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Update

Navistar will appeal order to pay pension liabilities of former unit

CHICAGO—Navistar International Corp. says it will appeal a federal court ruling ordering it to pay a portion of the unfunded pension liabilities of its former Wisconsin Steel Corp. subsidiary.

U.S. District Judge James D. Moran last week ruled that Navistar must pay for the portion of the steel subsidiary's unfunded liabilities as of July 1977, when Navistar sold the unit to Envirodyne Industries Inc. of Chicago.

The court will determine later how

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Prop. 103 perplexes regulators

By GLENN HUNTLEY

SAN FRANCISCO—California insurance regulators are in a quandary over how they would implement a voter-approved proposition mandating reductions in "insurance charges" across many lines of property/casualty insurance.

Calling Proposition 103 badly worded, one regulator says the law does not answer many questions posed by insurers and insurance buyers about price rollbacks.

Meanwhile, insurers and backers of Proposition 103 are preparing for an epic courtroom fight over implementing the new law, which was narrowly approved by voters on Nov. 8.

In the first round of that battle, the California Supreme Court stayed the immediate effective date of all provisions of the law pending its rulings on lawsuits filed by the insurance industry charging the mandated rollback is unconstitutional (*BI*, Nov. 14).

Graphic: Roger Schillerstrom

The court traditionally has upheld the legality of voter-approved ballot initiatives. But, some legal observers say the insurance industry has a chance to overturn at least some portions of the new law if it can prove that the law, if upheld, would be confiscatory.

Also stepping into the fracas last week was the state Legislature. The state Senate Committee on Insurance, Claims and Corporations on Friday heard comments from about two dozen insurance executives about the California insurance market.

But, a state senator stresses that insurers must provide hard evidence that the proposition would cause them financial ruin before the Legislature will take any action.

After two weeks of rapid-fire developments, some insurers still decline to write new property/casualty policies, but most are conducting business as usual until the state Supreme Court makes its determination.

While Standard & Poor's Corp. shortly after the vote said it likely would lower some insurer's credit ratings if the proposition survives legal challenges, Moody's Investors Service Inc. said last week it probably would not systematically downgrade insurers' credit ratings.

Moody's said that while companies "with above-average private passenger automobile writings could face long-term financial difficulties. . .the effects on pri-

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Risk Retention Act revisions proposed

By JERRY GEISEL

WASHINGTON—Proposed sweeping revisions to the federal Risk Retention Act would clarify much of the current uncertainty over regulation of risk purchasing groups.

The revisions, now being circulated by U.S. Commerce Department staff members, would replace ambiguous provisions of the 1986 Risk Retention Act amendments that affect purchasing groups with more precise statutory language.

The revisions are intended to provide a clear framework that spells out under what conditions insurers can write coverage for purchasing group members, while making it tougher for unscrupulous operators to organize and control purchasing groups (*BI*, Oct. 31).

Risk Retention Act Amendments
Two years later

Under the revisions:

- An insurer would have to meet one of several objective standards, like minimum capital and surplus requirements, before it could underwrite coverage for purchasing groups.

These objective standards would replace a confusing provision in the 1986 amendments that says a purchasing group must buy coverage from an insurer that is admitted or authorized in the state where the purchasing group is located, although the word "located" is not defined in the 1986 amendments.

- A purchasing group would have to declare which state is its principal place of business and maintain an office in that state as well as have members in the state.
- Only one state—the state that a purchasing group declares as its principal place of business—would have the power to regulate the rates and policy forms used by a purchasing group insurer.

This provision would strike down a 1987 New York federal court decision that some say suggests that insurers would have to submit rates and policy forms to regulators in any state in which a purchasing group has members (*BI*, June 27; Oct. 5, 1987). Such a requirement would saddle insurers with hefty administrative costs making purchasing group business unattractive for insurers, many have said.

- Purchasing groups would have to be established and controlled by buyers. Insurers or those affiliated with insurers, like managing general agents, could not establish or control a purchasing group.

Many of the approximately 300 purchasing groups established since enactment of the 1986 amendments have been organized by insurers, some of them thinly capitalized.

Regulators and others say insurer-organized purchasing groups represent a conflict of interest since the insurer that is setting the rates is also controlling the fortunes of the group.

- A purchasing group's insurer would have to provide more information to regulators in each state in which the group has members.

For example, an insurer would have to provide regulators

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Agents speak to buyers through teleconference

By MARK A. HOFMANN

YORK, Pa.—The causes of the property/casualty insurance cycle, the impact of California's Proposition 103 and efforts to change the U.S. tort system dominated a teleconference produced last week to help commercial insurance buyers better understand the property/casualty insurance business.

Roughly 1,100 people at 17 sites saw the two-hour interactive broadcast—the first of its kind directed at commercial insurance buyers—estimated J. Martin Huber, executive director of the Bethesda, Md.-based National Assn. of Casualty & Surety Agents, which sponsored the event.

Several coordinators of the 16 Eastern and Midwestern sites receiving the broadcast said the experiment looked promising. Viewers peppered the panel of experts—which included an insurance company executive, an industry consultant and an insurance journalist as well as agents—with questions touching on virtually every broad area of interest in the industry.

For example, Dennis Driscoll, a principal with the J. Barry Driscoll Insurance Agency Inc. in Braintree, Mass., said many of the participants at the site sponsored by his agency went away with "a better understanding of how the industry works," even though insurance is a difficult topic to discuss.

He estimated that about 20 of the 40 viewers at his site were risk managers.

Edwin S. Overman, moderator of the discussion and president emeritus of the Malvern, Pa.-based American Institute of Property & Liability Underwriters and the Insurance Institute of America, called the teleconference "an experiment" that could mark the beginning of an effort to improve communications between various segments of the insurance industry and its customers.

Mr. Overman opened the teleconference, which originated from the Yorkville Hotel in York, Pa., by asking the panel why the industry undergoes cycles and why the cycles appear to be getting increasingly extreme.

Peter B. Walker, a director of management consultant McKinsey & Co. in New York, replied that the cycle was nothing new, citing a book published in the 1890s that bemoaned the effects of the underwriting cycle. Now, as nearly a century ago, one of the reasons for the cycle is, simply: "We don't know the cost of product when we sell it," he said.

Another factor aggravating the cycle is the absence of a price leader with a dominant market share in the commercial insurance market, Mr. Walker said, noting that Bloomington, Ill.-based State Farm Mutual Automobile Insurance Co. is the price leader in the personal lines market. The lack of a price leader in the commercial market encourages more price competition, he said.

Panelist Caleb L. Fowler, president of CIGNA Corp.'s property and casualty insurance companies in Philadelphia, agreed that the lack of a price leader

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Update

Navistar to fight pension ruling

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much Navistar owes.

The Pension Benefit Guaranty Corp. in 1982 sued Navistar, then known as International Harvester Corp., contending that the Chicago-based manufacturer sold its steel unit in 1977 to unload about $86 million in unfunded pension obligations (*BI,* Jan. 11, 1982).

Judge Moran ruled that Navistar sold Wisconsin Steel to avoid paying pension benefits, but he rejected PBGC allegations that Navistar engaged in concealment or fraud. If Navistar had been found guilty of fraud, it could have faced treble damages of about $1 billion, including the full unfunded value of the plan, which the PBGC estimates at $146 million, plus interest.

"This ruling sends a warning, loud and clear, to any others who may be tempted to try to unload their pension responsibilities that abusive tactics will not be tolerated by the PBGC or by the courts," said Gary Ford, PBGC general counsel.

A Navistar spokesman said: "Based on the judge's factual findings that Navistar did not engage in fraud or overreaching, we are confident that we will have no liability when the legal standards are resolved on appeal."

Illinois reviews high-risk plan

SPRINGFIELD, Ill.—Top Illinois officials hope they can negotiate a compromise to fund the state's medical insurance program for high-risk individuals before the General Assembly formally adjourns Dec. 1 (*BI,* July 11).

At least $5 million is needed to fund the program from March 1, 1989, until the end of the fiscal year in June, said Richard W. Carlson, assistant state insurance director.

The negotiations follow last week's 107-2 vote by the Illinois House to override Gov. James Thompson's July veto of $10 million in nine-month funding for the new Comprehensive Health Insurance Plan. He said the state could not afford it.

The matter has not been submitted to the state Senate.

Illinois would be the only state to use general fund revenues to make up the shortfall anticipated from participants' capped premiums. Most of the 14 states with such plans assess health insurers to cover the shortfall (*BI,* Feb. 1).

Texas workers comp rate hike

AUSTIN, Texas—Texas employers will pay around $700 million in additional premiums for workers compensation coverage next year after an 18.7% rate increase was approved by the State Board of Insurance last week.

The rate increase was almost half of the 36.7% increase sought by insurers and nearly double the 10.9% requested by the state's Office of Consumer Protection. The rate increase follows a 25% jump in 1988 and a 17.7% increase in 1987 (*BI,* Nov. 30, 1987).

"We are, of course, very concerned about the impact it will have on employers," said Dane Harris, president of the Texas Assn. of Business in Austin. However, "The system is placing insurance carriers in a difficult situation and some relief was needed."

Many insurers consider Texas one of the worst states in which to write workers compensation insurance.

Allstate to leave Massachusetts

NORTHBROOK, Ill.—Allstate Insurance Cos. will cease writing property/casualty insurance in Massachusetts June 30.

Company officials said last week that the move is in response to continuing losses in the state's personal automobile insurance market and increasing assessments from the state's assigned risk pool for substandard auto risks.

Allstate's 1987 commercial property/casualty premiums in the state totaled about $27 million, a company spokeswoman said.

Allstate units last year lost $23 million in the state's personal auto market. In addition, the insurer says it has lost an estimated $115 million during the past five years in assessments from Commonwealth Automobile Reinsurers, the state's assigned risk pool.

The Northbrook, Ill.-based subsidiary of Sears, Roebuck & Co. is the sixth property/casualty insurer to leave the Bay State in two years. As other companies leave the state, the remaining insurers' CAR assessments have increased. Allstate projects that its assessments would reach $100 million per year by the mid-1990s.

While Massachusetts law requires an insurer that withdraws from CAR to surrender all of its other property/casualty licenses, "the issue of life business remains unclear," said a spokeswoman for the Massachusetts insurance commissioner.

L'Ambiance claims settled

NEW HAVEN, Conn.—Fifteen insurers will pay at least 95% of a $41.1 million settlement of all claims stemming from the April 1987 L'Ambiance Plaza apartment collapse in Bridgeport, Conn. Four private parties also will contribute to the settlement.

CIGNA Corp., Hartford Insurance Group, Royal Insurance P.L.C., Aetna Life & Casualty Co., Fireman's Fund Insurance Co. and United States Fidelity & Guaranty Corp. are among the 15 insurers contributing.

Twenty-eight construction workers were killed and 16 more were injured in the incident (*BI,* May 4, 1987).

About $33.5 million of the cash settlement will go to death and personal injury claims filed by 44 plaintiffs, said Senior U.S. District Judge Robert C. Zampano of New Haven, one of two judges who served on a mediation panel for the case.

The remaining $7.65 million will settle commercial claims, including those of contractors, subcontractors, claims against performance bonds and builders risk insurance policies, he said.

The settlement must be approved by state court, federal court, probate court and the state Workers' Compensation Commission.

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Insurer says Shell, law firm hid knowledge of pollution

By STACY ADLER

SAN BRUNO, Calif.—Travelers Insurance Co. is suing Shell Oil Co. and one of Shell's law firms for $66 million, alleging they conspired to maliciously conceal information regarding the giant oil producer's knowledge of pollution at two hazardous waste sites.

In a suit filed earlier this month in San Mateo County Superior Court, Travelers seeks $16 million in defense costs it has advanced to Shell and $50 million in punitive damages.

Besides Shell, the suit also names Holme, Roberts & Owen, a Denver law firm representing Shell in its 1983 lawsuit against Travelers and 250 other insurers over whether the insurers have to pay an estimated $2 billion for the cleanup of two hazardous waste sites (*BI,* Nov. 7, 1983).

In the first phase of this trial, which concluded in August, San Mateo County Superior Court Judge William Lanam made dozens of rulings about Shell's insurance policies, some of which favored the insurers and some of which favored the oil giant (*BI,* Aug. 1; May 30; May 2).

Last week, Hartford, Conn.-based Travelers filed a motion requesting Judge Lanam be appointed to preside over its countersuit, which was filed Nov. 3.

In the second phase of the coverage litigation, which is now in progress, Travelers is attempting to prove to a jury that Shell knew of the pollution at the sites and therefore is not insured.

Comprehensive general liability policies stipulate that there is no coverage for events that are "expected or intended" by the policyholder.

Shell claims that it was not aware of the pollution at the Rocky Mountain Arsenal near Denver, one of the two waste sites at issue. Furthermore, Shell says that it followed Army orders in disposing of its waste at the site.

Although the Travelers' countersuit has no legal bearing on the coverage litigation, some attorneys have suggested that Travelers may have filed the suit in order to influence the jury now hearing the coverage litigation. These attorneys point out that the Travelers suit has been reported in most of the nation's major newspapers.

"The tactics underlying the filing of the suit don't deserve comment," said Allen Lackey, Shell's general counsel.

Edgar Benton, an attorney with Holme, Roberts representing Shell, said Travelers' countersuit is "baseless and totally without any foundation."

"It is an attempt by Travelers to divert Shell and Holme, Roberts from pursuing our coverage litigation in California," he said.

Barry Ostrager, an attorney for Travelers with Simpson, Thatcher & Bartlett in New York, would not discuss the Travelers suit.

As Shell's primary liability insurer, Travelers has been defending Shell against lawsuits filed by the U.S. Environmental Protection Agency and the Colorado Department of Health for pollution at the Rocky Mountain Arsenal and at a smaller waste site in Fullerton, Calif. It is estimated the cleanup of the Denver site alone could reach $2 billion (*BI,* Feb. 8).

Travelers wrote primary liability insurance for Shell

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Risk manager award entries due Nov. 28

The deadline for nominations for the 1989 *Business Insurance* Risk Manager of the Year competition is only a week away.

While the deadline for nominations for the 12th annual competition has been extended, nominations still must be postmarked by Nov. 28. Completed nominations must be submitted according to the detailed instructions contained in a special nominating package available from the *Business Insurance* editorial office in Chicago.

To obtain a nominating package, phone Karen Brown at 312-649-5398.

The 1989 Risk Manager of the Year and members of the Risk Management Honor Roll will be announced in the April 9, 1989, issue of *Business Insurance,* which coincides with the Risk & Insurance Management Society Inc. conference in Atlanta.

Ruling may expand recoveries from KAL

By STACY SHAPIRO

WASHINGTON—The families of passengers killed when Soviet fighter jets shot down a Korean Air Lines jetliner in September 1983 can seek more compensation from the airline than allowed under the Warsaw Convention, a U.S. District Court judge has ruled.

The families have the right to seek in a jury trial more than the $75,000 per passenger compensation established under the Warsaw Convention because there is sufficient evidence indicating possible "willful misconduct" on the part of the crew of KAL Flight 007, ruled Aubrey E. Robinson Jr., chief judge of the U.S. District Court for the District of Columbia.

If a jury finds there was willful misconduct on the part of the KAL crew, Korean Air Lines Co. Ltd. could be held liable for paying more than $75,000 in damages per passenger.

The Warsaw Convention, which limits airlines' liability to passengers on international flights, was amended by the Montreal Agreement to limit recovery to $75,000 per passenger.

Judge Robinson's decision does not affect an appeal by 18 families of passengers seeking compensation from KAL that the U.S. Supreme Court is scheduled to hear Dec. 7, said George N. Tompkins Jr., counsel for KAL and partner with Condon & Forsyth in New York.

In the Supreme Court case, the plaintiffs allege that KAL forfeited its limited liability under the Warsaw Convention because the airline printed a notice of that limit on tickets issued to passengers in eight-point type instead of in the larger 10-point type required under the convention.

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International market

Competition increases global plan popularity

By MICHAEL BRADFORD

Risk managers at U.S. multinational corporations aren't likely to be hit with unpleasant surprises when they renew property/casualty insurance programs for foreign operations.

The traditionally soft international insurance market has grown even softer for some lines of international coverage, according to risk managers, insurers and brokers, though historically difficult long-tail liability classes of business remain hard to place in some countries.

In addition, the softening market is increasing the popularity of global property/casualty insurance programs, some observers say. These programs cover both the domestic and the international exposures of a multinational company under one policy.

"There is a definite softening in all lines" of international property/casualty insurance, confirmed Peter F. Reid, senior vp at Continental International Co. in New York.

The size of rate reductions this year varies on the type of risk, size and location, said Mr. Reid.

Insurers and brokers report that international property insurance rates commonly are being cut by 10% to 15%, with the cost of casualty insurance dropping slightly or remaining at 1987 levels.

Glenn MacCorkle, director of insurance and risk management at NCR Corp. in Dayton, Ohio, whose renewals should be complete by the end of this month, agreed that the international market is softer this year compared with year-end 1987.

"Early indications are we will see a reduction in our costs," said Mr. MacCorkle. "That in part is at-

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Benefit networks shift focus to Pacific Rim

By DEBORAH SHALOWITZ

International employee benefits networks are looking to developing nations in the Pacific Rim for a significant portion of their future growth.

But growth is also expected in other areas, including Europe.

Networks also expect new business from high-technology industries and other employers that have not tapped the networks.

Meanwhile, the international employee benefits networks, through which a multinational employer is able to obtain employee benefits coverages for two or more of its foreign-based subsidiaries through one master contract (see story, page 24), are introducing a host of new products and features—especially sophisticated cash management techniques—to entice new clients and hold on to existing clients.

For example, because several of the largest multinational employers have decided to self-fund their overseas employee benefits program, networks are offering them administrative services only.

Networks can expect substantial growth in developing countries, particularly in the Far East and Southeast Asia, because many multinational companies are establishing new operations there and networks are opening affiliates in areas they previously have not serviced, experts agree.

The "motion that we've seen now has been in the developing countries," said Sam Bernstein, a consultant at Hewitt Associates in Lincolnshire, Ill.

"Europe has been the focus of most business in the past, but that's clearly shifting to Southeast Asia," he said.

There are "very few companies that we speak to now where the question of South-

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Buyers see few changes as barriers fall

By MICHAEL BRADFORD

International property/casualty insurers and brokers are positioning themselves for the removal of European trade barriers in 1992, while risk managers at U.S. multinationals are more concerned with the implementation of strict liability in the European Community.

The Single European Act of 1985, which was passed by the European Council of Ministers last summer, calls for the dismantling of all trade barriers by the end of 1992. However, a directive passed by the council late last year allows risk managers with operations in most EC countries to place large property/casualty risks across borders after 1990 (*BI,* May 16).

The changes will allow risk managers with companies in Common Market nations to buy coverage from insurers in other EC countries with few restrictions. Thus, risk managers no longer will have to purchase separate policies to cover operations in different European countries after the 1992 changes are complete but will be able to buy one policy to cover all EC locations.

However, many U.S. risk managers with operations in several EC countries already in effect have such a program by tapping one of the multinational insurer networks.

For example, the removal of trade barriers throughout Europe probably will not have much impact on the way Motorola Inc. purchases its coverage or manages its

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Graphic: Amy Palmer

1992 to stir competition for networks

By DEBORAH SHALOWITZ

The removal of European trade barriers in 1992 will stir up competition among international employee benefits networks, benefits experts predict.

However, many benefits experts—uncertain how cross-border placement of life/health insurance and pension products will be regulated—say it is too early to tell how the elimination of the trade barriers may affect the employers' international benefits programs.

For example, some experts predict that as a result of the European Community's abolition of trade barriers, networks may become more flexible. But others say that the trade laws of some countries may still limit some cross-border placements of insurance.

And, one consultant suggests that the ability to directly place pension, life and health insurance across borders could spell the end of the networks, through which a multinational employer is able to obtain employee benefits coverages for two or more foreign-based subsidiaries through one master contract.

The Single European Act of 1985, enabling legislation signed by all 12 European Community nations, is intended to create a unified European market. In accordance with the act, the European Commission's White Paper of 1985 gave a de-

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Global plans

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tributable to our experience; it's been good in the past year."

But, he added, "there does appear to be some price cutting, primarily among the non-HPR markets." However, international property insurers also are granting price decreases for highly protected risks, he said.

Observers say, however, that the international marketplace has not softened to the same extent as the U.S. property/casualty market.

"Typically, the international side doesn't reach the same peaks during the hard cycle and the lows during the soft cycle as the domestic market," explained Vince Masucci, president of the North American Division of American International Underwriters, a unit of New York-based American International Group Inc.

"Cycles in the international marketplace are much less severe than in the domestic market," said Arthur Klein, senior vp at Frank B. Hall & Co. Inc. in New York.

"Certainly there's an abundance of capacity" in the international market. "We've not had any major problems with multinationals completing placements at sufficient limits," Mr. Klein said.

"The Japanese earthquake market still presents some problems for most multinationals," he did point out. And, pollution coverage and insurance for asbestos and occupational disease exposures remain hard to place, he added.

"Pollution is still a problem everywhere," said Lawrence Doyle, senior vp at Hartford Fire International in Hartford, Conn.

Tom Hugdahl, risk manager at Minnesota Mining & Manufacturing Co. in St. Paul, Minn., said the cost of his earthquake coverage, which includes risks in Japan and Mexico, remains high even though he has seen "some improvement" on price.

Joseph Wojdula, corporate insurance manager at Motorola Inc. in Schaumburg, Ill., said he expects his international property insurance to renew at prices 10% to 15% lower than last year, while casualty insurance costs will be "about flat" compared with year-ago prices.

The soft market in the United States has meant that insurers are looking harder for business outside the country, said Mr. Klein. In turn, that increases competition in the international arena.

Theodore Hoeh, senior vp at Kemper International Corp. in Long Grove, Ill., said that "the home-foreign market in general for U.S.-source business has been competitive in recent times. I don't think there has been a pronounced increase in competition, but it remains a competitive market."

Observers also note that the softening market is increasing the popularity of global property/casualty insurance programs among multinational buyers. In past years, the global policy has been a vanishing breed, as insurance buyers have opted to purchase separate foreign policies as a way of shielding overseas operations from rate hikes for U.S.-based coverage (*BI*, Oct. 5, 1987).

Now, however, "I think we're seeing a slow comeback of those kinds of programs," said Jerome Karter, senior vp and manager of the international department at Johnson & Higgins in New York.

Ken Seward, senior vp and director of the international division at J&H in New York, said that the soft market in the United States is contributing to the global plan resurgence.

"It was simply cheaper to buy an international program separately during the hard market. Now it's running the other way," he said.

Eliot H. Pardee, western region international director with Fred S. James & Co. Inc. in San Francisco, said a risk manager who has to deal with only one broker and one insurer has an easier job than the buyer who must deal with several. But, he added, some risk managers are uneasy about "putting all their eggs in one basket."

Mr. MacCorkle of NCR said he prefers to place his $300 million in international property coverage, $150 million in earthquake and flood insurance and an undisclosed amount of liability insurance in a global program. In 1985, NCR was forced to restructure its global coverage into separate policies for domestic and foreign exposures, he said. "The market turned away from us."

However, Mr. MacCorkle noted, "We think there might be an opportunity this year to restructure it in a worldwide policy."

NCR's U.S. and European property exposures are nearly equal in value, he said. A lot of inventory moves between those locations, he added, pointing out that global coverage would mean insurance covering goods in transit could be written under one policy.

Mr. Hugdahl of 3M said his company has separate policies for U.S. and foreign property exposures except for earthquake exposures, which are written on a global contract. However, he believes the risk manager gains a measure of strength in dealing on a global basis.

"We're in 50-plus countries," Mr. Hugdahl remarked, noting that he represents that many buyers when negotiating with an insurer. "There is a strength that comes from so many potential clients. Insurance carriers and brokers provide better service."

However, some observers still are skeptical of global plans.

Mr. Reid of Continental said many buyers prefer to separate their foreign coverages from domestic insurance programs because it is difficult to structure a global policy in which the primary coverage for all locations is acceptable.

Separate policies, he explained, give buyers "a more flexible approach to coverage and terms."

International property/casualty insurers also are witnessing a continuing influx of "reverse flow" business, or business created by foreign investment in the United States. In recent years, insurers have increased their client bases by writing coverage for foreign-based multinationals that open subsidiaries or buy existing companies in the United States.

"The dollar is still weak, so that makes acquisitions (in the United States) a bargain," said Joe Chettle, deputy managing director of James International, a Fred S. James unit.

"Foreign investment in the U.S. is still very, very strong," said James' Mr. Pardee.

Although he doesn't predict a tidal wave of reverse flow business into the United States in the future, Mr. Pardee sees "a fairly level flow of this business continuing."

The amount of coverage written on reverse flow business has grown significantly for Zurich Insurance Co., U.S. Branch in Schaumburg, Ill., a unit of Switzerland-based Zurich Insurance Co.

"We have a very, very big book of reverse flow insurance in the states," said John Ormerod, vp and director of marketing in the International Division of the Zurich Insurance Co., U.S. Branch.

Although he would not say how much premium Zurich writes on a reverse-flow basis, Mr. Ormerod did say that business doubled in 1986, doubled again in 1987 and has increased substantially this year.

Mr. Hoeh said the amount of reverse flow business written by Kemper also continues to increase. "We see a great deal of investment into the U.S. from just about everywhere."

J&H's Mr. Seward said that "the influx of Japanese investment is tremendous." J&H, he said, is increasing its staff in several of its branches to handle the increase in business fostered by Japanese investments.

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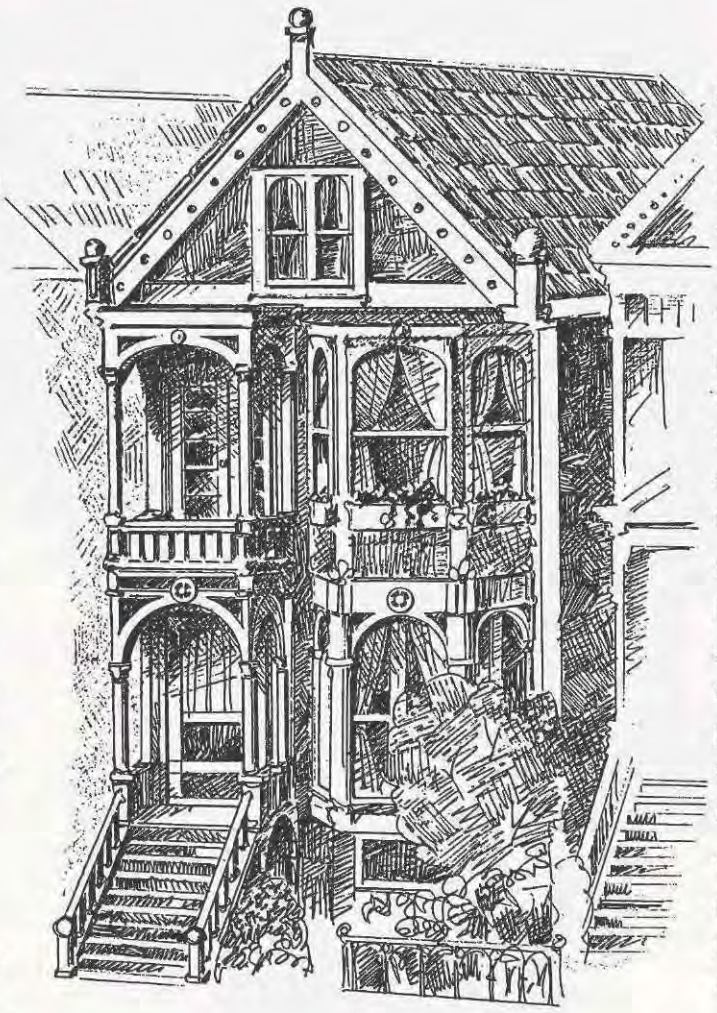

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Spotlight report

Property/casualty networks

Continued from page 4

The two largest U.S.-based international insurers—AIG and CIGNA Worldwide Inc., a unit of CIGNA Corp. in Philadelphia—continue to expand on their international footholds.

AIG's Mr. Masucci said his company has developed a new product, called Worldwide Insurance for Exporters or WISE, that aims to capture the foreign property/casualty business of U.S. exporters.

The increase in international trade has spawned new exporters, Mr. Masucci noted. "So there is a challenge to international markets in the U.S. to get their products out to the new players."

WISE, introduced in early November, provides coverage that includes property insurance covering overseas-based warehouses, sales offices and other locations valued at up to $5 million. "Our intention is not to pick up the factories," said Mr. Masucci.

The package also offers a total of $1 million in various types of liability coverages and $500,000 in accident and health insurance.

CIGNA Worldwide is concentrating on expanding its underwriting and risk management services in Europe and Latin America, according to Senior Vp Stewart Steffey.

As a result, the company has opened "risk management units" in Paris and London to service large-risk European clients and in Coral Gables, Fla., to handle the needs of Latin American and Caribbean clients.

The risk management unit concept was first introduced by CIGNA Worldwide in Toronto in 1984. The units gather teams of large-risk underwriters, engineers and loss adjusters who together tailor a client's coverage.

Mr. Steffey says one of his biggest concerns in the current marketplace is a deterioration of property rates in some parts of the world.

"The pricing in some areas has gone beyond what we can expect to make a modest return," he remarked.

Rate softening on property risks is evident in New Zealand, Canada, the United Kingdom and Australia, Mr. Steffey said.

Other insurers besides AIG and CIGNA also are beefing up their international presence.

Chubb Corp. is becoming more tenacious in its efforts to land the business of U.S.-based multinationals, according to Dennis J. Orio, assistant vp. "We're taking dead aim at being the third-largest U.S.-based international carrier."

As part of that effort, "we're preparing to launch a new program for multinational clients in the U.S. called World Network," he said. The program, which will be available in the first quarter of 1989, will allow a multinational to purchase coverage for nearly all foreign exposures in a single package, he explained.

Mr. Orio described the World Network as a "very broad property/liability and workers comp" package. He pointed out that it provides "a contract that is similar in nature to the contracts that large multinationals have been forced to negotiate individually."

Mr. Orio said World Network is designed for companies with substantial assets overseas that are "just short of the Fortune 200. We're looking for companies that have operations in up to 20 countries. Therefore, there are a lot of companies that qualify."

A new entrant in the international marketplace will be a joint venture between General Re Corp. and The Hartford Steam Boiler Inspection & Insurance Co. The new, not-yet-named company will write property insurance for commercial risks outside North America.

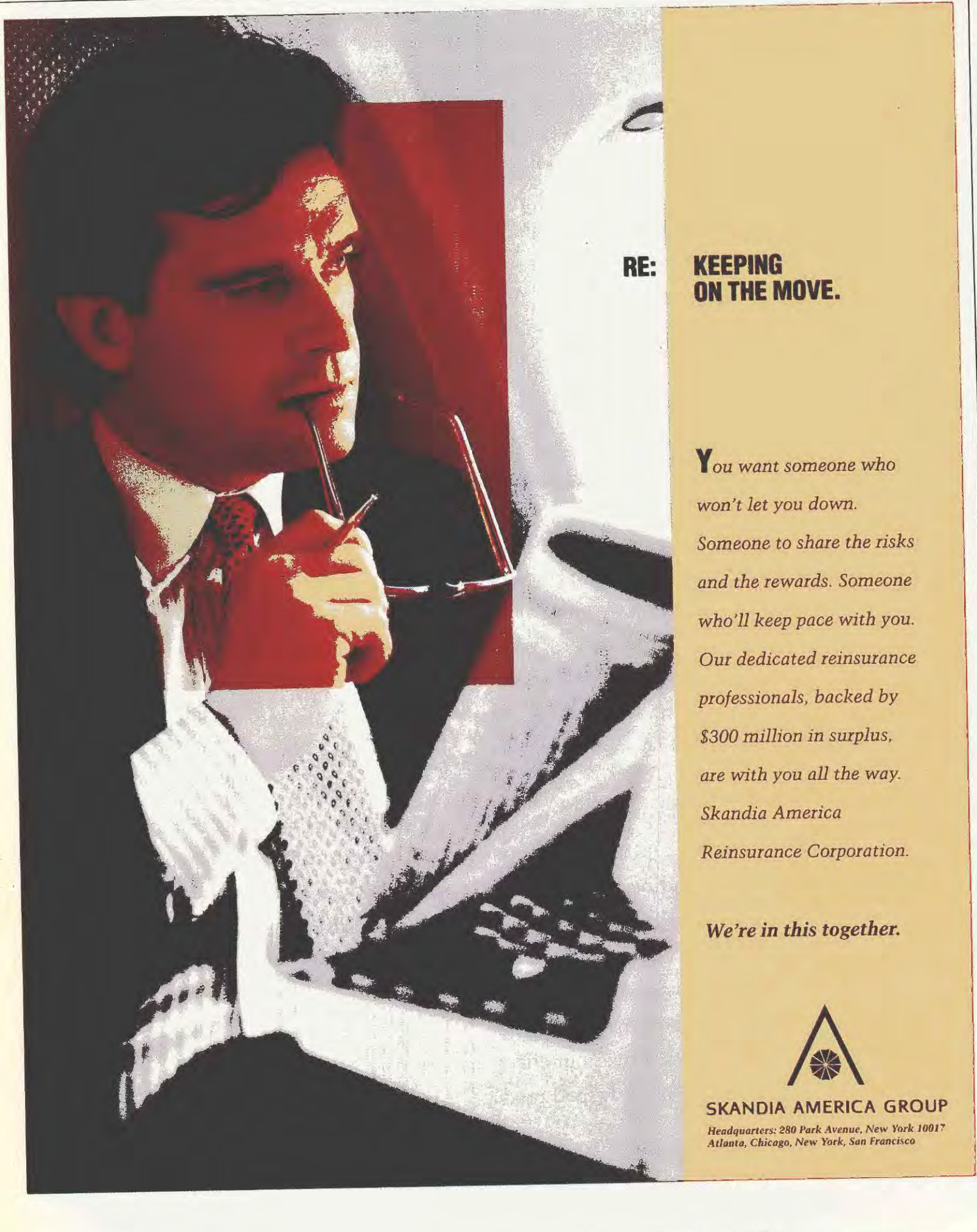
A General Re spokesman said no decision has been made on where foreign offices of the operation would be located nor how much coverage it will provide.

The venture is expected to be finalized by the end of this year and underwriting should start early in 1989.

Arkwright Mutual Insurance Co. in Waltham, Mass., is developing a new international operation that will be headquartered in Shelton, Conn., and is slated to begin operating Jan. 1.

The new operation will specialize in developing property insurance and risk management programs for foreign-based corporations.

Wolfgang Friedel, vp and international region manager, said the international operation was developed because Arkwright's foreign-based customers were requesting more risk management and loss control services tailored specifically to their needs and because of the increasing exposures of foreign corporations in the United States. ■



Free trade

Continued from page 3

risk overseas, said Joseph Wojdula, corporate insurance manager at Motorola's Schaumburg, Ill., headquarters. The company's European operations are insured by CIGNA Corp., "which already has a presence in many countries," he added. "As far as our program is concerned, I doubt that it will have much effect at all."

For others, the removal of trade barriers is seen as a catalyst for significant changes in Europe.

"Insurance in Europe is on the threshold of major changes," said Francis Loheac, secretary general for the Comite European des Assurances, a Paris-based trade organization for European insurers.

Mr. Loheac told a group at a recent meeting of the Insurance Institute of London that the "reduction of control and regulation is going to open up the market to new products. . . .In the next few years there probably will be an appreciable increase in services and policies to cover international and multinational risks. . . .This will put international insurers with a strong structure in Europe at a decisive advantage."

Some U.S.-based international insurers already are posturing to gain advantages in 1992.

"In the last couple of years, we have been broadening our international capabilities," said Lawrence Doyle, senior vp at Hartford Fire International Ltd., a unit of the Hartford Insurance Group in Hartford, Conn. "We've added 120 people, principally in the U.K., Holland and Germany," to bring to 1,600 the number of Hartford Fire employees in Europe, he explained.

"The big players are looking to position themselves within all of the major countries in the EC one way or the other, by establishment or merger and acquisition," said Theodore J. Hoeh, senior vp at Kemper International Corp., a unit of Kemper Corp. in Long Grove, Ill.

"We, like everyone else, are paying a great deal of attention to the developments in Europe," said Mr. Hoeh.

Peter Reid, senior vp at Continental International Insurance Co. in Cranbury, N.J., a unit of Continental Corp., said his company will expand slowly to meet the changing needs of multinationals with European operations.

"We don't want to act prematurely," said Mr. Reid. "We feel strongly that nothing magical is going to happen on Jan. 1, 1992. It will be an evolving, gradual process and we prefer to be more deliberate."

John Ormerod, vp and director of marketing in the International Division of the Zurich Insurance Co., U.S. Branch in Schaumburg, Ill., said the company is "organizing to cope with the directive. Well in advance of 1992, we will make our position clear."

Continued on page 10

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Opinions

Global risk management

THE GROWTH IN the sophistication of risk management worldwide in this decade is nothing short of astounding.

And even more rapid international development of the risk management discipline can be expected in the 1990s.

All around the world, businesses are talking about risk management and structuring risk management programs, as our reports on several risk management meetings held in several countries this fall have shown.

Our annual spotlight on international risk management and insurance seems an appropriate issue to reflect on the development of risk management worldwide and the rewards this can produce.

There are three groups primarily responsible for this tremendous progress in spreading risk management worldwide: Risk management organizations, multinational insurance brokers and multinational insurance companies.

Leading the risk management organizations in spreading the word has been the New York-based Risk & Insurance Management Society Inc. RIMS, as the largest organization of risk managers, has reached out around the world to promote risk management.

RIMS' contributions include co-sponsorship since 1981 of a biennial conference in Monte Carlo on risk management. The conference, which also is sponsored by the federation of European risk management organizations, the Association Europeenne des Assures de l' Industrie, will be held again in October 1989.

With each meeting, the AEAI/RIMS conference encompasses more risk managers from more countries, and the speakers represent a broader spectrum of the world. Gone are the days when U.S. and British risk managers were the most prominent members of panels.

RIMS also fostered the growth of risk management around the world by sponsoring an Asia/Pacific Conference in Singapore in 1986. Inspired by what they learned at that conference, risk managers in Singapore just two years later established their own risk management organization, the Risk & Insurance Management Assn. of Singapore, and sponsored their first conference (*BI*, Nov. 14).

Also important in the development of risk management internationally was the formation in 1984 of the International Federation of Risk & Insurance Management Assns. From 10 founding members, including RIMS, IFRIMA has grown to more than 20 association members from around the world.

IFRIMA last month sponsored its first World Congress on Risk & Insurance Management, held in Australia with strong support from the Assn. of Risk & Insurance Managers of Australia (*BI*, Nov. 7).

Although not a risk management organization, the contributions of Management Centre Europe, the European affiliate of the American Management Assn., cannot be overlooked. MCE annually provides a forum for risk managers from around the world by sponsoring a risk management conference.

At each of these meetings, the growth in the sophistication of risk management has been apparent, from the content of the formal speeches to the topics of discussion in the hallways and at social events. Risk management challenges are universal, and the solutions are being developed worldwide.

International insurance brokers and international insurance companies also have helped spread the growth of risk management around the world. They have introduced new loss prevention, loss control and risk financing techniques to clients in countries where they have opened or acquired offices. They have offered their experts as speakers at these international meetings and have supported the growth of these meetings through their attendance and, when permitted, financial contributions.

With so much progress made in the 1980s in developing international risk management associations and international networks of insurance brokers and insurance companies, we expect great strides in the practice of risk management to be made in the 1990s as risk managers, brokers and insurers from all countries increasingly share their knowledge and experiences.

There is more to be accomplished in the practice of risk management around the world, including the United States. Risk managers everywhere say they must improve their loss prevention and loss control programs, especially for liability risks, while continuing to look for more efficient risk financing programs. And that means U.S. risk managers also can learn from risk managers in other countries while they continue to teach.

Risk managers with multinational operations also say they must continue to work with multinational brokers and insurers to ensure that service around the world is consistently high quality. And, the breakdown of trading barriers among countries, including the European Community member nations, will further expand international business and risk management challenges.

Those who have fostered the growth of risk management around the world have much to be proud of and should be all the more inspired to work harder to see that the foundation laid in the 1980s does indeed result in more sophisticated risk management practices around the world.

As risk management grows in sophistication, we can look forward to more effective protection of the environment, workers and the public from harmful substances, processes and products.

That's an ambitious goal, and it will not be easily achieved. But the reward is worth it: an improved quality of life for people around the world.

Letters

Utmost good faith 'will bear good fruit'

To the editor: Seldom have I read an article in your magazine—or any other for that matter—that possessed the cogency, clarity and depth of understanding as the perspective article "Basic Principles Hold Key to Future of Reinsurance" (*BI*, Oct. 31).

I am comforted, both as an insurance consumer and administrator, that knowledgeable and influential forces are working toward the laudable insurance goal of properly balancing market share against market stability and of re-emphasizing a critical reinsurance standard—utmost good faith. These efforts will bear good fruit.

Stephen W. Cavanaugh
Assistant Secretary of Labor
Director, Louisiana Office of
Workers Compensation Administration
Baton Rouge, La.

A real need exists for purchasing groups

To the editor: The series of articles in the Oct. 31 issue concerning the Risk Retention Act presented an excellent summary of the state of the industry and regulation. However, as president of an insurer active in purchasing groups and as a former member of the National Assn. of Insurance Commissioners' staff working with regulators, I feel obligated to make several comments.

The articles fail to note the legitimate need for purchasing groups and how the reversal of the availability crisis has made it all too easy to forget how traditional insurance rejected many of these risks only a year or two ago.

Purchasing group members usually

Continued on page 83.

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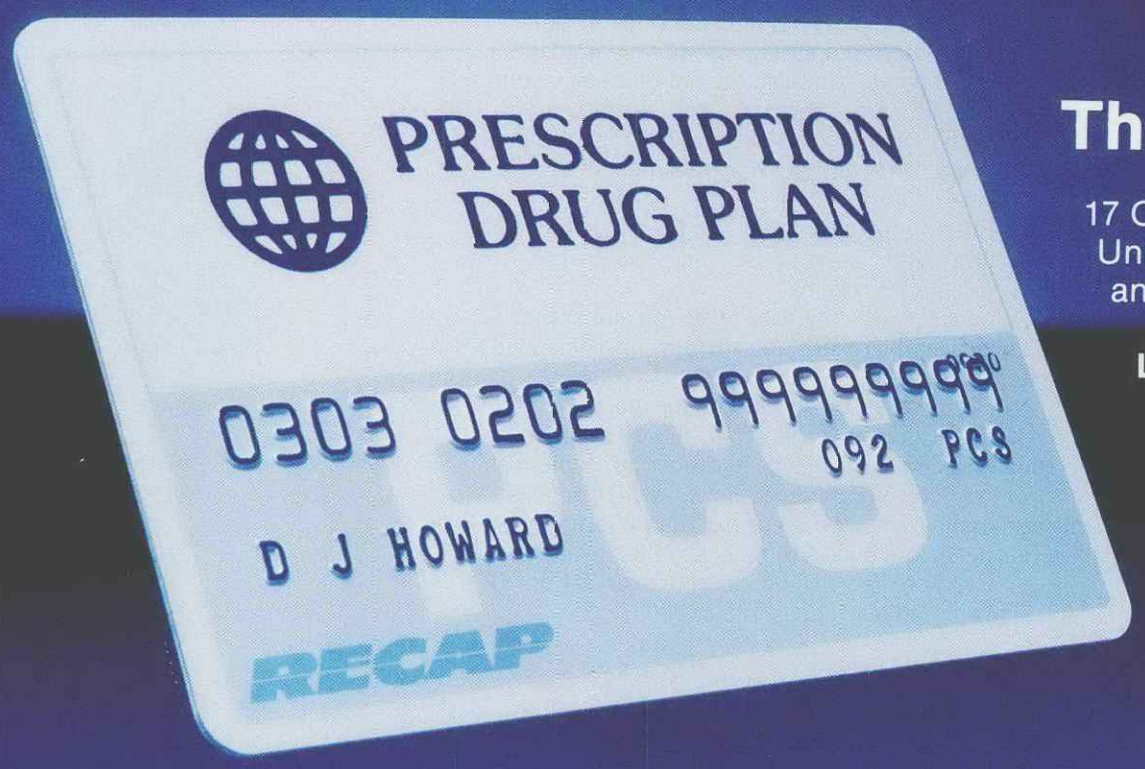

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Free trade

Continued from page 6

The two established players in the international market—CIGNA Worldwide Inc., a unit of Philadelphia-based CIGNA Corp., and American International Underwriters, a unit of New York-based American International Group Inc.—are already well-positioned for the changes slated for 1992.

CIGNA recently opened what it calls "risk management units" in Paris and London. The units, which service large risks, gather underwriters, engineers and loss adjusters into teams that structure coverage programs.

Altogether, CIGNA Worldwide has 72 offices in Europe.

In preparation for the removal of trade barriers in 1992, AIU formed UNAT S.A. in January 1987. UNAT combined the group's 13 continental European operations under one French-licensed, Paris-based company.

The restructuring has resulted in huge changes both internally and externally, said Steve Schleisman, president and chief executive officer of UNAT.

Internally "we are doing a more efficient job managing our own affairs in terms of computerization, cash flow handling and training," he said.

Externally, "decision making is easier and faster, which benefits our clients," he added.

Mr. Schleisman maintains UNAT is not perceived as an American company but as a true international company, which likely will give it an edge on many European companies that are regarded as representing the country where they are based.

He also rebuts arguments that European risk managers will remain nationalistic when the market opens, sticking with their national insurers.

"Many of our clients are multinational operations, the nationalistic tendencies already are disappearing," Mr. Schleisman said.

Brokers, too, are considering what moves to take in light of the impending changes in Europe.

"With regard to 1992, we see a positioning of brokers similar to the way insurance companies are establishing stronger positions," said Joe Chettle, deputy managing director of James International, a unit of Fred S. James & Co. in New York.

New York-based Marsh & McLennan Cos. Inc. late last year made a move partly in response to the changing European economic situation when it reorganized its insurance brokerage operations into three global units. Marsh & McLennan Bowring in London now controls all M&M units outside the Western Hemisphere.

Arthur Klein, senior vp with Frank B. Hall & Co. Inc. in Briarcliff Manor, N.Y., said the brokerage "has set up a committee composed of executives in the U.S. and in our major offices in Europe to plan for the 1992 changes."

Mr. Klein said Hall has no immediate plans to open or acquire offices in Europe. "We feel we are as well-positioned as the other major brokers," he observed, but added "we are always looking to expand and improve our positioning."

Jerome Karter, senior vp and manager of the international department at Johnson & Higgins in New York, said the broker would soon make an announcement regarding its plans for 1992.

U.S. multinationals may find it easier to control their European risks after the trade barriers are removed, observers point out, because they will be able to centralize and streamline their manufacturing and distribution operations.

Mr. Hoeh of Kemper stressed that the removal of trade barriers "affects all companies, not just insurance companies."

The ability for manufacturers to produce their products in one location and distribute without restriction throughout EC countries will result in "larger individual risks with greater capacity needs," Mr. Hoeh pointed out.

"I think it will place more demands on the insurance industry to provide loss control and engineering services and sufficient capacity to meet those needs," he added.

"I think the industry has to make a conscious effort to recognize the need that is developing there and provide the capacity," Mr. Hoeh stressed.

Edward Hester, assistant manager for the United Kingdom and Ireland for Swiss-based Zurich Insurance Co., agreed that the removal of trade barriers will likely prompt reorganization among the manufacturing operations of U.S.-based companies in Europe. Therefore, he noted, risk management measures within those operations will have to change.

When those companies begin operating in a single European market, he observed, "there will be a certain amount of restructuring and reorganization of U.S. companies' European operations, with sales and management teams assuming Europe-wide responsibility."

Such a centralization, he added, will make it easier for risk managers in Europe to control their risks.

