Most of the companies we've seen will not get a fair rate of return on their current base" of business because they are inefficient, Mr. Rosenfield charged.

Any consideration of insurers' rate of return should exclude insurers' political contribution expenses and other expenses that they have been "passing on to customers," said a spokesman for the Los Angeles-based consumer group Access to Justice Foundation, from which Voters' Revolt was spun off.

A hearing on the briefs is set for Nov. 28, Ms. Harwell said. "Of course, that won't be the end of it," she added.

Hearings on insurers' petitions for relief from the Proposition 103 rollbacks, which began last summer, were scheduled to be completed by Nov. 8. But the hearings still have not been completed.

Filing briefs for the hearings has become "a cottage industry" for law firms, Mr. Rosenfield said.

"It's been a procedural nightmare," Ms. Harwell said. "It has taken a very long time for the commissioner's people to sort out who should go first, what should be discussed first, in getting everybody's view in an orderly fashion," Ms. Harwell said. ■

Superfund ruling

Continued from page 2

statutory basis for piercing the corporate veil," Mr. Holden said.

However, New York environmental attorney Jon Schuyler Brooks criticized the decision saying the court ignored traditional factors used to pierce the corporate veil, such as whether the subsidiary held separate board meetings.

And he noted that Congress in drafting CERCLA did not provide a new method for piercing the corporate veil.

The Kayser-Roth litigation stemmed from an accident at Stamina Mills in November 1969 when an unknown amount of TCE spilled from a delivery tank onto the ground. In addition, there was evidence that Stamina Mills deposited used TCE into landfills on its property, contaminating the groundwater.

In September 1983, the U.S. Environmental Protection Agency ordered the site cleaned and placed the site on its National Priorities List. But because Stamina Mills had been dissolved by 1975, the government pressed its claim against Kayser-Roth, the parent company.

Kayser-Roth was the sole shareholder of Stamina Mills. In addition, the two corporations shared many of same officers and directors.

In fact, three former presidents of Stamina Mills each testified that they played little or no role in the major decisions affecting Stamina Mills, except with respect to the local details of operating the factory.

"Kayser-Roth and its Crown Manufacturing Division exerted practical total influence and control over Stamina Mills," Judge Boyle said. "Kayser-Roth essentially was in charge in practically all of Stamina's operational decisions, including those involving environmental concerns.

"The only autonomy given the officers of Stamina Mills was that absolutely necessary to operate the facility on site from day to day such as hiring and firing hourly employees and ordering inventory," Judge Boyle said. "Stamina Mills was in fact and effect the serf of Kayser-Roth."

Judge Boyle determined that because of the degree of control Kayser-Roth had over Stamina, it was proper to pierce the corporate veil separating Kayser-Roth from Stamina Mills.

"Stamina Mills' veil should be pierced to hold Kayser-Roth liable, not only because public convenience, fairness and equity dictate such a result, but also due to the all encompassing control which Kayser-Roth had over Stamina Mills as, in fact and deed, an owner," Judge Boyle ruled.

In addition, Judge Boyle said the Superfund law, which provides that the owners and operators of companies responsible for pollution will be held jointly and severally liable for the costs of a cleanup, provides a means for holding Kayser-Roth liable for the cleanup without piercing the corporate veil.

The judge ruled that within the terms of the law, Kayser-Roth was the owner and the operator of Stamina Mills at the time the TCE was released into the environment and, therefore, liable for the costs of the cleanup.

"A parent corporation that controls the management and operations of its wholly owned subsidiary can be held responsible for its subsidiaries' CERCLA liability without piercing the corporate veil," Judge Boyle said.

"Kayser-Roth had the power to control the release or threat of release of TCE, had the power to direct mechanisms causing the release, and had the ultimate ability to prevent and abate damage," the judge said. "These factors along with Kayser-Roth's other acts of pervasive control over Stamina Mills warrant a finding that Kayser-Roth was an operator for CERCLA purposes."

The court also ruled that Kayser-Roth was an operator under CERCLA.

•

United States of American vs. Kayser-Roth Corp., U.S. District Court for the District of Rhode Island, No. 88-0325B.

Letters

Continued from page 8

"honorarium" that was paid to Mr. Goepfert was small if not gratis.

Joseph D. Timmons
President
Midwestern General Agency Inc.
Kansas City, Mo.

* * *

To the editor: Your Nov. 6 cover story, "Insurance Fraud Tough to Spot," shocks me. This showcase treatment of John V. Goepfert is inappropriate. Portrayal of a convicted criminal as an expert insults all MGAs, insurers and regulators who labor to maintain high standards and limit abuse in the MGA system.

Spare me the opportunity to hear about the "ills" of the industry from someone of his ilk.

A state accountants' association may be helped by a criminal's "expert" witness, but reporting by *Business Insurance* on the front page with a color photo is disgusting. This "celebrity" knows little, and cares less, about the thousands of agents, hundreds of MGAs and scores of insurers who daily handle risk transfer under contractual authority with honesty and integrity. Insurance practitioners "indicted" this man long before the legal system did so.

You have published the opinion of someone who has demonstrated no respect for law and who now has conned both his jailer and you into thinking he has something to contribute to the standards of insurance practice. You have dignified an opportunist and con artist while insulting your readers.

James H. Bryson
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All signs signal market turn: Bolinder

By LINDA J. COLLINS

CHICAGO—Many signs point to the need for property/casualty insurers to end rate cutting to protect their financial stability and profitability, an insurer executive contends.

"Every factor, every indicator, every signal points to an impending turn in the underwriting cycle," said William H. Bolinder, president and chief executive officer of Zurich-American Insurance Group in Schaumburg, Ill., during Alexander & Alexander Inc. of Chicago's third annual seminar for clients, prospects and other interested parties, held earlier this month.

As a result, insurance buyers contemplating forming risk retention groups should begin investigating this alternative risk financing vehicle now, said an attorney at the seminar.

Mr. Bolinder said four major factors are precipitating a turn in the current soft market:

• Insurers are now feeling the impact of large tax increases from the 1986 Tax Reform Act.

The Tax Reform Act "supports the argument for an early return" to a more stable rating environment, according to Mr. Bolinder.

"The act was largely responsible for an increase in industry taxes, which went from a tax credit in 1986 to a bill of $3.3 billion in 1987, $3.6 billion in 1988" and $1.9 billion in the first six months of 1989, he explained.

In addition, the Insurance Services Office Inc. has estimated that increased insurer taxes as a result of tax reform will reduce the industry's average return on statutory surplus to 7.2% in 1989 from the 8.5% the industry could have expected under the former tax law (*BI*, Oct. 16).

Tax reform also will increase the industry's effective tax rate to 22% from 5%, he noted.

• Insurers already face record catastrophic losses in 1989.

Prior to the Oct. 23 explosion at the Phillips Petroleum Co. plant in Pasadena, Texas (*BI*, Oct. 30), the property claims division of American Insurance Services Group had estimated 1989's catastrophe losses at $6.6 billion, including losses from Hurricane Hugo and the San Francisco earthquake.

