

Business Insurance

Reporting Weekly on Corporate Risk, Employee Benefit and Managed Health Care News / \$4

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Pennsylvania deregulation bill passes, awaits governor's pen

HARRISBURG, Pa.—Pennsylvania Gov. Tom Ridge is expected to sign into law a bill that would deregulate some aspects of commercial insurance.

The state Senate gave the bill, H.B. 366, its final approval last Tuesday night. Among other things, the measure would remove a rule requiring commercial insurers to obtain prior approval for rate and policy form filings for large commercial buyers. The measure defines those as companies that pay at least \$25,000 in annual pre-
See Updates on next page

UNUM, Provident join in \$5.4 billion merger

By GAVIN SOUTER

PORTLAND, Maine—The \$5.43 billion merger of UNUM Corp. and Provident Cos. Inc. will create an insurer that is set to dominate the burgeoning disability insurance market, analysts say.

With the combination of Portland, Maine-based UNUM's strong position in the group disability insurance market and Chattanooga, Tenn.-based Provident's strong position in the individual disability market, the merged company will be set to capitalize on numerous cross-selling opportunities, they say.

The merged company also will produce many cost savings that will create a formidable competitor for other disability insurers, analysts predict.

However, the insurer still will need to succeed in its plans to penetrate new markets for the deal to reach its full potential, they say.

"It creates a real dominant company in the disability market," said Gloria Vogel, an independent equity analyst in New York.

UNUM is the leading group disability insurer, and Provident is the leading individual disability insurer, she said. "So it will be a terrific balance."

Policyholders will not likely see large decreases in the price of their coverage as a result of the merger, said Ms. Vogel. "Its competitors will be competing with a bigger entity, but it is a rational entity."

The combined company, which will be known as
See UNUM on page 22

Disability insurer merger to create stronger player

(figures for 12 months ending Sept. 30, 1998)

	UNUM	Provident
Combined company		
Total revenues	\$8.43 billion	\$4.51 billion
Premium income	\$6.06 billion	\$3.72 billion
Operating income	\$670 million	\$379 million
Total assets	\$38.2 billion	\$14.93 billion

Source: Company reports

Business groups to seek more liability immunity

By DAVE LENCKUS

Several business groups plan to lobby Congress for greater protection from liability over the Year 2000 computer problem.

Those efforts come as businesses face a deadline this week for triggering new, limited protections against plaintiffs in future liability lawsuits over the millennium bug problem.

Business gained some protection in Y2K lawsuits under the Year 2000 Information and Readiness Disclosure Act, which became effective when President Clinton signed the law Oct. 19.

IRDA is designed to encourage companies to share information about the steps they have taken to correct the millennium bug, or

Y2K problems, in their computer systems, as well as how far along they are in the process.



Under IRDA, businesses that share such information are protected from antitrust claims as well as non-securities-related liability claims over the companies' Y2K-related pronouncements. IRDA applies to claims filed under federal or state law.

IRDA classifies Y2K-related pronouncements by business under two categories that give business different degrees of protec-

tion against liability claims:

- A Y2K statement, which is any oral or written communication "by a party to another or to the public" regarding assessments, projections or other aspects of the Y2K processing capabilities of any person, entity, product or service.

IRDA grants limited immunity from non-securities-related liability claims to the makers of allegedly false, inaccurate or misleading Y2K statements issued on or after July 14. Companies lose that protection if plaintiffs can show by clear and convincing evidence that the companies knowingly or recklessly made false, material statements.

- A Y2K readiness disclosure,
See Y2K on page 21

Guardian Royal Exchange confirms it is open to a sale

By EDWIN UNSWORTH

LONDON—Guardian Royal Exchange P.L.C. last week confirmed mounting speculation that it is considering being acquired or sold off piecemeal.

A statement from the insurer issued to the London Stock Ex-

change said: "Against a background of ongoing consolidation in the financial services sector, both in the U.K. and overseas, the company continuously monitors events. It is examining possible alternatives, which may or may not lead to an offer for the company."

As of last Wednesday, there had been no further announcement from GRE.

Press reports in London said interested parties include Munich, Germany-based Allianz A.G. Holding; Allianz's recently acquired French subsidiary, Paris-based Assurances Generales de France; Paris-based AXA Group; and New York-based American International Group Inc. Neither GRE nor any of the other insurers was prepared to comment on this last week.

However, a spokeswoman at AXA Group, which has made no secret of its plans to expand further globally, did say: "Whenever
See GRE on page 18

Employers warm to OSHA partnerships

By MARK A. HOFMANN

WASHINGTON—Employers are greeting the Occupational Safety and Health Administration's new plan for workplace partnerships with a wary welcome.

Assistant Secretary of Labor Charles Jeffress, who oversees OSHA, issued a detailed plan for encouraging partnerships earlier this month. He then presided over a half-day meeting devoted to partnerships on Nov. 13.

Mr. Jeffress' plan defines OSHA Strategic Partnerships for Worker Safety and Health—or OSPs—as "voluntary, cooperative relationships between OSHA, employers, employees, employee representatives, and possibly others (e.g., trade unions, trade and professional associations, universities and other government agencies). OSPs aim to achieve a significant and measurable reduction in workplace deaths, injuries and illnesses."

Some employer representatives found the basic idea appealing, if unexciting.

"It looks as if Mr. Jeffress is again trying to get businesses to work toward a safer work environment without being too punitive-driven in the process. From our standpoint and from a business standpoint, it looks

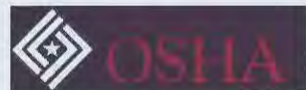
good on paper, but I'd reserve judgment until I saw some action on OSHA's part," said Lance Ewing, chairman-external affairs team of the New York-based Risk & Insurance Management Society Inc. Mr. Ewing is also director-insurance

and loss prevention for GES Exposition Services in Las Vegas.

"I wouldn't call it a significant reinvention, nor would I call it window dressing," said Keith Lessner, vp at the Alliance of American Insurers in Downers Grove, Ill.

To achieve his goals, Mr. Jeffress proposes two types of OSPs: comprehensive and limited.

According to the plan, comprehensive OSPs focus on the creation of complete safety and health programs by employers, "involve a number of
See OSHA on page 21



Mr. Jeffress

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Updates

Deregulation bill passes

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mium excluding workers compensation or that have at least 25 employees and use an insurance professional to buy coverage.

The measure also would streamline procedures for insurers covering small commercial risks, repeal the agent countersignature law and allow the licensing of government-owned insurers.

After the Senate action, Loudon Campbell, the American Insurance Assn.'s legislative counsel for Pennsylvania, said Gov. Ridge, a Republican, was expected to sign the bill as part of his effort to promote economic growth.

Judge OKs takeover of HMO

TRENTON, N.J.—A New Jersey Superior Court judge has signed an order placing Health Insurance Plan of New Jersey in rehabilitation and allowing the New Jersey Department of Banking and Insurance to seize control of the financially troubled HMO.

New Jersey Commissioner of the Department of Banking and Insurance Jaynee LaVecchia said she will use her powers as rehabilitator to shore up HIP and to set up mechanisms to ensure timely payments to providers. HIP has a negative net worth of more than \$20 million.

That action came as more developments clouded the future of HIP, New Jersey's fourth-largest HMO with about 194,000 enrollees. Earlier this month, both Pinnacle HealthCare Enterprises, which had operated 18 health centers in which HIP enrollees received care, and PHP HealthCare Corp., filed for bankruptcy.

Deregulation imminent in India

NEW DELHI, India—International insurers may be a step closer to entering India with an announcement last week that India will introduce legislation likely to liberalize its insurance market by the end of the first-quarter of 1999.

The Indian government last week announced it is planning to allow foreign investors to take stakes of up to 40% in Indian insurance companies, depending on the investors' status. The federal cabinet has approved legislation to allow foreign direct investment of 26% in private insurance firms, according to a statement issued by Finance Minister Yashwant Sinha.

In addition, foreign institutional investors, Indian expatriates and corporations formed by Indian expatriates can invest a further 14%. Mr. Sinha also said in the statement that the Insurance Regulatory Authority Bill will be brought in during the winter session of Parliament, which begins at the end of November.

Some international insurers already have contact offices in India and have formed joint ventures with Indian partners in anticipation of market reforms.

The government also plans to open up the reinsurance sector to international investors, at a minimum capitalization level of 2 billion rupees (\$47.1 million) and a 20% solvency margin. The state-owned General Insurance Corp. of India has a domestic reinsurance monopoly.