William F. Sennett, managing director of European Risk Management Ltd., a consulting firm and captive manager in Weybridge, England, said, "for U.S. companies with centralized management, 1992 ought to simplify things. Assuming trade barriers do fall as envisioned, many companies will only need one insurer instead of having a strong insurance company in each territory."

Continental's Mr. Reid said the ability of U.S. multinationals to purchase coverage from one insurer for all European operations will be "a lot more efficient, instead of going to each country and buying local policies" for each location.

Some observers predict that risk managers eventually will have fewer European insurers competing to write their business in that part of the world.

"We will probably see a shakeout in the insurance industry over there," predicted Edmund B. Greene, manager of corporate insurance operations for General Electric Co. in Fairfield, Conn.

Continued on next page

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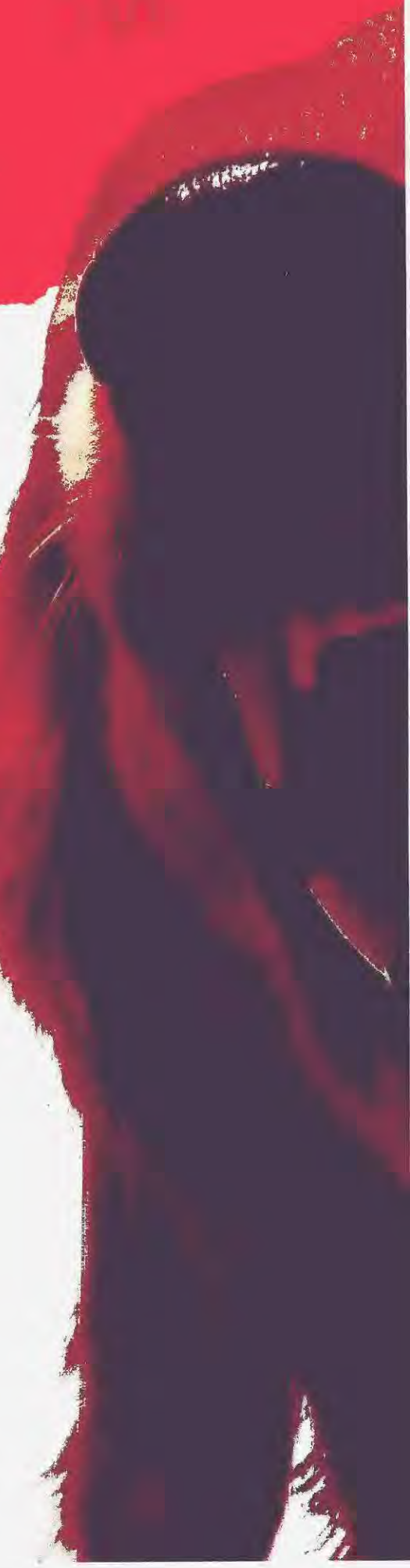

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Continued from previous page

And, he pointed out, risk managers will be watching closely the rearrangement in the European market. "It will be very, very key as to who is No. 1."

Companies like General Electric, which has European subsidiaries that are themselves large entities, will "have to make sure that their current carrier is tied in with the best insurer in each country."

"It should increase competition when the trade barriers come down," agrees Mr. Chettle of James. "I think you will find that the number of insurers will probably shrink and you will end up with 10 to 15 insurance groups dominating the rest."

Hartford Fire's Mr. Doyle said he, too, is looking for "a consolidation of markets" in Europe. He predicted that smaller companies that find it difficult to compete with larger insurance groups will merge.

Among U.S. risk managers, a new product liability law expected to be adopted by the 12 EC countries is of more concern than the removal of trade barriers in 1992.

They fear the law, which will impose strict liability on manufacturers, retailers and importers in the 12 EC nations and could lead to an increase in product liability claims (*BI,* Nov. 14).

So far, only three EC nations have passed national legislation to implement the directive: the United Kingdom, Italy and Greece. Meanwhile, the directive still is in various stages of parliamentary progress in the remaining EC countries.

Glenn MacCorkle, director of risk management and insurance at NCR Corp. in Dayton, Ohio, said he foresees "increased casualty exposures through product liability."

Mr. Wojdula said there is concern that Europeans are "approaching the U.S. situation in which there is a strict liability standard."

Many European risk managers fear that the introduction of strict liability in the European Community—which will remove the burden from the claimant of proving negligence on the part of the defendant—will increase forum shopping in Europe, produce more product liability claims, increase legal costs and increase demand for product liability insurance.

Mr. Ormerod of Zurich said the product liability directive in Europe probably will not have a drastic impact on rates there.

"There seems to be a general feeling that rates will not go up severely because of this legislation," said Mr. Ormerod. "We're hearing 10% to 15% perhaps." ■

Loss control can be lost in translation

By MARK A. HOFMANN

Just as an American sports fan soon finds out that his British counterpart doesn't mean the NFL when he talks about football, a U.S. risk manager may find that loss control is a whole different ball game overseas.

Rules, language, customs and popular attitudes toward safety can vary around the globe, and a successful multinational loss-control program depends on recognizing the importance of each in formulating a strategy, international loss-control experts say.

U.S.-based risk managers also must take into account such diverse factors as cultural and language differences, how workers compensation systems are funded in different countries and the chances of a natural disaster striking a new installation, they add.

"You simply can't address a loss control problem the same overseas as you do here," said William Ramonas, national property loss control manager for Johnson & Higgins in Parsippany, N.J.

One of the loss-control challenges Richard C. Heydinger, risk manager for Kansas City, Mo.-based Hallmark Cards Inc., has faced is convincing the management at the greeting card maker's European card-printing facilities to adopt U.S. property protection standards.

European insurers' standards for granting the equivalent of highly protected risk premium credits for loss-control measures are lower than those set by U.S. insurers, he explained.

To convince European risk managers to use U.S. property protection standards, "You've got to sell them on their merits," he said.

When Hallmark began replacing its European insurers with the London-based Factory Mutual International, many of Hallmark's European managers were "distraught" at the list of loss control improvements they were required to make, Mr. Heydinger said.

But, after convincing them of the soundness of the changes, the managers became quite supportive of the moves, he said.

"The biggest difference between the United States and overseas is that loss control engineering is not the same," said Ian Faragher, vp with Kemper International Insurance Co. in Long Grove, Ill.

Mr. Faragher, an Australian-born civil engineer, warned that while people seem outwardly the same in appearance and speak the same language, they do not necessarily think alike or view loss control the same way.

At the same time, expected cultural clashes do not always materialize, Mr. Faragher said.

For example, when he inspected a U.S.-owned mine on a remote Asian island about a decade ago, he had no idea what sort of reception to expect and was not particularly looking forward to his assignment. However, the week at the mine turned out to be a much more pleasant experience than he had anticipated.

The people involved made the difference, he said.

Because the mine was the major employer in a poverty-stricken area and the jobs the mining company provided had raised the standard of living considerably, "the people had real pride in the company. They were really interested in doing a good job," he said.

And, as far as the local managers were concerned, doing a good job meant knowing every possible

Continued on next page

Loss control

Continued from previous page
detail of the mining operation inside-out, including loss control, Mr. Faragher said. As a result, the local managers wanted to talk about safety and property protection well into the night—night after night—he said.

Similar enthusiasm is found in Pacific Rim nations, such as Singapore, the Philippines, Hong Kong and Taiwan, where economic growth has been fueled by rapid industrialization and a shift to high technology, Mr. Faragher added.

Although loss control techniques now are more sophisticated in the Pacific Rim, the very idea of loss control in some of these countries dates back only a few years, he explained.

Like the managers of the island mine, managers of new East Asian high-tech industries have taken a large interest in modern loss control techniques in the last 15 to 20 years.

"In a lot of these places, people were really hungry for knowledge," he said. Despite adoption of sophisticated loss control techniques and equipment, the desire to be absolutely up-to-date remains strong among overseas managers, Mr. Faragher said.

But while loss control personnel may be hungry for knowledge, their governments do not necessarily have an appetite for foreign-made loss control and safety devices.

For example, many countries will not allow foreign equipment to be imported if a reasonable domestic facsimile is available, noted Mario Herbello, senior property loss control consultant with J&H in Parsippany.

His colleague, Mr. Ramonas, described an experience in an Asian country as an example of protectionism getting in the way of protection.

The government would not permit a client that had built a large warehouse requiring a sprinkler system to use an imported system because a local firm produced what domestic officials considered to be a reasonable substitute.

However, the sprinkler heads on the domestic system, though beautifully tooled, did not meet standards set by either the Factory Mutual System engineers or Underwriters Laboratories. The sprinkler system was missing a single, but vital, component of which its manufacturer had not been aware and the product subsequently had to be retooled.

Mr. Herbello noted that local customs also can make the risk manager's job difficult. For example, an industrial accident may be considered an act of God or even a fortunate occurrence in some cultures.

To interfere with a worker's chance for another spin of the wheel of incarnation and reincarnation by demanding certain alien safety practices would be viewed as nothing less than interference with providence, he explained.

On a more down-to-earth level, risk managers need to be especially conscious of the sensitivities arising from language translation, said Robert E. Bebon, assistant vp-loss control for CIGNA Worldwide Inc., a unit of CIGNA Corp. of Philadelphia.

He cited the very term "loss control" as an example. In some Spanish-speaking countries, for example, the term "loss control" loosely translates into "security," Mr. Bebon said. And, in some countries, "security" is fraught with unpleasant political overtones. "It certainly doesn't inspire people to talk openly," he said.

In a less ominous, but nonetheless serious, situation, Robert Orzack, vp-loss prevention for Alexander & Alexander Inc. of New York, noted that ignorance of colloquialisms can lead to embarrassing slip-ups.

He cited the example of a foreign code that required fire doors to resist burning for 1½ hours. But, in another language, the document detailing the requirement called for the facility to have a "1:30 o'clock door."

To avoid misinterpretations, U.S. risk managers need people on-site who are aware of the subtle shadings of the local language, CIGNA's Mr. Bebon said.

For example, loss control inspectors at Latin American plants should be natives even if they are not of the same nationality as the managers of the facility being inspected, he said. This not only overcomes cultural differences, but also allows the inspectors to communicate more effectively with employees at all levels of the operation, said Mr. Bebon.

Although foreign managers might speak perfect English, odds are that plant maintenance people and machine operators are not likely to speak a language other than their native tongue, the CIGNA official said. Having an inspector who speaks the language like a native greatly improves the chances of getting the safety message across, he explained.

The international risk manager also must pay attention to natural differences, as well as cultural and linguistic ones, noted George B. Netherton, director—corporate risk management for Atlanta-based Coca-Cola Co.

Coca-Cola's overseas facilities operate on a decentralized basis, with local managers having considerable leeway in their loss control strategies, Mr. Netherton explained.

To reduce exposures when making overseas site selections, Coca-Cola often conducts a hazard analysis, he said. As part of that analysis, prospective sites for facilities are rated according to their hurricane, typhoon or other natural disaster exposures, he said. The company also takes the number of existing sites in a given area into account before deciding whether to build at a specific location.

"We don't want to concentrate too much value in any one place," he said.

While most international loss control experts stress the challenges involved in international property loss control, some also point to differences in the approach to casualty loss control.

For example, many Europeans don't place as high a value on casualty loss control as their U.S. counterparts, partly because they don't have the same financial incentives, said both A&A's Mr. Orzack and Joe Mullahey, national manager-casualty loss control for J&H in Parsippany.

In many countries, workers compensation systems operate on a different principle than those in the United States, with the state rather than private insurers providing benefits, Mr. Mullahey said.

Employers that pay into a government workers compensation fund based on the number of workers they employ rather than loss experience lack a powerful incentive to install state-of-the-art safety devices, A&A's Mr. Orzack explained. And, there is even less incentive in countries that have no workers compensation system of any kind, he added.

The conflict between U.S. worker safety standards and overseas expectations has led to a simple rule that E.I. du Pont de Nemours & Co. uses at its more than 100 overseas locations: "If our safety policies are higher, we use ours. If the other country's are higher, we use theirs," said a spokesman for the Wilmington, Del.-based company's international operations.

While DuPont's international plants have considerable leeway in their day-to-day operations, they must follow strict safety procedures, the spokesman said, adding that the company has emphasized safety since it began making gunpowder along the banks of the Delaware River in the early 19th century.

And, that emphasis has paid off: In 1987, DuPont lost 0.487 workdays due to injuries for every 200,000 hours worked worldwide, he said. Nevertheless, he said the company does not consider last year to be one of its better safety performances. ■

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Directory of global property/casualty insurers

American Excess Insurance Assn.

77 Hartland St., Suite 400, East Hartford, Conn. 06108; 203-528-2105

	1987	1986
Gross premiums..	$18,000,000	$15,000,000
U.S. based.....	30%	33%
Non-U.S. based.	70%	67%
Offices.....	0	0
Employees.....	0	0
Foreign countries.	6*	6*
Combined ratio...	NA	NA

* Estimate.

Year international operations began: 1986.

Specialities: Commercial lines in excess of $25 million.

Participating companies: Aetna Casualty & Surety Co., Insurance Co. of North America, Federal Insurance Co., United States Fire Insurance Co., The Home Insurance Co., North American Co. for Property & Casualty Insurance, The Travelers Indemnity Co., Zurich Insurance Co.-U.S. branch, Royal Insurance Co. of America, Maryland Casualty Co., Continental Casualty Co., Continental Insurance Co., American Home Insurance Co., General Star National Insurance Co.

Principal officers: T.V.A. Kelsey, president; Clinton Greene, vp; Norma Colgan, secretary/treasurer.

Contact: Clinton Greene, president, Farmington Management Inc., 203-528-2121.

How to use directory

The *Business Insurance* directory of global property/casualty insurers lists international insurers that responded to a *BI* questionnaire.

The directory is published as an editorial service; there is no charge for companies to be listed.

If provided by the insurer, financial and operational information for 1986 and 1987 is listed. Foreign gross premiums for property and casualty risks (and the percent generated by foreign operations of U.S. employers vs. foreign operations of non-U.S. employers) are given. Also provided are the number of foreign claims and underwriting offices, the number of foreign-based employees in U.S. and non-U.S. locations, the number of foreign countries represented as well as the number of countries in which the insurer owns offices (51% or more ownership). The insurer's combined ratio for foreign business is also given.

(*Business Insurance* defines "foreign" as business in any country other than that in which the insurer is domiciled.)

Next, the year the insurer's international operations began, its parent company (if any) and risks the company specializes in insuring are given. Special services related to international business are then detailed.

Names and locations of affiliates and subsidiaries and 1988 acquisitions of the insurer follow. Finally, names and titles of the insurer's principal officers and a U.S.-based contact person are supplied.

If you wish to locate countries in which the insurer does business, you may refer to the geographic index following the directory. Locations of branch offices, subsidiaries and affiliated companies are provided.

Listings are based on each network's response to the questionnaire; *Business Insurance* is unable to verify the information supplied.

American International Group Inc.-Foreign General Division

70 Pine St., New York, N.Y. 10270; 212-770-7000

	1987	1986
Gross premiums..	$2.5 billion	$2.1 billion
U.S. based.....	NA	NA
Non-U.S. based.	NA	NA
Offices: claims....	115	115
Underwriting...	300	300
Employees.....	6,540*	6,540*
Foreign countries.	130	130
Combined ratio...	93.4%	95%

* Estimate.

Year international operations began: 1919.

Parent company: American International Group Inc.

Specialities: Commercial property and casualty insurance.

Services: Provides international captive programs, international loss control services and worldwide loss statistics in support of international programs.

Office locations: Ivory Coast, Nigeria, Pakistan, Uganda, Zimbabwe, Bermuda, Antigua, Barbados, Cayman Islands, Dominican Republic, Grenada, Guadeloupe, Haiti, Jamaica, Netherlands Antilles, Puerto Rico, St. Kitts, St. Maarten, Argentina, Brazil, Colombia, Ecuador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru, Venezuela, Austria, Belgium, Canary Islands, Denmark, Finland, France, West Germany, Greece, Netherlands, Ireland, Italy, Liechtenstein, Malta, Monaco, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, Brunei, China, Hong Kong, Indonesia, Japan, Korea, Macao, Malaysia and Micronesia.

Principal officers: John J. Roberts, chairman-American International Underwriters; Houghton Freeman, president-American International Underwriters.

Contact: American International Underwriters, 212-770-7000.

Chubb Group of Insurance Cos. (Federal Insurance Co., Vigilant Insurance Co. and Chubb Insurance Co. of Europe)

15 Mountain View Road, Warren, N.J. 07060; 201-580-2000

	1987	1986
Gross premiums..	$377,497,000	$328,371,000
U.S. based.....	10%	17.2%
Non-U.S. based.	90%	82.8%
Offices: claims....	37	34
Underwriting...	37	34
Employees.....	903	885
U.S.....	60	57
Non-U.S.....	843	828
Foreign countries.	104	102
Owned offices....	15	12
Combined ratio...	92%	99.8%

Year international operations began: 1902.

Parent company: Chubb Corp.

Specialities: International package policies, directors and officers liability, fidelity, kidnap and ransom, film productions, international workers compensation, excess liability.

Services: Provides international captive programs, international loss control services and worldwide loss statistics in support of international programs.

Affiliates: La Federacion Compania de Seguros C.A., Venezuela; La Federal Compania de Seguros S.A., Colombia; ARGOS Companhia de Seguros, Brazil.

Subsidiaries: Chubb Insurance Co. of Canada, Canada; Chubb Insurance Co. of Europe, Belgium.

Principal officers: Robert M. Lynyak, managing director-international division; Lawrence Grant, Eu-

Continued on page 16

WHAT HAS REINSURANCE IN COMMON WITH GOTTFRIED W. LEIBNIZ?

Gottfried W. Leibniz – the famous philosopher and mathematical genius (1646 – 1716) lived most of his life in Hannover. Many epoch-making ideas, like the world's first viable calculator, are connected with his name. This calculator was the first to incorporate the four basic modes of mathematics.

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USA

Continued from page 13
ropean zone manager; Louis P. Charette, Pacific zone manager; Donald E. Mergen, chief underwriting officer.

Contact: Dennis Orio, marketing manager, 201-580-3608.

CIGNA Cos.- International Property & Casualty Operations

1600 Arch St., 14 JFK, Philadelphia, Pa. 19103; 215-523-5300

	1987	1986
Gross premiums..	$1.93 billion	$1.92 billion
U.S. based.....	16.7%	13.6%
Non-U.S. based.	83.3%	86.4%
Offices: claims....	194	204
Underwriting...	200	200
Employees.....	4,654	5,884
Non-U.S.....	4,654	5,884
Foreign countries.	126	129
Owned offices....	73	74
Combined ratio...	106.2%	106.3%

Year international operations began: 1792.

Parent company: CIGNA Corp.

Specialities: Commercial risks, construction, energy, boiler and machinery, international casualty, marine and large risks.

Services: Provides international captive programs, international loss control services, worldwide retrospectively-rated programs and worldwide loss statistics in support of international programs.

Office locations: 84 countries, including locations of subsidiaries, affiliates, branch offices and countries in which agency or equity participation exists.

Principal officers: Bruce K. Howson, president-CIGNA Worldwide Inc.; Stewart H. Steffey, senior vp-field management; Arthur H. Liebelt, senior vp-underwriting.

Contact: Steven DeBrovner, vp-marketing-CIGNA Worldwide Inc., 215-523-6026.

Continental International

1 Continental Drive, Cranbury, N.J. 08570-0013; 609-395-2000

	1987	1986
Gross premiums..	NA	NA
U.S. based.....	NA	NA
Non-U.S. based.	NA	NA
Offices: claims....	NA	NA
Underwriting...	NA	NA
Employees.....	1,200	1,350
Foreign countries.	65	62
Combined ratio...	NA	NA

Parent company: Continental Corp.

Specialities: Property and casualty risks for industrial and commercial insureds, multinational risks, small commercial accounts, personal lines.

Services: Provides international loss control services and worldwide loss statistics in support of major international property and casualty programs.

Subsidiaries: Continental Insurance (Europe) Ltd., management company located in London; Lombard Continental Insurance P.L.C., United Kingdom; Continental Insurance (U.K.) Ltd., United Kingdom; Intercontinental Seguradora, Brazil; CASA, Guatemala.

Principal officers: Kenneth B. Zeigler, president; Peter F. Reid and Michael Marchesani, senior vps; Dennis H. Fassett and William Coyle, vps.

Contact: Peter F. Reid, senior vp, 609-395-2475.

FM Insurance Co. Ltd.

Southside House, 105 Victoria St., London SW1E 6QT, England; 01-828-7799

	1987	1986
Gross premiums..	$90,391,000	$88 320,000
U.S. based.....	74%	77%
Non-U.S. based.	26%	23%
Offices: claims....	4	4
Underwriting...	4	4
Employees.....	400	352
Non-U.S.....	400	352
Foreign countries.	52	49
Combined ratio...	110%	137%

Year international operations began: 1973.

Parent companies: Allendale Mutual Insurance Co., Arkwright Mutual Insurance Co., Protection Mutual Insurance Co.

Specialities: Highly protected risks, property, business interruption and difference-in-conditions.

Services: Provides international captive programs, international loss control services, and worldwide loss statistics in support of international commercial and industrial property programs.

Subsidiaries: FM do Brasil Servicos de Prevencao de Persas Ltda., Brazil; Factory Mutual International Italia Srl., Italy.

Principal officers: S.D. Simpson, chairman/managing director; W.R. Simmons, director-marketing/corporate development; Jack F. Woods, director-engineering/underwriting; Margaret M. Edwards, director-administration.

Contact: T.W. Hiers, 401-275-3000; K.W. Davey, 617-890-9300; W.R. Linhares, 312-825-4474.

Hartford Fire International Inc.

Hartford Plaza, Hartford, Conn. 06115; 203-547-5000

	1987	1986
Gross premiums..	$997,000,000	$877,069,000
Non-U.S. based.	100%	100%
Offices: claims....	24	24
Underwriting...	20	20
Employees.....	1,672	1,654
Non-U.S.....	1,672	1,654
Foreign countries.	33	32
Owned offices....	12	10
Combined ratio...	108.9%	107.2%

Year international operations began: 1970.

Parent company: ITT Corp.

Affiliates: Transatlantische Insurance Group, West Germany; Abbey Overseas Group, Bermuda.

Subsidiaries: London & Edinburgh Insurance Group, United Kingdom; Zwolsche Insurance Group, Netherlands; Hartford Fire International Germany, West Germany.

Acquisitions: Hartford Fire International Germany was purchased in 1988.

Principal officers: Lawrence S. Doyle, president; Rex A. Barberis, executive vp; Robert M. DeBoer and James N. Leber, senior vps; Paul E. Engstrom, vp/chief actuary; Kenneth A. Hemming, vp/controller.

Contact: Lawrence S. Doyle, president, 203-547-4936.

Kemper International Corp.

Long Grove, Ill. 60049; 312-540-3767

	1987	1986
Gross premiums..	$35,500,000	$29,300,000
U.S. based.....	30%	30%
Non-U.S. based.	70%	70%
Offices: claims....	16	15
Underwriting...	16	15
Employees.....	139	117
U.S.....	17	20
Non-U.S.....	122	97
Foreign countries.	9	9
Owned offices....	9	9
Combined ratio...	NA	NA

Year international operations began: 1970.

Parent company: Lumbermens Mutual Casualty Co.

Specialities: All lines of property/casualty insurance with emphasis on industrial property.

Services: Provides international captive programs, international loss control services, worldwide retrospectively-rated programs and worldwide loss control statistics in support of international programs.

Affiliates: Several foreign-based property and casualty insurance companies.

Subsidiaries: Kemper International Insurance Co. (Pte.) Ltd., Singapore; Kemper Insurance Co. Ltd., Australia; Kemper Management Co., Bermuda; Seven Continents Insurance Co. Ltd., Bermuda; Kemper S.A., Belgium; Lumbermens Mutual Casualty Co. Japan Branch, Japan.

Principal officers: J.S. Kemper III, president; T.J. Hoeh, senior vp; A.J. Espinosa, I.R. Faragher, K.R. Flatman, W.L. Halvorsen and G. Ranieri, vps.

Contact: Theodore J. Hoeh, senior vp, 312-540-3767.

Royal Insurance U.S.A.

9300 Arrowpoint Blvd., Charlotte, N.C. 28217; 800-537-6925

	1987	1986
Gross premiums..	NA	NA
U.S. based.....	NA	NA
Non-U.S. based.	NA	NA
Offices: claims....	NA	NA
Underwriting...	NA	NA
Employees.....	14,000	14,000
Non-U.S.....	14,000	14,000
Foreign countries.	76	76
Owned offices....	40	40
Combined ratio...	NA	NA

Continued on page 18

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GMD is a division of American International Life Assurance Company of New York, a member company of American International Group.

Continued from page 16

Year international operations began: 1846.

Parent company: Royal Insurance P.L.C.

Specialities: All-risk except oil, high-hazard chemical and pharmaceutical.

Services: Provides internatinal captive programs, international loss control services, worldwide retrospectively-rated programs, worldwide loss statistics in support of international casualty programs.

Affiliates and subsidiaries: Located in Canada, Netherlands, United Kingdom, Channel Islands, Isle of Man, Australia, Belgium, Chile, Hong Kong, Kenya, New Zealand, Spain, Uruguay, Ireland, West Germany, Bahamas, Brazil, Venezuela, Ecuador, Colombia, Jamaica, Nigeria, South Africa, Korea, Indonesia, Trinidad, Malaysia, Zimbabwe, Barbados and Portugal.

Principal officers: William E. Buckley, president/chief executive officer; Arthur F.S. Evans, executive vp; John E. Amico, vp.

Contact: G.J. Orford, assistant vp, 212-553-3398.

Travelers Insurance Cos.

1 Tower Square, Hartford, Conn. 06183-7040; 203-277-2777

	1987	1986
Gross premiums	NA	NA
U.S. based	NA	NA
Non-U.S. based	NA	NA
Offices: claims	NA*	NA*
Underwriting	NA*	NA*
Employees	NA*	NA*
Foreign countries	110	110
Combined ratio	NA	NA

* Business conducted through foreign offices of affiliate and subsidiary companies.

Year international operations began: 1965.

Parent company: The Travelers Corp.

Specialities: Small and medium-sized multinationals.

Services: Provides international captive programs, international loss control services, worldwide retrospectively-rated programs and worldwide loss statistics in support of international programs.

Affiliates: Guardian Royale Exchange, United Kingdom; L'Union des Assurances de Paris, France; Riunione Adriatica di Sicurta, Italy.

Subsidiaries: Travelers Indemnity Co. of Japan, Japan; La Metropole, Belgium.

Principal officers: Bruce S. MacMillian, vp; James W. Webb, second vp; James Kuhn, Dave DeMott, James Moy, Kevin Vaughan and Elizabeth Nolan, regional managers.

Contact: James W. Webb, second vp-international department, 203-277-2777.

Zurich Insurance Group

The Zurich Towers, 800 N. Plaza Drive, Schaumburg, Ill. 60196-1056; 312-605-7000

	1987	1986
Gross premiums	$5.8 billion	$4.2 billion
U.S. based	NA	NA
Non-U.S. based	NA	NA
Offices: claims	600	600
Underwriting	550	550
Employees	25,260	23,800
U.S.	2,500	2,350
Non-U.S.	22,760	21,450
Foreign countries	80	80
Owned offices	32	32
Combined ratio	NA	NA

Year international operations began: 1872.

Parent company: Zurich Insurance Co.

Specialities: Reverse flow and global property/casualty, product liability on foreign-manufactured goods.

Services: Provides international captive programs; international loss control services; worldwide retrospectively-rated programs; and worldwide loss statistics in support of property, business interruption, general liability, product liability, automobile, workers compensation and employers liability programs.

Affiliates and subsidiaries: 10 U.S.-based and 72 foreign-based companies.

Principal officers: Rolf F. Hueppi, chief operating officer-Zurich Insurance Co.; William H. Bolinder, chief executive officer-Zurich-American Insurance Group.

Contact: Tom Hite, general manager-international division, or John Ormerod, director of marketing-international division, 312-605-6531. ■

Geographic listing of global insurers

Antigua

American International Group Inc.-Foreign General Division
CIGNA Cos.

Argentina

American International Group Inc.-Foreign General Division
CIGNA Cos.
Zurich Insurance Group

Australia

CIGNA Cos.
Kemper Insurance Co. Ltd. (Kemper International Corp.)
Royal Insurance U.S.A.
Zurich Insurance Group

Austria

American International Group Inc.-Foreign General Division
CIGNA Cos.
Zurich Insurance Group

Bahamas

CIGNA Cos.
Royal Insurance U.S.A.

Bahrain

Zurich Insurance Group

Barbados

American International Group Inc.-Foreign General Division
CIGNA Cos.
Royal Insurance U.S.A.

Belau

CIGNA Cos.

Belgium

American International Group Inc.-Foreign General Division
Chubb Insurance Co. of Europe (Chubb Corp.)
CIGNA Cos.
Kemper S.A. (Kemper International Corp.)
La Metropole (Travelers Insurance Cos.)
Royal Insurance U.S.A.
Zurich Insurance Group

Bermuda

Abbey Overseas Group (Hartford Fire International Ltd.)
American International Group Inc.-Foreign General Division
CIGNA Cos.
Kemper Management Co. (Kemper International Corp.)
Seven Continents Insurance Co. Ltd. (Kemper International Corp.)
Zurich Insurance Group

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Brazil

American International Group Inc.-Foreign General Division
ARGOS Companhia de Seguros (Chubb Corp.)
CIGNA Cos.
FM do Brasil Servicos de Prevencao de Persas Ltda. (FM Insurance Co. Ltd.)
Royal Insurance U.S.A.
Zurich Insurance Group

British Virgin Islands

CIGNA Cos.

Brunei

American International Group Inc.-Foreign General Division

Cameroon

CIGNA Cos.

Canada

American Excess Insurance Assn.
Chubb Insurance Co. of Canada (Chubb Corp.)
CIGNA Cos.
Royal Insurance U.S.A.
Zurich Insurance Group

Canary Islands

American International Group Inc.-Foreign General Division

Cayman Islands

American International Group Inc.-Foreign General Division
CIGNA Cos.

Channel Islands

Royal Insurance U.S.A.

Chile

CIGNA Cos.
Royal Insurance U.S.A.

Colombia

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CIGNA Cos.
La Federal Compania de Seguros S.A. (Chubb Corp.)
Royal Insurance U.S.A.

Curacao

CIGNA Cos.

Cyprus

CIGNA Cos.

Denmark

American International Group Inc.-Foreign General Division
CIGNA Cos.
Zurich Insurance Group

Dominican Republic

American International Group Inc.-Foreign General Division
CIGNA Cos.

Ecuador

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CIGNA Cos.

Royal Insurance U.S.A.

Egypt

CIGNA Cos.

Finland

American International Group Inc.-Foreign General Division

France

American International Group Inc.-Foreign General Division
CIGNA Cos.
Kemper S.A. (Kemper International Corp.)
L'Union des Assurances de Paris (Travelers Insurance Cos.)
Zurich Insurance Group

Gabon

CIGNA Cos.

Ghana

CIGNA Cos.

Greece

American International Group Inc.-Foreign General Division
CIGNA Cos.

Grenada

American International Group Inc.-Foreign General Division

Guadeloupe

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CIGNA Cos.

Guatemala

American International Group Inc.-Foreign General Division
CASA (Continental International)
CIGNA Cos.

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CIGNA Cos.

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CIGNA Cos.

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Spotlight report

Continued from previous page

Isle of Man

Royal Insurance U.S.A.

Israel

CIGNA Cos.

Italy

American International Group Inc.-Foreign General Division
CIGNA Cos.
Factory Mutual International Italia Srl. (FM Insurance Co. Ltd.)
Riunione Adriatica di Sicurta (Travelers Insurance Cos.)
Zurich Insurance Group

Ivory Coast

American International Group Inc.-Foreign General Division
CIGNA Cos.
Zurich Insurance Group

Jamaica

American International Group Inc.-Foreign General Division
CIGNA Cos.
Royal Insurance U.S.A.

Japan

American International Group Inc.-Foreign General Division
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Lumbermens Mutual Casualty Co. (Kemper International Corp.)
Travelers Indemnity Co. of Japan (Travelers Insurance Cos.)
Zurich Insurance Group

Jersey

CIGNA Cos.

Kenya

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Royal Insurance U.S.A.
Zurich Insurance Group

Lebanon

CIGNA Cos.

Liberia

CIGNA Cos.

Liechtenstein

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Zurich Insurance Group

Luxembourg

Zurich Insurance Group

Macao

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CIGNA Cos.

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Mali

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Malta

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Martinique

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Mexico

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CIGNA Cos.
Zurich Insurance Group

Micronesia

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Monaco

American International Group Inc.-Foreign General Division
CIGNA Cos.

Morocco

Zurich Insurance Group

Netherlands

American International Group Inc.-Foreign General Division
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Kemper S.A. (Kemper International Corp.)
Royal Insurance U.S.A.
Zurich Insurance Group
Zwolsche Insurance Group (Hartford Fire International Ltd.)

Netherlands Antilles

American International Group Inc.-Foreign General Division

New Zealand

CIGNA Cos.
Royal Insurance U.S.A.

Nigeria

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Northern Mariana Islands

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Panama

American International Group Inc.-Foreign General Division
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Paraguay

American International Group Inc.-Foreign General Division
CIGNA Cos.

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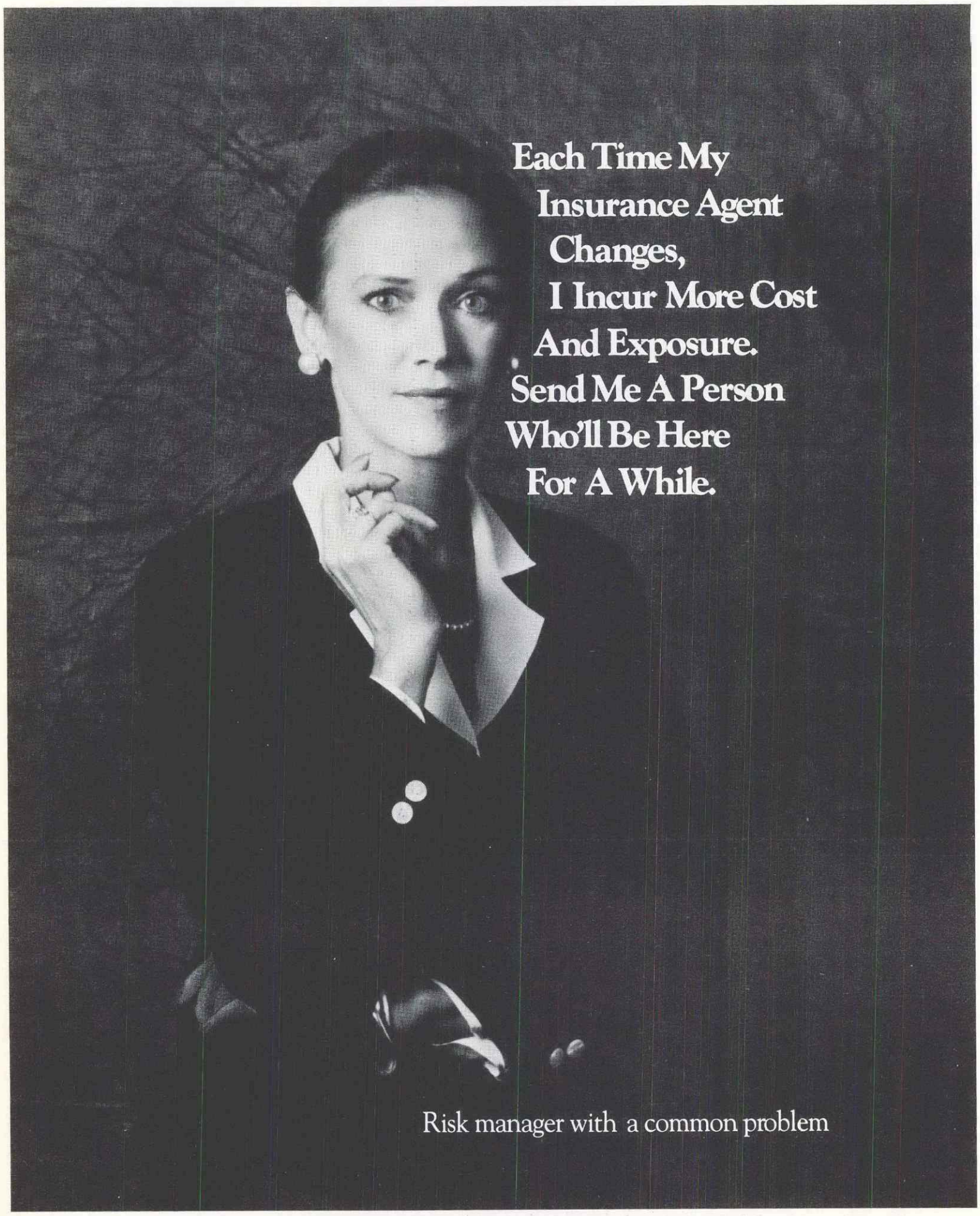

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Peru

American International Group Inc.-Foreign General Division
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Philippines

CIGNA Cos.
Zurich Insurance Group

Portugal

American International Group Inc.-Foreign General Division
CIGNA Cos.
Royal Insurance U.S.A.
Zurich Insurance Group

St. Christopher & Nevis

CIGNA Cos.

St. Kitts

American International Group Inc.-Foreign General Division

St. Maarten

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Saudi Arabia

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Senegal

CIGNA Cos.

Singapore

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Zurich Insurance Group

South Africa

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South Korea

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Royal Insurance U.S.A.

Venezuela

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West Germany

American Excess Insurance Assn.
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Zurich Insurance Group

Zimbabwe

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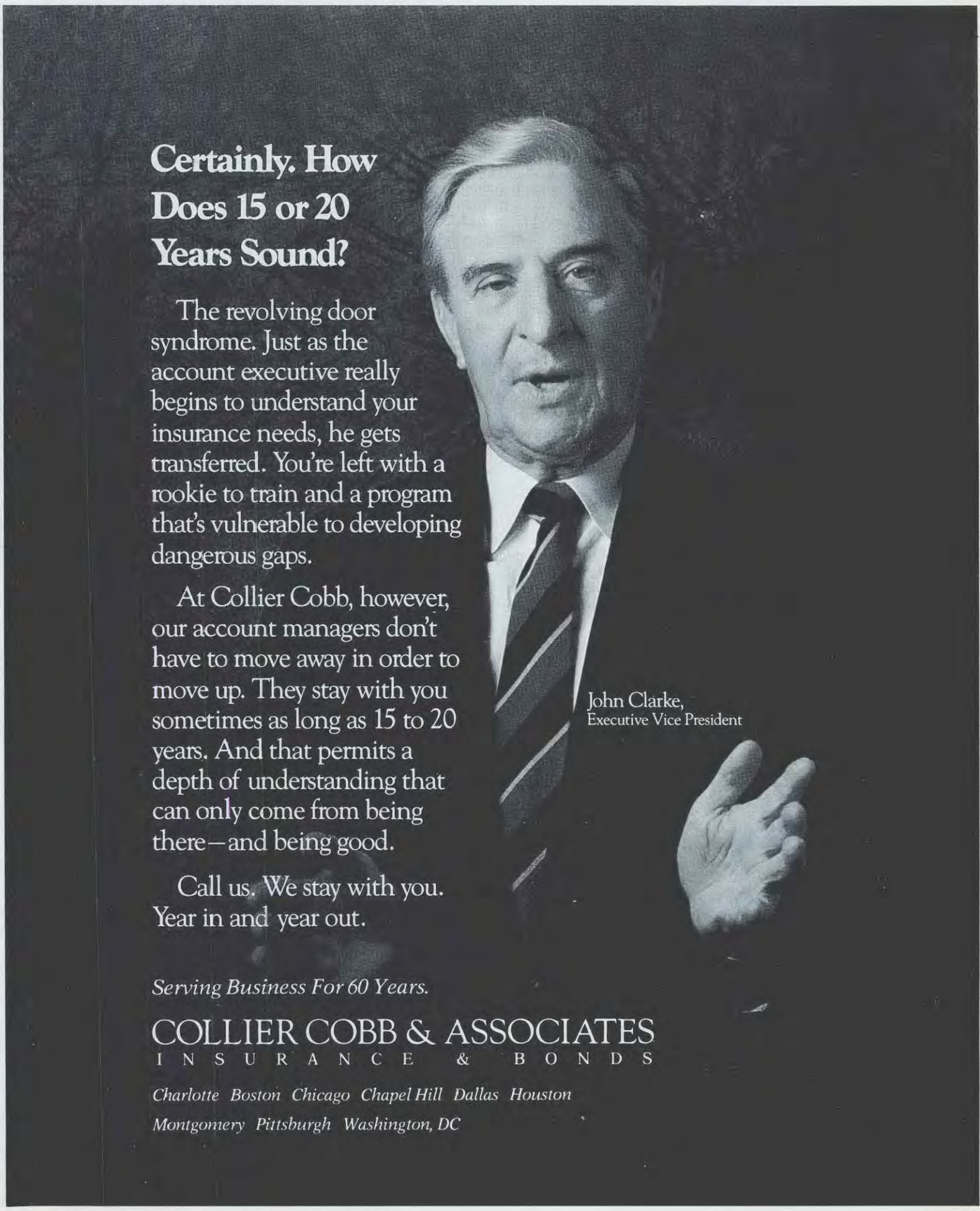
Royal Insurance U.S.A. ■



Benefit networks

Continued from page 3

east Asia doesn't present itself," said Thomas Rowley, a managing director of William M. Mercer-Meidinger-Hansen Inc. in New York.

Kurt Schoenkopf, manager of employee benefits underwriting for CIGNA Worldwide Inc. of Philadelphia, a unit of CIGNA Corp., said CIGNA expects future growth to come "from smaller, emerging international companies" primarily located in the Pacific Rim countries.

"All the networks are concentrating on the Pacific Rim," said Burt Murdock, vp of The Wyatt Co. in Stamford, Conn.

In fact, instead of just signing agreements with local insurers in those countries, some of the networks are looking to buy their own companies or form subsidiaries, he pointed out.

For example, Winterthur Swiss Insurance Co. in New York plans to expand in the Far East primarily through acquisitions and joint ventures, said Vp Jim Long.

Some networks still expect growth in Europe and other areas of the world.

European multinational benefit pooling is "still on the growth curve," said Hank Magnusen, an international benefit consultant in the Secaucus, N.J., office of Buck Consultants Inc.

For example, Mr. Long pointed out that Winterthur also plans to increase acquisitions in Europe. He noted that the insurer last year acquired two new companies in Europe: one in West Germany and the other in Italy.

Winterthur also increased its holdings in a Swiss company, he said.

Donald Kinloch, U.S. multinational accounts manager for the American International Group Inc.'s Group Management Division in New York, said he expects future growth in "selective countries in Europe." The United Kingdom and Spain are "two areas of real growth" for the AIG division.

Mr. Kinloch said he also expects growth in the Pacific Rim and, "to a lesser degree," in South America and the Middle East.

AIG last year opened new subsidiaries in Italy, Turkey and Korea, he noted.

"The North American market is a fairly stable market but Europe and Japan are growing quite rapidly," said Geraldine Pangaro, field vp of John Hancock International Group Program in Boston.

Philipp Frei, president of Swiss Life North American Services Inc. in Ridgewood, N.J., said that although he expects growth "certainly in the Far East and Latin America," Europe will account for the Swiss Life network's "biggest growth."

Mr. Frei related that Swiss Life this year bought a large Swiss insurance company, Lausanne-based La Suisse Ste. d'Assurances sur la Vie, that accounted for about 7% of the Swiss market. Following this acquisition, Swiss Life now has more than one-third of the life/health insurance market in Switzerland, he noted.

Swiss Life this year also dissolved an agreement it had with AIG to use AIG affiliates—which primarily are AIG subsidiaries—in the Far East and Latin America, Mr. Frei related.

In effect, for the past 20 or so years, AIG was the fronting company for Swiss Life in those regions.

Swiss Life dissolved the agreements because the AIG subsidiaries did business with all the networks and Swiss Life wanted exclusive arrangements with local affiliates, Mr. Frei explained.

"Now we have direct affiliates" that are "exclusively working with our networks" in those areas, Mr. Frei said. "The exclusive approach is the most efficient approach."

'All the networks are concentrating on the Pacific Rim,' says Wyatt's Burt Murdock. In fact, instead of just signing agreements with local insurers, some of the networks are looking to buy their own companies or form subsidiaries, he points out.

Since the agreements were dissolved, Swiss Life has added affiliates in eight countries: Argentina, Venezuela, Taiwan, Singapore, Thailand, Malaysia, the Philippines and Hong Kong.

The insurer already had affiliates in Japan, South Korea and Brazil.

Mr. Frei added that Swiss Life expects to add affiliates in another four to six countries in the next couple years.

Mr. Kinloch of AIG commented that the split with Swiss Life does not affect AIG a great deal. Generally, it is "positive—it shows that we've both grown," he said.

Europe, as well as the Pacific Rim, is going to be a growth market for The Aetna/Generali International Benefits Network in Hartford, Conn., said Elaine McDonald, director of international marketing.

"We think Spain is going to continue to be interesting," Ms. McDonald said. "Spain seems to be one of the more exciting countries from the viewpoint of industrialization."

Ms. McDonald also noted that Aetna/Generali formed a company in Taiwan about a year ago that will come into the network on Jan 1.

"Generally (the networks are) trying to grow by filling in countries they don't have," observed Mr. Bernstein of Hewitt Associates.

In addition to targeting different regions for growth, some networks are targeting specific types of employers.

New business will come "particularly from the high-tech industries," predicted Anthony Gillam, vp of Johnson & Higgins in New York. "That's where a lot of (networks) are trying to pick up new business."

Networks also are targeting mid-sized businesses that have not used international employee benefit networks previously, he pointed out.

Ms. McDonald said Aetna/Generali International Benefits Network is targeting smaller companies, new startups expanding overseas and high-tech businesses.

To attract new clients and maintain existing business, some networks are developing new products and features.

Often, innovation happens "locally rather than worldwide," pointed out Hewitt's Mr. Bernstein.

For example, some of the networks have developed new techniques for a more efficient administration of medical expenses in Mexico, he related.

Mr. Bernstein explained that numerous new businesses that employ many minimum-wage, non-union workers are located in the Maquila area of Mexico, which borders the United States.