These losses already made 1989 the industry's largest loss year "on record, and the year's not over," Mr. Bolinder said.

"It's logical to conclude that the hard market was given a very substantial prod" by all three catastrophic losses, he observed.

• The number and magnitude of insurer insolvencies has risen in recent years and surviving insurers are faced with substantial guaranty fund assessments.

Those assessments have risen dramatically to approximately $1.1 billion in 1988 from $82 million in 1984, Mr. Bolinder said. "Insolvencies are rising. More significantly, the size of the insolvencies" is rising.

Not only are insurer insolvencies a growing financial burden for the insurance industry, but they also "bring in increasing scrutiny of our operations and attack our credibility," Mr. Bolinder stressed.

• Legislators and regulators are becoming increasingly hostile toward the industry.

Legislation and regulatory measures designed to scrutinize insurer activities have arisen "in response to the public outcry over the price of insurance and the way that we have managed our affairs," Mr. Bolinder said.

Indeed, the "sad state of relations" with the public is "the overriding problem that this industry is faced with," he asserted.

Insurance industry representatives must educate their employees as well as the general public "about the process of insurance, what it involves, what its roles are, what the problems have been and what we can do to fix them."

Enhancing public knowledge about the industry's function would be a good step toward improving its image, Mr. Bolinder believes.

But, to attack "the root cause of the public's dissatisfaction," insurers must trim some fat from the costs of insurance and insurance-related services, he said.

"The cost of insurance is too high, and in a lot of ways, our delivery system is too inefficient. We need to eliminate the redundancies and inefficiencies," Mr. Bolinder said.

Better management of loss costs through such procedures as reviewing all medical bills, managing internal and external legal expenses and investigating potentially fraudulent claims would help insurers reduce the costs of their products, according to Mr. Bolinder.

In any event, these four major factors make it clear that a market change is imminent: "To the extent that whatever combination of these factors impact individual insurers, and they impact each insurer differently, probably in this fourth quarter you are going to see some firming up of pricing and renewal terms."

However, he observed that insurers must make sure that they do not overreact.

"If the impending turn comes too jarringly, the public, legislators and regulators will see to it that we are turned into a utility."

For insurers to regain the public's trust, insurers must "steer a steady course through the transition," Mr. Bolinder said.

"We're at a very tenuous point as an industry on pricing. Further lowering of prices will certainly guarantee more insolvencies and that people will overreact in knee jerk fashion and thrust the industry back in the throes of a real hard market," he explained.

"It's better that rate adequacy be achieved gradually over a period of time than to look at short-term volume goals," he added.

A tighter commercial property/casualty insurance market would likely spur the growth of alternative risk funding mechanisms, particularly captives and risk retention groups, said attorney Tomas Morgan Russell, a partner with Hopkins & Sutter in Chicago, who drafted Illinois' captive law.

"It is reasonable to expect that when the market hardens, the growth in this area will certainly accelerate," he said.

Mr. Russell noted that the number of risk retention groups and their combined premium volume have risen even during competitive market conditions.

There are currently 66 risk retention groups, 14 more than last year, and they will write $399.1 million in premiums in 1989, nearly 60% more than the $250.2 million they wrote last year, according to the Pasadena, Calif.-based Risk Retention Reporter (*BI*, Oct. 23).

"Risk retention groups are a popular and growing segment of the alternative market," and the number of risk purchasing groups is also increasing, Mr. Russell said.

Mr. Russell attributed much of the growth to "fear of not being able to obtain coverage in the next hard market at any reasonable price, and for some, at any price."

Risk retention groups and other alternative risk financing mechanisms can provide commercial risks better cost stability and predictability and can offer those who set them up "some degree of control over their own destinies," Mr. Russell noted.

Rate stability, rather than lower premium costs, is what attracts most businesses to alternative risk financing vehicles, he said. "It is just too facile to ascribe the cause to simple, short-term economies," he said.

And, because of indications that the market may soon tighten, insurance buyers that are contemplating setting up risk retention groups should do so quickly, Mr. Russell said. It takes about a year to get these mechanisms fully operational, so "right now is the ideal time to begin the process," he stressed.

However, the overseas subsidiaries of U.S. companies are likely to a have wider choice of insurance markets next year when trade barriers begin to fall among European Community nations, said Ronald W. Forrest, managing director of Alexander & Alexander Global Business Development in New York.

In addition, more foreign insurers also are likely to begin marketing their products in the United States within a few years, he said.

"There are some giant foreign insurers out there who have American ambitions," Mr. Forrest said. "That may not happen for two to five years, because they will be coping with changes in their own markets. But once the market settles down, there should be a healthy interplay."

The panel was moderated by Robert D. Hughes, managing vp of Alexander & Alexander Inc. of Chicago. ■

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Work comp

Continued from page 1

tary market will range from about 19% to 40% depending on their type of business. The increases "are pretty evenly distributed across all class codes," said Jim Nau, director of government, consumer and industry affairs in Florida for the NCCI.

Mr. Gallagher said he hopes that rate increase will mean that more employers will be covered in the voluntary market.

Commercial self-insurance funds in Florida regulated by either the Insurance Department or the state Department of Labor will charge the same rate increases as commercial insurers.

Trade associations representing employers are eligible to establish commercial self-insurance funds under the auspices of the Insurance or Labor departments. Funds regulated by the Insurance Department can write different lines of coverage, while those regulated by the Labor Department can write workers compensation coverage only.

Employers in Florida's Assigned Risk Plan face a whopping 63.6% average rate increase, effective Jan. 1. The NCCI had proposed an even steeper 88.3% increase.

Mr. Nau said differentiating the increase for the ARP from the increase in the voluntary market reflects the NCCI's new strategy of requiring employers in assigned risk plans to bear the cost of their poor loss records, instead of being subsidized by employers that purchase coverage in the voluntary market.

The Florida ARP primarily consists of small businesses whose coverage is expensive to administer and businesses with a history of high risks, he said.

The state's ARP, in which all workers comp insurers in the state are required to participate, reported an operating loss of $228 million in 1988 on net earned premiums of $257 million from 90,000 employers.

Just two years earlier, the ARP reported a $90 million operating loss on net earned premiums of $156.6 million from 58,700 employers, Mr. Nau said.

Thus far, the Florida Insurance Department has heard a mixed response from employers concerning the overall work comp rate increase, said Kenney Shipley, chief of the department's Workers Compensation Bureau.

"Some employers have been extremely hostile and others have said, 'We understand, but you are killing us,' " she said.

The Lakeland-based Florida Employers Safety Assn. plans to send its 5,500 mostly small- and medium-sized employer members a letter urging them to join an effort to ask Mr. Gallagher to stay implementation of the rate increase for 60 or 90 days, according to FESA President Todd Thomas.

"We want to put everything on the scales and see where the bigger crisis is," Mr. Thomas said. "I think it is with the small business people" who will be in "dire straits" due to the rate increase, he added.