Even though the international insurance community and Indian businesses welcome reforms, the announcement has led to unrest in the domestic industry and among politicians. The Communist Party of India-Marxist has said it will oppose the bill.

IRS to revisit flex plan rules

WASHINGTON—The Internal Revenue Service will draft new regulations detailing when employees in flexible benefit plans can revoke or amend benefit elections because of "changes in status" after those elections were made.

IRS Announcement 98-105 puts on hold temporary change-in-status regulations that were issued a year ago (BI, Nov. 10, 1997) and were to have gone into effect Jan. 1 for employers with calendar-year plans.

Until new regulations are released, employers can continue to rely on the 1997 regulations, as well as regulations issued in 1984 and 1989.

Benefit experts said the IRS freeze was triggered by criticism that the 1997 regulations, which updated the earlier rules, were too narrow and restrictive.

A key component of flexible benefit plans is that benefit elections, such as how much money an employee will contribute to a flexible spending account, must be made prior to the start of the plan year and that the decision is irrevocable for the rest of that year.

The earlier IRS regulations detailed a number of exceptions, known as changes in status, in which amending or revoking benefit elections are allowed. Those exceptions include the death of a spouse, in which case an employee could switch to single from family coverage, or moving to an area where the HMO that an employee selected earlier does not operate.

Competition cuts U.S. hull rates

NEW YORK—Marine insurance policyholders are enjoying a buyer's market as insurers slash premiums in search of market share, says the chairman of the American Institute of Marine Underwriters.

"Most hull underwriters agree that competition has driven rates to levels well below the minimum needed to support the exposures and to historically low levels," Richard DeSimone said at the AIMU annual meeting earlier this month.

According to a survey of AIMU members, combined hull premiums for 1997 were \$89.4 million, compared with \$98.8 million in 1996. And the combined ratio for the line soared almost 45 points to 130.4% in 1997.

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Errors & omissions

• A Nov. 16 story on Lloyd's of London admitting captive syndicates incorrectly identified the rating agency responsible for Lloyd's A rating as Moody's Investors Service Inc. The marketwide rating was issued by A.M. Best Europe Ltd.

Insurers' numbers 'lousy'

By DOUGLAS McLEOD

Commercial insurers may be burdened by the unwelcome return of catastrophe losses, but that's only one of their problems.

The most recent results show that the nation's largest property/casualty companies are increasingly being squeezed by a combination of rising cat losses, soft pricing, falling interest rates and the exhaustion of reserve redundancies that have bolstered earnings in recent quarters, industry observers say.

"You can sum it up in a word: lousy," observed A. Michael Frin-quelli, general partner and insurance analyst with Renaissance Fund Ad-

visers in New York. "It's hard to find anything good in the third-quarter numbers."

"It's the same song but a different verse, much worse than the first verse," Michael A. Smith, an analyst with Bear, Stearns & Co.,

said in comparing the most recent results with the previous quarter's.

"Cats are a quick excuse" for the deteriorating experience, "but even when you strip out the cat losses, the numbers were short of expectations," Mr. Smith said.

Faced with continued ferocious price competition, several large insurers have announced that they will walk away from underpriced, money-losing business, particularly middle-market commercial accounts. These insurers include

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9 month

Deal would keep Swett biggest U.S. wholesaler

By MARK A. HOFMANN

WOODLAND HILLS, Calif.—A pending merger will help Swett & Crawford Group Inc. cement its position as the nation's largest surplus lines broker and wholesaler.

Woodland Hills, Calif.-based Swett & Crawford plans to merge its operations Jan. 1 with surplus lines broker Bryson Associates Inc. of Jenkintown, Pa. Both are units of Chicago-based Aon Corp.

Swett & Crawford, which has

been an Aon unit since Aon acquired the Minet Group in 1997, registered \$569.5 million in premium volume last year, with gross revenues of \$52.5 million, giving it first place on *Business Insurance's* list of the top 10 U.S.-based wholesalers (BI, Sept. 7). Swett & Crawford has 25 branches across the nation and had 376 employees at the end of last year.

Bryson Associates, based in Jenkintown, Pa., had premium volume of \$188 million in 1997. The surplus lines broker had 83

employees and branches in Atlanta, Cincinnati and New York.

The combined company will retain the Swett & Crawford name. Swett & Crawford President David R. Hartoch and Bryson President Daniel P. McConnell will serve as co-chairman of the new entity.

In a joint statement announcing the merger, the new co-chairmen said that combination involves "the well-respected expertise of some of the nation's top brokers"

See Swett on page 18

Guidance on mandate

Labor Department outlines mastectomy cover notification rules

By JERRY GEISEL

WASHINGTON—As a Jan. 1 notification deadline looms, employers now have the first—though limited—Labor Department guidance on how to comply with the new law that requires health plans to cover reconstructive surgery if they cover a mastectomy for the patient.

That benefit mandate, passed in

the closing days of the congressional session, says plans must cover breast reconstruction following a mastectomy and additional surgery to produce a symmetrical appearance. Most group health plans already comply with that part of the law (BI, Oct. 26).

More significantly, the law also imposes two participant notification requirements, which include:

- A one-time initial notice—to

be provided by Jan. 1—informing health plan participants of the new coverage mandate and the benefits that are mandated. The notice also must describe any deductibles and coinsurance applicable to the coverage.

• An annual notice, which must provide similar—if not identical—information as the initial notice.

Labor Department officials and

See Guidance on page 19

Forecast calls for stormy '99

FORT COLLINS, Colo.—Another active hurricane season next year will follow the 1998 season, which was marked by the wrath of Georges and Mitch, according to a forecaster.

William Gray, a professor of atmospheric sciences at Colorado State University in Fort Collins, said in a news release that the 14 Atlantic storms this year indicate the increased number and intensity of East Coast storms since 1995 is likely to continue for decades.

Certain phenomena, such as the movement of Atlantic waters from

the Caribbean to an area east of Greenland, indicate a return to conditions present from the 1930s to the 1960s, when more intense or major storms occurred along the U.S. East Coast, Mr. Gray said.

Mr. Gray and his colleagues underestimated 1998 storms. Their initial season forecast in December was nine named storms and five hurricanes, but their final forecast in August raised that to 10 named storms and six hurricanes. This season, which ends today, had 14 named storms and nine hurricanes.

"Eastern stratospheric winds, west African rainfall and the remnants of last year's El Nino all led us to think this season would be only slightly above average," the release quoted Mr. Gray as saying.

Georges and Mitch led to a record-breaking loss of life and property damage in the Caribbean Basin, Mr. Gray said. In addition, an unusual number of storms—three hurricanes and four tropical storms—hit the U.S. coastline.

Mr. Gray's initial 1999 forecast will be released Dec. 4.

—By Roseanne White

Inside

• Accepting service providers as associate members of RIMS will give the society new insights and resources, this week's editorial says. **PAGE 8**

• The increasing severity of losses from natural disasters and climate change is making insurance difficult to obtain in some parts of the world. **PAGE 15**

• German businesses are getting both good and bad news, as Chancellor Gerhard Schroeder makes deep tax cuts but plans to lower the retirement age. **PAGE 15**

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Anti-fraud warnings get a checkup

Coalition seeking data on effectiveness of warnings on workers comp checks

By MEG FLETCHER

WASHINGTON—Printing anti-fraud warnings on the back of insurer-paid benefit checks seemed like such a good idea.

Anecdotal evidence suggests that such warnings may help deter fraudulent claimants from cashing checks and may help provide evidence of their criminal intent, according to a report issued about two years ago by the Workers Compensation Task Force of

the Washington-based Coalition Against Insurance Fraud (*BI*, Feb. 17, 1997).

In fact, legislators in at least six states agreed with the concept so strongly that they required the use of anti-fraud warnings on benefit checks. Mandatory wording is required in Delaware, New York and Rhode Island, while more permissive wording is allowed in Arkansas, Tennessee and Utah. In addition, "some insurers also have taken the initiative to

print such warnings on their own in the absence of state requirements," according to the coalition.

But as the practice grew, inconsistent and verbose warnings caused problems for insurers and raised questions about the warnings' effectiveness.

Now the coalition is asking states "to hold off on any further requirements on warnings on benefit checks" until the coalition completes a survey of insurer experiences to gauge the effectiveness of the warnings in deterring fraud and reducing its effect on insurance costs.