Although these workers do not

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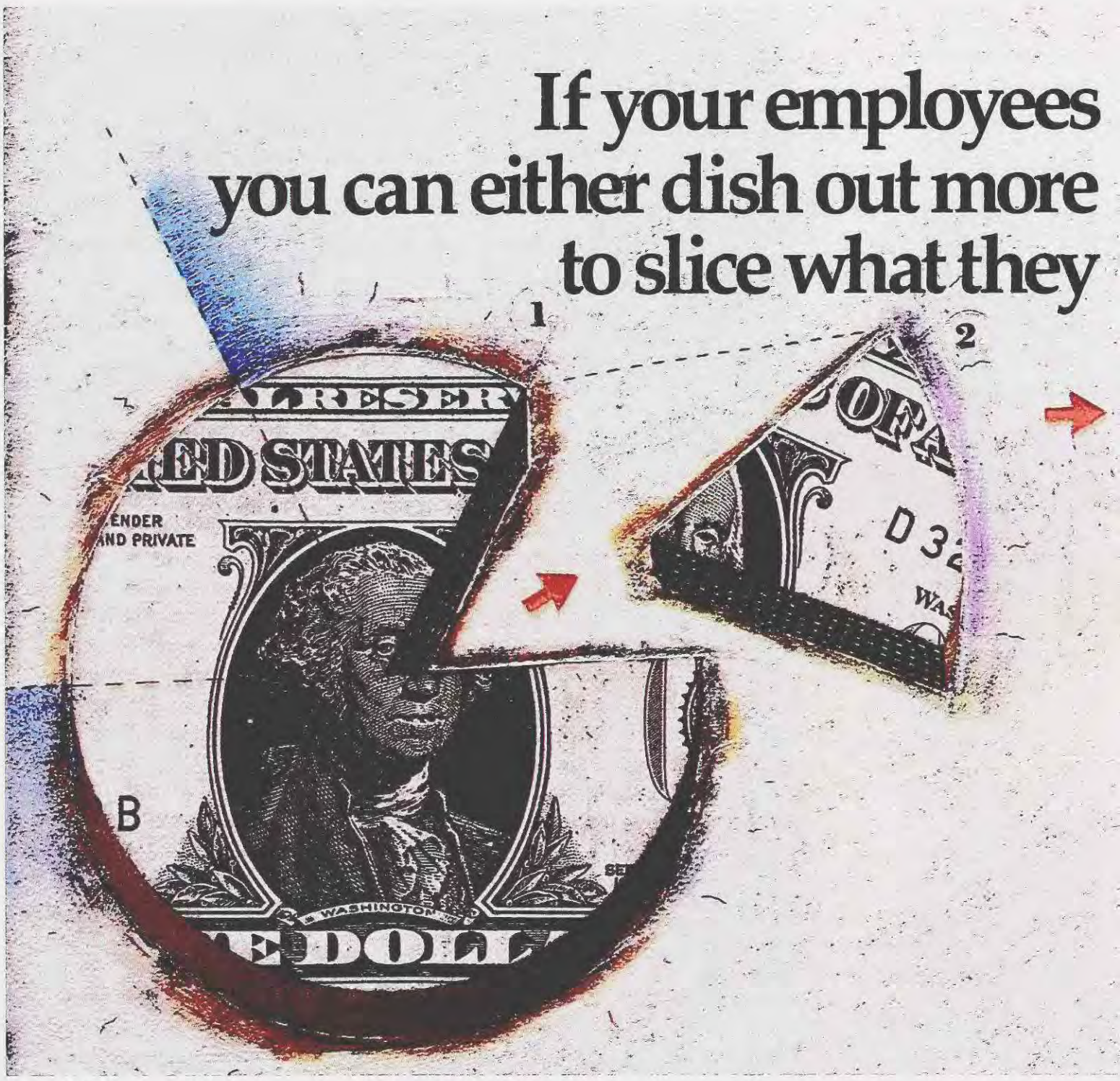

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earn a great deal of money, for convenience—and often because of a belief that medical care in the United States is superior to that in Mexico—many cross the border to receive their health care.

In response, some local network affiliates are charging higher rates—either through higher deductibles or premiums—for medical coverage if the treatment is received in the United States, Mr. Bernstein said.

Among other new features popular with multinational employers are cash-flow improvements, said Ms. Pangaro of John Hancock.

In Europe, Swiss Life has introduced new pension-related features, such as managed funds, Mr. Frei related. These products appeal particularly to U.S. clients, he noted.

Also, "in various European countries," Swiss Life "has increased dividend payments and rebates," he added.

'The true, true large amounts of money in play are in the pension side,' says Mr. Long of Winterthur. 'Clients are becoming more sophisticated and consultants are becoming more inquisitive' about getting better rates of return on pension funds.

Winterthur has developed a managed fund in Switzerland, and the fund has grown substantially, according to Mr. Long. "We want to expand that to countries beyond Switzerland," he said.

In Argentina, Aetna/Generali has developed a new pension product that revalues an employer's pension funds to keep up with the cost of living index, Ms. McDonald said.

The product, which is a group deferred annuity, was introduced this year, she said.

Aetna/Generali also bought a medical society, or health care provider, in New Zealand, which allows the company to offer health insurance products there.

"There's been tremendous interest" in this, Ms. McDonald said. It is "very attractive for the management category of employees."

In Australia and the United Kingdom, local insurance companies have developed investment management services, Mr. Rowley of Mercer-Meidinger-Hansen noted.

Many of the new products and features that international employee benefit networks are implementing are designed to improve cash management and retain business, experts say.

For example, if premiums are due Jan. 1, the insurer may let the client pay the premium two or three months later, explained J&H's Mr. Gillam.

Mr. Rowley agreed, noting that networks now will "entertain a variety of cash-management techniques," including letting clients pay 70% of the premium up front and the other 30% later.

Networks also are willing to speed up payment of international dividends, which are awarded to parent companies for good loss experience.

Networks also are developing into broad investment managers in some cases.

"Insurance companies are, generally speaking, trying to see themselves in more of an investment management role," and this is true of the international employee benefit networks as well, Mr. Rowley said.

The networks "need to distribute overhead over as broad a range of products as possible," he continued.

"The true, true large amounts of money in play are in the pension side," said Mr. Long of Winterthur.

"Clients are becoming more sophisticated and consultants are becoming more inquisitive" about getting better rates of return on pension funds, he added.

The networks are "very vulnerable on the pension business that's pooled," Wyatt's Mr. Murdock explained. Multinational employers "think they can get a better return than the guaranteed rate from the insurance companies."

He speculated that in the future, clients may pull pension money out of the pools and invest it themselves.

Multinationals also want networks to be flexible and responsive to their needs, experts say.

"Clients in this market are really looking for flexibility from their multinational carrier," said Mr. Kinloch of AIG.

Flexibility "continues to be the key word," said Hewitt's Mr. Bernstein. "The companies that aren't flexible won't survive."

"Buyers are not accepting simply what the network's product is," said Robert Pickrell, president of Insurope/The Multinational Benefits Associates in South Norwalk, Conn. Clients want a network that responds to their particular needs, he continued.

For example, William Wortman, director of international compensation and benefits for The Coca-Cola Co. in Atlanta, said he wants a network with the flexibility to bend its underwriting rules to accommodate all the employees in a pool, instead of underwriting country-by-country based on the employees in a pool in each individual country.

In some instances, networks are going to extreme lengths to be flexible to retain clients, said Mr. Rowley of Mercer-Meidinger-Hansen.

For example, sometimes when a network gets into a deficit situation with a client, the network is willing to write off part of the deficit, rather than carrying losses forward to the next experience year and risk losing the client, he explained.

In this way, "both sides win," Mr. Rowley said. The network, instead of having to absorb 100% of the loss, gets to salvage a portion, and the company does not have to find a new network, he said.

Another way networks are being flexible is providing some clients administrative services only.

Some multinational employers—especially large employers—increasingly are self-funding their international benefits programs and are using the networks for administrative purposes only.

For example, some clients like programs that allow them to take on all or part of the risk in exchange for a lower administrative charge, John Hancock's Ms. Pangaro noted.

This kind of arrangement "appeals to the larger multinationals," she pointed out.

Multinational employers want to "manage risks on their own," said Mr. Bernstein of Hewitt. "It happens among the companies that are big enough to want to take on that risk themselves."

Multinationals that self-fund use the networks as stop-loss insurers as well as obtain administrative services from them, he noted.

Providing administrative and management services only "would move the networks in a different

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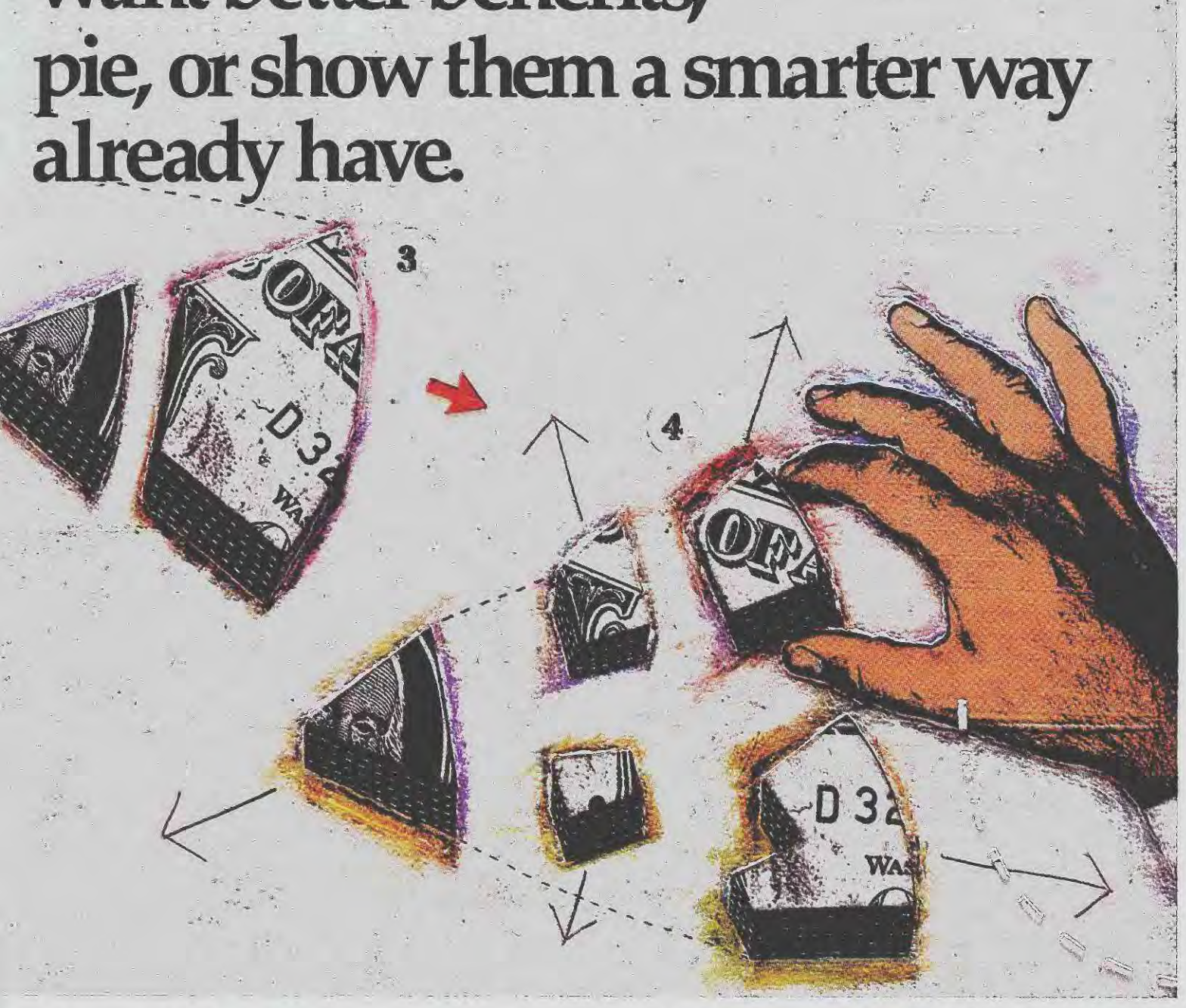
want better benefits, pie, or show them a smarter way already have.



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Benefit networks

Continued from previous page

direction" than in the past—"the same direction as the large insurance companies in the U.S.," he said.

Mr. Magnusen of Buck speculated that "we might see the changing of network pooling from a financial reason. . .to a control of information reason" as clients purchase administrative and management services only.

And Mr. Gillam of Johnson & Higgins said that many networks, aware of this trend, are "trying to improve the quality of service they provide" by making more information available faster to clients.

Mr. Rowley of Mercer-Meidinger-Hansen also noted that another possible change in the future involves how "a company's captive insurance company can play a role" in the international employee benefit process.

For example, some countries require employers to maintain reserves for such things as incurred but not reported claims in the event their contracts with local affiliates are terminated.

If a multinational employer were allowed to promise that its captive would cover all claims in the event of a contract termination, the employer would not have to maintain the reserve, according to Mr. Rowley.

One issue not plaguing multinational employers is the cost of benefits, which are not rising like the cost of employee benefits in the United States because many foreign employee benefit programs do not include health insurance.

And there is not a great difference in the cost of providing pension benefits outside the United States vs. in the United States, explained Gerald F. Bloom, manager of employee benefits for New York-based ITT Corp. ■

Global benefit networks pool firms' experience

An international employee benefit network is a working arrangement among different insurers through which a multinational employer is able to obtain employee benefits coverages for two or more of its foreign-based subsidiaries through one master contract.

The claims experience of the employers' foreign subsidiaries is pooled by the network, and good loss experience is rewarded with an "international dividend."

Benefits covered through networks can include medical, life, accidental death, short- and long-term disability and pensions.

Whether a benefit is pooled in a particular country depends, in part, upon the quality of any state-sponsored benefit program and whether the benefit can be purchased less expensively locally.

Network structures can vary.

A network can be formed by one insurer with subsidiaries in many foreign countries; by two large life insurance companies, usually a cooperative arrangement between one U.S. firm and one overseas; or by several independent foreign insurers. One unusual pooling program lets a multinational client form its own network by using insurers of its choice.

Most networks' master cover contracts include two agreements.

The first agreement is between the multinational's local subsidiary and the local insurer that is a member of the pooling program.

The local insurer charges a premium, plus a risk charge to cover losses that exceed the income from the master cover contract, catastrophic coverage and costs involved if the contract is canceled. The premium is usually paid by the local subsidiary.

On the local level, a dividend is paid to the subsidiary if the insurer has a good year and the income exceeds costs. Local laws may determine the size of the dividend and if it must be paid to the multinational's local subsidiary or if it can be sent to corporate headquarters.

The second agreement, between the network and the client's corporate headquarters, provides for pooling of all local contracts.

Unfavorable claims experience in one country may be offset by good experience in another country.

The total experience of all the subsidiaries is combined to determine if the parent corporation will receive an international dividend.

When determining the international dividend, the network tallies premiums, investment earnings and reserves at the start of the year against claims, commissions, risk and expense charges, local dividends and reserves at year-end.

Unfavorable claims experience in one country may be offset by good experience in another. However, if on a worldwide basis an international account produced a loss, the network may treat it in one of three common ways:

- Stop-loss system: Losses that exceed the surplus in a client's international account are fully underwritten by the network insurers in that experience year with no losses carried forward. The risk charge for this type of account is generally higher than for others.
- Loss-carryforward system: All losses are charge to the current account and any negative balance is carried forward to the next experience year. The risk charge in this case is reduced to covering catastrophic losses and cancellation of a contract with a deficit.
- Loss-carryforward system with contingency fund: All losses and negative balances are treated as above. However, to reduce the normal risk charge for loss carryforward, a contingency fund is established and maintained with an annual allocation with which future losses may be offset.

In years of unfavorable claims experience, the contingency fund is first drawn upon to cover losses and any negative balance remaining is carried forward.

The contingency fund is an interest-bearing account. If a client cancels its contract with the network, that client's portion of the fund is fully refunded less any amount that had been used.

A multinational's pooling account is balanced usually once a year, although it may be less often for smaller clients. It is balanced first on the local level and then on the network level. ■

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Trade barriers

Continued from page 3

tailed timetable to achieve a European market without internal barriers by Dec. 31, 1992 (*BI,* May 16).

When the EC legislation is completed, there will be a package of 300 proposed laws designed to free the movement of goods and capital among the EC member countries.

The removal of trade barriers in Europe could entice international employee benefits networks to increase their marketing throughout the European Community, benefits experts say.

For example, Kurt W. Schoenkopf, manager of employee benefits underwriting for CIGNA Worldwide Inc. of Philadelphia, a unit of CIGNA Corp., said that although CIGNA's current marketing thrust in not primarily in Europe, CIGNA does "anticipate considerable new opportunities in Europe" after 1992.

CIGNA Worldwide currently has only one affiliate in the European Community, Crusader Insurance P.L.C. in the United Kingdom.

There will be "a lot more competition" among international employee benefit networks, concurred Elaine McDonald, director of international marketing for The Aetna/Generali International Benefits Network in Hartford, Conn.

Anthony Gillam, a vp at Johnson & Higgins in New York, suggested that "ultimately, you may see a breakdown of high tariffs in Europe," which would result in lower prices and open markets.

"You have to expect (the 1992 accords) to represent a general deregulation of the (insurance placement) process" in Europe, said Thomas Rowley, a managing director of William M. Mercer-Meidinger-Hansen Inc. in New York.

However, many experts say it is unclear how the cross-border insurance placements will be regulated.

For example, while the European Commission in December 1987 passed a directive on cross-border purchases of non-life insurance, it has not yet outlined how cross-border pension, life and health insurance placements will be regulated.

Many benefits experts say that removing the European trade barriers will be a difficult and lengthy process.

"There will be much more opposition (to the 1992 accords) than we expect right now," predicted Philipp Frei, president of Swiss Life North American Services Inc. in Ridgewood, N.J.

"Europeans are very proud of their inheritance," he explained, so they may not readily give up the distinctions, including trade laws, that have traditionally existed between countries.

For example, Mr. Frei related that after representatives of each EC country worked for several months and agreed on joint rules limiting exhaust fumes from cars, one minister at the last minute voted against the rules in the final vote three months ago. A vote must be unanimous for a rule to be approved.

"Similar things will happen" in the effort to remove trade barriers for life/health insurance products, Mr. Frei predicted. "We will have to go through many, many votes and elections before the Europeans get everything worked out."

Because of this, "it's really too early to tell" what the true impact of the accords will be on insurance and pension programs provided by international employers, said Geraldine Pangaro, field vp of John Hancock International Group Program in Boston.

Jim Long, vp of Winterthur Swiss Insurance Co. in New York, complained that often the European insurance regulations and "cartels" are used as an excuse for inflexibility.

'There will be much more opposition (to the 1992 accords) than we expect right now,' says Mr. Frei. 'Europeans are very proud of their inheritance,' so they may not readily give up the distinctions that have traditionally existed between countries.

The real meaning of the 1992 accords is that "some of the facade will be removed," he said.

The 1992 accords "raise a lot of questions which don't have answers right now," concurred Jerry Bloom, manager of employee benefits at New York-based multinational ITT Corp.

Mercer's Mr. Rowley agreed that "no one is quite clear on what this is going to mean." As a result, "it is clearly going to bring about the reconsideration of some theoretical possibilities that were put aside as not worth the bother," he predicted.

For example, "Will we see a Pan-European pension fund?" Mr. Rowley asked. That "will clearly become more feasible" after the EC trade barriers are removed, he continued.

However, Mr. Rowley said he is "skeptical" about whether the administrative difficulties would make it worth establishing such a fund.

However, William Wortman, director of international compensation and benefits for The Coca-Cola Co. in Atlanta, said Coca-Cola would be very interested in a Pan-European pension fund because it would significantly reduce the administrative costs for multinational pension obligations.

Mr. Wortman explained that employers in different countries could contribute to one central fund that would make investments in several countries.

The fund then would pay out each participating employer's pension obligations.

However, Burt Murdock, vp of The Wyatt Co.'s Stamford, Conn., office, said that a multinational pension program is unlikely because "no country wants to let pension reserves go out of the country for investment."

Mr. Murdock predicted that because of Europeans' traditionally protective nature, the 1992 promulgations are "not going to bring" about any change in pension investments. It will be "almost a non-event," he said.

Sam Bernstein, a consultant with Hewitt Associates of Lincolnshire, Ill., said that when the European trade barriers are removed in 1992, multinational corporations may be able to pool their foreign employee benefits without using the networks.

If that happens, "multinational networks could become obsolete—at least in Europe," according to Mr. Bernstein. That is "a possibility that the insurance networks need to address."

However, Mr. Long maintains that benefit networks' local affiliates will continue to be important after trade barriers are removed in Europe.

"Local service will not be replaced by the 1992 promulgations," he said. ■

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Multinationals enhance state health plans

By DONNA DiBLASE

U.S. employers are providing group health care benefits to overseas employees to enhance or replace government-sponsored health care plans offered in most foreign countries, say international benefit consultants and multinational benefit managers.

Most multinationals institute such health care plans to attract and retain employees, the benefits experts say.

In addition, companies provide health care benefits so that employees can receive the best and most expedient care possible, ensuring employees' quickest return to work and productivity, according to consultants and benefits managers.

'The practice by multinational firms of supplementing or substituting health coverage for overseas employees is widespread. And, the programs range from plans for executive-level employees all the way down,' says Mr. Murdock.

Mutinational employers offering these benefits use a variety of vehicles.

In some South American and Latin American countries, for example, some multinationals offer employees health care coverage through a "clinica," a prepaid plan similar to health maintenance organizations in the United States.

Additionally, while health care plans for overseas employees typically cover both outpatient care—such as office visits to a physician—and hospital care, the degree of employee cost-sharing in the plans varies widely, the experts say.

However, health care cost control under these overseas plans is not as big a concern as it is in the United States, partly because most physician and hospital rates overseas are government-regulated, observers say.

And, since many of these employer plans supplement government health care programs, employers' costs are limited.

"The practice by multinational firms of supplementing or substituting health coverage for overseas employees is widespread. And, the programs range from plans for executive-level employees all the way down," said Burt Murdock, a vp in the Stamford, Conn., office of The Wyatt Co.

In fact, "in the United Kingdom, the practice of providing private health insurance (by companies) has been in existence for a long time and has been most popular among the higher-paid employees," said John Roberts, a partner in the Rowayton, Conn., office of Hewitt Associates.

However, "more companies now are providing health plans to all employees" at all levels, Mr. Roberts added.

In addition, offering overseas employees health care coverage "has been around for a while. It's not anything that's just now emerging," said Dick Souders, vp and manager of international benefits for Johnson & Higgins in New York.

Also, "in a lot of countries in which there are socialized medicine programs, those social programs are really not going to be able to afford more care and facilities as the populations in those countries age," explained Giles Archibald, a managing director and head of international consulting in the New York office of William M. Mercer-Meidinger-Hansen Inc.

So, "over the last 10 years, employers have started to provide health plans to their employees in other countries," continued Mr. Archibald.

For example, Merck & Co., the Rahway, N.J.-based pharmaceutical giant, has offered group health care coverage to its employees outside the United States for more than 15 years, said Tony Filippelli, manager of international employee benefits.

Merck currently offers health care coverage to about 8,000 employees in 20 foreign countries. The plans are insured with local insurers in these countries.

Overseas employees of Schering-Plough Corp. have been offered group health insurance for more than 10 years, according to Mary Thompson, manager of international benefits for the Kenilworth, N.J.-based pharmaceutical firm.

Under the "portable" health care plan the company offers to 90 or so executives and traveling sales managers, employees can receive care anywhere in the world and be reimbursed for the costs, she explained.

This is the only overseas health care plan that Schering-Plough offers.

The plan mirrors the health insurance plan the company offers to its employees in the United States, she said. Newark, N.J.-based Prudential Insurance Co. of America administers the plan.

Multinational companies provide health care plans for several different reasons, consultants and benefit managers noted.

"A major reason multinationals provide these plans is to attract and retain employees. But, they also are concerned about the health and welfare of their employees," said Mercer's Mr. Archibald.

Merck has a couple of objectives behind providing health care plans to employees, Mr. Filippelli explained.

"Benefit plans such as these generally serve as devices to attract, retain and motivate employees, which in the long run enhances your business objectives," he said.

In addition, "many public health care systems are underfunded and overcrowded. We're in the health care industry and we therefore endeavor to provide our employees and their families with alternatives to ensure them the best care available at the most reasonable cost," he added.

Plus, "getting employees back on the job and in healthy condition as quickly as possible is in our best interest, as well," he explained.

In fact, in some countries, Merck employs part-time company physicians "to treat aches, pains and

Continued on next page

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Health benefits

Continued from previous page

bruises. If a case is more serious than this, the doctor will refer it out," he said. The service is free for employees.

The idea behind this is to minimize the amount of time employees spend off the job to receive outside medical care, Mr. Filippelli explained.

There are additional reasons multinationals provide health plans for overseas employees.

At Schering-Plough, "we offer the type of plan that we do because it goes with employees. We want to make sure that they are covered wherever they are," said Ms. Thompson.

And, "it just makes sense from both a competitive and moral standpoint," she added.

Memphis, Tenn.-based Federal Express Corp. provides health care plans to its 7,500 overseas employees "because it's competitive. Most other good companies do the same thing," said John Hill, senior adviser, international compensation and benefits for the courier company.

One disadvantage of offering substitute coverage in several countries is that 'you already pay a contribution to the social security system for medical coverage, so you're paying for health care coverage twice,' says Burt Murdock of Wyatt.

That coverage is pooled through The Aetna/Generali International Benefits Network based in Hartford, Conn.

Multinationals can provide health care benefits for employees outside the United States in two forms, observers say.

In most countries, the coverage is provided as a substitute for the local government-sponsored health care program. Under this type of private health care coverage, employees can receive care from private providers and avoid the waiting time commonly involved in receiving care through government programs. This is in keeping with many companies' objectives of getting employees back to work as soon as possible.

Along with substitute health care coverage, multinational employers also can provide the insurance on a supplemental basis. That is, the employer-provided plan pays for whatever treatment the local government program does not cover.

"Substitute coverage is widely used in Latin America, South America and the United Kingdom," explained Mr. Murdock of Wyatt.

However, one disadvantage of offering substitute coverage, particularly in these countries, is that "you already pay a contribution to the social security system for medical coverage, so you're paying for health care coverage twice," he noted.

However, in the Netherlands, people can receive health care through the government program only if they earn less than 48,000 guilders ($24,211 at current exchange rate) per year. After that, citizens must secure their own health care coverage, according to Mr. Murdock of Wyatt and Mr. Hill of Federal Express

Federal Express offers health care coverage to all of its employees in Holland, for which the company pays up to 50% of the premium, Mr. Hill said.

Supplemental coverage is the only type of private health insurance permitted in Canada, as the law prohibits coverage that duplicates the provincial health care system, several experts pointed out.

Both Merck and Federal Express provide supplemental coverage for their employees in Canada.

In addition to these types of coverage, some experts noted that a common practice in some South American and Latin American countries is to offer substitute health care through a prepaid arrangement in which employees receive care from a certain panel of physicians.

"In some countries, particularly the Latin countries, you see an HMO-type arrangement," said Mr. Archibald of Mercer.

In addition to this "clinica" type of plan, "there is a trend in Brazil toward a free-choice plan. These are similar to our Blue Cross/Blue Shield plans where there is a list of 4,000 to 5,000 physicians" with whom fees are pre-negotiated, explained Mr. Filippelli of Merck.

Both the clinica and free-choice arrangements are offered by employers as a substitute for the government health care program.

Merck offers the "clinica" type of coverage and not the free-choice plan.

Merck also offers coverage that substitutes for the government-sponsored health care programs in England, Ireland, Portugal, Spain, France and Belgium. In South America, substitute coverage is provided to employees working in Colombia, Ecuador, Peru and Venezuela.

Coverage also is provided to employees in Lebanon and Hong Kong, as well as in Athens, Greece, and 12 other cities in the Middle East, Mr. Filippelli said.

In addition to the supplemental coverage Federal Express offers its employees in Canada, the company also offers either supplementary or substitute coverage in Belgium, France, the United Kingdom, Hong Kong, Singapore, the United Arab Emirates and 18 locations throughout the Caribbean, Mr. Hill said.

Multinational employers and benefit consultants note that the degree of cost-sharing by employees under overseas health plans varies according to the type of plan offered—substitute or supplemental—and the benefits practices of the company's competitors.

However, while cost-sharing is a major form of cost containment for employers' U.S. benefit plans, the issue of cost control is not as big of a concern for overseas employees, the experts said.

"Fees are regulated in many cases or self-regulated (by doctors) in others, so you don't have runaway costs," Mr. Filippelli said.

"Cost control is not really as great an issue with these plans as with our U.S. plans because in most cases we're paying only what the government doesn't pay," said Mr. Hill of Federal Express.

"Plus, our overseas plans usually cover a much smaller number of employees than our U.S. plans do" so the plans are not as costly, he added.

Also, because medical malpractice claims are less frequent in other countries than in the United States, physicians are less likely to practice defensive medicine to protect themselves against lawsuits, some experts noted.

In addition, hospitalization in most foreign countries occurs less frequently than in the United States—usually only when a person is seriously ill. So, hospital costs under an overseas health plan generally are lower, they said. ■

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Puerto Rican law aids retirement savings

By DONNA DiBLASE

SAN JUAN, Puerto Rico—Tax-deferred retirement savings plans are the newest employee benefit to reach the sunny shores of Puerto Rico.

Puerto Rico—a commonwealth of the United States—enacted on Jan. 1 Section 165(e) of the Puerto Rico Income Tax Act, the island's own tax code. The section creates pretax retirement savings plans very similar to the plans allowable under the Section 401(k) of the U.S. Internal Revenue Code.

While consultants predict interest among Puerto Rican employers in 165(e) plans will be high, they point out that employers have been initially slow to adopt the plans. But, this may be similar to the slow initial reaction to 401(k) plans when they were introduced in 1980 in the United States, according to one consultant.

Employers also may be awaiting the release of the final regulations on the tax act, expected before the end of the year, consultants said.

However, at least one U.S.-based multinational employer is taking advantage of the new section of the Puerto Rican tax code and will offer its Puerto Rican employees a tax-deferred savings plan beginning Jan. 1.

"Almost all of our major multinational clients who have 401(k)s for their employees in the U.S. are at least putting their toes in the water. If they haven't done anything yet, they're at least asking questions," said Bettye Baldwin, a consultant in the San Juan office of The Wyatt Co.

Puerto Rico's tax act borrows heavily from the U.S. tax code as it stood before the Tax Reform Act of 1986, said Andy Anderson, a consultant in the Lincolnshire, Ill., office of Hewitt Associates.

Until October 1987, Puerto Rico's tax act contained no provisions permitting tax-deferred savings arrangements, such as Section 401(k) plans, he said.

At that time, the commonwealth adopted the original U.S. tax codes pertaining to tax-deferred savings plans and related tax reform provisions such as limits on maximum contributions.

While the tax considerations of Section 165(e) plans are governed by Puerto Rico's own tax act, the design of the plans also is governed by the federal Employee Retirement Income Security Act of 1974, the consultants said.

Section 165(e) also are governed by Puerto Rico's own labor laws, specifically Labor Law No. 17. This law imposes certain requirements on payroll deductions, which may pose plan design problems for a 165(e) plan that calls for employee contributions through salary deductions, Ms. Baldwin of Wyatt said.

Mainly, Labor Law No. 17 says that:

- Payroll deductions must go toward the payment or assessment for such group plans as pension, savings, retirement, life insurance, health insurance or any combination of these plans.
- The plan must be for the sole benefit of employees and their dependents and the employer is prohibited from receiving, taking or withholding for his own use the total or any part of the sum deducted from employees' wages.
- The employer must contribute to the plan an amount equal to that contributed by the employee, although employer contributions to other employer-sponsored benefit plans may be taken into consideration.
- Funds under the plan must be used to pay the cost of the benefits and must be turned over to either an insurer admitted in Puerto Rico or a trust bank authorized to operate in Puerto Rico.

'Almost all of our major multinational clients who have 401(k)s for their employees in the U.S. are at least putting their toes in the water. If they haven't done anything yet, they're at least asking questions,' said Bettye Baldwin of The Wyatt Co.

"This law was enacted in the 1930s to protect the workers in the sugar cane fields, whose employers were deducting money from their wages to cover food the employees bought in company stores. So, in many cases, the employees were working for nothing," Ms. Baldwin explained.

However, "a lot of companies now are taking on Law 17 because they feel it's served its purpose and it has prevented new benefits from being introduced in Puerto Rico," she added.

Section 165(e) of the Puerto Rico tax act and Section 401(k) of the U.S. tax are code very similar, but do have some differences.

For example, both 165(e) and 401(k) require tax-deferred plans to pass one of three coverage tests.

One test is that the plan benefit at least 70% of non-highly compensated employees. Under another, the plan must benefit a percentage of non-highly compensated employees that is at least 70% of the percentage of highly compensated employees participating in the plan.

And, under the third test, the plan must meet the average benefit percentage test.

However, where the tax laws differ is on the issue of highly compensated employees. Under Section 165(e), highly compensated employees are those who receive compensation higher than two-thirds of all eligible employees.

Under the U.S. tax code, this definition was abandoned under tax reform and a complicated administrative test was implemented to determine which employees are highly compensated (*BI*, Aug. 15).

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Continued from previous page

ments are essentially the same under 165(e) as under 401(k). That is, the plans can include loan provisions and hardship withdrawal provisions. However, as under the U.S. tax code, a plan participant must either take a loan from his or her account, or must be able to prove a specific hardship and that he or she cannot secure a loan elsewhere in order to receive a hardship withdrawal, the consultants said.

But, under Puerto Rico's tax code, employees do not suffer the 10% excise tax on early withdrawals from tax-deferred savings plans that the U.S. code imposes. They pay only the current taxable rate on the amount they collect from the plan.

In addition to withdrawal similarities, the participation and discrimination standards for tax-deferred plans are the same under 165(e) and 401(k), according to the codes.

For example, a plan must meet one of two average deferral percentage tests.

Under one test, the ADP for the highly compensated employees cannot be more than 125% of the ADP for all other eligible employees. Under the other test, the ADP for highly compensated employees cannot exceed by more than two percentage points, nor be more than two times the ADP for all other eligible employees, Ms. Baldwin of Wyatt explained.

The major difference here between the U.S. tax code and Puerto Rico's again is in the definition of highly compensated employees.

In addition to this difference, the Puerto Rico tax act also does not require that a plan benefit at least 50 employees, or if the company employs fewer, 40% of the employer's workers.

It also does not include a provision that requires separate coverage testing for each plan offered by an employer that operates separate lines of business.

Also, Sections 165(e) and 401(k) differ on maximum annual deferrals under tax-deferred savings plans. Under Section 401(k), the maximum annual deferral is $7,000. However, under Section 165(e), employees can defer up to 10% of their annual compensation, subject to a maximum contribution of $7,000. So, an employee would have to earn $70,000 per year to defer the maximum of $7,000.

"This is a two-pronged approach in Puerto Rico," said Mr. Anderson of Hewitt.

While Wyatt's Ms. Baldwin said "I really think that these plans are going to be the major new benefit in the next few years," she noted more of an investigative interest in the plans among employers. But, she added, this is not unlike the early days of 401(k) savings plans.

"In Puerto Rico, it's still in the phase like when 401(k)s were first introduced. Employers see the need first to educate employees to get them interested in the plans," Ms. Baldwin said.

Under the Puerto Rico tax act a plan must meet one of two average deferral percentage tests.

Along with education and gauging the interest level of employees, employers also may be waiting for the release of final regulations on 165(e), although no major surprises are anticipated, the consultants said.

"If some of the current statutory differences are treated with the attitude of not making roadblocks, there should be no major problems. I would expect Puerto Rico will look to the U.S. 401(k) regulations for guidance" in most cases where an employer offers both a 401(k) in the United States and a 165(e) in Puerto Rico.

Among the companies leading the way in this benefit area is Boehringer Mannheim Corp., an Indianapolis-based manufacturer of diagnostic health care products, which will offer a 165(e) plan on Jan. 1 to its 110 employees in Puerto Rico.

"We currently have an aftertax savings plan in place for this group of employees, but now we can make it a pretax savings plan. Right now, 90 of the 110 employees participate in the aftertax plan, so we expect very good participation" in the 165(e) plan, said Cheryl Buell, plan administrator for Boehringer Mannheim.

Along with adding the pretax feature to the plan, the company will add a matching contribution of 100% of the first 4% of salary employees defer to the plan, Ms. Buell said.

The aftertax plan currently in place is identical to an aftertax plan the company had sponsored for its employees in the United States. But, when the company added the 401(k) feature to the stateside plan, the Puerto Rico plan had to remain an aftertax plan, she said.

Now that the Puerto Rico tax code has been changed to allow tax-deferred savings plans, Boehringer Mannheim decided to convert its plan for employees there because "it's a great benefit for employees and it costs the company nothing," she explained.

For now, all of employees' contributions to the plan will continue to be invested in a guaranteed investment contract. However, more investment options could be added to the plan in the future, she said.

Boehringer Mannheim is working with Wyatt to communicate the new plan to employees in Puerto Rico. ■

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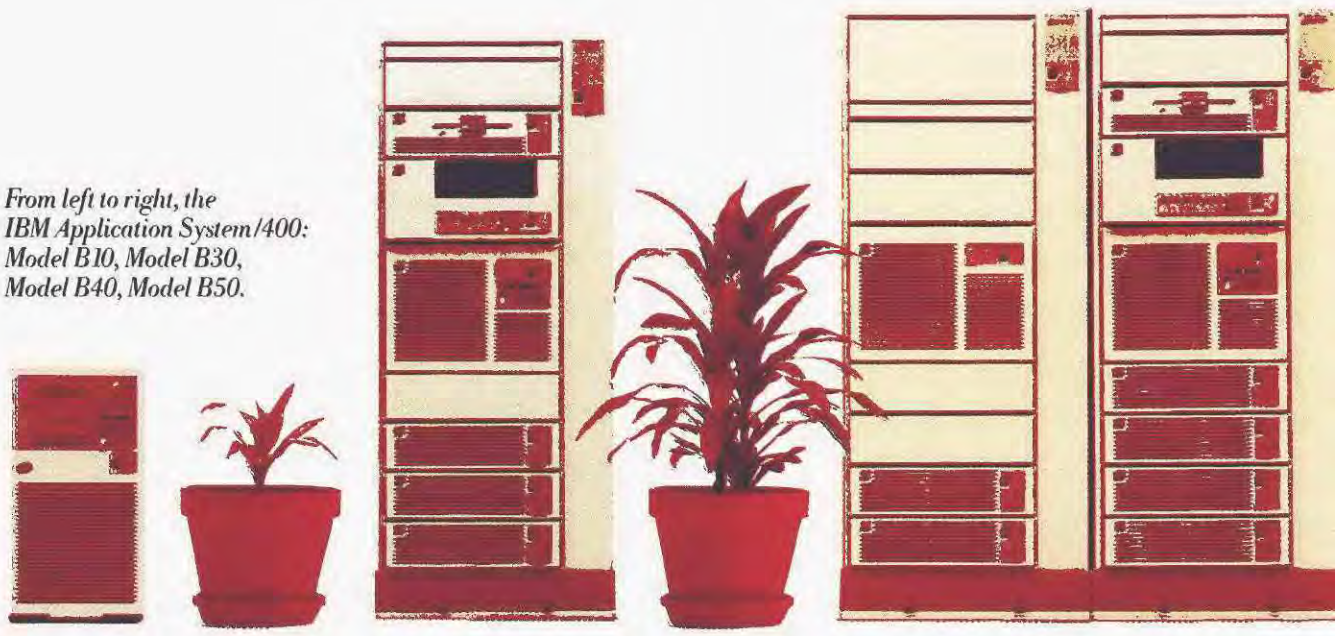

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Multinationals slow to comply with FAS 87

By STACY ADLER

Multinational employers that have not already begun to bring their foreign pension plans into compliance with Statement 87 from the Financial Accounting Standards Board are behind the game, according to several consultants and actuaries.

Even though U.S. multinationals do not have to include detailed financial information about their foreign pension plans on their balance sheets as required by FAS 87 until fiscal 1989, most companies should at least have begun the necessary work, the consultants say.

"A lot of companies are procrastinating, thinking they can get these calculations done at the end of fiscal 1989," said Sam Bernstein a consultant with Hewitt Associates in Lincolnshire, Ill. "But a U.S. company cannot go to its Dutch insurer in December 1989 and ask for the FAS 87 calculations."

'A lot of companies are procrastinating, thinking they can get these calculations done at the end of fiscal 1989,' says Sam Bernstein. 'But a U.S. company cannot go to its Dutch insurer in December 1989 and ask for FAS 87 calculations.'

Mr. Bernstein explained that many foreign insurers will not be prepared—or even able—to generate all of the detailed information needed to comply with FAS 87 on a timely basis.

"Companies lack an appreciation of the difficulty of this process and what is involved," agreed Dick Souders, vp and manager of international employee benefits at Johnson & Higgins in New York.

He explained that "there is a misconception by many employers that since they don't spend that much money on foreign pension plans, they don't require a lot of time" to comply with FAS 87.

Therefore, "the sooner employers look at this the easier it will be to get the figures out," said Fred Kenyon, an actuary with The Wyatt Co. in Stamford, Conn.

Mr. Bernstein agreed: "The longer a company delays the greater the potential problem."

He added that those "employers that are taking a ho-hum attitude (about FAS 87) will find themselves in real hot water."

"Those employers that have not begun to do their FAS 87 calculation are going to find themselves scrambling to play catch up," remarked Jerry Long, senior vp and director of international consulting services at the Alexander Consulting Group in Vienna, Va.

In addition, Mr. Long predicted that if too many employers wait until the last minute to do their calculations, they could face a "logjam" because there will not be enough actuaries to do the required work.

FAS 87, Employers' Accounting for Pension, requires companies to report pension plan liabilities on their balance sheets instead of merely disclosing them in footnotes to their financial statements (*BI*, April 6, 1987).

In addition to requiring reporting about their U.S. pension plans, FAS 87 also requires multinational employers to report financial information about their "material" foreign pension plans. However, FAS 87 does not define a "material" foreign pension plan.

Hubert Valdemoro, vp and actuary at J&H in New York, described FAS 87 as "a very prescriptive method by which employers must report on their financial statements the costs and liabilities of their domestic and foreign pension plans."

Specifically, FAS 87 requires employers to develop:

- A uniform actuarial cost method. Employers must develop one method for determining the costs of all their pension plans, both domestic and foreign. This means that although there are a variety of methods for determining the costs of a pension plan in each country that would be acceptable for tax purposes, FAS 87 demands that a single method be used companywide.
- A uniform amortization period. Previously employers could amortize the costs of their pension plan over any period of time. But under FAS 87, employers must amortize the costs based on the expected future service of their employees. "Under FAS 87 you cannot amortize at will," explained Mr. Valdemoro.
- Detailed balance sheet reporting. In the past, pension plans had no impact on an employer's balance sheet. Under FAS 87, a grossly underfunded pension plan could now appear as a liability on an employer's balance sheet.
- Current discount rate assumptions. In the past, employers used a variety of interest rates to determine the value of their pension plan liabilities. Under FAS 87, employers are forced to use current market rates on annuities or bonds to make this valuation. As Mr. Valdemoro said, FAS 87 "forces employers to look at the market."
- Key economic assumptions. FAS 87 also requires employers to make key economic assumptions about their pension plans such as future salary increases and return on invested assets.

Before FAS 87 was adopted, pension plan accounting was governed by Opinion No. 8 issued by the Accounting Principles Board, a forerunner to the FASB.

Employers had to apply FAS 87 standards to their U.S. pension plans for fiscal years beginning after Dec. 31, 1986. The standard takes effect for foreign pension in fiscal years beginning after Dec. 15, 1988 (*BI*, Nov. 3, 1987).

Bringing foreign pension plans into compliance with FAS 87 creates a host of problems for multinationals, consultants say.

"Most of the problems employers will encounter will be technical problems of implementation," said Dale L. Gerboth, a partner with Arthur Young & Co. in New York.

One of the main technical problems facing multinationals is difficulty in generating the necessary information for the FAS 87 calculations.

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Canadian firms use flex plans to meet changing worker needs

By KARI BERMAN

Unlike their U.S. counterparts that have started flexible benefit plans partly to fight rising health care costs, Canadian employers play a much smaller role in funding health care and primarily see flexible benefits as a way to meet the changing needs of employees.

Although only an estimated 30 Canadian companies currently have flexible benefit plans in operation—compared with the more than 500 flex plans in the United States—some consultants predict as many as 100 Canadian employers will offer flexible benefits by next year.

Factors propelling Canadian employers toward flexible benefits mirror those motivating U.S. employers: the desire to be viewed as a progressive company and to attract and retain the best employees.

"Companies want to get the superstars and keep them," said Robert McKay, partner and manager of flexible benefits in Canada for the Hewitt Associates' Toronto office.

"Sociologically, the change in the workforce of both countries is the same with more women professionals, single parents and double-income families. The primary difference is in each's system of health care delivery," according to Donald A. McGrath, vp and national benefits practice leader for the Toronto office of Towers, Perrin, Forster & Crosby Inc.

Canadian provincial health insurance plans pay 85% of citizens' medical expenses, including medical diagnostic services, hospital costs for ward care, surgical procedures and hospital-administered drug treatment.

Some employers pay all or part of the remaining 15% of their employees' health care expenses, while others do not make any contribution.

Each of Canada's 12 provinces determine how to fi-

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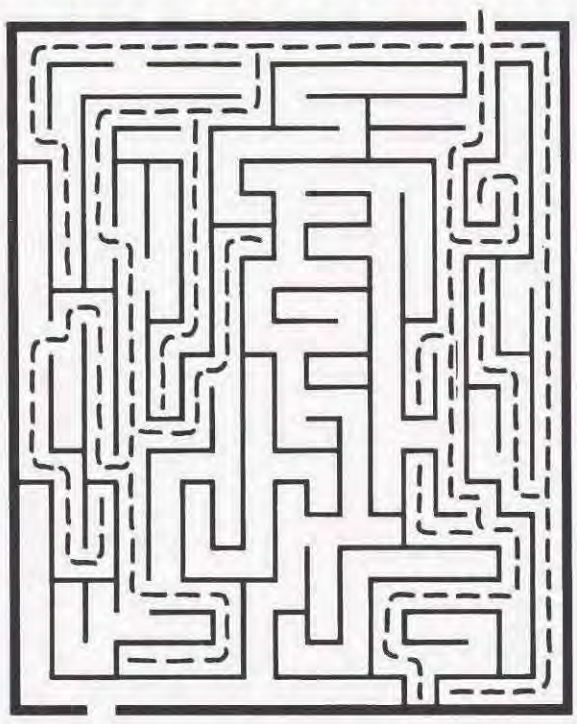

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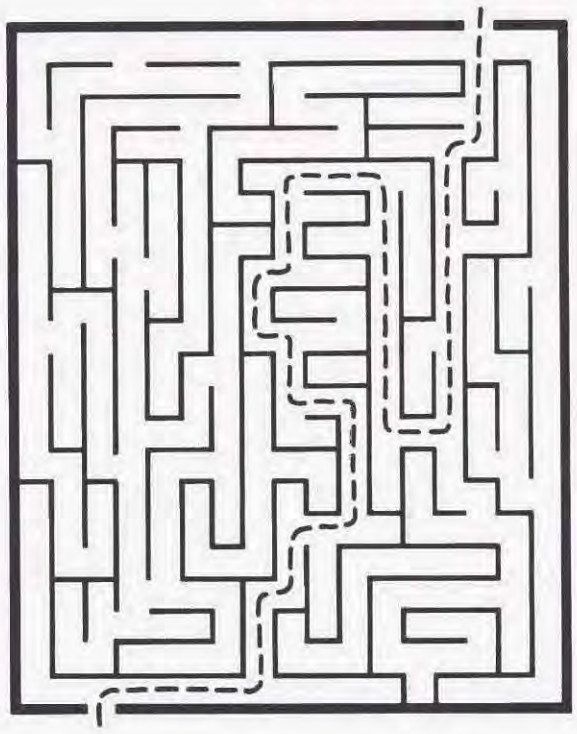

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FAS 87

Continued from previous page

In countries in which companies don't establish formal pension plans but do maintain termination indemnities—lump-sum payments given to employees when they leave their job for any number of reasons including retirement—employers will be generating the necessary employee data for the first time, said Mr. Gerboth.

Termination indemnities are not prefunded and, as a result, employers usually do not have detailed information about their employees in these countries, he explained.

To make matters worse, many foreign actuaries either will not be able to understand the need for the FAS 87 data or will simply be unable to gather the information on a timely basis, he said.

"It is very difficult to get local actuaries to understand FAS 87," agreed Mr. Souders of Johnson & Higgins.

Mr. Kenyon of Wyatt said many local actuaries confuse pension funding, or the amount of money contributed to the plan, with pension expense, or amounts reported in financial statements.

"FAS 87 is strictly an expense issue," he said. The standard does not dictate how employers should fund their pension plans. "Local management and actuaries have trouble with this."

As a result, "Eliciting cooperation of local people is the greatest problem" employers face when complying with FAS 87, according to Mr. Kenyon.