"This is simply too big an increase too fast," he stressed.

Aluminum contractors in particular have complained to Mr. Thomas that the rate increase will force some companies to close or to start cheating, either by underreporting wages or not carrying the appropriate coverage, he said.

Mr. Thomas said his organization is willing to work with insurers to help bring down rates and is proposing to develop voluntary safety standards for industries to help reduce losses.

However, the Tallahassee-based Associated Industries of Florida, which represents more than 4,000 employers of all sizes and operates a self-insurance trust, testified in support of the NCCI's original, much higher rate request, said Richard M. Davis, senior vp and general counsel.

"We recognized if rates are not adequate, then carriers will pull out," he said.

While the NCCI is "concerned" that work comp insurers did not receive an adequate rate increase, insurers are "encouraged" by Mr. Gallagher's call for continued review of the Florida work comp system, Mr. Nau said.

Liberty Mutual Insurance Co. feels the rate increase is "a step in the right direction," but it still is "concerned about the underlying problems with the system in Florida," said Jim Rabenstine, vp of intercompany and governmental relations.

Ken Cooper, Florida council president of the Communications Workers of America union, said "the insurers probably got less than they needed" and predicted that there is a 40% to 50% chance the Legislature will take up work comp reform in 1990 instead of waiting until the work comp laws expire on Oct. 1, 1991.

"It depends how hard management beats the drums," he said.

A 32-member Worker's Compensation Oversight Board, which Gov. Bob Martinez appointed in September, is expected to submit proposals for major changes in Florida's work comp system.

The proposals are expected to focus on improving—rather than replacing—the state's unusual wage-loss method of compensating injured workers.

Under the state's wage-loss system, the compensation payable to an worker with permanent partial disabilities is primarily based on a formula that compares the wages the employee earned before the injury with the actual wages earned after the accident.

Most states compensate injured workers on the basis of an awards schedule.

The Florida system allows workers to collect wage-loss benefits in situations where injury is not the cause of the worker's inability to find work following his or her recovery, said the Insurance Department's Ms. Shipley. "Basically, it is being used as an unemployment system."

"Benefits are adequate, but the delivery system is screwed up beyond belief," said the CWA's Mr. Cooper.

In addition, work comp litigation is now a problem in Florida, even though the wage-loss system was designed to reduce litigation.

The system generated at least $50 million in attorneys' fees in 1987, and those fees have grown at a 14% annual rate since 1973, according to a staff report issued in March by the Florida Senate Insurance Committee.

"One of the biggest problems is the lack of consistent judicial decisions by the courts," said Buddy McCue, vp for legislation and industry relations for the Florida Assn. of Insurance Agents.

Decisions by work comp adjudicators can be appealed to the state's 1st District Court of Appeals where different panels of judges can decide similar cases differently, he said.

What is needed is a single panel of judges well-versed in workers compensation issues to adjudicate such cases, said Mr. McCue, who serves on the governor's work comp oversight board along with Mr. Gallagher.

In addition, critics cite rising medical care costs as contributing to the system's problems.

The Senate committee staff report found that the Florida system's high medical costs stem from "the cost per day for a hospital stay in Florida is above the national average; overutilization of medical care; continuous overpayment of medical bills by carriers; discontent in the medical community regarding the treatment of workers compensation patients; and failure of peer review by the medical profession to review treatment provided."

Problems also exist in the rehabilitation of injured workers under the system, according to the staff report.

"Although no sufficient data appears to exist on rehabilitation costs, there appears to be some definite problem areas, including the lack of a statutory definition of rehabilitation, failure of injured employees to voluntarily utilize and complete vocational rehabilitation, failure of adequate agency review of rehabilitation problems and increased settlement of rehabilitation benefits," the report says.

Some sources say that regulators may want to wait until data can be developed, including information about the impact of reform legislation that went into effect in October.

Those measures amended several provisions of the workers comp law in an effort to reduce costs. The reforms, among other things:

- Allow workers comp insurers or the regulated self-insurance trusts access to both medical records and health care providers.
- Allow drug testing of employees in certain situations.
- Provide immunity from workers comp claims to employers that lease employees from other companies.
- Limit injured workers' benefits when injuries result from employee misconduct or when the employer can prove the existence of actual job openings that claimants are capable of performing.
- Relieve insurers from responsibility for paying attorneys' fees in some cases. However, insurers still will be responsible for attorneys' fees in cases where insurers failed to make a timely payment.
- Allow insurers to discontinue coverage to employers that fail to develop safety programs.

Legislative staff members are currently drafting a bill to clarify some portions of these measures. ■

Texas work comp rates increasing 22%

AUSTIN, Texas—Employers in Texas will pay around $600 million in additional workers compensation insurance premiums next year when a 22% rate hike goes into effect.

The State Board of Insurance approved the increase last week. Insurers had sought a 34.9% hike, the State Board's staff advised a 13.5% increase and the state's Office of Consumer Protection sought a 17.5% hike.

Texas work comp rates were increased an average of 18.7% this year, 25% in 1988 and 17.7% in 1987.

The 22% rate hike means "the insurance industry will continue to operate at inadequate rates and employers will pay more than they feel they can" for the coverage, said Robert Hilton, a senior vp with the National Council on Compensation Insurance.

State Board member Richard Reynolds said the hike was needed to help offset the mounting deficit in the Texas Workers Compensation Assigned Risk Pool. "We had a $400 million deficit in the 1988 pool and expect to have a $500 million deficit in 1989."

The Texas Legislature currently is meeting in its third session this year in an attempt to reach agreement on reforming the state's workers comp system, which has been criticized as costly to employers but providing low benefit payments (*BI*, Nov. 28, 1988).

Mr. Hilton said the Legislature needs "to build a system that does not require attorney involvement and delivers the dollars to the truly injured employees on a prompt and adequate basis."

—By Michael Bradford

Update

Damage to Huntsville extensive

HUNTSVILLE, Ala.—The amount of insured damage from a severe weather system that ravaged the Southeast and the East Coast last week is not likely to be determined for at least several days, according to the Rahway, N.J.-based Property Claims Service division of the American Insurance Services Group.

A series of tornadoes caused about $100 million in commercial and personal property damage to Huntsville, Ala., last Wednesday, said a city Chamber of Commerce spokesman.

Packing winds of 175-250 mph, the tornadoes hit southern Huntsville, leveling a strip shopping center; severely damaging two other shopping centers and several apartment and condominium complexes; and destroying or seriously damaging about 300 houses. At least 17 people died in Huntsville, and more than 400 others were injured.

The weather system also damaged portions of Pennsylvania, New Jersey and New York, where at least seven children were killed when a school cafeteria collapsed in Newburgh, N.Y.

Meanwhile, the AISG estimates that storms caused $20 million in insured property damage in portions of Louisiana, Mississippi and Alabama on Nov. 7-8. The event was assigned Catastrophe No. 21.

Open Wall doesn't change risks

LONDON—Political risk insurance brokers and West German risk managers do not anticipate any immediate changes affecting risk managers following the dramatic opening of East German borders.

