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update

Hansen, Mercer-Meidinger discuss merging operations

DEERFIELD, Ill.—A.S. Hansen Inc., the nation's ninth-largest benefit consultant, is engaged in merger discussions with William M. Mercer-Meidinger Inc., the world's largest benefit consultant.

Hansen has been interested for some time in merging with a larger firm, sources said. Hansen, which is employee-owned and last year reported benefit consulting

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New push planned for federal tort law

By JERRY GEISEL

WASHINGTON—A coalition of business groups is mounting a new effort to persuade Congress to pass a federal product liability reform bill next session, but a major insurance trade group says the effort may be futile.

The Product Liability Alliance, a Washington-based coalition of about 300 business groups, is organizing a "phone-in" next month, urging businesses to flood members of the House with calls in support of federal product liability legislation.

The Dec. 9 phone-in coincides with the House Democratic and Republican caucuses, in which all 435 representatives will be in Washington to organize and set legislative priorities for the 100th congressional session.

Business lobbyists associated with TPLA say the caucuses are a perfect time for business to get its message across that passage of a federal product liability bill should be a priority for legislators.

"The single most important thing that can be done now. . .is to let your views be known. Now is the time to convince legislators that product liability reform should be at the forefront of the agendas of both parties," said Dirk Van Dongen, president of the National Assn. of Wholesaler-Distributors in Washington.

Mr. Van Dongen, who also is a key member of the TPLA, says if congressional offices are inundated with calls, legislators will get the message that a massive number of constituents want federal product liability reform.

"If you believe in the need for a federal product liability reform law, help lay the foundation for such reform by speaking out on Dec. 9. Both large and small business can make a difference by speaking out. It is in their hands," Mr. Van Dongen says.

"It is critical in the early stages of the legislative session to establish that product liability legislation is a priority concern of business," agreed Jon Harkavy, director of governmental affairs for the New York-based Risk & Insurance Management Society, which is urging risk managers to participate in the phone-in.

Mr. Van Dongen notes that a similar Senate phone-in in

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Governments will meet to decide Rhine claims

By CAROLYN ALDRED and STACY SHAPIRO

BASEL, Switzerland—Major claims stemming from the massive pollution of the Rhine River earlier this month will not be filed until at least mid-December, when representatives of five nations meet to discuss the disaster.

In addition, liability for the pollution, which has affected five countries, is likely to be decided by Swiss courts, a Swiss government official says.

Swiss President Alphons Egli has been quoted as saying the damage will total at least 100 million Swiss francs ($59.8 million).

The major claims expected to be filed by nations along the Rhine will not be discussed until Dec. 19. At that time, environmental ministers from member nations of the International Rhine Commission will meet in Rotterdam, Netherlands, to discuss possible compensation from the Swiss government, chemical manufacturer Sandoz A.G. and other potentially liable parties, said Christopher Zaech, assistant legal adviser to the Swiss government's Office of the Protection of the Environment in Berne.

Until then, he added, no major claims are expected to be filed by the other Rhine nations—France, West Germany, Luxembourg and the Netherlands.

A mixture of chemicals—including organic phosphates and mercury—washed down the Rhine on Nov. 1 when water used to douse a fire at a Sandoz warehouse in Basel swept the chemicals into the river.

The chemical pollution caused thousands of fish and eels to die, breweries along the Rhine to be shut down temporarily and local authorities to decide against using the Rhine for water supplies.

So far, the claims filed with Sandoz have been minimal, said a Sandoz spokesman.



Map: Amy Palmer

No lawsuits had been filed as of last week.

"Claims that have come in so far are local claims," the spokesman said. "The more serious and larger claims have yet to come in, and we have no idea of the extent of the damage caused."

Sandoz has close to 500 million Swiss francs ($299 million) in general and product liability insurance, including coverage for pollution incidents, said the company spokesman.

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Hospital group seeks probe of program

By STEPHEN TARNOFF

SACRAMENTO, Calif.—The California Hospital Assn. is asking the state Insurance Department and attorney general's office to investigate the former primary insurer and broker for the CHA's medical malpractice and general liability insurance program.

Both state agencies currently are investigating the CHA's allegations against the insurer, Los Angeles-based Truck Insurance Exchange, and the broker, Gerald J. Sullivan & Associates, also of Los Angeles, according to Robert I. Mawhinney, chairman of California Hospital Assn. Insurance Services, the CHA's insurance brokerage arm.

Officials at the CHA, CHAIS and the Insurance Department would not comment on the complaints. Officials con[illegible]d in the attorney general's office said they were not [illegible]ware of the complaint.

However, sources say the complaints are based on a statement sent earlier this year by the CHA to member hospitals—and obtained by *Business Insurance*—that outlines numerous allegations against Truck and Sullivan.

CHAIS withdrew its endorsement of the Truck/Sullivan program in 1984, but the majority of CHA hospitals have stayed with the program.

Among the allegations contained in the statement are that:

Truck says CHA hospitals knew of the allegations for more than two years but, 'The hospitals obviously felt our actual performance was a direct contradiction of the allegations being made.'

- Truck and Sullivan refused to release claims data that would have allowed CHAIS and the CHA to evaluate whether the Truck program was over-reserved.

CHAIS previously had alleged that independent actuaries found that heavy over-reserving by Truck had reduced a surplus premium fund by as much as $100 million (*BI*, Sept. 15, 1984).

- Premium deposits were held by Sullivan without accruing interest to the hospitals.
- Excessive commissions were paid to a London broker that placed excess coverage for the hospitals.
- Truck sought to freeze CHAIS' 1984 budget and compel it to reduce its staff, which would have reduced CHAIS' ability to monitor Truck and Sullivan.

In a prepared statement, Truck noted that CHA hospitals have been aware of these allegations for more than two years and have rejected them. "The hospitals obviously felt our actual performance was a direct contradiction of the allegations being made," the statement says.

An official for Sullivan, Kelly & Associates Inc., which now handles the hospital program, succeeding affiliate Gerald Sullivan & Associates, would not comment beyond what was contained in the Truck statement.

In 1984, CHAIS established a new program for medical malpractice and general liability insurance, written by St. Paul Fire & Marine Insurance Co.

Yet, despite the loss of the CHA endorsement, the Sullivan/Truck program insures 330 California hospitals, according to James E. Kelly Jr., president of Sullivan, Kelly & Associates. The CHAIS program covers only 37 hospitals. Some of the member hospitals have other coverage.

Prior to Sept. 30, 1984, when CHA withdrew its endorsement of the Truck/Sullivan program, the CHA medical malpractice and general liability program consisted of a $150,000 per-occurrence primary layer written by Truck, with two additional layers up to $5 million per occurrence written by various London markets, including Lloyd's of London syndicates managed by Merrett Holdings P.L.C.

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NEWSPAPER

update

Hansen, Meidinger hold talks

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revenues of $42.5 million, also has held discussions with other firms, the sources said.

New York-based Mercer-Meidinger, which reported benefit consulting revenues $197.9 million in 1985, confirmed last that week that it has had merger discussions with Hansen. Mercer-Meidinger is a division of Marsh & McLennan Cos. Inc.

Belvedere plans stock offering

NEW YORK—Belvedere Corp., a 2-month-old holding company, is planning a public stock offering next month to raise capital for a U.S.-based reinsurer, Belvedere America Reinsurance Co.

The offering of 5 million shares, expected to sell at $13 to $16 a share, should raise $65 million to $80 million. Approximately $60 million of that will be contributed to the surplus of Belvedere America, according to Robert Huggins, chairman, president and chief executive of Belvedere Corp. Mr. Huggins recently resigned as president of Transatlantic Reinsurance Co.

The new reinsurer is expected to begin operations "as soon as possible" after the offering, Mr. Huggins said. Belvedere America, which will become Belvedere's principal underwriting arm, will write primarily treaty property and casualty reinsurance through intermediaries, he said.

Belvedere Corp. purchased the shell of Belvedere America from Commercial Union Insurance Co. last month, he said.

The corporation also operates Belvedere Insurance Co. Ltd. in Bermuda, but will not contribute any of the funds from the offering to the offshore reinsurer, Mr. Huggins added. The remaining money will go to "general corporate purposes," he said.

NYIE seeks 2 liquidation orders

NEW YORK—The New York Insurance Exchange's board of governors is seeking liquidation of two syndicates, and was temporarily blocked from seeking liquidation of a third syndicate.

At its Nov. 14 meeting, the exchange board voted to petition the New York Insurance Department to seek the liquidation of The Heartland Group Inc. and The Realex Group N.V., the exchange announced last week. Heartland and Realex—which had been working on rehabilitation plans—were both declared insolvent at the Nov. 14 board meeting. A third syndicate—which the exchange would not name—was also declared insolvent at the Nov. 14 board meeting. Court records, however, show that the third syndicate is Candon Syndicate N.V.

Candon last week obtained a preliminary injunction from a New York State Supreme Court justice barring the exchange from petitioning for its liquidation pending a hearing on the insolvency.

Two additional syndicates—The Burt Syndicate Inc. and The First New York Syndicate Corp.—were ordered last month to show cause why they should not be liquidated (*BI*, Nov. 10 and 17.)

Despite board actions against the five members, "efforts to rehabilitate the syndicates continue," the exchange said.

Fremont won't spin off units

SANTA MONICA, Calif.—Fremont General Corp. is shelving its previously announced plans to spin off its property and casualty insurance operations because the move would create a tax liability for Fremont shareholders.

The insurer still plans to divest itself of its property/casualty business, but it now will seek an alternative plan, says James R. McNiel, executive vp and treasurer of Fremont.

Fremont announced in September that Fremont Indemnity Co., Fremont Compensation Insurance Co., Fremont Insurance Co. Ltd. (U.K.) and Fremont Syndicate Inc. would be reorganized under the banner of Fremont Insurance Group Inc. (*BI*, Sept. 8).

Fremont had planned to create new stock in Fremont Insurance Group and give the stock to the current shareholders of four Fremont property/casualty companies. Fremont had hoped that the plan would fall under Internal Revenue Service rules that permit such spinoffs on a tax-free basis.

But, since the plan was announced, Fremont has been advised "the chances are not very good" the IRS would give the spinoff such favorable tax treatment, Mr. McNiel noted.

PBGC, Navistar compromise

CHICAGO—The Pension Benefit Guaranty Corp. dropped its request for a lien on Navistar International Corp. as part of a compromise agreement with the Chicago-based manufacturer.

Under the agreement, Navistar will provide the PBGC with five days' notice of any action that would encumber more than 75% of Navistar's assets. In return, the PBGC dropped its bid, made in U.S. District Court in Chicago, to seek a lien on Navistar assets.

Both Navistar and the PBGC agreed to expedite a trial involving the 1977 sale of Wisconsin Steel Co. by International Harvester Co., as Navistar's was then known, to Envirodyne Industries Inc., a small Chicago-based engineering and construction firm. The PBGC has charged Wisconsin Steel was sold to avoid its huge pension liabilities. Wisconsin Steel later filed for bankruptcy.

Briefly noted

A U.S. District Court judge in Virginia has allowed to stand six **medical malpractice awards** against a rural obstetrician that exceed the state's applicable $750,000 cap on malpractice awards. The judge ruled that limiting the awards to the cap would have infringed on the plaintiffs' rights to a jury trial. . . .A New York bankruptcy judge last week approved the $730 million in total out-of-court settlements that **Manville Corp.** has reached with 27

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Excess insurers win suit over Shell defense costs

By ROBERT A. FINLAYSON

REDWOOD CITY, Calif.—Excess liability insurers do not have to contribute to the defense of Shell Oil Co. in Superfund litigation before the oil industry giant's primary coverage limits have been exhausted, a California Superior Court Judge ruled.

In a separate ruling, another San Mateo County Superior Court Judge, William Lanam, set an Oct. 12, 1987, trial date for the declaratory judgment action Shell filed against 270 insurers that provided the company with liability coverage from 1947 to 1983.

The 1983 lawsuit seeks a court order that would require the insurers to indemnify Shell for cleanup liabilities related to the Rocky Mountain Arsenal site in Colorado (*BI*, Nov. 7, 1983).

The federal government and the state of Colorado are suing Shell under the Superfund law—the Comprehensive Environmental Response, Compensation and Liability Act—for more than $1 billion in damages related to the cleanup of the Rocky Mountain Arsenal site (*BI*, Dec. 19, 1983).

In the defense cost litigation, Travelers Insurance Co. of Hartford, Conn., which provided primary liability coverage to Shell from 1948 through 1975, asked the court to require several Shell excess insurers to participate in Shell's defense of the underlying suit.

Travelers has already spent about $10 million on Shell's defense, according to Barry R. Ostranger of the New York law firm of Simpson, Thacher & Bartlett, which represents Travelers. "Travelers was seeking to accelerate the timetable in which excess carriers would participate in defense costs," he explained.

But San Mateo County Superior Court Judge Melvin Cohn ruled that under California law, excess insurers are not obligated to contribute to Shell's defense costs until the primary policy is exhausted.

"Before the excess insurers are involved, the primary policy has to be exhausted. That's my understanding of California law," Judge Cohn told *Business Insurance*.

Mr. Ostranger says that, in spite of the fact that the California court ruled against Travelers on the defense obligation issue, Travelers is looking forward to resolution of the Shell coverage suit.

"We're extremely optimistic that we're going to succeed in this case, which is one of the reasons we're anxious to go to trial."

Mr. Ostranger says Travelers has no intention of settling the lawsuit.

Generally, liability insurers maintain that coverage for Superfund cleanups and other non-sudden pollution liability is not provided under comprehensive general liability policies because insurers maintain that damage from such incidents was not accidental.

But CGL policyholders have prevailed in the majority of cases in which they have sued their insurers for coverage for Superfund cleanup liabilities.

However, Mr. Ostranger and other attorneys involved in such cases say that recently the courts have found in favor of insurers and denied coverage. This recent development is cause for optimism, he says.

"There are a lot of legal reasons why we think there may be no coverage here, including, but not limited to, the fact that there was nothing that would constitute an accident. Everything that was done was done purposefully and knowingly," he says.

Shell is being sued both by the federal government and the state of Colorado under Superfund to clean up the Rocky Mountain Arsenal, a 27-square-mile Army installation northeast of Denver.

The installation was used by the Army to manufacture and store chemical weapons, including nerve gas, starting in 1942. From 1947 until 1982, Shell and a predecessor company leased buildings at the arsenal to produce pesticides.

Estimates of the cleanup cost range from $1 billion to $2 billion.

The Army filed suit against Shell in 1983 to recover past and future costs of cleaning up the arsenal, but in November 1985 a federal district judge ruled that both Shell and the Army are liable for cleanup.

Shell's insurers had sought to move the coverage lawsuit to federal court in San Francisco, but that court granted Shell's motion to remand the suit to the state court in San Mateo County, Calif.

Shell attorneys could not be reached for comment. ■

Nomination deadline near for Risk Manager of Year

The deadline for returning completed 1987 Risk Manager of the Year nominations to *Business Insurance* has been extended to Dec. 1.

The award was created by *Business Insurance* to increase recognition of the risk management profession and to recognize outstanding performance in the practice of risk management.

In addition to the Risk Manager of the Year, as many as four candidates may be named to the Risk Management Honor Roll, designed to recognize risk management achievements in different types of employment categories.

Anyone who is in charge of the risk management function for any corporation, government entity, financial or not-for-profit institution is eligible for nomination.

A candidate may be nominated by anyone familiar with the risk management professional's work. Any employee or group of employees can nominate the organization's risk manager; a broker, consultant or other service provider can nominate a client; and a risk manager can nominate a colleague.

Nominations must be submitted according to the detailed instructions contained in a special nominating packet available from *Business Insurance*.

A panel of 10 independent judges will score the nominations.

The winners will be announced in the March 30 issue of *BI*.

If you want to nominate someone in your organization or another for the 1987 Risk Manager of the Year Award, please request a nominating packet immediately by calling *Business Insurance*, 312-649-5398.

Queen opens new building for Lloyd's

By STACY SHAPIRO

LONDON—Queen Elizabeth II says she hopes self-regulatory efforts by Lloyd's of London will continue, building on the successes of the Lloyd's Act of 1982.

Speaking last week at the official opening of the new Lloyd's building, the queen said: "Alongside its successes of recent years, the community of Lloyd's has been faced with some major problems. Part of the response to these was the Lloyd's Act of 1982, which conferred on the newly established Council of Lloyd's wide powers to regulate the market.

"From 1983 onwards, much time and effort has been spent in developing self-regulatory requirements. Steady progress has been made, and, I am sure, will continue to be made, towards a better-supervised market—a market which can now flourish in a room quite

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inside

- This week's Editorial applauds the advancement of risk management around the world and salutes those responsible, including the Risk & Insurance Management Society, Management Center Europe and international insurers and insurance brokerages. **PAGE 8**
- Alan M. Levin, a vp with Standard & Poor's Corp. in New York, advises in this week's Perspective that the insurance industry must learn from past pricing cycles, rather than attempt to insulate itself from inevitable future cycles. **PAGE 45**
- Recent changes at the Illinois Insurance Exchange include the withdrawal of Titan Holdings Syndicate Inc. to concentrate on its Texas market. Yet growth continues at the IIE with the approval of Erie Syndicate Inc. and the tentative approval of three new syndicates. **PAGE 82.**

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spotlight report

International markets

Fewer companies opting for global coverage plans

By DAVE LENCKUS

U.S. multinationals' domestic loss experience and shifting management philosophy are squeezing the viability out of global property/casualty insurance programs.

Although some U.S. multinationals still find global programs advantageous—most notably because of the uniformity of coverage they provide—multinationals generally can corral greater capacity for their exposures worldwide by arranging separate international and domestic programs, according to insurers, brokers, consultants and risk managers.

Otherwise, many U.S. multinationals find that their U.S. loss experience restricts the capacity available under a global program to the limits available for their U.S. exposures.

A global program covers both the domestic and the international exposures of a multinational under a single policy.

In addition, many U.S. multinationals are turning away from global programs because the companies are shifting toward a decentralized management approach, under which each profit center is responsible for obtaining its own insurance.

Meanwhile, several insurers are attempting to establish themselves—and apparently are meeting with some success, according to brokers—as real alternatives to the two leading multinational insurers: CIGNA Worldwide Inc., the international division of CIGNA Corp., and American International Underwriters, the international marketing arm of American International Group Inc.

"I don't think the global is a dying breed *ad infinitum*, but under the present market conditions, U.S. multinationals are better to separate their domestic coverage from their foreign; they can get better rates and conditions for their foreign exposures," observed Marnix L.K. Guillaume, president of Corroon & Black International in New York.

"The U.S. side is going to stymie the foreign side" under a global program, Mr. Guillaume noted. For example, Mr. Guillaume explained that if $100 million in coverage is available for a U.S. multinational's domestic exposures, that is all the coverage the company probably can obtain under a global program for both its domestic and foreign exposures.

Many brokers agree. "The domestic side is killing globals. It's to the point where you really don't want to link your foreign side to your domestic side," said Jerome Karter, vp and manager of the international department at Johnson & Higgins in New York.

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Savvy benefit managers seek network flexibility

By DONNA DiBLASE and JAMES M. BURCKE

Flexibility is the new buzzword among international employee benefit networks.

As multinational benefit managers increase their savvy, they are demanding more services from the networks of insurance companies through which they pool benefits for overseas employees, consultants and network officials explain.

And, these benefit managers are increasingly shopping the market to make sure their current network is giving them the best deal and the most flexibility possible.

In response, the networks are offering multinational employers new options to the networks' traditional structure to increase clients' cash flow and reduce their costs. For instance, the networks are:

- Allowing employers to adopt alternative pension funding vehicles, rather than forcing network clients to purchase insured pension products. In fact, one benefit network has contracted with a Swiss bank to expand its clients' pension funding alternatives.
- Increasingly offering clients administrative services-only programs, allowing the multinationals to self-fund their international benefit exposures much like they do in the United States.
- Allowing clients to reinsure coverage written by network insurers with the client's own captive insurer.
- Exploring the use of alternative health care delivery systems, like health maintenance organizations and preferred provider organizations, to help hold down health costs in nations were health coverage is not supplied through the government.
- Beefing up computer capabilities to more quickly pay dividends and deliver data to clients.

In short, flexibility is becoming the name of the network game.

"In general, there tends to be a trend toward more flexibility" among the international benefit networks, says Sam Bernstein, a consultant with Hewitt Associates in Lincolnshire, Ill. "That's a competitive requirement."

"Most networks are coming around to being a lot looser than they used to be," explains Richard Souders, vp and manager of international benefits at Johnson & Higgins in New York. "They're a little more flexible to clients."

The networks agree they have become more flexible in how they operate.

"Flexibility is really AIG's claim to fame," touts Christopher G.

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Risk management gets global flavor

East met West in Singapore when more than 210 delegates from 15 countries in the Asia/Pacific region, Europe and the United States gathered last month for four days to explore "The Risk Management Opportunity" during the Asia/Pacific Conference sponsored by the Risk & Insurance Management Society Inc.

Also last month, Management Center Europe sponsored its annual risk management conference, held this year in Salzburg, Austria. The meeting, attended primarily by Europeans, attracted more than 300 registrants.

The practical, theoretical and political aspects of risk management in individual countries and internationally were discussed and debated at both conferences.

Coverage of the RIMS Asia/Pacific Conference, by Editor Kathryn J. McIntyre, begins on page 56 and includes a report on the property/casualty insurance market in Singapore.

Coverage of the MCE risk management conference, by International Editor Stacy Shapiro, begins on page 73.



Regional dancers welcomed delegates to the RIMS Asia/Pacific Conference in Singapore during a reception sponsored by CIGNA Worldwide.

Photo: Kathryn J. McIntyre

Global plans

Continued from previous page

"Globals don't have a lot of chance to work, frankly, because underwriting is done differently for foreign exposures," he explained.

"From the moment you're looking at a global, whatever is available on the domestic side, you're looking at it being foisted on the foreign side, even though the foreign side may have quite different characteristics from the domestic," Mr. Karter said.

"From the moment you divide the foreign from the domestic, you're looking at a market for foreign that is providing reasonable coverage at reasonable retention levels—there's quite a difference," he noted.

That is the reason Burlington Industries Inc. of Greensboro, N.C., switched this year from a global program to separate domestic and international programs, said L. William Cleveland Jr., Burlington's director of risk management.

Burlington, which reported $3 billion in sales last year, has five operations overseas and several more in Canada and Mexico.

"Globals are something we have used in the past but not now. It was not our choice. The domestic markets did not have the capacity to meet our needs," Mr. Cleveland noted.

In addition to limiting an insurance buyer's limits, "U.S. risks get you a different form and experience," Mr. Guillaume noted, referring to some underwriters' insistence that any liability program including U.S. exposures be written on a claims-made form, while programs limited to international exposures can be written on occurrence forms.

Policy conditions for global programs generally have become more restrictive in the last year, said Claude F. Gallello, president of AIU's Global Division in New York. AIU has started using a claims-made liability policy for some global programs and may include other restrictions, such as an absolute pollution exclusion, Mr. Gallello said.

Underwriters of global programs generally impose two other major restrictions on a multinational that wants global coverage, according to Mr. Guillaume:

- "They must be able to assume a very large self-insured retention so they can get to the reinsurance market more readily."

SIRs for global range from at least $5 million to $10 million, Mr. Guillaume said.

- The multinational must have a limited product line. "Other products must tie closely into the main product line," he pointed out.

In addition to being able to obtain greater capacity for their exposures worldwide, many multinationals are abandoning global insurance programs because they are decentralizing their management structure, observers say.

"There is a growing management philosophy that each profit center should be more free-standing, with less involvement from corporate headquarters," noted Warren G. Brockmeier, vp with The Wyatt Co. in Chicago.

Observers say this shift in management style is being fueled in part by the growing trend among medium and large multinationals of selling or divesting divisions and subsidiaries.

"The division has its own insurance so it doesn't have to be greatly adjusted when it goes out of the corporate family," he noted.

"It's incredible," agreed Dennis J. Orio, marketing manager of Chubb Corp.'s international division, listing Beatrice Cos. Inc. of Chicago; Litton Industries Inc. of Beverly Hills, Calif.; and General Electric Co. of Fairfield, Conn., as examples. "So we're seeing a lot of midsized multinationals come on the market" as a result.

By arranging separate programs to cover U.S. and international exposures, a multinational may be able to arrange up to $100 million in coverage for U.S. exposures with gaps in coverage, yet "may be able to get $200 million no sweat" for its international exposures, Mr. Guillaume noted.

Brokers' estimates of the available international liability insurance capacity vary widely, with some saying capacity of $25 million to $50 million is available for even difficult risks, while others suggest capacity of $200 million to $250 million is available.

Generally, each insurer that writes global programs offers between $1 million and $5 million in limits for global casualty coverage and up to $40 million in limits for global property coverage.

Mr. Guillaume added that he expects capacity to increase 10% to 15% for U.S. liability risks. "But, if you want to take advantage of the small increase in capacity, this you will pay for," he noted.

"On the property side, I don't think there is the enormous capacity crunch as there was a year ago," Mr. Guillaume noted. "I believe you can get values up to the limits you need."

"Property capacity is available," agreed Hunter Long, a senior vp with Frank B. Hall & Co. Inc. of New York.

There are few capacity or rate problems for international exposures, according to brokers and insurers. But, multinationals may find either rate increases or capacity restrictions in Sweden, the United Kingdom and South Africa, brokers and insurers said.

"In Sweden, there is a slight increase in general in property and casualty rates that is inherent to Sweden," Corroon & Black's Mr. Guillaume noted. "There are only a few markets in Sweden writing, and they're starting to get burned.

"In the U.K., employers liability has gone up a bit—5% to 15%, depending on the industry," he said.

And, civil strife in South Africa has made obtaining property/casualty coverage there problematical, brokers and insurers said.

Worldwide, capacity has remained stable in most lines, but rates will continue to increase equally across the board, observers say. The exceptions are political risk, satellite and earthquake coverages, for which there is little capacity, according to observers.

U.S. multinationals should see far less drastic increases in liability rates for global and separate domestic and international programs in 1987, insurers and brokers said. Most brokers and insurers predict liability and property rate increases of 10% to 15%, though they pointed out that a multinational's loss experience could drive increases to 25%.

"I still see stability in rates," Mr. Karter of J&H predicted. "The international markets have been profitable, so that allows for maintenance of rate levels to a large extent. But, if there's a loss of treaty reinsurance, and facultative is needed to maintain a line, that's when prices go up."

"A lot of underwriting is being driven by reinsurance treaty capacity. That's down from last year, which means you are more reliant on facultative markets to fill in those gaps. The facultative markets are the only game in town, and they're charging a lot of money," Mr. Karter pointed out.

The most significant rate increases in the past year have hit the U.S. casualty component of global programs, said John E. Baney, senior vp of CIGNA Corp. and president of the insurer's In-

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As employees grow more gray, so does the issue of who will pay for their future health care.



Slowly but surely, America is growing older. And as our workforce also grows older, the issue of who will pay for an employee's health care needs after retirement becomes more complex.

Individual savings are seldom enough. Government programs like Social Security, Medicare and Medicaid are already strained. And, according to some estimates, companies who have health care benefit plans for retirees are currently facing up to 2 trillion dollars in unfunded future liabilities.

Clearly, new ideas are needed for solving the complex issue of health care for retirees.

At NWNL Group, we're working on a solution. It's a program called LifeScope.℠ It's designed to provide health and financial security for a person's working and retirement years by sharing financial responsibility among participating individuals, employers and health care providers.

LifeScope℠ will be implemented through traditional employee benefit channels. But its comprehensive approach to retirement care is unequalled in the history of employee benefits.

Obviously for an idea of this magnitude to succeed, it will require the help of government legislation, the participation of health care providers and the support of business in making LifeScope℠ available to employees.

NWNL Group invites each of these institutions to join us in shaping our plan. Contact Ginny Patrick, NWNL Group, Box 20, Minneapolis, MN 55440 or call 612-372-5784 for a detailed report on the problem and how we can solve it together.

Quite obviously, our task is enormous. But so is the need.

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Global plans

Continued from page 4
ternational and Broker Division. But property components also are seeing big rate hikes.

Rate increases of more than 100% have been common in the last year for the U.S. casualty portion of such programs, while the U.S. property exposures in many programs have carried rate increases of about 100%. Rate hikes on overseas exposures have been more modest, Mr. Baney said.

Multinationals also have had to assume higher self-insured retentions, although terms and conditions of global programs have not changed much this year, Mr. Baney noted. He said most of the tightening in conditions occurred in 1985.

There is at least one positive trend in global insurance, however, according to Joseph Wojdula, manager of corporate insurance for Motorola Inc. of Schaumburg, Ill.

"There is more recognition of highly protected risks," he observed. "Many Motorola facilities are capital-intensive—there's so much plant and equipment that we need recognition for well-maintained plants and facilities."

Motorola, which reported $5.4 billion in sales last year, purchases insurance locally in each of the 25 countries where it has facilities, according to Mr. Wojdula, who would not comment on Motorola's insurance program.

As an example of the growing acceptance of the HPR concept internationally, Kemper International Insurance Co. in March became the first licensed company in Japan to offer a commercial HPR property insurance program (see story, page 18).

Despite the drawbacks to global programs that some observers see, some multinationals still find that global programs make sense.

"We certainly have a number of multinationals that have global cover," noted Robert J. Solomon, a managing director and head of the international risk management group at Marsh & McLennan Cos. Inc. in New York.

"But, obviously, the global concept has been affected by the market cycle," conceded Frank Gundersen, a managing director in M&M's international risk management group.

"The interest peaked three years ago, but the concept is still there," Mr. Gundersen said.

"You see more variations now," Mr. Solomon noted. For example, a global program may involve more than one underwriter today to cover a multinational's earthquake exposures in California and Japan, he said.

Mr. Gundersen said M&M has placed global coverage for policyholders engaged in heavy and light industrial activity. The percentage of those policyholders' total exposures overseas ranges from 10% to 90%, he said.

Monsanto Co. of St. Louis, which generates approximately one-third of its $7 billion of annual sales in 64 countries outside of the United States, insures all of its major exposures—including property, business interruption, general liability and product shipments—under a global program, according to Robert E. Toth, director of risk management.

Mr. Toth said Monsanto switched to global coverage for its property exposures in 1981 from separate domestic and international property programs because the global programs provide Monsanto uniformity of coverage and economies of scale. Monsanto always has covered its casualty exposures under a global program, he noted.

Mr. Toth said the company had "no problem" obtaining the limits it sought for global property coverage, which is brokered by M&M and written by Lloyd's of London syndicates and Industrial Risk Insurers of Hartford, Conn.

"I would be surprised if it presented a problem for any manufacturing company," he said.

Mr. Toth would not disclose the limits of Monsanto's coverage.

Monsanto encountered some problems filling out its casualty program, but ultimately has "been able to offset that shortage by use of things such as M&M's A.C.E facility," he said.

A.C.E. Insurance Co. Ltd. is a Cayman-incorporated excess casualty facility developed by M&M that was formed to provide limits of $100 million excess of $100 million.

H.S. Weavers (Underwriting) Agencies Ltd. writes Monsanto's global primary casualty program, which is brokered by Thomas E. Seras Inc. in Boston, according to Mr. Toth.

Some multinationals use global programs only for their worldwide property exposures, observers noted.

"One sees more requests for globals on property," said Thomas Hite, general manager of the international division of Zurich-American Insurance Cos. in Schaumburg, Ill.

Mr. Hite said that global business interruption coverage is ideal for small multinationals with few overseas exposures.

For example, if only a few overseas plants are involved in manufacturing a small multinational's product, the product supply could be severely reduced if one of those overseas plants were damaged or destroyed. With global coverage, the parent company is indemnified for such a loss, he noted.

Brokers agree that CIGNA and AIU are the two leading multinational insurers, but they say several insurers are developing as viable global and international underwriters.

The brokers named Chubb Corp., Continental Insurance Co., Kemper International Insurance Co., Royal Insurance Co. of America, Travelers Corp. and Zurich-American Insurance Cos.

Several brokers particularly noted Continental's efforts. "Continental has been making a lot of headway and has been throwing a lot of resources into that area," Mr. Karter of J&H noted.

However, Mr. Guillaume said he believes that Chubb and Continental are more specialized markets. "Chubb is very strong in computers and EDP and large personal lines," he said. Chubb officials do note that they target companies in the electronics industry.

Regarding Continental, Mr. Guillaume said, "They know their business in hotel chains."

Although insurers are having various degrees of success writing global accounts for U.S. multinationals, global accounts are becoming increasingly popular with foreign-based multinationals, according to brokers and insurers.

"We see a real growth of business in that area, especially on the Japanese side," M&M's Mr. Solomon said.

"I think more and more developed and developing countries see their potential marketplace as not just their own borders but as every place they think they can cost-effectively sell an attractive, quality product. So, with that kind of global perspective by the people who generate the insurance premiums, I think that the future holds well for insurers who are going to develop that same kind of international perspective," said Theodore J. Hoeh, a senior vp with Kemper International Insurance Co.

●

Profiles of leading international property/casualty insurers begin on page 7 and continue through page 28.



New business, rate hikes fuel AIU growth

By DOUGLAS McLEOD

NEW YORK—New business and rising property/casualty rates are producing significant growth for the global division of American International Underwriters, the international marketing arm of American International Group Inc.

The global division—which produced more than $100 million in gross premiums last year—has already recorded a 35% increase in volume this year and expects this to continue in 1987, said Claude F. Gallello, the division's president.

The global division—writing monoline and multiline packages covering the U.S. and foreign exposures of multinational corporations—accounts for a relatively small portion of AIG's overall foreign business. Other sources include:

- Multinational accounts—known as "B accounts"—for which AIU may write a coordinated worldwide package covering a client's foreign risks, but excluding any U.S. exposures. These accounts are underwritten through AIU's North American division.
- Indigenous foreign accounts, representing the local foreign risks of overseas clients, which produce the bulk of AIG's foreign premiums. Overall, AIG recorded $2.73 billion in foreign gross premiums last year, up 7.9% from $2.53 billion in 1984.

Foreign property/casualty business produced $1.78 billion in gross premiums last year, up 5.2% from $1.7 billion in 1984. Foreign life business, meanwhile, produced gross premiums of $946.8 million in 1985, up 13.9% from $830.9 million the previous year.

In total, foreign property/casualty premiums accounted for 65.3% of AIG's total foreign business in 1985, while foreign life premiums accounted for 34.7%.

AIG—the perennial leader in international insurance—last year remained ahead of CIGNA Worldwide, the product of the 1984 merger of CIGNA Corp.'s international operations and AFIA Worldwide Insurance (see story, page 10). CIGNA Worldwide produced foreign gross property/casualty and life premiums of $1.87 billion last year, up 12% from $1.67 billion in 1984. The CIGNA Worldwide figures, however, exclude foreign reinsurance premiums, while the AIG figures include some reinsurance business.

Premium reported by AIG's foreign general division does not include premiums generated by the U.S. exposures of multinational corporations, which are included instead in the insurer's domestic premium volume figures.

AIG's foreign general division—operating through AIU—consists of several geographic divisions, which in turn are subdivided into profit centers by line of insurance.

Geographic divisions include North American, which handles the foreign exposures of U.S.—based companies; global; European; Africa/Middle East; Far East/Southeast Asia; Latin American; and the Socialist Countries division, which operates joint ventures with state-owned insurers in such countries as the Soviet Union, Poland, Romania, Hungary and the Peoples Republic of China.

Among other developments, AIU:

- Expanded into Norway through its European division, following the licensing in that country of New Hampshire Insurance Co., an AIG subsidiary (*BI*, Sept. 30, 1985).
- Expanded into Portugal with the licensing earlier this year of American Home Assurance Co., another AIG unit.
- Dismantled its Brussels, Belgium-based European Multinational Unit, which was created last year to develop European multinational accounts, according to AIG's annual report.

AIU decided that production of such accounts would be better handled through the company's various European offices, Mr. Gallello said.

- Began operating in the west African nation of Cameroon through Cameroon American Insurance Co. S.A., a joint venture with local investors.
- Formed AIG Marketing Services Pty. in Australia to sell insurance products to financial institutions and their customers.

The foreign property/casualty division operates in more than 130 countries through more than 300 underwriting and claims offices.

While generating $1.78 billion in gross premiums last year, the foreign property/casualty division reported a 19.2% increase in net premiums to $986.3 million in 1985 from $827.5 million in 1984.

The increase in gross volume came in spite of the strengthening of the U.S. dollar against foreign currencies, which did not reverse itself until the last quarter of 1985, according to AIG's annual report.

As premium volume increased, the division's results improved. The combined ratio on AIG's foreign property/casualty business fell to 98.65% last year from 102.08% in 1984. The loss ratio dropped to 66.6% last year from 70.73% in 1984, while the expense ratio climbed slightly to 32.05% from 31.35% in 1984.

Volume in the global division is up, because of both a significant amount of new business and rising rates, Mr. Gallello said. The division has written "substantially more" property business since the beginning of 1985, he added, pointing to the fact that property's share of global division gross premiums has held steady despite rapidly rising casualty rates.

About 60% of the global division's volume is derived from casualty risks, between 30% and 35% from property and the remainder from other lines such as marine and crime risks, he said.

While global accounts may be monoline programs, the division "prefers" multiline packages, Mr. Gallello added, noting that between 50% and 60% of the division's accounts are multiline casualty and property programs.

Limits on the programs vary, but a typical package may include a $1 million limit for primary casualty risks, he said, adding that the division prefers not to write excess casualty coverages.

Limits on property coverages may range as high as $30 million to $40 million, but more typically are in the $10 million to $20 million range, he said.

These limits have fallen since the beginning of 1985 because of the tightening of the treaty and facultative reinsurance markets, he said.

Continued on page 10



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opinions

Worldwide awareness

THE GROWTH OF risk management around the world is nothing short of exciting, even if it is taking longer to develop everywhere than is ideal.

The Risk & Insurance Management Society in New York and its members deserve a lot of credit for the progress made to date.

So does Management Center Europe in Brussels, Belgium.

And so do international insurance companies and international insurance brokerages.

Both RIMS and MCE foster the development of risk management around the world by sponsoring conferences that bring together risk management and insurance professionals to exchange ideas and teach other new techniques.

RIMS members contribute considerable time to international conferences, as planners, speakers and moderators.

International insurers and brokers help these organizations, sending their executives and experts thousands of miles to these meetings to share their expertise. And, day-in and day-out from their offices around the world, these organizations advance risk management principles with their clients, at the direction of their multinational clients and on their own.

Sometimes it's slow going and even a little frustrating, but breakthroughs compensate for earlier setbacks.

Last month was a hallmark in the international development of risk management. RIMS and MCE sponsored conferences in two separate parts of the world that together assembled more than 500 people interested in the advancement of risk management.

In Singapore, halfway around the world from RIMS' New York headquarters, the world's largest organization of risk managers orchestrated a truly international conference that dealt with the practical, theoretical and political aspects of risk management. The more than 210 attendees hailed from 15 different countries—from North America to Europe to the Asia/Pacific region.

And while RIMS orchestrated the conference and RIMS members shared their expertise from podiums, the attendees took over, sharing their similar problems in preventing injury to their employees and damage to their property, buying adequate and fairly priced insurance coverage and coping with unfair and counterproductive government intervention.

These topics also dominated the MCE Risk Management Conference in Salzburg, Austria. The conference attracted more than 300 delegates from France, the Netherlands, Scandinavia, Austria, West Germany, the United Kingdom and Italy. The sessions were conducted in several languages—English, French and German—with excellent translations.

MCE is the European headquarters of the American Management Assn./International, a non-profit membership-based organization committed to improving the management performance throughout Europe, the Middle East and beyond.

The level of risk management expertise around the world is advancing rapidly, and its pace of growth will accelerate.

Particularly encouraging is the study on the application of risk management principles in developing countries conducted by the Center for Risk Management and Insurance Research at Georgia State University and submitted to the secretariat of a unit of the United Nations (see story, page 56).

This study, if presented to the governments of nations around the world as is hoped, will raise the risk management consciousness of governments, insurers and businesses worldwide and guide them in improving the application of risk management principles.

Already, risk management around the world is better understood and goals are set higher following the meetings last month in Singapore and Salzburg. These meetings opened channels of communication that provide for the transfer of risk management technology and talent.