About 125 to 150 insurers, most of which write property/casualty

coverages, will receive the survey in about a week, said Dennis Jay, the coalition's executive director. They are being asked to complete and return it by early January.

Property/casualty insurers are being targeted because the printing of anti-fraud warnings on the back of checks "is primarily—but not exclusively—a workers compensation issue," Mr. Jay said. Some insurers also use such warnings on checks to auto disability claimants and to medical providers, he said.

The coalition's government affairs committee, which is overseeing the survey, is seeking objective data on the effectiveness of

anti-fraud warnings.

The survey consists of a one-and-a-half-page questionnaire. It includes questions about whether the insurer is aware of any specific prosecutions of insurance fraud in which a check with a fraud warning was used as evidence to provide intent to defraud. It also asks about the percentage of checks, either with or without a warning, that go uncashed or are returned by recipients.

A similar survey will be sent to prosecutors as part of a study to gauge the impact of fraud warnings before the committee considers recommending the practice as

See Checks on page 22

Asian market seen as ripe for investment

By GAVIN SOUTER

NEW YORK—The ongoing financial problems disrupting economies in Asia may conceal some good opportunities for insurance companies.

Although short-term demand for insurance products may have waned in the previously booming economies, there are several long-term factors that may encourage insurers to buy into the Asian market while prices for local insurers are cheap.

Would-be investors in the region should carefully review potential acquisitions or partnerships, however, as many indigenous insurers are in precarious financial positions.

The insurance industry in Asia is going through a transformation that could lead to investment opportunities for foreign insurers, said Hanji Huang, senior associate at Russell Miller Advisors Asia Inc., an investment firm in San Francisco.

"The economic crisis has dampened the short-term outlook, but, on the other hand, the economic crisis has created investment opportunities," he said.

Mr. Huang was speaking at the International Insurance Council's Roundtable on Insurance Conditions in Asia, held in New York earlier this month.

The change is being driven by the financial crisis, which began last year, and an ongoing trend to-



INTERNATIONAL INSURANCE COUNCIL

ward deregulation of financial services in the region, Mr. Huang said.

On the surface, the changes taking place in Asia might not seem favorable to foreign insurers.

Because of the economic turmoil, inflation is high, there is less demand for insurance, and the assets of insurers in the region have declined, he said.

The regulatory changes, to date,

offer little incentive to foreign insurers, Mr. Huang added. Premiums are falling in the more open markets, competition is increasing as local financial and industrial companies are permitted to enter the insurance market, and competition from foreign and offshore markets is increasing.

However, there are several positive points that offset that gloomy outlook, Mr. Huang said.

Insurance penetration in most Asian countries is far lower than in the United States; governments are pressing cash-starved insurers to raise capital; foreign ownership ceilings have been lifted; the drop in the asset values of insurers makes them cheaper to buy; and local insurers are more willing to seek foreign partners than they have been previously, he said.

The political climate in the region also is now more conducive to creating an economic and political environment in which Western companies may be more comfortable investing, said Gordon Hein, vp-programs at the Asia Foundation in Washington.

Over the past two decades, See Roundtable on page 23

Buyers getting more for less: EXEL's O'Hara

By MICHAEL BRADFORD

MIAMI—Insurance buyers' demand for products that fit their specific needs is changing the way major insurance markets do business.

Insurers are taking heed of their customers' expectations, trying to anticipate rather than react to buyers' coverage and risk management needs, said executives with two of the world's key markets.

"You, our customers, have changed the way that you view our services, and your expectation of quality, delivery and value is changing," said Brian O'Hara, president and chief executive officer of EXEL Ltd. in Bermuda.

While insurers in the past have created products and sold them off the shelf to policyholders "who were just happy to get them," Mr. O'Hara noted that today "the shoe is on the other foot."

Speaking during a keynote address at the Eighth World Captive Forum in Miami earlier this week, Mr. O'Hara said that "the truth is, customers everywhere, whether they are shopping for groceries or talking with insurance brokers, are demanding greatly enhanced value. They want more for less."

In response to buyers' demands, EXEL has changed the way it operates, Mr. O'Hara added, and continues to work on innovations it hopes will meet buyers' individual needs at a reasonable price.

Roger Sellek, director-market risk at Lloyd's of London, joined Mr. O'Hara as a keynote speaker and confirmed that Lloyd's is facing many of the same challenges in making sure buyers get what they demand.

Lloyd's is seeking to step away from some of its "historical trappings which are unnecessary and anachronistic," as it

seeks to "create a new, streamlined, dynamic, modernized market," Mr. Sellek said.

And Lloyd's is working to create innovative coverage solutions as buyers' needs change, he pointed out. For example, syndicates recently have written policies designed to cover losses from aborted corporate takeovers or to provide legal liability coverage to firms that transmit information over the Internet.

Mr. O'Hara said EXEL has responded to buyers' demands for better service by reorganizing the company "from the ground up, dividing our underwriting into customer business units."

The sole purpose of that move "is to concentrate on those industries and businesses that our underwriters know best and for which they will gain additional specialized knowledge," he said.

EXEL is close to unveiling a project it is crafting to help insurance buyers better manage their risks and make knowledgeable coverage decisions.

Mr. O'Hara explained that the new computerized system will provide "risk managers and business managers with instant access to information on risks and methods of dealing with risks." He called it a "knowledge-based system organized around business processes."

The insurer is getting help putting together the non-proprietary system from brokers, accountants and actuarial firms that will contribute their risk manage-

See Buyers on next page

Captives may be used to tap capital markets

By RODD ZOLKOS

MIAMI—The paradox of capital market risk financing techniques emerging even as the insurance industry appears awash in capital suggests that the capital markets' role in insurance is here to stay, according to one risk manager.

Though London-based pharmaceutical and chemical manufacturer Zeneca Group P.L.C. has yet to engage in a capital markets risk financing transaction, Neil Campbell, general manager of Zeneca Risk & Insurance Services, the group's risk management arm, said the company will continue considering capital markets alternatives.

"I believe it is incumbent on companies to look introspectively at their own objectives and how these objectives may be derailed by the existence of risk," Mr. Campbell said during a panel on transferring risk into the capital markets earlier this month at the Eighth World Captive and Alternative Risk Financing Forum in Miami.

In addition to the prospect of a new range of risk financing techniques, capital markets activities also offer the risk manager a chance to become more involved with the company's treasury functions.

The risk manager noted that Zeneca uses its captives for various reasons, including reducing the cost of risk and

increasing the insurance program flexibility.

But added to the list of reasons recently is the captive's potential as a vehicle for gaining access to capital markets risk transfer opportunities.

Zeneca has adopted a multiyear/multiline insurance program, Mr. Campbell said, because such an approach provides a risk financing program that better fits the company's risks, builds relationships with key markets and provides seamless coverage.

Such an approach also provides a structure through which the company can look at addressing new areas of risk, such as foreign exchange, or create new risk financing products.

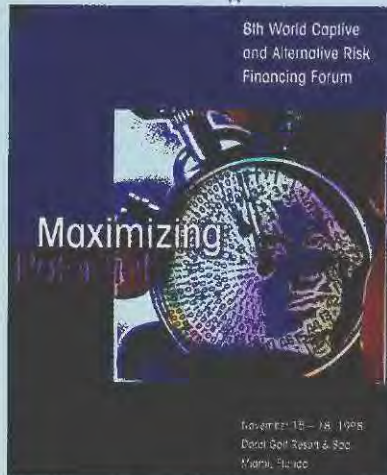
Over the past four years, the company has considered several capital markets alternatives.

One was a captive stabilization program, aimed at increasing the retention capabilities of the company's Zeneca Insurance Co. captive while providing a way for the captive to benefit from the good experience of the insurance programs placed in it.

The plan considered was a structure called "insurance participation notes." The alternative to traditional reinsurance was based on four separate contracts linking Zeneca, a note issuer, an investment bank and a reinsurer. It set out a conventional reinsurance policy, the note issue and purchase and two insurance swaps.

While the plan seemed feasible, the company ultimately selected more traditional finite risk reinsurance, Mr. Campbell said. Among the reasons

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Markets

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for choosing a traditional route were the commitment of assets the note plan would require, tax and accounting issues, the deal's complexity and its transaction costs.

Another approach Zeneca considered was designed to address a liability capacity shortage drug manufacturers faced about three years ago. That plan involved a structure that would have seen at least eight pharmaceutical companies coming together to create a new mutual insurance company, which then would have turned to the capital markets to raise the funds needed to back its policy limits.