However, they are monitoring the new relationship between the two Germanies to see if the new openness will affect risk managers conducting business in East Germany in the future.

"I don't see that there will be a risk management effect," added Uwe R. Deumann, risk manager for BATIG Co. MBH in Hamburg, West Germany. However, if a Western company investing in East Germany should consider the "legal side to product liability and environmental pollution," he said.

For example, a Western company that sets up a plant in East Germany, which currently has less stringent pollution laws than other European countries, could be forced later to pay for site cleanups if East Germany were to merge with West Germany or become part of the European Community.

A Western company investing in East Germany would also have to consider insuring with East German State Insurance Co., which insures all East German risks. But Western companies that already have joint ventures in East Germany buy difference-in-conditions insurance from Western underwriters to plug gaps in coverage written by the East German insurer, risk managers agreed.

Libel coverage dispute settled

PITTSBURGH—PG Publishing Co., the publisher of the Pittsburgh-Post Gazette, and excess liability insurer National Surety Corp. have reached a $2 million settlement in a libel coverage dispute.

The coverage dispute involved a $2.2 million 1985 libel judgment against the newspaper, which included $2 million in punitive damages (*BI*, June 5).

The newspaper's primary insurer, Mutual Insurance Co. Ltd. of Bermuda, agreed to pay its $1 million portion of the claim. But, National Surety, a unit of Fireman's Fund Corp., had argued it was not obligated to follow the form of the primary policy because insuring punitive damages is against Pennsylvania public policy.

Total payments exceeded $2.2 million due to post-judgment interest and attorneys' fees.

Briefly noted

House/Senate negotiators were expected over the weekend to hammer out compromise legislation to cut benefits that were expanded under the **1988 Medicare Catastrophic Act**. . . .The Executive Committee of the National Assn. of Insurance Commissioners last week recommended that the organization approve at its Dec. 3-7 meeting publishing the **statistical ratios and ranges** that regulators use to analyze insurers' financial statements for solvency.

Work comp insurers seek rate hike in Massachusetts

BOSTON—Workers compensation insurers in Massachusetts last week asked Insurance Commissioner Timothy Gailey to increase rates an average of 42.6%, which would generate an additional $500 million in annual premiums.

However, the requested increase could be cut to 29.8% if Mr. Gailey approves two previous filings by the Workers' Compensation Rating & Inspection Bureau of Massachusetts, which represents work comp insurers in the state.

The pending requests seek authority to impose two new rating plans, also beginning Jan. 1. Those plans seek to make individual employers' premiums better reflect their losses, said Howard Mahler, vp and actuary with the bureau.

One plan would require employers in the state's assigned risk plan that pay at least $50,000 in premium to participate in retrospectively rated programs rather than purchase guaranteed-cost insurance.

Under the other plan, which would affect employers in both the voluntary and residual market, employers that pay less than $3,500 in annual premium would receive either discounts or surcharges depending upon the number of lost-time cases they experience. In addition, employers that pay annual premiums in excess of $3,500 could face surcharges of up to 49% for excessive losses.

Insurers are seeking the changes because of the growth in the residual market and increasing claims severity, Mr. Mahler said.

More than 35% of statewide work comp premium is expected to be written in the residual market by year-end, up from 29.5% last year, he said.

Workers comp rates for Massachusetts employers have been increased twice in the past six years: a 14.2% hike imposed on Jan. 1 and a 19.9% increase on Jan. 1, 1988, said an Insurance Department spokeswoman.

—By Meg Fletcher

EBRI survey

Continued from page 1

they would pay $50 monthly to restore previously reduced benefits.

Kenneth Sperling, a Hewitt Associates consultant in Rowayton, Conn., said he was not surprised by the survey's findings, especially the increased cost shifting to employees.

"Employers traditionally have dealt with increases in health care costs in three ways: by increasing contributions, reducing benefits, or both," he pointed out.

However, employee cost sharing now is necessary because it is the only way employers can keep up with spiraling health care costs, Mr. Sperling said, adding that "not many employers want to reduce benefits."

Helen Darling, a principal in the Stamford, Conn., office of William M. Mercer Meidinger Hansen Inc., observed that most employers resort to cost-sharing only after they have "done everything they can to prevent a change in their benefits strategy."

Alan Reuther, associate general counsel in the Washington, D.C., United Auto Workers office, said the study confirms what the UAW and other unions have been saying all along: Increases in health care costs result either in added employee cost shifting or reduced benefits for employees.

However, he noted that the study shows how valuable these health benefits have become to workers and how much some employees are willing to pay to retain benefits.

Mr. Reuther also contended that cost-sharing does not address the real issues behind health care cost increases.

"Most of the decisions on health care expenditures are made by the providers, not the employees," so passing the cost to the employee does nothing to remedy the problem of higher health care cost, Mr. Reuther said.

Yet, Mr. Sperling of Hewitt said that cost-sharing can address some of the symptoms of the problem. For example, other studies have shown that health care utilization is reduced when cost-sharing is implemented or increased because the person who receives the care has to pay directly toward the cost of that care, he said.

Cost-sharing educates employees about health care expenses, Mr. Sperling said, adding that most people do not realize how much hospital stays cost.

Ms. Darling concurred, adding that having to shoulder their portion of health care "makes employees cost conscious and forces them to look at what they are buying."

The amount respondents were willing to pay monthly for health insurance varied with age and income, the survey found.

For example, while 22.7% of the respondents age 35-54 would pay more than $100 a month, only 18.2% of those age 18-34 and 15.9% of those over age 55 would pay more than $100 per month.

Likewise, only 6.9% of those with annual incomes of less than $20,000 would pay more than $100 a month for their health insurance, while 24.4% of those earning between $20,000 and $75,000 and 40.5% of those with incomes exceeding $75,000 would pay more than $100 a month.

The percentage of respondents willing to pay extra for additional benefits also varied with age and income.

For example, 67% of respondents age 18-34 and 35-54 were willing to pay $50 a month more to avoid benefit cutbacks, in contrast to only 40% of respondents over the age of 55.

In addition, only 47% of those earning less than $20,000 annually were willing to pay extra to retain current benefits, compared with 65% of respondents who made $20,000 to $75,000, and 68% of respondents who made more than $75,000, the survey said.

The amounts some respondents are not willing to spend on health insurance is as important as tracking the money individuals are willing to spend, said EBRI President Dallas Salisbury, who says that for some people purchasing health insurance is more of a consumption decision than a financial one.

For individuals in higher income brackets, for example, the amount they were not willing to pay monthly for health insurance "was a small amount of money, relative to their income," Mr. Salisbury said. Yet, he noted, the respondents don't realize that the smaller amounts they were willing to spend would not go very far to pay for coverage.

Employees must be taught to understand the "economic value" of health insurance, as well as the expense, so they can see how important it is to have coverage, Mr. Salisbury said.