RIMS is co-sponsoring another international risk management conference in Monte Carlo next October, in partnership with Assn. Europeenne des Assures de L'Industrie. It will be fourth conference sponsored by the two risk management organizations.

Business Insurance intends to do its part in opening and maintaining international channels of communication by committing additional staff and appointing correspondents in various countries to report on worldwide risk management and commercial insurance developments.

No one questions that insurance and reinsurance are international businesses. It's also time to leave no doubt that risk management principles and professionalism know no national boundaries to create a safer and more prosperous world for everyone.

letters

Brokers and agents share blame for market crisis

To the editor: It's about time for insurance brokers and agents to own up to their responsibilities as provocateurs in the insurance marketplace.

Certainly the insurers suffered when they, knowingly or innocently, were victimized by underpricing and poor underwriting. Policyholders also benefited and then suffered accordingly.

The legal system, the accounting profession and the actuaries were, and still are, part of the story.

However, the buyers and the sellers relied, to a great degree, upon we middlemen—the producers—to establish the underwriting data, loss history and other necessary information to introduce and maintain the insurer-policyholder relationships that led to the current market chaos. Information-gathering is rarely objective.

It was, and still is, the producer who sets the stage by assembling information for the insurer review. The producer essentially presents the buyer's case and very well may color it to find the lowest price for the coverage.

As the press, the public, the regulators and the legislators review the market performance during soft and hard markets, they may very well seek out scapegoats for blame.

Yet the producer is rarely held answerable for his/her contributions to the financial debacles that result from lack of sound and honest information.

If producers truly want to bring order out of the chaos, they must assume and accept responsibility to bring about a mutually beneficial (and profitable) relationship for both buyers and sellers. They must not color information.

They must assemble *all* the relevant underwriting data and they must forthrightly represent both parties in the transaction.

During the soft market, producers advantaged their clients by permitting the other party, the insurer, to charge prices that inevitably led to losses. What heroes they were!!! Wasn't it wonderful that they could place coverage at such low prices!!!

Now comes the hard market. The insurers "woke up." The losses mounted. The system failed. Lawyers, actuaries and buyers were all blamed. Providers said, "We'll fix it. We'll get you covered. Prices are higher. We'll form offshore and onshore vehicles to replace those that 'disappeared.' Our incomes will skyrocket—we're just doing our job better than we did during the soft market. Greed and avarice have nothing to do with our efforts."

I. David Gordon
President
EPT Enterprises Inc.
New York

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AIU volume grows

Continued from page 7

Self-insured retentions on global programs also increased as the market tightened, Mr. Gallello said, noting that the global division now may look for SIRs of $100,000 or more on property coverages and $250,000 on casualty coverages. These may be retained by a captive insurer, he observed.

The global division had targeted foreign-based multinationals for growth, and the share of the division's volume produced by these corporations has increased since last year.

Foreign multinationals with U.S. operations now account for about 26% of the global division's business, while U.S.-based multinationals account for 74%, Mr. Gallello said. In all, the global division has fewer than 100 accounts, each producing an average of $1.5 million in annual gross premiums, he said.

Meanwhile, packages covering only the foreign exposures of U.S. corporations are written by AIU's North American division. These multinational "B account" risks are typically issued a master policy covering the property and casualty exposures of the company's foreign operations, according to Peter J. Haller, senior vp in the North American division.

In addition to the broad coverage provided by the master policy, AIU may issue policies covering individual overseas risks through locally admitted AIU affiliate insurers.

About 60% of the North American division's business is "B account" business, according to Mr. Haller, who said the division produces $300 million to $400 million in annual gross premiums.

The North American division has seen no change in the limits or policy conditions available to "B account" risks in the last year, according to Mr. Haller.

Rates on foreign exposures have not increased to the same extent they have for U.S. risks, he added.

Mr. Haller said he has seen "signs of more capacity and competition coming back" on "B account" business.

The rest of the $1.78 billion in gross premiums written by the foreign general division last year came from policies covering foreign risks of overseas policyholders.

Gross premiums in the foreign general division last year accounted for 25.6% of AIG's total property/casualty gross premium volume of $6.98 billion.

Other AIG affiliates providing insurance services to multinational corporations include: AIG Risk Management Inc. and North American Managers Inc.

AIG has a total of about 26,750 employees, about 14,590 of whom are based outside the United States. ■

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AIDS In The Work Force:

The costly implications for employee benefit plans.

There is disturbing evidence that AIDS is spreading to the American populace from a base formerly confined to high risk individuals. The National Center for Disease Control estimates the U.S. will experience 270,000 cases by 1991. This contrasts with 27,000 cases diagnosed to date. (The fatality rate—in the absence of an effective vaccine—is 100 percent.)

Employers must examine seriously—and soon—the potential impact of AIDS on overall employee benefit program expense. While there is controversy concerning the medical cost of treating an AIDS victim, it is undeniably expensive. J&H projects the typical per-case financial impact on all benefit plans, including medical, disability and life insurance, could average $150,000 for an employee earning $25,000 per year and $250,000 for someone earning $75,000.

If AIDS enters the experience of previously unaffected plans, employer costs would escalate dramatically. A J&H projection estimates a cost of $14 billion to employers over the next five years if the average case costs $100,000.

Some important issues for study:

- Most health benefit plans offer hospital treatment only and do not contain hospice or home health care provisions. Many health professionals feel the latter are more appropriate for AIDS cases, as well as less costly. Medical case-management programs also may deliver more appropriate treatment at lower cost.
- Group term-life programs should be assessed to determine if full employer coverage should be maintained or if some risk should be transferred to employees through vehicles such as group universal life insurance.
- Self-insured arrangements must be reevaluated with an eye toward preventing catastrophic claims that could cause program insolvency.

Despite the emergence of some promising AIDS treatments, no cure is in sight, according to Surgeon General Dr. C. Everett Koop. He also says that a vaccine probably will not be available before the end of the century. Employers therefore might consider making a serious long-term financial commitment to help accelerate AIDS research in the public and private sectors.

For more information, call your J&H office, or call Brian Harrigan or Nancy Jones at 617-742-5300.

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CIGNA aims to improve service to multinationals

By DOUGLAS McLEOD

PHILADELPHIA—CIGNA Corp. expects that a recent realignment of its multinational property/casualty operations will improve service to corporate policyholders.

The realignment of CIGNA's International and Broker Division is intended to make it easier for U.S.-based multinationals to arrange global coverage of U.S. and overseas exposures through CIGNA, according to John E. Baney, the division's president.

The International and Broker Division was formed in April 1985 to combine CIGNA's international operations with its broker division, which—among other things—handled U.S. exposures of multinational corporations.

The division includes:

- CIGNA Worldwide, the international arm of CIGNA formed after the 1984 acquisition of AFIA Worldwide Insurance and the 1983 acquisitions of U.K.-based Crusader Insurance P.L.C. and the Brazilian operations of Kemper Group.
- CIGNA Special Risk, which handled the U.S. risks of multinational companies.
- CIGNA's excess and surplus lines insurance operations.

Earlier this month, however, CIGNA—after a review of the merged International and Broker Division—announced a further realignment of the operation.

Under the new alignment, CIGNA Worldwide's U.S.-area operation—which handled the foreign risks of U.S. multinationals—will become part of the Special Risk unit.

U.S. multinationals will now have to deal only with the Special Risk unit for coverage of both U.S. and overseas operations, Mr. Baney explained.

Before the realignment, U.S. corporations had to go to the Special Risk unit for coverage of their U.S. exposures and to CIGNA Worldwide for coverage of overseas operations. Multinational policyholders thus had to deal with two sets of CIGNA underwriters, and this division of responsibility created problems for CIGNA in marketing its international capabilities, Mr. Baney said.

"It slowed the process, and I don't think it provided good underwriting," he observed.

Meanwhile, a "reverse-flow" unit of the Special Risk unit—which handles the U.S. exposures of foreign multinational companies—will be transferred to CIGNA Worldwide.

Thus, foreign multinationals will have to deal only with CIGNA Worldwide for coverage of their global operations, including those in the United States.

The realignment means that CIGNA "will be better positioned to develop and execute a clear multinational strategy," Mr. Baney said in a memo to CIGNA property and casualty group managers.

"We think this makes us easier to deal with," he said.

Other developments during 1985 include:

- Increases in the share of CIGNA Worldwide gross premiums produced in Canada, Europe, the United Kingdom, Latin America, Australia and New Zealand, and slight declines in the share of premiums produced in other parts of the world.
- An increase in the property insurance share of CIGNA Worldwide's net earned premiums and a decline in the shares produced by casualty and other lines.
- The continuing integration of former AFIA operations into CIGNA Worldwide. This included the consolidation of several AFIA insurance companies in Europe into a single CIGNA company and the continued trimming of redundant staff positions.
- Expansion of a computer system for handling premium and claims information and accounting functions. The system—known as Meridian—is expected to be in use for half of CIGNA Worldwide's book of business by year-end.

CIGNA Worldwide last year reported $1.87 billion in gross written property/casualty and life insurance premiums, an increase of 12.2% over the $1.67 billion pro-

Continued on page 12



Remember when we switched to our new claim system?

...and the guy swore it'd handle any benefits plan on-line?

...promised it'd consolidate management reports?

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CIGNA Worldwide

Continued from page 10
duced in 1984.

These figures predate the recent reorganization of the International and Broker division and do not include Special Risk premiums generated by the U.S. exposures of multinational corporations.

Mr. Baney said with the reorganization, CIGNA Worldwide gross premiums will probably decline as Special Risk assumes sole responsibility for all U.S. multinational coverages.

Some-but not all—of the premium drain will be made up by CIGNA Worldwide's assumption of responsibility for reverse-flow business, Mr. Baney said.

CIGNA Worldwide's 1985 gross premium figure also excludes international reinsurance premium volume.

Of 1985's total gross premiums of $1.87 billion, property/casualty coverages generated $1.73 billion, up 12.3% from $1.54 billion in 1984.

Property/casualty net written premiums increased 18.5% to $948.9 million last year from $800.7 million in 1984.

As volume expanded, CIGNA Worldwide's experience deteriorated slightly, mainly because of an increase in expenses. The combined ratio on the property/casualty business last year was 111.8%, compared with 109.8% in 1984. The loss ratio rose slightly to 72.4% last year from 72.2% the previous year, while the expense ratio hit 39.4% compared with 37.6% in 1984.

Life insurance premiums, meanwhile, increased 12% to $143.1 million from $127.7 million in 1984.

While the bulk of CIGNA Worldwide's business continues to come from local foreign policyholders, the share of gross premiums generated by multinational risks has increased.

U.S. and foreign multinationals currently account for about 14% of CIGNA Worldwide's gross volume last year, compared with 11% in 1984, according to Mr. Baney. In 1983, the multinationals' share had been only 6%.

Growth in the multinational segment has come both from the development of new clients and—especially for U.S multinationals—increases in property/casualty rates, Mr. Baney said.

CIGNA Worldwide's clients are primarily U.S.-based multinationals, though Europe, Japan and Canada are also prime sources of additional business, he said.

CIGNA global programs written for U.S.-based companies tend to combine property and casualty lines, while those written for foreign-based companies tend to emphasize property over casualty coverages, he added.

Last year, CIGNA Worldwide reported having maximum gross capacity per risk of $80 million on property business and $10 million on casualty business.

Mr. Baney would not provide current capacity figures, but said that property capacity has been reduced while casualty capacity has expanded.

The multinationals' share of CIGNA Worldwide premiums will increase in 1987 and beyond as more companies expand their operations, Mr. Baney said.

"More and more U.S. companies are going to start doing business overseas," he predicted. At the same time, he added, "we have already seen significant growth of overseas companies doing business in the U.S."

Europe, Canada and Latin America produced larger shares of CIGNA Worldwide's total premiums last year.

The United Kingdom accounted for 30.5% of CIGNA Worldwide's gross written premiums last year, compared with 29.2% in 1984, while continental Europe accounted for 19.3% last year, compared with 17.6% in 1984.

Latin American countries produced 4.5% of 1985 gross premiums, up from 4% in 1984, while Canada produced 4.3%, up from 3.2% in 1984.

Australia and New Zealand also gained in their share of total volume, producing 7.6% of total premiums last year, up marginally from 7.5% in 1984.

Two other areas reported no change in their share of overall premiums from 1984 to 1985: the Middle East and Africa accounted for 1.9% in both years and South Africa 1.8%.

Other areas registered declines. Japan and Korea accounted for 8.8% of 1985 gross premiums, down from 10.2% in 1984; Southeast Asia accounted for 3% last year, down from 3.5% in 1984; the Caribbean produced 2.9%, down from 4.7% in 1984; and the United States accounted for 15.4%, down from 16.4% in 1984.

More and more U.S. companies are going to start doing business overseas,' predicts Mr. Baney.

Meanwhile, the mix of CIGNA Worldwide's business by product line shifted slightly toward property risks.

Property net earned premiums accounted for 29.6% of total earned premiums and life insurance revenues of $1.16 billion in 1985. In 1984, property risks accounted for 24.5% of net earned premiums and life revenues of $978.3 million.

Casualty net earned premiums, meanwhile, dropped to 27.4% of the total in 1985 from 29.6% of the total in 1984. Marine and aviation risks produced 14.5% of net earned premiums last year, down from 15.6% of 1984's total, while accident and health premiums accounted for 10.6% of the total in 1985, down from 11.7% of the total in 1984.

Life insurance revenues—including net earned premiums and investment income—accounted for 17.9% of the total in 1985, down from 18.6% of the total in 1984.

CIGNA Worldwide continued last year to integrate the operations of AFIA, which it acquired from AFIA's other insurance company shareholders in 1984.

While these integration efforts involved a number of different operations around the world, the largest and most complex was the consolidation of several AFIA insurers in Europe into a single entity, according to Mr. Baney.

CIGNA Worldwide recapitalized a small Belgium-based AFIA insurance company licensed in nine European countries and renamed it CIGNA Insurance Co. of Europe S.A.-N.V.

CIGNA of Europe then assumed loss portfolio transfers from three or four other AFIA insurers, which have since become inactive. This has left the newly recapitalized CIGNA company the predominant insurer for CIGNA's European operations, Mr. Baney explained.

Meanwhile, CIGNA Worldwide has further reduced its staff by eliminating positions that have become redundant since the AFIA acquisition. CIGNA Worldwide now has a total staff of about 6,500, down from about 6,800 a year ago. At the time of the AFIA acquisition, CIGNA and AFIA combined had a total of 8,500 employees.

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Zurich to target smaller multinationals

By DAVE LENCKUS

SCHAUMBURG, Ill.—Following the success of its year-old international gap coverage product, Zurich-American Insurance Cos. is considering developing a global program for small- to medium-sized multinational companies.

If Zurich develops the global program, it would target smaller multinationals, because the insurer sees little demand from large U.S. multinationals for global products, noted Thomas Hite, general manager of Zurich's international division.

"Globals make more sense on smaller accounts than on larger ones," Mr. Hite said.

For example, business interruption is a far more significant exposure for smaller multinationals with few overseas plants than it is for large multinationals that have several overseas operations because the loss of a single plant could cripple a smaller company's product supply, he explained.

A similar loss for a large multinational probably would not affect its product supply significantly, Mr. Hite said.

"The interdependency is more acute for smaller accounts," Mr. Hite explained. "Larger accounts' plants are more self-contained."

Zurich is still ironing out the details of the global program and has not determined the exact size of a multinational for which the product will be designed.

"Maybe a company that has operations in three or four countries," Mr. Hite noted.

The plan probably would offer up to $5 million of limits for liability exposures, Mr. Hite said. He was not sure what property limits Zurich would write under the plan.

Besides targeting the product to smaller multinationals, Zurich also is considering marketing it to specific industries, such as the electronics industry.

Zurich's new international product, which fills gaps in umbrella liability coverages of foreign exposures, "sold very well" this year, he said, noting that approximately 20 companies bought the coverage. Zurich developed the coverage late last year following indications from umbrella underwriters that they would seek higher attachment points over insurance buyers' underlying coverage for foreign exposures than for domestic exposures. Zurich expected that gaps in buyers' foreign umbrella liability coverages would result—and they did.

"It was just another contraction of coverage," observed Mr. Hite, referring to the umbrella underwriters' tactic.

Zurich's umbrella product provides up to $5 million of coverage excess of $1 million of underlying foreign coverage or its equivalent.

While Zurich's gap-filling umbrella product covers only foreign exposures, it also responds if a non-U.S. claimant files suit against a policyholder in a U.S. jurisdiction.

Mr. Hite noted that Zurich does not plan any changes in the product, which it generally writes on an occurrence basis.

Zurich has only one global account, which Mr. Hite described as a "small casualty program." In contrast, Zurich has 30 reverse-flow accounts, which are foreign-based multinationals. Like several insurers, Zurich writes far more home-foreign, foreign-only and reverse-flow business.

Although Mr. Hite declined to release any figures, he said that Zurich nearly doubled its reverse-flow premiums in 1985, compared with figures reported in 1984. Last year, *BI* reported that Zurich wrote approximately $43 million in reverse-flow business in 1984 (*BI*, Oct. 21, 1985).

But, while Zurich in 1985 nearly quadrupled the premiums it generated from covering the international exposures of U.S. multinationals compared with 1984 results, those premiums were only a fraction of its reverse-flow business, according to Mr. Hite. Last year, *BI* reported that Zurich wrote $4 million of international business in 1984.

Mr. Hite attributes the disparity between the insurer's reverse-flow business and home-foreign business to the insurer's relative recent entry into the home-foreign arena. Zurich-American only began covering foreign exposures of U.S. multinationals in 1984.

Mr. Hite estimated that Zurich-American's reverse-flow and home-foreign business combined will exceed $100 million in 1986.

And, he estimated that reverse-flow and home-foreign business combined will increase an additional 20% in 1987.

Part of the increase in premium volume in 1985 was due to rate hikes, and rates increased even more significantly for the one global coverage program it wrote this year. However, Mr. Hite said he does not expect measureable rate increases in 1987.

Rates for home-foreign coverage increased approximately 20% in 1986, but increases varied by class of business and risk. Rates for reverse-flow business jumped 30% to 35%, also depending on the class of business and the exposure.

Mr. Hite said he expects only single-digit rate increases for most property and casualty home-foreign coverage in 1987. However, insurance buyers with greater exposures—including chemical and machinery manufacturers—probably will see 10% to 15% rate increases. Mr. Hite noted that rate increases probably will be greater earlier in the year.

"It depends on the class of business, but we don't see much of an increase," he noted.

Zurich covers the international exposures for a broad class of business, including such "difficult industries" as chemical producers, pharmaceutical companies and heavy machinery manufacturers, according to Mr. Hite.

Generally, the insurer does not impose restrictions such as requiring a minimum premium or self-insured retention, Mr. Hite said.

The available capacity for the foreign casualty exposures of U.S. multinationals generally is $5 million. But Mr. Hite pointed out that Zurich-American is considering increasing capacity for those exposures to $10 million next year, if it can arrange reinsurance support.

"Capacity in the States seems to be expanding somewhat," he observed.

Capacity for property exposures "varies a lot," depending on the risk, Mr. Hite said. Zurich-American will write up to $40 million for "the best risk" property risks, according to Mr. Hite. ■



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FMI counts on U.S. firms for multinational profits

By ROBERT A. FINLAYSON

BOSTON—Factory Mutual International sees tremendous opportunity for growth in the efforts of U.S. multinationals to beef up overseas operations in response to rising U.S. labor costs and increasing foreign competition.

"U.S. industry is again investing heavily overseas," explains Ken Davey, assistant vp with Arkwright-Boston Manufacturers Mutual Insurance Co., one of the three Factory Mutual system companies that share ownership of FMI.

"And, as these overseas operations become strategically more important to the overall profitability of an organization, the risk managers are realizing that they have to be very much involved in the construction, protection and insurance of those risks," Mr. Davey says.

As a result, Mr. Davey says FMI is targeting very large U.S. companies as potential clients for its property insurance coverages. "They're starting to see that FMI is a very viable alternative, and that's showing up in our very successful writings," he maintains.

FMI wrote 53 million pounds ($77 million) in gross premium for the first 10 months of 1986. In 1985, FMI wrote 48 million pounds ($70 million) in gross premium.

Mr. Davey says the increase is partly the result of some price hikes, but is largely due to an increase in multinational accounts.

For example, Mr. Davey says, Arkwright-Boston was "very successful at putting together some fairly complicated multinational programs for U.S. and other clients, and that's reflected in the (FMI) increase."

He foresees a similar increase in premium volume for 1987.

Agreeing with other experts, Mr. Davey expects the Far East and South America to be the hottest areas of new growth for international insurance. To meet this demand, FMI has expanded its offices in Japan and Brazil.

Mr. Davey says he also expects continued growth in Europe, "but we're already staffed up there."

One of the reasons for FMI's continuing growth is that Arkwright-Boston is placing more emphasis on international business, according to Mr. Davey.

"The U.S. is a fairly mature market. Overseas, the Arkwright approach of the highly protected risk is not that mature. We see a lot of opportunity in the international market," he says.

FMI's main marketing thrust is to provide high-quality risk management and loss-prevention services for its international clients.

"Everybody knows they can buy worldwide insurance; it's just a matter of price and cover," Mr. Davey says. "We can provide the global insurance and global service. The difference to a risk manager is he's looking for the same standard and quality of loss prevention consultancy service worldwide that he gets in the U.S."

Capacity has been relatively stable for the highly protected risk class of property business that FMI writes, Mr. Davey says.

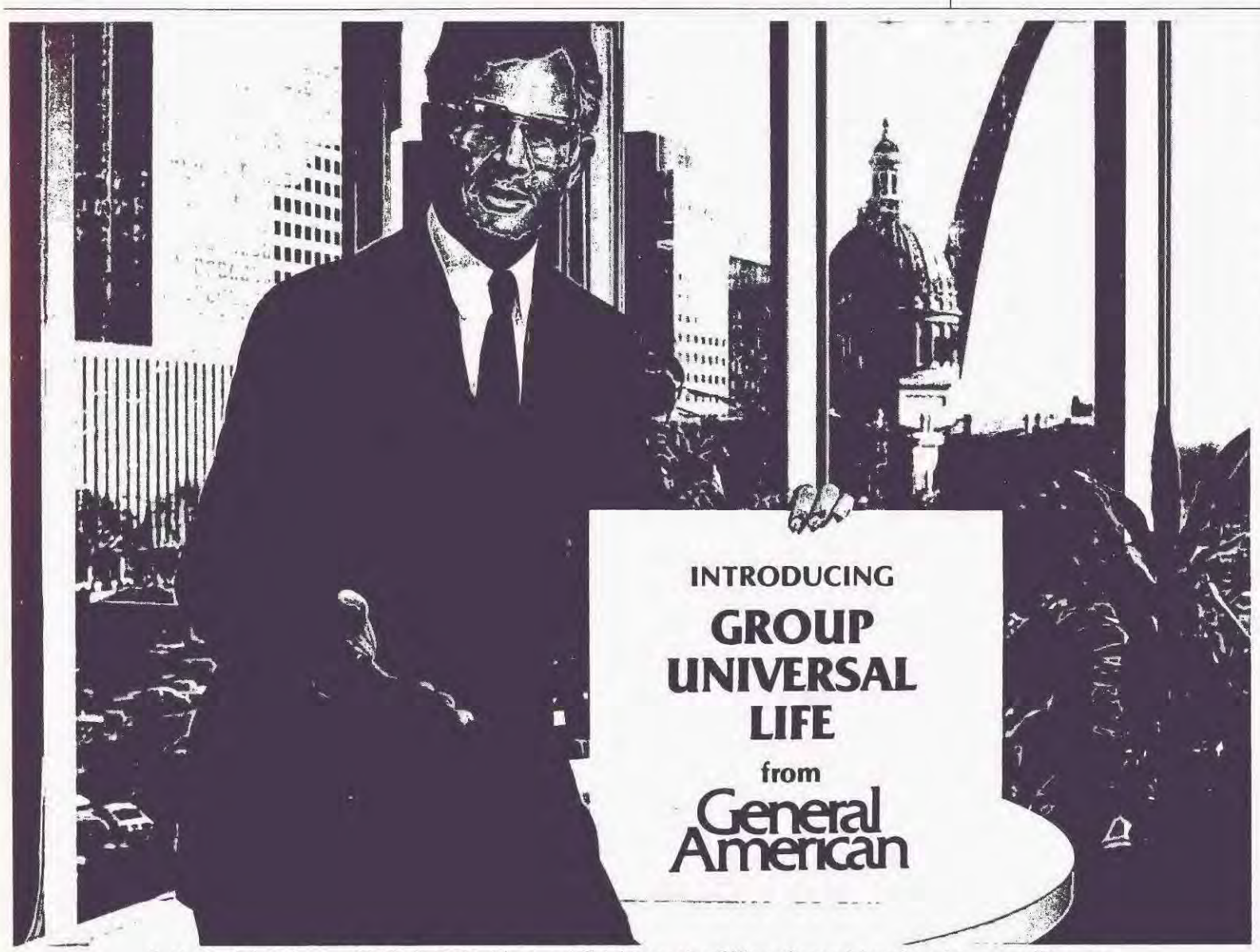
For example, Arkwright-Boston can write $80 million of coverage in-house on a Class A risk, he says. But, he adds, capacity can be a problem for risks that do not meet the HPR standard.

About 65% of FMI's business is from U.S. or Canadian companies with overseas facilities, while about 35% comes from indigenous foreign clients, Mr. Davey says.

Loss ratios for FMI's business were not available. But, Mr. Davey says he is satisfied with the performance of that business.

FMI has about 340 employees worldwide, of which about 110 are loss-prevention engineers. It has underwriting and claims offices in London; Paris; Frankfurt, West Germany; and Melbourne, Australia. FMI also has marketing offices in Ireland and Belgium, with resident engineers throughout Europe and subsidiary engineering companies in Brazil, Singapore and Japan.

In addition to Arkwright-Boston, Allendale Mutual Insurance Co. and Protection Mutual Insurance Co. share ownership of FMI. ■



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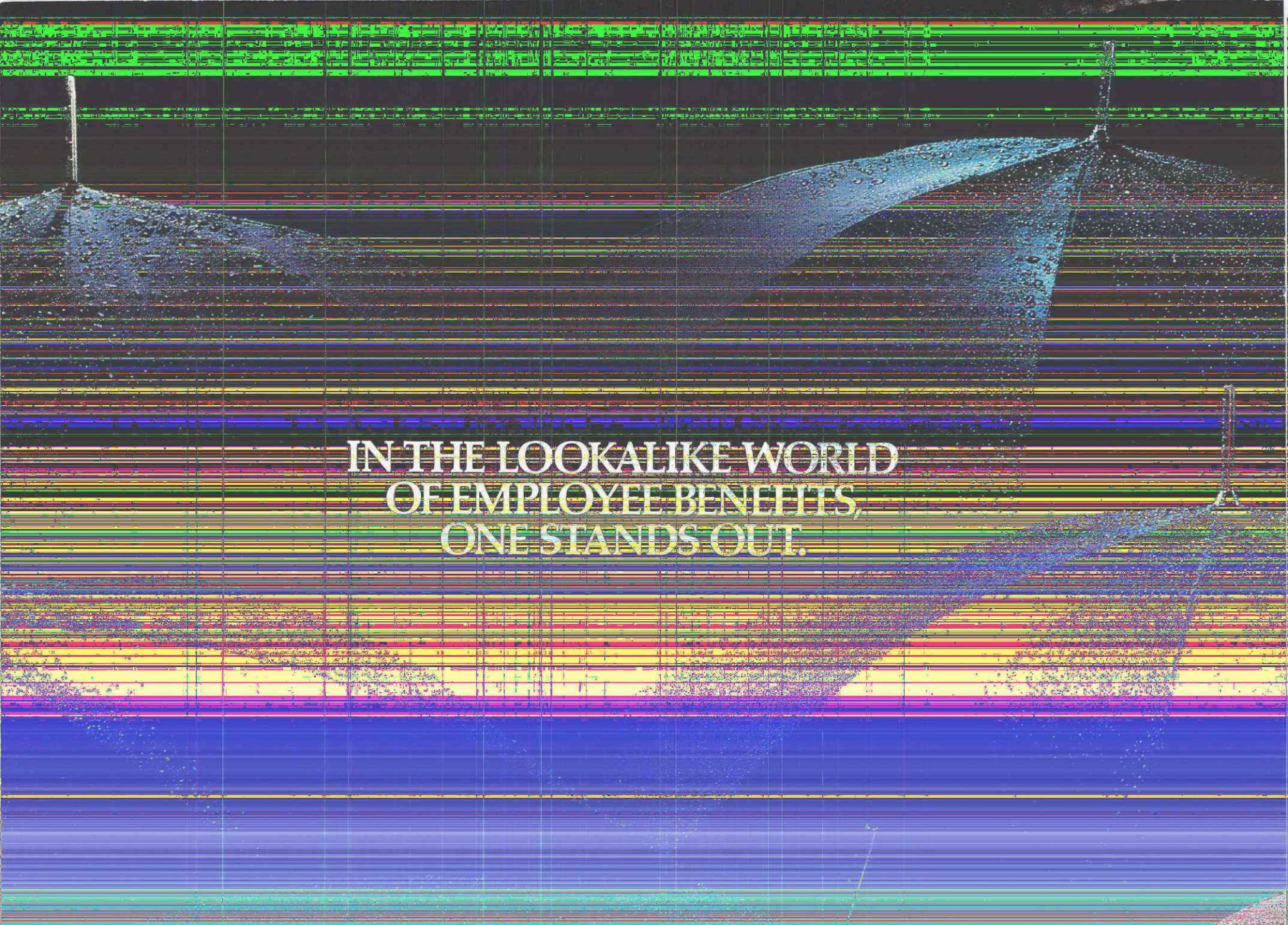
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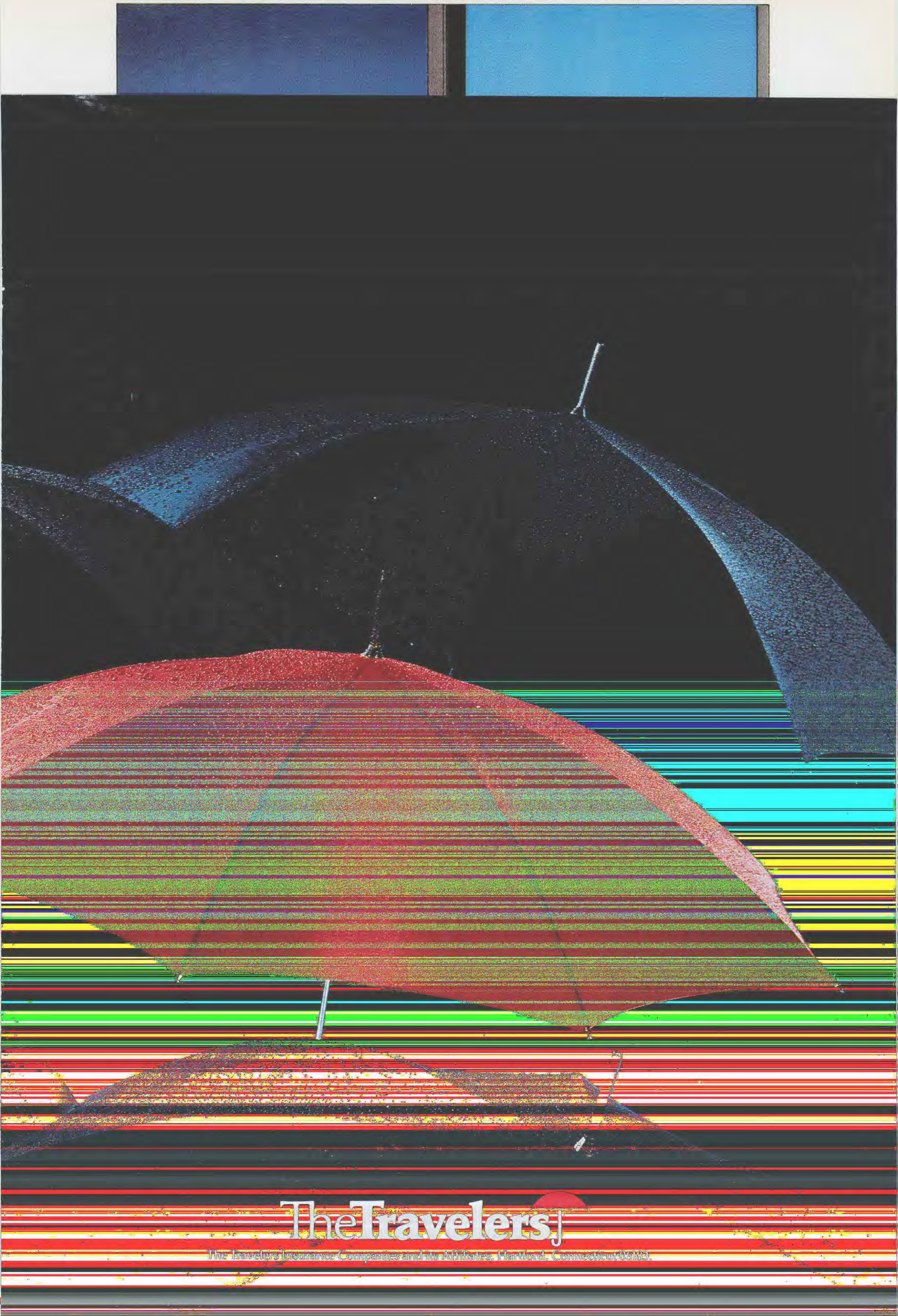
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Royal finding success in global packages

By DAVE LENCKUS

NEW YORK—In its second year of writing global insurance packages, Royal Insurance Co. of America says it is finding success where several insurers only see a potential market.

Royal currently has 38 global coverage policyholders, a more than sixfold increase compared with the six policyholders for which Royal wrote global coverage last year following a major restructuring of the insurer's property/casualty operations, noted Gary Orford, secretary of Royal's international division.

Royal covers both the property and casualty exposures worldwide for approximately 14 of those policyholders, according to Mr. Orford. The insurer covers only the worldwide property exposures for 13 policyholders and only the worldwide casualty exposures for 11 policyholders, he said.

Among those with property/casualty global coverage are Waco International of Houston and Trust House Forte, the British-based hotel chain.

Kendavis Industries International Inc., a Fort Worth, Texas-based manufacturer of off-highway trucks used in the mining and petroleum industry, has global property coverage through Royal. And, Universal Matchbox Toys purchases global casualty coverage through the insurer.

In addition, Royal has written global coverages for several foreign-based companies, including a global property/casualty package for Hitachi Ltd. of Tokyo, which has a U.S. subsidiary in New York.

Mr. Orford declined to provide figures on the premiums or revenues Royal has generated from global accounts, saying those figures would not accurately reflect the inroads it has made, given the insurer's recent foray into the global coverage marketplace.

However, he noted that Royal attained its goal of an approximate 85% combined ratio on global business last year.

"The key to our success is that it's all controlled in one profit center," Mr. Orford observed.'

Royal's international department, headquartered in New York, handles all global and international coverage for U.S. multinationals and reverse-flow programs.

Another reason for Royal's success in this area is that it recognizes it is too new in the global marketplace to underwrite all risks effectively. For example, Royal will not write coverage for pharmaceutical companies, petrochemical producers and "over-water" exposures such as oil rigs and heavy construction projects. "We're new, and those are too specialized," Mr. Orford explained.

Royal has capacity of $40 million for property risks, $5 million for primary liability risks and $5 million for umbrella/excess risks. These limits are the same as in 1985, and Royal expects these limits will be available in 1987.

For monoline coverages, Royal requires a $250,000 minimum premium. For multiline coverages, a $500,000 minimum is required.

Royal generally will not write umbrella/excess coverage unless it is the underwriter of the underlying coverage, Mr. Orford said.

In addition, the insurer generally will write a global package only for a policyholder that has at least 30% of its operations located overseas, Mr. Orford noted. "It's got to have significant operations on both sides of the water."

Mr. Orford does not expect that rates will increase significantly in 1987.

Royal's parent company is Royal Insurance P.L.C. in the United Kingdom. The group has eight major operating companies: four in the United Kingdom and one each in the United States, Canada, Australia and the Netherlands. The Royal group has more than 500 offices worldwide and is represented by 22,000 employees in more than 80 countries.

Royal in the past year has not established a presence in any country it previously was not represented in, but it has left the U.S. Virgin Islands because of its highly litigious tort system, Mr. Orford noted. ■

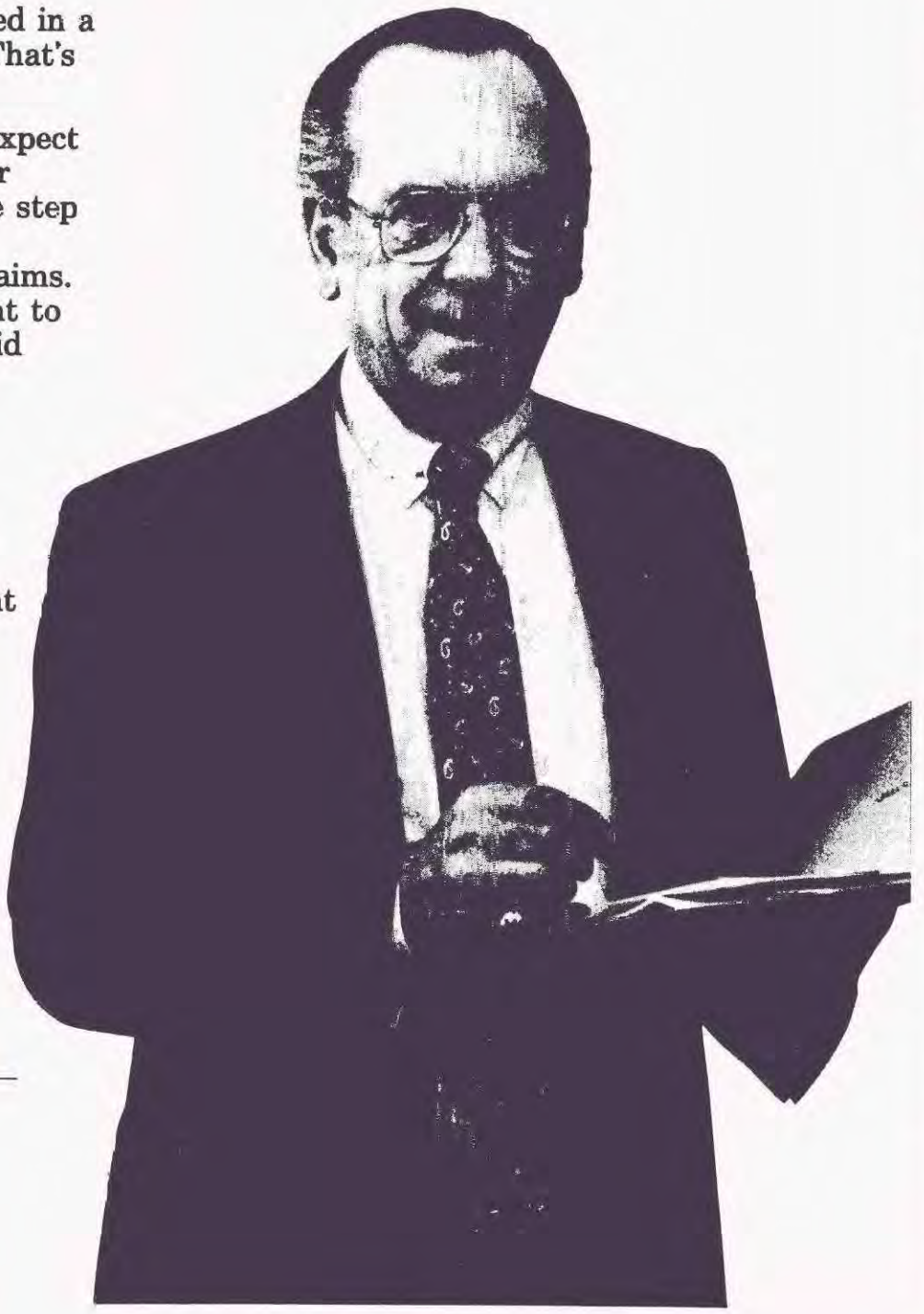
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Chubb says global plan slump won't hurt growth

By DAVE LENCKUS

WARREN, N.J.—Chubb Corp. projects that gross foreign revenues from its international business will increase sharply in 1987, but it does not expect that global plans for U.S. multinationals will be a major factor in that growth.