In addition to difficulties in generating the necessary employee data and eliciting cooperation from local actuaries, employers also will face problems in making the required economic assumptions under FAS 87.

"In countries where there aren't well-developed investments, you are looking at a best-guess situation," said Mr. Kenyon.

And, even where an employer is able to make the necessary economic assumptions, there will be problems when these figures fluctuate from year to year, according to Mr. Long of Alexander Consulting Group.

He suggested that employers recognize the volatility of these factors and use them to their advantage to either maximize or minimize earnings on the balance sheet.

"The statement does allow reasonable control of the volatility," said Mr. Long.

Finally, Mr. Souders of J&H warned that employers must leave themselves enough time to find solutions to these and other problems they may encounter when complying with FAS 87.

"For most employers the work should already be started," he said. ■

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Risk Management Planning and Support

Canadian flex

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nance its health care program. Currently, three different funding methods are in use: direct premiums from citizens; payroll taxes paid by employers; or general tax revenues.

Because the Canadian government absorbs the majority of major medical costs, designing "legitimate," U.S.-style flexible benefit programs with a substantial amount of choice can be a challenge, employee benefit experts agree.

"We see a lot of fake flex plans—where a company adds a couple of options and calls it flex," Hewitt's Mr. McKay said.

Since the government pays the majority of employees' health care costs, Canadian flex plans focus on enriched health care coverage and other perks such as health club dues, according to Madeleine Gaul, a principal at William M. Mercer Ltd. in Toronto.

The focus on benefits unrelated to major medical care in Canadian flex plans contrasts sharply with most U.S. flex plans.

Extensive medical coverage is recognized not only as the most important element of a U.S. flexible benefit plan, but also as the greatest financial burden to the employer, according to Hewitt Associates' "1987 Survey of Flexible Compensation Programs and Practices."

Extensive medical coverage is offered as an option by 98% of the 166 U.S. companies with flex plans included in the Hewitt Associates' survey.

A typical U.S. flex plan includes the following options:

- A choice of medical care through an indemnity plan or a health maintenance organization, with both indemnity plan and HMO options.
- Dental insurance, with an average of two options.
- Group life insurance, with an average of four options.
- Long-term disability insurance.
- Capital accumulation/401(k) plans.

Meanwhile, Canadian flex plans usually include:

- Dental insurance.
- Vision care coverage.
- Coverage for semi-private hospital rooms.
- Out-of-hospital prescription drugs.
- Provisions for registered retirement savings plans and defined benefit pension plans.

The registered retirement savings plan is similar to a 401(k) plan in the United States in that all earnings on employees' RRSP assets are tax-deferred.

However, unlike the U.S. plans, flex credits and employee contributions to RRSPs are made on an aftertax basis, Ms. Gaul explained.

Canadian employers and employees are barred by law from using voluntary salary reductions to pay for benefits on a pretax basis.

"Canada doesn't have the tax advantage of salary reduction and 401(k) plans, allowing for non-taxable dollars to be used," Mr. McGrath said.

"The lack of this incentive is another reason why flexible benefits in Canada is not as popular as it is in the United States. There is not as much to gain," he said.

Canadian employers considering a flex plan must take into account other Canadian tax laws affecting employee benefits, experts point out.

"When a company designs a flexible benefit plan it has to take all of these factors into consideration and come up with the most comprehensive and cost-efficient program," Ms. Gaul said.

Like in the United States, employers can take a tax deduction for contributions to supplemental medical or dental insurance premiums.

'We wanted a program that would address different employee needs and flexible benefits seemed like the best approach for us,' says Faye Patterson, vp of human resources for American Express Canada.

However, when employers opt to pay a portion of the premium for the basic provincial health care plan—in those provinces where premiums are charged—the contribution is added to an employee's taxable income, according to TPF&C's Mr. McGrath.

Also, unlike the United States where employer contributions to premiums for group or dependent life insurance benefits of up to $50,000 are not taxed, only employer contributions to premiums for the first $25,000 of group life insurance is tax-free for Canadian employees.

In addition, all Canadian employees must pay income tax on premiums paid by employers for dependent life insurance, though the employer can still take a tax deduction for the expense, according to Mr. McGrath.

Employees are not taxed on employer-paid premiums for plans providing medical coverage when they are traveling outside of Canada. Such coverage is excluded from the provincial insurance plans.

Canadian tax laws treat employer-provided long-term disability plans slightly differently.

Although employer contributions to LTD coverage are not considered part of employees' taxable income and employers are allowed to take a tax deduction for such contributions as business expenses, the benefits paid when an employee becomes disabled are taxable as income.

To date, only salaried employees are included in Canadian flexible benefit plans, as unions remain skeptical of programs stressing the individual rather than the collective benefits, observers agree.

Among the companies that have instituted flex plans is American Express Canada Inc. in Markham, Ontario, which introduced its flexible benefit program last January to the company's 2,500 salaried employees through the theme: "Express Yourself. . .Exprimez-vous."

"American Express is a corporation with an extremely diverse workforce. We wanted a program that would address different employee needs and flexible benefits seemed like the best approach for us," said Faye Patterson, vp of human resources for American Express Canada.

Each American Express Canada employee participating in the program initially receives $150 "Express Dollars" to be applied to each individual's benefit needs selected from a menu of varying levels of medical, dental and life insurance alternatives.

"Everyone's needs are met depending on each situation so that all employees can take full advantage of what the company offers," said an American Express Canada spokeswoman. She would not name

Continued on next page

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Continued from previous page
the insurer underwriting the plan.

American Express Canada employees can use Express Dollars to buy dependent life insurance, extra vacation days or membership in either the company's on-site "Amerexercise" health club or another private fitness facility.

Also under the plan, employees can opt out of a core benefit and apply their "Express Dollars" elsewhere. For example, employees covered by a spouse's plan can trade the "Express Dollars" used to pay for core medical benefits for additional benefits not covered in the spouse's plan.

The success of "Express Yourself" is partly a result of extensive communication efforts created to give employees a clear understanding of all of the benefit choices, Ms. Patterson explained.

Materials were distributed in both English and French, educational programs were held throughout the country at different American Express Canada locations and an explanatory video was shown, featuring a Canadian national news anchorman in the English version and talk-show host in the French.

'Our response has been excellent overall, and I think that flexible benefit plans will be the popular future trend for Canadian companies to follow,' says Bob Jolley, 3M's manager of benefit communications in London, Ontario.

"Our employees have responded most enthusiastically to the new approach," Ms. Patterson pointed out.

Joining American Express Canada in offering a flex plan is a Canadian food company that wishes not to be named because its flex program has not yet been officially announced to employees, according to a company spokesman.

"We wanted to offer choice to our 600 salaried employees and increase awareness so that benefits would not be a missed paycheck," he said.

Before the new flex plan was instituted, an employee could purchase extended coverage, which includes coverage for outpatient prescription drugs, vision care and semi-private hospital rooms. And, they could also purchase dental insurance, which covers 100% of preventive care expenses, 80% of the cost of fillings and extractions, and 50% of the cost of services like crowns, caps and bridge work.

"Now under the new flex program, we are taking the three and adding more options for the employee and his family," the company spokesman said.

With the new flexible benefit program, an employee can opt out of the medical plan by proving supplemental coverage elsewhere, maintain the same coverage or upgrade the benefit by paying more of the cost for additional coverage for prescription drugs and vision care.

And, more coverage options were added to the dental plan, allowing an employee to select the amount personally needed.

"We are very positive about the response of employees because it is an all-win situation where they have nothing to lose and everything to gain," the spokesperson added.

Minnesota Mining & Manufacturing Co. of Canada, now entering its third year of 3M BeneFlex, is a veteran of Canadian flexible benefits.

"We were not getting the best mileage out of our previous traditional plan and wanted to offer our employees more options," said Bob Jolley, 3M's manager of benefit communications in London, Ontario.

3M's flex plan is mostly self-insured with the exception of life insurance and long-term disability insurance, which are underwritten by The London Assurance in Toronto, a unit of the Sun Alliance & London Insurance Group.

All 3M Canada employees receive basic benefits that are totally company-paid and include medical, dental, disability, life insurance, vacation and retirement benefits. However, dependent coverage is not available in the basic benefit package.

The flex plan allows employees to upgrade coverage and extend coverage to dependents, Mr. Jolley explained.

"Options apply in all of the basic categories and vary in terms of the amount of coverage desired by the employee. There are usually at least three choices in every option," he added.

Benefits at 3M Canada can be bought with either through BeneFlex credits or salary deduction for employees who don't have the necessary BeneFlex credits to fund an option.

Unlike salary reduction plans in the United States that allow employees to use pretax dollars to fund benefits, salary deductions for benefits in Canada are made on an aftertax basis.

And, if a 3M employee chooses, he can sell up to five vacation days at the current base pay rate as a means of earning additional Beneflex credits.

"Our response has been excellent overall, and I think that flexible benefit plans will be the popular future trend for Canadian companies to follow," Mr. Jolley said.

For Toronto-based Rothmans, Benson & Hedges, the creation of a flexible benefits program helped unite the two companies after their 1986 merger. In fact, the flex plan was the first program implemented by the newly merged company, said Jean-Pierre Suys, vp of human resources and industrial relations. He would not name the plan's insurer.

"We wanted to calm employee fears after the merger and add a sense of unification by creating a new plan that could not be viewed as a Rothmans plan or a Benson & Hedges plan but rather as one reflecting the combination of both," he said.

Under the new program, effective in June, salaried employees and dependents receive core supplemental health care and dental coverage, short- and long-term disability coverage, business accident insurance coverage with benefits up to 400% of annual salary and core pension benefits on a non-contributory basis.

Employees who want to build on these core offerings can use flex options to buy additional life insurance, survivor income coverage or dependent life insurance, according to Mr. Suys.

The company allocates $13 flex dollars per pay period, enabling the employees to delegate funds toward desired benefits. In addition, employees can sell vacation days to accumulate additional flex dollars if needed, he explained.

"There are a variety of levels of coverage in every benefit selection, and we find that there are plenty of options for everyone. The program is very popular with employees who enjoy designing their own plans based on personal needs," Mr. Suys said. ■

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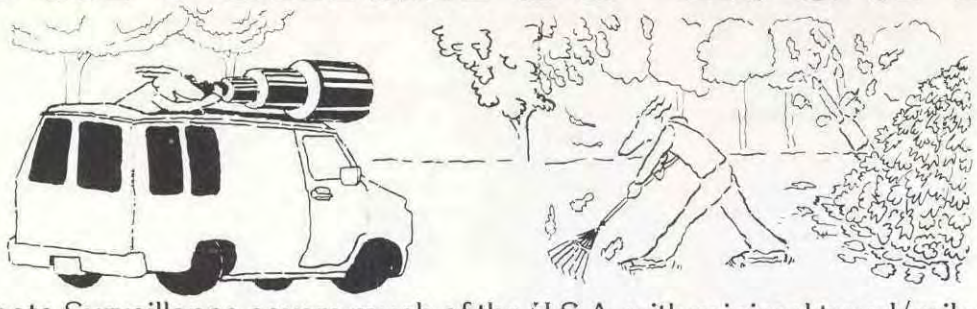

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Nations should support day-care efforts: Report

By CAROLYN ALDRED

LONDON—Although maternity benefits for working mothers in Europe already far outstrip those provided to their U.S. counterparts, a recent European Community report is calling for increased state and employer support for working mothers and fathers.

The report, which was presented to the European Commission in April, recommends the introduction of a directive requiring all EC member countries to develop publicly funded child care facilities for children up to the age of 10 "with an ultimate objective of ensuring the availability of publicly funded services for all employed parents."

In addition, "there should be a directive to guarantee to all workers an entitlement to maternity leave, parental leave and leave for family reasons," it advises.

Currently, maternity leave is offered by employers in all EC countries; however, parental leave and leave for family reasons are only available in six EC member states.

Meanwhile, although the report concludes that employers should not be required to provide child care services, it says they should be encouraged to make child care provisions, through tax or other incentives, until publicly funded services can meet the need for child care.

However, in the long term, "the main way in which employers should meet their responsibility for child care is through employment adaptations that help employees to reconcile their job and parenthood," the report says.

The report, titled "Childcare and Equality of Opportunity," calls for harmonization of benefits while citing current divergent provisions among the 12 EC member states.

The 200-page report was compiled earlier this year by Peter Moss, senior researcher for London University's Thomas Coram Research Unit, from 12 individual studies outlining current child care provisions in each EC country.

Specifically, the report provides details on:

- Maternity leave, or the time off of work to which every mother is entitled in the weeks immediately before and after childbirth.

Although all EC countries provide statutory maternity leave and benefit payments, the period of leave and the amount of state-supported payments vary from country to country. In nations where employers pay maternity benefits, they usually are reimbursed by the government.

For example, employers in West Germany must permit all new mothers to take up to eight weeks off work with full pay, whereas in France, employers must provide women up to 10 weeks' maternity leave with 90% of earnings.

In the United Kingdom, only women who have been working full time for one employer for more than two years, or part time for more than five years for the same employer, are entitled to full statutory maternity payment. The payment is equivalent to 90% of earnings for six weeks, plus a flat payment of 34.25 pounds ($60.62) per week for another 12 weeks.

Women who have been working continuously for one employer for at least six months but less than two years are entitled to the flat payment for 18 weeks.

- Parental leave, which allows a father or mother to stay at home to care for a child after maternity leave without losing his or her job.

In recent years, France, Denmark, West Germany, Italy, Portugal and Greece all have introduced parental leave benefits, varying from six weeks in Denmark with 90% of full pay to two years in France with no payments.

Statutory parental leave schemes also are being discussed by governments in the Netherlands and Luxembourg.

Meanwhile, some European employers offer additional leave after maternity. For example, public-sector employees in Luxembourg can take up to one year of unpaid leave. They also can ask for a break in their employment until their child is up to 15 years old, but in this case employees will only be re-employed if a vacancy exists.

Continued on page 40

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EC report

Continued from page 38

West German civil servants can take up to six years' unpaid leave if they have at least one child under the age of 18, while Cologne-based industrial conglomerate BASF A.G. also will guarantee an employee a job after as much as six years' unpaid leave.

Similar career break schemes also are being offered by some major U.K. companies, particularly the major banks (see story, page 42).

- Part-time or flexible working hours, which also are being introduced in some countries.

For example, employers in Italy must allow women with children under 1 year old two one-hour rest periods each day.

Meanwhile, in Portugal, Spain, Greece and West Germany, mothers are entitled to take time off to feed their babies.

- Paternity leave, which allows fathers to take time off immediately after a child's birth.

So far, only Denmark provides statutory paternity leave of two weeks after birth or after the baby's arrival at home. Leave is paid at 90% of normal earnings up to a specified maximum level.

However, in Belgium and in The Netherlands, a new father can claim one or two days' paid leave after a baby's birth.

In the United Kingdom, some local authorities and a few private employers, particularly in the publishing industry, now offer paternity leave to their employees, the report notes.

- Statutory leave for "family reasons," which allows parents time off work to care for sick children, currently is provided by six EC countries.

For example, in Italy women employees can take time off work to care for sick children under 3 years old if the employee provides a doctor's certificate.

A few employers in Europe offer employees paid time off work to care for sick children.

Meanwhile, a few employers in Europe offer employees paid time off work to care for sick children.

For example, in The Netherlands, P.T.T., the state-owned mail and telephone company, allows parents up to 28 days' paid leave.

In France, many collective bargaining agreements signed between employers and trade unions also include a provision to allow employees time off work to care for sick children.

Meanwhile, the provision of child care facilities throughout the EC also varies from country to country, the report states.

For example, publicly funded child care services are available for fewer than 2% of all children in the United Kingdom under the age of 3, while in Denmark, 44% of children under 3 receive care from publicly funded services.

Other facilities available to care for young children of working mothers in Europe include community play groups, sponsored partly by parents, fund-raising and public grants; private nurseries, paid for entirely by the parents; and workplace nurseries, sponsored by employers.

Most European countries have some child care services provided by employers. However, in Denmark, although some child care services are linked to factories and hospitals, they are all publicly financed, with some of the openings in a center linked to a workplace reserved for employees' children and the rest available to local children.

In Belgium, there are 15 workplace child care services, all state-sponsored though the employer provides some of the funding.

In all other EC countries, workplace child care services are funded entirely by employers and by parents who use the services.

In Greece, there are 36 workplace centers taking children from 8 months old to school age.

In The Netherlands, employer-provided child care has grown rapidly in the 1980s. A 1987 survey conducted by a state-sponsored organization concerned with child care services identified 109 examples. Of these, 20 involved employers paying for employees' children to attend private day-care centers; 10 involved nurseries managed by a non-profit organization; and the rest were managed by employers themselves.

In Portugal, there are 84 workplace nurseries providing child care for 3,000 children under the age of 3, plus an unspecified number of nurseries provided by the government for its employees.

The report notes that insufficient data is available on the extent of employer-sponsored child care provisions in other EC countries.

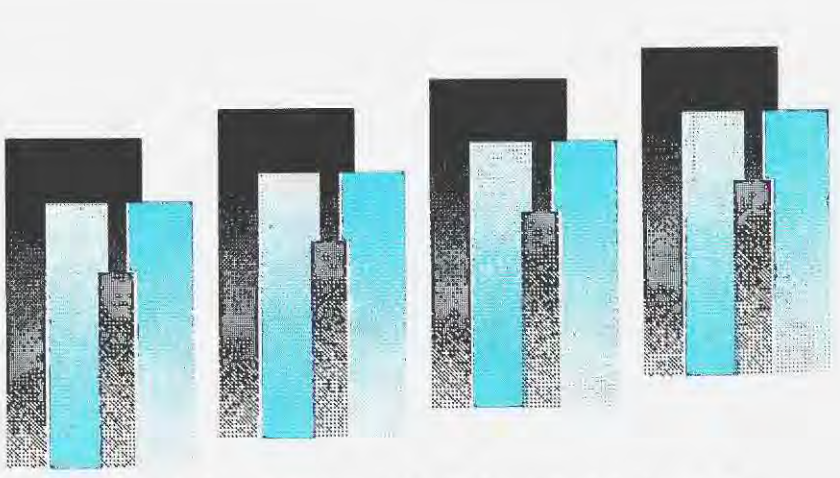
However, it adds that in all EC countries the employers providing child care services are mostly in the public sector, such as hospitals, local and national government entities, universities and colleges, and state-owned enterprises.

Overall, employer-sponsored child care is rare in Europe, the report states. The majority of services are government-sponsored.

Meanwhile, tax treatment of child care also is different from country to country in the EC.

For example, The Netherlands, Luxemburg and France all provide tax relief for employees' child care costs, with France providing a cash grant to parents for such expenses.

However, in the United Kingdom employees who use an employer-sponsored child care facility have to pay taxes on the value of the service, because the government treats it as a "taxable benefit," which is taxed at the same rate as employee wages. ■



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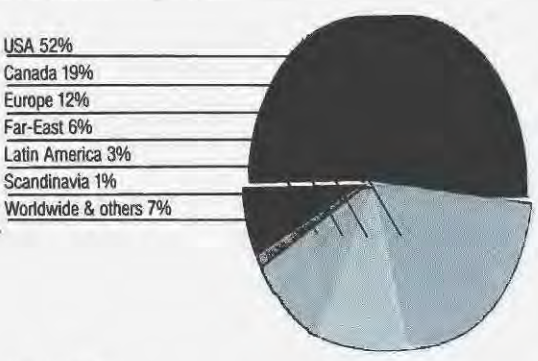

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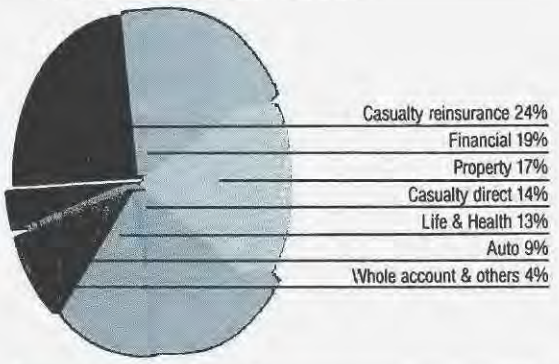

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Spotlight report

Child care benefits expanding in U.K.

By CAROLYN ALDRED

LONDON—Several large British employers are introducing workplace day-care centers and flexible working conditions for parents with young children in an effort to recruit and retain staff.

Although some other European governments provide a high level of subsidized child care facilities and statutory benefits for working mothers, British laws offer minimal help to working mothers (see story, page 38). And, while some British municipalities provide half-day schooling for 3- to 5-year-olds, there are very few government facilities for younger children.

The British government, headed by Prime Minister Margaret Thatcher, "feels it is up to individual employers to decide what, if any, provision to make for their staff," states "The Employer's Guide to Childcare," a handbook published this month by the Working Mothers Assn.

As a result, companies' demand for information about workplace child care centers and changes in work patterns "has increased as more companies develop an equal opportunities policy and recognize the investment in skills and training of their female workplace," the guidebook says.

The growing need for a skilled workforce together with an increase in the number of young people going to college—and hence not joining the workforce—is leading employers to "reassess some of their employment policies," the guidebook notes.

"Offering child care and flexible work patterns both as a recruitment incentive and to retain skilled staff will become increasingly important as part of a company's benefits package," the guide predicts.

This type of incentive can be especially important to women with young children who wish to remain in the workforce.

In 1985, 39% of mothers in Britain with children under 5 were employed. Of those mothers, 21% were employed part time, according to the European Commission's statistical office.

Statistics about workplace day-care facilities are difficult to obtain, particularly since the British Inland Revenue began to treat employer subsidies to workplace nurseries as a taxable benefit to parents who use them, sources say.

Workplace Nurseries Ltd., a non-profit organization formed in 1984 to encourage workplace child care facilities and to seek reversal of their tax treatment, estimates there are about 90 to 100 workplace day-care facilities in Britain.

The majority of these are sponsored by public sector employers, such as National Health Service hospitals, local municipalities and educational institutions, establishments, according to a spokeswoman for Workplace Nurseries.

However, child care benefits have "become more of an issue among employers in the last couple of years as the skill shortage has affected them more," particularly in the banking and insurance sector, she said.

One of Britain's most established workplace day-care centers was set up in 1979 by insurance company London & Manchester Group P.L.C. when it relocated from London to Exeter.

The relocation "gave the management a unique opportunity to anticipate future possible trends of employment, environment and working conditions which would have been impossible in London," according to company literature about the family center.

"In particular we were determined to make the statutory maternity provisions meaningful in providing for working mothers and fathers who were dependent on day-care facilities and to enable them to continue their careers," it says.

(In the United Kingdom, women who have been working full time for one employer for more than two years, or part time for more than five years for the same employer, are entitled to full statutory maternity payment. Payment is equivalent to 90% of earnings for six weeks, plus a flat-rate payment of 34.25 pounds ($60.63) per week for an additional 12 weeks. Women who have been working continuously for at least six months but less than two years for one employer are entitled to the flat-rate payment for 18 weeks.

London & Manchester's family center offers day care for 16 children up to 3 years old from 9 a.m. to 5 p.m. It can't accommodate older children because of the high demand for the service.

Day-care services cost employees 148 pounds ($261.96) per month, and the fees are deducted directly from the employee's salary.

All parents must sign a consent form to allow the center to seek emergency medical treatment for children if necessary. Children are not permitted to attend the center if they are sick.

The center is registered with the local county authority and is monitored by the local state health authority, which makes regular visits.

The center is fully insured under London & Manchester's property and liability insurance programs.

The facility has proved very popular and enabled the company to attract staff, said the center's supervisor, Jackie Dingle.

The center also has become a model workplace nursery for other companies she said.

"I am being inundated with phone calls and visits from other companies interested in setting up similar facilities. I believe lots of companies will provide this sort of facility in the future to attract and retain staff," Ms. Dingle said.

Recently, London-based Midland Bank P.L.C. announced plans to open two or three day-care centers for employees' children.

Employees likely will pay about 35 pounds ($61.95) a week per child, with the bank subsidizing the remainder of the costs, said a spokesman. The centers will accommodate 35 children each and will have flexible hours to fit in with parents' working hours, he noted.

The cost to establish the three centers will total about 350,000 pounds ($619,500) although operating costs have not yet been projected, the spokesman said.

Some companies also jointly subsidize local day-care centers like the Kingsway Children's Center in central London, which is sponsored by six private companies.

Continued on next page

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Continued from previous page

A spokeswoman for the Pre-School Play Groups Assn. agrees that employers increasingly are interested in the concept of company-sponsored child care.

Although most of the 14,000 preschools the PPA represents throughout the country are community- or parent-sponsored and open for just a few hours each day, the association is getting "a lot of inquiries from employers that are interested in setting up day nurseries," said the spokeswoman.

The PPA also sponsors an insurance program for preschools and day-care groups that is underwritten by Sun Alliance & London Insurance P.L.C.

The insurance provides unlimited employers' liability coverage, general liability insurance limits of up to 1 million pounds per occurrence ($1.77 million) plus legal expenses and personal accident, property and equipment insurance.

Annual premiums for a PPA day-care center cost 50 pounds ($38.50) and for a "playgroup," which is defined as part-time care, cost 17.50 pounds ($31) per group. Premiums are not determined by the number of children in a group.

British employers also are examining other forms of child care benefits besides workplace day-care centers.

Some companies—including London-based commercial television station Thames Television, IPC Magazines Ltd. and Penguin Books Ltd.—provide allowances to employees to pay for child care expenses. The amounts vary according to salary, but average about 16 pounds to 20 pounds per week ($28.32 to $35.40), according to Workplace Nurseries.

Other employers have established referral services to help employees understand what benefits they can obtain and where to find child care services.

'It makes a lot of sense to hold onto existing, trained staff,' said a Midland Bank spokeswoman.

Still other employers increasingly are considering more flexible working hours for mothers.

For example, Midland Bank, like the United Kingdom's other three major banks, offers working parents a "career break scheme." Such programs allow employees an unpaid leave of up to five years to care for a new child. Upon return to Midland Bank, the employee is guaranteed a job with no loss of status.

The Midland Bank program is open to all staff with management potential who have worked with the company for more than five years, said Aline Hopkins, assistant manager for the bank's equal opportunities department.

Employees on leave are updated regularly on developments at the bank and also attend a two-week refresher course each year, she explained.

Midland Bank currently is considering extending the program to include more employees, said Ms. Hopkins.

"With school rolls falling over the next five years, there are going to be fewer people coming into the job market. As the banks are very large employers of 16- to 18-year-olds, it makes a lot of sense to hold onto existing, trained staff," said a Midland Bank spokesman.

Rival British bank National Westminster Bank P.L.C. this month announced plans to extend its five-year career break program to all employees who have completed two years of service with the bank. Previously, the program was restricted to staff with management potential who had five years of service.

Meanwhile, NatWest will watch the development of Midland Bank's day-care centers closely, said Diana Balsdon, NatWest's equal opportunities manager.

"We are looking at child care provisions extensively. However, we have no plans currently to establish workplace nurseries," she said, adding that having hundreds of branches throughout the country creates problems when establishing that type of facility.

Career break programs also are being introduced by an increasing number of employers, including Nottingham-based Boots P.L.C., which operates pharmacies throughout the United Kingdom; electronics group Marconi; British Petroleum P.L.C.; and British Gas P.L.C., according to Workplace Nurseries Ltd., which adds that this form of benefit likely "will become the norm within a few years."

•

Copies of "The Employers Guide to Childcare" can be obtained from the Working Mothers Assn., Second Floor, 248 Lavender Hill, London SW11 1LJ, Price: 8.50 pounds ($15.05 at current exchange rate).

Additional information is obtainable from Workplace Nurseries Ltd., Room 205, Southbank House, Black Price Road, London SE1 7SJ.

Child care benefits in Sweden

STOCKHOLM, Sweden—Swedish employees currently enjoy extensive maternity and child care benefits that are likely to be extended even further, according to a recent report.

"Sweden has gone further than any other industrialized country to introduce legislation intended to adapt employment to the needs of workers with young children," said Peter Moss, author of a report on child care in Europe, sponsored by the European Commission.

According to Mr. Moss, a senior researcher for the Thomas Coram Research Unit at London University, Sweden currently provides:

- Statutory post-natal leave of 360 days, which can be divided in any ratio between a child's parents. State-sponsored payments provide the parent with 90% of pay for the first 270 days, plus a small, uniform weekly or monthly payment for the remaining 90 days. The leave is flexible so that a parent can work part-time for a longer period if he or she desires.
- Paternity leave of 10 days, with state sponsored pay, for fathers immediately after a child's birth.
- Family leave of up to 60 days a year, with state reimbursed payments, for parents to care for sick children under the age of 12.
- A six-hour working day for parents of children under the compulsory school age of 7.

Meanwhile, the Swedish government currently is extending family leave to 90 days and plans to extend post-natal leave to 18 months with 90% of pay by 1991, said Mr. Moss.

—By Carolyn Aldred

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BI directory lists benefit networks

The Aetna/Generali International Benefits Network

151 Farmington Ave., Hartford, Conn. 06457, 203-636-6806; Assicurazioni Generali Group Life, 34132 Trieste, Italy, 671-454

	1987	1986
Gross premiums	$170,000,000	$152,000,000
U.S. based	85%	90%
Non-U.S. based	15%	10%
Pension funds	$860,000,000	$750,000,000
Employees	90	90
U.S.	30	30
Non-U.S.	60	60
Lives covered	NA	NA
Master contracts	95	90
Foreign countries	45	45
Offices	3	3

Year formed: 1966.

Member companies: Assicurazioni Generali and Providencia, Cia de Seguros de Retiro, Argentina; Aetna Life & Casualty Ltd., Australia; Generali-Allgameine and Lebensversicherung A.G., Austria; Generali Belgium S.A., Belgium; Generali do Brasil, Brazil; Aetna Life & Casualty of Canada Ltd. and The Excelsior Life Insurance Co., Canada; Aetna Chile S.A., Chile; Compania Granadina de Seguros, Colombia; Baltica Life Insurance Co., Denmark; La Nacional, Cia de Seguros, Ecuador; Misr. Insurance Co., Egypt; Generali France S.A., La Federation Continentale and La Concorde, France; Generali-Lebensversicherung A.G., Germany; Assicurazioni Generali, Greece; Aseguradora General S.A., Guatemala; East Asia Aetna Insurance Co. Ltd. and Blue Cross (Asia Pacific) Insurance Ltd., Hong Kong; Irish Life Assurance Co. Ltd., Ireland; Assicurazioni Generali, Italy; Mitsui Mutual Life Insurance Co., Japan; Deehan Kyoyuk Life Insurance Co. Ltd., Korea; Assicurazioni Generali, Lebanon; Le Foyer, Luxembourg; Universal Life & General Insurance Co., Malaysia; Seguros America S.A., Mexico; De Nederlanden van 1870, Netherlands; Aetna Life & Casualty Ltd., New Zealand; Forenede Liv A/S, Norway; Cia. Internacional de Seguros S.A., Panama; Atlas, Cia. de Seguros, Peru; Insular Life Assurance Co. Ltd., Philippines; Tranquilidade Seguros E.P., Portugal; Insurance Corp. of Singapore Ltd., Singapore; Standard General Insurance Co. Ltd., South Africa; Assicurazioni Generali, Spain; Skandia International Insurance Co., Sweden; Geneva Life Insurance Co., Switzerland; Aetna Life Insurance Co. of America, Taiwan; China Union Life Insurance Co. Ltd., Thailand; Assicurazioni Generali, Turkey; Aetna Life Insurance Co. Ltd., United Kingdom; Seguros Nuevo Mundo S.A., Venezuela; Aetna Life & Casualty (Bermuda) Ltd., Bermuda; Generali Guernsey, Guernsey.

New participants: Aetna Taiwan, Taiwan; Providencia, Cia de Seguros de Retiro, Argentina.

Minimum requirements: One country for network participation; two countries and 100 lives for multinational pooling.

Business: 55% pensions, 24% life, 10% long-term disability, 8% medical, 3% accidental death.

International dividends: Loss carryforward system; stop-loss system and loss carryforward system with contingency fund are available.

Principal officers: Robert V. Lyle, assistant vp-Aetna; Giorgia Fanin, group division manager-Assicurazioni Generali Group Life.

Contact: Elaine B. McDonald, director-international marketing, 203-636-6806.

American International Group (Group Management Division)

70 Pine St., 20th Floor, New York, N.Y. 10270; 212-770-6286

	1987	1986
Gross premiums	$72,800,000	$59,900,000
U.S. based	86%	89%
Non-U.S. based	14%	11%
Pension funds	$323,000,000	$286,000,000
Employees	428	412
U.S.	62	55
Non-U.S.	366	357
Lives covered	227,000	204,000
Master contracts	151	125
Foreign countries	136	133
Offices	83	80

Year formed: 1953.

Member companies: Located in 140 countries worldwide.

New participants: ALICO, Korea and Turkey; Euravie, Italy.

Minimum requirements: Two territories or countries and the equivalent of $75,000 in premium.

Business: 52% medical, 44% life, 4% accidental death and dismemberment, long- and short-term disability.

International dividends: Loss carryforward system, loss carryforward system with contingency fund.

Principal officers: George A. Abouzeid, executive vp-AIG; Cecil C. Gamwell III, director-group manage-

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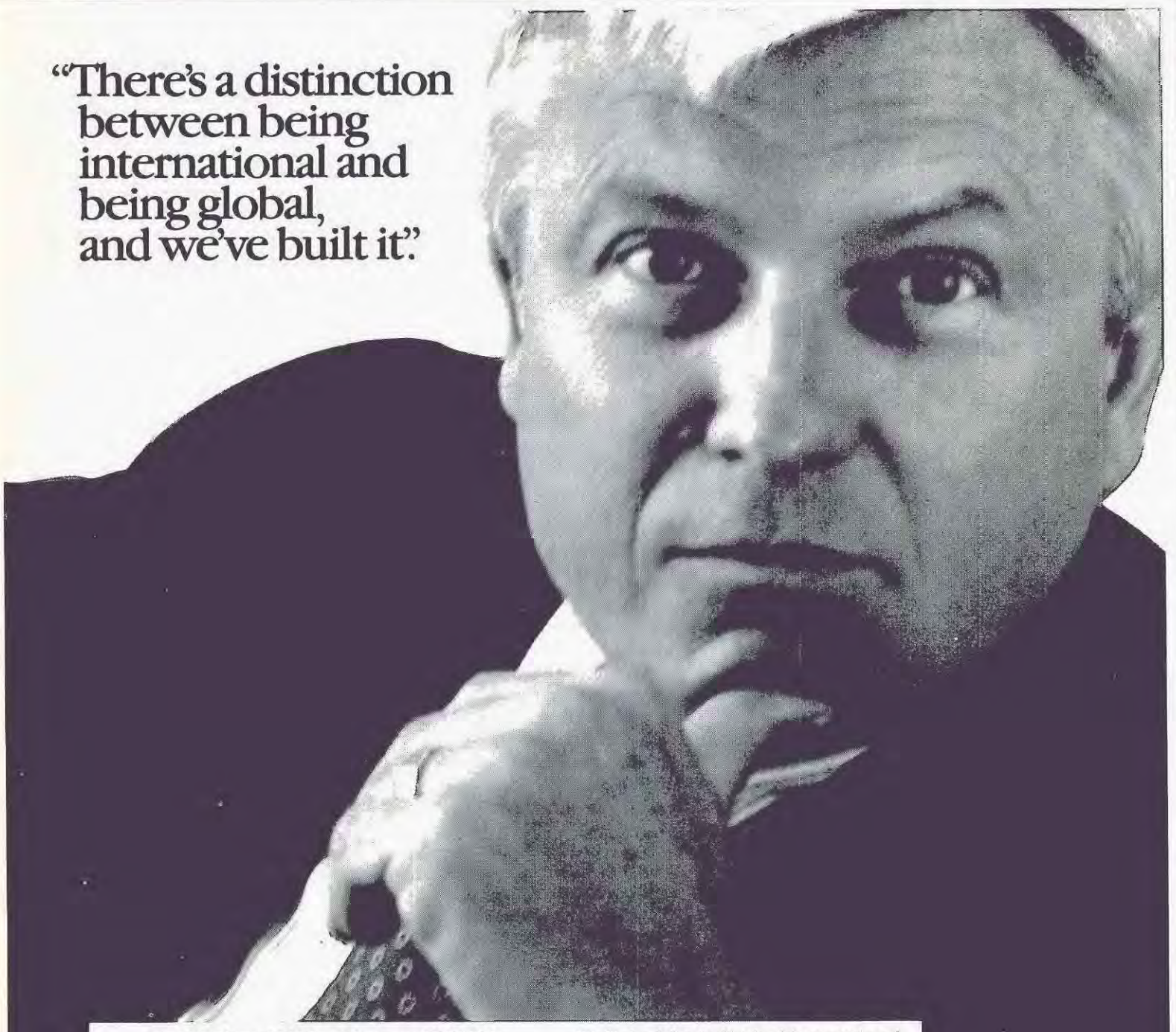

David Olsen, J&H President, on UNISON:

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Continued from facing page

ment division; Donald J. Kinloch, multinational manager-group management division; Jeffrey T. Capone, director-group underwriting; John Dunn, Don Jancauska, Eduardo Cassese, Greg Arms and Gordon Watson, offshore regional managers.

Contact: Donald J. Kinloch, multinational manager; 212-770-6286.

AREA Benefits Network

Avenue de Beaulieu 25, Box 7,
1160 Brussels, Belgium;
322-672-2279

	1987	1986
Gross premiums	NA	NA
U.S. based	10%	8%
Non-U.S. based	90%	92%
Pension funds	NA	NA
Employees	8	6
U.S.	3	2
Non-U.S.	5	4
Lives covered	31,000	27,000
Master contracts	57	50
Foreign countries	40	37
Offices	2	1

Year formed: 1979.

Partner companies: Located in 41 nations.

New participants: PT Asuransi Jiwa Panin Putra, Indonesia; Union des Assurances de Paris (U.A.P.), France; Eagle Star International Life, Isle of Man.

Minimum requirements: Two countries, 100 lives; for multi-employer pool, 25 lives and one country, second country to join within three years, $10,000 premium volume.

Business: 55% pensions, 35% life, 5% short-term disability, 5% long-term disability.

International dividends: Stop loss system, loss carryforward system and loss carryforward system with contingency fund.

Principal officers: J.W. Broekhuizen, chairman-AREA/general manager-AMEV LIFE; Hugo Clemeur, managing director/actuary-AREA.

Contact: Uwe O. Petersen, 516-734-6574.

CIGNA Worldwide, International Life & Group

1600 Arch St., 9 JFK, Philadelphia, Pa. 19103; 215-523-5300

	1987	1986
Gross premiums	$3,032,000	$2,971,000
U.S. based	100%	100%
Employees	37	33
U.S.	31	27
Non-U.S.	6	6
Lives covered	1,600	1,550
Master contracts	20	16
Foreign countries	26	26
Offices	8	8

Year formed: 1980.

Member companies: CIGNA Life Australia Ltd., Australia; Colina Insurance Co. Ltd., Bahamas; CIGNA Seguradora S.A., Brazil; CIGNA Compania De Seguros De Vida (Chile) S.A., Chile; CIGNA Seguros de Colombia S.A., Colombia; CIGNA Hellas S.A., Greece; Seguros Cruz Azul S.A., Guatemala; INA International Insurance Co. Ltd., Haiti; CIGNA Worldwide Insurance Co., Hong Kong; INA Life Insurance Co. Ltd., Japan; Life Insurance of North America-Korea Branch, Korea; CIGNA Worldwide Insurance Co., Liberia and Middle East; CIGNA Life Insurance New Zealand Ltd., New Zealand; Crusader Insurance P.L.C., United Kingdom.

New participants: CIGNA Life

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How to use directory

The *Business Insurance* directory of international benefit networks lists networks that responded to a *BI* questionnaire.

Networks are listed as an editorial service; there is no charge for inclusion in the directory.

Listings begin with the network name and address.

If supplied by the network, financial and operational information for 1986 and 1987 is given. Foreign gross premiums for medical, life, accidental death and short- and long-term disability insurance (and the percent generated by foreign operations of U.S. employers vs. foreign operations of non-U.S. employers); funds under management for foreign pension plans of international network clients; total number of network employees and those in U.S. locations and non-U.S. locations; and number of foreign lives covered are listed. Also, the number of master contracts, the number of foreign countries represented and the number of foreign offices of the network are given.

(*Business Insurance* defines "foreign" as business in any country other than that of the parent or headquarters group; statistics reflect only contracts which participate in pooling arrangements for which a signed application, master contract or similar formal written arrangement exists.)

Next, the year the network was formed, insurers participating in the network, insurers new to the network in 1988, and minimum requirements for employers' participation in the network are provided. A percentage breakdown of business the network conducts in medical, life, accidental death, short- and long-term disability insurance and other benefits is given, as are methods in which the network handles worldwide losses in determining international dividends.

Names and titles of principal officers and the name of a U.S.-based contact person complete the listings.

If you wish to locate countries in which a network operates, you may refer to the geographic index following the directory. Locations of branch offices, subsidiaries and affiliated companies of network participants are given.

Listings are based on each network's response to the questionnaire; *Business Insurance* is unable to verify the information supplied.

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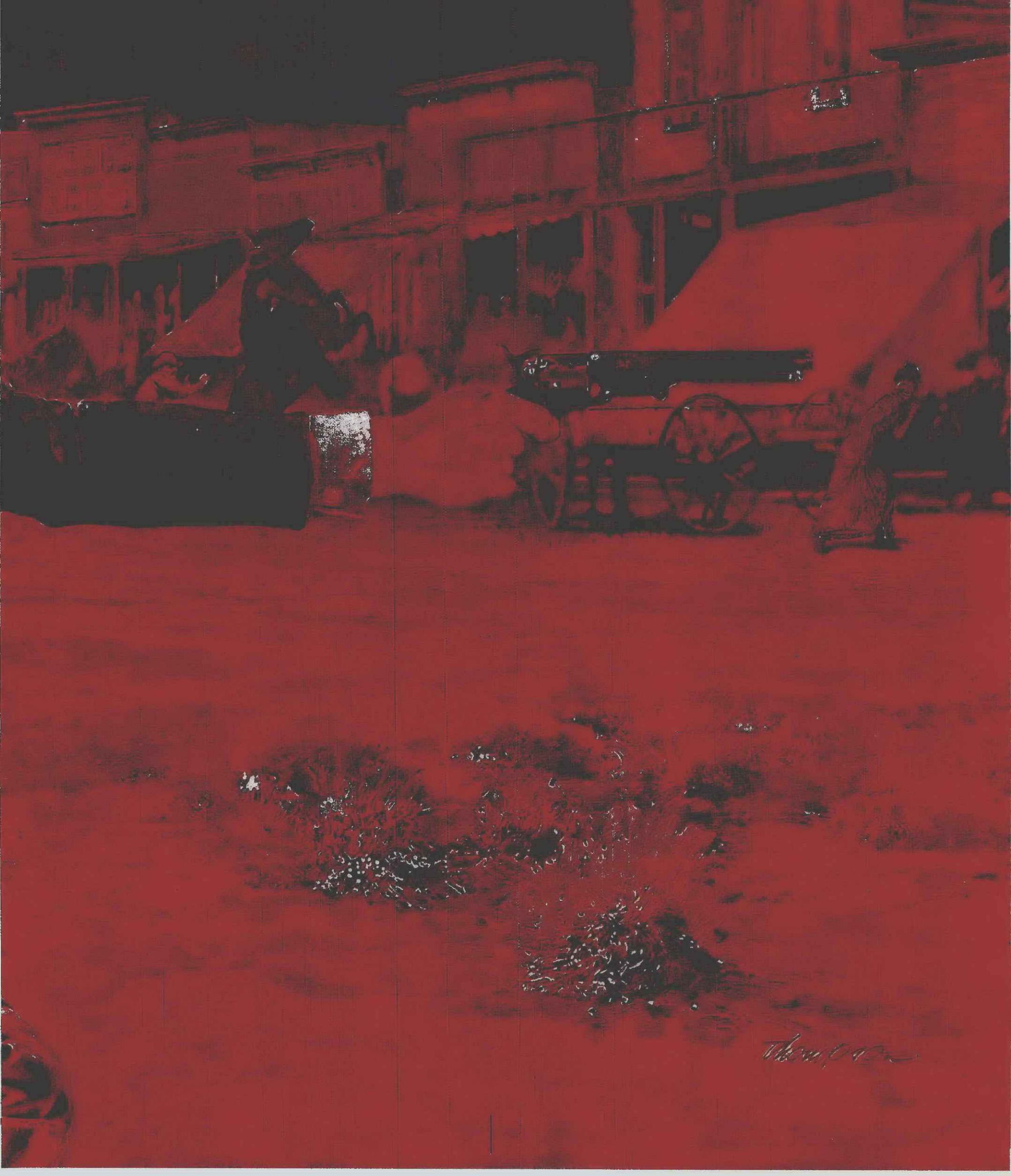

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GLOBAL COVERAGE

Risk managers have four options to deal with foreign exposures

By John Ormerod

AS A RISK MANAGER in the United States, you are operating in what is arguably the most sophisticated and well-developed market in the world. You are on the leading edge of the development of new risk management techniques and the rest of the world learns from you.

But why get involved in the overseas exposures of your enterprise? Simply put, the answer is that exposures are exposures are exposures, and what works in the United States for controlling these exposures or transferring risk can work overseas.

Chances are that you already have encountered the worst of the problems you are likely to encounter in putting together your U.S. program; let that experience work for you in your international operations.

However, a word of caution: The intuition and instincts that you've developed for the U.S. market may not serve you as well in foreign markets. What flies in Peoria, Ill., may not fly in Bonn, Tokyo or Buenos Aires. But don't despair. There is a wealth of international insurance talent in U.S. brokerage and insurance companies to assist you.

You will be faced with primarily two sets of dilemmas when you enter the international insurance arena: legal and regulatory situations with which you will not be familiar and cultural and social differences.

Another factor you'll need to address is the importance of good communications among yourself, your overseas subsidiaries, your broker and your insurer. In turn, your broker and insurer also must be able to communicate well with their overseas associates.

Basically, there are three legal systems in the world. Common law is the system we are most familiar with. The second, the Napoleonic code, seeks to codify the law. Those who do business in Louisiana in what used to be a French territory are probably familiar with some aspect of this legal system. The third legal system is Islamic, which is based on the Koran and doesn't recognize the concept of insurance at all.

Outside the United States, as you may expect, the legal environment is vastly different from that to which we are accustomed. For example, the types of awards we see in our courts here aren't prevalent overseas. Trials may be by jury, but monetary awards are usually established by a judge. For this reason, awards tend to be more realistic and free of the emotional impacts of a jury. Because insurers are not concerned about granting unlimited liability since award sizes are just not there, it is not unusual to find that automobile policies purchased overseas have no bodily injury limits.

Also influencing claims activity is the absence of a contingency fee system, which is illegal in many countries.

Regulation of the insurance business in general varies considerably throughout the world from basically no regulation in Saudi Arabia to absolute regulation in countries that have nationalized insurance industries such as India. In addition, in many countries the reinsurance segment of the business is under government control and, as a consequence, primary rates are heavily influenced through tariffs.

Most tariffs tend to be on property business and govern both rates and coverage. In addition, credits for risk improvement and deductibles tend to be very low or non-existent. In other countries, you may find automobile tariffs and, where written by the private sector, workers compensation and employers liability tariffs.

To some extent, legal systems reflect the cultural environment of a country, and, most certainly, the business environment reflects a culture.

This was brought home to me several years ago when I read about the crash of a Japanese airliner in Japan. The chief executive officer of the airline concerned resigned. The article stated that the families of the Japanese victims would not take the airline to court, but instead would negotiate directly with the airline's senior executives for compensation.

Finally, language is a consideration. After you get past "lifts" and "elevators" and "pavements" and "sidewalks," you have to deal with the differences in insurance terminology. Coinsurance in the U.S. market means something completely different from coinsurance in the U.K. market. Deductibles are "excesses," subscription is "coinsurance," and coinsurance is "average."