Zeneca rejected that concept as well. Among the reasons were the program's premiums, which were far beyond those to which the potential

participants were accustomed, and the deal's transaction costs.

The third capital markets vehicle Zeneca has considered to date was a contingent capital concept that would have provided immediate liquidity following a major event that caused Zeneca's profits to drop significantly.

Like the others, that approach proved unattractive, primarily because companies like Zeneca can raise large amounts of money very quickly if needed, making such a vehicle unnecessary, Mr. Campbell said.

But Zeneca is continuing to look at capital market alternatives, which might be particularly useful for such business exposures as the cost of new products that fail late in their development.

Mr. Campbell noted that developing a new medicine can take 15 years, with the research and development phase taking four to 10 years alone, at

a cost of as much as \$300 million.

Any failure at the latter stages of development can be costly indeed, and perhaps the capital markets could provide a mechanism for transferring that exposure through the securitization of anticipated cash flows, Mr. Campbell said.

Another speaker, David Mocklow, director at Aon Capital Markets in Chicago, noted that an integrated risk financing program and a captive can provide the starting points for managing those sorts of business risks.

Integrated risk approaches provide an opportunity for companies to use insurance to manage such risks as foreign exchange, commodity prices, cost of or access to capital, contingent credit or political risk, along with more traditional exposures, Mr. Mocklow said. The captive then can be used as a platform for transferring those risks into the capital markets.

Buyers

Continued from previous page

ment and insurance expertise. "We worked with a large software manufacturer who developed this for their own risk management department," Mr. O'Hara said. EXEL has involved other software creators to work on the project and help "flesh out what business risk is all about," he said.

The software will allow users to determine "the risks associated with the business process itself, what the root causes are and what strategies can be developed to mitigate risk," he said.

A generic version will be the first available, Mr. O'Hara said. It will be aimed at large multinationals and contain a "generic risk map of processes common to most businesses," he noted.

The second version will narrow the information to industries, allowing, for example, manufacturers and financial services companies to distinguish the processes related to their

types of businesses and address their risks. Users of the third version will be able to modify it to pinpoint the specific risk management needs of their companies.

Lloyd's is looking to offer more policyholders and members access to the marketplace, Mr. Sellek pointed out. He said Lloyd's is "keen to extend our franchise" and has found recent underwriting opportunities in countries that are deregulating the insurance business. That allows Lloyd's to build "on the unique advantage of our brand," he noted.

He referred to Lloyd's recent decision to admit captive syndicates into the market as exciting and important. Captives can begin operating at Lloyd's in 1999, with the approval process taking about eight weeks (BI, Nov. 16).

The market should be attractive to U.K. multinationals seeking to establish captives or relocate captives from offshore domiciles, Mr. Sellek said. A Lloyd's-based captive also would be attractive to multinationals in the United States or continental Europe that wanted to access the London

market or begin writing third-party business.

"I believe Lloyd's is likely to develop as a niche market for captives," he said, "with prime emphasis on the major multinational corporations who see real commercial advantages to being part of the Lloyd's market."

"One of the prime considerations" for a multinational anticipating locating a captive at the marketplace is the "extensive network of licenses that Lloyd's has built up over its 300-year history," Mr. Sellek said, allowing the market to write coverage in many parts of the world.

Captive syndicates will have access to "the world's greatest single concentration of underwriting expertise and innovation," he said.

Mr. Sellek said captive formations should begin as a "slow trickle" and pick up speed over the next three to five years. There have been about 650 requests for copies of the documents outlining the entrance of captives into the marketplace, he noted.

Kathryn J. McIntyre, publisher and editorial director of *Business Insurance*, moderated the session. **BI**

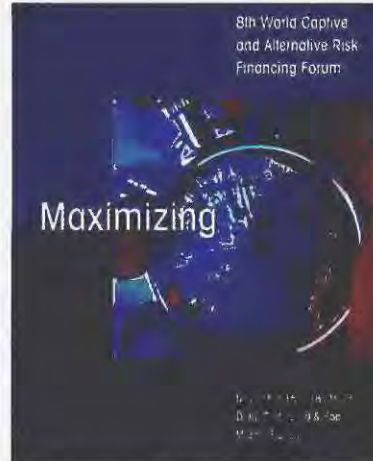
"The objective should be to put all your financial and operating risks in a single framework," he said.

But, he added, "Obviously, at the end of the day a lot of these things only make sense if you can do them at less cost than buying a treaty in the traditional reinsurance market."

And, despite his company's interest in such techniques, Mr. Campbell sounded some words of warning.

"Is it necessary to hedge all kinds of business risks?" he asked. "Overhedging, either by spending too much money on risk transfer or through other means such as business diversification, can reduce value."

"It is important not to be enticed to take advantage of new products promoted by brokers, bankers or other advisers that, through use of the capital markets, would appear to provide new attractive options to mitigate risks," Mr. Campbell said.



"Sometimes I almost detect a competition to put together the latest or biggest or most complex deal."

Kathryn J. McIntyre, publisher and editorial director of *Business Insurance*, moderated the session. **BI**

Captives weather market softness

By RODD ZOLKOS

MIAMI—Even in the current soft market for traditional insurance, a look at the experiences of very different companies shows that captives can produce real advantages in a company's risk financing program.

Case studies of the captive experiences of Goteborg, Sweden-based manufacturer Volvo AB; North Little Rock, Ark.-based mail hauler Pat Salmon & Sons Inc.; and Boston-based financial firm Fidelity Investments show that even in a soft market captives can be a powerful tool for a wide variety of companies.

The three companies' case studies were offered for scrutiny in the final program of this year's Eighth World Captive and Alternative Risk Financing Forum earlier this month in Miami.

"Some people argue there is less reason to use a captive today than many years ago, but I'm not totally willing to admit that's right," said Krister Nyman, president of Volvo Group Insurance Ltd., one of Volvo's

three captives.

"To me, the fact that the captive gives the ability to control your own destiny... I don't know how a risk manager can choose any other option than a captive," said Herb Martin, corporate risk and quality manager at Pat Salmon & Sons. "The ability to fund risks through a captive is a tremendous tool."

"First of all you need one," Judith M. Lindenmayer, vp-Fidelity insurance and risk management at FMR Corp. in Boston, said of captives. "Secondly, you need to use it as a tool."

Mr. Nyman noted that Volvo did its first captive feasibility study about 12 years ago and now operates three captives.

The first, in Luxembourg, was inherited in an acquisition, he said. A Swedish-domiciled captive, licensed only as a reinsurer, was next; finally, Dublin-domiciled Volvo Group Insurance was added to provide a vehicle for writing coverages throughout the European market.

See Examples on page 6

Editorial staff changes at Business Insurance

CHICAGO—*Business Insurance* has made two changes in its Chicago editorial staff.

Amanda L. Milligan has been promoted to associate editor, and John Keagy has joined the magazine as assistant directory editor.

Ms. Milligan, 23, previously served as editorial assistant and was



Ms. Milligan

responsible for overseeing the administration of *Business Insurance's* site on the World Wide Web.

In her new position, Ms. Milligan will report on risk management, insurance and employee benefits issues.

Prior to joining *Business Insurance* in 1997, Ms. Milligan was an intern with Crain's Chicago Business in 1996 and 1995.

She has a bachelor of arts degree in journalism, with a minor in business administration, from the University of Alabama in Tuscaloosa.

Ms. Milligan can be reached at

312-649-5282.

Mr. Keagy, 28, will assist in the production of the magazine's in-



Mr. Keagy

publication directories.

He replaces Matthew T.C. Scroggins, who was promoted to assistant copy editor earlier this year.

Before joining *Business Insurance*,

Mr. Keagy was a free-lance book editor at Lake Claremont Press in Chicago and served as an intern at Dragonette Inc., a public relations and marketing firm in Chicago.

Prior to that, Mr. Keagy served as a copy editor and page designer for the Daily Egyptian at Southern Illinois University in Carbondale.

He has a bachelor of arts degree in English, with minors in geology/geography and German, from the University of Illinois at Urbana-Champaign.

Mr. Keagy can be reached at 312-649-5313. **BI**

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Examples

Continued from page 4

Among other things, Mr. Nyman said, Volvo's captives have spurred more management focus on risk and insurance. "I don't think that would have happened in our company if we didn't have the captive," he said.