Chubb sees little demand from U.S. risk managers for global programs, because risk managers are more concerned with first finding coverage for their domestic risks, noted Dennis J. Orio, marketing manager of Chubb's international department.

"There is little demand," Mr. Orio observed. "The demand comes from U.S. companies who wish to purchase international-only programs."

For 1985, Chubb reported $199 million in gross revenues—which include premiums, investment and other income—from international business.

That was 5.6% greater than the $189 million in international revenues it reported in 1984, but $46 million less than the $245 million it projected for the year.

Mr. Orio said Chubb projects a 30% to 35% increase this year in revenues from its international business, which would bring the company's international revenues to between $259 million and $268.9 million.

Chubb expects equal growth in business from U.S. multinational companies, foreign-based multinationals and foreign-based policyholders whose local exposures Chubb covers.

Chubb's pretax income on international business has increased significantly since 1983, when it earned $2.4 million of pretax income on $167.4 million of revenues.

Chubb earned $19.2 million pretax on its 1985 international revenues of $199.2 million and earned $13.5 million pretax come on $188.7 million in international revenues in 1984.

In comparison, Chubb reported a $171 million loss on domestic revenues totaling $1.5 billion in 1985. In 1984, the insurer reported a $65.1 million loss on $1.3 billion in domestic business.

The last time Chubb reported pretax income on domestic business was in 1983, when it realized $24 million of pretax income on $1.1 billion of revenues from domestic business.

Foreign business written for U.S. clients accounted for about half, or $850 million, of Chubb's $1.7 billion of total revenues in 1985, according to Mr. Orio.

Coverage of foreign-based policyholders' local exposures accounted for approximately 40%, or $680 million, of total revenues, and the international exposures of foreign-based policyholders accounted for the remaining 10%, or $170 million, he said.

Chubb will be pushing two new products in the coming months: an international workers compensation program and a "very broad" property/casualty contract, to be introduced in January.

The work comp program "will give multinationals a wide range of options for insuring U.S. or Canadian nationals overseas, as well as third-country nationals," Mr. Orio explained. However, he noted that he cannot provide full details on the work comp program until it is introduced.

"The program will cover those who slip through the cracks and are not eligible for coverage in countries in which they are working," he said.

Chubb's new "broad" property/casualty contract, which is currently available on a limited basis, is a modified version of its quality commercial coverage.

"We believe it is broad enough to surpass in many areas brokers' manuscript forms," Mr. Orio commented.

Chubb's standard international coverages include property, general liability, workers compensation, automobile, multiple peril packages, employee fidelity, kidnap and ransom, political risk, product recall and directors and officers liability.

Chubb's capacity has been stable on most risks, and no drastic changes are expected for next year, according to Mr. Orio. On property risks, Chubb generally offers limits up to $25 million.

"But, that doesn't mean we won't write larger," Mr. Orio added.

The insurer will write up to $1 million of primary liability coverage and $10 million in limits for umbrella and excess coverage.

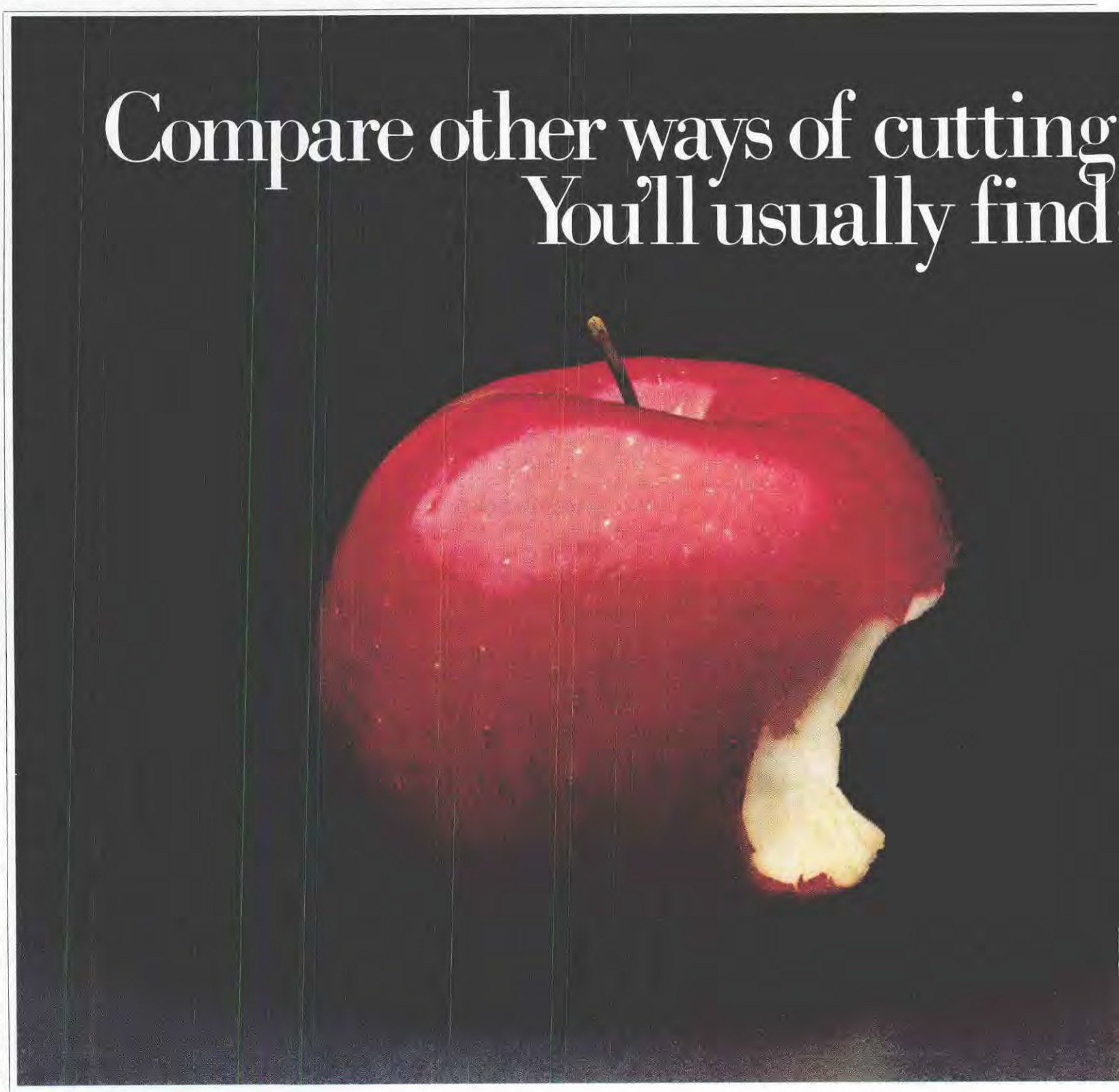
Chubb is represented by affiliates and liaison companies in 92 countries worldwide, including its new office in Taiwan. Federal Insurance Co. of Warren, N.J., a Chubb subsidiary, was just granted a license in Taiwan and plans to open an office soon in Taipei, Taiwan's capital.

In addition, Federal opened a direct branch office in Japan in June. Previously, Sumitomo Marine & Fire Insurance Co. acted as a managing general agent for Chubb in Japan.

Besides Taiwan and Japan, Chubb is represented in the Far East by Federal in Singapore, Chubb's new Asian zone headquarters, and Hong Kong, the former headquarters office.

Of Chubb's 50 offices in the United States and Canada, 26 have full-time international staffs—including the new full-time international office in White Plains, N.Y.

Worldwide, Chubb employs 350 people in its international operations. ■



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New Hartford unit is picking up steam

By JUDY GREENWALD

HARTFORD, Conn.—Hartford Fire International is picking up speed since it began writing property/casualty insurance for U.S. clients with overseas business on Jan. 1.

Hartford Fire, a unit of Hartford Insurance Group, is now beginning to write business in 26 countries worldwide through a network consisting of Hartford subsidiaries and local insurers, said Lawrence S. Doyle, president of Hartford Fire.

Hartford Insurance Group created Hartford Fire International in October 1984, after it sold its interest in AFIA Worldwide Insurance to CIGNA Corp. (*BI*, Oct. 21, 1985).

Although it officially began writing some business Jan. 1, Hartford Fire did not become very active until July, said Mr. Doyle. "We really weren't doing very much before."

Before then, said Mr. Doyle, Hartford Fire was busy building a "partnership with key, major international insurance carriers around the world to establish a worldwide network."

Crucial to this process, said Mr. Doyle, was developing Hartford's backroom capabilities. Under the arrangements it has with foreign insurers, he explained, the overseas insurers write business for Hartford's U.S.-based clients in exchange for Hartford writing business for their overseas clients, said Mr. Doyle.

Backroom compatibility between the foreign insurers and Hartford's domestic operating units, particularly in the data processing arena, was important, said Mr. Doyle.

"We didn't want to have to reinvent the wheel," he said.

Aside from the value it offers Hartford's U.S. clients, the arrangement Hartford Fire has with its foreign partners "really provided a wonderful opportunity for us, because many of the foreign companies need to have a U.S. outlet for their international clients," said Mr. Doyle.

Hartford Fire's foreign subsidiaries include Transatlaantische Insurance Co. of Hamburg, West Germany; Dutch underwriter Zwolsche Algemeene; and Excess Insurance Co. in Britain.

Hartford now has 1,600 employees overseas, up from about 1,500 a year ago, said Mr. Doyle. The total is not expected to increase significantly this year, he said.

In addition to Germany, Holland and the United Kingdom, European countries in which Hartford is now represented, either through a partnership or through a Hartford-owned office, include Austria, Belgium, Denmark, France, Finland, Italy, Portugal, Spain, Sweden and Switzerland.

Hartford also has developed partnership arrangements in Hong Kong, Japan, the Philippines, Malaysia, New Zealand and South Korea.

Also, the insurer is represented in Argentina, Brazil, Columbia and Mexico, and in Barbados, Jamaica and Trinidad in the Caribbean.

Hartford Fire recently established its first branch office in Australia, backed with $5 million in capital, noted Mr. Doyle.

"We're still looking at the small to medium-sized companies," said Mr. Doyle, defining these targets as companies with less than $25 million in annual revenues. However, clients that purchase global insurance policies from Hartford may be larger.

Mr. Doyle said Hartford Fire is concentrating on smaller companies because "those clients do not shop around for insurers as much as some of the larger clients. We're looking for a long-term relationships with many of our insureds, and we feel we have a better chance of maintaining continuity with the small to medium-sized companies."

Hartford Fire provides its clients with a full range of coverages, including property, fire, inland marine, casualty lines, workers compensation and umbrella insurance, said Mr. Doyle.

The insurer also will write excess difference-in-conditions coverage to fill the gaps between any foreign policies issued and the policyholder's U.S. coverage and to make coverage uniform globally.

"Basically, we are in position now to provide global plans," said Mr. Doyle.

Jim Leber, vp and director of underwriting, said the company's marketing focus will be on clients that generate $100 million to $200 million in annual revenues.

Hartford Insurance Group posted $655 million in gross premiums for international property/casualty business for the first nine months of this year, a 20.8% boost from $542 million of international business written during the comparable period last year.

These figures reflect business written by Hartford Fire International, indigenous business written by Hartford's three foreign subsidiaries and reinsurance written by London-based Excess Insurance Group (*BI*, Nov. 10).

Hartford Fire has not yet written a substantial amount of business for U.S.-based multinationals, he said, noting, "We're starting from ground zero."

This year, Hartford Insurance Group expects to write a total of $800 million in gross premiums and expects to boost volume to $900 million in 1987.

Mr. Leber noted the company's combined ratio this year is about the same as last year's, 111.6%. ■



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Travelers plans to boost global insurance plans

By JUDY GREENWALD

HARTFORD, Conn.—Travelers Corp. may begin writing more global insurance programs than it has in the past.

Travelers has issued few global policies that cover a policyholder's U.S. and international risks because brokers and clients generally prefer to keep these coverages separate, according to Tony DiSarcina, director of Travelers' international property/casualty operations.

However, Travelers just opened an international department office in Los Angeles, and its marketing studies indicate global programs are more popular in the West Coast than elsewhere in the country.

"We certainly are prepared to write coverage on that basis," said Mr. DiSarcina.

David G. DeMott has been named district manager at the office, which will take over Western region business that had been handled by the Hartford headquarters. International property/casualty business also is written from Travelers' New York and Chicago offices.

Travelers also offers International PAC, a streamlined comprehensive property and liability package designed for small companies that have limited overseas operations, said Mr. DiSarcina. The program is available in "just about every market outside of New York City."

A lot of emphasis has been placed on this program, he said. "We want to increase our volume of smaller accounts, and we view these smaller accounts as having a significant profit potential."

"We're interested in the medium-sized and small, as opposed to the large, accounts," said Mr. DiSarcina.

He noted that his department works closely with Travelers' Commercial Accounts Marketing division, which focuses on that market segment domestically.

In the meantime, Travelers' international client base is continuing to grow. It now has about 400 international clients, up from 300 last year and 200 the year before, said Mr. DiSarcina.

Travelers is licensed to directly issue overseas policies only in Belgium and Japan, but it can coordinate property/casualty coverages in about 80 additional countries through local insurers.

Most of Travelers' international coverage is coordinated through three foreign insurers: Guardian Royal Exchange P.L.C. in London, Riunione Adriatica DiSicurta in Italy and L'Union D'Assurance de Paris in France.

"The strength of our local insurers within our network is helpful to our clients" because of the strong service capabilities they offer, said Mr. DiSarcina.

Travelers reinsures 60% to 90% of the international risk written on its behalf by local insurers.

Travelers is eyeing the Pacific Basin as a region for future growth, said Mr. DiSarcina, noting U.S. companies have become increasingly interested in this area. "We have to be prepared to service our clients wherever they go."

About half of Travelers' international clients have master contracts, which means that Travelers writes an excess difference-in-conditions policy that fills any gaps between the foreign policies the client purchases and its U.S. insurance coverage, giving the buyer uniform global coverage.

Travelers does not release financial data on its international property/casualty operations alone. However, he noted premium growth volume in this area increased 48% in 1986. The insurer had projected a 40% growth.

This increase was achieved "in spite of the fact in the international market we're not seeing the kinds of premium increases we're seeing domestically."

Travelers' entire international operation—including property/casualty, employee benefits and reinsurance coverages—will generate more than $400 million in net premiums this year, compared with more than $375 million in 1984 and $365 million in 1983.

The business continues to be profitable, Mr. DiSarcina said. ■



Continental emphasizing global plans

By JUDY GREENWALD

NEW YORK—Continental Corp. is beefing up its international property/casualty insurance operations.

Within the past year:

- Continental's international department was split off from former parent Continental Insurance Co. and reorganized as a separate subsidiary.
- Continental continued to emphasize global insurance programs, which include coverage for all of a client's operations, including those in the United States. Global plans now account for about 25% of Continental's international business, up from just 10% a year ago.
- A Continental International underwriter was stationed in London, and plans were made to post another underwriter in Hong Kong as part of a major thrust to attract business from foreign-based multinationals.
- Continental made plans to acquire a Brazilian insurer.
- Continental's overseas offices were linked to its domestic computer system for greater efficiency.

In addition, Continental's Marine Office of America Corp. unit, which writes hull and cargo insurance coverages, expanded its international operations as well, said Allan Pooler, MOAC executive vp.

Bruce Hayden, who had been a London-based regional vp for Continental with responsibilities for Europe and the Middle East, was transferred to the United States during the summer and named president of the new Continental International subsidiary.

Whereas Continental's international operation before was a department, "now we are a separate entity," he said, noting the new importance Continental is placing on international property/casualty business.

Continental International is represented in about 100 countries worldwide Mr. Hayden noted.

It operates either a branch office or a licensed insurer in about 60 nations, while it works with local insurance companies or through agents in other countries, he said.

As Continental International's president, Mr. Hayden has continued the insurer's emphasis on global insurance programs.

Global plans now "reach over 25% of our volume and are growing rapidly," said Mr. Hayden. Continental International now has 87 global plans in place, although only about 14 to 15 of them are written for companies based in the United States.

This reflects Continental's emphasis on generating business from foreign-based multinationals, Mr. Hayden said.

"We see an emerging risk management expertise overseas and we want to be tapped in with that," said Mr. Hayden. As part of this effort, Continental International stationed an underwriter in London and has made plans to do the same in Hong Kong.

The London-based underwriter will have underwriting authority and will not need to go to his domestically based colleagues for approval, said Mr. Hayden. "We are very, very pleased with the progress we're making on that side," he said.

In the meantime, the New York-based insurer is increasing its overseas presence, according to Mr. Hayden.

It currently is negotiating to purchase an insurer in Brazil that operates five branch offices, he said.

Although Mr. Hayden would not identify the insurer, he said the acquisition will boost Continental International's revenues about 15%.

In addition, the Brazilian insurer's 150 employees will bring the total number of Continental International's overseas employees to about 500, Mr. Hayden said.

Last year, Continental proceeded with plans to open branch offices in Rome; Brussels, Belgium; and Amsterdam, the Netherlands. These offices are now fully staffed. In addition, Continental has obtained a license to write property/casualty coverages in Denmark. This business will be handled out of its Amsterdam office.

Continental also acquired a 75% interest in Groupe Barthelemy, a French general agency with three branch offices, Mr. Hayden said.

Within the past year, Continental also moved its Latin American headquarters to Miami from Panama, headed by Regional Vp Jack Jardos.

The move was made to ease communications and transportation, "and it allows us to manage that territory more effectively," said Mr. Hayden.

In addition to retaining its Panamanian operation, Continental has "significant" operations in Argentina and Guatemala as well, Mr. Hayden noted.

The Latin American headquarters now operates from Continental International's Caribbean branch office, according to Mr. Hayden, although the two divisions maintain separate identities.

Mr. Hayden said Continental's already-established Strategic Underwriting Network, a computer network that gives underwriters information on any Continental account, has now been extended to Europe via a dedicated computer link.

That link-up will permit more rapid underwriting decisions, said Mr. Hayden.

And, he continued, "if anything goes boom in the night, it allows us to measure our exposures better, it allows us to respond better."

Mr. Hayden said more than 20% of Continental Corp.'s total revenues are generated from foreign sources. Continental reported $5.1 billion in revenues in 1985, a 9% increase from $4.7 billion in 1984, which means foreign operations posted more than $1 billion in revenues last year.

This total includes Continental International, as well as foreign-based reinsurance and marine business and Continental's Canadian operations.

For the first nine months of this year, the parent company reported $4.4 billion in revenues, which means Continental's foreign-based revenues totaled more than $880 million in the first nine months of 1986.

In the meantime, MOAC, which is treated as a separate profit center from Continental International, opened an office in Hamburg, West Germany, last year, said Mr. Pooler. In addition, a recently opened MOAC office in Panama will serve Central and South American clients.

MOAC also has opened offices in Sydney and Melbourne, Australia. MOAC policies are written from these offices on the paper of the Australian branch of Hong Kong-based Lombard Group, in which Continental has a 60% interest.

"This is actually the implementation of a strategy which we have developed over the past couple of years," said Mr. Pooler.

"We had made a conscious decision that we wanted to establish MOAC operations offices in various countries for the purpose of writing indigenous business, and also to better service business written by MOAC in the United States," he explained.

Part of this strategy involves MOAC and Continental International working together on multinational accounts, Mr. Pooler noted.

MOAC now has 25 employees overseas, in addition to its 700 U.S.-based employees, Mr. Pooler said. And, the number of MOAC employees abroad "will slowly develop as we continue to open additional offices, and as our business expands in the offices which we have recently opened," Mr. Pooler said. ■



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Benefit networks

Continued from page 3

Mooney, deputy director of American International Group Inc.'s Group Management Division in New York, which manages AIG's international network.

"We're getting very pragmatic on the solutions to particular problems rather than providing a fixed system," says Robert M. Pickrell, president of Multinational Benefit Assn. in Norwalk, Conn., the North American representative of the Insurope network.

Rather than fitting a square peg in a round hole, Insurope is creating the square hole, he explains.

Consultants say much of the new flexibility exhibited by the network is the result of increased scrutiny of the networks by multinational employers and their increasing demands for better cash flow.

"Employers are now beginning to use the competitive nature of the marketplace," explains Mike McShee, an actuary with The Wyatt Co. in Chicago. "Every now and then, they go out to the marketplace and obtain competitive bids."

"More and more companies are looking at arrangements they have with networks, not to drop the arrangements but to make them more effective," says Mike Ponical, manager of the international benefit consulting office at Towers, Perrin, Forster & Crosby Inc. in New York. "Most companies have gone the route of making the networks redesign their terms and conditions," he says.

While Mr. Ponical says multinational companies are not necessarily looking to change networks as a result of their scrutiny, some companies are "shifting from one network to another."

"Corporate people are being very smart" in dealing with their networks, he says. "They're saying to the networks, 'You guys have had it your way for too long.' Now we're seeing a lot of sophistication on the part of the buyers.

"I think the insurance companies are a little nervous right now," Mr. Ponical continues. "They want to retain what they have, so now they're willing to be flexible. They've said it before, but now they're really doing it.

"Everyone wins," Mr. Ponical points out.

One particular area in which benefit networks are attempting to become more flexible is pension plan funding. For years, most pensions pooled through benefit networks were funded through insured products.

However, the networks are now offering their clients several different pension funding alternatives —such as guaranteed investment contracts and independently managed investment portfolios—to allow them to increase the rate of return on their pension investments and, hence, increase their cash flow.

"There is a trend away from insurance for pension funds," says Hewitt's Mr. Bernstein. "The trend is moving more toward trust-types of pension funds. The advantage is they get better investment returns for the employer and less overhead for the insurer."

Employers are focusing on international pension expenditures because pensions are such a significant foreign benefit expense.

"Most costs under international benefit plans are in the long-term disability and pension areas because medical costs are nationalized in most parts of Europe," says TPF&C's Mr. Ponical.

"The trend is to look more closely at the investment possibilities of the pension fund," says Philipp Frei, president of Swiss Life North American Services Inc. in Englewood Cliffs, N.J., the U.S. representative for Swiss Life Network.

For example, Swiss Life would consider an employer's request that it loan the client money from its pension reserves so the employer could earn a higher rate of return than the network could due to investment restrictions on insurers in some nations.

In addition, the network allows employers to direct the investment strategy of pension funds held on their behalf by the network, Mr. Frei explains.

Insurope has loaned money to clients from their pension funds "at a better rate than they could get on the street," says Mr. Pickrell.

"There is a big trend for major U.S. corporations to look at alternative methods of funding" international pension plans, Mr. Pickrell says. As a result, "I think we'll see insurers go more in the

Continued on page 32

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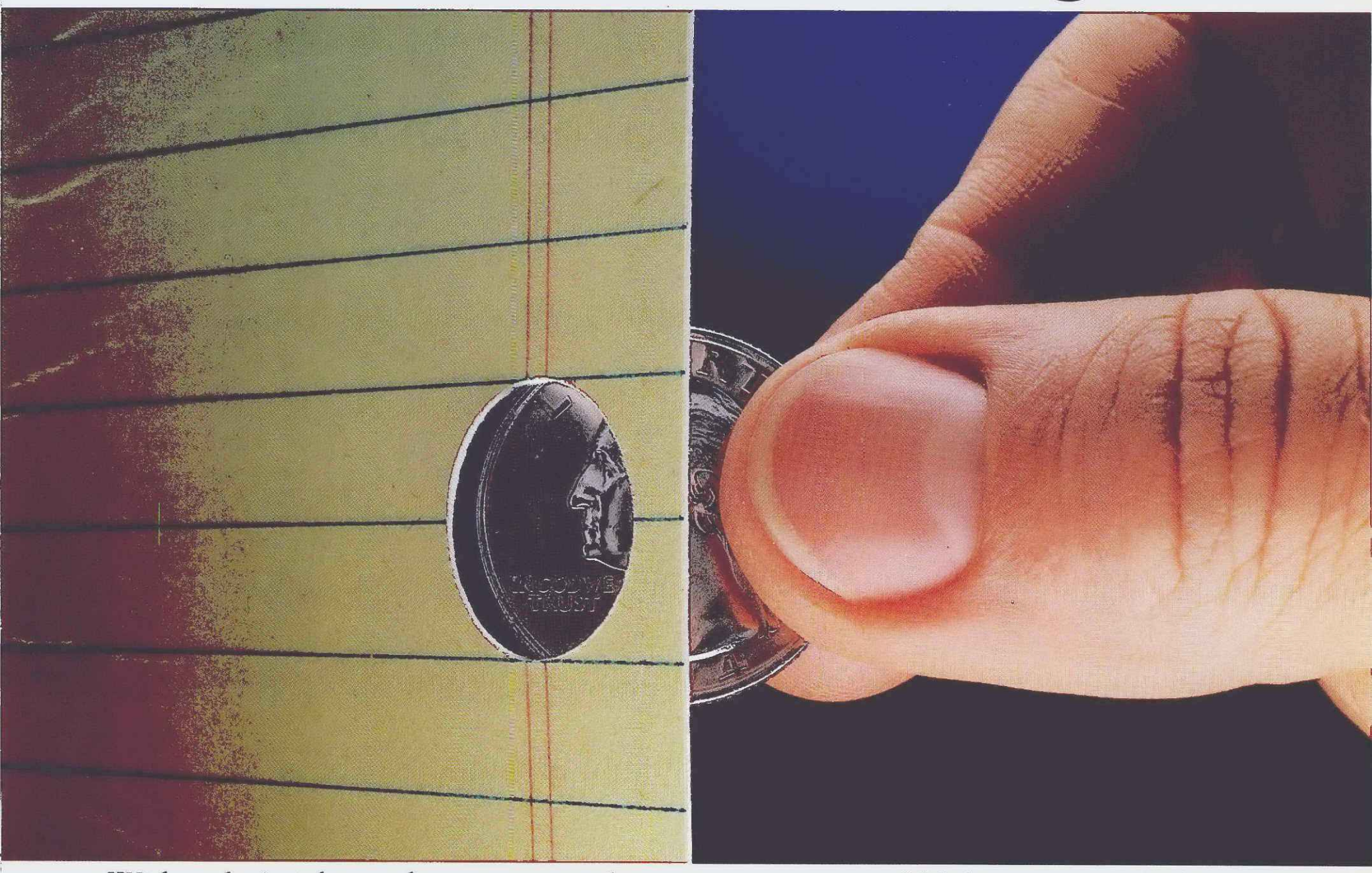
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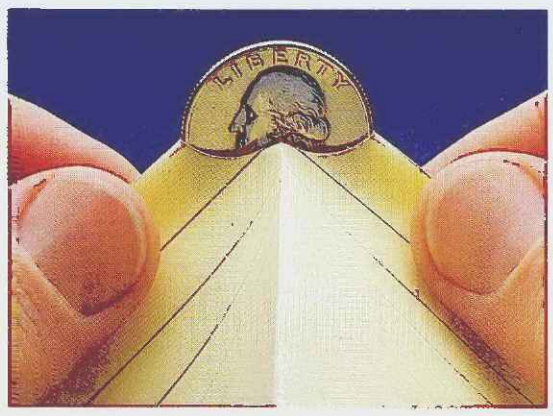
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Benefit networks

Continued from page 30

direction of managed funds" rather than insured pension products.

One network, John Hancock Mutual Life Insurance Co.'s International Group Program, has even lined up a bank to help some of its clients improve pension fund performance.

IGP recruited Pictet & Co., a Swiss bank, to become a network affiliate after IGP's insurance company affiliates could not meet the pension funding needs of some clients with Swiss operations. Investments made by insurance companies are more stringently regulated by Swiss authorities than are investments by banks.

The arrangement should give IGP clients "the best of all possible worlds," remarks Michael J. Allan, second vp in Hancock's international group department in Boston.

'In many ways, the networks themselves are leading the market to other pension alternatives' in search of improved cash flow, Mr. McShee says. 'I certainly don't have the feeling that networks are losing pension business.'

However, one observer notes that despite this emphasis on pension funding, multinationals will continue to use the networks to provide pensions for employees in foreign nations.

"It's not necessarily the case they're going away from networks," says Wyatt's Mr. McShee. Employers are not taking "pension funds out of networks, but out of traditional funding vehicles."

"In many ways, the networks themselves are leading the market to other pension alternatives" in search of improved cash flow, Mr. McShee says. "I certainly don't have the feeling that networks are losing pension business."

And others note that insured pension products purchased through a network may be the best bet for some smaller companies.

"Some companies have started to look at setting up self-invested pension funds, but the size of the company or the employee group is important because the work involved to break out a pension plan" from the rest of the benefits provided through a network "is significant," says TPF&C's Mr. Ponical.

However, "most large companies don't have insured pension plans anymore," he adds.

Pensions will continue to be an area on which multinational benefit managers must focus as foreign governments enact new pension legislation, one consultant suggests.

"We have had our ERISA and other laws affecting benefits, so now overseas more and more countries are beginning to enact legislation that has the earmarks" of the Employee Retirement Income Security Act, says Robin Holloway, managing director and vp at TPF&C's international benefit consulting division in New York.

"Foreign governments are becoming much more concerned with pension promises and funding, making sure pensions are funded and just not planned," he says.

In addition to pension expenditures, observers say multinationals are examining the cash-flow ramifications of self-funding their foreign benefit obligations, using the networks only to handle claims on an administrative services-only basis.

"Self-insurance will continue to grow just like in this country," says Mr. Ponical. "However, in this country the emphasis on self-insurance is on the medical side, whereas internationally, the move to self-insurance is more on survivors' benefits to improve cash flow and minimize insurance costs."

Networks that provide administrative services-only programs to self-insured multinationals include Insurope and AIG.

"These services are not widely used, but a number of clients have opted for these," said AIG's Mr. Mooney. "We recognize that many major clients are considering the assumption of more risk by the client in a variety of funding forms. We're flexible—they're the buyer."

Another alternative funding method used by some multinationals in an attempt to increase cash flow is to reinsure benefit coverages written through networks with their own captive insurers. But, although several networks offer this option, reinsuring through a captive may not be as popular as it was several years ago, observers say.

"It is not as popular as it used to be among U.S. companies," said Mr. Frei of Swiss Life, which offers employers a captive option. "U.S. companies may be afraid of the tax consequences and the gain may not be as attractive as they want."

"From my view, and I'm sure most companies would agree, from a pure financial point of view, there is no compelling reason to use a captive for international employee benefits," says Wyatt's Mr. McShee. "It's a considerable burden of complexity and administrative hassle."

And Mr. Souders states that despite J&H's status as a large property/casualty captive manager, "most of our clients we have discussed this with have decided not to do this."

TPF&C's Mr. Ponical notes most of his clients "have looked at" reinsuring international benefit exposures through captives, "but have decided to work out a self-insurance arrangement with a network instead."

Another way network clients can increase their cash flow is to receive earlier payment of the so-called international dividend paid by the network (see story, page 34).

For instance, the Aetna/Generali International Benefit Network recently instituted a program through which it will advance a portion of a client's dividend upon contract renewal, instead of the normal three to six months after the end of the plan year.

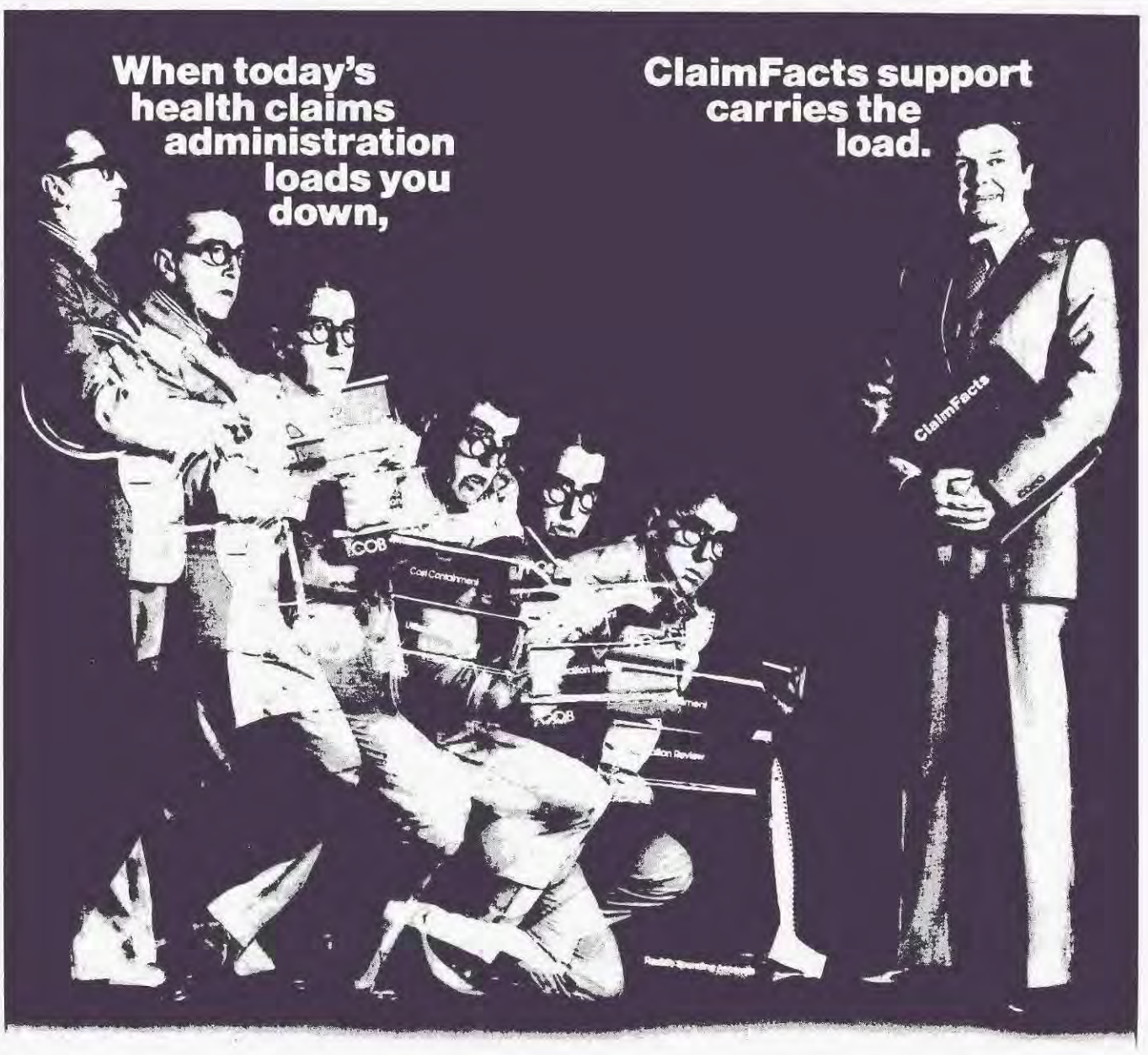
A client must have at least 1,000 insured lives in three nations, $300,000 in annual premiums and three years' experience with the network to qualify.

AIG offers a "premium deferral" arrangement, under which an employer only has to pay a portion—usually 80%—of the required premium throughout the year. The employer does not have to pay the remaining premium at year-end if its loss experience warrants.

While cash flow is high on the network's agenda, their innovations are not limited to cash-flow programs. For instance, at least two networks, AIG and Aetna/Generali, are instituting alternative health care delivery systems, like HMOs and PPOs, overseas.

"We think that the alternative health care delivery systems we've seen evolve in the U.S. may have some applicability overseas," says AIG's Mr. Mooney. "We now have HMO management expertise and

Continued on page 34



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Benefit networks

Continued from page 32
we're doing some PPO work in Malaysia and something similar to an HMO in the Philippines."

Similarly, the Aetna/Generali insurance affiliate in Mexico, Seguros America S.A., has entered into an agreement with a private health care organization to establish a PPO for network clients with Mexican operations.

Networks also are beefing up their data processing capabilities to deliver benefit data—and annual dividend checks—to clients more quickly.

For instance, the WIN-Plan offered by Winterthur Swiss Insurance Co. touts the detailed claims reports that its automation systems can generate for its clients.

These reports give clients "a greater handle and greater control" over their international benefit programs, according to Yogee M. Thakkar, vp of Winterthur's international division in Winterthur, Switzerland.

AIG is another network that stresses its reporting system.

"Globally, AIG is moving to a system of unifying our claims analysis," says Mr. Mooney. "Our goal is to use the same major management system for claims processing in all countries."

All 12 international benefit networks reported an increase in the number of employers they serve during 1985, and most expect to continue to grow in the coming year.

While many network officials admit that it will be difficult to attract new U.S. clients, since most U.S. companies that want to join a network already have done so, the officials see good growth opportunities among European multinationals.

"I think that Europe still holds quite some potential for pooling," says Roger Nicholas Balsiger, senior consultant for Vita Life Insurance Co. Ltd. in Zurich, Switzerland.

"Europe is still a little behind in pooling." "I think that the big multinationals (in the United States) already know about pooling and are in pools. . . .We are targeting the European multinationals who are not in networks today," says Ken Stuart, secretary for Group Assurance International Network in London.

"European multinationals are beginning to become aware of the advantages of using networks to pool benefits," adds Hewitt's Mr. Bernstein.

●

Profiles of the 12 international employee benefit networks begin on page 35 and continue through page 55.

Benefit networks offer pooling of coverages

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.

But, network structures vary.

A network can be formed by one insurer with subsidiaries in many foreign countries; by two large life insurance companies, usually one U.S. firm and one overseas, that cooperate; 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 a 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.

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 bears interest at the same rate at which investment income on the actuarial reserves is determined for the appropriate country. Upon contract cancellation, the fund is fully refunded if the overall account is in a surplus position.

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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CIGNA projects growth with merger effort over

By MEG FLETCHER

PHILADELPHIA—CIGNA Worldwide Inc.'s international benefit network is poised for growth now that it has fully integrated operations of AFIA Worldwide Insurance, acquired in 1984.

"We see a more rapid growth in business in 1987," said Bruce K. Howson, president of CIGNA Worldwide Inc. He predicts a 12% growth in revenues from life-related network business this year.

The network now has 10 multinational pooling clients that produced $500,000 in premium this year, said David Matthews, director of employee benefits underwriting. That is a very small part of the $41.2 million in net earned premium that CIGNA Worldwide generated in 1986 from group life and medical business written outside the network, he said.

CIGNA Worldwide expects its network to grow, especially with medium-sized clients, Mr. Howson said.

"Last year we sharpened our focus considerably," he said. For the best success, he said, international benefit networks must focus on products that are attractive at a local level. The main opportunities are in group life and group and individual pension benefits, he added.

But, CIGNA Worldwide's biggest growth may come from "cross-selling" its international benefits capability to CIGNA's U.S. benefit clients, Mr. Howson said. "It's an untapped area," he said.

In addition, CIGNA Worldwide plans to work on developing indigenous multinational business in the United Kingdom, Japan, France and West Germany. Other attractive areas include Hong Kong and the Pacific Basin as well as Spain and Italy, he added.

Relatively few new clients joined the network during the past year, company officials say, primarily because the company devoted much energy to streamlining operations following the AFIA merger.

CIGNA Worldwide now has subsidiary benefit operations in 40 nations, said Ernest Auerbach, president of the network's international life and group operations.

Subsidiary life insurers write only life insurance in 15 of those countries, but other benefits can be written by the network in almost any other country through arrangements with other insurers.

The headquarters staff for CIGNA Worldwide's international life and group operations were moved in August to Philadelphia from Reigate, England.

Other recent developments include an enhanced capability to adjudicate life and benefit claims using software compatible with a hardware system already in place for property/casualty claim management, Mr. Howson said.

The company also will have opened three new offices in Japan by year-end, bringing the total offices in Japan to eight, he said.

In addition, it has completed acquisition of a New Zealand affiliate, its Brazilian company added a life insurance license and it has an application pending to convert an Australian operation from a property/casualty to a life company.