Risk managers have basically four methods of creating an international program, each having its own pros and cons:

- A decentralized plan, using a different insurer in each country.
- A decentralized plan, using a different insurer in each country and employing an umbrella or difference-in-conditions layer of protection.
- A coordinated program, using the same insurer in each country and on the umbrella or DIC layer.
- A controlled master program, using the same insurer in each country and through which all coverages, even local ones, would be negotiated centrally.

The intuition and instincts that you've developed for the U.S. market may not serve you as well in foreign markets. What flies in Peoria, Ill., may not fly in Bonn, Tokyo or Buenos Aires.

With a decentralized program, a corporation delegates an independent insurance buying role to its foreign branches and subsidiaries, perhaps laying down guidelines, or maybe only guidelines for particular problem areas such as product liability insurance.

Insurance protection is provided through locally purchased, local policies. Risk managers don't need an international insurer for this approach. Local operations are left their own market selections.

The main plus for a decentralized program is that there are potentially fewer legal problems since coverage is placed with a locally admitted insurer. Other positive factors are local tax deductibility of premiums and that local management enjoys more local control.

Detracting from a decentralized program is that there is poor overall control or communication for coverage purchased, limits purchased and loss control standards, as well as little uniformity in claims settlement. Such programs also may be more expensive, there is no pooling of account experience and there is no check on the security of local insurers.

The next step in terms of sophistication is a decentralized program with an umbrella or DIC layer.

The traditional umbrella has a worldwide territorial definition and a property DIC policy can provide worldwide coverage. This provides some control over protection of corporate assets and allows risk managers to create some form of minimum coverage standards, at least above the umbrella or DIC attachment point and also offers some certainty on the total limits.

Communication can still be a problem, however, in developing details of underlying coverage for the umbrella/DIC insurer.

The logical next step is a coordinated program.

The only difference between a decentralized program with an umbrella/DIC and a coordinated program is that the coordinated program calls for a common insurer at the local level and on the umbrella/DIC layer. This can only be accomplished with an international insurer; the addition of an international broker will smooth the implementation process.

Introducing a coordinated program is the first move toward gaining true control. Local coverage is still negotiated locally, but with one worldwide insurer, and the umbrella/DIC is negotiated centrally with the same insurer. The result is that risk managers can start to get a handle on the company's total exposures and subsequent program design.

A coordinated program allows risk managers to maintain the advantages of the decentralized program and begin to address some of the disadvantages by taking control and setting standards for coverage purchased, limits purchased, loss control standards, uniformity of claims settlement and selection of a financially secure insurer.

A controlled master program is ideal for risk managers who have full authority over corporate risk control and risk transfer. The entire program is centrally negotiated.

A total premium is agreed. A master policy wording is agreed. Local policies are put in place reflecting the centrally negotiated price and coverage.

Theoretically, the master policy can replace local policies. However, where required by local conditions and regulations or where needed for decentralized premium payments, local policies will be written.

The obvious advantages are:

- Control of the coverage purchased.
- Control of the limits purchased.
- No coverage duplication; thus, lower overall costs.
- Control of loss control standards.
- Control of claim settlement standards.

In addition, the company can benefit from the pool experience of risks spread across several countries in that poor experience in one location may be offset by favorable experience in other countries.

Another advantage of a controlled master plan is improved financial security by selecting an insurer that has demonstrated a proven record of success and stability.

Communication becomes an essential element of putting the plan together. Each risk manager has to assess his or her corporate authority responsibilities when deciding which program to install, particularly the degree of control he or she has over the buying decision, both centrally and at the local level.

There are, however, other facts that risk managers should keep in mind when making their decisions:

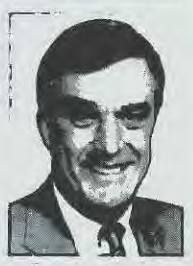
- Coverage available at the local level may be more restrictive or wider than they are used to in the U.S. market. For example, sudden and accidental pollution coverage may still be available in some countries. Also, West German law requires that gradual pollution of water is covered.
- It's also important to be aware that the product liability model in West Germany contains some recall coverage and some pure financial loss cover.
- And, risk managers should know that the European Community product liability directive is introducing the theory of strict liability throughout the EC.

These are but a few examples.

Clearly, the degree of control risk managers exercise will govern the program they select for their international companies. Good communications will smooth the way to successful implementation.

Careful broker and insurer selection will help greatly in both areas and will ensure that corporate risk management goals are met.

John Ormerod is vp and director of marketing in the International Division of the Zurich Insurance Co., U.S. Branch, in Schaumburg, Ill., a member of the Zurich-American Insurance Group.



Reducing product liability exposure

By C.E. McMurtrie

PRODUCT LIABILITY loss prevention presents one of the most difficult risk management challenges. This difficulty arises from the diversity of production techniques, the diversity of use of the product and the diversity in how the product itself is eventually used. Changes in the product after its manufacture further complicate the picture.

Do fundamental principles exist that, if followed, would materially reduce the frequency and severity of product liability losses? Our experience indicates that the following basic principles must be in place if a product liability loss prevention plan is to succeed:

• A stringent quality assurance program that has safety of use built into the product itself.

Production line supervisors must be in charge of quality on the line and have responsibility for the training of production people and for the result that is expected.

Each unit must be inspected by a quality control inspector using a standard inspection form. All pertinent information must be documented. A section of the form should be entitled "rework." The inspector then notes all items down that do not conform to specifications and that must be reworked. Each item noted must be initialed by a production worker when it is reworked before the inspector will sign off on the inspection form.

The first appearance of the unit as well as its structural integrity are important; therefore, every unit must be neat in appearance and workmanship before it is approved as a finished product by the quality control department.

A simple but effective delivery receipt is a must. A warranty form with a survey sheet must go along with the unit. The return summary sheet is excellent feedback with regard to the newly delivered product. This form should request feedback concerning the appearance of the unit and whether it was properly equipped.

And, finally, all paperwork for each unit must be retained, for it becomes an invaluable reference in defending a lawsuit.

• Identification of customer complaints with feedback to the involved department and a mandate for change.

Warranty personnel should be located in the corporate offices and they should handle all customer warranty complaints. The warranty personnel should be sensitive to customer needs and make timely warranty decisions.

All complaints should be documented on a special warranty complaint form. They should be coded and entered into a computer. Copies of the complaint should be sent out to department heads, who normally would include engineering personnel, plant manager, quality control staff, sales manager and the inside and outside salespeople responsible for the unit that was manufactured and delivered to the customer.

With the input of this data into a computer, a weekly summary of the complaints grouped into subject headings will be available. The summary should compare the number of weekly complaints to the number of units produced at each plant.

A similar monthly summary should identify warranty costs for each subject. The cost should be charged against the profit center warranty budgets.

The warranty department should work closely with the production, engineering, quality control and sales departments. Engineering changes must result from customer complaints and quality improvement ideas. The warranty committee should call meetings with the managers of the involved departments and should suggest product improvements.

Regardless of the number of inspections, customer complaints still occur. How they are handled determines whether the customer will eventually be satisfied. It also determines whether the cause of the complaint will be corrected. By accurately charging the offending area, the firm can analyze and zero in on the areas that continue to have excessive warranty costs associated with their work. Incentives to change in the form of smaller bonuses and pay raises can provide significant help.

• Identification of tangible and specific manufacturing standards.

The process of customer feedback and documentation of this feedback produces data that can be used by engineering to establish tangible and specific manufacturing standards. These standards, in the form of bulletins and prints, should be sent to all plant managers, quality control inspectors and to the warranty manager. The end result is reduced costs and the highest possible product quality.

This level of quality cannot be achieved without the commitment of each level within the organization. Top management must endorse quality, set the plan and commit the resources necessary to achieve it. Line managers must carry out the details of the program and the workers must believe in it.

An extensive warranty will provide an additional incentive to the organization to maintain quality performance. Annual goals for warranty costs should be set with the intent of improving on industry averages. Failure to achieve progress should be considered a sign that change is needed.

A record must be established of each unit's serial number, date of manufacture, to whom it was sold and when. A separate record should be established that all design changes including at which unit serial number the change was made.

• Engineering design of products must encompass all possible loss exposures, apparent hazards to users and anticipated misuse of the product that could result in injury or property damage. And, packaging of the product must assure protection from damage during transit.

Warning labels, operating instructions and maintenance manuals should be reviewed by legal counsel to assure proper wording to prevent misuse or modification of the product. Warning labels must be installed in the appropriate location, and more and more will be needed to be written in both Spanish and English.

Advertising and marketing literature should be reviewed to determine that the description of product performance will not lead to use of the product in a way that expands the likelihood of injury or damage.

• Detailed attention to lawsuits.

This final part of this risk management program involves the handling of the product liability claims that do occur. A multiple part effort can successfully address the issues associated with these lawsuits.

One person must be assigned defense responsibility. Relyig on your own or insurance company lawyers will not produce the attention to detail that is required for success.

A word-by-word review of the allegations must be made to determine whether the unit involved is, in fact, your product and whether the part of the product involved is the kind often repaired or replaced by other firms. You should demand to see the unit immediately.

From this visit the date of manufacture should be determined, the condition of the unit and what changes, if any, have been made in it. A comparison should then be made with a permanent record of the dates of change to units made in your production. Once this data is accumulated, an aggressive defense should be pursued that intends to produce no award and no settlement.

Occasionally insurance company lawyers will suggest settlement when it is not warranted. Although an outright refusal to accept a settlement is not permitted by most insurance contracts, a significant loss settlement will have a negative effect on your product liability costs and may establish the right of a malpractice lawsuit against a defense attorney for failure to pursue a case diligently in your interest.

There is much you can do to reduce the likelihood of serious product liability losses. However, you must commit to the program the financial resources, skilled people and a fundamental philosophy of responsiveness to customer needs. Once these are in place, the opportunity will begin, but it will only begin for newly manufactured products. The inherent delay in the benefit of this kind of program, and the fact that product liability reform laws in our various states are not producing really significant change, make it more necessary to begin now.

In conclusion, success requires a long-term commitment in addition to pursuing the basic principles of this plan. Only then will you begin to see a reduction in product liability costs. The wait will be worthwhile both from the standpoint of reduced costs and the perception of your customers of the product quality you provide.

C.E. McMurtrie is chief executive officer of Engle-Hambright & Davies Inc., an independent insurance agency in Lancaster, Pa.

Embezzlement not fully covered

Legal briefs

The Supreme Court of Iowa ruled that a bank's insurer was not liable for that portion of the outstanding value of forged notes that represented interest paid on prior fraudulent notes.

The American Trust & Savings Bank in Dubuque purchased a bankers blanket bond from United States Fidelity & Guaranty Co. protecting the bank from various specified losses including those directly resulting from dishonest or fraudulent acts of the bank's employees. In 1985, a senior vp of the bank was discovered to have committed a series of embezzlements from the bank that commenced in 1969. He obtained money by forging notes purporting to be loan arrangements of customers. He hid his scheme by paying off those notes as they came due, in part, from money obtained from newly forged notes.

Of 496 forged notes, all but 12 were paid off by the time the scheme was discovered. These 12 notes had a face amount totaling $4.3 million. An audit revealed that about $2 million represented money used to make interest payments on the prior fraudulent notes. The insurer refused to pay this portion of the fraudulent notes. The bank sued and won in trial court.

The appellate court said that the term "losses" referred ". . .to the depletion of bank funds caused by the employee's dishonest acts and not to the eventual personal liability of the employee to the bank." Thus, the court said that "loss" did not include that portion of the outstanding notes that represent interest payments made to cover up prior embezzlements.

American Trust & Savings Bank vs. United States Fidelity & Guaranty Co., Supreme Court of Iowa, Feb. 17, 1988, *as corrected* Feb. 22, 1988 (*BI*/01/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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Spotlight report

Continued from page 45
Australia Ltd., Australia.

Minimum requirements: Two countries and 200 lives.

Business: 51% medical, 22% life, 16% accidental death, 11% long-term disability.

International dividends: Stop-loss system, loss carryforward system and loss carryforward system with contingency fund.

Principal officers: Ernest S. Auerbach, president-International Life & Group; William M. Clowes, senior vp-product management; Geoffrey R. Saggers, vp-life operations.

Contact: Ed Dombkowski, general manager-U.S. region, 302-479-6179.

GAIN-Group Assurance International Network

GAIN Secretariat, 1 Groveland Court, Bow Lane, London EC4M 9EH, England; 01-489-0214

	1987	1986
Gross premiums	NA	NA
U.S. based	NA	NA
Non-U.S. based	NA	NA
Pension funds	NA	NA
Employees	14	11
U.S.	2	0
Non-U.S.	12	11
Lives covered	NA	NA
Clients*	75**	65**
Foreign countries	24	24
Offices	2	1

* Figures represent number of international clients.

** Estimate.

Year formed: 1984.

Member companies: Legal & General Life of Australia Ltd., Australia; Colonia Versicherung A.G., Austria; Assubel-Vie S.A., Belgium and Luxembourg; Brasil Companhia de Seguros Gerais, Brazil; Mutual Life of Canada, Canada; Tryg Forsikring pensionsforsikringsselskab A/S, Denmark; Assurances Generales de France, France; Colonia Lebensversicherung A.G., Germany; Assurances Generales de France, Greece; Irish Life Assurance P.L.C., Ireland; Societa Reale Mutua de Assicurazioni, Italy; Toho Mutual Life Insurance Co., Japan; AEGON N.V., Netherlands; UNI Insurance, Norway; Sociedade Portuguesa de Seguros, Portugal; Lifegro Assurance Ltd., South Africa; AGF Seguros S.A., Spain; Forsakringsbolaget S.P.P., Sweden; Vaudoise-Vie, Switzerland & Liechtenstein; Legal & General Assurance Society Ltd., United Kingdom; The Principal Financial Group, U.S.A.; Legal & General Assurance of Zimbabwe (Private) Ltd., Zimbabwe.

Minimum requirements: For pooling arrangements, two countries, 250 employees (may be fewer in some circumstances), minimum of 10 employees in any one country.

International dividends: Stop-loss system, loss carryforward system and loss carryforward system with contingency fund.

Principal officers: G. David Hurd, chairman-GAIN/president-The Principal Financial Group; K.G.T. Stuart, director; J.M. Spence, assistant director.

Contact: Andrew W. Thompson, GAIN North American representative, 212-602-9264; William G. Steinmetz, senior consultant, The Principal Financial Group, 515-247-5425.

Gerling Global Offices Inc./Gerling-Konzern Welt Service GmbH

717 Fifth Ave., 18th Floor, New York, N.Y. 10022; 212-752-8900; Gereonshof, 5000 Koln 1, West Germany; 221-144-5661

	1987	1986
Gross premiums	$3,800,000	$3,000,000
U.S. based	12%	13%
Non-U.S. based	88%	87%
Pension funds	$9,000,000	$6,200,000
Employees	20	17
U.S.	5	5
Non-U.S.	15	12
Lives covered	7,639	5,600
Master contracts	11	8
Foreign countries	31	29
Offices	NA	NA

Year formed: 1982.

Minimum requirements: Participation in the network is through the Captive-Network Pool and COMP (Company's Own Multinational Benefit/Insurer Pool); 250 insureds in two countries for COMP, one group insured plan for a collective multinational pool.

Business: 37.4% life, 29.7% endowments and pensions; 24% long-term disability, 5.9% accidental death, 3% medical.

International dividends: Stop-loss system, loss carryforward system and loss carryforward system with contingency fund.

Principal officers: Bernhard Fink, managing director; Michael Zyball, director-international employee benefits division; Kim J. Singh, senior vp.

Contact: Wolfgang Schlaeger, president; Oscar Rodriguez, assistant vp.

John Hancock International Group Program

P.O. Box 111, Boston, Mass. 02117; 617-572-8625

	1987	1986
Gross premiums	NA	NA
Pension funds	NA	NA
Employees	NA	NA
Lives covered	NA	NA
Master contracts	NA	NA
Foreign countries	NA	NA
Offices	NA	NA

Year formed: 1967.

Associate insurers: A.G. Group, Belgium and Luxembourg; Australian Mutual Provident Society, Australia and New Zealand; Consorcio Nacional de Seguros, Chile; Dai-ichi Mutual Life Insurance Co., Japan; Dongbang Life Insurance Co. Ltd., Republic of Korea; Drouot Assurances, France; Ethniki Hellenic General Insurance Co., Greece Insular Life Assurance Co. Ltd., the Philippines; Insurance Corp. of Singapore Ltd., Singapore Irish Life Assurance P.L.C., Ireland; La Suisse Societe d'Assurances sur la Vie, Switzerland; Maritime Life Assurance Co., Canada; Muang Thai Life Insurance Co. Ltd., Thailand; National Mutual Insurance Co. Ltd., Hong Kong; Old Mutual Life Assurance Society, Zimbabwe; Pan American Life Insurance Co., Central America, Colombia, Dominican Republic and Ecuador; Pensionsforsikringsanstalten (P.F.A.), Denmark; Pictet & Cie, Switzerland; Private Patients Plan, United Kingdom; Prudentia. Corp. P.L.C., United Kingdom; P.T. Asurans: Pension Bumiputera, Indonesia; R.V.S. Levensverzekering N.V., Netherlands; Sampo Pensions Insurance Co. Ltd., Finland; Seguros La Seguridad C.A., Venezuela; Seguros Monterrey S.A., Mexico; Shin Kong Life Insurance Co. Ltd., Taiwan; Societa Assicuratrice Industriale (S.A.I.), Italy; South African Mutual Life Assurance Society, South Africa; Sud America Compania de Seguros de Vida y Patrimoniales S.A. Spain; Sul America Companhia Nacional de Seguros, Brazil; Trygg-Hansa Group, Sweden; Universal Life & General Insurance Sdn. Bhd., Malaysia; Vesta Hygea, Norway; Victora Lebens-Versicherungs-A.G., West Germany, Austria and Portugal.

Contact: Geraldine F. Pangaro, field vp; 617-572-8677.

Insurope/The Multinational Benefits Assn.

Boulevard Bischoffsheim 39, Box 18, B-1000 Brussels, Belgium; 322-217-8163

	1987	1986
Gross premiums	$.20 million*	$.11 million*
U.S. based	55%*	60%*
Non-U.S. based	45%*	40%*
Pension funds	$3.4 billion*	$3 billion*
Employees	14	14
Lives covered	170,000*	150,000*
Master contracts	200	185
Foreign countries	39	39
Offices	3	3

* Estimate.

Year formed: 1966.

Member companies: Equitativa del Plata, Argentina; National Mutual, Australia; Osterreichischen Bundeslander, Austria; Assurances Generales (A.G.), Belgium; Bradesco Seguros, Brazil; Great Eastern, Brunei; Standard Life, Canada; CIGNA Chile, Chile; Seguros Colina (CIGNA), Colombia; Statsanstalten, Denmark; Ecuatoriano-Suiza, Ecuador; Pension Varma, Finland; A.G. de 1824 & GAN (Groupe des Assurances Nationales), France; Alte Leipziger, West Germany; CIGNA Hellas, Greece; Manulife & BUPA, Hong Kong; Jiwasraya, Indonesia; Standard Life, Ireland; Fondiaria, Italy; Jamaica Mutual, Jamaica; Nippon Dantai & Asahi Mutual, Japan; Dong-Ah, Republic of Korea; Ba-

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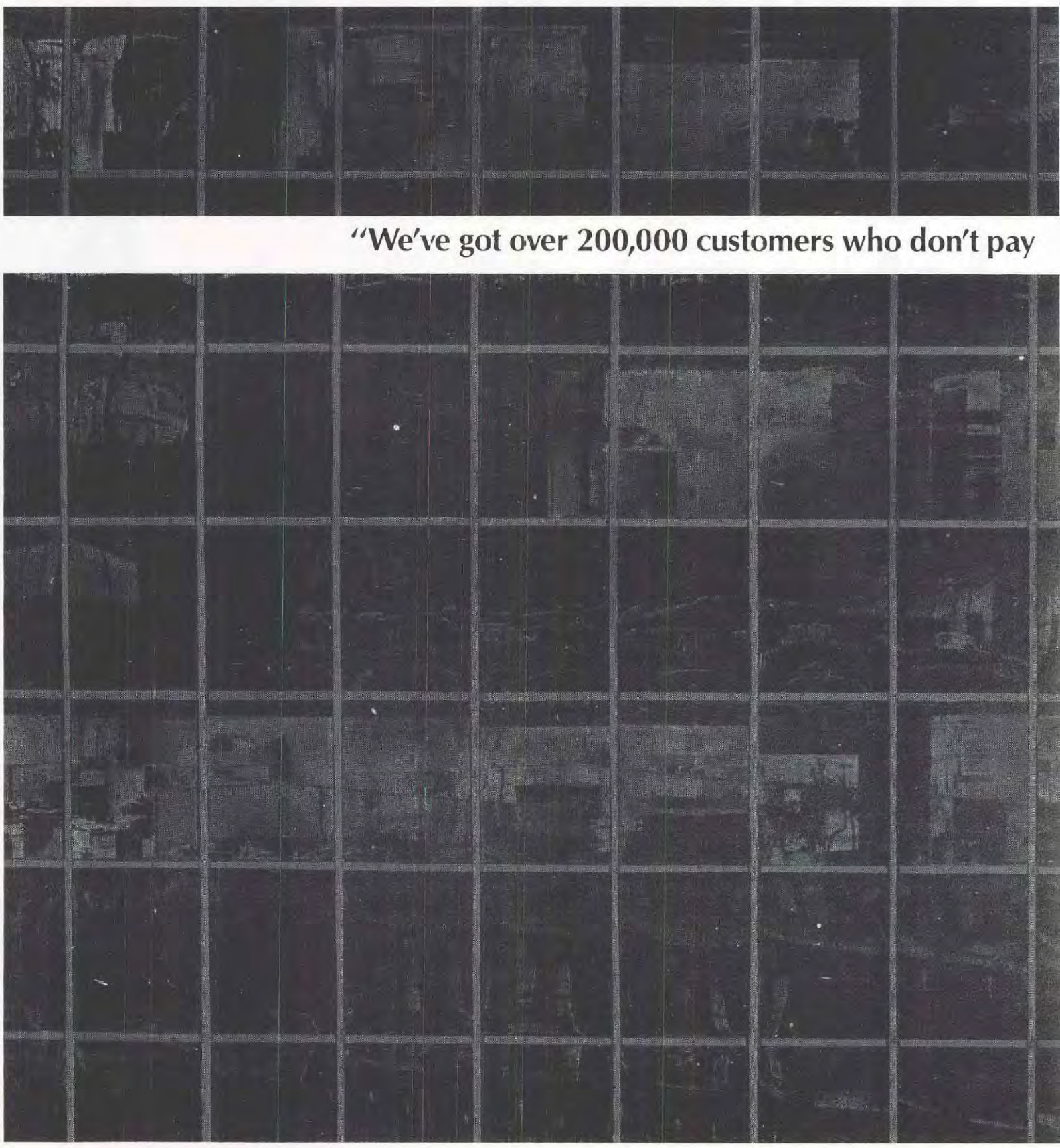

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loise/Basler, Leichtenstein; Assurances Generales (A.G.), Luxemburg; Great Eastern, Malaysia; Seguros de Mexico, Mexico; Delta Lloyd, Netherlands; National Mutual, New Zealand; Storebrand, Norway; Peruano-Suiza, Peru; Manulife, the Philippines Tranquildade, Portugal; Great Eastern, Singapore; SANLAM, South Africa; Espana, Spain; SPP, Sweden; Baloise/Basler, Switzerland; CITC Life, Taiwan; Guardian Life of the Caribbean, Trinidad; Standard Life and BUPA, United Kingdom; The Equitable/Equicor, Provident Life & Accident, U.S.A.; Prudential of America, U.S.A.; Pan American, Venezuela.

New participants: SPP, Sweden; Dong-Ah, South Korea.

Minimum requirements: Insured employee benefit contracts in two countries, no minimum premium or number of lives.

Business: 50% life, 30% pensions, 10% survivors benefits, 6% medical, 3% long-term disability, 1% accidental death.

International dividends: Stop-loss system, loss carryforward system.

Principal officers: Frank Smolar, network manager; Jim Wallace, network actuary; Hugh Gallagher, marketing coordinator.

Contact: Robert Pickrell, president or Mike Stapleton, director, 203-854-9144; Suzanne Moore, director, 408-727-9322.

Swiss Life

1200 E. Ridgewood Ave., Ridgewood, N.J. 07458; 201-670-1515

	1987	1986
Gross premiums	**$133,500,000**	$120,000,000
U.S. based	**50%**	50%
Non-U.S. based	**50%**	50%
Pension funds	**$233,000,000**	$200,000,000
Employees	**59**	36
U.S.	**9**	8
Non-U.S.	**50**	28
Lives covered	**NA**	NA
Master contracts	**481**	450
Foreign countries	**80**	80
Offices	**10**	8

Year formed: 1960.

Member companies: Sud Atlantica, Argentina; Colonial Mutual, Australia; Wiener Stadtische, Austria; ZwitserLeven-A.G. Suisses, Belgium; Iochpe Seguradora, Brazil; Canada Life, Canada; PFA Pension & Statsanstalten, Denmark; Ilmarinen, Finland; Societe Suisse, France; Schweizerische Rentenanstalt, Germany; Laiki, Greece; Lombard Life, Hong Kong; Irish Life, Ireland; Swiss Life (Italia), Italy; Meiji Mutual Life, Japan; Korea Life, Korea; Swiss Life (Luxembourg), Luxembourg; La Comercial Mexico; ZwitserLeven, The Netherlands; Colonial Mutual, New Zealand; NKP Forsikring, Norway; Lincoln Philippine Life, the Philippines; Victoria, Portugal; Asia Life, Singapore; Southern Life, South Africa; Swiss Life (Espana), Spain; Swiss Life, Switzerland; Kuo Hua Life, Taiwan; Bangkok Life, Thailand; Swiss Life, United Kingdom; Equicor, The Guardian and Swiss Life North American Services, U.S.A.; La Metropolitana, Venezuela.

New participants: Sud Atlantica, Argentina; Laiki, Greece; Lombard Life, Hong Kong; Swiss Life (Italia), Italy; Lincoln Philippine Life, the Philippines; Asia Life, Singapore; Kuo Hua Life, Taiwan; Bangkok Life, Thailand; La Metropolitana, Venezuela.

Minimum requirements: Two countries, 100 lives.

Business: 60% pensions, 15% life, 10% long-term disability, 7% short-term disability, 6% medical, 2% accidental death.

International dividends: Stop-loss system, loss carryforward system.

Principal officers: W. Diener, president-executive board; W. Frauenfelder, member-executive board; K. Muehlebach, executive vp.

Contact: Philipp Frei, president-Swiss Life North American Services; 201-670-1515.

The Travelers Insurance Co.-Multinational Insurance Arrangement (MIA)

1 Tower Square, Hartford, Conn. 06183-7040; 203-954-3784

	1987	1986
Gross premiums	**NA**	NA
U.S. based	**NA**	NA
Non-U.S. based	**NA**	NA
Pension funds	**NA**	NA
Employees	**NA**	NA
U.S.	**26**	24
Non-U.S.	**NA**	NA
Lives covered	**NA**	NA
Master contracts	**NA**	NA
Foreign countries	**52**	52
Offices	**39**	39

Year formed: 1967.

Member companies: Compania la Buenos Aires, Argentina; Guardian Assurance P.L.C., Australia; RAS Osterreich, Adratische Versicherung A.G., Austria; Internationale Unfall- und Schadenversicherung A.G., Austria; The Travelers Insurance Cos., Bahamas; Patriotique S.A. Compagnie d'Assurances, Belgium; Companhia Adriatica de Seguros, Brazil; L'Union des Assurances de Paris, Burkina Faso; Compagnie Camerounaise d'Assurances, Cameroon; Travelers Life Insurance Co. of Canada, Canada; L'Union des Assurances de Paris, Central African Republic; La Star Nationale Societe Tchadienne d'Assurances, Chad; La Chilena Consolidada, S.A. Chile; Skandia de Colombia, Colombia; Tryg Forsikring, Denmark; Compania Nacional de Seguros C. por A., Dominican Republic; L'Union des Assurances de Paris, France and Gabon; Munchener Lebensversicherung A.G. and NOVA Krankenversicherung A.G., Germany; Riunione Adriatica di Sicurta, Greece; Guardian Assurance P.L.C. and Union Insurance Society of Canton Ltd., Hong Kong; Bumi Asih Jaya, Indonesia; Caledonian Insurance Co., Ireland; Riunione Adriatica di Sicurta, Italy; L'Union des Assurances de Paris, Ivory Coast; Nippon Life Insurance Co., Japan; Le Foyer S.A., Luxembourg; Great Eastern Life Assurance Co., Malaysia; Grupo Nacional Provincial, Mexico; Al Amane, Morocco; Nationale-Nederlanden Levensverzekering Maatschappij N.V., The Netherlands; Guardian Assurance P.L.C., New Zealand; L'Union des Assurances de Paris, Niger; Royal Exchange Assurance (Nigeria) Ltd., Nigeria; UNI Mutual Life Insurance Co., Norway; Compania Internacional de Seguros de Vida, Panama; El Sol, Compania de Seguros Generales, Peru; Great Pacific Life Assurance Co., the Philippines; Portugal Previdente Companhia de Seguros, Portugal; The Travelers Insurance Cos., Puerto Rico; L'Union des Assurances de Paris, Senegal; Great Eastern Life Assurance Co., Singapore; Liberty Life Assn. of Africa Ltd., South Africa; Compania Adriatica de Seguros, Spain; VITA Life Insurance Co. Ltd., Switzerland; Cathay Life Insurance Co. Ltd. and The First Life Insurance Co. Ltd., Taiwan; The South East Insurance Co. Ltd., Thailand; L'Union des Assurances de Paris, Togo; Dhamen Union d'Assurance et de Prevoyance, Tunisia; Sark Sigorta T.A.S., Turkey; Guardian Royal Exchange Assurance, United Kingdom; The Travelers Insurance Cos., U.S. Virgin Islands; Adriatica Venezolana de Seguros C.A., Venezuela.

Minimum requirements: 100 lives in two countries.

International dividends: Loss carryforward system.

Principal officers: Bruce S. MacMillian, chairman-MIA executive committee.

Contact: Michael G. Sandmann, second vp-international department, 203-954-3784

VITA Life (Zurich Insurance Group)

Austrasse 46, Ch-8022, Zurich, Switzerland; 411-465-6565

	1987	1986
Gross premiums	**$1.6 billion**	$1.4 billion
U.S. based	**NA**	NA
Non-U.S. based	**NA**	NA
Pension funds	**$8.1 billion**	$7.1 billion
Employees	**2,000**	2,000
U.S.	**200**	200
Non-U.S.	**1,800**	1,800
Lives covered	**1,783,900**	1,758,838
Master contracts	**NA**	NA
Foreign countries	**30**	30
Offices	**24**	20

Year formed: 1976.

Affiliates and subsidiaries: Seven in the U.S., 86 in foreign countries.

Minimum requirements: Two countries and 300 lives.

Business: 82% pensions, 10% life, 6% long-term disability, 1% accidental death, 1% medical.

International dividends: Stop-loss system, loss carryforward system.

Principal officers: J.N. Plattner,

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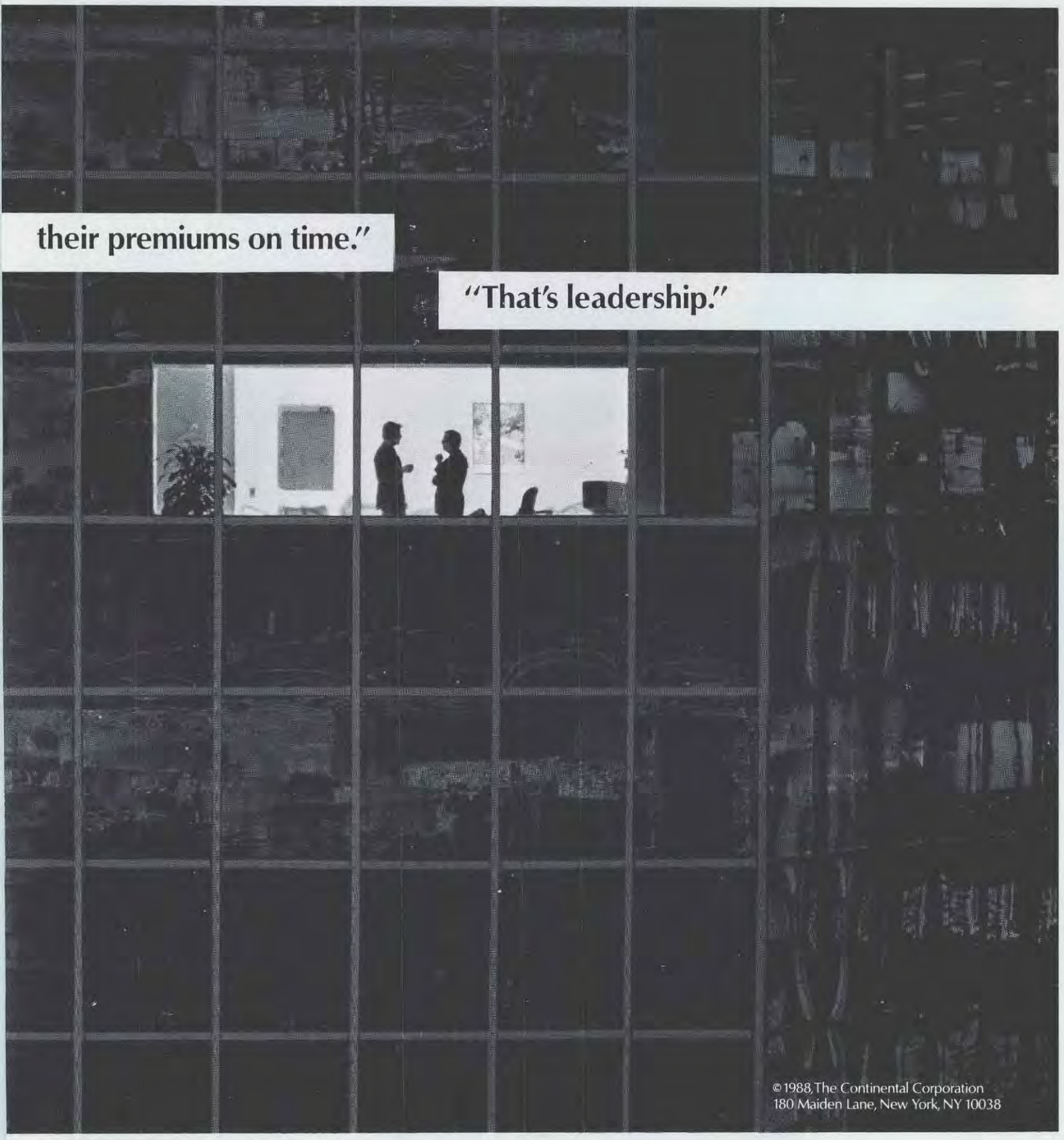

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vp; E. Hupschmid, assistant vp; R.N. Balsiger and D. Cleuvenot, senior consultants.

Contact: Roger N. Balsiger, 411-465-6696 (Switzerland).

Winterthur Swiss Insurance Co.

Rudolfstrasse 1, 8401 Winterthur, Switzerland; Two World Financial Center, 225 Liberty St., New York, N.Y. 10281; 212-416-5700

	1987	1986
Gross premiums	$60,000,000	$51,00,000
U.S. based	27%	25%
Non-U.S. based	73%	75%
Pension funds	$180,000,000	$160,000,000
Employees	35	30
U.S.	5	3
Non-U.S.	30	27
Lives covered	50,000	47,000
Master contracts	75	66
Foreign countries	20	19
Offices	NA	NA

Year formed: 1969.

Branch offices: Located in Switzerland, Austria, Belgium, Canada, Denmark, France, Germany, The Netherlands, Italy, Liechtenstein, Luxembourg, Portugal, Spain, United Kingdom.

Joint ventures with: Norwich Union, United Kingdom; Chiyoda, Japan.

Correspondent relationships with: American International Group Inc.; CIGNA Corp.; New Ireland Life, Ireland; Seguros America, Mexico.

New participants: Seguros America, Mexico.

Minimum requirements: Two countries and 100 lives; for small group plan, 20 lives and $50,000 premium volume.

Business: 50% pensions, 18% life, 14% long-term disability, 6% short-term disability, 6% accidental death, 6% medical.

International dividends: Stop-loss system, loss carryforward system and loss carryforward system with contingency fund.

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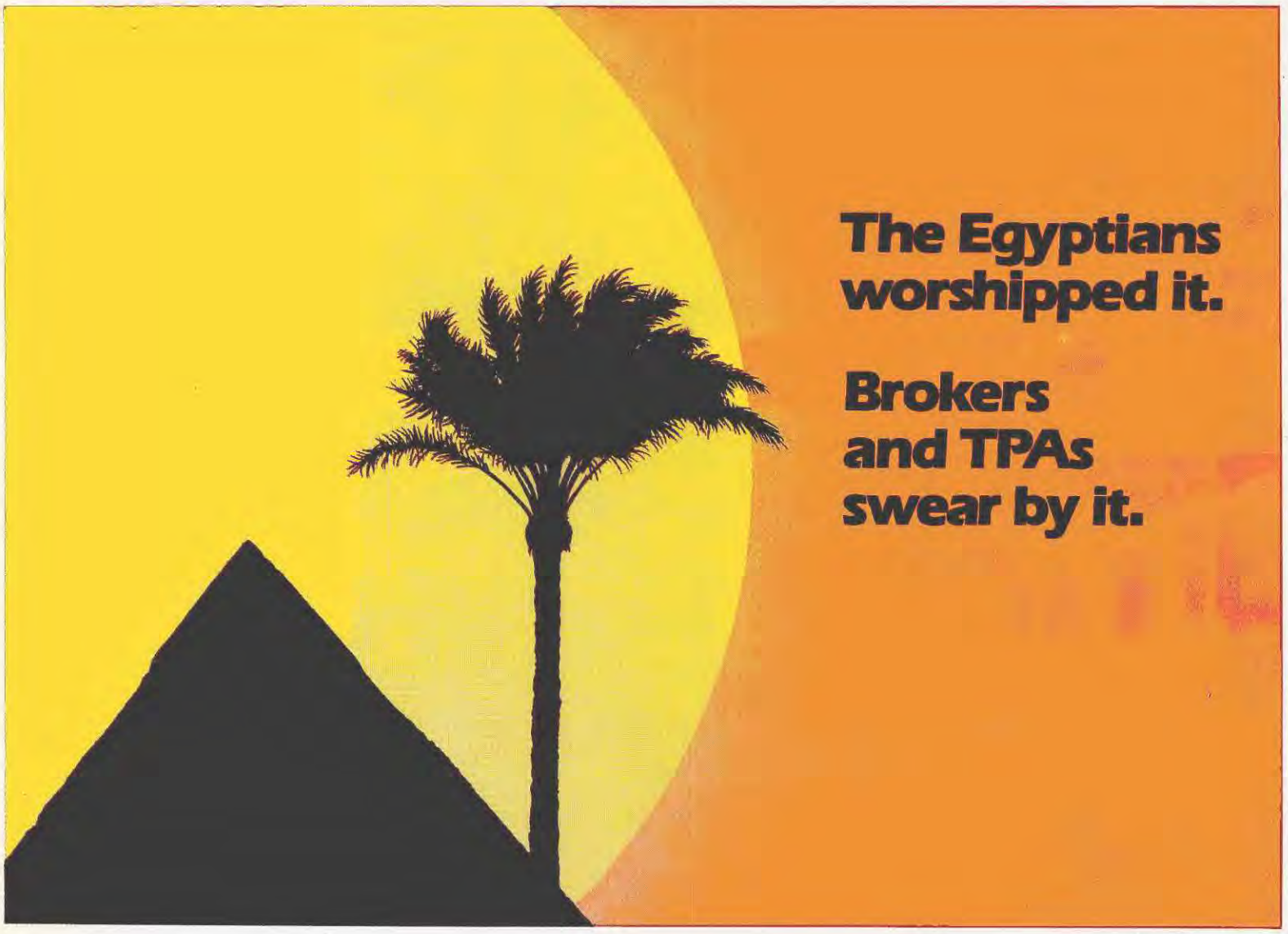

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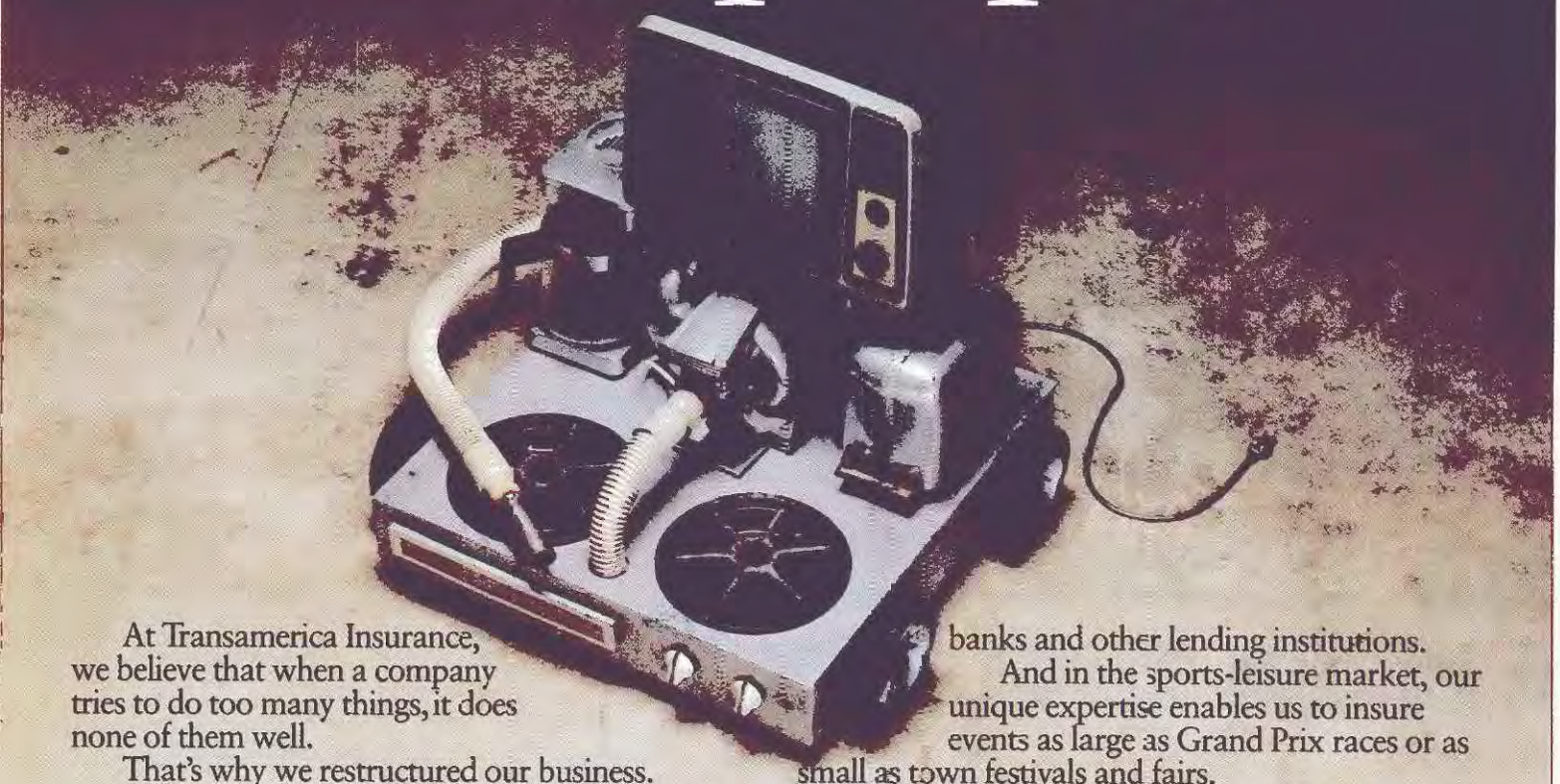

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Protection . . .

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Health insurance fraud rampant: Study

By ALISON KITTRELL

Almost 40% of Americans say they have seen evidence of health care insurance fraud in the billing practices of their medical practitioners, according to a recent survey.

Yet, although consumers feel that health care insurance fraud is one of the most serious of white-collar crimes, they are not sure what they should do about it, according to "Health Care Fraud Survey: Results of a Nationwide Survey of Consumers," conducted for Aetna Life Insurance Co. by National Family Opinion Inc. of Toledo, Ohio.

"The survey reflects intolerance for a problem which contributes an estimated $50 billion a year to the cost of health care," said James L. Garcia, director of fraud investigations in Aetna's Employee Benefits Division.

'The survey indicates that there is widespread public awareness—more than we thought—that health insurance fraud is hurting consumers,' says James Garcia of Aetna. 'But. . .people are not taking an active role to combat it.'

"The survey indicates that there is widespread public awareness—more than we thought—that health insurance fraud is hurting consumers," Mr. Garcia said.

"But our experience has been that people are not taking an active role to combat it, possibly because they don't know what to look for and what to do about it."

About 94% of the 700 people who participated in the Aetna survey had some form of health care insurance.

And, 39.7% of those respondents said that a health care practitioner they visited during the previous three years used at least one of a list of billing practices that indicate health care fraud.

The most common fraudulent billing practice was the acceptance by the practitioner of the insurance company reimbursement as full payment of the bill, even when the policy required that the policyholder make a copayment.

Some 88.5% of the respondents were required to pay part of their medical bills, and a full 23% of these said that a practitioner they visited during the previous three years had accepted the insurance reimbursement as full payment of the bill.

"A practitioner who knowingly conceals forgiveness of copayment from an insurer is committing fraud," Mr. Garcia pointed out.

In addition, 10% of the respondents with medical insurance said a practitioner they visited had ordered lab tests that the respondent felt were unnecessary; 5.9% said a practitioner had inflated charges; 5.8% said a practitioner had billed the insurer for services not rendered; and 5.2% said the practitioner had charged more for services than had been discussed at the beginning of treatment.

Other examples of fraudulent billing included reclassifying the reason for a visit to correspond with the coverage available, reported by 3.9% of the respondents; altering dates of service to enable the patient to be eligible for coverage, reported by 0.8%; and altering dates of service to avoid pre-existing condition charges and certifying a disability improperly to allow the respondent to obtain coverage during a company layoff, each reported by 0.2%.

In addition, 10.8% of the respondents said they did not know whether any practitioners they visited during the last three years had fraudulently billed their insurance company.

Respondents feel that fraud on the part of their medical practitioners is a serious problem. In fact, they ranked it second—behind stock market insider trading—on a list of five white-collar crimes.

Health care insurance fraud was rated equal with income tax fraud, and above employee pilferage or theft, which ranked fourth, and embezzlement of company or client funds, which ranked fifth.

In addition, according to the authors of the survey, "The participants were in strong agreement that practitioners found guilty of health care insurance fraud should be penalized for their actions, yet were not in agreement about the level of severity of possible penalties that should be applied."

The vast majority—90%—said practitioners found guilty of health care insurance fraud should have to repay all the money they collected through the fraudulent insurance claims.

Some 63.6% would go further and levy fines against the guilty practitioners, and 54.6% said practitioners found guilty should have their license to practice revoked or suspended.

In addition, 49.3% said the practitioners should be put on probation by their medical board, and 23.1% said they should be put in jail.

But despite their belief that insurance claim fraud is a serious crime and should be dealt with severely, the respondents showed a significant lack of understanding of the depth of the problem, according to Aetna.

For example, before they were informed that it is fraudulent for practitioners to accept an insurance company payment as full reimbursement if a copayment is required, 60.3% of the respondents said they would be very or somewhat likely to change health care practitioners if they could find a similar practitioner who accepted insurance reimbursement as full payment.