The company's captives also provide an excellent basis to obtain an overall view of corporate exposures, Mr. Nyman said. "This is the best platform we could ever have to explain risks for our companies."

Additionally, the company has been able to use part of its captive surplus to finance loss prevention activities. "We think it's a very good way to use surplus from the captives," Mr. Nyman said.

"Recently we have decided to go also into employee benefits, and we will introduce a program into the Luxembourg captive as of the first of next year," he said.

Discussing her company's exposures, Ms. Lindenmayer noted that there are actually more than 100 companies within Fidelity. "So it's kind of hard to get your arms around what the risks are in the organization," she said.

But Fidelity has crafted a multi-year/multiline program that does take in the company's broad range of exposures, using its captive in conjunction with a finite risk program that blends the financial risks the company faces with traditional insurance risks.

At Pat Salmon & Sons, "our largest expense lines are labor, fuel and insurance," Mr. Martin noted. With the company's founder and,

later, his sons always emphasizing cost control, reining in insurance costs was seen as a natural activity.

"At the time I came along, they were talking about buying an insurance company," the risk manager said.

Prior to 1989 the company had minimal insurance, then from 1989 to 1991 it went with a paid-loss program.

While successful, the paid-loss program made it difficult to calculate the company's true cost of risk and determine the risk margin.

"Another issue with the paid-loss program was we were accountable for it but it wasn't funded," Mr. Martin said.

Ultimately, Pat Salmon & Sons formed a captive in 1991, selecting Vermont as the domicile. "We felt that offshore was a tough sell to make to our partner (the U.S.

Postal Service)," Mr. Martin said.

The company also decided to form its own captive rather than go with a rent-a-captive approach. "I think it goes back to control," Mr. Martin said. "Our fellows don't like to put their money in somebody else's bank account."

The company uses its captive primarily to provide workers compensation and auto coverage. "We kept it pretty simple. We didn't get into a lot of extraordinary-type programs," Mr. Martin said.

But it has met the goals of helping the company get a better handle on its actual cost of risk while providing superior coverage at lower costs, Mr. Martin said.

"We feel the captive provides us much more comprehensive conditions than we were able to buy," he said.

"The bottom-line reality in our

mind is the control we have of our program," Mr. Martin said.

Looking toward the future, the company has formed a Bermuda-domiciled captive it hopes to use to reinsure the exposures of other mail haulers, though that captive hasn't written any business yet.

Once they've gotten their traditional exposures under control, it's important for risk managers to look for other ways they can add value to their organizations, Ms. Lindenmayer said, and a captive can be an important part of such activities.

With traditional risk financing programs in place, the next step for risk managers is "opportunistic risk financing," she said. "What can you do to add to the bottom line of your company?"

D. Hugh Rosenbaum, a principal at Tillinghast-Towers Perrin in London, moderated the session. **BI**

Rent-a-captives popular again

By MICHAEL BRADFORD

MIAMI—The seesaw popularity of rent-a-captives is on the upswing.

When rent-a-captive programs began appearing in the late 1970s, they were for a while "a lonely voice—there weren't a lot of us," said Richard G. Turner, president of Commonwealth Risk Services Inc. in Philadelphia. "They got popular, then it went sort of quiet for a while, and now it's become very popular in terms of a lot of new facilities out there."

Rent-a-captive entrance requirements aren't burdensome, and joining one is easier than forming a captive, according to Mr. Turner, whose company sets up the facilities. And there are other benefits to participating, he said.

He pointed out that rent-a-captive participants have the opportunity to reap underwriting profits and earn investment income on their stakes in a facility.

Speaking as a panelist at the Eighth World Captive & Alternative Risk Financing Forum in Miami earlier this month, Mr. Turner outlined other reasons participants turn to rent-a-captives rather than

traditional captives or coverage in the commercial marketplace.

Tax deductibility is not the motivator it was when the programs were first being formed, he said. Instead, the facilities have become more attractive to risks that in most cases can participate without contributing capital.

Tax implications are complicated because there are so many different rent-a-captive structures, Mr. Turner said. However, the programs generally reduce a participant's taxes, he added.

Two other panelists showed how rent-a-captives helped to lower workers compensation costs.

Consolidated Personnel Corp., a St. Louis-based transportation services and contract labor operation, wanted to stem the tide of rising workers comp costs that began when the company went through a growth spurt.

As it expanded, Consolidated acquired companies that had poor workers comp claims experience, explained Doug Crowell, chief financial officer at Consolidated.

After examining options in the commercial market, Consolidated decided the cost advantages offered

by a rent-a-captive provided the best vehicle for funding the workers comp risk. Combined with an aggressive risk management program, the rent-a-captive helped lower the costs, he said.

Mr. Crowell said his company is in the program for the long haul, despite the continuing soft commercial market. He warned that "what goes around comes around. The soft market is here today; three or four years from now it could be a hard market and we could be right back to where we were at almost 10 years ago."

Cust-O-Fab Service Co. L.L.C., a Tulsa, Okla., company that provides maintenance and construction services to fertilizer and oil and gas operations, had similar reasons for joining a rent-a-captive.

The predecessor company to Cust-O-Fab was turning in workers comp numbers that were so bad in the late 1980s that no insurer was interested in taking on the risk, explained Richard A. Shimer. He is Cust-O-Fab's manager of finance and administration. The company was forced to buy coverage from state funds in states where it operated.

"In early 1990, we took our first

look at rent-a-captives," Mr. Shimer said.

"They told us that we would be able to select our own (third-party administrator)," he said, and that "we could set our own limits, we could be involved in our claims" and participate in financial benefits like underwriting profits and investment income. "So we signed up with them."

Cust-O-Fab, which was formed in 1994, began funding its workers comp coverage in a rent-a-captive program in 1995.

Mr. Shimer warned that it is important to choose partners carefully when considering a rent-a-captive. He said a broker that provided captive services to Cust-O-Fab's predecessor company disappeared with the company's premium payments after four months in the program.

"Fortunately for the company, our rent-a-captive stepped in and they assumed responsibility," he said, with the rent-a-captive functioning as the broker for the remainder of the year.

Mr. Turner of Commonwealth said prospective participants in a rent-a-captive should ask certain questions before signing up.

Group insurer retains members

By RODD ZOLKOS

MIAMI—Flexibility, member service and expanding membership are keys to survival for group insurers formed in response to hard market conditions now facing more competitive markets.

Speaking at the Eighth World Captive & Alternative Risk Financing Forum earlier this month in Miami, Brian Donovan, president of Steel Tank Insurance Co. in Lake Zurich, Ill., noted, "It's very easy to build commitment when you're out on the seas and the seas are rough and everybody wants to hold onto the life raft."

It's more difficult to keep members committed to the group, however, when the market's seas are calm, Mr. Donovan said.

Vermont-domiciled association captive STICO was formed in 1988, "at a time when the sharks were in the water and the insureds were asking for a solution," Mr. Donovan said. STICO's initial focus was limited. It was formed with an initial capitalization of \$3 million and only provided underground storage tank warranty and pollution liability coverages.

Among the external challenges was the return to the market of the traditional insurers and state regulators'

concerns.

"All of a sudden the sharks started coming back into the water and state insurance regulators started training their sites on us because we were an unlicensed carrier," Mr. Donovan said.

Internally, STICO faced stagnant premium volume, low-frequency/high-severity loss exposures, management limitations, a non-admitted policy form limited to product liability environmental exposures and a limited customer base.

In response, STICO restructured. Among other things, it switched to a fronted program and broadened its coverage to include commercial general liability and environmental impairment liability.

The group also expanded membership, placed a renewed emphasis on risk management and created a capital account program for members.

"We realized we had to broaden our membership base. We could not just focus on the group as it was known, which was underground tank manufacturers," Mr. Donovan said.

The group expanded membership to take on others in related businesses, such as those installing and repairing underground tanks.

But that expansion brought new concerns. "The dilemma that we faced was, 'How do we grow and at

the same time reinforce the original members' sense of ownership?" Mr. Donovan said. "The key was fairness to the founders."

The solution was the creation of capital allocation accounts for members. Members' allocations were based on a \$1,000 initial capital contribution, "loyalty credits" of \$1,000 for each year the member had been involved in the STICO program and a share of \$4.9 million of STICO's surplus distributed on the basis of the member's percentage of STICO's overall premium.

To discourage membership flight once the capital was allocated, STICO required members withdrawing capital from the account to give up membership in the group and get approval from the captive's board of directors and Vermont regulators. STICO also stipulated that the capital from the member's account would be paid out over five years with no interest.