A typical CIGNA Worldwide benefit client is based in the United States or Great Britain and has between 250 and 1,000 employees primarily in Latin America, Caribbean countries and to a growing extent in the Far or Middle East, Mr. Matthews said.

Depending upon the country, benefits available through CIGNA Worldwide's network include life, health, pensions, group accident, accidental death and disability and some medical coverages.

Typically, an employer with 200 lives in at least two countries is eligible for an international dividend on an annual basis, while employers with fewer employees must wait a longer period of time, Mr. Matthews said. However, the program is flexible, he added.

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For additional information about CIGNA Worldwide Inc.'s network, contact Matt Wilhelm, 110 William St., New York, N.Y. 10038; 212-306-9764; or Geoff Saggers, 1600 Arch St.-JFK 14, Philadelphia, Pa. 19103; 215-569-6823.

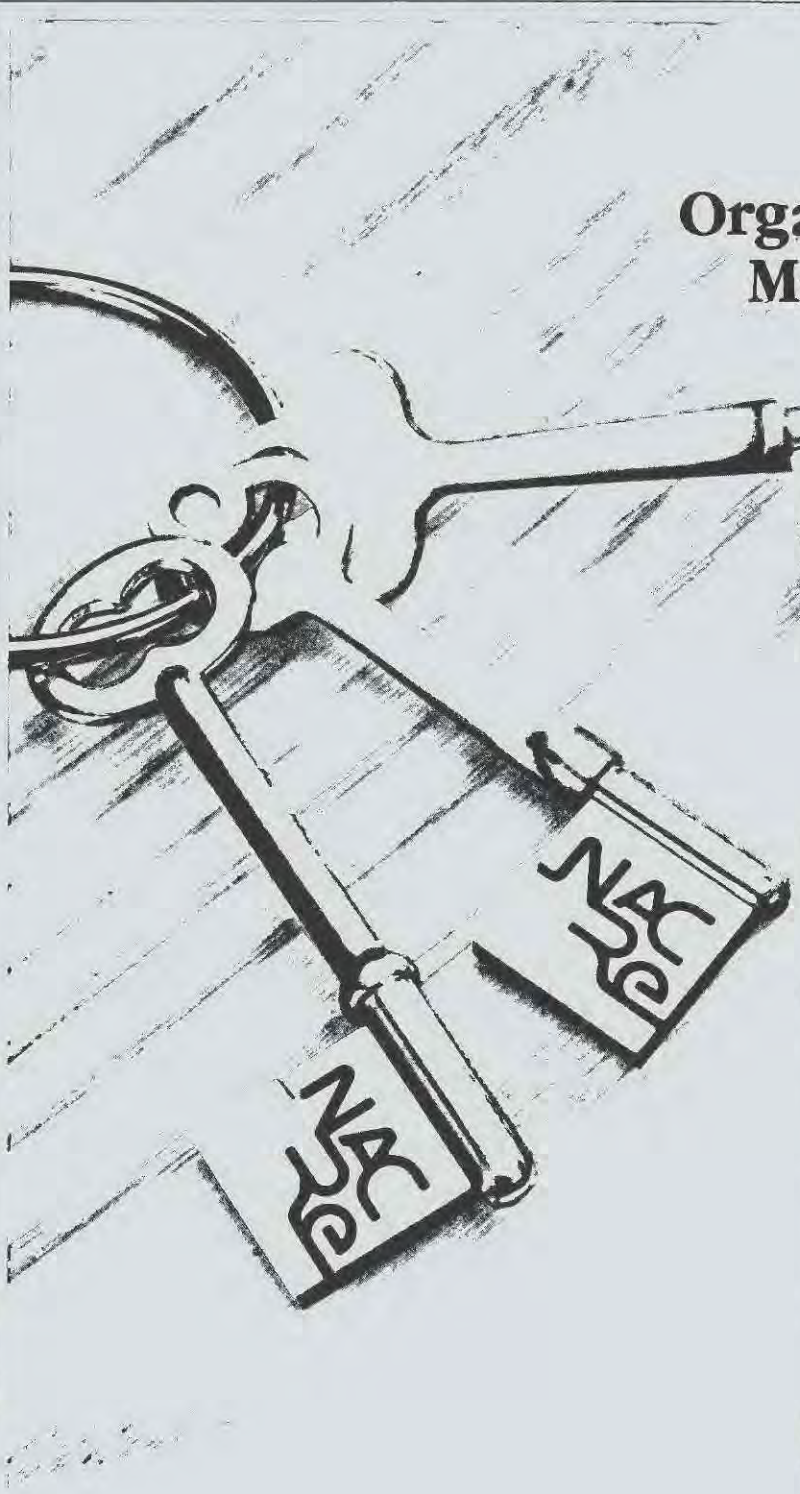
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AIG benefit network stresses flexibility

By DONNA DiBLASE

NEW YORK—American International Group Inc.'s Group Management Division is constantly adding services and developing new approaches to respond to the needs of its international benefit clients, says a division official.

"Flexibility is really AIG's claim to fame," says Christopher G. Mooney, deputy director of the AIG division responsible for international benefits pools.

To respond to its clients' needs to manage health care costs under their international benefit plans, the AIG network has introduced alternative health care delivery systems in the Far East, Mr. Mooney said.

"We think that the alternative health care delivery systems we've seen evolve in the U.S. may have some applicability overseas," he said. "We now have HMO management expertise and we're doing some PPO work in Malaysia and something similar to an HMO in the Philippines."

Since this approach in other countries is very new, "I don't think the experience is wide enough to really tell how many multinational companies will be interested in this. If the health care delivery system set up in a country can slow down the health care cost increases, then they'll be interested," he said.

"If there's a market where this makes sense, we'll deliver what the client wants," he said, referring to whether the network will try to extend these health care delivery systems to other markets.

The network also is focusing on providing its clients with frequent claims data, Mr. Mooney said.

"Globally, AIG is moving to a system of unifying our claims analysis," he said. "Our goal is to use the same major management system for claims processing in all countries. Because we own most of our markets, we can control the claims management system.

"In major markets, we're trying to create some uniformity in giving clients rapid claims reports," he explained. The reports include cost information, premium accounting and information on the types and frequency of claims filed.

"I think that the multinational benefits business in general has moved more away from risk-taking by the insurer and more toward information management," he said.

AIG also has helped its multinational clients administer benefit plan terminations during plant closings, he said.

"In a number of different markets, both inside and outside the U.S., we have been asked to assist in buying out the liabilities of terminated pension plans as a client shuts down a location for whatever reason," he explained. "They need someone to administer the terminated plan's payouts to retirees."

AIG also offers its clients alternatives to improve cash-flow while pooling multinational benefits (*BI*, Oct. 21, 1985).

One of these alternatives, a "premium deferral" arrangement, allows an employer to pay a portion—usually 80%—of the required premium throughout the year. At year-end, the employer may not have to pay the remaining premium, based on its experience.

Another option is an administrative services-only contract, under which AIG provides claims processing and accounting services.

"These services are not widely used, but a number of clients have opted for those. We recognize that many major clients are considering the assumption of more risk by the client in a variety of funding forms. We're flexible—they're the buyer," Mr. Mooney said.

The AIG network, which was formed in 1954, currently has "well over 100 clients," he said. The network currently pools benefits for about 200,000 lives, compared with about 150,000 last year.

The network has owned-operations in about 135 countries and political jurisdictions, he said. "AIG believes that we have the widest regional network of U.S.-trained employee benefits specialists and can help make things happen for clients."

While Mr. Mooney declined to reveal the network's premium volume for 1985, he said, "we try to increase our premium and profits 20% to 25% a year."

It is difficult to determine what percent of the multinational benefits market is controlled by AIG because of a lack of data, he said.

The network pools benefits for many Fortune 500 companies, "but we will also work with other small and midsized companies," he said. "Our clients come from all walks, including finance, manufacturing, service and high-tech. There really is no typical client. They range from 1,000 lives to many thousands."

But, while "the majority of our clients are U.S.-based, we do try to have a very global flavor. We see our multinational benefits business being not only U.S.-based multinationals but also non-U.S.-based multinationals," Mr. Mooney said.

The AIG network has not lost any clients over the last year but, "a couple of new or greatly expanded clients did come from other networks," he said. While he declined to reveal the names of the new clients, "they are major name clients."

Although AIG does not require an employer to have a minimum number of employees to pool benefits through the network, it does require that there be employees in two or more countries, he said.

AIG also requires a minimum annual premium of $75,000 to pool the company's benefits and qualify the company for an international dividend based on loss experience at year-end, said Mr. Mooney. Last year, the network required a minimum annual premium of $50,000.

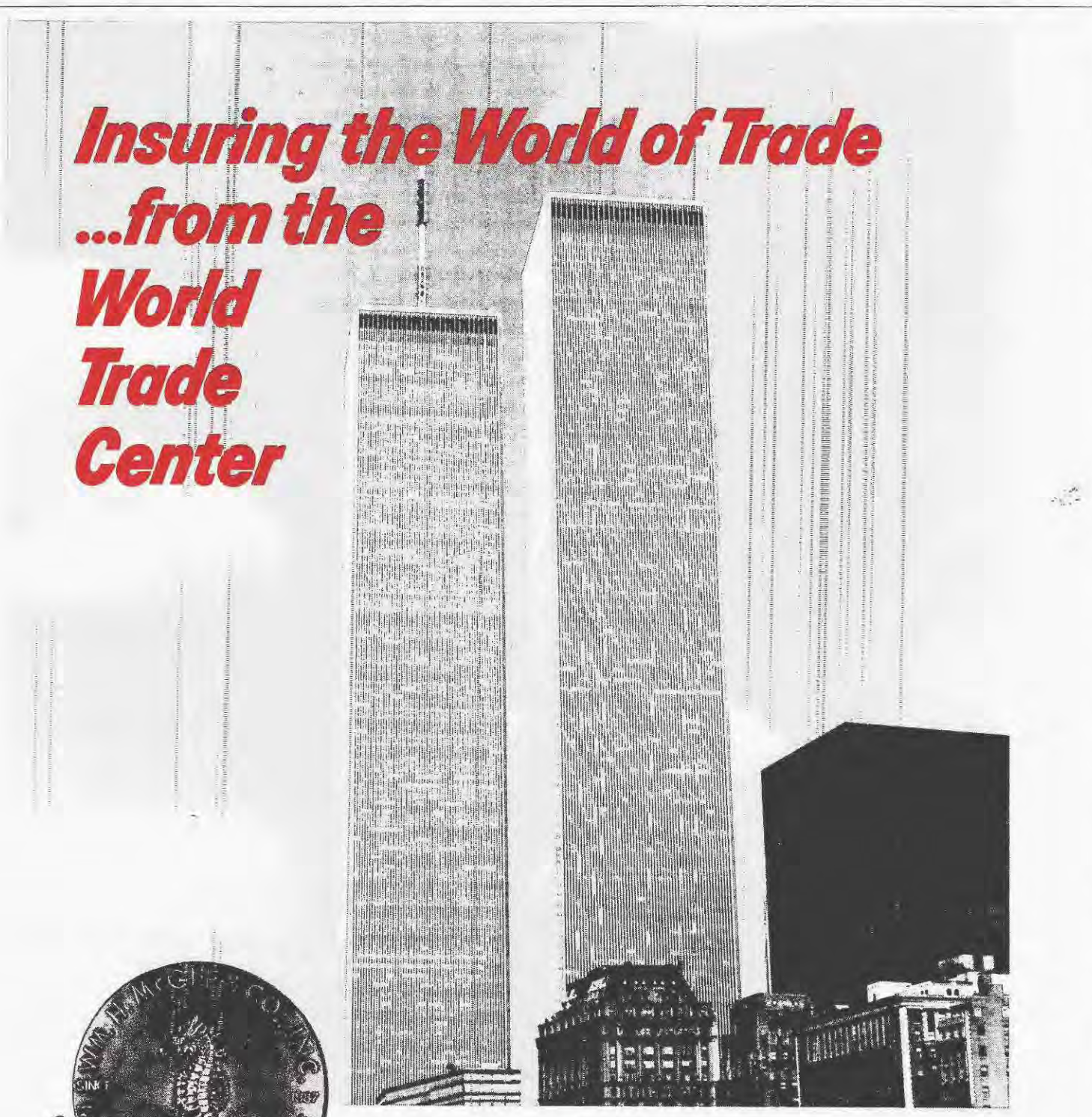
Dividends are paid in cash or as credits usually within 90 days after the end of the accounting year. Interest begins accruing on the 91st day after the end of the accounting year, Mr. Mooney said.

The network usually pays the dividends on an annual basis, he said. However, some large clients receive semiannual dividends.

Clients are offered both the stop-loss and the loss-carry-forward systems of accounting for losses exceeding their surplus, he said.

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For more information on AIG's benefits network, contact Christopher G. Mooney, Deputy Director, Group Management Division, American International Group Inc., 70 Pine St., New York, N.Y. 10270; 212-770-7407; or Greg Arms, Manager of Multinational Accounts at 212-770-5040.



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Insurope grows despite loss of 7 clients

By JOANNE WOJCIK

NORWALK, Conn.—Insurope is faring well, with the loss of seven master contracts more than made up by new additions, its U.S. representative says.

"As of Oct. 1, we had 177 (master contracts)" a gain of 27 from a year earlier, says Robert M. Pickrell, president of Multinational Benefit Assn., the international benefit network's North American sales and service representative.

But, "we lost several accounts either because they sold their interests overseas or closed operations or merged into an existing pool that we already had."

He adds, however, "we didn't lose any business per se."

The companies no longer contracting with Insurope for benefits are mostly European multinationals in environmental, manufacturing or high-tech businesses, Mr. Pickrell said.

Even after taking into account lost clients, he predicts Insurope will end 1986 with between 180 and 185 total master contracts.

"Our goals are very ambitious," he said. Between now and the spring of 1988—in time for a general meeting of member insurers—Insurope projects a 17.6% growth in number of clients and a 30% rise in premium volume.

Between June 1985 and September 1986, the network experienced an 18% growth in multinational accounts and a 30% increase in premium volume.

The network's client load increased 9.9% between June 1984 and June 1985, and premium volume during that period also grew 20%, he said.

The new companies added during the past year were mostly those with contracts in an average of five countries, he said. However, some of the new arrivals were relatively small—groups of 200 to 500 just expanding overseas, he added.

Many of the network's newer clients tend to fall into one of two categories: high-tech or industrial companies with interests overseas, Mr. Pickrell explained.

Insurope, which was formed in 1966, is an alliance of 40 non-U.S based insurers in 38 countries.

Insurope member insurers are usually among the three largest life insurers in their respective countries. No U.S. insurers belong, but several U.S. companies are affiliated with the network, including Provident Life & Accident Insurance Co., Prudential Insurance Co. of America, Equitable Life Assurance Society of the United States, Metropolitan Life Insurance Co. and Bankers Life Co.

The network's central office, Insurope Secretariat, is in Brussels, Belgium.

About 55% of the network's clients are U.S.-based companies, while the remainder are based in Europe and the Far East. This is a shift from last year, when 65% of its clients were U.S.-based.

The bulk of Insurope's clients are U.S.-based Fortune 500 companies, like Firestone Tire & Rubber Co., General Motors Corp. and General Electric Co.

To join the Insurope network, a company must have at least 200 lives in at least two countries.

Insurope also tries to tailor programs to meet clients' special needs, Mr. Pickrell said.

For example, Insurope offers a "multipool" program for companies with fewer than 200 lives. Basically functioning like a multiple employer pool, the profits and losses of all employers are applied to the experience rating of each employer, he explained.

Insurope anticipates accelerated growth of the multipool program during 1987, following a change in the minimum requirement for joining it. Now, a company must have a presence in at least one country and a single group account, based on that nation's standards for determining group size. Previously, the multipool required companies to have group contracts in at least two countries, Mr. Pickrell said.

The multipool program paid a dividend on 1985 experience equal to 10% to 12% of member companies' premiums, he noted.

Employers in the multipool program are not counted among the network's total multinational contracts. Rather, it is treated as a separate entity, he said.

To keep up with the changes multinational employers are going through, Insurope is changing, too, Mr. Pickrell said.

"We're getting very pragmatic on the solutions to particular problems rather than providing a fixed system," he said. Rather than fitting a square peg into a round hole, Insurope is creating the square hole, he added.

In particular, companies are looking for ways to improve cash flow, Mr. Pickrell noted.

In response, Insurope has established an administrative services-only product that functions like a third-party administrator for companies that self-fund their benefits, he said.

Insurope also has set up special arrangements at clients' requests in which the premium from a client's multinational contract is reinsured with the client's own captive, Mr. Pickrell said.

In addition, Insurope is developing more-rapid reporting procedures. Mr. Pickrell says the network hopes to trim to four or five months the current six-month wait between a contract renewal date and a report on the previous year's experience. The period is even longer for multipool accounts.

"We're striving to speed that process up," he said.

Mr. Pickrell said has not seen any companies pulling their pension funds out of the network for a higher return locally; however, Insurope has loaned money to companies "at a better rate than it could get on the street."

But, "there is a big trend for major U.S. corporations to look at alternative methods of funding" pensions, and many are setting up their own pension funds not involving an insurer, he said.

"U.S. corporations especially are spending more time looking into their investments overseas," and at pension funds in particular.

As a result, "I think we'll see insurers go more in the direction of managed funds," he predicted.

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For more information on Insurope, contact Robert M. Pickrell, President, Multinational Benefit Associates, 50 Washington St., Eighth Floor, South Norwalk, Conn. 06854; 203-854-9144. In Europe, contact Frank Smolar, Network Manager, Insurope Secretariat, Blvd. Bischoffsheim 45-B7, 1000 Brussels, Belgium; 2-2178163.

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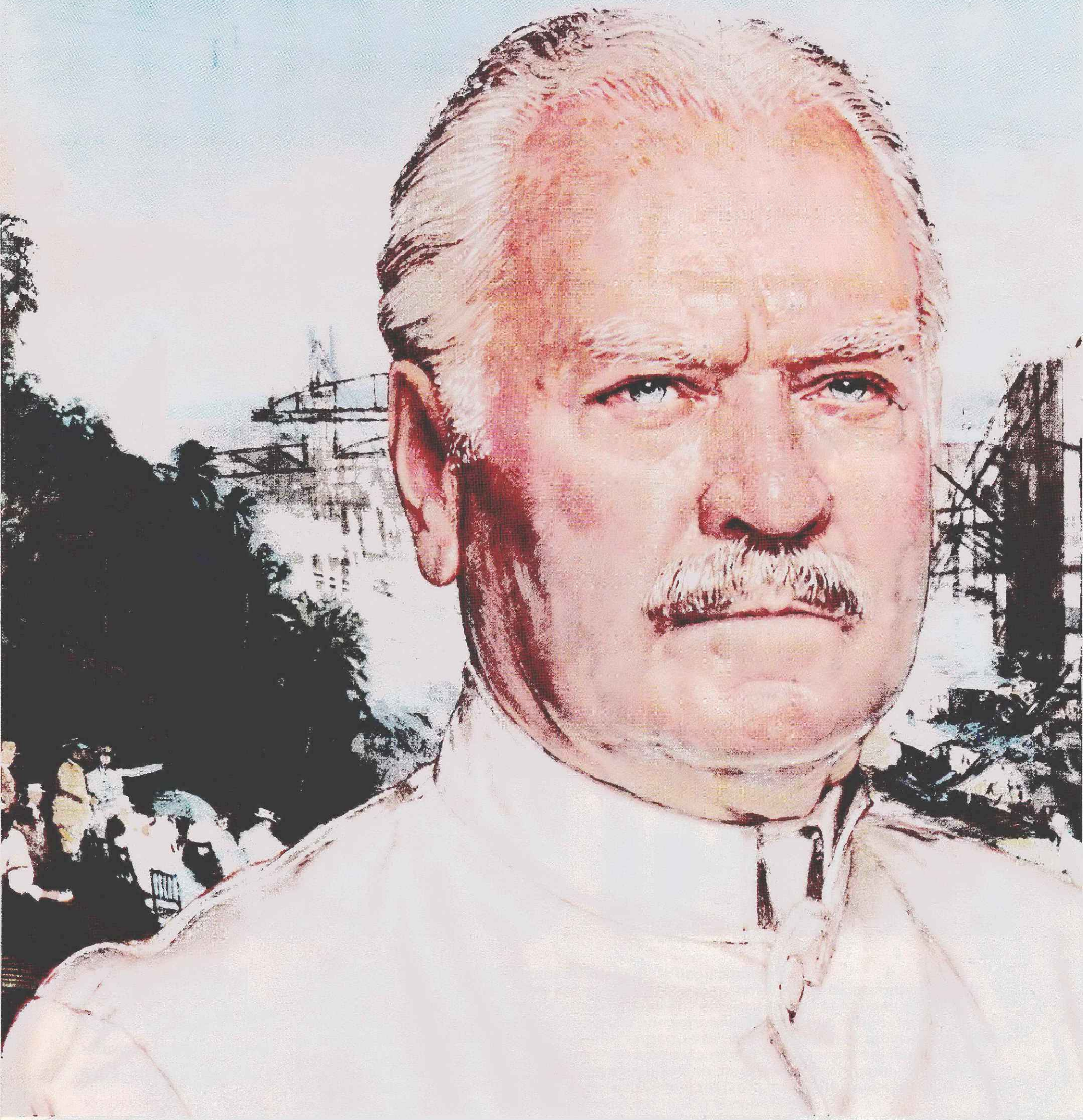
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AREA's client roster grows by two-thirds

By JOANNE WOJCIK

BRUSSELS, Belgium—AREA Benefits Network is growing by leaps and bounds, with a 67% increase in master contracts in the last year.

"We hope to get a significant share of the total market," said Hugo Clemeur, secretary general for the network in Brussels.

AREA now services more than 50 master contracts, compared with just 30 the previous year. And, that year's 30-client tally represented a 50% increase from the year before, Mr. Clemeur noted.

"Our growth figures are very satisfactory," he said of the network, which only became operational in 1981, although it was formed in 1979.

"We've been able to extend our relations—adding new companies—in competition with other networks," Mr. Clemeur said.

In addition, "we didn't lose any contracts. In fact, we never lost any contracts over the last five or six years."

Among AREA's new clients are a U.S.-based medical products manufacturer, a West German-based appliances manufacturer and a computer and telephone equipment manufacturer, also based in West Germany, Mr. Clemeur said.

He projected the 1986 premium volume at $25 million to $30 million, but didn't have figures from the previous year to use for comparison. He added that fluctuations in the currency exchange rates make year-to-year comparisons difficult to calculate.

'We hope to get a significant share of the total market,' says Secretary General Hugo Clemeur.

AREA is an acronym for the network's founding partners: Allianz Versicherungs-A.G. in Munich, West Germany; Royale Belge S.A. in Brussels, Belgium; Eagle Star Insurance P.L.C. in London; and N.V. AMEV Levensverzekering in Utrecht, Netherlands.

The network is now made up of 37 insurers in 40 countries.

AREA anticipates additions in Greece and the Philippines during 1987, Mr. Clemeur said.

In the United States, AREA's insuring partner is Equicor, the New York-based joint venture between the Equitable Life Assurance Society of the United States and the Hospital Corp. of America. Equicor also provides coverage through other networks, a company spokesman said.

One-third of AREA's clients are U.S.-based multinationals, another third are West German companies, approximately 10% are U.K.-based companies and the remainder are from other nations, according to Mr. Clemeur.

AREA's benefit plans vary widely from country to country and according to size of client and type of coverage, Mr. Clemeur explained. The network provides group life insurance, pension programs and medical and disability insurance.

No changes have been made in the requirements for joining the network: Companies must have subsidiaries in at least two countries and 100 or more lives.

However, this year the network activated a multiemployer pool, called the "A-Pool," for companies with a minimum of 25 insured lives or at least 10 lives per country if the company has subsidiaries in more than one country. Although the employer need have just one foreign subsidiary to join, the A-Pool is targeted to employers that show growth potential (*BI*, Oct. 21, 1985).

Local dividends are paid to A-Pool members based on local regulations, and international dividends are calculated according to the experience of the entire pool.

Since its Jan. 1 start-up, the A-Pool has grown to include 14 companies, which are mainly based Europe, according to Mr. Clemeur.

Another new product, a pension plan for clients with employees who are expatriates, also is doing well, he said, although he did not provide any specific figures.

The plan, managed by Eagle Star's international department on the Isle of Man, allows employees to build up pension funds in a new form of currency developed by the insurer—Golden Eagle units—which helps protect the pensions of employees who work in several foreign countries against fluctuations of any one currency, Mr. Clemeur explained.

AREA pays international dividends based on the global results of the network, although the amount each employer receives is also based on its individual contribution to those results, according to Mr. Clemeur.

"It's not spread evenly," he noted. "We recognize the result of the individual."

As soon as the dividends are calculated, AREA reports the amount to the client and awaits instructions for payment. The payment is usually made within three months of the account date, and interest is added if there is a delay in payment.

This is one area at which the network is "looking at improvements we can make," Mr. Clemeur said, although he stressed: "Accounting is one of our strongest points."

AREA helps its clients make better use of the dividends, such as to increase pension reserves or to shelter the funds from taxes. All advice takes into account the various laws of the countries in which a client operates, he added.

The network also is concentrating on ways to provide more information to corporate benefit managers.

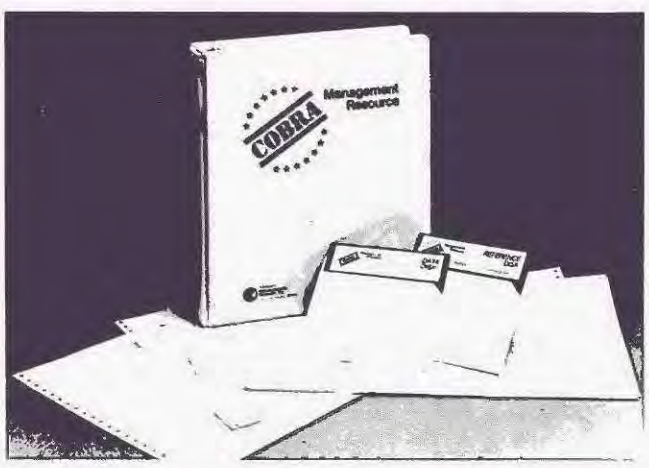
To Mr. Clemeur's knowledge, the network has not loaned any funds from employer pension plans to be invested locally. "If it's being done, it's purely on a local level," he said.

Mr. Clemeur sees a vast, untapped market for international benefit networks in the future.

"If you take the total market, there are fewer than 2,000 master contracts in the world," he estimated. But the number of multinational companies is in the tens of thousands, he added. ●

For more information on AREA, contact Hugo Clemeur, AREA Secretariat General, AREA Benefits Network, Avenue de Beaulieu 25, Box 7, B1160 Brussels, Belgium; 322-672-2279; Telex: 25752; FAX: 322-660-0356.

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Winterthur's WIN-Plan focuses on data

By MEG FLETCHER

WINTERTHUR, Switzerland—Winterthur Swiss Insurance Co.'s WIN-Plan is now a recognized competitor for multinational companies' employee benefit business, company officials say.

Its 60 contracts in 1985—nine more than in the previous year—generated about $30 million in premium, a $4 million increase from the previous year.

Thus far in 1986, Winterthur has added six new clients for a total of 66, with premiums projected at $40 million by year-end, said Yogee M. Thakkar, vp of the international division of Winterthur. He is also the managing director of Zurich-based IFISCO (International Financial & Insurance Services Co.), a Winterthur subsidiary.

Winterthur's share of the multinational benefit pool market is now about 7% or 8%, Mr. Thakkar said.

Yet when the program was introduced three years ago, competitor's called it "Yogee's Folly," said James Long, vp in the insurer's New York office.

It had only a 3% or 4% market share then, Mr. Thakkar estimated. However, he cautioned that the company's market share is hard to quantify because of a lack of data.

Quantifiable data is important to Mr. Thakkar, because it—along with flexibility—is key to the WIN-Plan.

Winterthur's "tremendous" emphasis on computerization in many Western European countries makes it possible for the network to give clients very detailed reports on both benefits and claims at foreign subsidiaries, according to Mr. Thakkar.

For example, the network can report on a per-country basis not only the number of lives at the beginning and end of a plan year, but also the number of death claims, service terminations and new hires.

"Everything is crystal clear to the client," Mr. Thakkar said.

Winterthur expects to benefit from clients' increasing demand for additional information, he said, which gives clients "a greater handle and greater control."

A network can provide information more inexpensively and more willingly than local subsidiaries can, Mr. Thakkar added.

In addition, there will be an increasing emphasis on local insurers providing effective and competitive contracts with a range of services, including investment assistance.

A typical Winterthur client is a medium-sized or Fortune 500 company with between 2,000 and 10,000 total employees, of which Winterthur pools benefits for an average of 500 workers. However, the number of its clients' pooled employees range from 60 to 5,000, Mr. Thakkar said.

The number of employees covered by the WIN-Plan totaled 20,000 in 1986, which is an increase of 3,000 during the past year.

About 70% of the Winterthur's network clients are based in Europe, 20% are in North America and 10% are elsewhere, especially in Asia.

An employer must have at least 100 lives in two countries to be eligible for an international or second-stage dividend each year. Employers with 60 or 70 lives can participate in a "time pool," in which they are eligible for a dividend over a longer period of time, usually two to five years, Mr. Thakkar said.

Depending upon the program and country involved, Winterthur's program offers group life, endowment, pension and long-term disability benefits in one plan as well as group accident and health in another plan.

However, any company, whether or not it belongs to the Winterthur benefit network, can participate in Winterthur's managed fund program for pension funds, Mr. Thakkar said.

As a result of the managed fund program's high yields, Winterthur has attracted pension business from clients of other networks and local insurers, according to Mr. Thakkar.

Winterthur has has not seen clients pulling out their pension funds to seek a better return locally. Many insurers' portfolios now offer better yields than are available on the open market, he observed.

In an effort to better serve clients, Winterthur is expanding office locations and cooperative arrangements. It opened an office for life insurance operations in New York and a new branch office in Japan.

It has also developed a new cooperating partnership in Ireland with the New Ireland Assurance Co. P.L.C. And it is exploring the feasibility of opening offices in other parts of the United States.

Winterthur expects new growth from small and medium-sized companies and from companies that are just expanding internationally.

In addition, Mr. Thakkar sees growth potential from companies with established network relationships that are reviewing operations following an acquisition or merger.

Winterthur's other branch offices are located in Belgium, Luxembourg, Denmark, Canada, West Germany, Spain, France, Italy, the Netherlands, Austria, Portugal, Sweden and the United States.

Winterthur's cooperating partners include The Prudential Insurance Co. of America and Metropolitan Life Insurance Co. in the United States, Chiyoda Mutual Life Insurance Co. in Japan and Norwich Union Life Insurance Co. of Great Britain.

Winterthur also operates through joint ventures in some countries where it doesn't have branches. For example, it works in Brazil with Itau Life Insurance Co. and with Norwich in Austria, Saudi Arabia and Nigeria.

The parent company of the Winterthur Group is Winterthur Swiss Insurance Co. Besides the parent company, there are 19 subsidiaries in Switzerland; Toronto; Winnipeg, Manitoba; Bermuda; and Dallas.

•

For more information about the WIN-Plan, contact Winterthur Insurance, International Division, Rudolfstrasse 1, Postfach 286, CH-8401 Winterthur, Switzerland; 052-85-11-11. In the United States, contact George G. Smyth, Vp and Manager, or James G. Long, Vp, Winterthur Swiss Insurance Co., 1 World Trade Center, Suite 8911, New York, N.Y. 10048; 212-466-0777.

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Gerling offers customized networks

By MEG FLETCHER

COLOGNE, West Germany—European companies are the main source of growth for Gerling-Konzern's program of providing a multinational client with benefit coverages through a tailor-made network of insurers.

Two new European clients began to use the Gerling Pooling Instrument in 1985, and two more began participating in 1986, bringing the total to eight.

Four clients are German-based companies and three are Swiss. Its only U.S.-based company is Arthur Andersen & Co., says Kim J. Singh, director of Gerling's international employee benefits division.

Gerling offers administrative and technical services consisting of negotiating arrangements with individual insurers chosen by a client's foreign subsidiaries, and collecting and reporting data.

This contrasts with a typical network that offers a client the services of a relatively fixed group of insurers that are owned or affiliated with the network or coordinated by the network.

Mr. Singh said Gerling's approach is advantageous to a client's local subsidiaries because it allows them the freedom to choose their own insurer, does not disrupt arrangements with local insurers and gives them the ability to barter for better prices or go elsewhere for better service.

It also increases the portability of benefits when an employee moves from one location to another, he said.

The 4-year-old GPI has caught on slowly partly because of "the newness of the concept and tough opposition of networks," he said.

Yet the insurer continues to offer the program as a "door opener" to attract clients to which it hopes to also sell property/casualty and marine coverages, Mr. Singh said.

In addition, Gerling hopes to generate some business for its own reinsurance operation—including marine, property/casualty and life coverages—from the insurers it contacts on behalf of network clients. But, neither clients nor insurers are required to place other business with Gerling, he said.

Mr. Singh said critics claim Gerling's approach leads to excessive administrative costs because of the time it takes to negotiate the individual arrangements. But, he said Gerling guarantees the administrative charge will not be excessive and could be up to 20% lower than other networks.

Critics also claim that a conflict of interest exists between Gerling's desire to meet the needs of clients and its desire to cultivate insurers for its reinsurance business, he said. But, Mr. Singh emphasized that Gerling is working only for the client and has no pre-arranged relationship with a insurer that could limit the client's choice.

Typical clients are in service or manufacturing industries including pharmaceuticals, but not high-tech companies, he said. The typical client has about 700 employees, although the range varies from 150 to more than 2,000, he said.

Gerling pooling arrangements now cover a total of 5,600 employees, an increase of 1,400 over 1985. The employees are located mainly in Western Europe, but also in Asia and North America, he said.

Each client generates an average of $250,000 in premium for an estimated total network volume of $2 million this year, according to figures he supplied.

Depending on the country, Gerling can provide group life, long- and short-term disability, accidental death and disability, survivors' benefits, health insurance, major medical insurance and deferred annuity contracts.

Gerling itself does not manage pension funds, but it may be able to arrange for a local insurer to do so. Gerling can offer to reinsure the pension funds, although that is not required, Mr. Singh said.

An employer generally must have 500 employees in at least two countries to receive a second-stage dividend on an annual basis, while smaller employers may receive a dividend over a longer period of time. An employer with as few as 10 employees can participate in a collective multinational pool for unrelated companies, he said.

About 60% of clients also participate in traditional networks managed by other insurers he said.

Mr. Singh predicts the Gerling program will continue to grow and expects three additional contracts in 1987, to bring the total to 11.

An additional person will join the staff in 1987 to service North American clients, he added.

Gerling has offices in Europe, North America, South America, Africa and Australia.

Among its North American subsidiaries are Gerling Global General Insurance Co., Gerling Global Life Insurance Co. and Gerling Global Reinsurance Co., all in Toronto; and Gerling Global Offices Inc., Gerling America Insurance Co. and Gerling-Konzern American Service Corp., all in New York.

It also has two London subsidiaries Gerling Global General & Reinsurance Co. Ltd. and Gerling Insurance Service Co. Ltd.

●

For more information on Gerling, contact Kim J. Singh, Gerling-Konzern Welt Service, GmbH, Gereonshof, Postfach 10 08 08, D-5000, Cologne 1 West Germany; 221-144-5661 The U.S. contact is Wolfgang Schlaeger, Gerling-Konzern, 717 Fifth Ave., 18th Floor, New York, N.Y. 10022; 212-752-8500.



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IGP network adds Swiss bank affiliate

By STEVE TARAVELLA

BOSTON—John Hancock Mutual Life Insurance Co.'s international benefit network boasts a new affiliate that makes the network different from the rest.

Instead of adding another insurer to its International Group Program, Hancock turned to a large private bank as its newest member. IGP is believed to be the first of the international networks to do so.

The bank, Pictet & Co. of Switzerland, joined IGP's 33 insurance company members about five months ago, says Michael J. Allan, second vp in Hancock's international group department in Boston.

Pictet's debut as an IGP affiliate occurred after some IGP clients with Swiss operations had investment needs that IGP's Swiss insurer affiliates were unable to meet. Investments made by Swiss insurance companies are more stringently regulated than those made by Swiss banks, Mr. Allan explains.

Pictet's involvement should give U.S. multinational companies with Swiss subsidiaries greater flexibility in investing their pension funds, he says.

The arrangement, born out of Hancock's efforts to improve clients' cash flow at the local level, offers multinationals "the best of all possible worlds," Mr. Allan says.

Hancock is "quite pleased" with the innovation and "extremely encouraged" by the reaction of multinational clients so far, he reports.

But multinationals would be wrong to assume IGP is shunning insurance company expansion in favor of growth via financial institutions: The network last month signed a letter of intent with Sampo Group, a Finnish insurer.

Pursuant to the agreement, which has not been publicly announced and which is pending regulatory approval, Sampo would join the network in January, bringing IGP's membership to 35.

About 40 of the approximately 395 multinationals with IGP master contracts have Finnish subsidiaries that might take advantage of the new capacity, Mr. Allan says.

Sampo would mark IGP's first foray into Finland, and may mark the first time any Finnish insurer has taken part in one of the networks, he speculates.

IGP, however, isn't going into Finland alone. Swiss Life Network also plans to attract business in that country beginning Jan. 1 (see story, page 39).

Today, IGP writes about 4,500 separate benefit plans for more than 2,200 subsidiaries in about 45 countries. Depending on the country, IGP provides life, health, disability, pension and occasionally dental insurance benefits.

About 45% of IGP's 395 master contract clients are employers based in foreign countries; many non-U.S. business environments are just beginning to recognize the benefits of multinational pooling arrangements, the network says.

The 395 master contracts currently in force is a 4% increase from 380 last year. And, the network expects to issue approximately 30 more master contracts to multinationals over the next 12 months. At least half of these would represent agreements with non-U.S. clients, Mr. Allan estimates.

Japan is probably IGP's second-largest market, while Sweden is its fastest-growing. Its Swedish clients include automaker Saab-Scania and Electrolux Corp., the vacuum manufacturer.

IGP's U.S. clients are mainly Fortune 500 businesses.

The network is now handling more than $300 million in premium volume, a 50% swell from the approximately $200 million handled at this time last year.

Many of the companies that use IGP for much of their benefit placements are members of the pharmaceutical industry, like Eli Lilly & Co. of Indianapolis, New York-based Pfizer Inc. and SmithKline Beckman Corp. in Philadelphia; the chemical industry, like Dow Chemical Co. in Midland, Mich., Monsanto Co. in St. Louis, and Imperial Chemical Industries in Dighton, Mass; and the automotive industry, like Toyota of Japan, Fiat of Italy, and Detroit-based General Motors Corp.

Hancock writes domestic benefit programs for only about 10% of IGP's U.S. clients, Mr. Allan estimates.

Because the American business community's penchant for mergers and acquisitions, IGP has grown more than its numbers would indicate, Mr. Allan points out.

Several clients that bought their coverage through IGP separately last year now buy it collectively.

For example, IGP once counted R.J. Reynolds Industries, Nabisco Brands Inc. and Standard Brands as three of its clients; today they appear on client rosters as just one. Standard Brands was folded into Nabisco several years ago, and Reynolds subsequently acquired Nabisco Brands to form RJR Nabisco Inc. in Winston-Salem, N.C.

Similarly, some IGP clients have sold subsidiaries to multinationals that already used another network as their principal source of benefit pooling.

Mr. Allan is unable to estimate what percentage of the multinational pooling market IGP controls, but notes that the network has consistently been able to pick up about half of the business it quotes.

As a result of multinational employers' increasing tendency to use fewer networks to arrange the needed coverage, IGP picked up the entire benefit accounts of three companies that previously had placed only part of their business through IGP, he notes.