"I think this shows a lack of knowledge about what constitutes possible fraud," observed Judith T. Hyfield-Starr, manager of corporate affairs for Aetna Life & Casualty Co.

"It tells us as an insurance company that we need to educate the people," Ms. Hyfield-Starr said, adding that Aetna has launched a consumer education program as a result of the study.

For example, she noted, the survey shows that people are not sure what to do if they find evidence of fraud. Some 64.2% of the respondents said that if their health care practitioner filed a fraudulent claim, they would call the practi-

Continued on next page

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Continued from previous page
tioner's office and discuss it. Only 54.7% said they would notify the insurance company.

"Preferably, they should call their insurance carrier," Mr. Garcia said.

And, Ms. Hyfield-Starr said that calling the practitioner to discuss a fraudulent claim is "like calling up someone who just mugged you and asking, 'Hey, did you really mean to mug me?' "

In addition, 27.7% of the respondents said they would stop seeing the health care practitioner who filed the fraudulent claim, and 24.8% said they would report the practitioner to the appropriate medical board.

Only 3% said they would continue to see the practitioner, and 2.9% said they would ignore the incident.

The survey also shows that many consumers do not realize the full impact of fraud on health care costs, Aetna believes.

A whopping 83.6% of the respondents said a major cause of rising medical costs and insurance premiums is malpractice suits and the costs of malpractice insurance.

But, 53.4% said a major cause is insurance companies trying to increase their profits.

Expensive new technology and general inflation tied for third place, with 50.6% of the respondents citing these as major reasons for rising medical costs and premiums.

Many consumers do not realize the full impact of fraud on health care costs, Aetna believes.

Health care insurance fraud ranked fourth, with only 46.6% of the respondents feeling that fraud is a major reason for the rise in costs.

Other reasons included medical practitioners seeking to increase their income, mentioned by 40.6% of the respondents, and a shortage of doctors and nurses, mentioned by 11.7%.

When they were asked specifically about the importance of the role played by health care insurance fraud in the increased costs of care and coverage, 39.3% said fraud played a "very important role," while 37.6% said it played a "somewhat important role," and 5.6% said it was not important at all.

Seventeen percent said they did not know how important a role insurance fraud played in the rising cost of health care services and coverage.

However, according to Aetna, fraud is a significant factor in the increase in medical costs, adding $50 billion each year to the cost of health care in the United States.

In other survey findings:

- Nine percent of the respondents say they feel that most medical practitioners are more concerned with the potential for financial gain than with high-quality health care. And an 46.3% more said many practitioners are more concerned with financial gain than with quality of care.
- Only 42% of the respondents said only a few practitioners are more concerned with making a buck than with the quality of care.
- A strong majority—63.1%—of the respondents said that patients suffer the most from health care insurance fraud.
- Honest health care practitioners suffer the most, in the view of 26.3% of the respondents, followed by employers sponsoring group health insurance policies, cited by 16%.

Bringing up the rear were insurance companies: Only 11.9% said insurers suffer the most because of health insurance fraud.

- Respondents are split over who should have the responsibility to control health care insurance fraud. Some 25.1% said the responsibility should rest with the federal government, while 23.7% said it should rest with state licensing boards, and 21.4% said insurance companies should be responsible.

Other groups the respondents said should be responsible for controlling health care insurance fraud included professional health care organizations, mentioned by 15.1%; consumers, 14.1%; health care professionals, 9.4%; and employers who purchase group health care plans, 2.9% of the respondents.

- Some 72.4% of the respondents said that when a health care practitioner submits a bill to a health insurance company, they always check the statement from the insurance company against the bill from the practitioner.

•

Copies of the survey, "Health Care Fraud Survey: Results of a Nationwide Survey of Consumers," are not available for general distribution.

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STATUTORY SURPLUS (000 Omitted)	COMBINED RATIO
1983 – $12,238	1983 – 94.9
1984 – $16,739	1984 – 97.0
1985 – $37,037	1985 – 99.7
1986 – $53,063	1986 – 84.1
1987 – $57,243	1987 – 84.2
*1988 – $64,951	*1988 – 93.9

5 YEAR COMBINED RATIO: 89.8 (1983-1987)

ASSETS (000 Omitted)	LOSS RESERVES (000 Omitted)
1983 – $ 35,156	1983 – $ 4,985
1984 – $ 48,719	1984 – $ 9,150
1985 – $105,993	1985 – $22,784
1986 – $159,568	1986 – $46,243
1987 – $168,859	1987 – $59,712
*1988 – $173,861	*1988 – $63,544

*Six months results ended June 30, 1988

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Australian brokers' conference

Lloyd's chief advocates no-fault coverage

By KATE McILWAINE

GOLD COAST, Australia—General liability insurance should be replaced by a form of no-fault insurance since it is unlikely that tort laws will be reformed to insurers' satisfaction, the chairman of Lloyd's of London contends.

Mr. Lawrence

Lloyd's Chairman Murray Lawrence last month officially opened the National Insurance Brokers Assn. annual conference, a four-day gathering of Australian insurance brokers, with the radical proposal, which he stressed is his personal opinion and not that of the Lloyd's marketplace.

A no-fault system would avoid the 'socially unacceptable situation in which a claimant who has suffered serious injury can be kept waiting five or more years before receiving any compensation,' says Murray Lawrence.

Losses from general liability insurance—particularly from coverage of U.S. risks—has had a "disastrous" effect on Lloyd's non-marine accounts for years, Mr. Lawrence pointed out.

In addition, he warned that he legal system in Australia—especially in its most populous state of New South Wales—was developing along similar lines to that of the United States.

Therefore, he said, Australia could expect tort liability problems similar to those in the United States to emerge.

"In the courts, you already have a broad application of the strict liability concept, you have jury trials in some (Australian) states and there has been the first-ever award of exemplary damages in an asbestosis case.

'At least one state, Victoria, is considering the contingency fee basis of rewarding lawyers, which is frequently used and abused in the U.S.A.," he said.

Mr. Lawrence explained that in the past 30 years, the concept of liability insurance has changed from its original purpose of protecting a policyholder if, through his negligent acts, he caused injury to a third party.

Today, "the same policy is expected to compensate injury victims regardless of who is to blame or their degree of fault," Mr. Lawrence said.

"Moreover, in addition to economic loss, the policy is expected to cover an ever-widening range of non-economic losses—such as pain and suffering—together with an increasing element of punishment—punitive damages—where the assured may not even be the guilty party but might just happen to have the deepest pocket," Mr. Lawrence said.

"Fault is no longer the issue, since injury compensation is the goal," he added.

"Thus, even if the victim is partially or totally at fault, compensation is believe today to be virtually an absolute right," Mr. Lawrence said.

Mr. Lawrence said it is time for insurers to consider a more radical approach to offering liability coverage to clients since "we are likely to never again see a reasonable law of negligence in the United States and perhaps ultimately here in Australia."

"Therefore, we should cease continuing to issue third-part policies to cover the situation and turn to some form of no-fault insurance instead," Mr. Lawrence recommended.

Such insurance could be sold on a first-party basis, like personal accident insurance is sold to individuals or employees, Mr. Lawrence explained.

Mr. Lawrence said the advantages of such a program would be:

- The bulk of the premium dollar would be paid out in losses to the injured person instead of "lining the pockets of lawyers as it does under the existing system."
- It would avoid the "socially unacceptable situation in which a claimant who has suffered serious injury can be kept waiting five or more years before receiving any compensation."
- Underwriters would be able to accurately assess their losses at an earlier stage and be able to adjust their rates and policy forms as necessary, thus enabling them to offer continuity of coverage on a more statistically sound basis.
- It would remove the unfounded criticism that the "insurance industry is failing to react to the needs of society."

However, he said he realized such a dramatic approach as his no-fault proposal—which he stressed was an "entirely personal" suggestion—would face huge obstacles in implementation. For instance, he speculated that insurers' underwriting losses would have to worsen materially before such a radical plan would have any chance of acceptance.

"The power of the legal lobby must never be underrated and what I am suggesting would, of course, be anathema to them," he said.

"However, I believe what I am suggesting, or something akin to it, will come about in time. The question is how much more damage must the insurance industry suffer and how much more aggravation must the insurance buyers have to endure before the absurdity of the present system is recognized to the extent that society is willing to consider a radical solution?" Mr. Lawrence asked. ■

National Insurance Brokers Association

Few diversions for NIBA attendees

GOLD COAST, Australia—Brokers attending the National Insurance Brokers' Assn. convention in Australia earlier this month took time out for one event: the annual Melbourne Cup horse race held at Flamington racetrack.

Convention delegates and their guests enjoyed a special lunch, during which they watched televised coverage of the Cup. New Zealand mare Empire Rose won this year's race by a nose.

Cup Day ended in traditional Aussie flavor, with delegates attending a bicentennial "bush bash" in a wool shed set up on the ground of Queensland's first legal casino, Jupiters.

Delegates to NIBA's sixth annual convention were kept busy the rest of the four days with conference sessions featuring several prominent speakers. Lloyd's of London Chairman Murray Lawrence opened the convention (see story, page 65).

Keynote speakers included David Palmer, chairman of the British Insurance & Investment Brokers' Assn.; Dwight Dillon, immediate past president of the Independent Insurance Agents of America; and Malcolm Turnbull, an attorney who successfully defended the right of an Australian publishing firm to distribute the controversial book "Spycatcher," the memoirs of former British spy Peter Wright.

The NIBA convention, which was held on the Gold Coast of Queensland, attracted 792 delegates and their guests, up from about 670 people last year.

—By Kate McIlwaine

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Lloyd's pledged to all markets, says Lawrence

By KATE McILWAINE

GOLD COAST, Australia—While new insurance markets are burgeoning around the world, Lloyd's of London remains committed to its traditional sources of business, says Lloyd's chairman.

The insurance market is expanding in the European Community, China and the Pacific Rim, Chairman Murray Lawrence told delegates at the National Insurance Brokers Assn.'s annual meeting, which ended earlier this month in Australia.

However, interest in these markets "should not be taken to imply any lack of interest in our more traditional markets. Far from it. Since the whole basis of insurance is a spread of risk, it behooves the market to be involved in as many countries as possible," he said.

Mr. Lawrence also told the brokers that while "continuity" is one of Lloyd's cardinal virtues, "continuity is not, as it is so often suggested, a one-sided obligation on the part of the insurer."

Continuity is dependent on a "mutuality of interest which requires that if insurers are to continue to provide cover at a reasonable price in a hard market, then the insured—as a quid pro quo—should be willing to pay a fair premium during a soft one," he said.

"As many of us have experienced. . .in recent years, a marketplace in which buyers constantly flit from one supplier to another simply to obtain the cheapest rates is bound in the long run to be inimical to the provision (of good) service," he noted.

Closely allied to continuity is stability, Mr. Lawrence pointed out. "At Lloyd's, because we do not operate in a vacuum, outside market forces create difficulties for us, but a very real attempt is made to iron out the worst excesses with underwriters endeavoring, wherever possible, to take the long-term view," he said.

A measure of Lloyd's brokers' success is their ability to obtain and service overseas accounts, he said.

"Their success lies, I believe, in their willingness to work with domestic markets and the way in which they adapt, in their international dealings, to the rules, regulations and national characteristics of the countries in which they trade," he said.

Finally, Mr. Lawrence told delegates that industry cannot operate without insurance.

"Industrial pipe dreams need insurance if they are to become reality and you only have to consider such risks as communication satellites, North Sea oil platforms, (Australia's) Snowy Mountain (hydroelectric) project. . .and our own cross-channel link to see the truth of this assertion," he said.

"All of these pipe dreams and many others might never have materialized without the imaginative response of underwriters at Lloyd's," he said. ■

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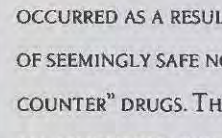

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AAU Raising Your Expectations

Book traces historical growth of Australian brokerage market

GOLD COAST, Australia—A book documenting the history of the Australian insurance brokerage industry was officially released by Lloyd's of London Chairman Murray Lawrence at the sixth annual National Insurance Brokers Assn. convention that concluded here earlier this month.

The book, "Paths to Professionalism: A History of Insurance Broking in Australia," was written by Rodney Benjamin, who has worked in the insurance industry for 40 years, mainly in senior executive roles with Lumley Corp. Ltd. in Melbourne, Australia.

Mr. Lawrence said the National Insurance Brokers Assn. had shown great foresight in commissioning Mr. Benjamin to write the volume. Mr. Benjamin credited NIBA Executive Director John Unkles as the driving force behind the book. He was "a man who had a vision and would not let go of it," he said.

"Paths to Professionalism" traces the growth of the Australian insurance brokerage industry, focusing on attempts by insurance brokers to establish a professional image.

Although insurance brokers did business in one Australian colony more than a century ago, the development of the industry has been uneven and slow, according to the book. It has only been in the last 30 years that insurance brokerage firms have developed on a national basis in Australia.

During his 18 months of research, Mr. Benjamin uncovered what may have been Australia's first insurance advertisement: a Dec. 21, 1806, ad in the Sydney Gazette and NSW Advertiser offering to insure cargo en route from London to the colony. The ad was placed by ex-convict Simeon Lord, who was transported from England in 1790 for stealing cloth.

—By Kate McIlwaine

Brokers told to hike standards, services

By KATE McILWAINE

GOLD COAST, Australia—Brokers must improve their professional standards and increase the range of services offered to keep pace with clients' demands, say speakers at the National Insurance Brokers Assn. annual conference.

In addition, the inability to moderate the cyclical nature of property/casualty insurance is taking its toll on brokers, they say.

Increased liabilities and losses and, in recent years, some dramatic increases in insurance costs have placed a greater emphasis on insurance among corporate clients, David Palmer, chairman of the British Insurance & Investment Brokers Assn., told delegates at the NIBA conference, which concluded earlier this month.

And, as clients grow larger and expand internationally, brokers must follow, Mr. Palmer said. He noted that brokers now offer consulting services in such areas as environmental hazards, product safety, occupational health and safety, captive insurance company management, personal financial planning and executive compensation.

Mr. Palmer

This service expansion includes increased networking of information resources, said Mr. Palmer, who retired last month as chairman of Willis Faber P.L.C., the second-largest Lloyd's of London broker.

"Networks are emerging in the London market linking brokers and underwriters and policy-signing offices; we see networking linking reinsurers and reinsurance brokers," he said (*BI*, Oct. 17).

Meanwhile, it is vital to educate the public about the importance of dealing with a properly qualified broker, Mr. Palmer said.

For example, it is possible for anyone in Britain to sell insurance, he said. The only constraint imposed by the Insurance Brokers Registration Act is that a seller cannot use the title "broker," Mr. Palmer said.

"The act regulates the title, not the function," he added.

As a result, "there are people the length and breadth of Britain calling themselves insurance consultants and insurance advisers, who provide insurance and are supported by the insurance companies without any regulation whatsoever. Correction of this situation is a major preoccupation for BIIBA," Mr. Palmer said.

Bob Piper, president of NIBA and chief executive officer of Sedgwick Ltd. in Australia, agreed that professionalism is a major concern for broker associations worldwide.

In Australia, NIBA has lobbied for legislation that would require the registration of brokers and has launched a public relations campaign to explain to the public the role of insurance brokers.

Turning to the subject of insurance cycles, Dwight Dillon, immediate past president of the Independent Insurance Agents of America, said the inability to moderate insurance cycles was costing American agents "tons of money."

In addition, the image of insurance agents is deteriorating, Mr. Dillon said. The litigious American legal system created uncertainties and there was a concerted backlash against agents, he said.

Mr. Palmer said brokers' attempts to avoid the profit fluctuations caused by the cyclical nature of the commercial property/casualty insurance market has led to a tendency to handle business on the basis of fees or negotiated commissions.

Mr. Palmer estimated that 60% of British broker compensation is now on that basis, and brokers are much more receptive to fees vs. commissions than 10 years ago. ■

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CAPTIVE MGMT FIRMS	Captives	Apr 18	Apr 5
BENEFITS INFO SYSTEMS	Benefits: Plan Design	May 30	May 17
AGENTS AND BROKERS	Agent/Broker Profiles	Jun 20	Jun 7
RISK MGMT INFO SYSTEMS	Risk Mgmt Systems	Jul 18	Jul 5
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Business Insurance
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National Services Group acquires insurer

National Services Group, a conglomerate of insurance brokerage and claims administration companies, has purchased Wisconsin Employers Indemnity Co. of De-Pere, Wis..

The acquisition will enable Brookfield, Wis..-based National Services Group to expand its services to include risk-taking.

"We are excited about the acquisition because we perform all the functions of an insurance company today, except we have been unable to assume the risk. Now we have taken that last step," said Terry D. Briscoe, chief executive officer of National Services Group.

Wisconsin Employers Indemnity, a unit of AMEX Assurance Co. of San Rafael, Calif., has been inactive since 1983. The company will be revived in order to write long-term disability coverage for public schools and other government agencies nationwide.

Initially the insurer, which will be renamed National Insurance Co. of Wisconsin, will write about $15 million in annual premiums.

Following the acquisition, the insurer will have capital and surplus of $3 million.

According to Thomas G. Rosencrants, senior vp with Interstate/Johnson Lane Inc. in Atlanta, a 5-to-1 premium to surplus ratio for a LTD insurer is considered satisfactory.

Although National Insurance Co. is Wisconsin is chartered as a property/casualty insurer, under Wisconsin's insurance laws it can write long-term disability coverage. Wisconsin insurers licensed as either property/casualty or life/health companies are eligible to write long-term disability coverage, explained a state Insurance Department spokesman.

National Services Group is composed of four companies, all of which are owned by Mr. Briscoe and his partner Thomas Ehrsam:

- National Administrative Services of Wisconsin Inc., a third-party administrator.
- National Insurance Services of Wisconsin Inc., better known as School's Insurance Fund, which brokers long-term disability coverage, as well as health, life and dental insurance products, to schools.
- National Plan Services of Wisconsin Inc., which brokers long-term disability, health, life and dental insurance to employers with 100 employees or less.
- National Financial Resources Inc., which designs individual retirement plans for school employees. The products are sold to the school district and then marketed to employees on an individual basis.

For more information contact Mr. Briscoe or Mr. Ehrsam at 250 S. Executive Drive, Brookfield, Wis., 53005; 414-785-9995.

Surplus boost

New York-based Citibank and General American Life Insurance Co. of St. Louis have struck an unusual deal in which the bank will boost the insurer's surplus in return for a portion of future premiums.

Citibank will add $75 million to General American's surplus, half in 1988 and half in 1989.

In return, General American will give Citibank a portion of its future life insurance premium cash flow above what is necessary to meet reserve requirements for its policyholders. The transaction will not affect policyholder reserves, according to General American.

The transaction is designed to allow General American to more quickly expand the amount of new business it can write.

And industry observers say the deal will allow Citibank to gain a greater understanding of how an insurer operates.

For more information, contact Charles L. Larance at General American Life Insurance Co., 700 Market St., St. Louis, Mo. 63166; 314-444-0404.

Markets

Mortgage insurer

Six mortgage insurers have organized Policyholders Benefit Corp., which plans to provide replacement coverage to former TMIC Insurance Co. policyholders as of Dec. 1.

The company, which will issue replacement master policies through a trust, will have an initial capitalization of $4 million, said Mark Pollack, senior vp of one of the organizing companies, Mortgage Guaranty Insurance Corp. Mr. Pollack briefly served as PBC's interim president, prior to the recent appointment of William Thomas as president.

The other organizing companies are Commonwealth Mortgage Assurance Co., General Electric Mortgage Insurance Cos., Integon Mortgage Guaranty Corp., Republic Mortgage Insurance Co. and United Guaranty Corp.

While the new insurer is licensed in Washington, D.C., its day-to-day operations will be managed by a Republic Mortgage affiliate, Winston-Salem, N.C.-based RMIC Corp., Mr. Pollack said.

A California state judge approved TMIC's liquidation in April (*BI*, April 11).

For more information about Policyholders Benefit Corp., contact Mr. Thomas at 2000 L St. N.W., Suite 200, Washington, D.C. 20036; 202-785-9267.

Swiss Re expands

Swiss Reinsurance Co. of Zurich, Switzerland, has purchased 85% of the share capital of Union Reinsurance Co. of Zurich.

Swiss Re bought the shares in Union Re from the Union Bank of Switzerland and Swiss National Insurance Co. Ltd.

In 1987, Union Re reported net premiums written of 392.4 million Swiss francs ($244.2 million).

Swiss Re, the parent company of New York-based North American Reinsurance Corp., had net premiums written in 1987 of $6.1 billion, according to a spokesman from the company.

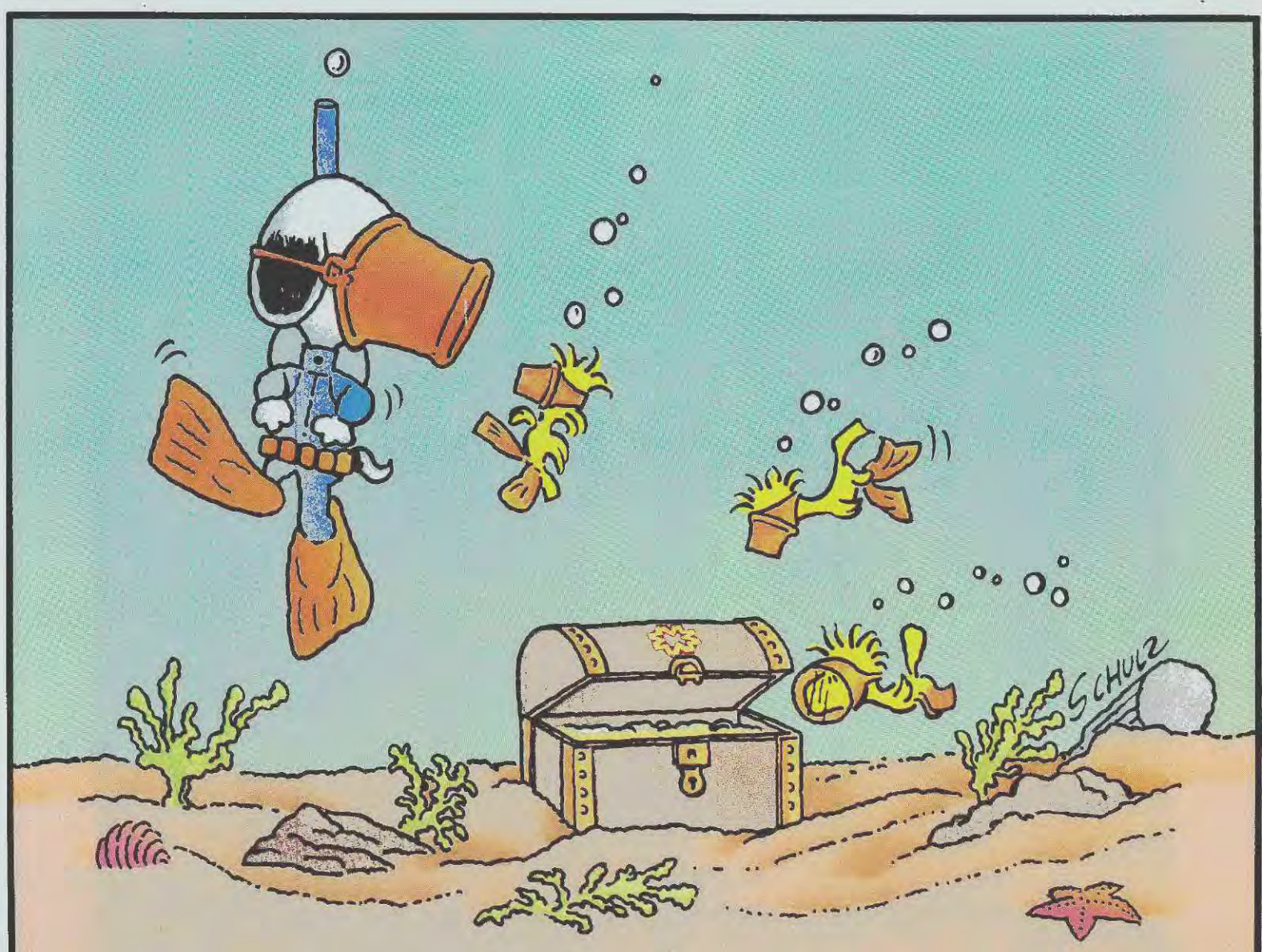
New marine unit

San Francisco-based wholesaler Sherwood Insurance Services has created a new ocean marine unit.

The new unit is managed by Bob Riske and Lynne Ellison. Mr. Riske was regional vp and Ms. Ellison was vp at Western Marine Wholesalers Inc. in Encino, Calif.

Among the lines of insurance being place by Sherwood are policies for marina operators, ship re-

Continued on next page



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Markets

Continued from previous page
pairers, members of the California Yacht Maintenance & Repair Assn., as well as coverage for commercial fishing vessels, commercial hull, protection and indemnity and cargo coverage.

"In our continuing effort to bring big brokerage expertise to our retailers of all sizes, we determined that ocean marine was a logical and necessary extension," said President Don Sherwood.

"We'd like our brokers to think of us as their own ocean marine department—with two of the best marine wholesalers working for them," added Dave Hartoch, senior vp and manager of the Los Angeles branch office.

For more information contact Mr. Riske or Ms. Ellison at Sherwood Insurance Services, The Equitable Building, 3435 Wilshire Blvd., Los Angeles, Calif. 90010; 213-487-3260.

New insurer

Capital Alliance Insurance Co., a new operating unit of Ryder System's Insurance Management Services Division, has begun writing property/casualty insurance in Alabama.

The company was formed with $5 million in capital and surplus. It is a unit of Capital Assurance Co., which had $23.6 million in capital and surplus as of year-end 1987.

Among the lines of insurance written by Capital Alliance are commercial automobile and other property/casualty lines of insurance.

John R. Kitchens Insurance Inc. of Montgomery, Ala., is the exclusive managing general agent handling all of Capital Alliance's business.

For more information contact Thomas A. Jones, Ryder Systems Inc., 3600 N.W. 82nd Ave., Miami, Fla 33166; 305-593-3973.

Specialty broker

Donald J. Brayer, formerly vp of Shand, Morahan & Co. Inc. in Evanston, Ill., has opened his own specialty lines insurance consulting and brokerage firm.

The new company, Donald J. Brayer & Associates, also will design and arrange insurance programs, including self-insurance programs and alternative risk financing programs.

In addition, the company will provide primary and reinsurance placement for professional liability lines and risk management and loss prevention consulting.

For more information contact Donald J. Brayer & Associates, P.C. Box 4162, Northbrook, Ill. 60065-4162; 312-493-3323.

Name change

Stewart Smith Mid America of Chicago has changed its name to **McAlear of Illinois Inc.** McAlear of Illinois is one of several wholly owned U.S. wholesale brokerage subsidiaries of Willis Faber P.L.C. of London.

Mergers/acquisitions

The Lawrence United Corp., the Albany, N.Y.-based subsidiary of The Lawrence Group Inc., has acquired the assets of **Robinson Conner of New York Inc.** in Rochester, N.Y. The agency was a branch office of Robinson Conner of Erie, Pa., the nation's 20th-largest broker according to *Business Insurance.*

In addition, **Lawrence United** has acquired **Ford, Hamilton & Harper Insurance Agency** of Fresno and Bakersfield, Calif.

And, Lawrence United has acquired a majority interest in **Lundberg & Associates** of Fresno, Calif., and **Robson, Cavignac** of San Diego.

New York-based **Continental Corp.** has signed a letter of intent to acquire **Phoenix Assurance Co. of Canada** and **The Century Insurance of Canada** for about $44 million. Both companies are units of Sun Alliance and London Insurance Group of London and are part of an insurance pool that Continental has managed since 1984.

In a separate transaction, **Sun Alliance & London Insurance Group** have signed a letter of intent to acquire **Groupe Barthelemy S.A.**, a French property/casualty insurance agency that is owned by Continental.

Richmond, Va.-based broker **Markel Service Inc.** has purchased the renewal rights on the book of business of **Special Risks Inc.**, a professional liability broker in Virginia Beach, Va.

Pacific Compensation Capital Corp. of San Bruno, Calif., has acquired nine Cayman-based reinsurance companies with more than $11 million in assets. The nine offshore captives, which mostly reinsure workers compensation business in California, are: SU Holdings Ltd., River City Holdings Ltd., Dublin Holdings Ltd., Westcomp Holdings Ltd., Cal Independent Holdings Ltd., PNG Holdings Ltd., Golden State Holdings, Pacific 1 Ltd. and Golden Gate Holdings Ltd.

Hicksville, N.Y.-based **Cardinal Claim Service Inc.**, a claims administrator, has acquired **William R. Steele Co.** of Levittown, N.Y.

The Tampa, Fla., office of **Crowder Insurance Inc.** has merged with **Jacobs-Fendig Inc.** of Tampa, a unit of ABI Management Inc. of San Francisco, the nation's 13th largest brokerage.

First Delaware Financial Group Inc. of Wilmington, Del. has acquired **The Peninsula Insurance Co.**, a property/casualty and personal lines insurer that is licensed in Maryland, Delaware, Virginia, West Virginia, Tennessee and South Carolina.

National Insurance Associates and **I.R. Weinraub & Co. Inc.**, both Paramus, N.J.-based insurance agencies, have merged. I.R. Weinraub will operate as an affiliate of the NIA Group.

Zurich Insurance Co. of Zurich, Switzerland, has purchased **TravCan Ltd.**, the holding company of **Travelers Indemnity Co. of Canada** and **Travelers Life Insurance Co. of Canada** from Hartford, Conn.-based **Travelers Corp.**

The St. Paul Insurance Cos. of St. Paul, Minn., has signed a letter of intent to purchase **Neare Gibbs & Co.** of Cincinnati. Neare Gibbs, a managing general agency specializing in marine insurance for companies on the Mississippi River, had net written premiums in 1987 of approximately $10 million.

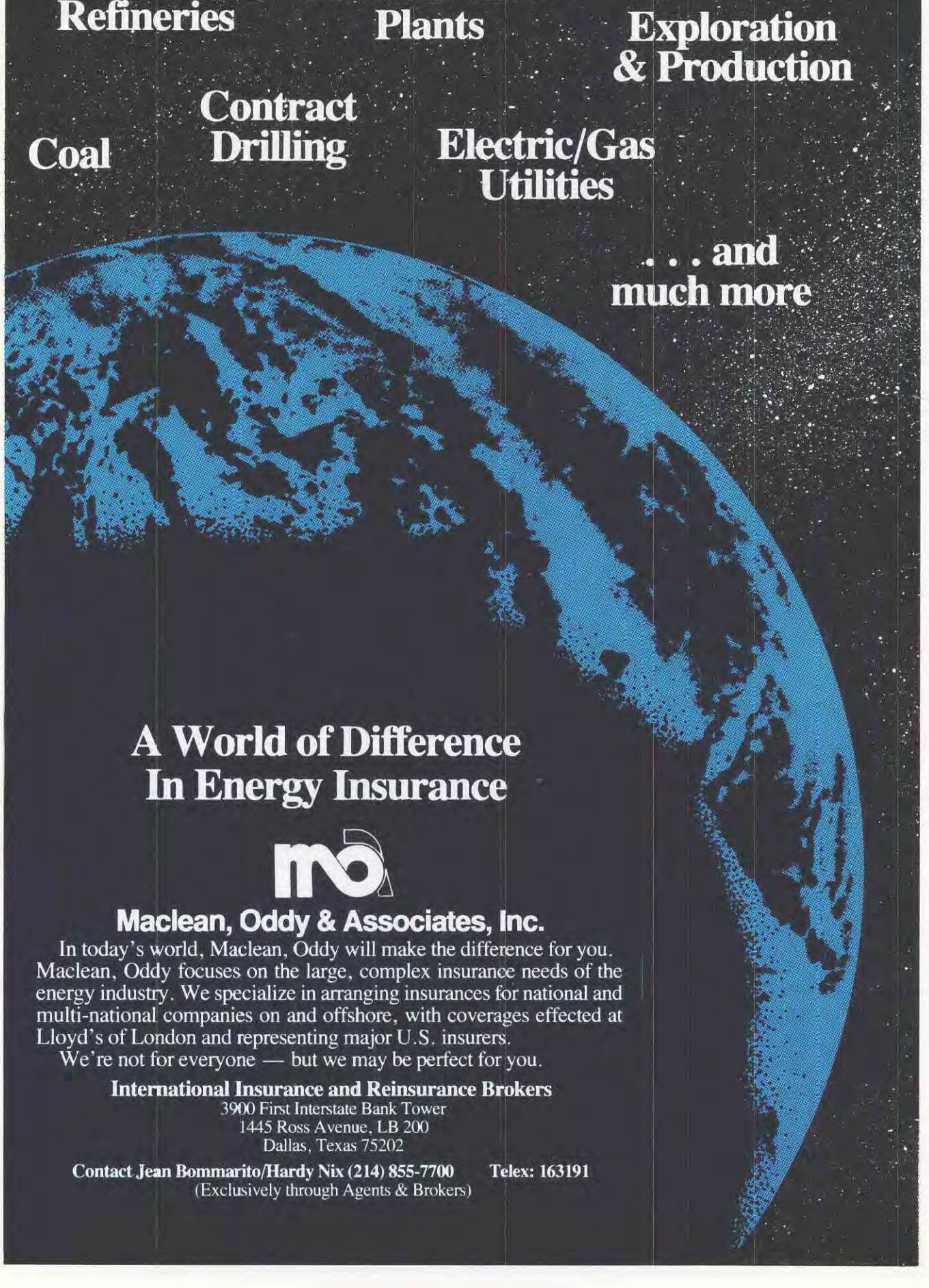
Tyler, Texas-based **Lindsey & Newson** has acquired **Greer-Keller Claim Service Inc.**, which has offices in six Oklahoma cities.

Obrion, Russell & Co. Inc., a Boston-based reinsurance broker, has been merged into **Thomas A. Greene & Co. Inc.** of New York, a unit of Alexander & Alexander Services Inc. Obrion, Russell & Co. formerly operated as a unit of Alexander & Alexander Inc., the retail insurance brokerage and risk management unit of Alexander & Alexander Services Inc.

UNUM Corp. of Portland, Maine, has signed a definitive agreement to acquire **Commercial Life Insurance Co.** and **First Commercial Life Insurance Co.**, both units of New York-based **Continental Corp.**

Peat Marwick Main & Co. has acquired San Diego-based **Benefit**

Continued on next page



Lloyd's hikes members' asset requirements

By CAROLYN ALDRED

London

LONDON—People seeking to become Lloyd's of London underwriting members will need more assets beginning in 1990.

In addition, all Lloyd's members eventually will have to place a greater percentage of their underwriting capacity on deposit with Lloyd's under new financial requirements.

Effective Jan. 1, 1990, all new Lloyd's members will have to have assets of 250,000 pounds ($451,500), compared with the current 100,000 pound ($180,000) requirement.

In addition, new members will have to deposit with Lloyd's an amount equal to 30% of their gross premium underwriting limit, with a minimum required deposit of 25,000 pounds ($45,150).

In addition, existing Lloyd's members will be given until January 1992 to come in line with the following requirements:

- Members with declared assets of 250,000 pounds or more will need to deposit funds equal to 30% of their overall premium limit.
- Members with assets between 100,000 pounds and 250,000 pounds will need to deposit funds equal to 40% of their overall premium limit.
- Members with assets of 25,000 pounds to 100,000 pounds will need to provide funds equal to 50% of overall premium limit.

In addition, a minimum of 20% of members' overall premium limits must be held by Lloyd's, while the remainder can be held in a deposit account maintained by a members' agent.

The requirements will apply to both British-based and overseas members, according to Lloyd's.

Currently, new Lloyd's members must have assets of at least 100,000 pounds. British members must deposit an amount equal to 20% of their overall premium limit with Lloyd's, while overseas members must deposit an amount equal to 28% of their premium limit.

"The overall effect of the membership requirement will be to strengthen the security of the Lloyd's policy by increasing both the solvency 'fail-safe' which underpins a name's current underwriting, and the means requirement for new names," according to a Lloyd's statement.

Subway fire

Britain's public prosecution office is considering bringing criminal charges against the management of London's transit system after the release of a Department of Transport report on last year's King's Cross subway station fire that sharply criticizes the system's safety program.

The government's Director of Public Prosecutions is considering the report and police documents "to see whether any criminal offenses have been committed and any prosecution should be made," a spokesman said.

The chairmen of London Underground, the city's subway system, and its parent company, London Regional Transport Ltd., both resigned earlier this month shortly before the publication of the report, which criticizes the state-owned public transport company's lack of passenger and employee safety management.

London Underground must adopt a new approach to safety management, according to the report's author, Desmond Fennell, who was appointed by the Department of Transport to head the formal inquiry into the King's Cross disaster.

Mr. Fennell criticized the management of LRT and London Underground for putting public and employee safety considerations below those of economy and efficiency. For example, the King's Cross Station disaster revealed a severe lack of staff safety training and automatic fire detection and prevention equipment in London's subway system, according to the report.

The resignations of Sir Keith Bright, chairman of LRT, and Tony Ridley, chairman of London Underground, were accepted by Paul Channon, the government's secretary of state for transport on Nov. 10, the day of the report's publication.

The Fennell "investigation has shown major shortcomings, requiring a new approach to safety management and fire prevention in the Underground and specific safety audits by London Regional Trans-

Continued on next page

Markets

Continued from previous page

Communicators Inc.

Richmond, Va.-based **Hilb, Rogal & Hamilton Co.** has acquired **Foss, Cates, Hudson & Sims Agency Inc.** of Victoria and Houston, Texas.

New offices

Selective Insurance Co. has opened a Northern New Jersey branch office in the corporate headquarters at 40 Wantage Ave., Branchville, N.J. 07890; 201-948-3000.

North American Reinsurance Corp. has opened a new ocean marine regional office at 3340 Peachtree Road N.E., Atlanta, Ga., 30026; 404-261-6242. The new office is managed by Senior Marine Underwriter Melodee Harvey.

Buck Consultants Inc. has opened a consulting office at 176 Federal St., Boston, Mass. 02110; 617-951-0535.

Transamerica Insurance Group has completed its move from downtown Los Angeles to its new corporate headquarters at 6300 Canoga Ave., Woodland Hills, Calif. 91367; 818-596-5000.

National Claims Service Inc. has opened a new claims administration office at 278 Franklin Road, Brentwood, Tenn. 37027; 615-370-4272.

In addition, the company opened a new office near Philadelphia at Suite 200, 1024 Church Layne, Yeadon, Pa. 19050; 215-622-6344.

Jardine Emett & Chandler Inc., the nation's ninth-largest brokerage, has opened a new office at 2291 W. March Lane, Suite 127 D, Stockton, Calif. 95207; 209-474-3991.

Johnson & Higgins, the nation's third-largest brokerage, has opened a new office at 5130 Eisenhower Blvd., Suite 321, Tampa, Fla. 33634; 813-885-8838. ■

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Need for liability insurance continues to grow: Report

Worldwide

ZURICH, Switzerland—Demand for liability insurance, which has shown "extraordinarily dynamic development" the past 20 years, likely will continue to grow, according to a Swiss Reinsurance Corp. report.

Increased awareness of environmental problems worldwide will increase companies' tort liabilities, points out the report. At the same time, there will be a transformation from negligence-based liability to strict liability for environmental risks, it adds.

Thus, the report says, there will be considerable growth in demand for insurance as well as risk management advice.

"In product liability, too, a worldwide shift to strict liability is to be expected," according to the Swiss Re report. "This means that producers will have to bear the major part of the risks and, thus, their need for insurance will grow.

The report also demonstrated the growth of the liability insurance market between 1965 and 1986.

In surveying 18 nations including the United States, the United Kingdom and Canada, the report pointed out that general liability insurance accounted for 8.2% of the non-life insurance market in 1986, compared with only 4.5% in 1965. During the same period, general liability insurance premium volume increased to $33 billion from $1.7 million.

The growth in general liability insurance premiums indicates "that risks have become greater as a result of economic growth and that there are imbalances in the general liability insurance market" among the nations surveyed, the report says.

For instance, general liability insurance comprises an above-average portion of the non-life insurance market in the United States, Switzerland, West German and Canada. On the other hand, despite a high growth rate, general liability insurance only comprises about 3% of the non-life insurance market in Japan because of "sociological and cultural" reasons.

—By John Parry

European market

The European insurance industry is "going berserk" in anticipation of the creation of a single European market in 1992, says a London-based insurance consultant.

"The level of activity (in the insurance industry) is extraordinary and the hunger for knowledge is insatiable," said Cees Schrauwers, director of insurance consultancy for Coopers & Lybrand Associates Ltd.

Coopers & Lybrand's London consulting unit currently is advising more than 30 insurers and brokers based in the United Kingdom, continental Europe and the United States about the potentials and pitfalls of barrier-free trade in Europe, said Mr. Schrauwers.

"Companies want to be seen to be active. They are raring to go. However, although there are tremendous opportunities, companies should be aware of the costs," he warned.

The whole impetus behind the removal of trade barriers among the 12 European Community countries is to improve supply for the consumer. "Improved consumer supply always means reduced (company) profits," he pointed out.

Although after 1992 the European market will be bigger, "there may be more providers, meaning profits will go down," he said.

Mr. Schrauwers believes that the European insurance market eventually will be dominated by about 10 insurance companies from France, Italy, Scandinavia, the Netherlands, West Germany, Switzerland, the United Kingdom and the United States.

Already, many European companies are examining joint ventures across Europe, he noted.

In addition, "there will be a major incentive for U.S. insurers to come to Europe, particularly the U.K., and there already are some indications that U.S. insurers are increasingly interested," said Mr. Schrauwers.

—By Carolyn Aldred

European expansion

HONG KONG—Hong Kong-based Grand Union In-

Continued on next page

The Mystery of the Missing Fuel

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Continued from previous page

surance Group is planning to expand its operations in Europe "with a view to being in place for the single European market in 1992."

Grand Union's Hong Kong operations recently were consolidated under the aegis of its new parent company, Pengkalen, a conglomerate based in Malaysia.

Grand Union's property/casualty premiums totaled $88 million Hong Kong ($11.4 million) in 1987. Aftertax profits totaled $8.32 million Hong Kong ($1.07 million).

Meanwhile, Grand Union is defending several lawsuits filed both in London's High Court and the Supreme Court of Hong Kong from ceding companies seeking payment of claims on insurance and reinsurance policies placed with Grand Union (*BI*, April 4).

Representatives of 40 creditor companies met in London last month to discuss alleged slow payment and non-payment of claims presented to Grand Union, confirmed Trevor Jones, a director of Insurance Security Services Ltd.

"The claims currently being made against Grand Union are not unique as they emanate from business placed in the soft market conditions of the late 1970s and the early 1980s," according to a statement from Grand Union.

"Grand Union's position with regard to such claims is that they should be fully proven before settlements are reached and in no case has or will Grand Union refuse to settle justifiable claims and the company is anxious to resolve such outstanding cases expeditiously," the statement continued.

—By Carolyn Aldred

Skandia offers to buy back stock

STOCKHOLM, Sweden—Skandia Insurance Co. Ltd., in a move seen as strengthening its international position before the planned integration of European markets in 1992, has made an offer to buy back 46% of Skandia International Insurance Corp, the international unit that it spun off three years ago.

If accepted at an extraordinary general meeting of Skandia shareholders scheduled for late last week, the parent company will have to pay 3.6 billion Swedish krona ($58 million) to buy back the shares. The Skandia board said it was changing its strategy only three years after spinning off the international operation because of European Community action favoring creation of large international insurance groups.

Skandia has been building up its business in the Nordic countries through a link with Pohjola Insurance Co. Ltd., Finland's largest insurance company, but has suffered a setback in Norway where political opposition has stopped an attempted acquisition of a stake in Vesta General Insurance Co., Norway's largest life and property insurer.

Under the terms of the offer to Skandia International shareholders, Skandia is offering 60 Swedish krona ($9.70) in cash and one share of Skandia Insurance for each share of Skandia International.

The new shares issued will represent 22.4% of its expanded equity of 77.3 million shares.

"The financial strength of the new company, combined with the skills and expertise of both Skandia Insurance and Skandia International means that we are extremely well-equipped for aggressive investments in Europe," said Bjorn Wolrath, Skandia's president and chief executive. He said the object of the buy-back is to create a powerful Nordic group capable not only of defending its own markets but of expanding throughout Europe.

In a related development, Mr. Wolrath and Bjorn Hall, finance director of Skandia, announced they would sell their personal shares in Skandia International at the price they paid for them, after newspapers alleged they had engaged in insider trading.

The buy-back offer was priced at 29% more than the market price of Skandia International shares and if Messrs. Wolrath and Hall had sold off their joint shareholding of 2 million Swedish krona ($323,400), they would have made a handsome profit.

After press criticism, however, the two men said in a joint statement that they would sell their holdings for what they paid for them, even though the Swedish equivalent of the U.S. Securities and Exchange Commission had cleared them of any wrongdoing.

—By John Parry

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NOV. 23. Claims Reserving in Non-Life Insurance seminar in London, sponsored by Insurance & Reinsurance Research Group Ltd.; 220 pounds ($389) plus VAT. Judith Hobday, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

NOV. 24. Hazardous Substances-the COSHH Regulations seminar in London, sponsored by Insurance & Reinsurance Research Group Ltd.; 155 pounds ($274) plus VAT. Joy Bambrough, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

NOV. 24. Strategic Planning in the Insurance Industry: Toward 1992 conference in London, sponsored by Insurance & Reinsurance Research Group Ltd.; 190 pounds ($336) plus VAT. Caroline Atkinson, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

NOV. 28. Piper Alpha-Lessons for the Market & the Industry seminar in London, sponsored by Insurance & Reinsurance Research Group Ltd.; 190 pounds ($336) plus VAT. Caroline Atkinson, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

NOV. 30-DEC.2. Understanding Property-Casualty Statutory Financial Statements seminar in New York City, sponsored by Executive Enterprises Inc.; $990; $895 for each additional registrant from the same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880 within New York.

DEC. 1. Directors and Officers Liability seminar in London, sponsored by Insurance & Reinsurance Research Group Ltd.; 190 pounds ($336) plus VAT. Caroline Atkinson, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

DEC. 1. CAOHC Approved Recertification Course in Occupational Hearing Conservation in Kansas City, Mo., sponsored by Impact Hearing Conservation Inc.; $150. Impact Hearing Conservation Inc., 406 W. 34th St., Suite 400, Kansas City, Mo. 64111; 800-346-2139; 816-531-4848.

DEC. 1. Pollution Control & Legal Compliances seminar in London, sponsored by Insurance & Reinsurance Research Group Ltd.; 155 pounds ($274) plus VAT. Joy Bambrough, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

DEC. 1-2. Managing Risk Communications seminar in Wilmington, Del., sponsored by E.I. du Pont de Nemours & Co.; $925; $795 each for two or more registrants from same company. **Also Jan. 25-26** in New Orleans; **Feb. 15-16** in Denver; **March 30-31** in Houston; and **April 26-27** in Philadelphia. Du Pont, Room X51430, P.O. Box 4500, Greenville, Del. 19807; 800-532-7233; 302-999-6982 within Delaware.

DEC. 1-2. Occupational Health Nursing Principles and Certification Review course in Schaumburg, Ill., sponsored by Fireman's Fund Risk Management Services Inc.'s Occupational Health Consulting & Ergonomics division; $295. **Also Jan. 12-13** in Atlanta; **Feb. 9-10** in Torrance, Calif.; **Feb. 23-24** in Denver; **March 9-10** in Cambridge, Mass.; and **March 30-31** in Arlington, Va. Annette B. Haag, Director, Occupational Health Consulting, Fireman's Fund Risk Management Services Inc., P.O. Box 777, Novato, Calif. 94998-9002; 415-899-2423.