"The only people who've left were people who were bought out or went bankrupt," Mr. Donovan said.

The capital allocation program has re-energized membership and increased loyalty, Mr. Donovan said, as well as giving STICO an added tool in competing with traditional insurers.

David A. Bossman, president of the American Feed Industry Co. RRG

Inc., noted that his Iowa-domiciled risk retention group was born out of circumstances similar to those that brought about the formation of STICO.

"There was a hard market going on, and the livestock feed industry... was viewed as a terrible risk by the regular insurers," he said.

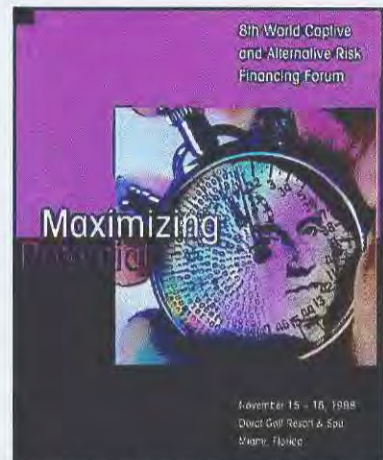
Because all they were looking for in 1987 was liability coverage, forming a risk retention group fit the members' objectives. Initially, the RRG sold product and general liability coverage with limits up to \$5 million.

Since then, the organization has gone through considerable evolution, including the formation of the American Feed Holding Co. "We created that holding company because if we ever want to take in outside capital we can do that," Mr. Bossman said.

The holding company, in turn, owns American Agri-Business Insurance Co., which is a property/casualty insurer licensed in 18 states.

The group also created American Feed Insurance Risk Management Services as a subsidiary of the holding company. "We formed that very early on so we could broker to our clients something other than liability insurance," Mr. Bossman said.

Forming partnerships with fronting insurers and reinsurers facilitated serving clients in all 50 states

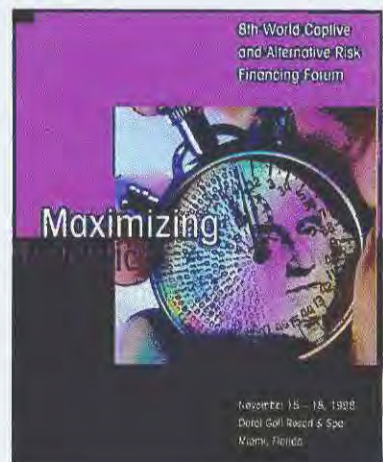


Find out how financially strong the facility is, he advised. Whether it is able to withstand a mistake "is what it really comes down to," he said.

The program a participant is involved in should be segregated from others in the facility so it is protected if there are problems in other areas of the rent-a-captive, Mr. Turner said. "How good is that segregation?"

"What is the track record?" he asked. "Look at references and referrals to make sure you get what you buy."

Nicholas Dove, president of Skandia International Risk Management in Bermuda, moderated the session. **BI**



and gave the group insurer a way to sell a full line of insurance products.

Together, the moves allowed the group, which has lost half its initial members over the years due to consolidation in the feed industry, to broaden its customer base to include livestock producers, Mr. Bossman said.

Mr. Bossman credits the group's success to strong loss prevention and claims defense activities, willingness to change, the willingness to take risks and the fact that the group has stopped waiting for the next hard market.

"This is the market, and we have learned to adjust," he said.

D. Hugh Rosenbaum, a principal with Tillinghast-Towers Perrin in London, moderated the session. **BI**

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Opinions

RIMS broadens community

THE RISK & INSURANCE MANAGEMENT Society Inc. has taken a historic step by opening its arms to a new group of members.

RIMS earlier this month created a new class of members, called Associates of the Society. Brokers, insurers, consultants and other professional service providers are eligible to join RIMS under this new program. Associates of the Society will enjoy many of the benefits of membership, though they will be unable to vote, hold office or chair society committees.

As long as those conditions of membership remain intact, we see the expansion of RIMS membership as a positive step for the entire risk management community.

At first blush, some might question whether including sellers and vendors in the ranks of an organization devoted to buyers dilutes it. We believe, however, that expanding the types of members in the society will give buyers new insights and perspectives on issues of importance to RIMS. It also will bring new membership revenues that can be devoted to furthering the society's goals, as the associate membership will carry an annual fee of \$400, compared with \$300 for regular membership in RIMS (though we wonder whether it's fair to charge them more for less).

The input—both intellectual and financial—of risk management service providers also will give RIMS new resources for educational programs, networking and lobbying.

Other professional societies and associations have been able to enhance their standing in terms of both cash and brain power by opening their doors to service providers and others. And, by carefully crafting the rights and responsibilities of the new associate members, such more-inclusive groups have been able to maintain their historic missions. We see no reason RIMS cannot do the same.

Those benefits of an expanded membership will strengthen the society at a time when membership growth among its traditional base of members is stagnating due to a consolidating economy and tightening risk management departmental and corporate



• COMPLETING THE PUZZLE •

budgets.

Reaching out to the industry in this way also underscores a message that former RIMS President William J. Kelly stressed for the society: Risk managers should view brokers, insurers and other risk management service providers as partners, not adversaries.

Several events of the past year have threatened to create a rift between buyers and sellers of risk management services. These include the industrywide controversy over contingent commissions that brokers receive and a RIMS/Quality Insurance Congress survey on quality that many service providers regarded as inadequate (*BI*, May 11; May 4).

At the very least, the input of service providers in the society on those issues could have prepared risk managers for the reaction that met RIMS' stance on those two issues.

For those reasons, we hope brokers, insurers and other service providers will jump at the opportunity to join RIMS, and we encourage risk managers to tap this new resource for the benefit of their society.

Letters

'Care management' not an innovation

To the editor: As a certified case manager, I was interested to read Dr. Victor Villagra's article, "Care Management an Effective New Tool," in the Oct. 12 issue. What he describes is case management, vigorously grown past its infancy and effectively used by payers and providers across the country for well over a decade to increase positive outcomes for patients and decrease health care expenditures.

Predating disease management, case management evolved to address the needs of critical and chronic care patients, the 3% to 5% of health care populations that use more than 70% of health care benefit dollars. In short order, its success rate made it a valuable tool for managing a wide variety of illnesses and conditions. Employers are es-

pecially keen on its efficacy for addressing return-to-work issues in workers compensation cases.

There are over 22,000 certified case managers in the United States who have received accreditation through the Commission for Case Manager Certification. The American Accreditation Healthcare Commission/URAC is developing a credential for facilities that provide case management services. There are case management books; conferences; journals; newsletters; World Wide Web sites; software programs; and a national association, the Case Management Society of America.

These resources could direct Dr. Villagra to professionals in his area of Connecticut who have worked with companies such as Trans World Airlines,

American International Group Inc., the Blues, General Motors, Ford, Aetna and others.

These companies know that a well-designed case management plan delivers a return of one to eight, and in some cases, one to fifty.

We do not need to reinvent case managers as care managers. We need more routinely to apply their knowledge of clinical treatments and community resources to reap the benefits of well-managed care.

Catherine M. Mullahy
President, Options Unlimited
Director, CMSA National Board
Chairwoman-elect, CCMC
Huntington, N.Y.