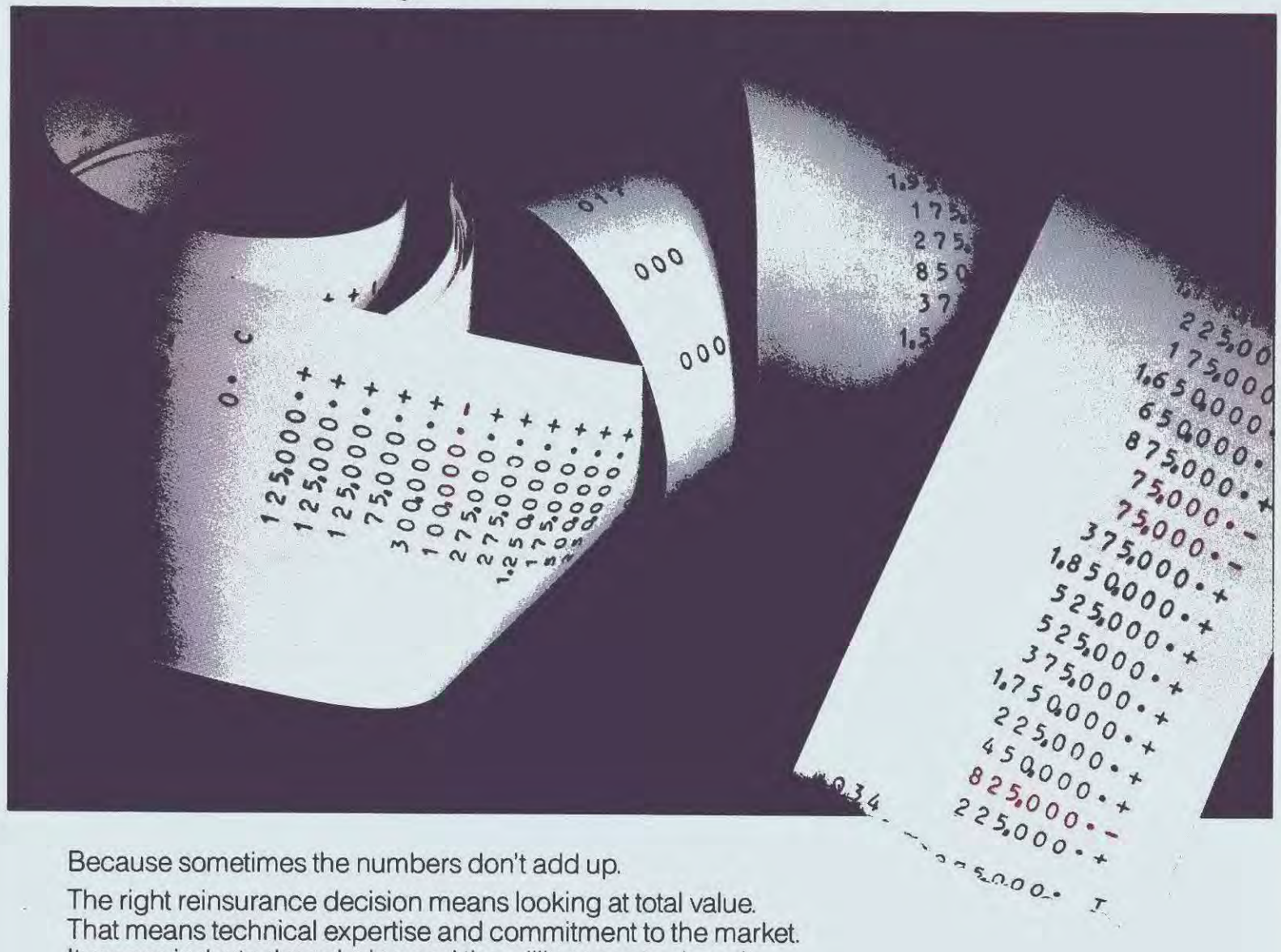
Conversely, it lost the small portion of one U.S. account for which IGP had been a secondary market when the employer consolidated its placements under the primary network, he says.

Associate insurers in IGP include Trygg-Hansa Group in Sweden; Prudential Assurance Co. in London; Sul America Life Insurance Co. in Brazil; The Australian Mutual Provident Society in Australia and New Zealand; and one Hancock unit, Maritime Life Assurance Co. in Canada.

IGP has a staff of 54 people at its main office in Boston and nine at a second office in Brussels, Belgium. ●

For more information on IGP, contact Hancock's International Group Department, John Hancock Place, P.O. Box 111, Boston, Mass. 02117; 617-421-6000.

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Asia/Pacific conference



Photo: Kathryn J. McIntyre

Asian RIMS meeting boasts big turnout

SINGAPORE—More than 210 registrants from 15 countries attended the Asia/Pacific Conference in Singapore Oct. 19-22, sponsored by the Risk & Insurance Management Society.

"The idea for the Asia/Pacific conference was conceived more than five years ago," noted W. Michael McDonald, director of risk management at Ryder System Inc. in Miami.

RIMS President William L. Mather, risk management administrator for The Gillette Co. in Boston, called the attendance "an outstanding turnout for our initial effort to improve our communications network throughout the world."

Based on the registration list, the largest number of registrants were from the United States (50) and Singapore (49). Japan and Malaysia sent the next-largest delegations, 28 and 21, respectively.

The other countries represented were Indonesia, the Philippines, Australia, Hong Kong, Korea, Canada, Thailand, England, India, the Republic of China and France.

Planning for the conference started two years ago, noted Mr. McDonald.

The conference planning committee, from left to right, included: Kevin W. Knight, manager, Australia Post Security (Qld.), in Brisbane, Australia; Edith F. Lichota, senior vp-risk management division, Irving Trust Co. in New York; Chan Seck Cheng, risk management/insurance officer, Mass Rapid Transit Corp. in Singapore; Ronald P. McCartney, manager-corporate insurance, Johnson & Johnson in New Brunswick, N.J.; Mr. McDonald; and Yasuhiko Ushiba, assistant to the general manager, general affairs and personal division, Mitsubishi Corp. in Tokyo.

Hugh R. Loader, managing director, Tetra Pak in Essex, England, and Laura L. Hinckley, director-risk management, Avery International Inc. in Pasadena, Calif., also were members of the planning committee.

Study urges growth of risk management

By KATHRYN J. McINTYRE

Governments can amend laws that are incompatible with risk management, the study contends.

SINGAPORE—Governments, the insurance industry and multinational enterprises all should do more to promote risk management in developing countries, according to a draft of a study that has been submitted to a unit of the United Nations.

Currently, "risk management is still in its infancy" in developing countries, and "as such, its potential to contribute to economic prosperity through minimization of loss to property and of human injuries and suffering is relatively untapped," the study says.

"Even where the risk management process is understood, it is rarely followed in an organized and professional manner."

Governments can amend laws that are incompatible with risk management, insurers can improve their products and services, and multinationals can be better citizens in host countries, according to the study, which was conducted by the Center for Risk Management and Insurance Research at Georgia State University in Atlanta.

Harold D. Skipper Jr., director of the research center, presented a summary of the draft study at the Asia/Pacific Conference in Singapore last month, which was sponsored by the Risk & Insurance Management Society.

The study on the applicability of modern risk management techniques in developing countries was requested by the United Nations Conference on Trade and Development following the December 1984 chemical tragedy in Bhopal, India, that killed more than 2,000 and injured hundreds of thousands.

Professor Skipper was given permission by UNCTAD to discuss the preliminary results of the study at the Asia/Pacific Conference to seek additional opinions from the conference attendees.



Mr. Skipper

"It is highly unusual by U.N. practice to permit a study of this type in the formative stages to be released and discussed in a public forum," Professor Skipper said.

"I am very pleased they gave us this opportunity. Their doing so is more a compliment to you and to RIMS," he said.

"They would not have seen fit to provide such permission if they had not believed this was the kind of forum where significant and important information could be obtained for their use," Professor Skipper said.

The study is scheduled to be presented to the governments of countries represented at the March meeting of the UNCTAD Committee on Invisibles and Financing Related to Trade and then made available for public distribution.

A draft of the study now is in the hands of the secretariat of the insurance division of the Committee on Invisibles and Financing Related to Trade.

But, while Professor Skipper said he hopes the study will be published as a U.N. document, he warned that it might not be "for any number of reasons. They could conclude that the study is not sufficiently useful or it might be too controversial."

As a result, Professor Skipper stressed that his remarks represented the views of the center researchers and not the views of the United Nations.

"No one entity can cause modern risk management practices to be adopted in developing countries. A concerted effort by government, the local insurance industry, the international insurance community, commercial and industrial enterprises and others could ensure that sound risk management contributes its fair share to economic and social progress," Professor Skipper said, quoting from a summary of the study draft.

"Unless governments and other decision-makers in developing countries are convinced that the benefits of risk management outweigh its costs, we all know that little will be done."

Developing countries, Professor Skipper noted, are defined by the

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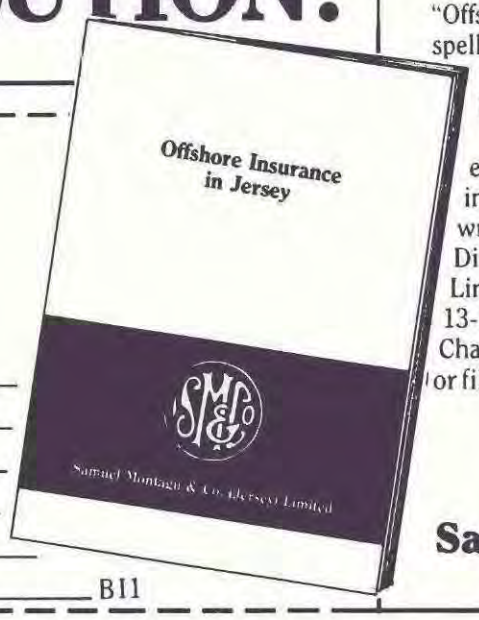
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Risk managers call for easing of strict tariffs

SIGNAPORE—Risk managers in developing countries heartily endorse easing the strict insurance rating laws, called tariffs, in their countries.

"You have made a very, very valid point that the tariffs, which are monopolistic and monolithic in nature, put the good, bad and the ugly in the same basket in the guise of classification of risks," commented T. Ramanan, insurance and risk manager for Hindustan Lever Ltd. in Bombay, India. Mr. Ramanan made his comments in response to remarks by Professor Harold D. Skipper of Georgia State University (see story, page 56).

"All soap factories are rated the same. The one that is producing soap with steam and the one using sophisticated technology also pay the same premium.

"This should come out so that the tariffs are discouraged so far as possible," Mr. Ramanan advised Professor Skipper of the report on risk management in developing countries to be presented to a unit of the United Nations.

And, Lawrence J. Gotuaco of insurance broker and consultant Gotuaco del Rosario & Associates Inc. in the Philippines, added some advice: "I hope you will make it a big point in your report to point out to the governments to consider their positions on tariffs.

"In the Philippines, in Malaysia, we've got a new wave of trying to enforce tariffs. We brokers don't think we should get rid of all tariffs, if the tariffs were reasonably designed.

"And you have pointed out precisely that they are not reasonably designed when they lump risks together in very generic classifications.

"This issue is important because I have seen too many big risks go uninsured or underinsured tremendously because they cannot afford to pay the kind of rates if they were to include all the perils that they needed."

Mr. Gotuaco also made a plea to the insurance industry.

"Some of the bigger multinational insurers, please, don't fight these industrial all-risk needs."

Continued from previous page

United Nations as all countries in Latin America, Central America, South America, every African country and every country in Asia and the Pacific except Australia, New Zealand and Japan.

Governments in developing countries must assume a major role in promoting risk management, the study says, because "in developing countries, governments can yield more influence over the economic activities. In many cases, governments actually control or own the means of production."

Among the specific actions governments can take, according to the study, are:

- Designing insurance laws that foster risk management.

"Too often, the insurance laws and regulations in developing countries are not compatible with risk management promotion," Professor Skipper explained.

"For example, developing countries usually require local placement of insurance on property and persons located within their country" to give preference to the local insurance market.

However, "the local insurance market has an obligation to the national economy to provide appropriate and reasonable cover. We observe that if the local insurance industry cannot or will not provide appropriate, quality insurance coverage, then government may justifiably feel less compelled to provide the local insurance market with preferential treatment," he commented.

'Environmental and workers' safety can be of crucial importance,' says Professor Skipper.

- Relaxing regulatory control over the provisions of insurance policies.

"Such laws should not be overly restrictive in terms of permitting commercial or industrial policyholders to negotiate with insurance companies for what they perceive to be needed policy provisions," Professor Skipper said.

- Improving environmental and worker safety.

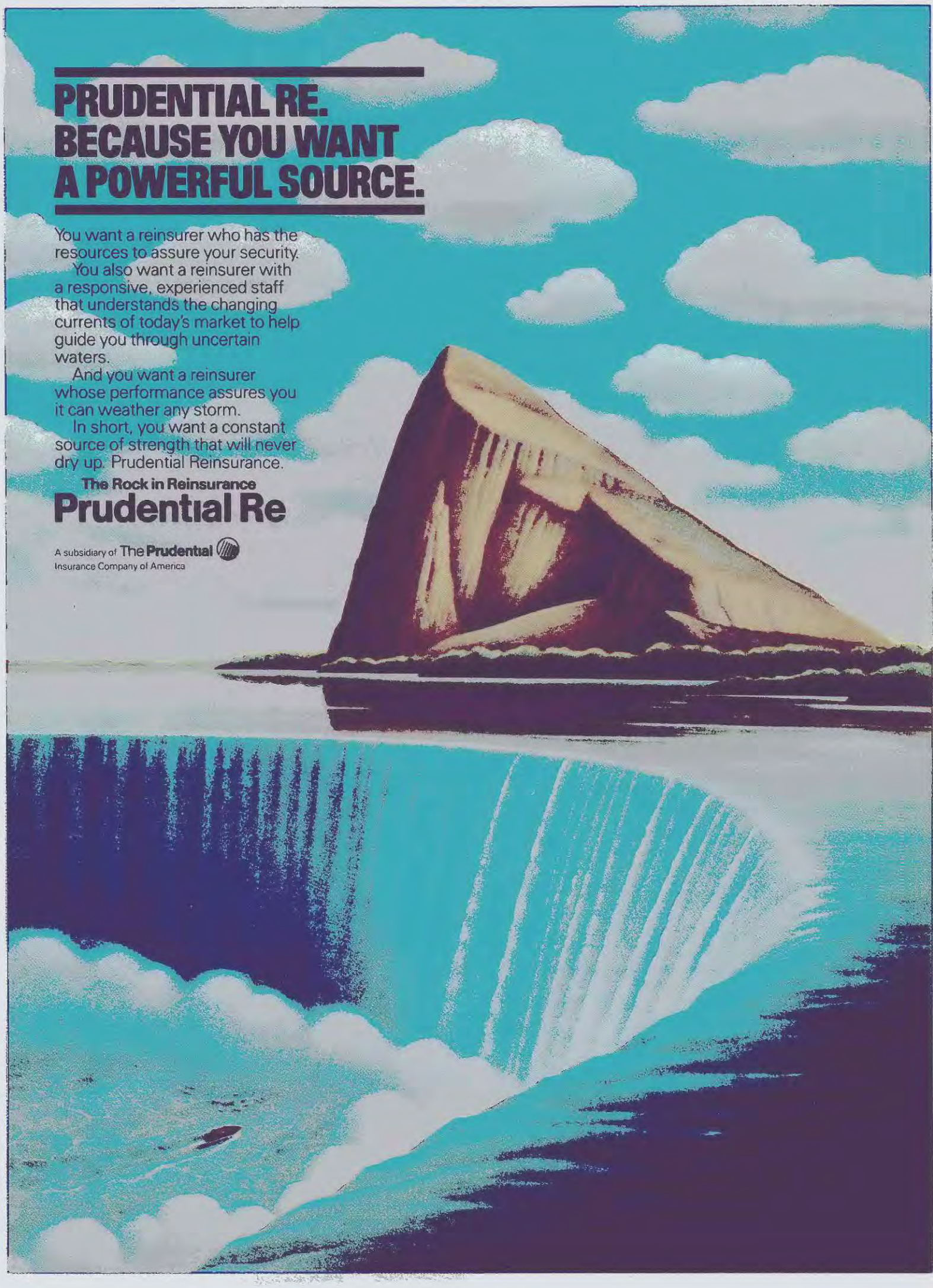
"Environmental and workers' safety can be of crucial importance. One of the main problems is that manufacturing and mining operations may have few natural financial incentives to protect the country's air, water and soil," Professor Skipper said.

"The impact of environmental impairment may not be recognized for years.

"Clearly, personal and national short-term advantages must be given second place in favor of children, grandchildren and general interest of the distant future. To ensure that this occurs, government must take an active, effective role," Professor Skipper said.

- Adopting exchange controls

Continued on next page



U.N. study

Continued from previous page
and trade laws that are compatible with risk management.

"The vast majority of developing counties have economic programs of minimizing the non-essential outflow of foreign exchange. This policy can restrict the ability of domestic commercial and industrial enterprises to import loss control and safety equipment and methods. Such an approach could prove short-sighted. Otherwise preventable damage and injury could provoke an even larger outflow of foreign exchange at a later time.

"Similarly, duties and other import restrictions on locally unavailable, yet reasonable, safety and loss-control devices could be eliminated, with positive net economic benefits. Duties and import restrictions can discourage local affiliates of multinational enterprises as well as other local enterprises from pursuing justifiable casualty prevention programs," he said.

'We assert in our study very plainly that the creation and strengthening of a national insurance industry is not an end unto itself. Rather, it is seen as an effective means to help accomplish certain development objectives,' says Professor Skipper.

- Adopting tax policy and subsidies to encourage risk management.

Favorable tax policy can influence risk management in at least three ways, Professor Skipper explained.

First, a tax policy that permits insurers to tax-defer earnings to build appropriate reserves can increase national retention capacity and protect against adverse results from insuring large or complex risks.

Second, permitting full-income tax deductions for loss prevention, loss control and safety devices and appropriate environmental protection equipment could expand their use.

"Often governments of developing countries do not provide tax deductibility for these items," Professor Skipper said.

Third, if a country has sufficient resources, it could provide tax subsidies to support the creation locally of manufacturing or other concerns that produce fire prevention and control equipment or other locally needed loss control devices and programs.

In addition to government, "we believe the insurance industry has an important role to play in risk management promotion," Professor Skipper said.

UNCTAD has assisted in the creation and strengthening of domestic insurance industries throughout the developing countries, and "today, virtually every developing country in the world has its own domestic insurance industry.

"Because of the historically strong insurance bias of UNCTAD, our study takes considerable pain to explain why sound risk management is not only good for a country's national economy but also good for insurance industry," Professor Skipper said.

"We assert in our study very plainly that the creation and strengthening of a national insurance industry is not an end unto itself. Rather, it is seen as an effective means to help accomplish certain development objectives," he said.

"Sound risk management will help the insurance industry perform its role better," the study asserts.

"We observe that insurance will prove to be an essential part of any risk management program. If the insurance industry will seize the initiative, they could provide the leadership role for the appropriate promotion of risk management in their countries."

Specifically, the insurance industry could promote risk management if:

- Insurers improved coverage provisions.

The study found that the demand for insurance coverage "sometimes is determined by the availability. With insufficient risk management knowledge, commercial and industrial enterprises tend to be led by domestic insurers and brokers. The philosophy of the policyholder may be 'if the insurer does not provide this coverage, we don't need it.'"

In addition, the study discusses the desirability of package contracts, allowing replacement-cost coverage, permitting insurers flexibility to tailor policy provisions more closely to policyholder needs, providing adequate limits of liability cover—especially for multinational enterprises—and perhaps permitting indexing of policy values where inflation is a problem.

- Insurers improved rating practices.

"Most developing countries use a tariff system of pricing. In many of these countries, the system does not adequately reflect differences in hazard levels.

"In property insurance, the system may fail to reflect important hazard-related differences in construction, protection, occupancy and exposure. This means that the high-hazard companies are rewarded at the expense of the more efficient, loss-conscious companies and producers.

"We argue that it is in society's interest for insurers' rating systems to encourage construction and sound design."

Also, while deductibles support loss control activities, "too often, inadequate credit is given for deductibles. Deductibles serve the purpose of efficiency in insurance purchasing as well as creating considerable incentive to control losses."

- Insurers improved services delivered.

Risk assessment, loss control and more prompt payment of claims all can be improved, the report says.

- Reinsurers encouraged insurers to "undertake practices that encourage local insurers to develop plans and alter rating systems that are compatible with the promotion of risk management.

"Reinsurers can create an environment that encourages such behavior and by providing quality loss control and rating advice," Professor Skipper said.

- Intermediaries did more to promote risk management, as they have to raise the consciousness of the public about the need for financial protection through insurance.

Commercial and industrial enterprises in developing countries also must promote risk management, according to the researchers.

"If risk management is to play an integral part in development efforts, responsibility for its successful integration must rest with the top executives of commercial and industrial enterprises in developing countries," Professor Skipper said.

Continued on next page

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"The single most important contribution to the improvement of risk management in developing countries would be for such executives to embrace the minimization of loss concept as strongly as some do the maximization of profit concept. We make a plea in the study that these two items are not in conflict. One supports the other. Good risk management is good business."

The study devotes considerable space to the role of multinational enterprise, a term chosen instead of multinational corporation to embrace multinational corporations and the multinational enterprises owned by governments, especially those of the socialist countries of Eastern Europe.

The study suggests that multinational enterprises operating in a developing country should:

- Observe the economic, social, cultural and political nature of the government and the people.
- Realize that they have "a responsibility beyond the narrow concept of efficient operation and profitability."

This responsibility can be spelled out in a policy statement, such as, "We will participate in all societies in which we do business as a responsible and ethical citizen, dedicated to continuing social and economic progress."

"Such statements should require disclosure to the host government and local employees of actual or potential danger in the use of hazardous technology, chemicals and processes. Such declarations are important in that they can set the tone for the enterprises's entire operation.

"We sometimes, I think, give too little attention to such policy statements," Professor Skipper said.

"Multinational enterprises have a special, positive role to play in the promotion of risk management," the study notes. "They also have special obligations. Some multinational enterprises are model citizens in developing countries and deserve the full cooperation and support of the host government. Regrettably, some multinational enterprises also occupy the other end of the spectrum."

Others can help promote risk management in developing countries, the study notes.

The study encourages the development of risk management organizations among the risk management specialists of the country. "Clearly RIMS and other such national risk management organizations have an important role to play in risk management promotion. Risk management organizations exist in many developed countries but only a few developing countries. The last count I had was three," said Professor Skipper. (The study notes them as India, Nigeria and Mexico.)

The study also encourages the teaching of risk management in developing countries and research of risk management in developing countries by industry personnel in developed countries.

Finally, regional cooperative associations and organizations should be sensitized to the benefits of risk management, the study says, noting many international organizations already are involved in risk management.

While encouraging the development of risk management, the study also covers the benefits of sound risk management to the commercial and industrial enterprises, to the national economy and to individual citizens—something Professor Skipper said he did not need to explain to risk management professionals.

In addition, the study points out, "Risk management in developing countries must not be a mere copy of risk management practices in developed countries. Risk management practices should be compatible with cultural and physical environment, its level of infrastructural and other development, and its financial and human resources."

"It is the contention of our study that risk management in developing countries can be improved greatly at little short-term net cost to the national economy," he said. "Over a period of years, these improvements will result in benefits —both financial and otherwise— that far outweigh the costs." ■

The study notes that 'good risk management is good business,' says Professor Skipper.

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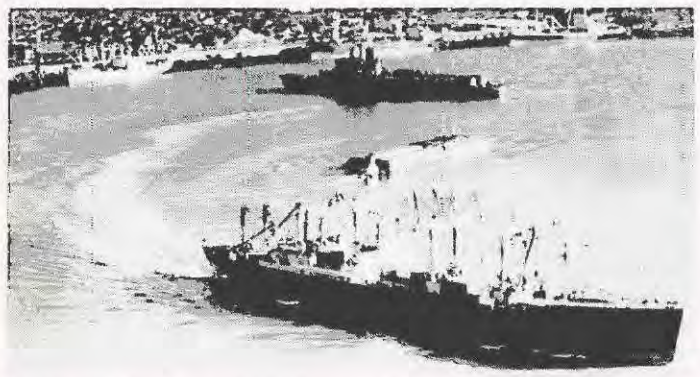
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Singapore market

Continued from previous page

of large liability awards is much smaller in Singapore than in the United States.

The highest single general liability judgment ever awarded in Singapore was $233,645, according to Mr. Hidalgo. The highest automobile liability award, he said, was $560,748.

"There are plenty with zero" in liability coverage, observed Mr. Lockhart of Marsh & McLennan Bowring in Singapore.

And, he added that, "$500,000 Singapore ($233,645 U.S.) is a fairly common liability cover."



Mr. Hidalgo

"Asians are not great buyers of insurance," he said. "And in the current economic recession, they are more inclined to save on premiums and be underinsured compared to what multinationals would consider adequate insurance."

Mr. Hidalgo of CIGNA Worldwide pegged the common limit much higher—at $1 million U.S.

Liability coverage of $5 million to $10 million in U.S. dollars "is a large limit," according to Mr. Beattie of Jardine.

"In Singapore, business don't buy what they should —they only buy what they think they need," said Philip Wimala, senior account executive for Heath Hudig Langeveldt Pte. Ltd. While $1 million Singapore is adequate for a low-risk business, a company using flammables, for example, should have $5 million to $10 million Singapore ($2.3 million to $4.7 million) in limits, he said.

Most Singapore businesses can find all the capacity they need in Singapore. "Very little business goes out to the United States or United Kingdom," says Mr. Lockhart of M&M.

However, some businesses or professionals sometimes do have to seek coverage from U.S. or British markets for professional liability insurance or product liability insurance, says Mr. Beattie of Jardine. "Then they face increased premiums," he notes.

Singapore businesses with U.S. exports have a local market for coverage as long as the U.S. exports are a small portion of the company's sales.

INA in Singapore, for example, will write product liability insurance for local firms with U.S. exports if the U.S. sales are no more than 10% of total sales.

Lombard does not have a hard and fast rule on percent of sales related to U.S. exports, but if it exceeds 15%, "we'd want more details," Mr. Clarke said.

"We're disappointed we're not writing more," says Mr. Buckingham of AIU. "But Singapore's exports of finished products to the U.S. are small compared with the total economy."

Insurers writing domestic business in Singapore are optimistic that the economy will start to improve soon and that their premiums will begin to grow again.

The government took actions in April to attract more investment to Singapore, including reducing the corporate tax rate to 33% from 40% and cutting the amount employers must pay to the government-run employee retirement fund to 10% of salary from 25%.

The latest forecast is for modest, positive economic growth of 1% to 2% this year.

And, brokers are looking to increase their share of the market. Currently, only about 25% of Singapore's domestic premiums are placed by brokers, they say.

The Singapore Insurance Brokers Assn. has 33 members, of which 22 are international brokers.

Among the largest international brokers operating in in Singapore are: M&M Bowring, Jardine, Heath Hudig Langeveldt, Johnson & Higgins Pte. Ltd., Frank B. Hall & Co. Overseas Inc., Sedgwick Chartered (Singapore) Pte. Ltd. and Alexander Stenhouse Pte. Ltd. ■

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Map: Amy Palmer

Varied, modern Singapore a surprise to many visitors

SINGAPORE—"Please tell your readers that Singapore is not in China," pleaded Gary L. Buckingham, president and managing director of AIU (Singapore) Pte. Ltd.

"And tell them we're not Communist," he added.

These are among the misconceptions people have about the Republic of Singapore, Mr. Buckingham observed.

Singapore is a city-state located on an island at the end of the Malayan Peninsula, just 60 miles from the equator. Its population of 2.6 million people live on a land area of only 227 square miles.

Its government is parliamentary and is dominated by one party, the People's Action Party, that is avidly anti-Communist.

Other facts about Singapore little known to most Westerners are:

- **Singapore is a multiracial nation with four official languages, including English, Malay, Mandarin and Tamil.**
- **Singapore is modern. The island is covered with 10- and 20-story apartment buildings constructed by the government, which sells long-term leases to the people.. New hotels and office buildings also pierce the skyline.**
- **The standard of living in Singapore is second only to Japan in Asia.**
- **Singapore is clean. You can be fined up to $500 for littering, which includes dropping a cigarette butt on the ground.**

Singapore aiming to be insurance center

By KATHRYN J. McINTYRE

'We are very keen to promote Singapore as an important insurance and reinsurance center, in line with the government's efforts to develop Singapore as a financial center,' says Law Song Keng, Singapore's insurance commissioner.

SINGAPORE—The city-state of Singapore wants to become an insurance and reinsurance center in Asia—including a domicile for captive insurance companies.

"We are very keen to promote Singapore as an important insurance and reinsurance center, in line with the government's efforts to develop Singapore as a financial center," Law Song Keng, insurance commissioner of Singapore, told registrants at the RIMS Asia/Pacific Conference last month in Singapore.

"Two key areas for development are international reinsurance and captive insurance," Mr. Law said.

"Singapore has many positive factors for such a development: political stability, efficient international communications services, a well-disciplined and educated workforce fluent in the English language and, I must add, a conducive and supportive regulatory environment," he said.



Mr. Law

To encourage development of the insurance industry, the government introduced in 1978 a concessionary tax of 10% on profits derived from offshore business, Mr. Law pointed out. This is instead of the full corporate tax rate, which is now 33%.

"This has helped us to attract the 16 professional reinsurers now operating in Singapore," Mr. Law said. "Offshore general insurance business reached $410 million Singapore ($192 million U.S.) in 1985, or about 40% of the the total business written by the industry."

Now, the government is "promoting Singapore as an attractive location for setting up captive insurers of multinational companies," Mr. Law said.

These captives also enjoy the benefit of the 10% concessionary tax.

Singapore licensed its first captive in 1983 and now has licensed eight, with five more receiving approval in principle, Mr. Law noted.

The insurance law of Singapore was amended effective Jan. 1, 1987, to provide "more flexibility in the control of captives and development of insurance in general," Mr. Law said later in an interview.

Captives will be required to have minimum capital and surplus of $1 million Singapore ($467,280), while commercial insurers writing direct business need $5 million Singapore ($2.3 million) and reinsurers need $10 million Singapore ($4.7 million).

These minimum capitalization requirements are, practically, in effect now, Mr. Law noted.

A captive's assets also must exceed liabilities by $1 million Singapore.

Upon licensing, a captive pays an annual fee of $5,000 Singapore ($2,336) and a statutory deposit of $300,000 Singapore ($140,187).

While interested in attracting captives owned by multinational companies based anywhere in the world, Singapore's current captives are owned primarily by Australian concerns. One is owned by a Japanese company and another by a company based in New Zealand.

"Any U.S. multinational with Far East operations could set up a captive in Singapore," Mr. Law said. However, he stressed, "We only want multinationals with good track records. We don't want fly-by-nights."

The government will consider proposals to set up "rent-a-captive" operations, especially when they are needed to facilitate the eventual development of a pure captive. Mutual captives also will be considered.

However, captives licensed in Singapore are not permitted to write commercial insurance. They can insure only the risks of parent or related companies.

Multinationals seeking to license a captive in Singapore can expect to be thoroughly reviewed by the government for their "long-term commitment," Mr. Law said.

The government wants to see a feasibility study, meet with senior representatives of the company and know why the company has chosen Singapore as the domicile.

After receiving the requested information, the government will decide whether to license the captive in "one to two weeks," Mr. Law said.

Applications to license a captive insurer in Singapore are made to The Monetary Authority of Singapore. ■



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Sedgwick is leading Singapore manager

SINGAPORE—Sedgwick Management Services Pte. Ltd. dominates the management of captives in Singapore.

The Sedgwick Group P.L.C. subsidiary manages six of the eight captive insurance companies licensed in Singapore and has three more clients that have been approved for licensing.

Sedgwick's Singapore office was established in 1975 to broker insurance for local businesses, with servicing multinational accounts a secondary purpose, said John C. Speller, a director of Sedgwick Risk Management Services Ltd. in London who opened the Singapore office.

But, since 1983, when Singapore began to offer captive licenses, Sedgwick picked up the management business.

"Singapore is premier for captives for companies in the Asia/Pacific region," said Mr. Speller, who visited the Singapore office last month.

Australian companies particularly use Singapore for a captive domicile because it is not a tax haven, Mr. Speller commented. Australian companies are subject to certain exchange controls in doing business in tax havens, he explained.

Singapore taxes imposes a 10% tax on captives' underwriting and investment income from loss reserves, a concession compared with the 33% corporate tax rate.

'Singapore is premier for captives for companies in the Asia/Pacific region,' Mr. Speller says.

Captives incorporated in Singapore are created to provide their owners more flexibility, Mr. Speller said. They primarily underwrite large property risks that are reinsured in the London market, he said, with the captive sometimes taking a quota-share participation in a middle layer of coverage.

In addition, in a hard market, captives are used to fund deductibles.

Unlike the U.S.-owned captives in Bermuda that often underwrite general liability insurance, directors and officers liability insurance and professional liability insurance, "there is very little of that written in this area," Mr. Speller said. Some Singapore captives underwrite workers compensation insurance.

The absence of liability business in Singapore-based captives reflects not only the smaller limits of liability insurance purchased in Asia, but also the fact that Singapore tax law does not provide tax deductions for reserves for incurred-but-not-reported losses, Mr. Speller explained.

Sedgwick expects to manage 15 to 20 captives in Singapore within the next 12 months and perhaps 50 to 100 five years from now, Mr. Speller said.

The only other captive manager in Singapore at the moment is RMCA Reinsurance (Pte.) Ltd., one of two indigenous reinsurers in Singapore. The other is Singapore Reinsurance Corp., Mr. Speller said.

Sedgwick soon will see some competition, however. The insurance commissioner reports several other multinational brokers in Singapore want to obtain management licenses.

And, Marsh & McLennan Bowring Pte. Ltd. in Singapore now is in the process of registering a captive management company in Singapore.

"No one has said Singapore is where they will set up a captive, but 10 or so companies are considering captives and Singapore is a strong possibility," says Robert Lockhart, the brokerage's chief executive officer.

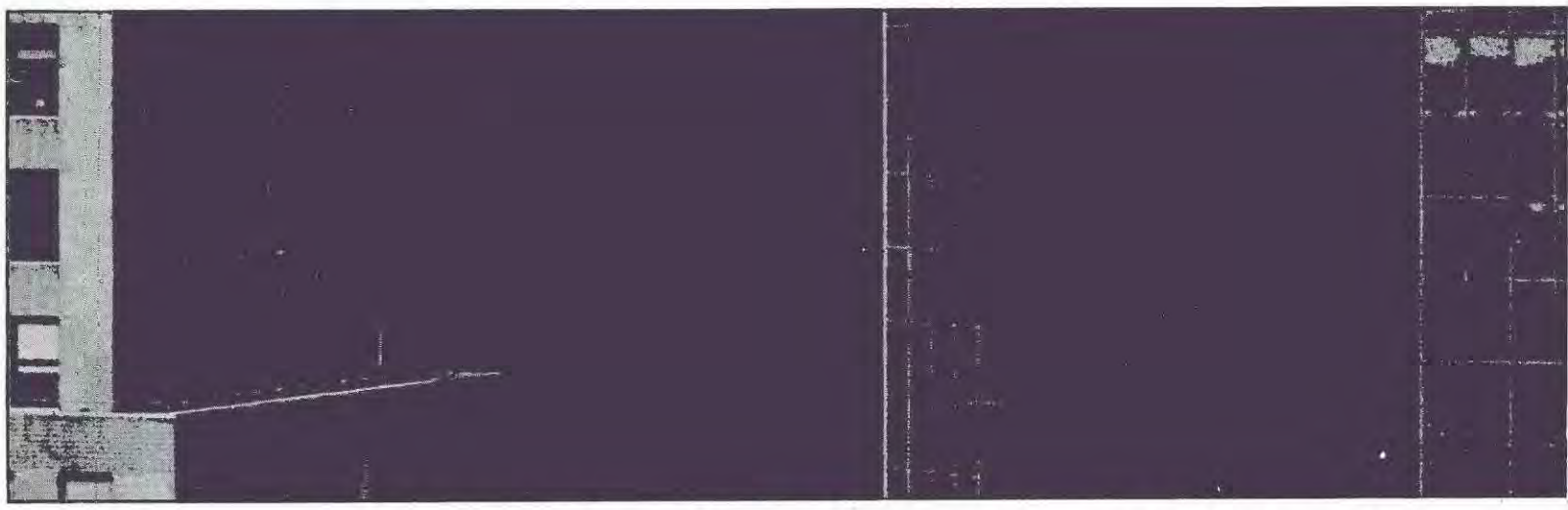
Mr. Lockhart expects captives managed by M&M Bowring also will primarily underwrite property insurance.

—*By Kathryn J. McIntyre*



Photo: Kathryn J. McIntyre

Singapore's modern skyline provided the backdrop for last month's RIMS Asia/Pacific Conference.





"The property/casualty percentage of our total business is down

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Singapore rail project has local coverage

By KATHRYN J. McINTYRE

SINGAPORE—The new, 41-mile rapid transit system under construction in Singapore will cost an estimated $14 million to insure over the life of the seven-year project, its risk management and insurance officer says.

The coverage—including builders risks, third-party liability insurance, workers compensation insurance and marine cargo—is being purchased in the Singapore insurance marketplace, said Chan Seck Cheng, risk management/insurance officer for Mass Rapid Transit Corp. in Singapore.

The cost of the insurance is expected to total about $30 million Singapore ($14 million U.S.), she said.

'The safety and proper housekeeping effort of the corporation and our contractors have greatly helped in making MRT worksites a relatively safe place to work, in spite of the hazardous nature' of the work on the transit system project, Mrs. Chan says.

The Insurance Corp. of Singapore Ltd. and Singapore Aviation & General Insurance Co. Pte. Ltd. are the two leading local insurers on the program, reinsuring with the London insurance market, according to Mrs. Chan.

Sedgwick Chartered (Singapore) Pte. Ltd., a subsidiary of Sedgwick Group P.L.C. in London, is the broker for the insurance.

The project—with a total cost of about $2.3 billion—involves the construction of two lines, a north-south line and an east-west line, running though the business/hotel district in the south and fanning out to the public housing estates in the north, east and west.

With construction occurring in highly populated areas, the MRTC had purchased liability limits of about $93 million U.S. ($200 million in Singapore dollars) for the first phase of the project, which was begun in 1983.



Ms. Chan

However, due to tight market conditions and higher prices, the second phase of the project, which was begun in October 1985, has about $14 million less in limits (or total limits of $170 million Singapore).

The first trains are expected to begin running in 1987 and the project is scheduled for completion in 1990.

Safety programs are reducing accidents during the construction, Mrs. Chan said at a seminar on employee training held during the RIMS Asia/Pacific Conference.

"With all the safety effort we have put in, we have not had the number of accidents expected by insurers," Mrs. Chan said. "Safety—housekeeping included—is of the highest priority in the corporations."

"To quote our chairman, Mr. Michael Fam, 'No job is so urgent that it needs to be done without suitable precautions,' " Mrs. Chan noted.

MRTC not only wants to reduce accidents, risks and hazards, but it also wants contractors on the project to have the advantage of higher employee morale, reduced operating costs, increased productivity and efficiency, Mrs. Chan said.

MRTC uses several methods to enforce and foster good safety and good housekeeping among the 10,000 workers involved with the project:

- Every contractor has to appoint a full-time safety supervisor and a safety committee chaired by the project manager. MRTC safety officers oversee the contractors' safety efforts, making periodic inspections of sites and sitting in on safety committee meetings.
- Two safety awards are made periodically by MRTC.

A safety flag and pewter plaque are given to the MRTC contractor with the best safety record, such as no lost time due to accidents in three consecutive months. The award was introduced in October 1984.

A second award was introduced recently to recognize MRTC contractors that achieve more than 250,000 man-hours without a lost-time accident.

"Some MRTC contractors also have their own safety awards for their own employees," Mrs. Chan noted.

- Safety campaigns are sponsored.

One of the recent campaigns was targeted at one depot where five contractors and three MRTC departments are working closely together. The one-week campaign included posters, booklets, quizzes, talks and an exhibition, all with the theme, "Towards a safer working environment."

- MRTC contractors are contractually required to keep the site in an orderly state to avoid damage to all persons on the site.

That means all debris, surplus materials, rubbish and other waste must be cleared from the site to the satisfaction of the project engineer.