DEC. 1-3. Hazardous Wastes, Superfund, and Toxic Substances course in Washington, sponsored by the American Law Institute-American Bar Assn. Committee on Continuing Professional Education; $400; $50 for coursebook. $135. Registrar, American Law Institute-American Bar Assn., 4025 Chestnut St., Philadelphia, Pa. 19104; 800-253-6397; 215-243-1661 within Pennsylvania.

DEC. 1-3. Fundamentals of Bankruptcy Law seminar in Scottsdale, Ariz., sponsored by the American Law Institute-American Bar Assn. Committee on Continuing Professional Education; $400. Registrar, American Law Institute-American Bar Assn., 4025 Chestnut St., Philadelphia, Pa. 19104; 800-253-6397; 215-243-1661 within Pennsylvania.

DEC. 4-6. Changing Relationships: Business, Organized Labor and Health Maintenance Organizations workshop in Washington, sponsored by the Group Health Assn. of America; $560 for GHAA members; $660 for non-members. Registrar, GHAA, 1129 20th St. N.W., Suite 600, Washington, D.C. 20073-0612; 202-778-3228.

DEC. 5. Section 89 of the Internal Revenue Code workshop in Boston, co-sponsored by Buck Consultants Inc., and Employee Benefit Education Associates; $195. Patricia J. Ibbs, Principal, PJI Benefits, Suite 1000, 2290 Peachtree Road N.E., Atlanta, Ga. 30326; 404-264-6552.

DEC. 5-6. Barbados Captive Conference in St. Philip, Barbados, sponsored by the Tillinghast division of Towers, Perrin, Forster & Crosby Inc.; $675; $825 Canadian. Conference Director, Tillinghast/TPF&C, Financial Centre, 695 E. Main St., Suite 600, Stamford, Conn. 06901-2138; 203-326-5400.

DEC. 5-7. Fundamentals of Insurance course in Charlotte, N.C., sponsored by the Risk & Insurance Management Society Inc.; $540 for RIMS members; $640 for non-members. Risk & Insurance Management Society, 205 E. 42nd St., Suite 1504, New York, N.Y. 10017; 212-286-9292.

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Underwriting & Administrative Managers

Beranek named president of RBH unit

Frank A. Beranek has been promoted to president and chief executive officer of Rollins Financial Services Co. in Chicago, which specializes in brokering financial institution insurance.

Rollins Financial Services, a newly formed subsidiary of Rollins Burdick Hunter Co., consists of three operating units: Scarborough & Co., Bankers Insurance Service Corp. and Rollins Financial Brokers Inc.

Mr. Beranek joined Scarborough & Co. in 1971, where he held a variety of positions. He will continue as president of Scarborough & Co.

Also at Rollins Financial Services, **Lee A. Brodsky** promoted to senior vp.

In addition, **Vincent E. McGeehan** promoted to executive vp and chief operating officer of Rollins Financial Brokers Inc.

Comings & goings: industry

In other agent/broker changes:

M. Douglas Hardy joined Frank B. Hall & Co. in Dallas as vp. Most recently, Mr. Hardy he was assistant vp of Alexander & Alexander in Dallas.

Bruce G. Geer appointed president-wholesale division of Poe & Associates Inc.

John T. O'Hara named chairman of Byrne, Byrne & Co. in Chicago.

James C. Halbleib joined the San Francisco office of Corroon & Black Corp. as senior vp and manager-marketing and risk management division. Most recently, Mr. Halbleib was a senior vp and director of marketing for the San Francisco branch of Frank B. Hall & Co.

Mr. Halbleib

John R. Genovese appointed executive vp of the Los Angeles office of Alexander & Alexander of California Inc.

Rick Prentice promoted to president of the Santa Clara, Calif., office of Jardine Emett & Chandler Inc.

Mr. LeMoine

Charles LeMoine named executive vp-production for Bayly, Martin & Fay Inc. of Fort Worth in Texas.

Insurers

James D. Brotherton named senior vp-underwriting of USLIFE Life Insurance Co. in New York. He will retain his position as vp-underwriting with USLIFE Insurance Services Corp. in Dallas.

Brian E. Scott appointed senior vp-standard markets department of Aetna Life & Casualty Co.'s commercial insurance division in Hartford, Conn.

Hubert G. Dolan appointed vice chairman of American Universal Insurance Group in Providence, R.I.

James B. Gantner promoted to assistant vp-claims of Guaranty National Insurance Co. in Englewood, Colo.

Walter L. White named senior vp of Kemper National Property & Casualty Cos. in Long Grove, Ill., effective Jan. 1, 1989. At that time, he will succeed Donald R. Clark as principal financial officer.

William D. Bray named field operations vp for American States Insurance Co. in Indianapolis.

Also at American States, **Karl W. Uban** promoted to vp-commercial product management.

Michael Murray named resident vp of Beaver Insurance Co. in San Francisco.

Douglas W. McCaskey appointed first vp of Michigan Millers Mutual Insurance Co. in Lansing, Mich.

Richard L. Kelly appointed vp at Arkwright Mutual Insurance Co. in the Schaumburg, Ill., office. He also will act as regional manager.

David N. Ingram and **Stephen L. White** both promoted to vps and actuaries of Provident Mutual Life Insurance Co. of Philadelphia.

William H. Klemm promoted to second vp at The Hartford Steam Boiler Inspection & Insurance Co. in Hartford, Conn.

John H. McCue promoted to executive vp-field operations for The Home Insurance Co. in New York. Also, **Richard R. Savage** promoted to senior vp-government and industry relations.

Reinsurers

Madison Intermediaries Inc., a subsidiary of Frank B. Hall & Co. Inc., announced the following additions to its staff: **Arnold Hale** joined as senior vp and branch manager of the San Francisco office, **Jim Bryan** joined as assistant vp of the San Francisco office and **Paul Mahon** joined as vp and property manager of the Los Angeles office.

Previously, Mr. Hale was senior vp and branch manager of RFC Intermediaries Inc., Mr. Bryan was an assistant vp with RFC Intermediaries and Mr. Mahon was an executive vp at Reinco Intermediaries.

John B. Legener promoted to president of American Union Reinsurance Co. in Indianapolis.

Arthur S. Underwood promoted to vp-treaty underwriting in the international department of F&G Re Inc. in Morristown, N.J.

Irvin P.H. Hargrave Jr. promoted to vp in the Hartford, Conn., office of General Reinsurance Corp.

Edward C. Woodward joined Enan & Co. in Burlingame, Calif., as senior vp-claims and special projects. Most recently, he was a Pacific Compensation Insurance Co. director and senior officer-claims responsibility for workers compensation claims and loss control.

Susan M. Hanson, **Eugene R. Lock** and **Joseph W. Walsh** promoted to vps of Trenwick America Reinsurance Co. in Stamford, Conn.

Excess/surplus

William P. Garrigan named senior vp and chief financial officer, and **Joseph J. George** and **Larry D. Morris** named senior vps of The London Agency Inc. in Atlanta.

Donald A. Politis named president and manager-San Francisco operations of Global Special Risks Insurance Services in San Francisco.

Jane H. Vander Velde promoted to vp-New York brokerage department of Glanvill Special Risk Insurance Brokers in New York.

Scott Hummel named president of McAlear of Illinois Inc. in Chicago, a subsidiary of Willis Faber P.L.C. Also, **Susan A. Dudley** named executive vp.

HMO/PPO

Michael A. Olson joined Physicians Health Plan of Minnesota in Minneapolis as vp-medical services. Most recently, Mr. Olson was executive director of the Minnesota Trade Office and deputy commissioner of the Minnesota Department of Trade & Economic Development.

Daniel E. Dahlstedt named president of First American Health Concepts Inc. in Mesa, Ariz., a preferred provider organization.

Other suppliers

Lennart C. Jacobson joined Yaffe & Co. Inc. in Baltimore, a benefits consulting firm, as senior consultant. Previously, he was senior underwriter with Blue Cross/Blue Shield of Maryland.

Joseph L. Harrison joined Republic-RSB Cos. Inc. in Naperville, Ill., a medical cost management firm, as western division vp. Previously, Mr. Harrison was vp-sales of Efficient Health Systems Inc. in Skokie, Ill.

Erin Oberly joined Tillinghast in San Francisco, a division of Towers, Perrin, Forster & Crosby Inc., as senior consultant and risk management consultant. Most recently, Ms. Oberly was president and senior consultant of Warren, McVeigh & Griffin. ■

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Pollution suits widen courtroom chasm

By STACY ADLER

When a court rules in favor of a policyholder, there will always be an insurer that cries its contract has been "bastardized" and a policyholder that says the court was "just."

Although this dichotomy is nothing new, the current litigation over insurance coverage for hazardous waste cleanups has further polarized the thinking of the two sides.

The rift between policyholders and insurers was brought into focus when more than a dozen of the nation's premier environmental insurance attorneys gathered in Chicago earlier this month to discuss the issues surrounding pollution coverage litigation.

The Environmental Insurance Litigation Institute, sponsored by Executive Enterprises Inc., brought together attorneys who represent some of the world's largest conglomerates as well as attorneys for some of the world's leading insurance companies.

Part of the reason for the ever-increasing polarity in pollution litigation is that "both policyholders and insurers believe these liabilities threaten their existence," said Robert Chesler, a policyholder attorney with Lowenstein, Sandler, Fisher, Kohl & Boyland in Roseland, N.J.

In fact, experts estimate that it could cost as much as $1 trillion to clean all of the nation's hazardous waste sites (see story, page 80).

Much of this bill is being forced upon industry as more and more courts hold corporations responsible for cleaning polluted sites.

"The courts have been very liberal in their creation and expansion of liability," said Michael L. Rodburg, another policyholder attorney with Lowenstein, Sandler. "The outer boundaries of the law are being stretched so that where an unwanted substance is released, liability is found."

And, as policyholders face mounting liabilities, they turn more frequently to their insurers for coverage. But, more often than not, coverage for pollution cleanups is denied and complex litigation follows.

"Pollution litigation has created a whole new vocabulary and new set of issues," said Mr. Chesler.

Mr. Rodburg and Mr. Chesler co-chaired the symposium during which policyholder attorneys and insurer attorneys vigorously debated the major coverage issues present in pollution litigation.

Among the issues dividing policyholders and insurers embroiled in pollution litigation are:

- Arguments over the pollution exclusion clause
- Use of historical data from the Insurance Services Office Inc.
- Triggers of insurance coverage.
- Meaning of the term "damages."

The pollution exclusion, which was first used in the 1966 standard comprehensive general liability form, states that there is no coverage for pollution unless it is "sudden and accidental."

Nearly all of the litigation surrounding the pollution exclusion focuses on the meaning of the words "sudden and accidental."

Most policyholders believe the pollution exclusion was designed to eliminate coverage only in those instances where the policyholder is aware of the pollution. They want the courts to associate the word "sudden" with "unexpected."

Environmental Law Conference

Insurers, on the other hand, want the courts to give the word "sudden" a more temporal meaning. Insurers assert that the exclusion was designed to eliminate coverage for all pollution that is gradual.

Like most policyholder attorneys, John Heintz of Popham, Haik, Schnobrich & Kaufman in Washington, D.C., asserts that "the insurance industry intended to provide pollution coverage for property damage."

"The coverage was broadened in 1966," agreed Eugene Anderson, a policyholder attorney with Anderson, Russell, Kill & Olick in New York. "There is not a word to indicate the '66 policy provides less coverage.

"If you look at the drafting history of the CGL form, it is clear the drafters intended to cover pollution. They intended to cover environmental claims," he said.

Insurance company attorneys,

Continued on next page

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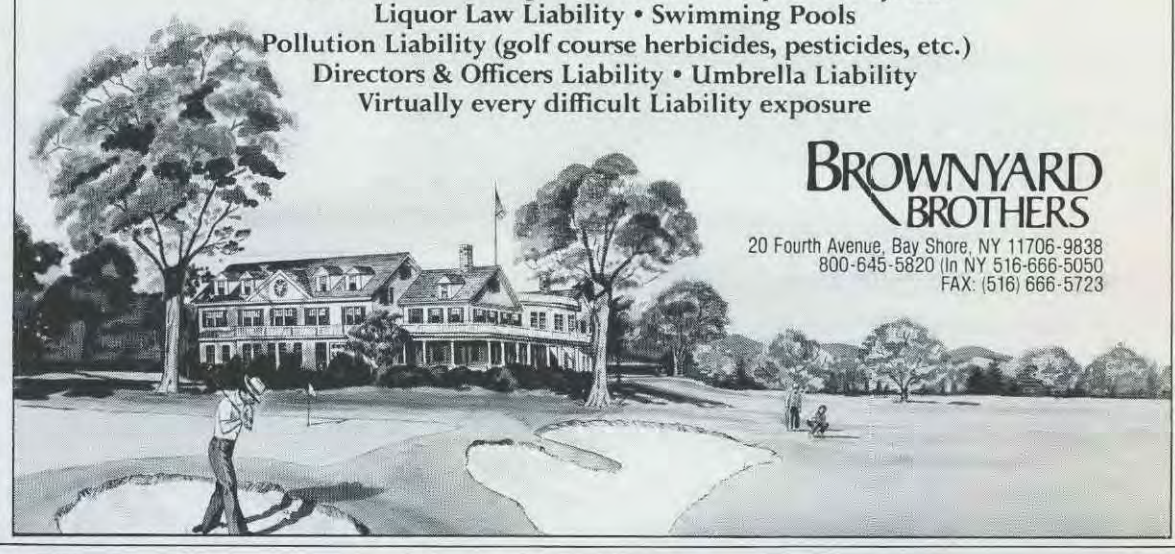

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Courtroom opponents

Continued from previous page

such as Stephen H. Cohen of Robins, Kaplan, Miller & Ciresi in Minneapolis, squarely deny these arguments.

"There is a growing recognition by a large number of courts that sudden has a temporal meaning," according to Mr. Cohen.

"The insurance industry has been very successful in showing that people who sold these policies and the people who bought them knew that gradual pollution was not covered," he said.

Furthermore, "you don't draft contracts to say the same thing twice," said Mr. Cohen. He argued that the policyholders' definition of "sudden and accidental" duplicates the occurrence definition in the CGL form, which says there is no coverage for events "expected or intended from the standpoint of the insured."

"The pollution exclusion is the issue on which the courts have issued the most divergent opinions," said Judith Roth, a policyholder attorney with Phillips, Nizer, Benjamin, Krim & Ballon in New York.

"Judicial opinions vary from state to state," she said. "Whether a policyholder lives within one mile of the Pennsylvania/New Jersey border could determine whether a policyholder prevails on this issue."

New Jersey has a reputation for being a pro-policyholder jurisdiction (see story, page 82).

When litigating the pollution exclusion and other aspects of the CGL form, policyholders often try to introduce evidence that shows the people who designed the policies share their point of view.

"Any doubts about the meaning of the policies can be found in the drafting history," according to Mr. Anderson. He said there are documents that show insurance executives who were members of ISO told insurance commissioners that the CGL policy was designed to provide broad coverage for policyholders.

But insurer attorneys, such as Nancy Gleason of Boyd & Boyd in Chicago, say these documents are irrelevant and all that matters is what the policy says.

"How can the documents that led to the creation of the policy be more important than the policy?" asked Ms. Gleason.

In addition to facing roadblocks set up by insurer attorneys like Ms. Gleason, policyholders trying to introduce drafting history documents as evidence also face obstacles set up by ISO, which keeps many of the documents closely guarded.

In addition, policyholders often have a difficult time convincing courts that the drafting history evidence is pertinent to their case.

However, when policyholders are able to introduce these documents they often are very persuasive.

For example, policyholders have been able to successfully use drafting history documents to prove that CGL policies are triggered from the time pollution first begins (the exposure theory), rather than when it is discovered (the manifestation theory).

"The drafting history shows without a doubt that the controversy between manifestation and exposure is a sham," said policyholder attorney Mr. Anderson. "The drafters clearly rejected the manifestation theory."

Policyholder attorney Mr. Heintz said: "In the hazardous waste context, manifestation is dead. That rule has been resoundingly rejected."

However, insurer attorney Ms. Gleason asserted that the manifestation theory was not a sham and that policyholders created that theory "based on the type of coverage they had." She claimed that policyholders, fearing they would not get full coverage, sought partial coverage under the manifestation theory.

And, Mary Kay Vyskocil, an insurer attorney with Simpson, Thatcher & Bartlett in New York said: "Manifestation is not dead. In the case of dump sites, manifestation may be the only trigger."

Yet, Ms. Vyskocil acknowledged that "courts are moving toward an injury-in-fact trigger in other hazardous waste cases." That theory is similar to a triple-trigger theory, providing that policies from the time the pollution begins until it is cleaned up are triggered.

"Trigger of coverage in environmental law is still unclear," said policyholder attorney Mr. Chesler. "There is not a lot of case law."

He added that trigger of coverage arguments are particularly frustrating for policyholders because they often watch each of their insurers point to the other and say "he should pay."

One of the hottest legal arguments being advanced today in hazardous waste coverage litigation is over the meaning of the word "damages."

The standard CGL policy states it "will pay on behalf of the insured all sums, which the insured shall become legally obligated to pay as damages."

Insurers have taken a new approach by claiming that CGL coverage encompasses only legal damages awarded by courts, not damages imposed on a policyholder by a government order to clean a polluted site.

To date, two U.S. Circuit Courts of Appeals have agreed with insurers and ruled that government-mandated cleanup costs are not insurable (*BI*, March 7; July 27, 1987).

But, a vast majority of lower courts have sided with policyholders that assert that the distinction between damages awarded by a court and damages imposed by a government order is merely creative lawyering.

"I don't think there is a bit of case law prior to 1985 that would lend support to insurers' arguments," said policyholder attorney Mr. Anderson. "The policy doesn't say legal damages."

Furthermore, "I think a reasonable policyholder would decide these damages are covered," he said.

However, Mr. Anderson conceded that more and more policyholders are losing this battle.

"The jury is still out on this," he said. "However, this is one area where the insurance companies are justified in saying they've got their horse out at least a neck if not a length ahead."

Policyholder attorney Mr. Heintz was more optimistic. "When the day is done, this issue will be a temporary diversion and the courts will determine that damages imposed on policyholders under Superfund are insurable," he said. ■

Cleanup bill may exceed $1 trillion

By STACY ADLER

CHICAGO—The nation's bill to rid hazardous wastes from the environment could top $1 trillion, one expert says.

"It's like a snowball rolling downhill," said Michael L. Rodburg, an attorney with Lowenstein, Sandler, Kohl, Fisher & Boylan in Roseland, N.J. "It's hard to tell how big and how fast it will grow."

Mr. Rodburg and more than a dozen other environmental insurance attorneys discussed implications of the nation's pollution problems at the Environmental Insurance Litigation Institute earlier this month in Chicago. The symposium was sponsored by Executive Enterprises Inc.

To illustrate the enormity of the nation's environmental problem, Mr. Rodburg pointed out that the U.S. General Accounting Office has estimated there are 130,000 actual hazardous waste sites and some 425,000 potential hazardous waste sites in the nation.

In addition, there are some 10,000 underground storage tanks that need repair, 70,000 municipal waste landfills that need cleaning and 22,000 mining waste sites that require remediation, he said.

The cost to investigate and clean up these polluted sites has been estimated at anywhere between $150 billion to more than $650 billion and even could surpass $1 trillion, he said.

"All told, industry has contribution $1 billion toward these cleanups," said Mr. Rodburg.

The government contributes through the Comprehensive Environmental Response, Compensation & Liability Act, better known as the Superfund Act, he explained.

Superfund was initially funded with about $9 billion, noted Mr. Rodburg. "It is now clear that what was considered a large amount of money is now considered seed money."

As a result of this mounting environmental problem, more policyholders are turning to their comprehensive general liability insurers over many decades.

In many cases, requests for coverage for hazardous waste cleanups have led policyholders to sue their insurers.

Both the number and size of these lawsuits have increased dramatically in the last five years.

The first "mega-suit" was filed in April 1987 when Pittsburgh-based Westinghouse Electric Corp. sued more than 140 of its property and liability insurers for the cost of cleaning up 80 polluted sites nationwide and for indemnity for thousands of personal injury claims (*BI*, June 15).

"The history of Westinghouse (which a year and a half later is just beginning discovery on a limited number of sites) lets us know we are in for a long haul with these cases," said Robert Chesler, also an attorney with Lowenstein, Sandler.

But, while the size of hazardous waste coverage litigation has grown dramatically in the last five years, very little clarity in the law has developed, Mr. Chesler noted.

"The litigation has grown bigger and bigger and the issues have become less clear," he said.

Mr. Chesler said that while both policyholders and insurers can point to their share of legal victories, it is too soon to tell what direction the law will take.

The uncertainty of the law and the size of the stakes have caused policyholders and insurers to become fierce adversaries. As a result, attorneys on both sides of the fence say their once-amicable relationship is being destroyed.

"What we are seeing now is a severe attack on the insured and insurer relationship," said Stephen H. Cohen, an insurer attorney with Robins, Kaplan, Miller & Ciresi in Minneapolis.

"The uncertainty of the law has led both sides to take a roll-the-dice attitude" and sue each other whenever possible, agreed Matthew L. Jacobs, a policyholder attorney with Covington & Burling in Washington, D.C.

Mr. Jacobs suggested that policyholders and insurers might be better off trying to work together to find non-litigious solutions to their problems rather than gambling with the courts.

Mr. Chesler agreed: "In the long run, some type of formula to avoid 20 years of litigation must be worked out." ■

Asbestos rulings hold clues to EIL cases

By STACY ADLER

CHICAGO—While no fortune teller can predict the future of environmental coverage litigation, a look at the issues raised in the current asbestos property damage litigation can provide some insight, according to one attorney.

"The asbestos property damage cases, like the asbestos bodily injury cases that proceeded them, are on the cutting edge," said Stephen N. Goldberg, a policyholder attorney with Heller, Ehrman, White & McAuliffe in San Francisco.

"The major issues in asbestos property damage suits are almost identical to the ones in environmental litigation," such as what constitutes damage and what triggers coverage, he said.

Mr. Goldberg outlined the status of the current asbestos property damage litigation at The Environmental Insurance Litigation Institute earlier this month in Chicago. The program was sponsored by Executive Enterprises Inc.

The issues being raised in asbestos property damage cases include:

- Does asbestos in buildings constitute property damage?
- If there is property damage, which policy years are triggered?
- Which policy exclusions would bar coverage in asbestos property damage litigation?

Most courts have found that asbestos in buildings constitutes insurable property damage, explained Mr. Goldberg. Only one court has found that there is no coverage for asbestos in buildings, he said.

In finding coverage for policyholders, some courts have reasoned that the presence of unwanted materials, such as asbestos, in or on the property constitutes insurable property damage.

Other courts have ruled that the incorporation of a defective component, such as asbestos in buildings, causes insurable property damage to the whole product.

And, some courts say the presence of asbestos in buildings diminishes the value of a building and therefore causes insurable property damage.

One court ruled that no coverage exists for asbestos in buildings because the installation of asbestos in buildings is not an accident under the terms of the insurance policy.

Even after a court finds there is insurable property damage, it then must determine which policies must respond.

Most courts have found that asbestos in buildings triggers policies from the time the asbestos was installed until it is removed, according to Mr. Goldberg.

"In asbestos property damage cases, the continuous trigger seems to be the trigger most courts are following," he said.

This "continuous trigger" in asbestos property damage cases is analogous to the triple-trigger ruling found in the asbestos bodily injury cases, he said.

The triple-trigger theory—that bodily injury occurs from the time a claimant is exposed to asbestos, until the disease manifests itself or until the claimant dies—was first advanced in *Keene Corp. vs. Insurance Co. of North America* in 1981 (*BI*, Oct. 26, 1981).

The continuous trigger theory in the asbestos property damage cases was first advanced in *Lac D'Aminate Du Quebec vs. American Homes Assurance Co.* in 1985 (*BI*, Aug. 19, 1985).

To date, no court has accepted an installation-only trigger or a discovery-only trigger in the asbestos property damage arena, Mr. Goldberg said.

When litigating an asbestos property damage case, insurers will raise a variety of policy exclusions in an attempt to bar coverage.

Among the exclusions most often raised in asbestos property damage litigation are the pollution exclusion, the sistership exclusion and the owned product exclusion.

The pollution exclusion bars coverage to policyholders for contamination into or upon land, the atmosphere or any body of water, unless the contamination is "sudden and accidental."

Insurers argue that the release of asbestos fibers in a building is contamination of the atmosphere that is not sudden or accidental.

However, policyholders contend the entire pollution exclusion is ambiguous and therefore must be interpreted in their favor.

According to Mr. Goldberg, the courts that have addressed the pollution exclusion in the asbestos property damage context are split on the

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issue.

The sistership exclusion bars coverage when a policyholder removes a defective product from the market.

Insurers argue that a policyholder's desire or a demand upon a policyholder to remove asbestos from a building is tantamount to the withdrawal of a defective product and therefore is not insurable.

Policyholders, however, say asbestos removal is not a "recall" or "withdrawal" in the usual sense of the words.

Furthermore, some policyholders point out that they are not the ones removing the asbestos, but rather a third party is removing the asbestos and therefore the exclusion does not apply.

The courts that have looked at the sistership exclusion in the asbestos property damage context have been divided, according to Mr. Goldberg.

Insurers also attempt to use the owned product exclusion, which says defects to a policyholder's own products are not insurable, to bar coverage to policyholders in asbestos property damage cases.

Insurers say asbestos in buildings is a design defect in the policyholder's own property and therefore is not insurable.

Policyholders say this exclusion is vague and therefore should not be used to bar coverage.

They also say asbestos in buildings is not a design defect because the asbestos-containing products provide the insulation and fireproofing they were designed to provide.

Some policyholders have recently raised new theories to obtain coverage for asbestos property damage, among them: claims for loss of use and enjoyment of the property due to the presence of asbestos; claims that asbestos in buildings constitutes trespass or a nuisance; and claims that the presence of asbestos in buildings poses a potential health hazard.

Mr. Goldberg suggested that many of these issues will eventually filter down into the environmental coverage arena. He said the asbestos property damage litigation can be viewed as a "tutorial" for what the future may hold in pollution litigation. ■

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Forum can be deciding factor in coverage suits

By STACY ADLER

Insurance coverage litigation often becomes a race between policyholders and insurers to see which can reach the courthouse first in order to secure a favorable forum, attorneys say.

"There is at least the perception that the outcome of any pollution lawsuit will turn on the choice of forum," said insurer attorney Timothy Russell with Drinker Biddle & Reath in Washington, D.C.

And because the plaintiff's choice of forum is honored unless there is solid evidence as to why the forum is inappropriate, it pays to make the first move, said Mr. Russell.

Mr. Russell discussed the effects of a favorable forum with policyholder attorney Peter Kalis of Kirkpatrick & Lockhart in Pittsburgh during The Environmental Insurance Litigation Institute in Chicago earlier this month. The two-day program was sponsored by Executive Enterprises Inc.

Commonly, policyholders suing their insurers for coverage of massive hazardous waste cleanups try to have lawsuits regarding multiple sites consolidated and heard as one case in one court, preferably a New Jersey court.

New Jersey has a reputation as being a pro-policyholder jurisdiction because state court judges there have handed down some very liberal rulings.

But the tide may be changing. More and more insurers are taking the offensive and suing policyholders for clarification that their policies do not cover hazardous waste cleanups.

When an insurer sues its policyholder, often several suits are filed in jurisdictions that are friendly to insurers. Insurers prefer hazardous waste site coverage be litigated on a site-by-site basis.

The argument regarding choice of forum "is where most of the shooting is going on," said Mr. Kalis.

Policyholders and insurers are fiercely divided over whether pollution cases involving many sites should be consolidated in one court or splintered, according to the attorneys.

Mr. Russell said site-by-site litigation is better because several smaller cases move more expediently through the courts than one massive case.

But, Mr. Kalis maintained that consolidated litigation is superior because it reduces transaction costs.

Mr. Kalis, who represents Westinghouse Electric Corp., said insurance coverage litigation involves a "national set of issues" and therefore should be heard in one court.

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In April 1987, Philadelphia-based Westinghouse sued more than 140 of its property and liability insurers in New Jersey state court for the cleanup of 80 hazardous waste sites nationwide and thousands of personal injury claims (*BI*, June 15, 1987).

However, insurers successfully splintered this litigation. Earlier this year, Union County, N.J., Superior Court Judge Lawrence Weiss said he would hear only the portion of the litigation pertaining to New Jersey sites (*BI*, April 4; March 28).

Westinghouse is now appealing that decision.

Mr. Russell, who represents insurers in the Westinghouse litigation, said site-by-site litigation is preferable because insurance contracts are creatures of state law and therefore should be heard in individual state courts.

Because the choice of forum in insurance coverage litigation can be critical to the outcome, Mr. Russell urged insurers to "strike first."

"It does not make sense for insurers to let policyholders sue first," he said. "If forum selection is considered so important, it is probably wise to sue first and talk second."

Mr. Russell said the insurance industry "is often late to the punch" when it comes to pollution litigation.

He urged insurers to change this by either filing site-by-site litigation when they deny a claim, or by filing comprehensive litigation in a pro-insurer jurisdiction such as Illinois.

However, he noted that insurers often have difficulty filing insurance coverage litigation because they do not know all of a policyholder's various insurers.

When more than one suit is filed involving the same policyholder, courts often will choose to hear the case with the most comprehensive listing of insurers.

Despite this obstacle, Mr. Russell said insurers must consider suing first "if they are going to put the playing field level." ■

KAL litigation

Continued from page 2

The U.S. Court of Appeals for the District of Columbia Circuit in September 1987 upheld Judge Robinson's earlier ruling that the Warsaw Convention/Montreal Agreement's liability limit still applies despite the size of the type (*BI*, April 11).

However, if the 18 families lose the Supreme Court case, they can join the other plaintiffs who are attempting to throw out the liability limitation under the "willful misconduct" test, Mr. Tompkins said.

Mr. Tompkins predicted that there would be one jury trial in the United States sometime next year for all plaintiffs who have not settled their wrongful death actions against KAL.

KAL Flight 007 was shot down by Russian fighter jets on Sept. 1, 1983, after the Boeing 747 jetliner strayed into Soviet airspace en route from New York's John F. Kennedy International Airport to Seoul, South Korea. All 269 people on board were killed (*BI*, Sept. 12, 1983; Sept. 5, 1983).

KAL's combined single-limit hull and liability coverage of $400 million was written by Oriental Fire & Marine Insurance Co. Ltd. of Seoul, South Korea. However, Oriental ceded almost the entire risk to Lloyd's of London syndicates and aviation insurers in the British, French and U.S. markets.

The hull was valued at $35 million.

Since the disaster, at least 95 claims have been settled for around $9.5 million, while 145 claims are pending. About 20 of the 145 cases are being heard in Japanese courts, according to a London underwriter.

Underwriters continue to reserve at least $75 million for unpaid liability claims, said a London underwriter.

Although wrongful death actions resulting from the KAL disaster have been filed in at least five different U.S. jurisdictions, the Judicial Panel on Multidistrict Litigation in 1983 granted KAL's motion to consolidate all cases arising out of the disaster in federal court in Washington for pretrial discovery proceedings.

In the most recent court action, KAL had asked Judge Robinson to dismiss the claims of plaintiffs seeking more than $75,000 for each passenger. KAL also asked Judge Robinson to disallow a jury trial.

However, Judge Robinson on Nov. 2 denied both motions.

He said that under the Warsaw Convention—formally known as the Unification of Certain Rules Relating to International Transportation by Air of 1929—an airline's liability is limited to $75,000 for each passenger death "unless the carrier is guilty of willful misconduct."

The convention says that if the airline is found guilty of willful misconduct, its liability is not limited, Judge Robinson noted.

"The issue is whether KAL has established that plaintiffs will not be able to adduce sufficient evidence to support a finding that KAL was guilty of willful misconduct in conducting the fateful flight," Judge Robinson said.

But, KAL has failed to show that the plaintiffs' evidence is insufficient, the judge ruled.

"Giving plaintiffs the benefit of all reasonable doubts. . .their evidence is capable of permissible inferences that would establish each and every necessary element of willful misconduct," he ruled.

The plaintiffs—with testimony from two expert witnesses—plan to show a jury that the crew of Flight 007 knew early on that they were operating without a reliable navigation system; known as an Inertia Navigation System, which is the primary means of navigation used by most airlines.

The plaintiffs plan to prove that the navigation system failed because of crew error prior to take-off in Anchorage, Alaska, on the last leg of the flight. But instead of aborting the flight and returning to Anchorage to repair the system, the crew decided to fly without the INS.

"This decision, in clear contravention of established procedures, was made to conceal their initial error that caused the INS to be either misprogrammed or misaligned," Judge Robinson said, referring to the crew.

"If they aborted the flight to correct their error, they would have had to dump fuel; and other KAL pilots have been disciplined for having to take such action," the judge said.

An International Civil Aviation Organization Report concluded that Flight 007 continued the same general off-track flight path for five hours and 26 minutes before it was attacked by the Soviet jets.

The plaintiffs claim that the KAL crew knew that the jetliner was off course because they missed three key ground navigation points: the first by less than 12 miles and the other two by hundreds of miles, the plaintiffs claim.

The crew also would have recognized the flight was off course because land masses appeared to be in different locations than if the flight were on course, plaintiffs say.

The crew also knew the danger the jetliner would face if it entered Soviet airspace, the plaintiffs say. In 1978, another KAL jetliner was forced down by Soviet jet fighters in the Soviet Union and several passengers were killed, an occurrence about which the Flight 007 would have known, court papers say.

However, while KAL says that the crew was negligent for failing to realize the flight was off course, this did not constitute willful misconduct.

Negligence does not negate the $75,000 liability limit under the Warsaw Convention/Montreal Agreement, KAL maintains.

KAL also claims there is no evidence indicating how the INS was functioning.

But Judge Robinson disagreed with that contention, calling KAL's arguments "erroneous."

Judge Robinson agreed with the plaintiffs that the crew could have known they were off course. "A failure to notice that the flight was off course at point A or point B or point C, etc., indeed may be evidence only of negligence; but a failure to notice that the flight was off-course at point A and point B and point C, etc., is susceptible to a different interpretation—that the crew was aware of its deviation but elected not to report it and take corrective action," the judge said.

"Clearly, whether there is sufficient evidence for a conclusion that the KAL crew knew that their INS system was unreliable is crucial. The court finds that there is sufficient evidence."

Judge Robinson also says that there is "substantial evidence" that the crew knew that flying over the Soviet Union was prohibited and that it was "dangerous."

Therefore, KAL has failed to persuade the court that "there are no disputed material issues of fact," Judge Robinson concluded.

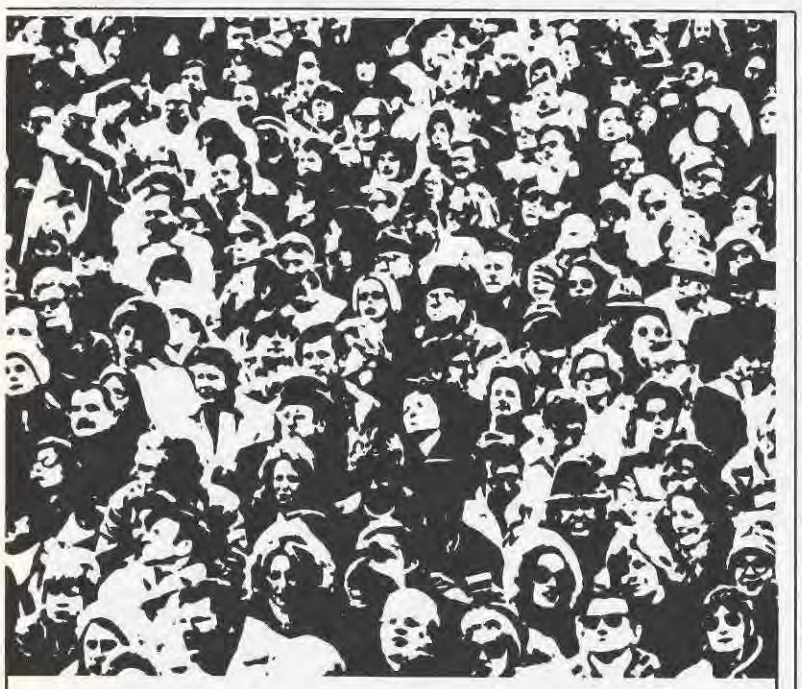
However, he said: "The denial of KAL's motion for partial summary judgment should not be read as acceptance of plaintiffs' theory; it is only recognition that KAL has failed to establish that the theory has an insufficient evidentiary basis so as to preclude its submission to the trier of fact."

Judge Robinson also disagreed with KAL that the plaintiffs' case should not be heard by a jury.

KAL claims that because the deaths of the passengers occurred on the high seas more than a marine league—or about 3 nautical miles—from the shore of any state, the court should apply the Death on the High Seas Act, which is a federal admiralty law. KAL further pointed out that jury trials generally are unavailable under admiralty law.

But Judge Robinson ruled Congress did not intend that jury trials would never be available under the act, so the thought of a jury trial in the KAL case is not "repugnant."

"In sum, a wrongful death action under the Warsaw Convention should be tried by a jury," Judge Robinson ruled. ■



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- They are not a recognized Insurance Services Office Inc. class with distinct and credible loss history but a small category within a much larger ISO rating class, such as real estate appraisers as part of an overall professional liability class.
- They are subject to unexpected, large-dollar "shock losses."

This combination of traits results in a restricted insurance market. Furthermore, the small premiums and volatile exposures render ratemaking an art not subject to high levels of credibility and make it difficult to gain the approval of the 50 states. Additionally, the groups' special coverage needs often require tailoring of forms.

In short, few insurers would be interested in writing purchasing group risks if the insurer must incur the cost and time burden of separately convincing each of 50 states that the proposed rates and forms should be approved.

The fact that these risks are considered too specialized or too risky by the large, traditional insurers leaves an opportunity for newer insurers that do have an interest in seeking smaller premiums and higher-risk policyholders.

Many of these newer insurers are by necessity unrated since an A.M. Best Co. rating requires a minimum of five years' experience. It must be noted that there typically is a large difference between insurers listed in Best's Insurance Reports but not rated because of the five-year requirement (an NA-3 rating) and insurers that do not file with Best at all or that have unsatisfactory ratings. Those that do not file at all frequently have questionable capital and surplus positions or reinsurance arrangements and do not want the public exposure of Best's Insurance Reports.

The insurer that is listed in Best's, but is unrated simply because it lacks five years' experience, should be judged by regulators on its capital and surplus, the strength of its reinsurers, its net retention level, management experience, etc. Such an evaluation on the merits of the individual company should fit easily within the scope of the regulators' expertise, yet several states condemn any purchasing group insurer because of the action of a few poorly financed insurers active in the purchasing group arena. The theory in several states seems to be "if you are writing purchasing groups, your motives and abilities are highly suspect." The result of such tunnel vision is that the creation and underwriting of purchasing groups becomes prohibitively expensive and subject to excess delay.

This regulatory attitude is an unfortunate byproduct of a few thinly financed insurers with questionable experience playing a very active role in filing purchasing groups in the first few months after the 1986 amendments to the Risk Retention Act were passed. Many of these "filed" groups never became active, yet statistics now are being cited implying that a majority of purchasing groups are being underwritten by questionable insurers. To the contrary, a review of active groups establishes that this is not the case.

Many states now require that purchasing group insurers obtain approval as an authorized surplus lines insurer. A well-financed and managed insurer has no problems seeking such authorization if the state will act responsively to the filing and not drag its feet for many months.

However, major problems do occur when the states insist on arbitrary requirements such as using a resident agent or approval of rates or forms, or each risk presenting evidence of declinations before it can be written by a purchasing group insurer. These requirements, in fact, are fatal blows to many purchasing groups. The small premiums in a given state will not support the expense of a resident agent and its loss data is not credible enough to support detailed rate submissions.

Regulators must address the benefits of purchasing group activities to their consumers.

It should be noted that your article stating that the NAIC model law "emphasized the authority of individual states to require prior approval of purchasing group rates and forms" is incorrect. The model law does not support this requirement. Furthermore, the New York case cited in your article as requiring such filings was based on requiring an admitted and domiciled insurer to file. The case did not establish authority to require non-admitted purchasing group insurers to file rates and forms.

In summary, regulators must address the benefits of purchasing group activities to their consumers. They must face the challenge of sorting out the legitimate insurers from the questionable companies. A blanket condemnation by the states of purchasing group activity will only aggravate the next availability crisis.

Karl W. Koch
President
Savers Property & Casualty Insurance Co.
Overland Park, Kan.

■ *Editor's note: While the NAIC model risk retention law states that a purchasing group and its insurer are exempt from several types of state laws, it does not specifically exempt them from rate and form regulation. In addition, a drafting note to the model act points out that the 1986 amendments to the Risk Retention Act "specifically lists those laws from which a purchasing group is exempt and which are in the nature of prohibiting or otherwise discriminating against purchasing groups. Therefore, a state can apply all other provisions of its laws to purchasing groups and persons dealing with purchasing groups," including rate and form regulation.*

A story on page 89 of the Oct. 31 issue stated that the New York ruling said that states have the power to require purchasing group insurers to file rates and forms, but did not note that the ruling applies to a New York-based purchasing group. However, another story on page 99 of the same issue made that distinction.

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Circulation Breakdown*

Commercial Consumers

Administrative:
CEO's Presidents and Owners 2,621
Vice-Presidents, General Managers and Other Administrative Personnel ... 3,657

Financial:
Chief Financial Officers and Vice-presidents of Finance 2,993
Secretaries, Treasurers, controllers and other Financial Personnel 4,454

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 10,994

Sub-total 24,719

Associations 477
Government, Unions and Educational Institutions 979
Commercial Consumers
Sub-total 26,175

Insurance Agents and Brokers 10,557
Insurance Companies 7,380
Actuaries, Attorneys, Adjusters, Appraisers and Consultants 3,843
Others Allied to the Field 2,991
TOTAL 50,946

* Source Business/Occupational breakdown of qualified circulation, May 30, 1988 issue, as submitted to BPA for June 1988 BPA Publisher's Statement.

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NACSA teleconference

Continued from page 1

fuels the commercial insurance cycle. No company has much more than 3% of the commercial insurance market in any geographic area, he estimated.

In addition, property/casualty insurance is an extremely complex product, and the quality of risks varies enormously, Mr. Walker said.

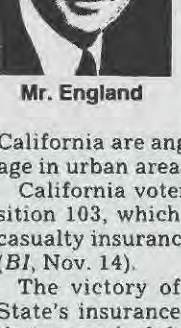
Two agent panelists noted that unpredictability of the insurance cycle has confused and angered their commercial customers.

Although "a certain amount of cycle is good for buyers" because competition can result in lower prices, the last cycle was a "disaster," said John F. Doetzer, president of Consolidated Insurance Center Inc. in Baltimore and a past president of NACSA.

Mr. Doetzer

And, the unpredictability of court decisions in liability cases adds to the general unpredictability of the insurance cycle, he said.

Frederick J. England, president of Hastings-Tapley Insurance Agency Inc. in Cambridge, Mass., said that competition drives the cycle. Although competition can lower costs, consumers become frustrated because they cannot predict the cost of coverage as prices swing wildly, he said.



Mr. England

In addition, the rate of change in the cycle has become unpredictable, said CIGNA's Mr. Fowler. The cycle has "the ill-founded effect" of creating a marketplace in which consumers can predict neither availability nor affordability of insurance, he said.

While commercial insurance buyers are frustrated with insurance price swings, personal automobile insurance buyers in California are angered by the high price of automobile coverage in urban areas, it was pointed out.

California voters recently gave narrow approval to Proposition 103, which calls for a rollback of nearly all property/casualty insurance prices to 20% below November 1987 levels (*BI*, Nov. 14).

The victory of Proposition 103 has shaken the Golden State's insurance industry, a point driven home by the fact that one scheduled teleconference panelist had to withdraw to deal with business (see related story).

Several callers asked about the impact of California's Proposition 103 on the insurance industry.

McKinsey's Mr. Walker said that the idea of deciding rates by initiative was flawed, commenting that asking voters to set insurance rates at lower than last year's levels made as much sense as asking them if they wanted to do the same to food prices.

Mr. England called the situation "dangerous," and predicted that other states would follow suit if the California Supreme Court upheld the vote's outcome.

William C. Cohen Jr., president and chief executive officer of Insurance Management Associates Inc. in Wichita, Kan., said that the public's perception of the insurance industry as being awash with profits was unrealistic.

Mr. Cohen

He asked his audience: If the industry is so profitable, why haven't many risk managers been told by their stockbrokers to buy insurance company stock?

Another caller asked the panel why the insurance industry spent so much money attempting to defeat Proposition 103 and is now spending more money in an attempt to have the law overruled by the California state Supreme Court. The caller asked why the industry simply did not reduce auto insurance rates.

CIGNA's Mr. Fowler replied that the property/casualty industry was not making outlandish profits in California and was indeed losing money on Golden State private automobile coverage.

He added that the insurance industry wants to protect its existing customers and not leave them out on a limb but may be forced to do so by what happened in California.

Panelist Kathryn J. McIntyre, editor and associate publisher of *Business Insurance*, pointed out that although insurers spent about $60 million before the balloting, by no means was all of that money used to fight Proposition 103.

The insurance industry spent money to promote the propositions it supported, including switching to no-fault auto insurance, as well as to defeat Proposition 103 and another proposition that would have subjected the industry to further regulation, she said.

Mr. Fowler of CIGNA pointed out that if insurers are forced to roll back prices in California, they will raise rates elsewhere to try to keep the level of their return on equity at its present level.

And, Ms. McIntyre advised risk managers that they may not see any savings due to Proposition 103 because in some cases prices are already more than 20% lower than they were a year ago.

Discussion of Proposition 103 led to questions about the public's view of the industry at large. When a caller asked how the industry could improve its standing with its customers, Ms. McIntyre said bluntly: "You need to talk more."

Mr. Walker

The insurance industry has done a poor job of communicating, she said, praising NACSA's teleconference as an example of what needs to be done to open better lines of communication.

But, she stressed that the industry has to do more than simply communicate: It has to deliver quality products and services.

McKinsey's Mr. Walker called on insurers to be more consistent in their efforts. Insurers' calls for tort reform follow the industry cycle, growing loudest when profits are poor and quieting down as finances improve, he said.

Only "sustained efforts" will work, he said.

Mr. Cohen said that while he thinks the industry as a whole does a reasonably good job of communicating with commercial insurance buyers, it does very poorly when it attempts to discuss issues with average consumers.

Several callers also raised questions about the effect of the nation's tort system on the insurance marketplace, particularly in regard to frivolous lawsuits.

CIGNA's Mr. Fowler suggested that frivolous lawsuits do indeed have an impact and that one solution might be to require that the loser in a lawsuit pay legal costs for both parties.

But Ms. McIntyre said that the insurance industry should be careful in using anecdotes about so-called frivolous lawsuits because, time after time, plaintiffs' attorneys have been able to take the anecdotes cited by insurers and provide details that show that the matters involved indeed were serious.

A more effective way to combat abuses of the tort system, Ms. McIntyre suggested, would be to elect more effective and able judges who would dismiss frivolous lawsuits.

Mr. Cohen added that better informed juries also are needed.

To illustrate the high cost of the U.S. tort system, Mr. Cohen pointed out that in Wichita, Kan., the light aircraft center of the country, as much as 40% of the cost of a light plane stems from insurance costs driven by the tort system.

CIGNA's Mr. Fowler cited the light aircraft industry's experience is an example of how some interpretations of tort law hurt U.S. competitiveness.

When a caller asked what tort reform meant, panelists replied that it would involve some limit on attorneys' contingency fees, changes in the doctrine of joint and several liability and the reining in of punitive damage awards.

Callers also raised questions about the possible impact of a lawsuit brought by 19 state attorneys general against several insurers, reinsurers and industry associations alleging that they conspired to limit coverage (*BI*, March 28).

Mr. Doetzer said that the "only issue" involved in the suit is a political issue, and that the attorneys general were attempting to divert attention from tort reform efforts.