See Letters on page 18

Letters to the Editor

Business Insurance welcomes letters to the editor. The section is intended to be a forum for readers' opinions and comments. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Please send your letters to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611; fax: 312-280-3174; e-mail: pwinston@crain.com

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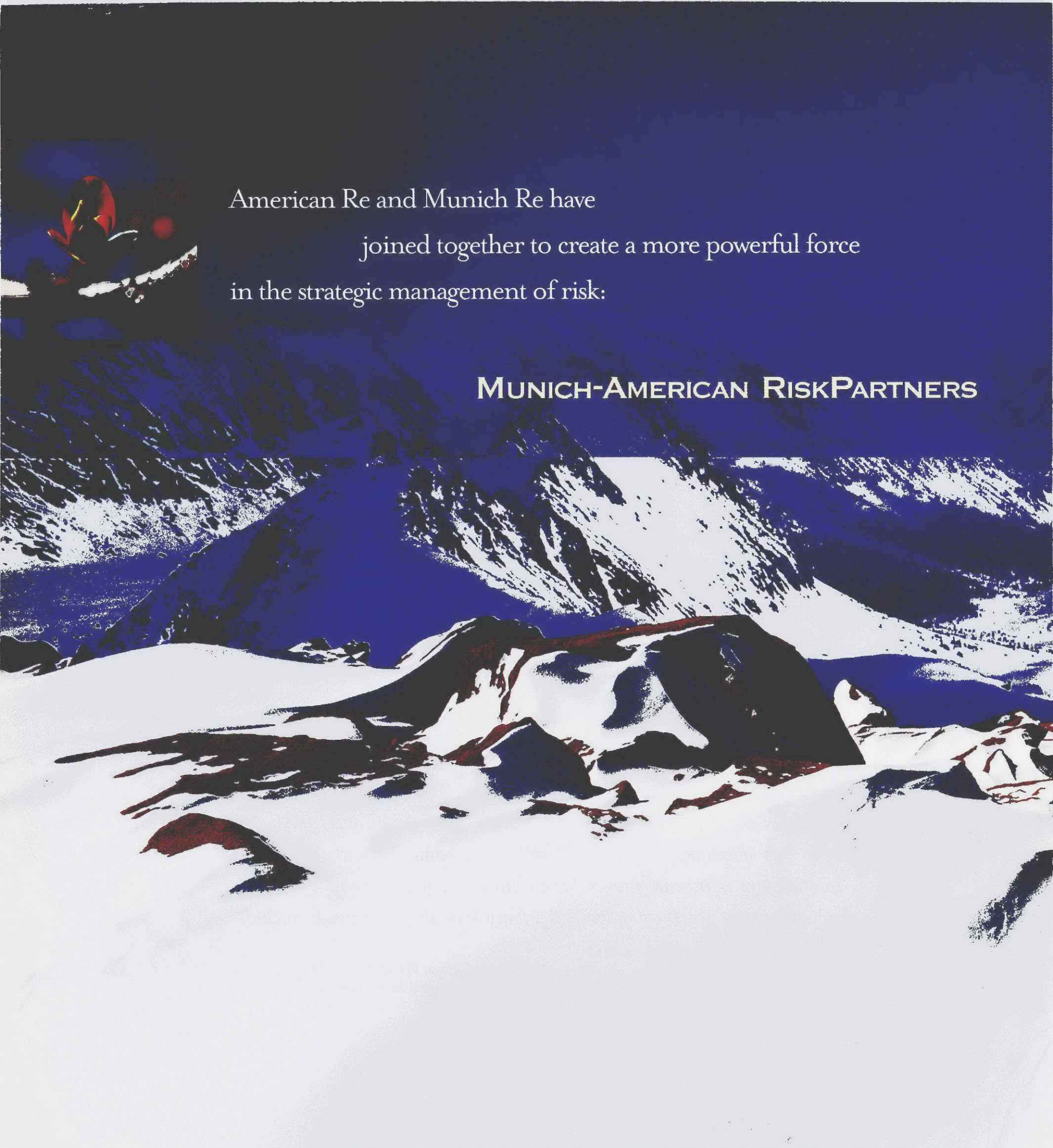


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Third-party business profit in the planning

By MICHAEL BRADFORD

MIAMI—Making money isn't the best reason for writing third-party business in a captive.

There may be profits, but, more importantly, there should be strategic reasons for taking on third-party risks, said Dean Reynolds, director of risk management at Nissan North America in Torrance, Calif.

Speaking at a panel discussion at the Eighth World Captive and Alternative Risk Financing Forum earlier this month in Miami, Mr. Reynolds said one reason for taking on third-party risks is "obviously, you can make some underwriting gains."

But it's an "alignment with the business strategy" that he says is the "compelling reason that one should get into third-party business. And if this issue is not there, then I would say

you shouldn't be going in. That may be a little bit of a contrarian view, but I feel very strongly about that."

Nissan's reason for writing third-party business was to address a customer need. Mr. Reynolds explained that car buyers who bought extended-service contracts from Nissan dealerships sometimes were left holding the bag when the insurer that funded the warranties went out of business. And dealers faced irate customers who wanted Nissan to honor the contracts.

In the end, the poor service reflected badly on Nissan, regardless of who was at fault, Mr. Reynolds said.

Dealers wanted a "high-profit and stable (warranty) product for car buyers," he said. "And we needed to support the dealers for one-stop shopping for extended-service contracts."

Nissan chose to fund the contracts through a captive as a way to gain

control over the product and to satisfy the dealers and car buyers. The automaker wanted to make a profit while achieving those goals, he noted.

The "business support strategy" has worked for Nissan and helped the company earn additional profits from the captive operation, Mr. Reynolds pointed out. "The extended-service contract business is something that we know very, very well, and it's turned out to be very profitable for us. We're very happy with that decision."

Besides, he said, it's much easier to explain the reasons for creating a captive as part of a business strategy rather than as a moneymaker, because profits from captives are rarely high enough to be impressive.

Joel S. Chansky, consulting actuary with Milliman & Robertson Inc. in Wakefield, Mass., said other companies are using captives to fund differ-

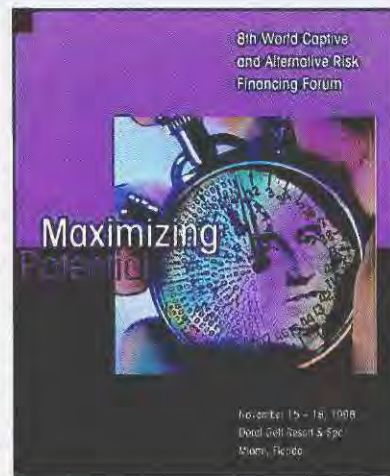
ent types of third-party business.

Much of the third-party business written by captives is similar to the type of "controlled third-party business" handled by Nissan's insurer, he said. Coverage for an owner's leased employees, vendors, service providers, contractors or product warranties is often funneled through a captive.

Some captives also are "basically becoming a property/casualty insurer and providing auto insurance, homeowners or umbrella insurance" for the owner's employees, Mr. Chansky said.

These uses of captives for third-party business are much different from the late 1970s and early '80s, when captive owners rushed to fund unrelated business, letting them claim tax breaks and hope for profits.

"Companies went out and gave their pens to the brokers and said 'give us the business,'" Mr. Chansky



Choose captive managers carefully, speakers advise

By MICHAEL BRADFORD

MIAMI—Pick wisely when choosing service providers for a captive, because the whole operation depends on these choices, a panel of experts suggests.

"Captive results will only be as good as the service providers that you choose," said Charles A. Buikema, assistant vp-risk and insurance management at INOVA Health System in Falls Church, Va.

Picking the right people means captive owners have to spend less time worrying about things being done right, he said. A risk manager who spends more than 25% of his or her time on captive operations probably has the wrong people for management, consulting, legal and other captive services, he said.

Mr. Buikema and others offered advice on picking service providers during a presentation this month at the World Captive and Alternative Risk Financing Forum in Miami.

Susan Wilde Hughes, vp-health care practice at Aon Risk Services Inc. in Washington, and a panelist at the forum, suggested choosing "service providers whose experience and credentials are proven."

One approach is to attend industry events where service providers are on hand, she said. "When you attend meetings like this, you meet a variety of different service providers, you know their reputations, you know the quality of their work product. Insurance is a business relationship, but it's also a relationship business."

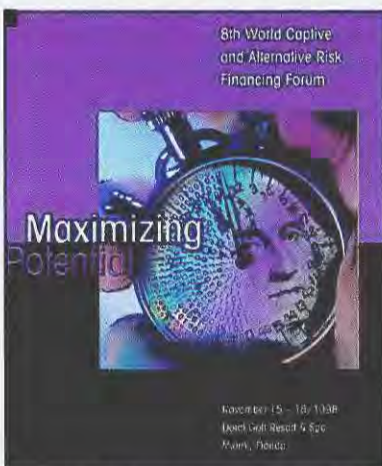
"And you want to work with people who are easy to work with—have proven reputations—and people who work well with regulators in various domiciles."

At the top of the list of concerns is the captive management company, which is a choice the captive owner

needs to settle on early in the process of selecting providers.

Mr. Buikema, whose company owns two captives, pointed out that local laws in domiciles require captives to hire managers that have to be approved by local authorities.

The manager should have an accounting and administrative background because "after all, that's what they're going to do for you,"



he said. Those responsibilities include bookkeeping, policy issuing and other administrative duties.

He also urged captive owners to make sure their managers can provide financial reports and services that "will fit in your organization. Can they provide what your financial people need?" A manager may, he warned, try to "sell what he thinks you need."