- The factory inspectors of the Ministry of Labor regularly inspect worksites and issue summonses to contractors who fail to comply with the Singapore Factories Act of 1973 and its regulations.

For example, under Part Four of the act, every factory is required to be kept in a clean state, dirt and refuse must be removed daily, floors must be cleaned at least once a week and walls, partitions and ceilings must be washed every 12 months.

"The safety and proper housekeeping effort of the corporation and our contractors have greatly helped in making MRT worksites a relatively safe place to work, in spite of the hazardous nature of tunnelling and excavation in varied geotechnical ground conditions and in congested, built-up areas," Mrs. Chan said.

However, she noted that despite the safety efforts, six workers have been killed in six different project-related accidents. ■



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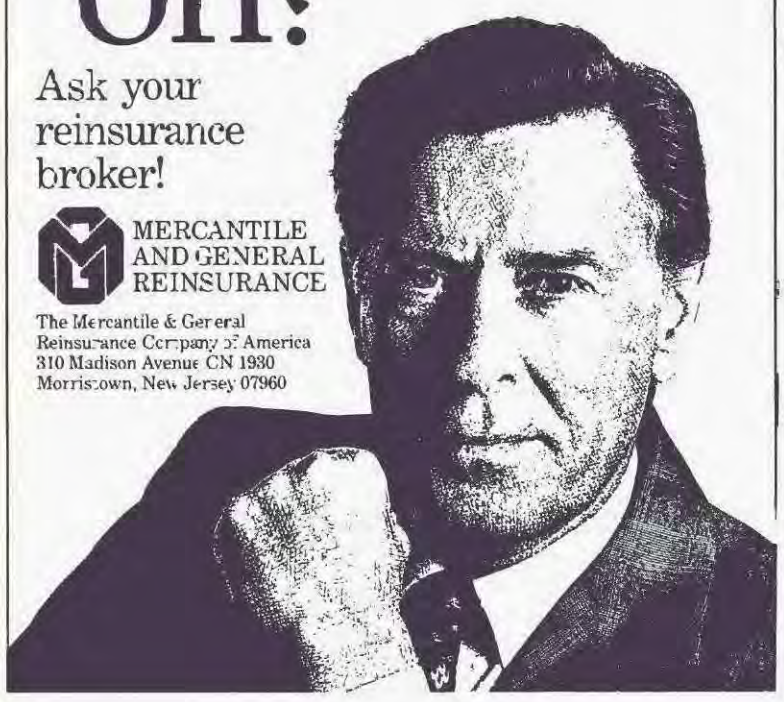
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China urged to end control by government-run insurer

By KATHRYN J. McINTYRE

SINGAPORE—The People's Republic of China should consider ending the insurance underwriting monopoly its government-controlled insurance company holds over joint-venture projects in China, an attorney says.

Joint ventures between the Chinese government and foreign companies must be insured by The Peoples Insurance Co. of China, which is under the jurisdiction of the State Council.



Mr. Phillips

"In the event of a substantial growth in the number of projects—particularly project finance matters—there must be some concern in China as to the capacity of the PICC to write the required insurances," says Robert J. Phillips, a partner with the law firm of McKenna & Co. in Hong Kong who advises foreign interests on joint ventures with China.

Project finance deals are particularly complicated, Mr. Phillips noted, explaining that in a project finance deal the bankers only receive debt service from the revenue generated by the project. They have no underlying guarantee for repayment once the project is started.

"Active consideration must now be given to ending PICC's underwriting monopoly, or alternatively, that the number of joint venture companies between international carriers and PICC should be increased," Mr. Phillips said in remarks at the RIMS Asia/Pacific Conference.

"If there is to be an open-door policy for China, then it seems contrary to such a policy that PICC should have a continuing monopoly," he said.

But, China "shows no evidence of wanting to admit foreign insurers to write primary business in China," said James Morone, senior vp of CIGNA Worldwide Inc. in Philadelphia, who spoke with Mr. Phillips at the conference.



Mr. Morone

Also on the panel was Edward W. Tilling, a representative of American International Group Inc. in Hong Kong, who spoke about AIG's joint ventures in China and offered advice on conducting joint ventures with the Chinese government.



Mr. Tilling

Since reactivating its business in 1980 when the Chinese government changed its economic focus, the PICC has enjoyed stellar growth, providing insurance to both Chinese operations and joint ventures between the Chinese and foreigners, according to figures cited by Mr. Morone.

In 1980, the PICC had 300 offices and a staff of 5,000. By mid-1983, it had expanded to 1,200 offices and a total staff of 13,000, Mr. Morone said.

PICC had a staff of more than 35,000 by August 1985, a PICC report shows.

In 1983, PICC insured some 67,000 ships, 1.75 million shipments of various kinds of commodities, 1.15 million automobiles and 4.75 million households.

By 1984, PICC had introduced new types of coverage, including oil exploration, shipbuilders risks and contractors all-risk. Premium income from foreign business in 1983 totaled more than $160 million, a 10% increase from 1982, Mr. Morone said.

The PICC both accepts reinsurance business and cedes a large portion of its international business to reinsurers, he noted. And, it maintains relationships with about 1,000 insurers, reinsurers and brokers in some 120 countries.

The PICC reports that in 1984, it wrote 490 million yuan in premiums related to foreign business, a 58% increase from 310 million yuan in 1983. In 1980, foreign business generated only 170 million yuan in premium for PICC.

Under 1984 exchange rates, a yuan was worth 36 cents U.S.

Foreign companies entering joint ventures with the Chinese government can obtain the insurance they need now from PICC, Mr. Morone said.

Sometimes, however, it is difficult for the foreign joint venture partner to know what insurance is needed, he observed.

One article of China's joint venture law passed in 1979 holds that, where specified in the joint venture contract, insurance may be placed only with PICC, Mr. Morone explained. "Since contract description of covers specified can vary widely in detail, it is often difficult for investors to know how to proceed," he observed.

Mr. Morone suggests that the definitive answer on insurance will come from the Chinese agency that entered into the joint-venture contract, rather than from PICC.

Once the foreign investor knows the coverage it wants, Mr. Morone advises that it ask that its "U.S. or worldwide carrier put together a specimen policy, complete with rates and conditions."

The U.S. or worldwide insurer then submits the specimen policy to PICC and answers whatever questions PICC may have, he said.

"They see that we have done our homework and since we maintain a close and cordial working relationship, we find they are generally quite agreeable.

"Most of the international insurance companies have close relationships with PICC," he noted.

And, reinsuring the Chinese-related risks with worldwide master contracts and captive insurers is possible, Mr. Morone said. "Getting reinsurance out is not a problem. China is no different than any other country," he said.

PICC, Mr. Morone noted, "has a good reputation for paying its claims promptly, and its rates appear to be in line with those of other worldwide insurers."

"Most importantly, PICC is a fast learner and eager to learn. It is also eager to send its best people to other international insurers in the West for internships and training programs.

"The PICC already has a high level of sophistication in marine lines, and will be gaining more in other lines as it acquires more experience."

Some forms of insurance also can be written on a non-admitted basis, noted Mr. Phillips, mentioning specifically a difference-in-conditions policy for ocean cargo risks.

Mr. Morone commented later that workers compensation insurance for American expatriates working in China and political risk insurance also can be purchased from non-admitted insurers, after negotiating with PICC.

Panel moderator Ronald P. McCartney, manager of corporate insurance for Johnson & Johnson in New Brunswick, N.J., noted he has used CIGNA Worldwide in negotiating with PICC on a joint venture a J&J subsidiary has entered into with the Chinese.

"I find the PICC very cooperative and willing to work with CIGNA," he said.

But, he noted that "it is also possible to go negotiate directly with the PICC rather than rely on a worldwide carrier."

While the coverage needed is available, Mr. Morone cautioned that a PICC policyholder could find itself in "some unique situations." Insurance, tort and business law are still developing in China, he explained.

Continued on next page

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Cost not main benefit of global plans: Broker

By KATHRYN J. McINTYRE

SINGAPORE—Worldwide insurance programs are coming unraveled because they were sold on the wrong basis, a broker contends.

The programs were improperly sold as cost-cutters and not for their more important benefits, says David J. Cowley, managing director of Jardine Insurance Brokers Ltd. in London.

The lower price of a worldwide program was the main selling point because the programs were introduced at the height of the competitive market, he told at the RIMS Asia/Pacific Conference.

Brokers selling worldwide programs in the United Kingdom three to four years ago promised 40% off the U.K. premium and 10% off the foreign premiums, he said.

"We should not sell worldwide programs on price alone," Mr. Cowley asserted.



Mr. Cowley

After rates jumped over the last 18 months, "a number of major U.K. companies abandoned their worldwide programs because their overseas divisions could achieve as wide a cover at a more effective cost buying in the local market."

One major British company not only disbanded its worldwide program, but also its central risk management department, he said.

The typical reaction in the London market to locally purchased insurance is to say the insurers probably aren't as secure, the coverage less broad and the limits lower, Mr. Cowley reported.

"We tend to forget that the financial director of a major operating division is competent to make that balanced judgment between a worldwide and locally placed program," he said.

Despite large rate hikes that have killed some worldwide insurance programs and deterred others, such programs purchased for the right reasons will, and should, survive, he said.

He said the key benefits of worldwide programs are:

- A source of data on worldwide operations.
- Consistent coverage for catastrophic risk.
- No duplication of coverage.
- Group loss analysis.
- Economical group deductibles.
- Consistent self-funding.
- Maximum use of a captive.
- Unified claims handling.

Making a centralized worldwide risk management program succeed, Mr. Cowley said, requires three elements: commitment by the policyholder; control by the broker and underwriter to assure consistent service; and communication.

"I think major corporations need a central function," he said.

Another panelist, William H. Bolinder, then executive vp at Continental Insurance Cos. and now president of Zurich-American Insurance Group, agreed that "entering a global program to maximize purchasing power is one of the worst reasons to go into a global program." Losses, not the cost of risk transfer, primarily determine the cost of most programs.

But, he said: "You need certain decisions on a central basis but also on a local basis. You need an integrated department."

An integrated department can alter a program to adjust to changing conditions, he said.

"Global programs are a process, not a fixed product. Each one will be customized to market conditions and corporate needs. Never get into a position where you are told that a program can't be reassembled in a different way."

Panelist William L. Mather, risk management administrator of The Gillette Co. in Boston, noted Gillette benefited from procrastination in its worldwide program.

"We were working on a global program at the time the market collapsed," he said. So, "While our domestic program was battered and beaten and torn up, our international program has remained relatively stable." ■



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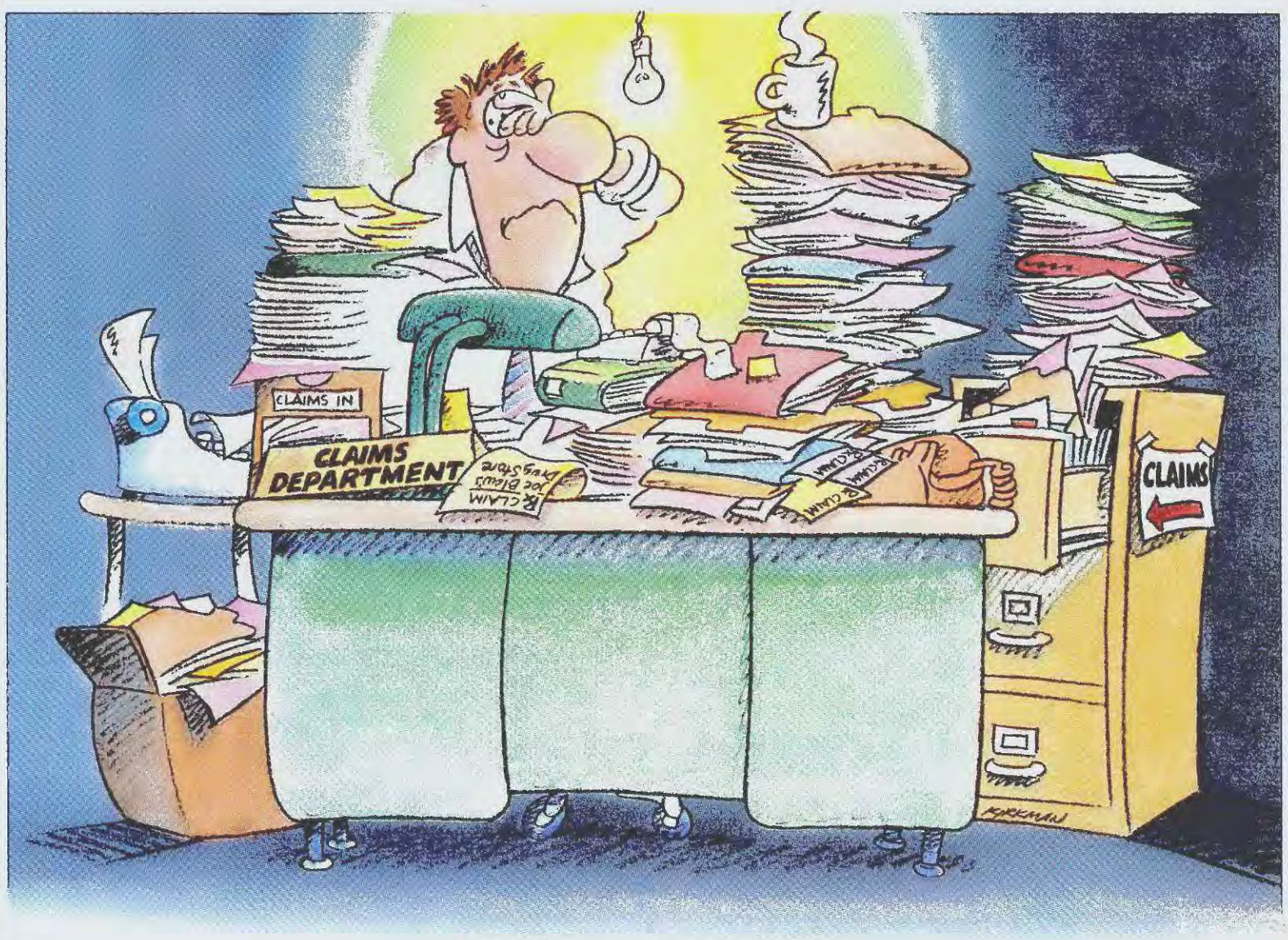
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Keys to risk management can vary: Panel

By KATHRYN J. McINTYRE

SINGAPORE—Risk management is simply structured common sense, contends an academician.

But there are practical considerations in applying risk management principles, says a risk manager for a multinational corporation.

Most important, says an insurance underwriter, is that all parties to the risk management process are knowledgeable.

Academician George L. Head, risk manager William L. Mather and insurance underwriter William H. Bolinder presented their views on the risk management process at the RIMS Asia/Pacific Conference held last month in Singapore.

Risk management can be understood simply as the process of applying common sense—like knowing "when to come in out of the rain," contends Mr. Head, vp of the Insurance Institute of America in Malvern, Pa.


Mr. Head

People analyze the chance and severity of rain, consider whether to take a raincoat or umbrella, decide that protection is needed, remember to take their foul weather gear and to maintain that gear.

The analogy explains the five-step risk management process: the identification and analysis of loss exposure, examining the feasibility of alternative risk control and risk financing techniques, selecting the best techniques, implementing the chosen techniques and monitoring and improving the risk management program.

Mr. Head noted that risk control and risk finance are "equally important aspects of risk management. However, many risk managers are experts in one or the other, but relatively few are equally expert in both," he said.

"Risk management can be a unifying idea to bring together the experts in risk financing and risk control and provide the foundation to work together."

But, a risk manager does not implement these techniques alone, Mr. Head stressed. Thus, the risk manager must function as a manager, applying the management processes of planning, organizing, leading and controlling.

Mr. Mather, risk management administrator for The Gillette Co. in Boston, stressed that "there is the real world after you master the theoretical approach."

In identifying and analyzing the exposure of a new venture, a risk manager must ask: Is it 100% owned? Are there other partners? Who has management control?

Political considerations are important, Mr. Mather said. The risk manager must consider who is involved in the insurance placement, loss control and management of facilities and what their outlooks are on risk management.

Once a venture is operating, he recommends risk managers visit the operations. "A picture is worth a thousand words."

Obtaining updated information between personal visits also is important, Mr. Mather said. "What goes on inside a plant can be vastly different from month to month," he noted. "I'm constantly amazed at what has taken place since my last visit."

To monitor its operations in 27 countries, Gillette relies on inspection reports from its own employees and from insurers or brokers.


Mr. Mather

With data in hand, practical analysis includes determining: "Is this facility critical to Gillette?"

To decide, Gillette uses the test: "If it were lost, could we maintain the supply to the market from other facilities? If we can, the facility is treated as uncritical, and that has an influence on the degree of protection we install."

If the supply to the market cannot be produced by another facility, "we'll protect that facility to the state of the art as it exists."

"All risk managers have to make these basic decisions," he added.

However, this approach can create problems. If a facility at first is not considered critical, but then becomes critical, "the cost of installing sprinkler systems in an existing building runs to two to three times the cost of installing a system" initially as a building is constructed, he said.

Mr. Mather noted there are companies that do protect all property to the state of the art.

When sophisticated loss control equipment is needed, proper maintenance must be considered, Mr. Mather said. "You can't just ship it off to developing countries and expect it to be set up, installed and maintained in a proper fashion."

Regarding risk financing, Mr. Mather said a risk manager must know if he controls it or if there are local factors.

"Retention levels between local and parent are always a question. What seems reasonable to Gillette at corporate may not seem reasonable to a facility in Indonesia."

In the end, "communication is the key to making this work."

"There is no magic solution, but it involves travel, hard work and and an ongoing effort," he said.

From the underwriters' viewpoint, Mr. Bolinder said, "we are looking for an enlightened transaction—a knowledgeable buyer, a knowledgeable intermediary and a knowledgeable underwriter.

"The time of the professional risk manager, intermediary and underwriter is here—and I hope to stay," said Mr. Bolinder, who was executive vp of Continental Insurance Cos. at the time of the conference but since has been elected president and chief operating officer of Zurich-American Insurance Group in Schaumburg, Ill.


Mr. Bolinder

The roles of risk manager, intermediary and underwriter are going to become more difficult and in many cases overlap, Mr. Bolinder said.

"The risk manager is going to be in the risk-taking business more everyday. Insurers will become more facilitators. . .and intermediaries will be more in the knowledge business and less in the marketing business."

Noting the current tight insurance market, Mr. Bolinder predicted the growth of more alternative risk financing mechanisms, such as captives, pools and self-insurance.

"As an underwriter, we welcome this," Mr. Bolinder said. "U.S. corporations have finally started investing on a formal basis in the insurance industry. We hope and believe this is a good trend and that it will last through the cycle."

The trend is healthy for both insurers and insurance buyers, he said.

For insurers, it will produce better results because "we will have an efficient and economical risk transfer process. The frictional cost for an awful lot of insurance placed today is extremely high, making it unprofitable."

For policyholders, more risk retention means "more attention will be paid to risk control, loss prevention and necessary coverages," he said, emphasizing the word "necessary."

Insurers are not concerned about losing business to the alternative risk financing programs, Mr. Bolinder said. "We have to know our limitations. We don't have enough capital to go around," he said.

"We welcome corporate capital to the business, as long as it is professional and stays and becomes part of the community." ■

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Continued from previous page

"What does exist is popularly called 'the living law.' These are intergovernmental regulations which are in effect the de facto law governing insurance. Ironically, these cannot be obtained. They are considered state documents, and all state documents are secret."

Companies doing business in China generally learn by experience and establish the rules of the game as the business develops, he said.

There will be more companies doing business in China on a joint-venture basis, Mr. Morone suggested.

"China's Communist Party Central Committee on Sept. 28 once again affirmed its commitment to economic modernization and to China's goal of raising its living standard through increased contacts with foreign countries," he said.

American International Group is now engaged in a joint venture to construct a multipurpose building in Shanghai that will house a hotel, apartment block, office block and shopping facilities, noted AIG's Mr. Tilling.

The company formed to construct the building is 100% owned by foreign partners; Shanghai is giving the land and will share in the profits but it is not taking an equity position in the venture that develops the real estate, Mr. Tilling said.

For AIG, the project represents returning home to Shanghai, where C.V. Starr founded American Asiatic Underwriters in 1919. AIG traces its roots to American Asiatic Underwriters, which left Shanghai in 1949. In addition, AIG has a joint venture with the Chinese Ministry of Light Industry for a joint-venture investment bank operation that will seek foreign partners to join in light industry projects, Mr. Tilling said.

These two joint ventures grew out of AIG's 1980 joint venture with PICC to form China America Insurance Co. Ltd.

"That points to the success, if not directly the volume of premium written, by China America Insurance. It has facilitated AIG in conducting other businesses in China and other investments," Mr. Tilling said.

In response to a question about the success of China America Insurance, Mr. Tilling admitted, "I would be wrong to say that the venture has been a success in the five years it has been in existence. On the other hand, it is not a failure either. It is a learning curve both for PICC and for AIG. We have gained a lot of good will in having formed a joint venture. They have learned from us, and we have learned from them. We are now at a point where the success is going to have a higher potential than before."

(The U.S. branch of China America Insurance was admitted to do business in New York in early 1982. China America writes insurance in the United States for Chinese-owned buildings and trading companies, an AIG spokeswoman said. She said she could not provide a premium volume figure.)

AIG also has a very close working relationship with PICC, dating back to 1975 when PICC invited a delegation of AIG officials to meet with PICC officials. Out of that meeting came an agreement to exchange reinsurance and claims facilities and a general working relationship.

Mr. Morone of CIGNA Worldwide noted that CIGNA "has taken a different road" from AIG, adding that "AIG has been very farsighted in taking the long-term view" with joint ventures as well as working with PICC.

"We are a principal reinsurer of PICC for treaty and facultative re-

'They have learned from us, and we have learned from them,' Mr. Tilling says of AIG's joint venture.

insurance," Mr. Morone noted. "Our main emphasis is handling insurance for multinational accounts."

Speaking from experience in working on joint ventures with the Chinese, Mr. Tilling advised, "If any of you are thinking of joint ventures in China, please think in the long term, not the short term."

Specifically, he said, any company considering a joint venture in China should:

- Have a strategy.

"Know why you want to go into

Continued on next page

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PROVIDENT MUTUAL
SECURITY THROUGH FINANCIAL SERVICES

Chinese cover

Continued from previous page

China," he said, noting that shortly after 1977 when China opened its doors "every CEO started flying into China. They didn't know why, but they had to be there."

As a result, many joint ventures were formed by companies without a strategy.

- Analyze alternatives.

Don't assume that a contact in China means there is no need to do analysis and homework, Mr. Tilling said. A contact is not going to give you all the answers.

- Maintain initiative.

Don't be led around by a potential joint-venture partner. Instead, check for alternatives.

- Avoid intermediaries bearing exclusive deals.
- Identify the appropriate structure of the joint venture.

Under a compensation venture, the foreign party leases equipment or technology to a Chinese entity and is paid in products produced by that entity.

Under a contractual venture, the Chinese and the foreign party join resources and share in the profit as contracted.

Under an equity joint venture, a company is incorporated with the Chinese and both partners contribute capital.

And now, 100% foreign-owned ventures are allowed in China "if you have specific technology that China wants in China."

- Establish common objectives with the Chinese.

Now, most ventures start out in contradiction—China wants one thing, the foreign party wants another, Mr. Tilling said.

- Work with Chinese partners; don't be confrontational.

"It is not part of the Chinese culture to be confrontational," he explained.

But, working with the Chinese also means one should not rely only on the prospective partner for answers to problems. That partner may say no and someone else in China will say yes.

- Reach a common understanding on the management decision-making process—who has what authority.

"The foreign partner must control the human resource management, or else there will be unending management problems as to who will be appointed to what position," Mr. Tilling said.

- Train the Chinese management team on your home turf.

"Don't try to do on-the-job training," Mr. Tilling advised. Since 1949, the Chinese have had only limited exposure to foreign business practices, and they need the exposure.

- Do not rely on laws.

"The law is constantly changing in China, and there are no grandfather clauses," Mr. Tilling said. This means that joint ventures have to negotiate whether the new law applies to them or not.

Rather than rely on the law, Mr. Tilling advises "rely on the sincerity of both sides—the foreign side and the Chinese side—to make the joint venture a success."

"If you think you have covered all your risks because you have covered all the legal points in your contract, you will end up very disappointed." ■

On-the-spot broker can assist foreign businesses in China

SINGAPORE—Foreign corporations doing business in the People's Republic of China need a broker on the scene to handle their insurance coverage with the monopolistic, state-controlled insurance company, an insurance broker says.

A broker can negotiate terms and conditions based on worldwide experience, handle claims and negotiate coverage disputes, says C.T. (Jack) Sha, chairman and chief executive officer of Marsh & McLennan (Taiwan) Ltd.

Mr. Sha opened the M&M office in Peking in September 1981, making M&M the first insurance broker permitted to open an office in China.

Mr. Sha shared his observations on handling insurance business in China during a workshop session at the RIMS Asia/Pacific Conference held last month in Singapore.


Mr. Sha

A Chinese-based insurance broker is needed by a company doing business in China, he said, because the corporate executives involved in developing the Chinese projects in the PRC "are people who are experts in their line of business." Meanwhile, the insurance and risk management expert "is located in the home office and has little knowledge or previous exposure to the Chinese insurance market.

"Consequently, responsibilities for arranging insurance in China lie with the people who are responsible overall for the operation in China.

"Negotiating an insurance contract or running an operation in China is not all that easy," Mr. Sha said. "This additional responsibility for local insurance with no particular expertise is really a double headache for the project manager."

Observing that since there is only one insurance company in China that is authorized to underwrite insurance in the PRC—The People's Insurance Co. of China—"theoretically there is no need to shop around for insurance protection," he said. "This unique situation appears to leave very little room for the insurance buyer to negotiate."

However, there is room to negotiate with PICC, Mr. Sha contended.

"Through friendly negotiations, you can talk to PICC. They listen. They are a lot more open than before."

PICC's monopoly on insurance written in China creates additional demand for the services of an insurance broker, he said, to take responsibility for:

- Negotiating the policy conditions and wordings. "Without worldwide experience, you can't do it," Mr. Sha said. While PICC has its own policy wording, the insurer also will accept manuscript policy wordings, Mr. Sha said.

Each PICC policy is written in both English and Chinese, he noted. There is only one unique clause in a PICC policy: any dispute between the policyholder and ICC is to be resolved "through friendly negotiations."

"That means you cannot raise your voice; you cannot get mad at PICC. In effect, you follow what PICC says. That's why it is so important to have a broker to work with who knows how to negotiate and work with PICC."

- Assuring that the local program fits into the corporate program and that PICC's premiums are as competitive as possible.
- Negotiating claims payments.
- Placing reinsurance with the worldwide insurance company, if there is one. ■

Benefit needs grow as nations develop

By KATHRYN J. McINTYRE

SINGAPORE—Employee benefits are growing in importance with the economic development of the Asia/Pacific region, a benefits expert says.

The development of employee benefits can be tracked along with the economic development of a country, explains Steven T. Barnett, regional vp for Johnson & Higgins' employee benefit plan consulting operation in Asia, based in the J&H Singapore office.

Mr. Barnett tracked the growth of benefits with the economic development of a nation during a workshop at the RIMS Asia/Pacific Conference held in Singapore last month.

In developing nations, citizens first are concerned with getting a job. Once jobs are available, pay becomes important. When pay is satisfactory, employees begin to worry about how they will live if they cannot work, and as a result they seek death, disability and medical expense insurance.

"In most areas throughout Southeast Asia and the Asia/Pacific region, we're well into this phase of employee benefit plan development," Mr. Barnett said.

Most countries have medical coverage, provided either through a government system, such as in Japan, or through commonly provided medical plans.

Disability insurance tends to be the next type of coverage that employees in developing nations seek once they have obtained death and medical benefits, Mr. Barnett noted.

"We're just beginning to see this in the Asia/Pacific region," he said. "Singapore just started in the last few years to offer long-term disability types of coverages, and now Hong Kong" is beginning to provide those coverages.

But, long-term disability insurance is not offered in other countries in the region. "We see some sick-pay programs, possibly some short-term disability, but nothing long-term."

The last phase in the development of employee benefits with economic development is the emergence of retirement benefit plans.

"We are hitting this phase in a number of countries around the region, and we see some very definite trends toward the development of private retirement systems," Mr. Barnett noted.

In addition to economic development, other factors are encouraging the development of retirement systems, he noted.

One factor is the aging of the population in some countries, such as Japan. "There are not as many younger people being brought up to support them," he said.

In Singapore, the average age is about 25, but the government is concerned because the birth rate is declining, he said.

Another factor is that most of the countries in Southeast Asia have tried to promote lower birth rates. Since children traditionally have supported their parents, if there are fewer children, "there is going to have to be some change in society to take care of these parents," he said.

A third factor is that U.S. and European companies that started developing the region in the early 1970s now have mature workforces whose members are starting to think about their retirements, Mr. Barnett said.

Governments also are getting much more involved in developing retirement plans, including urging private companies to develop private retirement systems, he added.

Some governments, like Japan's, are encouraging the funding of retirement plans by increasing tax deductions for contributions to retirement plans. Other governments, like Taiwan's, are requiring that the benefits be funded, he noted.

He also predicted that Indonesia will soon pass legislation to encourage development of private retirement plans.

Already, many governments mandate the payment of severance and termination pay at mandatory retirement, he said, citing the Philippines and Thailand, for example.

"It's expanding," Mr. Barnett said, noting that Taiwan greatly expanded the type of company subject to this mandate. "Previously it was only factories, and now it encompasses many more types of workers. And there is talk this will be expanded in the future to encompass service industries, retail industry and banking."

With economic development and the growth of benefit plans can come cost problems, Mr. Barnett noted. Medical care costs, for example, increase as the economy picks up, because investments are made in new medical technology.

"You won't be able to reduce costs, but you will be able to control the rate of increase," Mr. Barnett advised employers. He suggested negotiating health benefits at the same time salaries are negotiated to seek trade-offs.

Several members of the audience reported growth in employee benefit demands in the following countries:

- In the Philippines, workers want more company-paid life insurance, more medical and drug coverage and housing benefits.
- In Pakistan, workers want retirement benefits.
- In Indonesia, workers want to own their own homes.

Matthew Morgan, personnel manager-Pacific operations for Otis Elevator Co. in Singapore, offered as a way to cope with changing benefit trends his company's corporate policy on employee benefits, which he said "works very well."

It reads:

"It is the responsibility of each operating entity to monitor pertinent data relating to all compulsory employee benefit programs and each voluntary employee benefit program affecting their employees to ensure: (1) that entitlements from all sources are integrated to provide a reasonable level of social benefit protection reflecting the cultural environment, and (2) that voluntary programs are competitive with comparable industrial companies and are cost-effective within the operating entity's business plan." ■

Regulators need buyers' input: Panelists

By KATHRYN J. McINTYRE

SINGAPORE—Risk managers and insurers should try to influence government regulation of insurance so coverage is available and affordable, three experts say.

"You've got to get to governments before they get to you," asserts Barry W. Ellis, director of C.E. Heath Underwriting & Insurance (Aust.) Pty. Ltd. in Melbourne, Australia.

The issue is degree of regulation, according to James L. Williams, senior vp and general manager of the Southeast Asia division of American International Underwriters in Hong Kong, a unit of American International Group Inc.

"Too much regulation stifles innovation and makes it not attractive for capital to come in. Too little regulation risks insolvencies and fraud. Somewhere in the middle is the necessary regulatory level," he said.

"As users, we are as much a part of the industry as the other professionals," suggested Edith Lichota, senior vp-risk management of Irving Trust Co. in New York. "In the past, it has been relatively easy for buyers to assume they were victims of the industry or regulators."

Now, she warned, "If you don't get out there and tell regulators and legislators the effects of what they are doing, then they likely won't find out until it is too late."

All three addressed aspects of "The Impact on Business of Regulation/Legislation" during the RIMS Asia/Pacific Conference.

Responding to the rising cost of workers compensation claims and a perceived inefficiency of the system, Australia's second-most populous state, Victoria, implemented a government monopoly for work comp insurance about 12 months ago, said Mr. Ellis.

During the consideration of reform, "the insurance industry was relatively inactive in identifying problem areas and formulating proposals for reform," he said.

Thus, the state's Labor government could market its proposal on the basis that administration and structure of the system were inextricably linked, he said.

Now, Mr. Ellis said, the insurance industry has lost premium income and some insurers may not be able to expand into new areas.

In addition, the cost of liability insurance may go up, he said.

"Assuming the risk manager would prefer to exercise his or her own innovative ideas in conjunction with an innovative private-sector insurance industry, I suggest it is in the interests of all parties concerned, including brokers, to ensure the need for government to legislate or regulate is reduced to a minimum."

Mr. Williams also urged governments to open their markets to foreign insurers.

Acknowledging the argument that countries should protect their developing insurance industries from undue competition, he said that "by allowing entry of foreign insurers, you allow technology transfer that is badly needed. The local markets grow faster."

Market access for foreign insurers means not only getting licensed, but also being able to compete with local insurers, he said.

"It's clear that if risk management requirements are not here today, they will be here tomorrow. And they are going to come fast in a strong economy, particularly Singapore, Hong Kong, Japan."

Permitting outside professionals into local markets will "only improve this transfer technology and the ultimate consumer will gain."

Ms. Lichota advised risk managers to "convince the regulators that there is a give and take. And every time something is done in the regulatory area, it is very likely to affect you, in how much you pay for insurance, how much risk you retain and in the availability of insurance generally."

She noted how restrictive regulation in Florida, designed to protect buyers from high rates, has reduced the number of insurers writing in the state.

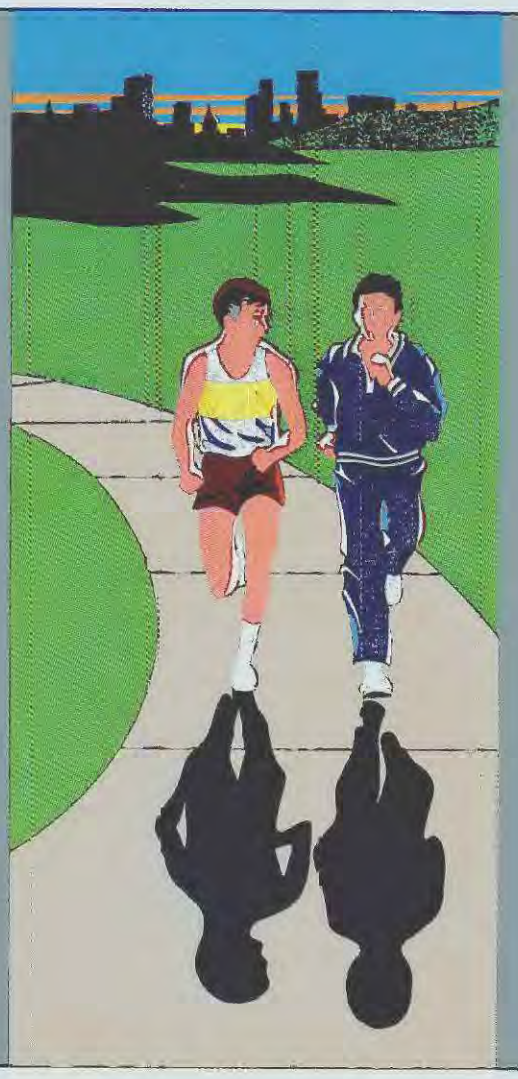
"You all have to be very sensitive to the implications of public policy decisions even when they aren't really intended to be insurance related, but when they may very much affect your ability to buy insurance and the rate at which you can buy it," Ms. Lichota added.

Some of the reasons some U.S. risks are no longer insurable "go back to the legislation and regulation that affects the liability and relationships among the parties that need the insurance." ■

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Sessions perpetuated theme of Asia/Pacific Conference

SINGAPORE—"The Risk Management Opportunity," the theme of the RIMS Asia/Pacific Conference, was carried out in additional sessions:

● Loss Prevention and Loss Control. Speakers were Donald K. Wilson, senior vp of The Hartford Steam Boiler Inspection & Insurance Co. in Hartford, Conn., and Robert L. Smialeck, executive vp of American Protection Insurance Co. and manager of HPR Operations for Kemper Insurance Co. in Long Grove, Ill.

● The Role of the Risk Management Department. Speakers were Dennis Farthing, risk manager for Rio Tinto Zinc Corp. in London, and Matthew Samuels, director of corporate affairs for Singapore Airlines in Singapore.

● Risk Finance Techniques. Speakers were James V. Davis, chairman of Corroon & Black Advanced Risk Management Services in Nashville, Tenn., and Frank M. Gunderson, managing director of Marsh & McLennan Cos. Inc. in New York.

● Specialty Exposures/Insurance Coverages, including a speech by Raymond Tan, deputy manager-underwriting and assistant vp, Johnson & Higgins (Pte.) Ltd. in Singapore.

● The Shrinking World Insurance Market. Speakers were Robert J. Soloman, managing director and head of the international risk management division of Marsh & McLennan Cos. Inc. in New York, and Ralph F. Morrison Jr., vp of The Continental Insurance Cos. in New York.

● Property Loss Control. Speakers were Gary Gratz, senior loss control specialist with CIGNA Worldwide Inc. in San Francisco, and Kong Kean Wah, vp-regional property/casualty loss control manager, for Johnson & Higgins (Pte.) Ltd. in Singapore.

● Casualty Loss Control. Speakers were Paul Hopkins, technical manager/associate director with Sedgwick Group P.L.C. in London, and Robert B. Taylor, engineer, environmental risk control services with Hartford Steam Boiler.

● Contingency/Disaster Planning. Speakers were Martin R. Fessey, Southeast Asia representative, Factory Mutual International Co. Ltd. in Singapore, and James M. Tolos, manager-property loss prevention for Schering-Plough Corp. in Madison, N.J.

● Claims Control and Management. Speakers were Faith Lamberts, executive director of Anistics Pty. in Sydney, Australia, and Richard Rosa, executive senior adjuster of GAB Business Services Inc. in San Francisco.

● Employee Training, with a presentation by Mario Del Rosso, NID manager/supervisor for Kemper International Insurance Co. (Pte.) Ltd. in Singapore.

In addition, a paper was distributed to delegates on the subject of "The Risk Management Movement: From the Atlantic to the Pacific," by Kailin Tuan, professor of risk management and international business at Temple University in Philadelphia.

In addition to conference planning committee members, moderators were: Norman Wintemute, vp, Bank of America, San Francisco; Pierre Sonigo, director of risk, Pechiney, Paris; Judy Lindenmayer, director of risk management, Data General Corp., Westboro, Mass.; Pierre Catudal, assistant risk and insurance manager, Alcan Aluminium Ltd., Montreal; Spencer J. Rankin, staff vp-risk management and insurance, Schering-Plough Corp., Madison, N.J.; and Mr. Farthing of Rio Tinto Zinc. ■

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Product liability coverage scarce for exports to U.S.

SINGAPORE—Manufacturers seeking product liability insurance in their home markets to cover exports to the United States generally will have difficulty, according to an insurance brokerage executive.

Thomas V. Hallett, senior vp of Frank B. Hall & Co. Inc. in Briarcliff Manor, N.Y., surveyed Hall offices worldwide last month to take the pulse of the product liability insurance market for exports to the United States. He found:

● In Canada, some coverages are available, depending upon the class of business.

"Usually you will find problems in the pharmaceutical and chemical areas," he said.

Most contracts limit worldwide coverage to claims brought in Canada.

● In the United Kingdom, there is no severe problem if the exports are less than 30% of the policyholder's total sales and if the British company does not have a U.S. subsidiary.

There is no coverage for pollution risks or punitive damages, and policy limits include defense costs.

Occurrence coverage is available for most manufacturers while the claims-made form is available for chemical and pharmaceutical companies.

● In Brazil, there is adequate coverage, but it is very difficult to obtain through the Brazilian market, which is tightly controlled.

U.S. defense cost coverage is not available. Limits of $100,000 to $1 million are customary, but total capacity is about $5 million.

● In West Germany, markets are available for separate coverage.

Punitive damages and pollution risks are excluded while defense costs are included within policy limits.

Claims, however, can be settled in the United States.

The capacity is $1 million to $25 million, depending on the risk, but it would be improbable that the German form would cover U.S. subsidiaries.