There is a "tremendous amount of competition" among insurers, he said. The "saddest aspect" of the attorneys general's suit is that consumers will end up footing the legal bills for all sides, he added.

Mr. Doetzer also addressed the possibility that the McCarran-Ferguson Act, which grants insurers limited immunity from federal antitrust laws, could be repealed. If the 43-year-old law is repealed, insurers no longer would be able to use standardized forms, he said.

This would cause chaos in the courts, Mr. England interjected, because of the multitude of conflicting rulings on what was or was not covered under policies that will be unique to each company.

In summary, Mr. Doetzer said: "All of us are involved in the insurance process," and he called upon members of the audience to make their concerns known to legislators. ■

Proposition 103 gives agent giant 'headache'

LOS ANGELES—Shirley Shilling felt so uneasy about the possibility that California's Proposition 103 would pass that she decided to withdraw as a panelist in last week's NACSA teleconference even before the votes were cast.

And, since Proposition 103 was passed on Nov. 8, "I have just had one gigantic headache," Ms. Shilling, the owner of C&S Insurance Services in Los Angeles said in an interview. Ms. Shilling, who described her agency as being relatively small, said, "I've been in the business for 35 years and I've never seen anything like it."

Proposition 103 calls for a rate rollback for almost all lines of property/casualty insurance to 20% below November 1987 levels.

Proponents of the measure claimed that the high cost of personal auto insurance, particularly in congested Los Angeles County, was caused by insurer greed and that rates should be rolled back.

Although voters in only four of California's 58 counties approved the proposition, overwhelming support from irate motorists in the state's urban areas was enough to assure a 51%-49% victory, Ms. Shilling said.

The California Supreme Court stayed enactment of the proposition after insurers questioned its legality.

On Nov. 9, Ms. Shilling had just begun conducting an agency sales meeting when she began hearing from insurers.

One of her markets notified her that there would be a moratorium on new personal auto business, the first of several calls saying that new personal auto business was on hold.

With her agency's income split about 65%-35% in favor of personal lines, Ms. Shilling said she felt her concern growing. Before the day was over, one insurer also said it would halt writing new commercial lines business.

On the other hand, two insurers told Ms. Shilling that they would continue to conduct business as usual.

The confusion in the marketplace "is scary," she said.

As far as she is concerned, the situation remains tough even though insurers eased their position once the state Supreme Court blocked the proposition's implementation.

For example, much of her business is placed with Mercury Casualty Co., a Los Angeles insurer that, in Ms. Shilling's words, "has provided a very good market for young drivers" who could not find other coverage.

Mercury had announced before the balloting that it would stop writing new business if Proposition 103 passed. The company kept its word, but began writing again after the court stayed Proposition 103's implementation, she said.

Companies appear to be tightening their underwriting standards, Ms. Shilling said. She added that some companies will only write standard business.

Unless the state Supreme Court rules against enactment of the proposition, the respite may only be temporary, she said.

"None of us is out of the woods. If you have a company that withdraws and all others have moratoriums. this will have an effect on agencies," said Ms. Shilling, noting that if the value of agencies goes down, owners who borrowed to pay for their businesses will still have to pay off their debts.

For Ms. Shilling, the philosophical implications involved in Proposition 103 go beyond automobile insurance rates. "I'm concerned that if you can mandate price controls for insurance, you can do it to other industries. What would happened if you did it for potatoes, too? From a standpoint of more than insurance, I'm really concerned about that," she said.

—By Mark A. Hofmann

Teleconference fills need for better communication

YORK, Pa.—As far as Arthur Glatfelter is concerned, the chief problem with last week's teleconference for insurance buyers was that not enough members of the National Assn. of Casualty & Surety Agents participated in the NACSA-sponsored event.

But, he added, "You've got to crawl a bit and have a couple of success stories."

Mr. Glatfelter, president of the York, Pa.-based Glatfelter Insurance Group and chairman of NACSA's public information committee, said that "the gist of the program was communication" with buyers of commercial insurance.

The program was the first of its kind.

NACSA's board began discussing how to better communicate insurance issues about a year ago. The board decided that rather than rely solely on insurance company efforts, agents should conduct their own effort while striving for utmost objectivity.

J. Martin Huber, executive director of NACSA in Bethesda, Md., said "there was sort of a feeling of frustration among members of our board" with the industry's image. The board agreed on a teleconference but stressed "it couldn't be just pabulum."

Nonetheless, some NACSA members feared that a teleconference would be viewed as a "blatant commercial" for independent agents, said Edwin S. Overman, president emeritus of the Malvern, Pa.-based American Institute of Property & Liability Underwriters and the Insurance Institute of America, who served as moderator of the Nov. 15 teleconference.

Ultimately, 25 of NACSA's 300 member agencies paid for 16 sites that received the broadcast from the Yorkville Hotel in York, Pa. While the program reached about 1,100 people at 16 sites in the East and Midwest, no agencies in the Mountain or Pacific time zones took part.

The lack of any California site was ironic since the impact of the state's Proposition 103 was a major discussion topic.

To emphasize the objective, educational nature of the event, efforts were made to present a wide range of viewpoints. As a result, the final panel included not only agents but an insurance company president, a consultant to the insurance industry and an insurance journalist.

WITF, Channel 33, a Harrisburg, Pa., educational television station, provided technical teleconference services. NACSA members who sponsored local sites where the program could be received paid a pro rata share of the production costs—$750 each.

Tapes of the teleconference should be available within a few weeks, said Mr. Huber. NACSA hopes that members will show the tapes to clients in the future.

Mr. Glatfelter said many of the risk managers he invited to view the teleconference made a point to tell him of its effectiveness.

John F. Russell, president of Couper-Ackerman-Sampson, Inc., in Binghamton, N.Y. and immediate past president of NACSA, shared Mr. Glatfelter's sentiments.

The response of the risk managers at his site was "very positive," he said. "If we did something like this again, the response would be very favorable."

Mr. Glatfelter said he would like to see more teleconferences in the future because teleconferencing is an effective means of reaching the public.

"Imagine what the impact would have been if 300 agents had brought in 50 people. Even at $750, that would have been a small price to pay," he said.

—By Mark A. Hofmann

Risk retention

Continued from page 1

with the deductibles, coverage limits, rates and rating classification for each line of insurance it intends to offer to purchasing group members.

The original copy of this and other financial information would be filed with the insurance commissioner in the purchasing group's principal place of business, with copies filed in the other states in which the group has members.

• A purchasing group would have to provide regulators in all states in which the group does business with the address and telephone number of the insurance company writing coverage for members of the group. In addition, the purchasing group would have to identify its principals or officers as well as provide the name and address of the organization managing the group.

While the thrust of the proposed revisions deals with purchasing groups, the proposals also clarify some uncertainties surrounding risk retention groups.

For example, only a risk retention group's chartering state could examine a group to determine if all the members are in a similar line of business.

In addition, the revisions make clear that a risk retention group not only must be owned by members, but also must be controlled by the members.

Commerce Department staffers emphasize that the revisions, contained in a discussion draft, are proposals intended to stimulate debate and comment.

But the revisions could be a catalyst for congressional action that many say is needed to clear up ambiguities in the 1986 amendments that have discouraged some insurers from writing purchasing group business and that opened the door to shady operators who see the Risk Retention Act as a vehicle to market policies with minimal supervision from state regulators.

By discussing and hammering out recommendations in the coming months, Congress will have a comfortable amount of time next year to agree on needed changes, observers point out.

Many blame the ambiguous provisions on the rushed pace in which the 1986 amendments were whisked through Congress.

"The ambiguity in the language of the Risk Retention Act is creating horrendous regulatory problems at the state level," said Iowa Insurance Commissioner William Hager.

"It is to everyone's advantage to state with more precision what activities are exempt from state regulation and which state regulations remain in effect. Everyone benefits from more certainty," said Michael Mullen, Washington counsel for the National Risk Retention Assn.

Regulators especially welcome provisions to give them more information about purchasing groups and insurers. They have long complained about the scanty information available about purchasing groups and their insurers.

"I'm supportive of any proposal that requires more information to be provided to the states," said Mr. Hager, who earlier this year won a U.S. District Court ruling that requires insurers to be admitted or authorized in Iowa before selling insurance to Iowa members of purchasing groups (*BI*, May 9).

Many of the changes will ease regulators' concerns about the groups, without unduly interfering with the groups, adds Jon Harkavy, director of governmental affairs for the Risk & Insurance Management Society Inc. in New York.

"This is an honest effort to address the regulators' concerns. This is a very good effort to begin the debate. This is a constructive way to make the act work," Mr. Harkavy said.

Perhaps the most significant revision proposed by the Commerce Department staffers would be to scrap the highly ambiguous provision in the 1986 amendments that now says the insurer of a purchasing group must be admitted or authorized in the state in which the group is "located."

State regulators, as well as the Iowa court, have interpreted this provision to mean that a purchasing group insurer must be admitted or authorized in any state where the insurer writes coverage to group members.

Buyers acknowledge that the meaning of "located" is fuzzy, but doubt that Congress intended for purchasing group insurers to be admitted or authorized in every state a group had members. That interpretation they say, would eliminate hundreds of potential insurers from writing coverage.

Instead of defining "located," the revisions lay out a set of objective criteria that an insurer would have to meet before it could write business for a purchasing group.

A domestic insurer could write purchasing group business in any state if it were admitted in at least one state and met at least one of these criteria:

• Have the net surplus "required of an admitted insurer doing the same kind and amount of business under the laws and regulations of each state in which it is writing business for a purchasing group or its members."

• "Retains risk net of reinsurance in an amount less than the maximum permitted admitted insurers under the laws and regulations of the states in which it is writing insurance for a purchasing group or its members."

• Maintains an as-yet-undefined premium-to-surplus ratio. Currently, Commerce Department staffers are mulling over a premium-to-surplus ratio of no greater than 3-to-1.

• Maintains capital and surplus of at least $3 million based on statutory accounting principles in the purchasing group's principal place of business.

Alien insurers would have to either be listed on the National Assn. of Insurance Commissioner's quarterly listing or be approved for listing.

Setting minimum standards for purchasing group insurers would eliminate the current confusion, Mr. Harkavy noted. "We have constantly discussed that."

"There is a recognition that objective standards are desirable to help determine if a purchasing group insurer is financially sound," said Mr. Mullen, who also is an attorney with the Washington law firm of Crowell & Moring.

The revisions would make clear that only the state in which a purchasing group has its principal place of business would have the right to regulate policy forms, rates or coverage written by an insurer for the purchasing group.

This provision would have the effect of overturning a 1987 U.S. District Court decision in which a court said that purchasing group policy rates and forms are subject to state regulation.

That New York decision, involving an American International Group Inc. unit and a purchasing group comprised of nurse practitioners, has been interpreted by some to mean that all 50 states could demand to review and approve purchasing group policies and forms (*BI*, Oct. 5, 1987).

Such state-by-state review or approval would enormously raise insurers' administrative costs and make it difficult for a group to offer uniform, national rates and policy forms.

"State-by-state approval would drive insurers out of the purchasing group market. If an insurer writes coverage for 10 groups in 50

Continued on next page

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Risk Retention Act

Continued from previous page

states, that would mean 500 separate filings," Mr. Mullen said.

It remains to be seen, though, whether regulators will support the provision in the proposed revisions.

Miriam Boggio, deputy superintendent with the New York Insurance Department, is concerned that limiting rate and policy form review to one state might not give enough protection to purchasing group members in other states.

"What if a purchasing group has one member in State X, the group's principal place of business, while all other members are in State Y. How will this protect purchasing group members in State Y?" Ms. Boggio asked.

However, both regulators and buyers support the provision to bar insurers from establishing and controlling purchasing groups.

Many regulators have been especially alarmed at the trend of "entrepreneurs" establishing an insurance company, often thinly capitalized, for the express purpose of writing coverage for purchasing groups. The insurer then establishes purchasing groups and attempts to attract policyholders to the groups.

Such arrangements could not have been what Congress intended when it established the purchasing group concept, regulators say.

"Congress had in mind that purchasing groups would be established and seek insurers. Buyer-established purchasing group have a vested interest in obtaining the best terms. When you reverse the equation, the groups would not have the leverage (with insurers) Congress intended," Iowa's Mr. Hager said.

Some insurers have established purchasing groups as a means to avoid state regulation, added David Thornberry, a member of the Texas State Board of Insurance in Austin.

New York's Ms. Boggio says limiting control of purchasing groups to members may sound fine theory, but "innovative" organizers could find ways to evade the intent of the provision.

RIMS agrees that purchasing groups need to be under the control of buyers. "I share the Commerce Department staffers' concerns that purchasing groups be policyholder-driven rather than insurer-driven," Mr. Harkavy said. ■

Proposition 103

Continued from page 1

marily commercial lines writers should not be nearly as severe."

Moody's said the proposition's premium rollback provisions "will not have a uniform effect on all lines of insurance," because "premium rates for many commercial lines are currently below the levels that would be required under the proposition."

Proposition 103, triggered by consumer revolt against high personal automobile insurance premiums, requires insurers to roll back for one year almost all property/casualty insurance "charges" to a level 20% lower than in November 1987. Workers compensation, marine insurance and reinsurance are exempt from the new law.

The proposition, which 51.1% of the voters approved despite the insurance industry's mammoth $60 million campaign to support its own propositions, also establishes a prior approval rate system for the first time in the state. After Nov. 8, 1989, all rate increases in lines governed by the proposition must be approved by the California Insurance Department before they can be implemented.

The 40-paragraph proposition also requires that the insurance commissioner be elected instead of appointed and subjects insurers to all state antitrust laws. As a result, the Insurance Services Office Inc. suspended some services in California (*BI*, Oct. 31).

But the proposition does not address several concerns:

- What is the definition of "charges"? Are charges filed rates or actual premiums charged? And how should the rollbacks be figured when a policyholder's exposure has changed since November 1987?
- Does the law apply to surplus lines insurers?
- Does the law apply to insurers that write coverage for members of purchasing groups?
- Does the law apply to risk retention groups fronted by insurers?

"We're going to implement the law, whatever it is," said Raymond Bacon, chief deputy commissioner of the state Insurance Department.

Specifics on enforcement of rollbacks and appeal procedures allowed insurers that claim they need rate relief or will face insolvency will remain "a blank until we see more developments" from the court proceedings, Mr. Bacon said.

Mr. Bacon said Proposition 103 was "sort of badly drafted," because it contained few details about standards for rollbacks and insolvency claims.

Nonetheless, the Insurance Department is preparing to implement the new law and already is testing applicants to fill the many new positions needed to implement the law, he said. "I'm satisfied that we've taken the necessary steps, but that doesn't mean it will go smoothly," Mr. Bacon said.

In the court battle, Fireman's Fund Insurance Cos., State Farm Insurance Cos., Allstate Insurance Co., Farmers Insurance Group, CalFarm Insurance Co., the Assn. of California Insurance Cos. and the Insurance Services Office Inc. have filed a suit challenging the proposition. The American Insurance Assn., the Alliance of American Insurers, and the National Assn. of Independent Insurers have filed an amicus curiae brief in the case.

In addition, several insurers have filed individual suits attempting to block enactment of the proposition.

In the group action filed in the state Supreme Court, the insurance industry argues:

- The rollback provision is "confiscatory" because regulators cannot grant insurers rate relief unless insurers can prove they are "substantially threatened with insolvency."
- The proposition does not spell out the time period in which the Insurance Department must grant or deny rate relief to insurers that request it.
- Provisions requiring insurers to renew nearly all automobile insurance policies are unconstitutional.

Continued on next page

Travelers sues Shell

Continued from page 2

from April 4, 1948, to Aug. 1, 1975. Under a January 1984 agreement, Travelers agreed to pay 55% of Shell's defense costs in the underlying litigation.

To date, the insurer has paid Shell $16 million.

In its lawsuit, Travelers says Shell and Holme, Roberts have conspired to conceal Shell's knowledge that it was polluting the environment at the Rocky Mountain Arsenal.

"Shell and its counsel have fraudulently maintained that Shell had no knowledge of the potential liability for its Arsenal operations until after the passage of the Comprehensive Environmental Response, Compensation and Liability Act of 1980," better known as the Superfund Act, according to the suit.

But Shell knew of its potential liability from its Rocky Mountain Arsenal operations as early as 1952, according to Travelers.

In 1952, the year Shell leased a pesticide manufacturing plant at the Rocky Mountain Arsenal from the Army, a meeting was held at which time Shell and the Army discussed the pollution, according to Travelers.

"Minutes of the 1952 meeting between the Army and Shell document that Shell employees had been aware of the contamination of the process water lakes 'for some time,' " Travelers says in its suit.

Furthermore, "As a result of laboratory tests performed by Shell's own scientists during 1952 and 1953, Shell learned that its products, aldrin and dieldrin, were present in the lake water and in sediments along the lakes' shores and bottoms," the suit says.

Earlier this year, Travelers tried to have Holme, Roberts disqualified from defending Shell in its coverage litigation with its insurers. Travelers alleged it was unethical for Holme, Roberts to represent Shell in both its underlying litigation with the EPA and the Colorado Department of Health and in its coverage litigation against its insurers.

Travelers filed a motion alleging that Holme, Roberts' representation of Shell in the coverage litigation constituted a breach of the covenant of good faith and fair dealing because Travelers had paid $16 million in defense costs on behalf of Shell to Holme, Roberts.

That motion was denied and Holme, Roberts continues to defend Shell in its coverage litigation. However, Travelers is appealing the decision.

The Travelers countersuit against Shell is very similar to a 1984 motion the insurer filed against Denver-based Manville Corp. (*BI*, June 25, 1984).

In that motion, Travelers alleged that Manville concealed its knowledge of the dangers of the asbestos it produced.

The insurer said Manville knew as early as the 1930s of the dangers of asbestos and that conditions in its facilities were unhealthy.

The Travelers motion did not proceed because Manville settled its dispute with its insurers shortly thereafter.

Although she would not comment on the Manville litigation, former Manville attorney Robin Neuman said, "In general, concealment lawsuits by insurers against policyholders may often be considered acts of bad faith because they create additional liability for the policyholder."

She explained that claimants suing a policyholder in underlying litigation can often use information disclosed in a concealment action to their benefit.

Furthermore, concealment actions can be considered acts of bad faith on the part of an insurer because the information upon which a concealment action is based is often given to the insurer under its fiduciary relationship with the policyholder, said Ms. Neuman, who is with Heller, Ehrman, White & McAuliffe in San Francisco.

"Insurers (that file concealment actions) are also trying to send a message to their other policyholders that they play down and dirty so 'don't mess with us,' " said Ms. Neuman. ■

Update

Oakeley Vaughan in liquidation

LONDON—Former Lloyd's of London managing and members' agency Oakeley Vaughan (Underwriting) Ltd. is being liquidated, six years after Lloyd's took over runoff management of the agency's syndicates.

The agency, which officially was wound up July 20, is being liquidated after failing to pay two creditors the 54,130 pounds ($97,759) the High Court ordered it to pay May 5.

D.L. Morgan, senior partner of the insolvency department of accountants Spicer & Oppenheim, was named liquidator at a meeting last week of creditors, which included Oakeley Vaughan members.

One creditor complained that although 200 members whose business was managed by Oakeley Vaughan's members' agency had been notified of the creditors meeting, about 150 other members of the Oakeley Vaughan syndicates whose business was handled by other members' agencies had not been notified.

Meanwhile, dozens of Oakeley Vaughan members are refusing to pay more than 20 million pounds ($36.1 million) in underwriting losses, claiming they would not have become or remained members of the Oakeley Vaughan syndicates if Lloyd's had made public a 1981 investigation of the syndicates (*BI*, Feb. 15).

Lloyd's suspended three of Oakeley Vaughan's underwriters in 1981 and took control of the syndicates' runoff in November 1982.

Trucker liable for traffic injury

CHICAGO—An Illinois man left paralyzed when a truck hit his car was awarded $15.2 million by a Cook County Circuit Court jury last week.

Julio Cortez of Bridgeport was awarded $13.7 million for injuries —the state's largest award for compensatory damages to a paraplegic—and his wife, Juanita, was awarded $1.5 million for loss of services and companionship.

Mr. Cortez was injured in December 1986 when his car was rear-ended by a semi-trailer leased and operated by A&H Inc., a Footville, Wis.-based trucking company. A&H leased the truck from Ryder Truck Rental Inc. in Madison, Wis.

A&H has liability coverage with Fireman's Fund Insurance Co. with limits of $750,000 per occurrence, says plaintiffs' attorney Philip Corboy of Corboy & Demetrio in Chicago.

"After the $750,000 insurance payment, A&H will have to cover the rest with its assets, which are estimated to be at least $10 million," he said.

The jury found that Ryder is not responsible for negligence of a lessee nor directly liable for damages. However, if A&H cannot cover the entire award, Ryder may be forced to pay the remainder, said the Illinois court, which applied Wisconsin law.

Ryder has up to $50 million in liability insurance limits applicable to the case, Mr. Corboy said.

No legal action has been filed against the truck driver.

A&H attorney David Smith of Schoem & Smith Ltd. in Chicago declined to comment but said an appeal is likely.

Neither A&H nor Ryder representatives would comment.

Union Carbide officials charged

BHOPAL, India—An Indian judge issued arrest warrants last week for former Union Carbide Chairman Warren Anderson, another Union Carbide official and an attorney who represents the company in connection with the 1984 gas leak in Bhopal that killed more than 2,800 people.

Charges against Mr. Anderson; John MacDonald, assistant secretary for the corporation; and attorney Peter Wintle, who represents Union Carbide Eastern Inc. of Hong Kong, included "perpetuating a crime of culpable homicide not amounting to murder," a Union Carbide spokesman said.

No warrants have been served against the three men, but Union Carbide itself was served with a warrant naming the same charges a month ago, the spokesman said. However, the Indian court has no force of law in the United States, he added.

Criminal charges also were filed against Union Carbide and Mr. Anderson about a year ago, but papers were never served, the spokesman said (*BI*, Dec. 7, 1987).

The judge who issued the most recent warrants heads a criminal court division and has no involvement in the pending civil litigation involving Union Carbide, said the spokesman (*BI*, Nov. 7).

Briefly noted

Customers of **Illinois Bell Telephone Co.** who sued the company after their service was disrupted for up to a month after a May fire damaged a switching station plan to appeal a Cook County Circuit Court judge's recent dismissal of their class-action lawsuit (*BI*, June 13). . . .**Raymark Industries Inc.** again is trying to have all asbestos bodily injury claims filed against it consolidated in a class action lawsuit. Its Nov. 4 motion—filed in U.S. District Court in Atlanta—follows an 11th U.S. Circuit Court of Appeals ruling that the asbestos producer's earlier attempt at class-action litigation was improper because Raymark failed to notify all claimants (*BI*, July 25; June 20). . . .A Nov. 21 hearing to confirm a $94 million arbitration award to **Pacific Reinsurance Management Corp.** has been postponed until Dec. 12 (*BI*, Nov. 7). . . .A federal judge last week dismissed a $93 million product liability lawsuit against Johnson & Johnson, the manufacturer of **Extra-Strength Tylenol**, and a Bronxville, N.Y., store that sold the product. Johnson & Johnson still faces several product liability lawsuits from the 1982 tainting of the drug with potassium cyanide (*BI*, Oct. 11, 1982). . . .**Edward J. Jamison Jr.**, 52, former chairman, president and chief executive officer of Buffalo Reinsurance Co., died last week of cancer. . . .**Massachusetts Insurance Commissioner Roger M. Singer** did not have the authority to issue regulations in September 1987 that significantly restricted testing of life and accident and health insurance applicants for acquired immune deficiency syndrome, the state Supreme Court ruled last week.

Proposition 103

Continued from previous page

- Provisions prohibiting insurers from canceling or failing to renew auto policies apply to policies signed before Nov. 8, which would "substantially impair" the insurers' existing contractual rights.
- Proposition 103 allows the state Board of Equalization to set premium tax rates at levels adequate to recover lost revenue caused by lower premiums, but only the Legislature is permitted by law to set and raise taxes.
- The new law allows a non-profit corporation to represent consumers before the state Insurance Department, which constitutes an illegal lobbying body under the state constitution.
- Several provisions in Proposition 103 were "neither reasonably germane nor functionally related to one another," so the proposition violates a provision of state law restricting initiatives to one subject.

The suit asks the court to expedite the case.

The National Assn. of Professional Insurance Agents has joined with the PIA of California and Nevada in litigation to repeal the proposition, the PIA announced last week at its 57th annual convention in Orlando, Fla.

State Attorney General John Van de Kamp, in a response last week to petitions filed by insurers, urged the court to lift the stay entirely or at least restrict it to the rollbacks.

"The voters believed they were enacting immediate insurance reform with adoption of Proposition 103. That expectation should not be frustrated without giving the initiative a fair chance to work," the filing states.

In issuing "a blanket stay," the court delayed implementation of all Proposition 103 provisions, some of which do not involve constitutional issues, the state argued.

In the 12-page filing, also filed on behalf of the state Board of Equalization, the attorney general rebuts several of the insurers' arguments. The filing states that:

- Insurers have not demonstrated that "they will likely suffer irreparable injury" if the court lifts its stay while it considers the industry's legal challenge.
- The proposition contains exemptions from the rollback provisions if the insurer can demonstrate it would face insolvency if it complied with the law.
- Aside from the one-year rollback provision, no other provisions threaten "any irreparable injury" to insurers.
- The insurance commissioner could rule on rate relief in an acceptable time.
- The taxation issue threatens "no irreparable injury" to insurers.

The attorney general also called for a quick resolution of the case.

The Voter Revolt to Cut Insurance Rates, the Santa Monica-based sponsor of Proposition 103, is attempting to raise the funds it needs to hire an attorney to represent the group in court, said Harvey Rosenfield, chairman of the group.

The Supreme Court on Thursday directed the state's attorney general and any other parties supporting the proposition to present their responses to the industry's suits by Tuesday and directed insurers to file their responses by Nov. 28.

In previous challenges to voter-approved laws, the Supreme Court generally has upheld those laws without major changes.

But, the challenge to Proposition 103's constitutionality raises untested issues that do not easily compare with other situations, according to legal observers.

"It really is new ground for everyone," said Douglas Martin, general counsel for Fireman's Fund.

The insurers may have their best chance with the Supreme Court on their contention that Proposition 103 is "confiscatory" because it would diminish their assets, said Julian Eule, professor of constitutional law at the University of California at Los Angeles.

"That argument has some substance to it," said Mr. Eule, adding that the mandated 20% rollbacks were established "arbitrarily" without consideration of the financial effect on insurers.

But he warned that insurers may have trouble if they do not provide financial information to back their claims of probable insolvencies.

Joseph Remcho, a San Francisco attorney for the California Trial Lawyers Assn., the major backer of a failed competing insurance measure, Proposition 100, agreed.

An analysis by the Insurance Department indicates that five of the state's 10 largest property/casualty insurers could face insolvency under Proposition 103 and that within two years as many as 35 insurers could become insolvent. In addition, 40 other insurers' surpluses would be reduced to such a low level that they would be forced to curtail activities, the department says (*BI*, Oct. 24).

The insurance industry has "the facts" on its side, pointed out Allen Katz, lead attorney for the industry suit.

The insurers have a substantial case that provisions of Proposition 103 violate the state and the U.S. constitutions because they are confiscatory, said Mr. Katz, who is with the Los Angeles law firm of Munger, Tolles & Olson.

"I'm sure that the judges will rule on the merits of the case, and we feel we are strong on the merits," Mr. Katz said.

The state court could send the case to a lower court for trial to determine whether insurers' claims that they face insolvency if they are forced to comply with Proposition 103 are valid, Mr. Remcho said.

While all parties await action in the courts, legislators are already looking into the situation. Executives of at least 24 insurance companies were expected to testify at the Senate's insurance committee hearing last Friday, a consultant to the committee said late last week.

But earlier in the week, state Sen. David Roberti, D-Hollywood, made it apparent that the committee would look critically at the insurers' response to Proposition 103.

"We will not allow the insurance companies to subvert the voter's will," Sen. Roberti said.

While some state lawmakers may not have supported Proposition 103, they must back it now as "the will of the people," he said.

Lawmakers are especially concerned about insurers that have threatened to leave the state.

The Legislature may require auto insurers that pull out of the state to pay fines equal to 50% of their premium volume, Sen. Roberti said at the hearing last week.

The availability of property/casualty insurance in California was generally stable last week.

Most lines of commercial property/casualty insurance were affected little by the new law.

However, several insurers are refusing to write new business until the legal challenges to the new law are resolved, according to research by the Independent Insurance Agents & Brokers of California and *Business Insurance*. Insurers not writing new business are:

- Royal Insurance P.L.C. of London, which has a 3.7% share of the state's commercial insurance market.
- Nationwide Mutual Insurance Co. of Columbus, Ohio, which has a 2.6% share of the state's commercial insurance market.
- Hartford Insurance Group of Hartford, Conn., a unit of ITT Corp., which has a 2.4% share of the state's commercial market.
- United States Fidelity and Guaranty Corp., which has about 0.3% share of the market.
- Transamerica Corp., which has about a 2.1% share of the market.

Aetna Life & Casualty Co. will write only some new business, said a spokesman, who would not elaborate.

Fireman's Fund had suspended writing new commercial lines and personal auto after the election, but that moratorium was lifted last week. The company, which writes 11% of the commercial property/casualty insurance in California, was back in full business Nov. 14, a spokesman said.

In addition, dozens of private auto insurers were continuing their suspension of new business, according to the IIABC.

State Farm Insurance Cos. of Bloomington, Ill., California's largest auto insurer, announced last week that it was transferring all new auto policyholders to a subsidiary that charges higher rates.

New applicants will pay 20% to 60% higher premiums under the strategy, a State Farm spokesman said.

The Insurance Department has denounced the switch and may issue a cease and desist order against State Farm, a spokesman said.

The department said it would issue its own list of insurers suspending or curtailing their writings, but it has postponed release of the information. A department spokesman said the delay was caused by the changing status of many insurers. ■

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Premium rate reductions that border on the irrational are commonplace, judging by our contacts within the industry.

THIRD-QUARTER RESULTS for insurance brokers elicited a sense of deja vu. Not much seems to have changed from earlier quarters. The soft market continues on its inexorable path with competition still keen and premium rates under pressure. But brokers' operating comparisons were generally satisfactory within the context of the difficult environment.

The soft market, once again, could be seen in the slack growth of direct insurance brokerage commissions. Typically, performance was flat or in the low single-digit range. Premium rates across a full book of business probably dropped in the area of 12%-15%. We discern no indication of a letup in competition. Premium rate reductions that border on the irrational are commonplace, judging by our contacts within the industry.

Mr. Wilson

Reinsurance brokerage remains a little more hopeful than the direct segment. Here, premium rates are seemingly stable. Nonetheless, reinsurance commissions continued to slip on a year-over-year basis as a result of higher retentions on the part of ceding insurers. This adverse effect, though, is quite likely close to running its course, and consequently we believe that within one or two quarters the erosion of revenues will stop unless rates begin to soften, a possibility that cannot be ruled out.

Gains in international insurance brokerage were anemic as well. Premium rates in other countries are clearly not as soft as in the United States, but typically new international business, unlike in the United States, provides less of an offset to a soft market. In some industries, operations outside the United States can run counter to the domestic cycle. In insurance brokerage, this compensating pattern has not yet revealed itself. The present soft market seems to be a multinational phenomenon. Even specialty lines, like marine and aviation, have been hard hit.

New business shows remarkable strength for virtually all the publicly owned brokers. The gains in new business have become a way of life and seem to transcend both tight and soft markets. Traditionally, tight markets were a more fertile opportunity for the new business skills of the professional broker. But over this past decade, with its predominantly soft markets, brokers have learned how to turn abundant capacity into an ally.

The pace of lost business correspondingly appears to have stabilized after rising for some of the brokers in 1987. We ascribe the improvement on this front in large measure to greater attentiveness to the existing client base. The rash of industrial mega-mergers, admittedly, could be a concern to the extent that the acquiring company seeks to reshuffle insurance brokers.

Employee benefit consulting is a ray of brightness in an otherwise gray landscape. Gains in this area characteristically ran at 15% or better in the third quarter. The changes in the benefit area, the area's complexity and the concerted efforts of insurance brokers to grow in benefits are responsible for the positive showing.

Investment income rose in the area of 6%-7% for most brokers. Clearly slower growth in premium throughput has influenced year-over-year progress, but the relatively high level of short-term interest rates has been supportive. The 90-day CD rate is now about 8%, compared with 6.5% a year ago.

We continue to give the brokers better than passing marks for expense control. Staff expansion is generally under close restraint, while the moderate rate of inflation has facilitated the control of per capita compensation.

As we observed in past columns, managements focused earlier on costs in this cycle. The last soft market markedly dislocated profit margins. We think that brokers are determined to avoid a repetition this time.

Operating margins were still under pressure in the third quarter. Revenue growth, as in the first half of the year, was too weak to avoid a contraction in pretax profitability. Earnings per share, the measure most important to investors, were largely in line with expectations. But share repurchases and lower tax rates must garner some of the credit for realizing earnings estimates.

At $1.40 per share, Marsh & McLennan Cos. Inc.'s earnings were flat for the third quarter. Expense controls were particularly effective in the quarter. Although expenses rose moderately, we estimate that most of the recorded rise was necessitated by pronounced growth in employee benefit consulting services. This means that profitability in insurance brokerage is holding up relatively well despite a slowing in revenue growth.

Alexander & Alexander Services Inc. reported operating earnings of 34 cents per share, which represented a narrow gain by our estimate after backing out non-recurring or special items.

Tight cost controls and a share repurchase program were elements in this creditable earning comparison.

Corroon & Black Corp. posted results of 72 cents per share in the third quarter against last year's 75 cents per share, in line with expectations. Fewer shares in this year's period helped, as did solid gains in employee benefit consulting.

Arthur J. Gallagher & Co. was able to muster a small gain in quarterly earnings at 65 cents per share against last year's 61 cents. A lower tax rate was a timely aid to comparisons, while self-insurance fees sustained an impressive increase of 15%.

The soft market is getting somewhat long of tooth. By most accounts, premium rates peaked in the fourth quarter of 1986. Price competition is certainly more virulent than most observers expected. There seems to be an emerging consensus that rates will again be soft through 1989 and then turn up in 1990.

This scenario seems plausible enough and indeed would be a quite livable one for the public insurance brokerages: another four or five quarters of toeing the mark on cost control and then a sigh of relief. Cautious optimism may be a tonic for the psyche, but the current pricing disarray allows no latitude for loosening the reins of expense restraint. ■

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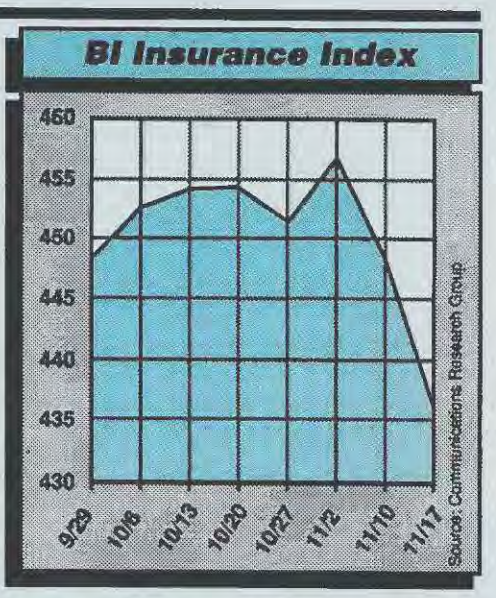

Insurance industry stocks plummeted last week, as the *Business Insurance Index* dropped 12.1 points to 436.8 on Nov. 17, from 448.9 on Nov. 10. Advancing issues were led by Kansas City Life Insurance Co., up 20%; Harleysville Group Inc., up 3.9%; UNUM Corp., up 1.9%; Argonaut Group, up 1.7%; and Tokio Marine & Fire Insurance Ltd., up 0.3%. Declining issues were led by Forum Re (Bermuda), down 26.5%; Nobel Insurance Ltd., down 10.7%; Zenith National Insurance Corp., down 9.7%; Statesman Group Inc., down 9.4%; and Provident Life & Accident Insurance Co., down 6.9%. Issues showing the most activity during the period were: Sears, Roebuck & Co. (Allstate) 4.8 million shares traded; United States Fidelity & Guaranty Co., 3.2 million shares traded; and Farmers Group Inc., 2.3 million shares traded. The *BI Index* fell 2.7% for the period, performing ahead of the leading market indicators: The Standard & Poor's 500 fell 3.7%; the New York Stock Exchange Composite dropped 3.1%; and the Dow Jones 30 Industrials lost 2.9%.

British Issues

Nov. 17 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence pence
Comml Union	323	10.4	25.3	7.8	324—321
Gen'l Accident	826	8.2	58.0	7.0	834—826
Gdn Royal Exch	181	9.7	13.1	7.2	181—171
Royal	365	11.9	30.0	8.2	377—365
Sun Alliance	1005	7.7	54.7	5.4	1012-1005
Brokers					
Bradstock	201	10.9	8.0	4.0	202—201
CE Heath	432	13.6	34.5	8.0	441—430
Hogg Robinson	157	13.3	8.0	5.1	158—156
Lloyd Thompson	205	16.1	8.0	3.9	206—204
PWS Holdings	151	21.6	6.0	3.4	151—151
Sedgwick Grp	217	18.1	16.0	7.4	219—215
Steel Brrl Jones	216	19.3	13.3	6.2	216—209
Willis Faber	222	12.4	16.0	7.2	225—221

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

BI Industry Stock Report

NOVEMBER 17, 1988 — 11/11/88 THRU 11/17/88

		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 Svcs	NYSE	24.63	-1.5	38.8	28.13	17.75	318	1.00	4.1	16.9	3.71	6.64
Corroon & Black Corp.	NYSE	29.38	-3.3	4.0	34.75	28.00	77	1.08	3.7	4.4	5.43	5.41
Gallagher Arthur J. & Co.	NYSE	17.75	-4.1	10.9	19.13	13.88	146	0.48	2.7	12.2	5.16	3.44
Hall Frank B. & Co.	NYSE	2.75	0.0	-4.5	5.50	2.50	153	0.00	0.0	12.2	0.00	N/A
Hilb, Rogal & Hamilton	OTC	13.50	-3.6	38.5	14.50	9.75	42	0.00	0.0	12.2	0.00	N/A
Marsh & McLennan Cos. Inc.	NYSE	56.13	-0.4	13.4	59.63	45.25	375	2.50	4.5	13.7	6.74	8.33
Poe & Assoc Inc.	OTC	8.25	0.0	17.9	9.25	6.75	10	0.40	4.8	12.7	0.27	30.56
BROKERS	AVERAGE		-1.8	17.0					2.8	11.9		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W R. Corp.	OTC	29.25	-1.3	21.9	30.00	23.50	218	0.36	1.2	6.3	17.63	1.66
Berkshire Hathaway Inc. DEL	OTC	4700.00	-1.6	59.3	5000.00	2755.00	111	0.00	0.0	18.9	77.66	1.90
ITT (Hartford Group)	NYSE	47.88	-5.4	6.4	54.88	43.25	1986	1.48	3.1	6.0	52.23	0.92
Sears Roebuck & Co. (Allstate)	NYSE	40.50	-3.3	20.4	46.13	32.25	4815	2.00	4.9	10.5	34.74	1.17
CONGLOMERATES	AVERAGE		-2.9	27.0					2.3	10.4		
INSURERS/REINSURERS												
Aetna Life & Cas Co.	NYSE	47.75	-0.3	5.5	52.50	39.50	600	2.76	5.8	7.8	53.56	0.89
American General Corp.	NYSE	31.00	-2.8	-2.4	36.38	27.50	898	1.40	4.5	7.8	28.04	1.11
Amer Heritage Life Invt	NYSE	26.00	-1.9	7.2	27.00	24.00	5	1.08	4.2	11.0	20.98	1.24
Amer Indty Fin'l Corp.	OTC	10.00	0.0	11.1	12.00	8.25	14	0.56	5.6	17.5	15.26	0.66
American Int'l Group	NYSE	63.00	-1.8	5.0	68.75	49.00	1016	0.40	0.6	9.3	33.56	1.88
Aon Corp.	NYSE	27.00	-5.3	18.0	28.75	21.88	372	1.28	4.7	8.9	15.13	1.78
Argonaut Group	OTC	43.75	1.7	47.1	49.00	29.50	200	0.00	0.0	6.1	29.19	1.50
AVEMCO Corp.	NYSE	23.88	-0.5	21.7	28.75	17.88	11	0.34	1.4	11.1	7.74	3.09
Belvedere Corp.	AMEX	4.63	0.0	5.7	6.00	4.00	9	0.04	0.9	6.8	7.87	0.59
Chandler Insurance	OTC	8.50	-4.3	74.2	10.25	4.25	20	0.00	0.0	4.1	7.18	1.18
Chubb Corp.	NYSE	54.00	-3.8	-3.4	63.38	51.25	348	2.16	4.0	6.2	46.13	1.17
CIGNA Corp.	NYSE	46.63	-5.1	6.3	55.38	42.75	381	2.96	6.3	8.7	49.19	0.95
CNA Fin'l Corp.	NYSE	56.50	-4.2	1.6	66.13	51.00	198	0.00	0.0	8.9	46.40	1.22
Continental Corp.	NYSE	34.38	-5.2	-11.3	41.63	34.75	257	2.60	7.6	11.0	42.10	0.82
Durham Corp.	OTC	32.00	-2.3	48.8	36.75	21.50	34	0.92	2.9	37.2	26.00	1.23
Farmers Group Inc.	OTC	72.63	-0.7	80.4	73.25	40.50	2282	1.44	2.0	17.0	22.02	3.30
Fireman's Fund Corp.	NYSE	29.38	-0.8	13.0	33.50	25.75	327	0.50	1.7	127.7	26.17	1.12
Forum Re (Bermuda)	OTC	1.75	-26.5	-48.2	4.00	2.13	9	0.00	0.0	4.9	2.58	0.68
Fremont Gen Corp.	OTC	11.50	-1.1	19.4	13.50	8.75	429	0.60	5.2	7.8	16.24	0.71
General Re Corp.	NYSE	53.75	-1.4	-3.8	59.38	45.50	759	1.20	2.2	10.9	26.21	2.05
Home Group Inc.	NYSE	11.13	-1.1	-6.3	14.38	10.75	327	0.20	1.8	2.8	17.76	0.63
Hanover Ins Co.	OTC	26.50	-1.9	14.0	27.75	20.50	63	0.36	1.4	5.0	25.10	1.06
Harleysville Group Inc.	OTC	16.63	3.9	26.8	16.88	13.38	30	0.48	2.9	6.5	16.65	1.00
Hartford Steam Boiler	OTC	31.50	-2.0	37.0	32.75	22.50	161	1.20	3.8	10.8	10.65	2.96
Kans City Life Ins	OTC	39.00	20.0	48.6	39.00	25.25	95	0.00	0.0	10.8	29.60	1.32
Kemper Corp.	OTC	23.25	-3.1	13.4	27.50	20.75	558	0.72	3.1	7.4	26.50	0.88
Lawrence Ins. Group	AMEX	9.75	-6.1	116.7	11.63	4.50	4	0.24	2.5	16.0	2.90	3.36
Liberty Corp. S.C.	NYSE	38.13	-4.4	7.4	47.25	34.50	10	0.80	2.1	13.2	17.40	2.19
Lincoln Nat'l Corp.	NYSE	46.13	-4.4	15.0	53.50	40.25	202	2.48	5.4	11.9	36.62	1.26
NAC Re Corp.	OTC	30.00	-2.4	69.0	31.50	18.50	58	0.00	0.0	13.4	19.92	1.51
Navigators Group	OTC	19.50	-3.7	34.5	20.38	14.50	22	0.00	0.0	9.5	12.88	1.51
Nobel Ins Ltd.	OTC	5.25	-10.7	-40.0	9.50	4.50	19	0.44	8.4	25.0	9.37	0.56
Northwestern Nat'l Life	OTC	30.63	-2.8	33.9	34.50	22.63	441	1.12	3.7	7.3	35.05	0.87
Ohio Cas Corp.	OTC	33.88	-3.9	-6.5	38.25	32.25	235	1.88	5.5	6.3	27.86	1.22
Old Rep Int'l Corp.	OTC	24.25	-1.5	21.3	25.88	19.13	212	0.74	3.1	5.7	27.82	0.87
Orion Cap Corp.	NYSE	14.75	-4.1	9.3	17.63	13.13	21	0.76	5.2	5.0	9.34	1.58
Phoenix Re Corp.	OTC	10.00	-4.8	53.8	11.00	6.75	86	0.00	0.0	5.4	11.08	0.90
Protective Life Corp.	OTC	13.00	-1.9	6.1	15.13	12.25	91	0.70	5.4	15.9	17.25	0.75
Re Capital Corp.	AMEX	8.88	-2.7	-15.4	11.75	7.88	20	0.00	0.0	19.7	11.49	0.77
Provident Life & Acc Ins Co	OTC	18.75	-6.9	50.0	25.00	15.63	288	0.68	3.6	15.8	21.96	0.85
St. Paul Cos. Inc.	OTC	41.00	-5.2	-10.9	51.00	38.25	1462	2.00	4.9	5.7	35.83	1.14
SAFECO Corp.	OTC	24.13	-3.0	-13.0	30.00	22.75	956	1.08	4.5	7.6	21.39	1.13
SCOR U.S. Corp.	NYSE	7.13	-6.6	-22.9	9.50	6.63	58	0.10	1.4	5.1	9.39	0.76
Seibels Bruce Group Inc.	OTC	11.75	-4.1	4.4	14.25	11.00	59	0.80	6.8	7.9	12.51	0.94
Selective Ins Group Inc.	OTC	25.00	0.0	31.6	26.50	19.25	33	1.24	5.0	5.6	19.52	1.28
Statesman Group Inc.	OTC	3.00	-9.4	-36.0	5.56	3.06	45	0.05	1.7	5.6	3.48	0.86
Tokio Marine & Fire Ins.	OTC	91.75	0.3	39.3	94.00	63.25	54	0.22	0.2	55.6	0.00	N/A
Torchmark Corp.	NYSE	30.25	-2.4	23.5	33.50	24.50	203	1.20	4.0	9.8	12.24	2.47
Transamerica Corp.	NYSE	31.13	-6.0	4.6	36.75	29.75	410	1.88	6.0	7.2	24.94	1.25
Travelers Corp.	NYSE	34.63	-2.8	-1.4	40.00	33.00	502	2.40	6.9	12.7	45.28	0.76
Trenwick Group Inc.	OTC	13.25	0.0	29.3	13.50	9.75	15	0.24	1.8	13.0	15.41	0.86
United Fire & Cas Co.	OTC	29.00	0.0	11.5	29.50	24.00	5	1.08	3.7	4.8	22.56	1.29
United States Fid & Gty	NYSE	30.25	-0.8	6.1	34.38	28.88	3212	2.64	8.7	8.1	19.53	1.55
UNUM Corp.	NYSE	26.38	1.9	42.6	26.88	17.88	388	0.48	1.8	11.0	28.53	0.92
USLIFE Corp.	NYSE	34.50	-0.7	21.1	40.13	28.00	181	1.36	3.9	9.1	46.77	0.74
Washington Nat'l Corp.	NYSE	27.38	0.0	14.7	28.75	24.00	27	1.08	3.9	12.7	32.33	0.85
Zenith Nat'l Ins Corp.	NYSE	15.13	-9.7	0.9	23.88	15.00	141	0.80	5.3	7.1	12.53	1.21
INSURERS/REINSURERS	AVERAGE		-2.8	16.3					3.3	13.0		
ALL COMPANIES	AVERAGE		-2.7	17.0					3.2	12.8		

System design: Communications Research Group

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Some experts predict that by 1991 the U.S. will experience between ten and twenty thousand pediatric AIDS cases alone, with an average of $200,000 in total medical costs for each child.

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