Thirty-two percent of respondents with health insurance said they paid nothing for their coverage. Twenty-two percent said they paid less than $50 a month for their coverage, 14% paid $51 to $100 per month, 5% paid $101 to $150 per month, 4% paid $151 to $200 per month and another 4% paid more than $200 a month.

Nineteen percent either did not know how much they paid or did not answer.

Of those who paid nothing for health insurance, 81% said their employer paid the premium, 16% said they received coverage through another family member and 3% did not know who paid for their coverage.

Other survey findings include:

- Of the 1,000 people surveyed, 90% had some type of health insurance. However, only 83% of the respondents age 18-34 have health insurance, and only 79% of those with incomes of less than $20,000 had health care coverage.
- Of those without health insurance, 44% said they could not afford it, 8% said they did not see a need for coverage and 4% said they could not qualify for insurance. However, 40% of respondents gave other reasons for not having insurance that, according to EBRI, did not fit into any of the given categories for responses.
- Of those who have health insurance, only 12% said their family members were not covered by the respondent's health insurance plan. However, 19% of those earning less than $20,000 annually said that members of their family were not covered by their health insurance plan.

Forty percent of those whose family members were not covered by the respondent's health insurance said their family members had other coverage, 33% said their family members did not qualify for their coverage, 8% said they could not afford to cover their family members, 3% said their employer does not offer family coverage, and 3% reported that their family members did not live at home. The other 12% gave some other response or did not know if their family members had insurance.

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Copies of the report, "Public Attitudes on Health Insurance Provisions," are available for $275 from Laura Bos, Employee Benefit Research Institute, 2121 K St. N.W., Suite 600, Washington, D.C. 20037, 202-775-6318.

Insurers cited

Continued from page 2

De La Cova—principals of Westchester and INS, respectively—admit to no violations of state insurance law but agree to six months' probationary status on their agents' licenses, Mr. Schmidt said.

The two principals also agreed to pay $500 fines and to make good on any valid claims that Serpico may fail to pay in the future, Mr. Schmidt said.

Neither Messrs. Benitez and De La Cova nor officials of Serpico could be reached for comment.

Though domiciled in Tortola, the insurer maintains an "offshore office" with a post office box address in Balboa, Panama, and a "U.S. information office" with a post office box address in Phoenix, Ariz.

Serpico also has an office in Chandler, Ariz., according to Florida department documents. However, there is no phone listing for Serpico in Chandler.

Meanwhile, the Florida department earlier this month issued show cause orders to Euro-American and Thomas Insurance Agency Inc. of Dallas.

The Insurance Department charges that Thomas Agency in March solicited lawyers professional liability business from a Tampa, Fla., law firm on behalf of Euro-American.

Euro-American also solicited professional liability business from a Miami attorney, the insurance department charges.

Euro-American is not licensed or approved as a surplus lines insurer in Florida and is violating the state insurance code by soliciting business, state regulators allege.

Thomas Agency has also violated state law by soliciting business on behalf of an unlicensed and unauthorized insurer and by acting as an agent in the state without being licensed by the Florida department, the department charges.

An official at a Euro-American office in Northridge, Calif., referred questions on the show-cause order to Bill D. Thomas, president of Thomas Agency.

Mr. Thomas denied soliciting business for Euro-American in Florida.

"We have not written one attorney in Florida. We have not solicited one attorney in Florida," Mr. Thomas said.

"If they have any proof at all, we'd like to see it," he added. "They don't have anything."

Mr. Thomas said that he had provided information about Euro-American coverage to a representative of a lawyers' association he said is based in California and operates nationally. The association representative may have passed the information on to lawyers in Florida and other states, Mr. Thomas said.

Mr. Thomas said he told the association representative that members could contact him for information about Euro-American coverage but that he could not actively solicit business from them without being licensed as an agent in a given state.

Mr. Thomas would not reveal the association representative's name and said he could not recall where in California the legal group is based.

Neither he nor Thomas Agency is a Euro-American shareholder, said Mr. Thomas. He refused to name the shareholders, however, asserting that "that's none of your business."

Mr. Thomas also complained that he is being treated unfairly by the Florida department.

"Since when have we become a communistic, socialistic country?" he asked. "East Germany is going to have more freedoms than us at this rate." ■

NYNEX workers keep fully paid health plan

Benefit beat

By MICHAEL SCHACHNER

Unionized NYNEX Corp. workers will not assume any of the costs of their major medical and hospitalization coverage under a tentative agreement with the telephone company.

However, NYNEX says workers' concessions on wage demands will at least partially offset expected health care cost increases.

"Both sides really reached what they were looking for," said a NYNEX spokesman. "They company is getting them to pay in some way, shape or form. They're paying for medical costs through wage concessions rather than premium contributions."

The 40,000 members of the Communications Workers of America and 20,000 members of the International Brotherhood of Electrical Workers were expected to ratify the contract by early this week, ending a heated 13-week strike.

NYNEX is the last of the so-called Baby Bells to reach settlements with its unionized workers. At other Baby Bells, unionized workers who receive care from preferred providers will receive either first-dollar major medical and hospitalization coverage or pay moderate deductibles. The workers also won some benefit improvements (*BI*, Sept. 11; Aug. 28; Aug. 21; Aug. 14).

Various Blue Cross & Blue Shield plans write NYNEX's hospitalization coverage, and Hartford, Conn.-based Travelers Corp. writes its major medical coverage.

NYNEX, the only Baby Bell that insures its health care plan, consists of New York Telephone and New England Telephone as well as 10 smaller phone companies.

Union members also may enroll in one of several health maintenance organizations, with NYNEX contributing premiums equal to the amount it contributes to its indemnity plan.

Under the tentative agreement, unionized workers will not have to make any contributions toward the cost of their major medical and hospitalization coverage.

NYNEX had proposed during pre-strike negotiations that union workers contribute $10.27 per week during the first year of the contract toward the cost of first-dollar major medical and hospitalization coverage.

NYNEX estimates its cost for its insured health plan will increase to $3,520 annually, or $67.69 weekly, per employee by the end of the three-year period from $2,360 annually, or $45.38 weekly, currently.

However, the unions rejected the proposal and struck the White Plains, N.Y., company Aug. 6.

NYNEX next proposed that workers contribute $8 per week during the first year of the contract toward the cost of their health care; $10 during the second year; and $12 during the final year. The company also proposed a provision calling for a $15 contribution for the following year.

Union representatives also rejected this proposal.

In exchange for not contributing toward the cost of their health care plan, union members accepted lower wage increases than NYNEX originally offered.

Union members will receive a 3% wage increase during the first year and 1.5% wage increases in the two subsequent years of the contract.

NYNEX originally proposed a 5% increase for the first year and 2% increases in the second and third years, plus cost-of-living adjustments.

Also under the agreement, deductibles for health care not included under major medical or hospitalization will not change: Workers are required to pay a $150 per individual and a $450 family deductible for such benefits as routine doctor visits, physical examinations and prescription drugs.