● In Singapore, only U.S. insurers will insure U.S. product liability risks.

● In Japan, the market is very difficult and in many cases it is impossible to buy coverage from Japanese insurers for products exported to the United States.

Relationships between policyholders and their insurers are very important in Japan, so renewal business and important clients will get the best treatment.

The average limit is $1 million, but limits are higher for automobile manufacturers, parts manufacturers, medical goods makers and pharmaceutical companies.

● In Korea, which is a tariff market, the risk must be submitted to Korean Reinsurance Corp. to determine rating and conditions.

KRC is obligated to provide a quote for coverage up to $1 million; for higher limits, KRC has to buy facultative reinsurance.

The policy form is the English language derivative of the old comprehensive general liability form.

Prices are high.

Larger companies with a physical presence in the United States are buying their insurance in the United States. ■

Management Center Europe conference

Europeans want U.S. risks covered on occurrence form

By STACY SHAPIRO

SALZBURG, Austria—European risk managers are concerned that product liability coverage for U.S. exports—if available—will be written solely on a claims-made basis.

However, two U.S.-based insurers, American International Group Inc. and Chubb Corp., say they are offering occurrence-based liability insurance coverage for U.S. exposures to European manufacturers that cannot get the coverage from their local European insurers.

Many European underwriters currently are banning coverage for North American operations from non-North American casualty insurance programs. And, some reinsurers are forcing European underwriters to write product liability coverage for North American exports solely on a claims-made basis, European manufacturers say.

However, AIG and Chubb want to fill this gap by offering liability coverage on an occurrence basis to Europeans for U.S. exposures.

AIG offers two liability insurance products to help European manufacturers solve this problem, Steve Schleisman, president of AIG's European operations told *Business Insurance* at Management Center Europe's International Insurance and Risk Management conference in Salzburg last month.

American International Underwriters, the international division of AIG, is offering an occurrence-based primary product liability coverage with $5 million in limits to European businesses that export to the United States, Mr. Schleisman said.

The policy has a minimum deductible of between $10,000 to $25,000, AIU officials say, adding that excess coverage can be arranged.

The "exporters' policy" is designed to provide product liability coverage for all of a company's exports worldwide, not just to the United States, Mr. Schleisman said.

"We really want to write (the coverage) on a worldwide basis," said Peter C. O'Connor, director general for American International Underwriters in Paris.

The policy has been on the market for six months in Europe, but so far "there has not been a strong demand," Mr. O'Connor admitted.

About three policies have been written in France and about 27 policies elsewhere in Europe.

"We probably haven't targeted the right sector yet," Mr. Schleisman said.

Originally, AIU thought the exporters' policy would be attractive to multinational companies. But now—because multinationals already have American insurance contacts—AIU is targeting smaller European companies "which are just starting to export to the U.S.," according to Mr. Schleisman.

"We are working on it," he added.

In addition, AIG is forming a new company in Luxembourg, European American Excess Reinsurance, to provide excess worldwide general liability coverage to European multinationals that purchase the shares in the company (*BI*, Nov. 10).

European American Excess will offer up to 462,500 shares of capital stock through a private placement. The offering, which will include two classes of stock, will not take place unless $100 million in shares are subscribed for and purchased.

'We perceive an ongoing need for Europeans to get U.S. liability coverage,' Mr. Schleisman says.

Shares are not being offered and may not be transferred to U.S. corporations.

Solomon Brothers International Ltd. is acting as placement agent and the start-up could be January 1987.

"I am out raising capital now. . . .We are pleased with the response," said Mr. Schleisman in an AIG office in Washington recently.

"AIG will contribute $5 million, but we need $95 million from European clients," he said.

European American will offer excess general liability limits of up to $10 million per occurrence excess of $5 million per occurrence. UNAT-Re, an indirect AIG subsidiary in Belgium, will provide administrative, underwriting and other services to the company, although eventually the mutual will be located in the captive domicile of Luxembourg, Mr. Schleisman confirmed.

The coverage will be for "worldwide excess general liability risks, both U.S. and non-U.S.," said Mr. Schleisman. "We perceive an ongoing need for Europeans to get U.S. excess liability coverage because European insurers have excluded it.

"This is U.S. liability insurance for European clients who are caught out in the cold because they don't have any U.S. (insurance) contacts," he explained.

Chubb also sees opportunities for liability products coverage to European clients, Robert M. Linyak, senior vp of Chubb in Warren, N.J., told *Business Insurance* at the MCE conference.

Chubb can offer liability insurance to foreign clients on an admitted or non-admitted basis in their own countries, according to Mr. Linyak.

The coverage includes U.S. liability exposures "as long as we can get a large amount of their indigenous business," said Robert R. Pingeon, underwriting manager for the European zone of Chubb in Brussels, Belgium.

"We can give capacity that is less restrictive" than European insurers give, he said.

Chubb also offers directors and officers liability insurance to directors of non-U.S. firms that are trading on the U.S. stock market through American drawing rights, said Mr. Pingeon.

Many European insurers are refusing to write foreign directors' D&O insurance for U.S.-related risks.

However, "there are two Irish companies that we have sold D&O to because they are on the New York Stock Exchange through ADRs," said Mr. Pingeon.

In addition, Chubb offers excess liability insurance on an occurrence basis to U.S. subsidiaries of non-U.S. parents, said Mr. Linyak. In particular, Chubb currently is considering writing product liability insurance on an occurrence basis for a new U.S. plant being built by a Japanese car manufacturer, he said.

"We are sending a team to Japan to find out the claims exposure of the (car company) in Japan," he said.

"American companies are not selling claims-made forms except for the obvious accounts" like chemical and pharmaceutical manufacturers, observed Mr. Linyak.

But, European insurers, particularly in Switzerland and London, are required by their reinsurers to write product liability insurance for U.S. risks on a claims-made basis, he said.

"So we have an advantage over the European insurers," he said. ■

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Disaster, safety plans examined after Bhopal

By STACY SHAPIRO

SALZBURG, Austria—The U.S. chemical industry is re-examining its disaster plans, safety rules and community relations programs in the wake of the 1984 poison gas leak in Bhopal, India, that killed more than 2,000 people, says a U.S. chemical company risk manager.

"Like no other event in recent memory," the gas leak at the Union Carbide Corp. plant in Bhopal "has prompted the chemical industry to re-examine its whole approach to safety," said Thomas A. Caldwell Jr., director of risk management for American Cyanamid Co. in Wayne, N.J.

"The Bhopal disaster, which killed more than 2,000 people, probably raised more questions than there are answers for," he said during a workshop on disaster planning at Management Center Europe's International Insurance and Risk Management Conference, held in Salzburg last month.

Mr. Caldwell said the questions that arose in the wake of the disaster at the Union Carbide plant include: "Could Bhopal happen again? And if so, what can be done to prevent such an accident?"

American Cyanamid is a multinational diversified manufacturing company with annual sales of about $4 billion. The company, which produces agricultural and pharmaceutical chemicals, employs 38,000 people in 150 locations in more than 135 countries, Mr. Caldwell said.

American Cyanamid is a shareholder in A.C.E. Insurance Co. Ltd., the Cayman-based excess liability insurer, and X.L. Insurance Co., the Barbados-based excess liability insurer, he added.

Mr. Caldwell said that, since the Bhopal disaster, U.S. chemical companies:

- Are now required by law to inform local communities if they produce one of 192 chemicals specified by the federal government.

U.S. companies do not have to meet this same requirement overseas, although "if a multinational is required to do something in the U.S. as good operating practice, they usually do so in their plants throughout the world," he said.

- Have installed highly automated process control systems that provide early warnings of danger to plant staffs.

The systems also provide controls to prevent runaway chemical reactions, Mr. Caldwell said.

- Have reviewed their safety practices "from top to bottom and are preparing disaster response plans to meet any potential serious situation."
- Have started using computer analysis to predict the movement of toxic vapor clouds if a disaster occurs.

In addition, chemical companies are wondering whether they should redesign their foreign plants from the ground up, said Mr. Caldwell. But, executives are concerned that overseas employees will not understand the new equipment or systems, he added.

"There have been persistent reports, for example, that workers at the Bhopal plant were not entirely familiar with the facility's emergency equipment," said Mr. Caldwell.

"I heard of another case in India where it was necessary to install manual controls in a U.S.-designed plant originally equipped with automatic controls. This was done so that the facility could provide more jobs in a nation where high unemployment rates were of chronic proportions," he explained.

Chemical companies also are implementing disaster plans, Mr. Caldwell said.

"Planning in advance of a disaster is essential," he said. "The objective of a disaster plan should be to allow those responsible during an emergency to focus on the solution of major problems rather than attempting to bring some order out of chaos."

There are four phases to disaster planning, he said. The first phase is the preparation phase. Support from top management must be obtained to develop the disaster plan, Mr. Caldwell said.

Top management also should select the steering committee, which will consist of the disaster controller and divisional coordinators, and should define the committee's objective, establish target dates and approve the committee's policy statement.

In the second phase of disaster planning, the steering committee should assess the company's operations and select locations and facilities that have the greatest potential for disaster, Mr. Caldwell said. The committee can develop a questionnaire to be distributed to managers to help assess the company's hazardous operations, he added.

Once the areas have been targeted, the committee can predict the damage that would occur if there were a disaster by using computer modeling to simulate the worst possible situation, Mr. Caldwell said. Wind speed, temperature and humidity can be simulated to discover the direction in which a vapor cloud would travel and the people it would affect.

"Most major chemical companies have incorporated this technology into their safety systems," he said.

Local community officials also should be contacted, since the community facilities will be directly affected by any toxic gas release, said Mr. Caldwell.

"The best disaster plan is one which has been integrated with local community plans so that there is a concerted action on the part of both parties which is consistent and effective in minimizing the impact on the community when a disaster occurs," he said.

The third phase of disaster planning is writing the disaster plan, he said. The plan, which should be written by the disaster controller, "should be as simple as possible," said Mr. Caldwell. It should include a statement of objectives; names, addresses and telephone numbers of key personnel and disaster control centers; and emergency notification and evacuation procedures. The disaster plan should be updated monthly to make sure telephone numbers and key personnel are correct, he said.

Finally, the disaster plan should be tested regularly, Mr. Caldwell recommends.

"No corporation is immune to disasters," Mr. Caldwell concluded. "Any company which is operating without a comprehensive disaster plan runs the risk of needlessly increasing third-party bodily injury/property damage and adverse publicity resulting from an unforeseen and unexpected event.

"There is no substitute for a well-thought-out and designed pre-disaster plan," he said. ■

EC rule, claims-made worry Europeans

By STACY SHAPIRO

SALZBURG, Austria—Strict liability in the European Community and the crisis in the U.S. civil justice system are two major worries for European risk managers, according to those attending the International Insurance and Risk Management Conference, sponsored last month by Management Center Europe.

At the three-day conference held in Salzburg Oct. 22-24, more than 300 delegates heard speeches on both topics and discussed the issues among themselves in the conference hall, at banquets and on tours of Salzburg and the surrounding countryside.

"During this conference there is concern from the audience about strict liability in Europe," said Andrew Gale, deputy chairman of the European Community's Bureau International des Producteurs d'Assurances et des Reassurances.

"This is allied to the chaotic situation in the U.S. and the need for tort reform," Mr. Gale added "The U.S. is exporting higher insurance costs worldwide as a result of its inability to get tort law in order. This cost is affecting reinsurers worldwide, which affects insurers worldwide."

Robert Linyak, senior vp of Chubb & Son Inc. in Warren, N.J., told those attending the conference that "there is a severe civil justice problem" in the United States.

But, U.S. insurers are seeking reforms of the legal system, he said, including a return to a fault-based system, an end to joint and several liability and limiting punitive damage award to cases of "flagrant and purposeful misconduct."

Mr. Lyniak, responding to a question from the audience on how far U.S. insurers hoped tort reform would go, replied that various states have introduced some tort reform that addresses these and other issues.

But, he said, "There is no chance that there will be (federal) government regulations across the country. Most state insurance commissioners do not want to see this. . .so we are a long way from federal legislation."

Lacking comprehensive tort reform, U.S. insurers are fighting the huge costs of liability awards by increasing liability premium rates and introducing claims-made policy forms, Mr. Linyak said, adding that he believes rates will continue to rise next year.

European risk managers are concerned that claims-made liability policies are spreading to Europe, particularly for the U.S. liability exposures of European multinationals. At the conference there were at least two workshops in German and French on claims-made policies.

However, at least two American insurers are offering liability insurance to Europeans on an occurrence basis for American exposures (see story, page 73).

European risk managers also are worried about new liability standards that will be imposed in 12 member countries when the EC product liability directive is enforced in 1988.

The directive requires member countries to impose strict liability standards on manufacturers and distributors, but allows the individual countries to decide if their product liability laws will allow a state-of-the-art defense or cap the size of awards against manufacturers (*BI*, Aug. 5, 1985; Sept. 21, 1985).

P.M. Storm of Dutilh, Van der Hoeven & Slager, a law firm, in Rotterdam, Netherlands, explained parts of the directive to conference attendees.

He noted that, under the directive, a "producer" is liable for defects in a product regardless of whose fault it was. But, under the directive, a producer can be "six different persons, from the manufacturer of the product to anyone who represents himself as the producer of the product, Mr. Storm said.

The directive is also "very vague" because it defines a defective product as "a product that does not provide the safety that the public at large expects," he added.

But, Mr. Storm said the producer has some defenses under the directive. For example, he is not liable for damages if he can prove that his company did not put the product on the market, that the defect existed after the product was put in circulation or that the defect was caused by an act of God.

In addition, individual countries can decide to allow the state-of-the-art defense, in which the manufacturer claims that—due to the technological knowledge at the time—it could not have known that the product would cause injury.

But, if none of these defenses applies, the producer under the directive would be liable for damages for death, personal injury or property damage caused by a defective product, Mr. Storm said.

However, the directive excludes damages for non-material damage such as pain and suffering, he explained.

The directive says, in principle, that it is inappropriate to set a financial ceiling on awards, Mr. Storm notes. But, it does allow individual countries to set ceilings of no less than 70 million European Currency Units (slightly more than $50 million).

Member countries must enact laws that reflect the EC product liability directive by the middle of 1988. Each country can choose whether to include the state-of-the-art defense and the financial ceiling and whether to include agricultural products in the law.

But, Mr. Storm noted that strict liability already exists in some countries.

"This is a pretty important directive, but do not overestimate it," he said. "It represents for most countries what is already happening. The present trend in Europe is toward stricter liability."

France and Luxembourg already enforce strict liability laws for manufacturers, he said. West Germany enforces strict liability for medical products, and Spain passed a sweeping consumer law several years ago to enforce strict liability for most consumer products.

In Denmark, too, "the courts have been so strict that they have imposed strict liability" without passing laws, he said. ■

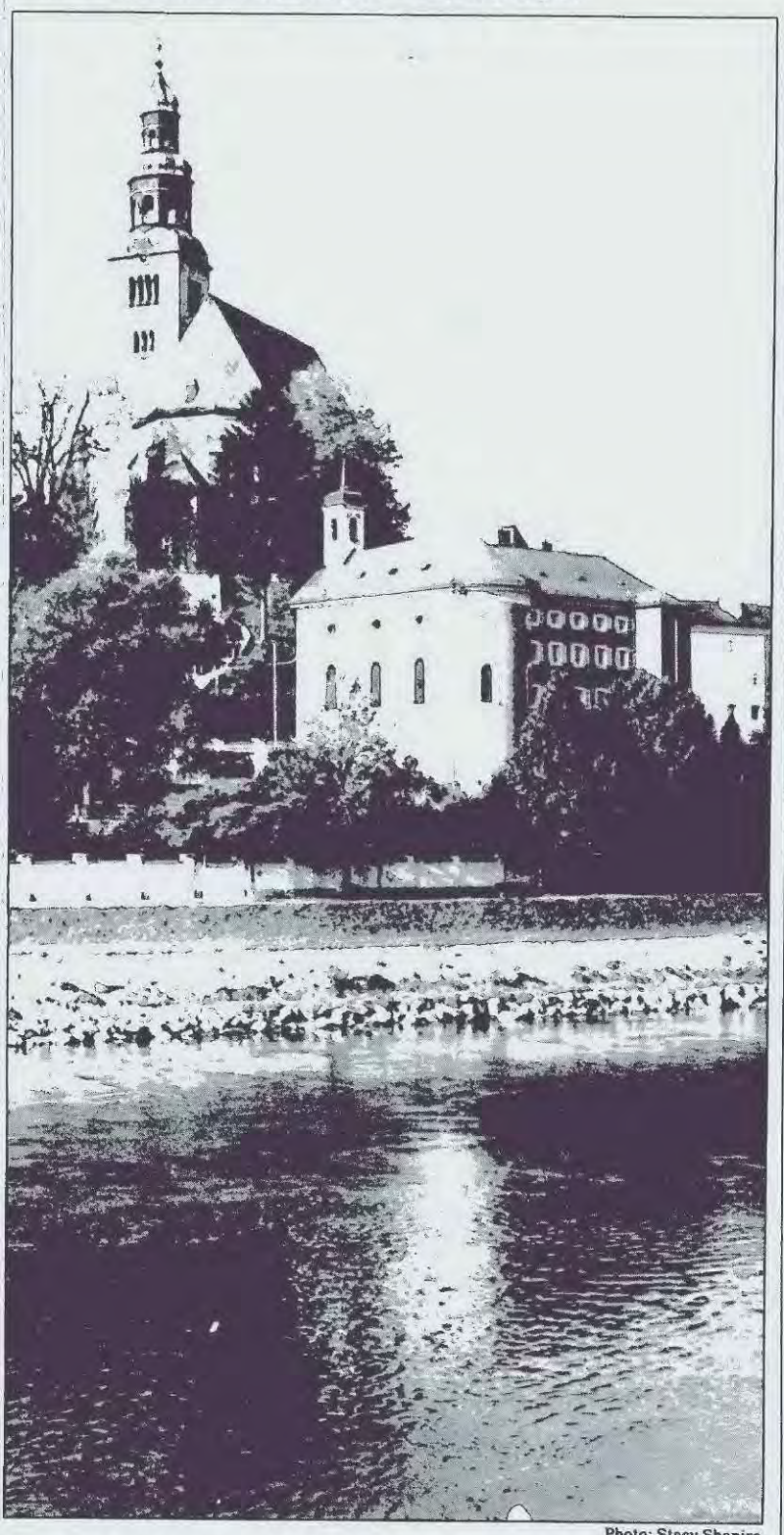
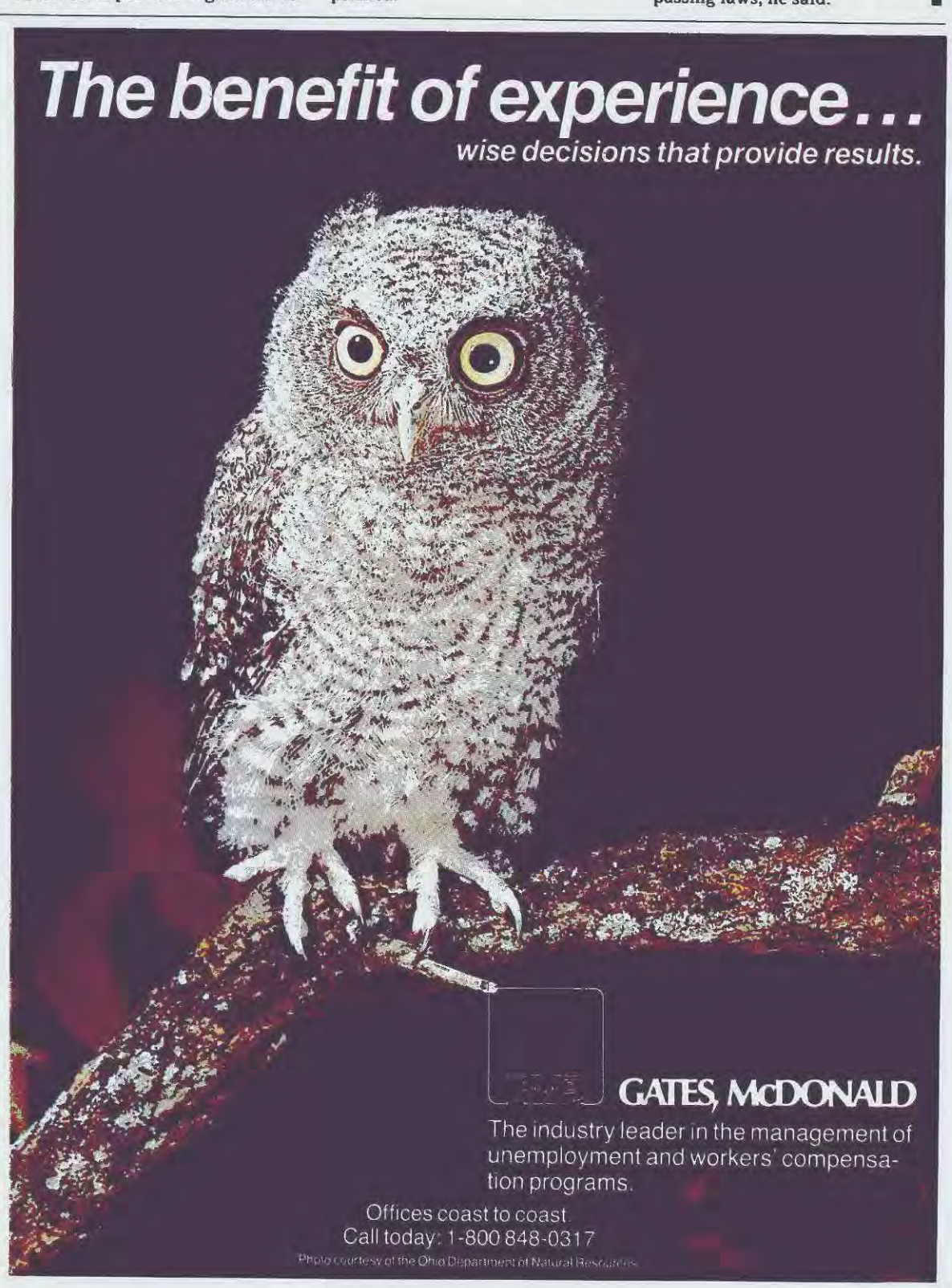


Photo: Stacy Shapiro

More than 300 delegates gathered Oct. 22-24 in Salzburg, Austria, for the International Insurance and Risk Management Conference, sponsored by Management Center Europe.



Rationale for aviation rates sought

By STACY SHAPIRO

SALZBURG, Austria—Insurers are increasing aviation manufacturers' product liability insurance rates without a satisfactory explanation, European risk managers claim.

In the last year, aviation product liability rates—particularly for light aircraft manufacturers—have climbed to six or seven times what they were the year before, the risk managers claim.

And, total premiums paid by worldwide aviation manufacturers for product liability coverage has climbed about 700% to $1 billion this year from $150 million in 1983, said John P. Dando, managing director of Lloyd's of London broker Frizzell D.E.P. Ltd. in London.

As a result, "three main light aircraft manufacturers have ceased producing light aircraft because of the product liability problems," he told risk managers at Management Center Europe's International Insurance and Risk Management Conference, held last month in Salzburg.

Other light aircraft manufacturers now have to add $70,000 to the cost of each new airplane to pay for product liability coverage, up from $51 per aircraft in 1962, Mr. Dando said. Also, light aircraft manufacturers in the United States are seeking a federal cap on aviation product liability awards, he noted.

But risk managers say aviation underwriters so far have not satisfactorily explained the dramatic increases in aviation product liability insurance rates.

Mr. Dando admitted that underwriters have not produced loss statistics to back up their rate increases. "There are no figures on claims paid," he said.

Instead, the underwriters are claiming that court awards and the threat of litigation in the United States are forcing them to re-evaluate their rating practices, Mr. Dando said.

"Some of the examples make you laugh. Some of them make you cry. Aviation underwriters are appalled by losses on their early years of account," he said.

However, the lack of loss information from underwriters angers some European risk managers. "Insurers must have statistics," said one European risk manager.

"It is hard to understand," he said. "We manufacture aircraft and we find it hard to understand when underwriters tell us about the increase in premium rates. It is difficult for manufacturers to finance these product liability premiums.

"So we ask for justification. In my view, I haven't got an answer yet that I can follow. We have no aviation product liability claims."

Another European risk manager whose company manufactures parts for major airlines wondered why he should buy limits of $250 million for aviation product liability insurance when the company only carried limits of $100 million for third-party and product liability insurance, excluding aviation risks.

The company has not filed a claim on its aviation product liability policy for 10 years, he added. "Do we really need that high amount of cover?" the risk manager asked Mr. Dando.

Mr. Dando replied that such high limits are necessary. "One crash can cost $500 million in liability losses. The aviation insurance industry has been lucky so far," he noted.

Mr. Dando also noted that the $3.45 billion in aviation insurance premiums that will be written this year only account for 1% of the world's total insurance premium volume.

Of this $3.45 billion, he said, $700 million dollars will be generated from airline hull insurance; $650 million from airline liability insurance; $1 billion from aviation product liability insurance; and $1.1 billion from general aviation coverages, including coverage for helicopters, manufacturers' hulls and airport liability risks.

"There is an old saying that the premium volume for aircraft is less than the premium volume for plate glass," he said.

In the last year, airlines have seen hull rates increase about 10% and liability rates increase about 25%. And, policies have been restricted to exclude all non-aviation risks, such as hotels owned by the airlines.

In addition, aviation underwriters have increased hull war risk rates to a minimum of 0.1% of the insured value from 0.04% in the last year and are adding a surcharge to liability war risk coverage because of terrorist incidents (*BI*, June 23).

However, Mr. Dando predicted that next year, "hull insurance rates will only be increased where it is merited (although) liability rates will still be increasing. But I think the blanket increases across the board will cease" for airlines.

Mr. Dando noted the worst year ever for major airline losses was last year, when 1,537 passengers were killed and 19 Western-built jets were destroyed, costing insurers more than $1 billion. Last year was the first time that liability losses exceeded hull losses, Mr. Dando added.

Insured hull losses have increased fivefold during the last 10 years, to $21 million last year from $4.3 million in 1976, he said. And, an average of 81 people died in each accident last year, compared with about 28 people in 1976.

U.S. liability awards have increased to about $1 million per person in airline crashes, he added.

"So if one wide-bodied jet crashed with 400 people on board, it would cost $400 million plus $100 million for the jet, or $500 million," he said. "The nightmare is two fully loaded jets colliding over New York." ■

Propane gas blasts pose grave danger

By STACY SHAPIRO

SALZBURG, Austria—Liquid propane tanks can cause horrible accidents unless proper loss-control methods are employed, a loss-control expert told risk managers attending Management Center Europe's International Insurance and Risk Management Conference in Salzburg.

Unless a tank is properly maintained and equipped with effective fire-protection systems, a "bleve"—the acronym for "boiling liquid expanding vapor explosion—can send the tank rocketing into the air like a bomb, said Olle Johansson, fire engineer of the loss-control department of Skandia Insurance Co. Ltd. in Stockholm, Sweden.

"A fire brigade can help prevent a bleve," he said. "And a good maintenance plan is the best thing."

Mr. Johansson explained to the 300 delegates to the conference the dangers associated with liquid propane. As part of his presentation, he showed a videotape produced by Skandia and narrated by the late Orson Welles about the worst bleve in history.

The November 1984 accident occurred at a liquid propane terminal owned by PEMEX, the Mexican state-owned oil company. An airline pilot that was flying over the terminal when the first explosion occurred thought he had witnessed a nuclear explosion.

A total of 12 explosions occurred at the terminal. As many as 600 people were killed and 7,000 were injured as homes near the terminal were incinerated.

"It was the worst liquid propane gas fire in history," according to the video's narration. "But it wasn't the first, and probably will not be the last. LPG explosions have occurred all over the world." he continued.

But, the video—and Mr. Johansson—emphasized, "Explosions can be reduced if (there is) proper maintenance of facilities."

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Lloyd's opening

Continued from page 2

unlike any other."

Lloyd's self-regulation currently is being studied by a government committee led by Sir Patrick Neill.

Queen Elizabeth, accompanied by her husband, Prince Philip, officially opened the new $250 million Lloyd's building, designed by Italian-born architect Richard Rogers.

The design of the building has been a source of controversy in London: Some observers have said it looks like an oil rig in the middle of London's financial district, and there even were reports that the queen would not preside at the opening because she thought the building was ugly.

However, in her remarks, Queen Elizabeth said: "The world of insurance, like architecture, laid its foundations long ago. Both have to adapt to meet changing needs. It is appropriate, therefore, that Lloyd's, who are in the forefront of world insurance, should occupy this striking example of modern architecture."

The queen also praised Lloyd's for its importance to British business and to the worldwide insurance market during its nearly 300-year history.

"Lloyd's of London has been known around the world for many years, and it continues to be a major part of the world insurance scene," she said.

In the heart of Great Britain, a maritime nation, Lloyd's insures a quarter of the world's shipping. But Lloyd's interests "are by no means confined to the high seas," she noted.

"From the days of the 17th century sailing vessels to the oil rigs and space satellites of the second half of the 20th century, the underwriters of Lloyd's have acquired a worldwide reputation for innovation," the queen said.

"Three-quarters of Lloyd's premium income originates overseas. . . .All those who contribute to the success of Lloyd's as an international insurance market should be proud of their role," she said.

Lloyd's literally rolled out the red carpet and spared no expense as the queen opened the new building.

The queen entered the new Lloyd's building, walking up red-carpeted stairs to the sound of "Fanfare of the Common Man" by American composer Aaron Copeland. The salute was played by the City of London Sinfonia orchestra, seated on the ground floor of Lloyd's.

A choir behind the orchestra then sang two choruses of Britain's national anthem, which echoed throughout the Lloyd's building.

A total of 5,000 people stood at the railings of the galleries or were seated on the ground floor for the opening ceremony. The guests included Mr. Rogers, the architect, whose white jacket, bright blue shirt and pink tie were in marked contrast to the blue suits worn by most of the male guests.

When Lloyd's Chairman Peter Miller welcomed Queen Elizabeth and Prince Philip to the new building, he noted it marked the fourth time British royalty has been called upon to open a new Lloyd's building.

In fact, he said, 28 years ago Queen Elizabeth had laid the foundation stone for the Lloyd's building that the market has just left.

"We are particularly honored by your presence on this occasion because we believe it to be a moment of particular significance in the long history of Lloyd's," Mr. Miller said.

"I invite your majesty to open, not just another Lloyd's building, but the new Lloyd's," said Mr. Miller, who called the new building an "exciting contrast to so much of the boring modern architecture of this city."

After her speech, the queen unveiled a plaque, and the famous Lutine Bell was rung twice, signalling good news.

Then the queen and Prince Philip toured the building for more than an hour.

During the tour, Queen Elizabeth sat at the S.D. Chappell underwriting box and chatted with underwriter Michael Payne about his computerized box.

She also was introduced to Lloyd's American representative, Donald J. Greene of the New York law firm of LeBoeuf, Lamb, Leiby and MacRae.

Later, the queen and Prince Philip dined at Lloyd's.

Lloyd's is selling a videocassette of highlights of the opening. The cost of the video is 19 pounds (about $27), and it can be purchased from Lloyd's Information Department. 1 Lime St., London, England. ■

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NATURAL DISASTERS

During the Past Few Years, Business and Industry Worldwide has suffered hundreds of millions of dollars of weather-related losses due to arctic freeze, floods, hurricanes, snow overload, tornadoes, windstorm. In addition, earthquakes have contributed their share of damage. For many years, much has been written about controlling man-made losses—arson, operator error, inadequate training—but how about natural disasters? Can anyone develop a program to manage natural emergencies, or is this just so much wishful thinking?

At Industrial Risk Insurers we feel our OVERVIEW management program for loss prevention and control can be used to minimize damage caused by a natural disaster. OVERVIEW may not be able to control the emergency itself (how can you really control a hurricane or tornado?), but the **before** and **after** situations can be anticipated, prepared for, and implemented as appropriate For example:

Arctic Freeze. Each winter we expect cold weather, but arctic freeze is something else. This phenomenon occurs when the jet stream that circles the earth at high altitudes shifts course and carries an unusual mass of bitterly cold arctic air deep into warmer climates, sustaining subnormal, freezing temperatures for periods of nearly a week. Every state, including Florida and Hawaii, has felt the effects of arctic freeze at one time or another. This winter we suggest you closely monitor weather reports, since a few days warning should be enough time to actuate your pre-emergency plan.

Snow Overload. When a snow or ice storm is on the way, the facility's emergency coordinator should begin monitoring storm advisories, decide when to activate the Emergency Control Center, and assign the tasks of plowing, shoveling, and installing snow fences and markers at hydrants and fire protection control valves. **During** and **after** a storm the coordinator should make sure that snow is continually removed from roofs and that ice is dislodged from roof drains. Otherwise, the roof might collapse.

Spring Floods. Although some of the most disastrous floods have occurred in July and August due to heavy rains or hurricanes, many people associate flooding with springtime. And for good reason, because thawing temperatures in the snow fields and April showers result in abnormal runoff. Rampaging waters are only part of the threat, however, since floods can spread flammable liquids, isolate facilities and disrupt fire protection measures. All too often, what floods leave behind is consumed by fire. Be sure to review the potential flood threat to properties located near bodies of water and plan ahead.

Each of the above situations is discussed in OVERVIEW, IRI's total management program for loss prevention and control. For assistance, contact your servicing IRI loss prevention consultant, or ask Mrs. P.A. Sasso for a complimentary copy of the OVERVIEW brochure: IRI, 85 Woodland Street, Hartford, CT 06102, area code (203) 520-7412.

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~~Sep 29~~	~~Sep 16~~
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~~Oct 13~~	~~Oct 1~~
~~Oct 20~~	~~Oct 7~~
~~Oct 27~~	~~Oct 15~~
~~Nov 3~~	~~Oct 22~~
~~Nov 10~~	~~Oct 28~~
~~Nov 17~~	~~Nov 5~~
~~Nov 24~~	~~Nov 11~~
Dec 1	~~Nov 18~~
Dec 8	Nov 25
Dec 15	Dec 3
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1987	
Jan 5	Dec 23
Jan 12	Dec 30
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CHA program

Continued from page 1

Fireman's Fund Insurance Co. wrote a $5 million layer excess of $5 million and National Union Fire Insurance Co. of Pittsburgh, Pa., an American International Group Inc. affiliate, provided a $10 million layer excess of $10 million.

At the discretion of individual hospitals, a $90 million syndicated layer could replace the National Union excess layer for a total limit of $100 million per occurrence.

The size of deductibles also was at the discretion of individual hospitals, and ranged from $1,000 to $100,000 per occurrence.

CHA members were charged fixed premiums for the coverage until 1973, when the association switched to a retrospectively rated program, in which premium funds remaining after payment of losses and expenses were placed in a fund to be returned to the hospital.

This system was dropped in 1979, however, and coverage continued on a "cost-plus" basis, under which rates were established to produce an underwriting gain of not more than 5% after losses and expenses. The gains were to go into a newly created "Members' Reserve Account"—separate from the earlier retro fund—along with investment income credits based on Salomon Brothers' municipal bond five-year average index.

According to the agreement, MRA funds could be used to subsidize premium payments or to fund the creation of an association captive insurer. However, no cash withdrawals could be made until the program was canceled, at which time the funds are to be paid out over a 10-year period starting five years after cancellation.

On top of covering all losses, loss adjustment and loss control expenses, the program was to pay Truck a "risk charge"—a percentage of earned premiums that varies depending on several factors, including the net program surplus or deficit.

The CHA said in 1984 that it decided to drop the Truck/Sullivan program and form its own program because Truck and Sullivan refused to relinquish some control over the program to CHAIS.

The statement sent by the CHA board to hospitals that have participated in the Truck/Sullivan program included various complaints against both companies. Specifically, the CHA claims that:

- Truck and Sullivan refused to release specific loss experience data "that would have allowed CHAIS and CHA to evaluate the propriety and efficiency of Truck's handling of those claims and to determine whether program reserves were unnecessarily excessive."
- Truck's allocated and unallocated claims adjustment expenses were growing at rates not commensurate with the program's claims experience or industry trends.
- Interest accrued on retained reserves was below conservative market rates.

"Improved rates would have been a credit to the program and ultimately served to enhance reserves," the CHA statement says.

- Attempts to justify why Truck's risk charge had grown to approximately $29 million and why an additional $3.8 million had accumulated in a "Special Reserve and Associated Expenses" account failed to produce "any proper response."
- More than $900,000 in hospitals' premium deposits was held by Sullivan without interest accruing to the hospitals.

"Attempts to have the money placed in an interest-bearing account for the benefit of hospitals failed," the CHA alleges.

- Sullivan continued to "place more and more of the program's premiums in excess, as opposed to primary, coverage."

"Attempts to obtain an explanation of this phenomenon were thwarted," the statement says.

- As the amount of excess business grew, commissions payable to R.K. Carvill & Co., the program's London broker, increased substantially.

"These commissions were growing even when total premium declined, indicating that commission rates were increasing as a percentage of premiums without direct regard for premium cost. These brokerage commissions were in excess of customary fees charged by London brokers, particularly in view of the size of the CHA account," the CHA alleges.

- Sullivan changed London brokers in 1980 from C.T. Bowring & Co. Ltd. to Carvill, "even though Bowring had been the program's London broker for years and there was no evidence its performance was inadequate."

The CHA further contends that Sullivan did not disclose to the CHA or CHAIS that Rory K. Carvill, chairman of the brokerage, was a former Sullivan employee or that members of the Sullivan family owned a portion of R.K. Carvill Co. and stood to gain financially from from the commissions Carvill earned from the CHA program.

Mr. Carvill said in 1984 that the Sullivan family had liquidated its interest in the British brokerage.

In addition, the statement claimed that Truck and Sullivan frustrated and obstructed the implementation of various steps sought by CHAIS to gain greater control over the CHA insurance program. Among those alleged actions were that:

- Truck refused to deal with brokers other than Sullivan, specifically CHAIS. The refusal prevented CHAIS from, among other things, providing independent advice and services to CHA members, the statement alleges.
- Truck informed the London market that it would not write any business through any broker other than R.K. Carvill and specifically refused to deal with Bowring.

"The refusal prevented CHAIS from attempting to obtain independent and more cost-effective brokerage services in London for CHA member hospitals," the CHA says.

- Truck indicated that it would not sell malpractice insurance to any hospital that did not use Sullivan as its broker. "This served to tie Truck's insurance to Sullivan's brokerage services regardless of the hospital's wishes," CHA says.
- Truck, which at the time controlled CHAIS' budget as part of its overall responsibility for loss prevention and loss control expenses, sought to freeze CHAIS' 1984 budget and compel it to reduce its staff, which, in turn, reduced CHAIS' ability to monitor Truck and Sullivan.
- When CHA exercised its contractual right to withdraw surplus reserves to fund a CHA-controlled insurance entity, Truck eliminated a then-existing surplus and declared that the Members' Reserve Account had more than a $30 million deficit.

The CHA says the MRA had more than $50 million in surplus five months before it exercised its right to withdraw the funds.

According to the CHA statement, the CHAIS board—citing the report of an independent counsel—recommended in May that the CHA file suit against Truck and Sullivan over the management of the former CHA-sponsored program.

However, the CHA board voted not to file suit, in part because of the time and expense involved, because counter-claims could be filed against the CHA and because of the possible impact of the litigation on future insurance programs.

"Although the board was advised by independent counsel that the legal action recommended had merit, the chances of success could not be guaranteed and the nature and amount of damages were speculative," the board said in its summary statement of the problem.

The board in its statement said it would not encourage or discourage individual hospitals from any legal action they deemed appropriate.

The CHA also has made available, papers, reports, briefs, minutes, transcripts and other documents, including the complete opinion of the independent counsel, for review by the chief executive officer or general counsel of the hospitals that have participated in the Truck/Sullivan program since 1973.

In its prepared statement, Truck says that member hospitals have been aware of the CHA allegations of wrongdoing and have overwhelmingly rejected them.

"The content of the letter which contains allegations made by a competitor constitutes old news as it is simply a reiteration of issues which are now over 2 years old," the statement says.