NYNEX also will continue to pay 80% of incurred expenses above the deductibles, and covered individuals' annual out-of-pocket maximum will remain at $1,000. ■

Lloyd's member sues agent to avoid losses

London

By CAROLYN ALDRED and STACY SHAPIRO

LONDON—A Lloyd's of London member is suing his former members' agent and R.H.M. Outhwaite (Underwriting Agency) Ltd., claiming they kept him on loss-riddled syndicate 661 without his consent.

Percy Anthony Dove, who is being asked to pay massive losses stemming from runoff reinsurance contracts written by syndicate 661's underwriter Richard Outhwaite, is seeking a High Court declaration that he was not a member of the syndicate in 1981 and 1982.

Mr. Dove, whose membership in Lloyd's was managed by the members' agency subsidiary of PCW Underwriting Agencies Ltd., claims no one asked if he wished to remain a member of syndicate 661 when the syndicate's status was changed at the end of 1980, said Mark Connoley, a partner in the London law firm of Richards Butler, which is representing Mr. Dove.

Beginning Jan. 1, 1981, syndicate 661 became a full non-marine syndicate. Previously, 661 had been the incidental non-marine syndicate of marine syndicate 317, able to write up to only 10% of syndicate 317's premium capacity.

Lawsuits were served Nov. 10 against Sorim 1987 Ltd., which took over the runoff of PCW's successor Richard Becket Underwriting Agencies Ltd.; Additional Underwriting Agencies (No. 5) Ltd., the Lloyd's subsidiary that now manages the runoff of the PCW syndicates; and R.H.M. Outhwaite (Underwriting Agency) Ltd., which manages syndicate 661.

According to court papers, Mr. Dove is seeking a court declaration that "he was not a member of Lloyd's non-marine syndicate 661 during the underwriting years 1981 and 1982 and (that) he is not liable for underwriting losses incurred by" the syndicate during those years.

Mr. Dove also is seeking reimbursement of all sums he has paid to date toward syndicate 661's losses.

Mr. Connoley refused to comment on the extent of Mr. Dove's losses, and Mr. Dove could not be reached.

Lloyd's elections

Five new members were elected last week to the Lloyd's of London Council.

The newly elected working members are Bryan Kellett, chairman of underwriting agency Kellett Holdings Ltd.; Harry Dobinson, a director of Wren Underwriting Agencies Ltd.; and Michael Cockell, senior partner of underwriting agency M.H. Cockell & Partners.

The new external members—members who do not work in the Lloyd's market—are Gordon Dunlop, former finance director of British Airways P.L.C. and a former director of Commercial Union Assurance Co. P.L.C., and Nicholas Pawson, a computer consultant. ■

Shining amid uncertainty

Broker stocks gain despite lackluster earnings

By LEONARD M. WILSON

Special to Business Insurance

THE THIRD QUARTER OF 1989 may go down in the annals of commercial insurance as the turning point in the latest cycle of soft pricing. And, then again, it may not. There is plenty of sentiment for the rosier viewpoint and strong, though ambiguous, anecdotal evidence to support it.

Mr. Wilson

Third-quarter reports of the publicly owned brokers began to roll in about the time that investor perspectives were swinging from pessimism to near euphoria over prospects for the rate environment. Earnings comparisons seemed almost irrelevant to the action of brokerage stocks in the prevailing mood.

Whatever the course of premium rates, third-quarter results showed that brokers have not yet emerged from a tough environment.

Let's start with insurance brokerage commissions. Based on results for six brokers, the average gain in total commissions ran about 3%, only a little better than in the first half. Rate competition from our vantage point seemed not to have abated noticeably in the quarter.

Low single-digit commission gains have persisted for almost two years. Mix of business seems not to have provided any degree of insulation to the price cutting. Marsh & McLennan Cos. Inc., heavily represented in the Fortune 1,000 universe, fared about as well in commission growth as companies like Alexander & Alexander Services Inc. and Fred S. James & Co., which have a greater representation in middle market accounts.

We estimate that the decline in premium rates across a book of business exerted a negative impact of 12% to 15% in the quarter, a range that suggests no material easing in the intensity of competition compared with the first half.

New business continued to steam along as it has for the entire period of soft premium rates. We believe that new business amounted to 15% of revenues in the quarter for most brokers. Lost business, which stabilized several quarters ago after escalating early in the cycle, probably amounted to 4% to 5%. Consequently, net new business generally contributed 10 percentage points to commission growth.

Reinsurance brokerage commissions also grew by only a few percentage points. Reinsurance rates were soft in almost all segments as far as we could ascertain, though pricing discipline has contained the degree of competition. This lackluster performance encompassed both domestic and foreign reinsurance brokers. Whatever the primary companies are doing with their retentions, no evidence of a change could be discerned in the momentum of reinsurance brokerages in the third quarter. Profitability in the reinsurance brokerage segment has also eroded over the past two years with the slippage in volume growth.

Almost every broker experienced robust gains in investment income. The elevated level of short-term interest rates in the United States and in London provided strong impetus, even without much growth in funds available for investment.

Benefit consulting, as a rule, was stronger than insurance brokerage, but actual performance varied considerably from one broker to another. M&M, with almost monotonous regularity, again managed to post a gain of almost 20% in consulting, none of which was generated by acquisitions, and consulting now accounts for almost one-third of corporate revenues.

All phases of international brokerage—retail, reinsurance and wholesale—felt the impact of generally soft rates. But profit margins were lifted by the weakness in the British pound. Expenses on North American business, placed and serviced in London, is translated into fewer dollars when the pound declines against the dollar, thereby benefiting profit margins.

Cost discipline was very much evident in the quarter. Headcounts are under restraint and tend to rise only in segments that are posting brisk gains. Despite the restraint, for almost all brokers, the rise in expenses outstripped the advance in revenues. Predictably, profit margins were again under pressure.

M&M's pretax earnings were flat, as were earnings per share despite a modest correction in the number of shares outstanding. Share buybacks have helped to protect earnings comparisons for brokers, but the recent advance in share prices could engender record buyback activity, at least for the interim. A&A recorded several special items in the quarter that distorted reported results. On a pure operating basis, earnings declined modestly.

Corroon & Black Corp. similarly experienced a narrowing of profit margins in the quarter with primary brokerage outperforming other segments, including reinsurance brokerage and benefits. While Frank B. Hall & Co. Inc. has not yet broken into the black, a 7% gain in revenues could be signaling an early potential for finally turning the corner.

James, a subsidiary of Sedgwick Group P.L.C., does not break out its results separately but likely performed in line with its alphabet peers. Arthur J. Gallagher & Co. achieved the best earnings gain of the group in the quarter, with self-insurance fees posting a gain of about 15%.

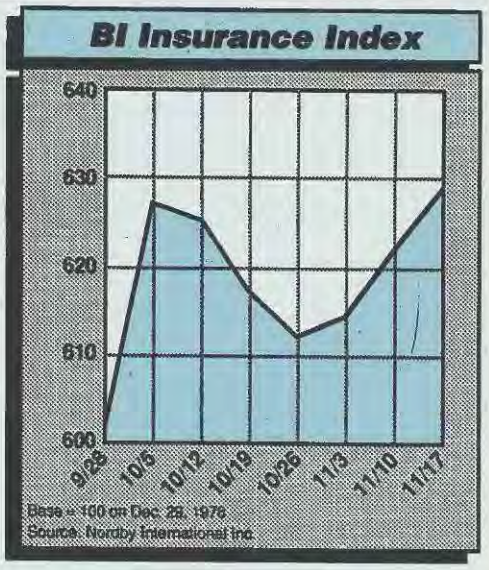
On the face of it, third-quarter operating performance was not particularly heartening for adherents of brokerage stocks. Yet, the stocks currently carry market valuations that are among the highest of any industry group. The runup in prices came on the heels of the California earthquake and a broadening consensus that pricing would have to be adjusted upward to reflect claims costs of back-to-back catastrophes.

In the past, insurance cycles have turned as a result of intense financial pain. Perhaps this cycle is different, and it appears investors are making that bet. We have observed in prior columns that the long-term appeal of the public brokers was not diminished by a temporary slowing in earnings progress precipitated by the soft market.

A turn in commercial pricing is yet to be definitively established.

Nonetheless, the generous valuations of the insurance brokers confirm anew that this group retains an ability to attract strong investor interest whenever prospects for an acceleration in earnings growth seems imminent. ■

Leonard M. Wilson is a senior vp with Lazard Asset Management Inc. He is a member of the New York Society of Security Analysts.



Insurance industry stocks rose last week as the *Business Insurance* stock index rose 6.9 points to 629.3 on Nov. 17 from 622.4 on Nov. 10. The largest increases were reported by Statesman Group Inc., up 23.1%; Pacificare Health System, up 15.0%; and Trenwick Group Inc., up 7.1%. The largest declines were suffered by Belvedere Corp., down 9.5%; HMO America Inc., down 8.1%; and Re Capital Corp. down 6.7%. The *BI* index rose 1.1% last week, which was a slightly larger increase than that experienced by the major market averages. The Dow Jones 30 Industrials rose 1.0%, while the Standard & Poor's 500 index rose 0.7% and the NYSE composite also climbed 0.7%.

British Issues

Nov. 16 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence pence
Commi Union	445	24.7	29.3	6.6	464—445
Genl Accident	1041	14.9	68.0	6.5	1051—1038
Gdn Royal Exch	219	15.1	15.7	7.1	230—219
Royal	472	22.7	34.0	7.2	488—472
Sun Alliance	299	9.4	17.0	5.7	309—299
Brokers					
Bradstock	219	15.0	10.0	4.6	219—214
CE Heath	498	14.0	34.5	6.9	503—498
Hogg Robinson	155	10.9	9.7	6.2	157—156
Lloyd Thompson	274	18.3	9.3	3.4	274—274
PWS Holdings	49	13.2	2.7	6.8	49—49
Sedgwick Grp	281	20.9	16.7	5.9	289—280
Steel Brit Jones	250	15.6	15.3	6.1	251—250
Willis Faber	255	18.0	15.3	6.0	255-254