"A series of 20 meetings were conducted during September, 1984, in which each and every issue was addressed face-to-face with our insured hospitals. Over 500 people attended those meetings.

"The bottom line is that the overwhelming majority (over 90%) of hospitals are still insured by our organization two years after the allegations were made. They have had an opportunity over the past 33 years to observe our conduct and obviously felt our actual performance was a direct contradiction of the allegations being made" the Truck statement said.

Despite the numerous allegations against Truck and Sullivan, only 37 of the CHA's current 460 member hospitals participate in CHAIS' medical malpractice and general liability insurance program.

Currently, under the Truck/Sullivan program, Truck writes $500,000 in primary coverage on an occurrence basis. Up to $5 million in excess coverage can be obtained from London underwriters on a claims-made basis. The London excess coverage until recently was on an occurrence basis.

The Truck/Sullivan program can provide limits of up to $36 million with no aggregate through other excess insurance, said Mr. Kelly of Sullivan, Kelly & Associates.

Under CHAIS' current program with St. Paul, hospitals can obtain $20 million in per claim/aggregate coverage on a claims-made basis, although CHAIS has obtained as much as $35 million for hospitals, said Gene M. Marsh, CHAIS president. Higher limits probably could be obtained, Mr. Marsh said.

St. Paul will write up to $10 million in primary coverage, with another $10 million available on an excess basis from other insurers, Mr. Marsh added. Deductibles range from $5,000 to $250,000. The program is co-brokered by CHAIS and Marsh & McLennan Cos. Inc.

According to the CHAIS officials, most of the hospitals have stuck with the Truck/Sullivan program because that coverage has been written on an occurrence basis, while the CHAIS program is written on a claims-made form.

However, CHAIS officials contend more hospitals will consider the CHAIS coverage now that the excess coverage under the Truck/Sullivan is written on a claims-made basis. "All of a sudden, the CHA is getting a lot more inquiries on its program," says CHAIS Chairman Mr. Mawhinney. "These hospitals have a choice now."

Mr. Mawhinney also said the CHA program will attract more hospitals if the CHA forms a captive insurer that would participate in the program.

A joint CHA-CHAIS task force is now exploring the possibility of establishing a captive and has retained Tillinghast/Towers Perrin Forster & Crosby to conduct a feasibility study.

Among the issues being addressed are whether CHA can raise enough capital to form the captive and if required reinsurance will be available, Mr. Marsh said. ■

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Rhine River pollution claims

Continued from page 1

The company's primary liability insurance layer, with limits of 1 million Swiss francs ($598,000), is led by Gerling Konzern Allgemeine Versicherungs A.G. of West Germany, said the Sandoz spokesman. Winterthur Swiss Insurance Co. in Winterthur, Switzerland, also participates in the primary layer.

Excess liability coverage is led by Winterthur and Gerling participates in the excess coverage, he added.

A property policy written by Zurich Insurance Co. Ltd. will cover the loss of the warehouse and its contents, said the Sandoz spokesman.

Walter Kreig, senior vp of Zurich, said he believes the property damage claim will total between 15 million Swiss francs ($9 million) and 20 million Swiss francs ($12 million).

Zurich wrote Sandoz's liability insurance until 1981, when the policy was switched to Gerling, said Dr. Kreig.

Reports that the liability coverage was moved to Gerling from Zurich because Zurich was dissatisfied with Sandoz's safety standards are not true, Dr. Kreig added.

"Zurich Insurance made a risk analysis of the company in July 1982 together with the safety people at Sandoz as the cover was going to be extended," he said. "Two months later, Sandoz decided to insure with Gerling because the premium offered (by Gerling) was cheaper.

"We performed a risk analysis to assess the new risk. We were offering a worldwide program of cover which could not be compared with the previous policy. (But) we never asked Sandoz to improve safety standards."

Meanwhile, Ciba-Geigy A.G., another Swiss chemical company, says it does not expect to pay any damages stemming from the spill of a small amount of chemicals from a company facility into the Basel sewer system about five hours before the Sandoz spill.

"We can prove that this small quantity was much too low to cause any damage to the Rhine," said a Ciba-Geigy spokesman. "It's been measured by the company and by various stations (along the river). We are quite convinced that we were absolutely correct. . .so there can be no claims against us."

The spokesman would not comment on Ciba-Geigy's liability coverage.

The "big question" resulting from the Sandoz spill, according to the Swiss government's Mr. Zaech and others, is who will pay for damages caused by the spill and cleanup operations.

Under a Swiss water pollution law passed in 1972, "everyone who causes the damage by polluting the water shall pay for the damages," Mr. Zaech said. That liability standard is applicable in the Sandoz case "and will be used to get damages paid," he said.

However, other parties may be responsible for the damage besides Sandoz, said Mr. Zaech.

"It is possible that the fire brigade may be at fault" for washing the chemicals into the Rhine, he said. "Or it may be the fault of the administration (state and local governments) which gave authorization to Sandoz to store dangerous substances."

Mr. Zaech believes the Swiss courts will eventually decide liability.

In addition, the other Rhine countries may pressure the Swiss government to concede liability for some of the damage.

"The Swiss government has not said it will pay for damages, but it is working on this subject," said Mr. Zaech. "We are also looking at the questions about private liability (of companies like Sandoz) and the responsibility of the state."

Critics say that Switzerland, which is the only Rhine country that is not a member of the European Economic Community, does not have sufficiently stringent water pollution regulations.

All of the other Rhine countries, which are EEC members, will eventually adopt a 1982 EEC directive on "major hazards of certain industrial activities," which imposes strict rules governing the storage of hazardous chemicals.

For instance, the directive includes a requirement that chemical manufacturers establish special reservoirs to act as barriers against polluted water running off a site into another body of water.

"Had the directive been applied in the case of the Sandoz plant, the effects of the fire would have been very much reduced," said a spokesman for the EEC. A reservoir would have blocked the chemicals from entering the Rhine, he explained.

Mr. Zaech agrees that Switzerland's current laws are not as stringent as the rules in the EEC directive. "Our government is now looking at more detailed regulations. . .our future (law) will be along the lines of the EEC," he said.

So far, however, the EEC directive has only been adopted by Britain, France and Denmark. "So, we do not have a bad conscience," Mr. Zaech said.

In the meantime, the Sandoz disaster may fuel a move by London and other European insurers and reinsurers to exclude pollution risks from European liability insurance policies.

Continued on next page

Product liability

Continued from page 1

September generated thousands of calls and helped persuade Senate leaders to schedule debate on a Senate Commerce Committee-approved federal product liability bill. That measure, though, was later pulled from the Senate floor as the legislative clock wound down.

But the American Insurance Assn., a major insurance trade association, is questioning not only whether a phone-in will change congressional thinking, but also whether there is any chance Congress in the next session will pass a reform bill.

"I'm skeptical that it (a phone-in) will turn around congressional thinking," says Robert Vagley, president of the 178-member AIA in Washington.

"It is extremely dubious. . .whether a meaningful bill will pass" during the session, Mr. Vagley adds.

The AIA has such doubts about the chances of a meaningful federal product liability bill winning congressional approval during the next session that it is currently considering whether to cut back lobbying efforts in favor of plowing more resources into the effort to get broad, tort reform legislation passed at the state level.

"Our best interests and the interests of our customers may be better served by dedicating more resources at the state level," said Peter Lefkin, Washington federal affairs counsel for the AIA.

"Our determination is that the prospects for enactment of a (federal product liability) bill are quite poor," Mr. Lefkin adds.

Indeed, pessimism about the chances of federal product liability legislation being enacted has increased in recent weeks, after congressional elections in which the Democrats regained control of the Senate by a striking 55-45 margin.

Democratic control of the Senate has catapulted Sen. Ernest Hollings, D-S.C., to the chairmanship of the Commerce Committee. Sen. Hollings is perhaps Congress' most outspoken opponent of federal product liability legislation.

The Commerce Committee has jurisdiction over product liability legislation in the Senate and as committee chairman Sen. Hollings would have the power to delay, though perhaps not to kill, such legislation.

Pointing to the Hollings chairmanship, Joan Albert Dreux, executive director-government affairs for the National Assn. of Casualty & Surety Agents in Washington, says product liability legislation's time has come and gone—at least for now.

"Right now, the time is not ripe for the issue," Ms. Dreux says.

Blair Childs, executive director of the American Tort Reform Assn., a Washington-based organization that favors reform of the civil justice system, predicts Congress will back off from federal product liability legislation while the states tackle tort reform bills, which usually deal with more than just product liability issues.

Only after the states have enacted tort reform legislation—a process that could take years—will Congress return to consideration of product liability legislation, Mr. Childs says.

But the NAW's Mr. Van Dongen rejects the idea that a Hollings-controlled Commerce Committee means that product liability legislation has been dealt a stunning, perhaps fatal blow.

"Just because another individual is now chairman of a committee. . .doesn't mean that a Congress that had been predisposed to do something about the problem now is going to remove it from its agenda," Mr. Van Dongen said.

"One person does not stop a bill," Mr. Van Dongen added.

Indeed, Mr. Harkavy of RIMS says the drive to pass a federal product liability bill, which began in late 1981, is a long-term movement that has staying power.

"The movement's future does not rest on the outcome of any one election," Mr. Harkavy says.

Still, business lobbyists say the reform movement needs some kind of victory during the next congressional session—at least approval of a bill by a House or Senate committee—to keep momentum going and lobbying dollars coming.

That is likely to mean that lobbyists will shift their efforts from the Hollings-led Senate Commerce Committee, where the legislative action has taken place since 1981, to the House Energy and Commerce Committee, whose chairman, Rep. John Dingell, D-Mich., is considered at least sympathetic to federal product liability legislation.

"Given the reality in the Senate, it is logical to say, 'Let's try now in the House,'" said Mr. Van Dongen.

"Certainly, there would be more of a focus on the House next year than in the past, though we would still continue our efforts in the Senate," said Liberty Mahshigian, co-counsel for the TPLA, and an associate with the Washington law firm of Crowell & Moring.

But, if product liability lobbyists are to have any chance of winning even committee approval of reform legislation, new efforts will have to be made to win support from congressional Democrats, experts say.

One striking failure of the 5-year-old product liability reform movement has been the failure to attract Democrats to the drive, observers say. Not a single Democrat—in the House or Senate—has assumed a significant, sustained leadership position in the years of debate on the issue.

This failure is now especially costly since Democrats now control both the House and Senate and will determine legislative agendas.

Mr. Lefkin of the AIA says it perhaps was a mistake to rely so much on Sen. Robert Kasten, the Wisconsin Republican who has led the reform movement, at times almost singlehandedly, since 1981 rather than to cultivate Democrat support as well.

Tom O'Day, associate vp for the Alliance of American Insurers in Washington, says the challenge facing reformers is to convince congressional Democrats that product liability reform is a business issue, not a Republican or Democratic issue. ■

Dec. 9 is date for phone-in

WASHINGTON—The Product Liability Alliance is urging businessmen to call their congressmen on Dec. 9.

The TPLA wants businesses on that day to call their representatives in the House and Rep. Jim Wright, D-Texas, who is expected to be the next House speaker, to urge support for federal product liability legislation.

In light of the ascendency of Sen. Ernest Hollings, D-S.C., as chairman of the Senate Commerce Committee and the hurdle that presents for Senate enactment of legislation, fast action is needed in the House, the TPLA says.

According to the TPLA, business should tell their representatives and Rep. Wright:

- "Today's product liability 'lottery' pays more money to lawyers than it does to injured people."
- "Product liability costs are making your company and American industry less competitive."
- "American jobs are at stake."
- "The time has come for the House of Representatives to act on product liability reform legislation."

Businesses who don't know their representative's phone number can call the congressional switchboard at 202-224-3121, which will connect callers to their congressmen. Rep. Wright's phone number is 202-225-5071.

A Senate phone-in in September generated thousands of calls, including 1,200 to then-Majority Leader Robert Dole, R-Kan. TPLA called that phone-in a major success.

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Rhine River pollution claims

Continued from previous page

Most European liability insurance policies currently include coverage for pollution risks, without differentiating between sudden and gradual pollution incidents.

Recently, the Reinsurers Offices Assn. in London drafted two pollution exclusion clauses that are already being adopted by some reinsurers (*BI*, Nov. 10).

One of the clauses excludes all pollution coverage for European companies for their exposures in the United States and Canada, while the other excludes gradual pollution risks in the rest of the world.

In Switzerland, Swiss Reinsurance Co.—which reinsured a portion of Sandoz's coverage—is currently negotiating with European ceding companies on whether coverage for gradual pollution will be included in liability policies in 1987, said Alex Schneeberger, a Swiss Re assistant vp in Zurich.

"Pollution is the major topic of discussion in all markets," he said.

The incident at the Sandoz plant was sudden and accidental, which all European liability policies are meant to insure, Mr. Schneeberger pointed out.

"The problem is gradual pollution," he said. "This type of accident was never a problem."

However, the Swiss accident will focus underwriters' minds on the problem of pollution, says Leslie Lucas, chief underwriter for Norwich Winterthur Reinsurance Corp. Ltd. in London, which is introducing the ROA pollution exclusion clauses for 1987 renewals on a client-by-client basis.

"Although the Sandoz incident probably will not have any direct effect on the terms and conditions of future policies, I believe it will focus the minds of insurers in exactly the same way that Bhopal did," said Mr. Lucas.

"Every reinsurer is concerned about pollution, and every reinsurer recognizes it is a complex problem," Mr. Lucas said.

The Sandoz accident "raises exactly the sort of issues reinsurers are trying to confront," added Stephen Riley, manager of non-marine underwriting at Swiss Reinsurance (U.K.) Ltd. in London.

"It is important for people to become aware of the dangers of accidents involving toxic waste. It is an ideal opportunity for manufacturers and insurers to look at what can be improved."

"I predict there will be further discussion on excluding some form of pollution throughout the industry following the Sandoz incident," said Zurich's Dr. Kreig.

In addition, he said, "The Sandoz affair will promote a greater emphasis on the risk management approach. . . .Customers will demand a greater risk analysis." ■

update

Briefly noted

Continued from page 2

of 29 liability insurers and brokers. The ruling means Manville has surpassed the $615 million in present-value insurance proceeds needed to establish a trust for compensating asbestos disease victims. . . .The **U.S. Department of Health and Human Services** last week recommended that states require all employers with group health plans offer a catastrophic coverage option. . . .A federal judge ruled "Fatal Vision" author **Joe McGinniss** is entitled to coverage under G.P. Putnam & Sons' libel insurance policy for a suit filed by convicted murderer Jeffrey R. MacDonald (*BI*, Nov. 10). . . .Bank holding company **Seafirst Corp.** expects to pay the bulk of a tentative $13.6 million settlement that it and its former auditor, Arthur Andersen & Co., have reached with a class of up to 8,000 Seafirst shareholders. The shareholders charged that Seafirst officers misled investors about energy-related loans that resulted in $500 million in losses for the bank in 1982. . . .In a district court in Bhopal, India, last week, **Union Carbide Corp.** claimed that the December 1984 gas leak disaster that killed approximately 2,000 and injured hundreds of thousands of others was the result of sabotage and negligence of state and federal Indian inspection officials. In a related development, Union Carbide also said the court issued an interim order preventing the company from divesting assets, paying dividends or implementing a planned recapitalization program, because those moves could affect the Bhopal victims. . . .A New York State Supreme Court judge has postponed until Jan. 22 a hearing on whether **Constellation Reinsurance Co.** should be liquidated. . . .A Cook County Circuit Court jury in Chicago heard opening arguments last week in the multimillion-dollar punitive damages case filed against **American Stores** and its **Jewel Food Stores** subsidiary that stems from the 1985 outbreak of salmonella poisonings caused by milk the stores produced and sold. . .The Internal Revenue Service has turned down the bid of financially troubled **LTV Corp.** for a waiver of $215 million in funding contributions due last September on 12 pension plans sponsored by the Dallas-based steel and aerospace manufacturer. The waiver denial increases the chances that at least some of those plans will be terminated, forcing LTV to pass close to $2 billion in liabilities onto the PBGC, observers say.

Titan withdraws from IIE; new syndicate set to write

By CAROL CAIN

CHICAGO—A year-old syndicate on the Illinois Insurance Exchange is calling it quits to concentrate its efforts in the Texas market.

Meanwhile, a syndicate approved by the IIE board earlier this month expects to begin doing business before the end of the year, and at least two other syndicates could begin writing early next year.

Titan Holdings Syndicate Inc., which ceased writing Oct. 31, has written about $40 million in gross premium volume this year, according to James M. Skelton, president and chief executive officer of the exchange. This is almost double the gross premium volume of $19.5 million Titan reported as of June 30 (*BI*, Sept. 1).

Titan withdrew from the IIE to concentrate on Titan Indemnity Co., a San Antonio, Texas-based insurer that until Aug. 12 was known as Technology Insurance Co., Mr. Skelton said.

According to information from the Texas Insurance Department, Technology Insurance Co., which was based in Austin, reported surplus of $162,578 as of Dec. 31, 1985.

Titan's withdrawal from the IIE was approved Nov. 13, during the board's regular monthly board meeting. However, nearly a week later, officials from the syndicate refused to discuss the matter, deferring to a not-yet-written press release to be jointly drafted by Titan and the IIE.

Information about the number of policyholders, outstanding claims and loss reserves was unavailable from the IIE.

Titan President Mark E. Watson Jr. refused to return phone calls.

Mr. Watson also is president of the syndicate's parent company, Titan Holdings Inc. in San Antonio, Texas, a 3-year-old general business corporation. He is also president of InsBrok Inc., a Texas-based managing general agent.

When the Titan syndicate was formed last year, it had planned to assume a $25 million portfolio of InsBrok business produced for Great Global Assurance Co. of Scottsdale, Ariz., which has been in rehabilitation since February, said Dallas Dudley, the Arizona Insurance Department's deputy receiver handling Great Global's rehabilitation.

The IIE's board became concerned about the portfolio transfer and asked Titan to cease underwriting from mid-December 1985 through late January 1986, Mr. Skelton said. The IIE believed the syndicate didn't have enough capital and surplus for the transaction, Mr. Skelton said.

"(Titan) added a great deal to the exchange," Mr. Skelton noted, explaining that it provided insurance coverage to public entities during the recent tight market.

Current Titan policyholders will be offered renewal coverage from Titan Indemnity Co. in San Antonio, said Charles Seymour, a broker on the IIE who serves as Titan's reinsurance intermediary.

"Obviously (Titan) will take care of claims during the runoff," said Gary D. Hackley, vp of regulatory compliance at the IIE, adding that the exchange will monitor the syndicate's finances.

Each syndicate, when joining the exchange, is required to place $500,000 into a guaranty fund account. Titan's share will remain in that account for the stipulated three years after the syndicate has withdrawn, Mr. Hackley said.

Besides the Titan withdrawal, the IIE board also approved one new syndicate and gave tentative approval to three others at its Nov. 13 meeting.

However, the developer of one of those three new syndicates to receive tentative approval says he will withdraw his petition but will later submit a proposal for a different syndicate.

Receiving approval was Erie Syndicate Inc., currently capitalized at $4 million but anticipating an increase to $5 million by year-end, according to Patrick Hylant, the syndicate's president.

Mr. Hylant also is president of Hylant & MacLean, a retail insurance brokerage firm that is based in Toledo, Ohio.

Capital for the new syndicate will come from "private investors, ourselves and our clients," Mr. Hylant said.

Initially, Erie will reinsure part of the 1986 book of business of another IIE syndicate—Transco Syndicate # 1 Ltd. Mr. Hylant does not expect Erie Syndicate to write any direct policies this year, but will eventually write excess property and casualty business, with a small amount of reinsurance.

He expects Erie to write $10 million to $12 million in gross premium by year-end and a similar volume in 1987.

Mr. Hylant said Erie formed on the IIE rather than the other two U.S. exchanges because "I felt that the Illinois exchange is better regulated."

Two other syndicates may begin operations as soon as their capital is in place and a list of investors is submitted to the IIE:

- BPAA Syndicate Inc., being organized by the Bowling Proprietors Assn. of America through a public stock offering.
- AAI Syndicate # 1 Ltd., being organized by Associated Agencies Inc., a Chicago-based independent insurance agency.

BPAA Syndicate will bring a uniqueness to the exchange with its public stock offering, said Richard Foss, president of another IIE syndicate, LUI Underwriting Syndicate Inc., as well as LUI Management Inc., which will manage BPAA.

A filing for the stock offering was made Sept. 3 with the Securities and Exchange Commission, said William Terminello, president of the proposed syndicate and its holding company, International Bowling Proprietors Risk Management Co.

The holding company was formed not only to create the syndicate, but also to possibly set up captives under the provisions of the recently signed federal Risk Retention Act, Mr. Terminello said.

The 4,000-member bowling proprietors' association saw the formation of an IIE syndicate as a solution to members' insurance problems, said Rex Golobic, who owns three bowling centers in Northern California and is chairman of the proposed syndicate and its parent.

According to information filed with the SEC, the BPAA plans to sell stock in lots of $10,000. However, members of the BPAA with small bowling centers will be allowed to invest a smaller amount—$500 per lane, Mr. Golobic said.

The initial offering is expected to raise $5 million and may take up to six months to complete, Mr. Golobic says.

The syndicate will primarily write package policies for BPAA members, though about about 30% of its business will be property and other short-tail coverage for other clients, Mr. Foss said.

The other syndicate receiving tentative approval from the IIE board—AAI Syndicate # 1 Ltd.—expects to capitalize at $5 million, according to Irving Shainberg, vp and manager of the proposed syndicate and executive vp of Associated Agencies Inc.

The capital will be contributed by the agency and by some of its employees as well as private investors, Mr. Shainberg said.

He anticipates the syndicate will begin writing in January and projects $5 million in gross premiums in 1987.

AAI Syndicate plans to write excess liability coverage with a gross line of $250,000, Mr. Shainberg said.

The syndicate's role "basically will be to supply a little additional capacity," Mr. Shainberg said.

The IIE board also approved RFO Syndicate, but its organizer—Richard F. O'Rourke—said he will withdraw his petition for that syndicate because he was unable to find a sufficient number of small investors "that feel comfortable enough with the insurance business."

However, in the next month, Mr. O'Rourke, an insurance consultant who previously was an underwriting manager on the exchange, said he will propose creation of 1871 Syndicate Ltd., which will be set up as a corporation, rather than a partnership.

"It's in the discussion stage," he said.

He also is discussing with attorneys the legality of using an IIE syndicate as a risk retention group under the revised Risk Retention Act. ■

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Insurers should promote ADR: Kuhn

By KATHRYN J. McINTYRE

ATLANTA—Insurance companies should promote alternative dispute resolution to help solve the problems in the civil justice system, an attorney and former baseball commissioner advocates.

"The time has come to quell the pioneer spirit of America that sees resort to litigation as the solution to all problems," according to Bowie K. Kuhn, baseball commissioner for 15 years until 1984 and now an attorney with Wilkie, Farr & Gallagher in New York.

Mr. Kuhn also is on the board for the Center for Public Resources, which supports ameliorative solutions to litigation problems.

Mr. Kuhn spoke on a panel addressing the "American Civil Justice System in the '80s" during the annual meeting of the National Assn. of Independent Insurers held in Atlanta earlier this month.

Also on the panel was Eugene C. Thomas, president of the American Bar Assn., who told insurers the current legal environment is a backlash against a time when insurers won all the cases.

Sen. Orrin G. Hatch, R-Utah, and NAII Chairman Donald L. Schaffer, executive vp, secretary and general counsel of Allstate Insurance Co., also participated on the panel.

Efforts to reform the tort system will not solve civil justice problems, Mr. Kuhn advised.

"We are dreaming if we think that legislation will reduce the huge costs and problems of our system and of course dreaming if we envision a coherent package of legislation in the near-term from a multitude of jurisdictions," where different interests are grid-locking the reform process, Mr. Kuhn warned.

Therefore, "the critical role of the private sector is to develop alternatives to litigation," he asserted. "And no one has a larger stake in it than the insurance industry."

Alternative dispute resolution, known as ADR, includes improved negotiation techniques, mediation, facilitation, mini-trials, fact-finding, improved forms of arbitration, private trials and litigation where suitable, Mr. Kuhn explained.

"ADR is a partial or complete alternative to full-scale litigation. It is a creative frame of mind that says: There must be a better way to resolve disputes."

The potential of ADR has been continually underestimated, Mr. Kuhn said. "Originally it was thought to be applicable to two- or three-party disputes of a commercial nature and inappropriate for product liability disputes, class actions, multiparty disputes and disputes with the government.

"But ADR has been used with success in all of these areas," he said.

"No ADR is a panacea for all disputes, but consider all forms," he suggested.

Mini-trials, he noted, are being increasingly employed innovatively and successfully to resolve highly complex, diverse disputes.

"It is a non-binding structured settlement procedure," he explained. Key executives representing each party hear abbreviated presentations of the best case by attorneys, often in the presence of a neutral adviser. Then, the executives meet by themselves to negotiate a settlement.

"It is flexible, informal and settlement negotiations can be private and protected from future discovery," Mr. Kuhn noted.

'The critical role of the private sector is to develop alternatives to litigation,' asserts lawyer and former Baseball Commissioner Bowie K. Kuhn. 'And no one has a larger stake in it than the insurance industry.'

"It has not been very effectively used until recent years, and now it is being very successfully used."

Mr. Kuhn advised insurers to ask themselves if they are doing enough to control the cost of outside counsel. "Alert outside counsel to practice cost-effective alternatives," he advised.

Mr. Kuhn also suggested that insurers consider signing the CPR pledge, in which a company pledges that if it gets into a dispute with another company that has signed the pledge, they will first seek to resolve their dispute through ADR.

Some leading property/casualty insurers already have executed the pledge, he noted.

The center also is looking at ADR provisions that could be included in insurance polices, Mr. Kuhn noted.

Mr. Thomas, president of the ABA, traced the current problems in the civil justice system to the past when insurers, he said, won an unfair number of cases.

"We got into this situation because a number of years ago people like me, representing people like you, went to court consistently in defense of poor cases and we invariably won. We won all the time. We won more than was correct.

"You can't win them all and call it justice. The defense can't prevail in every case."

But while "the law was titled our way, we didn't rise up as responsible leaders and tell the legislatures of New York, California and Idaho, 'In fairness let's consider whether the loss is coming to rest too often on the injured person,'" Mr. Thomas said.

"The law of America changed to reflect the fact that the plaintiffs were losing every time and when they prevailed they received grossly inadequate recoveries."

Legislatures that changed the laws in the 1960s and 1970s are not going to be convinced by insurers' arguments for tort reform now, he suggested.

The legislatures believe insurers will stop lobbying for tort reform when their business becomes profitable again, he explained.

Mr. Thomas also suggested that the insurance industry supported development of the contingency fee system by pursuing salvage and subrogation rights.

These actions "funded for the first time the prosecution of the plaintiffs cases, and it is still going on today. The principal plaintiffs' law firms in this country serving on a contingency fee basis in the recovery of property loss are funded by you," he said.

"The insurance industry of America is one tough contingent fee plaintiff," he maintained.

As a result, "in the '70s and '80s, suddenly the plaintiffs' cases had capital behind them—they had money and they could afford to fight and they came up with witnesses and powerful lawyers."

Mr. Thomas also took issue with any suggestion that a system of first-party insurance should replace the tort system.

"This nation cares about who's right, about responsibility and accountability," he said.

"The American public does not have any interest at all about passing on to individuals their own risk of loss through a premium surcharge on their lives.

"The American people want a system that is not so volatile that it cannot be underwritten," but one that "cares about being fair to an injured person and cares about placing responsibility on the wrong-doer."

Mr. Thomas acknowledged that "the tort system and the insurance system of America cannot handle the bursts, the thrusts, the lightning, the power that is flowing through that system."

He called on insurers to work for "sensible, intelligent reform."

"If we have good laws that work, you can underwrite them and you can market your insurance."

The ABA does not yet have a policy position on tort reform or the insurance crisis, Mr. Thomas said. An ABA task force studying the issues will report to the ABA's House of Delegates in February, he said.

So far the insurance industry hasn't heard from the lawyers of this country on tort reform, Mr. Thomas said. The opposition of the Assn. of Trial Lawyers of America to most reforms sought by insurers represents only a small percentage of the lawyers in this country, he said.

Mr. Thomas also called on insurers to stop blaming lawyers for the problems in the civil justice system and for lawyers to stop blaming insurers.

Sen. Hatch reaffirmed his commitment to a federal product liability law. While acknowledging that he is "concerned about tramping on state rights" regarding product liability, he said he is convinced that "we do need a national remedy" because manufacturers, sellers and insurance companies "face too great an uncertainty from a myriad of state laws and decisions on this subject."

Mr. Schaffer pointed out in his remarks that "insurance could have absorbed the expansions of liability and damages which have occurred in the last decade or two—if the public were willing to and able to pay the increased costs heaped upon the insurance system.

"But the public is neither willing nor in many cases able to bear these costs."

Mr. Schaffer also criticized the development of judge-made law, calling it "destabilizing, expensive and unpredictable for insurance companies and their policyholders."

In addition, he said, "all of these changes might be concluded to be desirable if they had been the subject of legislation, if there had been open consideration and opportunity for interested parties to comment, if the overall economic impact could be considered and the various interests balanced and in some cases compromised."

With legislation, he pointed out, "there is an opportunity to testify, to lobby representatives, to urge vetoes—and to frequently vote against incumbents if change is desired."

In judge-made law, he said, "one to nine appellate judges make the rules, only the litigants are parties who can participate and comment, only limited facts relevant to the particular case are considered—and though the newly made law binds all other citizens, they are unrepresented in the process."

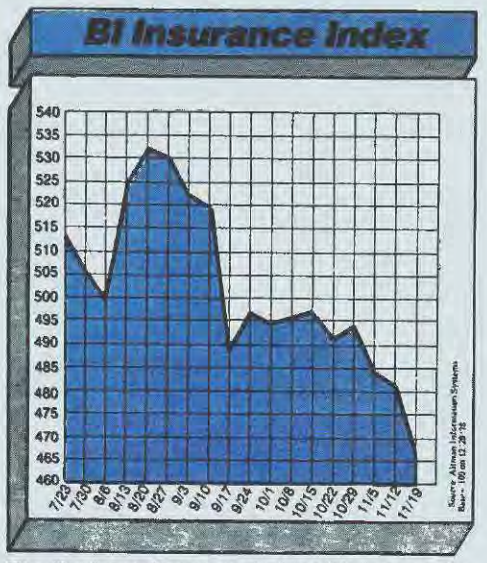
Furthermore, many tort changes produced by the court are deemed retroactive to outstanding or even closed claims and to existing policies, Mr. Schaffer complained. ■

BI Industry Stock Report

November 19, 1986 11/13/86 thru 11/19/86

		Price	% Chg.	P/E	$ Div.	% Yld.	High	Low	Vol.(000)
Brokers									
Alexander & Alexander Svcs	NYSE	26.50	-6.2	378.6	1.00	3.8	28.00	26.50*	1,061.9
Baldwin & Lyons Inc	OTC	24.00	-11.1	19.5	0.20	0.8	27.00	24.00	7.4
Corroon & Black Corp	NYSE	33.25	-12.2	15.0	0.65	2.0	37.38	33.25	724.6
Crump E H Cos Inc	OTC	32.75	0.0	31.5	0.25	0.8	0.00	0.00	0.0
Gallagher Arthur J & Co	OTC	27.75	-7.5	20.3	0.20	0.7	29.75	27.75	312.1
Hall Frank B & Co Inc	NYSE	17.00	-10.5	0.0	0.00	0.0	18.00	17.00	414.3
Marsh & Mclennan Cos Inc	NYSE	58.13	-7.4	18.6	1.90	3.3	60.00	58.13	1,306.9
Poe & Assoc Inc	OTC	11.75	0.0	14.9	0.32	2.7	11.75	11.75	3.2
AGENTS/BROKERS	AVERAGE			21.8		2.1			
Conglomerates & Holding Cos.									
American Express(Fireman's Fd)	NYSE	54.75	-5.2	10.0	1.36	2.5	57.13	54.75	3,981.0
Anderson Clayton(Ranger/PanAm)	NYSE	65.63	0.0	47.9	0.00	0.0	0.00	0.00	0.0
Armco Inc	NYSE	4.38	-16.7	0.0	0.00	0.0	5.00	4.38*	2,137.7
Berkley W R Corp	OTC	23.75	-4.0	13.1	0.24	1.0	25.00	23.50	247.1
Berkshire Hathaway Inc Del	OTC	2810.00	-2.8	163.0	0.00	0.0	2895.00	2810.00	1.2
CIGNA Corp	NYSE	51.38	-5.1	0.0	2.60	5.1	53.50	51.38*	2,018.4
CNA Finl Corp (CNA)	NYSE	50.00	-7.0	12.6	0.00	0.0	52.00	48.25*	289.1
General Re Corp	NYSE	50.75	-2.6	21.9	0.88	1.7	51.75	50.50	2,697.4
ITT (Hartford Group)	NYSE	52.00	-5.0	24.6	1.00	1.9	54.25	52.00	2,511.4
Sears Roebuck & Co. (Allstate)	NYSE	41.13	-5.5	11.2	1.76	4.3	42.75	41.13	3,795.8
Teledyne Inc (Argonaut)	NYSE	307.75	-6.4	12.4	0.00	0.0	310.50	306.50	175.7
Transamerica Corp (Occidental)	NYSE	34.38	-3.2	9.9	1.76	5.1	35.13	34.25	661.1
CONGLOMERATES/HOLDING COS.	AVERAGE			52.7		0.2			
Insurers									
Aetna Life & Cas Co	NYSE	53.25	-1.4	9.3	2.64	5.0	54.38	53.25	2,921.0
American General Corp	NYSE	36.50	-3.9	10.0	1.12	3.1	37.50	35.88	1,988.2
Amern Heritage Life Invt Co	NYSE	39.13	0.0	14.0	1.32	3.4	39.38	39.00	4.6
American Indty Finl Corp	OTC	18.50	0.0	0.0	1.12	6.1	19.00	18.50	9.8
American Intl Group Inc	NYSE	56.50	-5.0	16.1	0.25	0.4	58.51	56.00*	1,788.1
Aneco Reins Ltd	OTC	2.25	-18.2	0.0	0.00	0.0	2.75	2.25	11.9
Avemco Corp	NYSE	28.75	0.4	14.1	0.50	1.7	28.88	28.63	13.5
Business Mens Assurn Co Amer	OTC	26.00	-1.0	0.0	1.10	4.2	26.50	26.00	129.0
Chubb Corp	NYSE	57.38	-4.6	23.0	1.56	2.7	60.00	57.38	1,427.2
Combined Intl Corp	NYSE	53.75	-5.9	10.1	2.24	4.2	56.25	53.75	275.6
Continental Corp	NYSE	43.88	-0.3	208.9	2.60	5.9	44.50	43.25	869.8
Crown Life Ins Co	OTC	360.00	1.4	12.4	6.40	1.8	360.00	355.00	3.2
Durham Corp	OTC	41.50	-1.2	12.7	1.36	3.3	42.00	41.50	15.4
Farmers Group Inc	OTC	37.50	-5.7	12.5	1.00	2.7	38.50	37.50	1,986.1
Fairmont Finl Inc	AMEX	16.00	-5.2	12.8	0.00	0.0	16.50	16.00	32.7
Fireman Fd Corp	NYSE	32.50	-7.1	0.0	0.30	0.9	34.25	32.50	1,525.9
Fremont Gen Corp	OTC	16.63	-3.6	0.0	0.48	2.9	16.63	16.25*	175.8
Great West Life Assurn Co	OTC	740.00	0.0	15.2	18.00	2.4	740.00	740.00	0.0
Home Group Inc	AMEX	17.38	-7.9	28.0	0.00	0.0	18.50	17.38*	1,176.0
Hanover Ins Co	OTC	62.13	-2.7	13.2	0.56	0.9	64.25	62.13	20.1
Hartford Steam Boiler Insptn	OTC	45.50	2.2	11.6	1.20	2.6	45.50	44.50	288.0
Kans City Life Ins	OTC	27.75	-2.6	11.6	0.87	3.1	28.50	27.75	68.3
Kemper Corp	OTC	24.00	-4.0	9.6	0.60	2.5	24.75	24.00	845.0
Liberty Corp S C	NYSE	37.50	-5.1	12.6	0.72	1.9	39.25	37.50	48.7
Lincoln Natl Corp Ind	NYSE	46.88	-4.1	10.8	2.16	4.6	47.25	45.88*	721.8
Mission Ins Group Inc	PAC	2.13	0.0	0.0	0.00	0.0	4.38	1.75	18.4
Monumental Corp	OTC	55.63	0.0	18.8	0.00	0.0	55.63	55.63	1.1
Nac Re Corp	OTC	27.00	0.0	0.0	0.00	0.0	27.25	26.50	40.9
Nobel Ins Ltd	OTC	15.25	-1.6	11.5	0.37	2.4	15.50	15.00	115.7
Northwestern Natl Life Ins	OTC	30.88	1.2	10.3	0.86	2.8	31.25	30.63	323.5
Ohio Cas Corp	OTC	75.50	-3.2	14.2	3.00	4.0	76.75	75.50	96.8
Old Rep Intl Corp	OTC	29.88	-3.6	11.6	0.78	2.6	31.13	29.88	726.5
Orion Cap Corp	NYSE	26.75	-8.9	0.0	0.76	2.8	28.50	26.75*	179.5
Protective Corp	OTC	19.25	-2.5	10.6	0.70	3.6	20.00	19.25*	251.5
Provident Life & Acc Ins Co	OTC	24.25	-1.0	9.2	0.84	3.5	24.63	24.25	281.5
St Paul Cos Inc	OTC	37.00	-3.6	11.4	1.50	4.1	37.75	36.75	1,628.4
SAFECO Corp	OTC	53.50	3.4	11.7	1.70	3.2	54.25	50.50	774.0
Seibels Bruce Group Inc	OTC	14.75	-3.3	0.0	0.80	5.4	15.25	14.75	42.6
Selective Ins Group Inc	OTC	21.50	1.2	42.2	0.92	4.3	21.63	21.00	114.2
Statesman Group Inc	OTC	5.13	-2.4	0.0	0.05	1.0	5.25	5.13	61.3
Tokio Marine & Fire Ins Co	OTC	465.00	-4.9	52.4	1.66	0.4	479.00	458.50	8.9
Torchmark Corp	NYSE	28.25	-2.6	10.8	0.80	2.8	29.13	28.00	421.0
Travelers Corp	NYSE	43.00	-0.3	10.3	2.16	5.0	44.13	43.00	1,237.6
Trenwick Group Inc	OTC	15.00	0.8	115.4	0.00	0.0	15.00	14.88	46.4
United Fire & Cas Co	OTC	27.00	1.9	12.7	0.80	3.0	27.25	26.50	71.7
United States Fid & Gty Co	NYSE	37.00	-4.8	42.5	2.32	6.3	38.38	37.00*	1,465.1
Uslife Corp	NYSE	45.63	-2.9	11.8	1.20	2.6	47.50	45.63	237.8
Washington Natl Corp	NYSE	32.00	-2.3	14.5	1.08	3.4	32.88	31.75	43.9
Zenith Natl Ins Corp	OTC	21.75	-9.4	26.2	0.80	3.7	23.75	21.75*	322.6
INSURANCE COMPANIES	AVERAGE			15.8		2.3			

System design: Altman Information Systems



The *Business Insurance* index of insurance industry stock plummeted to 467.3 points on Nov. 19, a 15.3-point drop from 482.6 points on Nov. 12. A total of 43 stocks retreated, while eight advanced and 10 remained unchanged. Stocks posting the biggest losses were: Aneco Reinsurance Co. Ltd., down 18.1%; Corroon & Black Corp., down 12.2%; and Frank B. Hall & Co. Inc., down 10.5%. Leading gainers were: Safeco Corp., up 3.4%; The Hartford Steam Boiler Inspection & Insurance Co., up 2.2%; and United Fire & Casualty Co., up 1.9%. The *BI* index dropped an average of 3.2%, slightly less than the major stock market indicators. The NYSE composite closed down 3.7%; Standard & Poor's 500 index dropped 3.6%; and the Dow Jones 30 Industrials average fell 3.5%.



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