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

BI Industry Stock Report

NOVEMBER 17, 1989 — 11/13/89 THROUGH 11/17/89

		Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
BROKERS												
Alexander & Alexander	NYS	32.75	-1.13	40.86	34.00	22.63	226	1.00	3.05	20	9.18	3.57
Corroon & Black	NYS	39.63	-1.55	24.80	41.00	29.13	308	1.24	3.13	18	12.73	3.11
Gallagher Arthur J. & Co.	NYS	25.50	4.08	50.00	26.50	15.88	53	0.52	2.04	18	5.33	4.78
Frank B. Hall	NYS	3.00	4.35	0.00	4.63	2.50	97	0.00	0.00	-1	-2.80	-1.07
Hilb, Rogal & Hamilton	OTC	25.50	5.15	83.96	25.50	12.50	40	0.32	1.25	22	4.60	5.54
Marsh & McLennan	NYS	84.88	-1.31	52.93	89.75	55.00	894	2.48	2.92	21	10.56	8.04
Poe & Associates	OTC	10.00	5.26	14.29	10.00	8.00	1	0.40	4.00	10	1.43	6.99
BROKERS	AVERAGE		2.1	38.1					2.3	15		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W.R. Corp.	OTC	45.75	1.95	54.43	45.75	29.25	172	0.40	0.87	10	25.06	1.83
Berkshire Hathaway Inc.	NYS	8325.00	0.91	79.03	8900.00	4600.00	1	0.00	0.00	27	2869.00	2.90
ITT (Hartford Group)	NYS	58.25	0.00	16.21	64.50	48.25	1544	1.60	2.75	9	56.33	1.03
Sears (Allstate)	NYS	38.63	1.98	-4.33	48.13	37.25	2334	2.00	5.18	13	37.75	1.02
CONGLOMERATES	AVERAGE		1.2	36.3					2.2	15		
INSURERS/REINSURERS												
Aetna Life & Casualty	NYS	60.50	1.04	29.07	62.50	46.00	841	2.76	4.56	10	58.11	1.04
Ambase Corp.	NYS	13.38	3.88	20.22	16.38	10.50	207	0.20	1.50	5	29.08	0.46
American General	NYS	34.50	-1.78	15.00	38.50	29.50	460	1.48	4.29	11	34.68	0.99
American Heritage	NYS	28.25	2.73	10.78	28.50	25.00	9	1.20	4.25	11	22.60	1.25
American Indemnity/Fin'l	OTC	8.75	6.06	-16.67	13.00	8.00	9	0.56	6.40	-6	17.38	0.50
American International	NYS	106.88	0.00	60.41	109.00	61.88	1105	0.48	0.45	13	41.92	2.55
Aon Corp.	NYS	39.00	4.35	41.18	39.00	26.00	242	1.40	3.59	11	19.62	1.99
Argonaut Group	OTC	67.75	-1.09	55.75	69.50	42.75	15	1.00	1.48	8	36.83	1.84
AVEMCO Corp.	NYS	23.00	2.22	-10.24	27.50	20.38	29	0.40	1.74	14	9.52	2.42
Baldwin & Lyons Inc.	OTC	20.63	1.85	42.24	21.13	14.38	9	0.28	1.36	7	20.80	0.99
Belvedere Corp.	ASE	4.75	-9.52	5.56	6.50	4.25	1	0.04	0.84	15	8.03	0.59
Chandler Insurance	OTC	11.63	2.20	55.00	12.25	6.25	83	0.00	0.00	6	9.53	1.22
Chubb Corp.	NYS	90.38	-1.77	56.49	92.00	54.38	392	2.32	2.57	9	55.49	1.63
CIGNA Corp.	NYS	66.75	3.29	44.32	66.75	45.75	854	2.96	4.43	14	66.64	1.00
CNA Financial Corp.	NYS	97.13	1.17	65.32	98.38	56.50	123	0.00	0.00	9	54.87	1.77
Continental Corp.	NYS	33.25	0.00	3.91	38.63	31.50	900	2.60	7.82	68	41.36	0.80
Durham Corp.	OTC	33.75	-0.74	5.47	34.75	30.00	2	0.92	2.73	26	26.32	1.28
Fireman's Fund	NYS	35.63	0.35	22.32	40.75	28.38	275	0.60	1.68	13	32.74	1.09
Fremont General Corp.	OTC	18.50	5.71	48.00	18.50	11.88	416	0.80	4.32	17	19.09	0.97
Frontier Insurance Group	NYS	19.00	0.00	70.63	21.75	9.63	6	0.00	0.00	9	7.29	2.61
General RE Corp.	NYS	95.75	0.79	74.09	96.25	53.50	673	1.36	1.42	15	29.04	3.30
Hanover Insurance Co.	OTC	31.50	0.40	18.87	33.00	25.50	15	0.44	1.40	7	32.03	0.98
Harleysville Group	OTC	26.88	1.90	51.41	26.88	17.13	34	0.60	2.23	9	18.94	1.42
Hartford Steam Boiler	OTC	51.00	-2.39	37.84	59.25	31.00	338	1.60	3.14	14	18.94	2.69
Kansas City Life Ins.	OTC	35.50	1.43	3.65	39.50	32.25	30	1.04	2.93	19	39.22	0.91
Kemper Corp.	NYS	48.00	1.05	104.26	51.88	22.75	389	0.84	1.75	11	29.97	1.60
Lawrence Insurance Group	ASE	7.13	0.00	-10.94	9.88	6.63	6	0.28	3.93	15	3.29	2.17
Liberty Corp.	NYS	36.13	2.48	-0.69	39.25	32.50	3	0.80	2.21	15	31.82	1.14
Lincoln National	NYS	60.25	0.21	39.31	61.13	42.75	122	2.60	4.32	11	49.19	1.22
NAC Re Corp.	OTC	40.88	0.00	97.80	41.00	19.50	573	0.20	0.49	18	22.81	1.79
Navigators Group	OTC	27.25	0.00	32.93	27.75	19.25	24	0.00	0.00	10	15.22	1.79
Nobel Insurance LTD.	OTC	2.50	5.26	-45.95	5.50	1.50	90	0.00	0.00	-1	7.76	0.32
NWNL Companies	OTC	37.75	-0.66	22.76	40.63	26.88	381	1.20	3.18	9	37.50	1.01
Ohio Casualty Corp.	OTC	50.75	-0.98	41.96	52.50	34.50	186	2.08	4.10	8	33.30	1.52
Old Republic Int'l	OTC	28.38	-1.30	24.80	30.38	22.63	89	0.72	2.54	14	30.70	0.92
Orion Capital Corp.	NYS	25.00	5.26	56.25	28.50	13.88	51	0.84	3.36	7	19.72	1.27
Phoenix RE Corp.	OTC	13.75	-1.79	41.03	14.75	8.75	163	0.00	0.00	11	12.99	1.06
Protective Life Corp.	OTC	14.63	-0.85	10.38	16.25	12.88	37	0.68	4.65	28	14.54	1.01
Provident Life	OTC	26.50	0.95	36.77	29.38	17.75	520	0.80	3.02	9	23.24	1.14
Re Capital Corp.	ASE	13.88	-6.72	50.00	14.88	8.63	8	0.00	0.00	12	12.60	1.10
RLI Insurance Corp.	NYS	8.75	6.06	14.75	9.38	6.88	31	0.40	4.57	8	10.71	0.82
St. Paul Companies	OTC	61.38	0.20	42.73	61.88	40.75	717	2.20	3.58	8	43.47	1.41
SAFECO Corp.	OTC	36.88	-2.96	57.75	38.63	23.13	1328	1.20	3.25	9	24.87	1.48
SCOR U.S. Corp.	NYS	13.13	5.00	52.17	13.13	6.88	27	0.40	3.05	13	10.61	1.24
Seibels Bruce Group	OTC	10.38	0.00	-7.78	13.63	10.25	36	0.80	7.71	-49	13.75	0.75
Selective Ins. Group	OTC	18.00	0.00	-21.74	19.50	14.50	65	0.96	5.33	6	15.72	1.15
Statesman Group Inc.	OTC	3.00	23.05	4.35	4.00	2.00	161	0.20	6.67	17	4.19	0.72
Tokio Marine & Fire	OTC	77.00	1.32	-16.08	98.00	66.00	6	0.92	1.19	33	70.93	1.09
Torchmark Corp.	NYS	50.63	7.14	65.98	50.75	29.88	605	1.40	2.77	13	13.23	3.83
Transamerica	NYS	45.00	-2.17	34.83	48.00	30.38	738	1.92	4.27	11	34.63	1.30
Trenwick Group Inc.	OTC	26.25	7.14	84.21	26.25	13.25	77	0.36	1.37	13	16.91	1.55
United Fire & Casualty	OTC	32.50	-2.99	6.56	34.50	28.75	34	1.20	3.69	8	22.56	1.44
USF&G Corp.	NYS	28.88	-3.75	-0.43	34.00	28.25	1184	2.80	9.70	45	22.87	1.26
UNUM Corp.	NYS	44.38	0.57	65.89	46.13	26.13	312	0.60	1.35	12	31.20	1.42
USLIFE Corp.	NYS	44.13	6.65	28.36	48.13	32.88	308	1.48	3.35	10	54.34	0.81
Washington National	NYS	25.75	-1.90	-3.29	29.13	24.00	39	1.08	4.19	-	32.90	0.78
Zenith National Ins.	NYS	18.25	0.00	3.55	21.50	15.63	36	0.84	4.60	8	13.81	1.32
INSURERS/REINSURERS	AVERAGE		1.2	30.2					3.0	11.8		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	OTC	47.75	2.69	306.38	51.13	10.88	276	0.00	0.00	22	3.54	13.49
HMO America Inc.	OTC	7.13	-8.06	659.59	10.63	0.81	829	0.00	0.00	-31	1.12	6.36
Pacificare Health Sys.	OTC	27.75	15.03	122.00	30.38	5.75	587	0.00	0.00	34	6.35	4.37
Safeguard Health Enter.	OTC	9.38	1.35	74.42	12.50	4.75	112	0.00	0.00	14	2.99	3.14
Sierra Health Services	ASE	7.75	3.33	376.92	8.25	1.38	126	0.00	0.00	-8	0.62	12.50
United Healthcare Corp.	OTC	11.88	2.15	179.41	12.63	3.88	866	0.00	0.00	24	0.34	34.93
United Medical Corp.	ASE	6.00	-4.00	11.63	7.25	4.25	17	0.00	0.00	2	5.70	1.05
U.S. Healthcare	OTC	14.63	2.63	160.00	15.50	5.25	1686	0.20	1.37	35	3.07	4.76
HMOs	AVERAGE		1.9	236.3					0.2	11		

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