Checking captive managers' credentials is essential, he said. He advised owners to ask for and check references with three accounts the manager lost for different reasons.

Local lawyers with captive knowledge are a necessity, Mr. Buikema said. "They sometimes can be the grease that moves this thing along a little quicker. They know

how the regulator likes things structured; they know how they like the documents worded."

Another key to the success of a captive is proper management of its investments, said Michael Maglaras, principal with Michael Maglaras & Co. in Stamford, Conn.

He suggested there be a strong synergy between the investment management and actuarial service providers. "When you interview the investment manager, put the actuarial pro forma in front of them," he said. "Let them see the expected level of incurred losses, how that's discounted, and let them match that with investment objectives."

And when choosing the actuary, make sure that service provider can come up with a "five-year window of what your captive will look like," Mr. Maglaras noted.

While the numbers will change from the original estimates, he said, "you have to have some sense of the flow of your earned premiums, the flow of your expected expenses. . . . So no matter what anybody tells you, get a five-year pro forma."

When choosing a consultant, hire someone known for handling captive business, Mr. Maglaras said. "Consultants should not be brokers," he added. "It's an enormous conflict of interest. Do not have a consultant who places insurance."

When selecting a broker, "make sure the broker has familiarity with all domiciles—that they have relationships with captive managers and other service providers in those domiciles," Aon's Ms. Hughes said.

Brokers can offer captives a number of services, she noted. "They should be prepared to assist in premium and claims processing," she said, as well as allocating those costs back within the company.

Mr. Maglaras moderated the panel discussion.

Ignorance of laws can tax captive owners

By RODD ZOLKOS

MIAMI—In looking to maximize their captives' financial benefits, sponsors must be aware of the impact that tax laws and treaties can have on their captives' insurance activities.

Explaining the role tax treaties can have to companies doing business across international borders, James D. Cameron, a partner in New York with the law firm Baker & McKenzie, noted that such treaties exist basically "to ease impediments to trade."

Mr. Cameron made his remarks as part of a panel on tax treaties, dividends and loan-backs earlier this month at the Eighth World Captive and Alternative Risk Financing Forum in Miami.

The U.S. government benefits from tax treaties in various ways. For example, the treaty between the United States and Bermuda includes exchange-of-information provisions, he said.

In contrast, there is no treaty between the United States and the Cayman Islands. "The Cayman Islands don't have one, and probably one of the real reasons is they don't want to enter into the exchange-of-information provisions," he said.

The typical treaty benefit to taxpayers is an exemption from excise taxes, Mr. Cameron said.

A specific provision of the treaty between the United States and the United Kingdom allows onward reinsurance to non-treaty protected countries. In other words, a reinsurer can retrocede risk to a non-treaty protected country without exposing that portion of the transaction to excise tax. "None of the other treaties have that," Mr. Cameron said.

The U.S.-Bermuda treaty applies to insurers and reinsurers only and provides that companies may lose treaty benefits if they "substantially" reinsure risks with other than Bermuda or U.S. reinsurers, Mr.

said. "They gave them the business."

Some owners suffered massive losses from third-party business then, and today captives generally stick to business with which they are familiar.

Kathryn J. McIntyre, publisher and editorial director of *Business Insurance*, moderated the session. **BI**

Cameron said.

The treaty between the United States and Luxembourg, though, provides "protection for the excise tax on insurance premiums, but they don't give you protection from the excise tax on reinsurance premiums," he said.

Tax laws are a key consideration for companies considering tapping their captive's value through dividends or loan-backs, noted Thomas M. Jones, a partner at McDermott, Will & Emery in Chicago.

Implications vary depending on whether the captive is deemed a "controlled foreign corporation" or a "non-controlled foreign corporation."

For example, dividends from a CFC captive to the parent are considered distributions of previously taxed earnings. Consequently, no second tax is imposed in the United States because the income already has been taxed in a prior year, Mr. Jones said. If the captive is not a CFC, however, such dividends would be taxed, because that income was not previously taxed in the United States.

Loan-backs—loans made to the parent using surplus—from offshore captives can have a variety of potential tax implications, and dividends generally are a preferable way to move money from the captive to the parent, Mr. Jones said.

While there are generally no federal income tax issues associated with loan-backs for onshore captives, there can be other considerations.

For example, while a domicile such as Vermont theoretically allows single-parent and industrial insured captives to invest reserves as they please, in practice regulators treat loan-backs as a change-of-business plan requiring prior approval, Mr. Jones said.

George A. Chaffee, president of Skandia International Risk Management (Vermont) Inc., moderated the session. **BI**

E-commerce efficient, cheap

By MICHAEL BRADFORD

MIAMI—Time is money, and for captives, electronic commerce means quicker deposits that earn more interest.

When moving money electronically rather than by paper, captives can get premium payments and other funds on deposit more quickly, panelists at the Eighth World Captive and Alternative Risk Financing Forum noted.

Getting funds on deposit more quickly can mean hundreds or thousands of dollars of additional interest each day, the panelists noted.

And it's cheaper to move money electronically, said Denise L. Brown, vp-global cash management services at Citibank N.A. in Stamford, Conn.

"Banks charge more for handling transactions manually," she said, explaining, for example, that faxed orders to move money involve several

verification steps that take longer to execute than electronic orders.

Ms. Brown said the Internet may increasingly be used as a way to move funds between corporate accounts. "Consumers and the retail market are doing it today," she pointed out. And electronic data interchange eventually will become more common among corporate transfers, Ms. Brown noted.

"With EDI, you can put in detailed payment information," she said.

"And depending on how sophisticated your payments and receivables are, you can actually integrate the whole thing so that you virtually eliminate those departments. Everything can be done electronically and immediately, with the payments being matched up," she explained.

To avoid expensive slip-ups, captives need to make sure electronic fund transfers are done properly.

Frank T. Dunn Jr., vp and marketing director of Citibank Global Asset Management in New York, emphasized that money managers need di-

rections on how to handle electronic transactions.

"If you're using an outside investment manager, make sure he has clear instructions on how to do wire transfers" and make investments, he said.

He said the investor and the money manager can use secure fax transmissions to exchange records detailing amounts received and instructions on how to deposit and invest the funds.

D. Hugh Rosenbaum, principal with Tillinghast-Towers Perrin in London, moderated the session. **BI**

Integrating risks pays off for Honeywell

Currency risks are first to be added

By RODD ZOLKOS

MIAMI—Taking an enterprise-wide approach to risk management can allow a company to take and profitably manage more risk, according to the risk manager of one company moving in that direction.

At Minneapolis-based Honeywell Inc., an enterprise-wide risk management program—addressing the exposures the company faces across the entire spectrum of its operations in a single program—has been the aim of a process of continuous improvement of the company's insurance program over the past four years.

According to Thomas P. Seuntjens, director of global risk management for Honeywell, while the company hasn't achieved true enterprisewide risk management yet, folding curren-

cy risk exposures into its integrated insurance program in 1997 brought it nearer that goal.

Mr. Seuntjens told attendees at the Eighth World Captive and Alternative Risk Financing Forum earlier this month in Miami that in developing its current insurance program, the company brought together a team that included expertise in risk management, currency management and project management.

The team also included company experts on marketing and solution design, program management, accounting and tax issues, and foreign exchange modeling.

It's critical that those who will be affected by the new program have a chance to contribute to its development, Mr. Seuntjens said, and the failure to do so is why many attempts to

include exposures such as currency risk in insurance programs have not come to fruition.

"Initially, what happens is the risk manager thinks this is a great idea and they've talked to the currency manager in advance, and the currency manager says, 'Yes, I think I understand what you're talking about,'" Mr. Seuntjens said.

"But they haven't brought them into the process," he said, leaving the currency manager unwilling to exchange a familiar program for something unknown. "So when it comes to time to bind the program, the currency manager says: 'Wait a minute. I understand what I'm doing now.'"

Honeywell chose currency exposures as the first financial risk to place in its insurance program because foreign exchange rates and their impact on the company's revenue and expenses are part of the regular budget process.

"Translation expense is one that you plan," Mr. Seuntjens said. "You know what your foreign profit will be in advance."

Scott M. Sanderson, a senior vp at J&H Marsh & McLennan Inc. in Minneapolis, worked with Honeywell in

developing its current insurance program. He noted that foreign exchange exposures can stem from contracts to provide goods or services paid in local currency or contracts to purchase goods or services denominated in local currency.

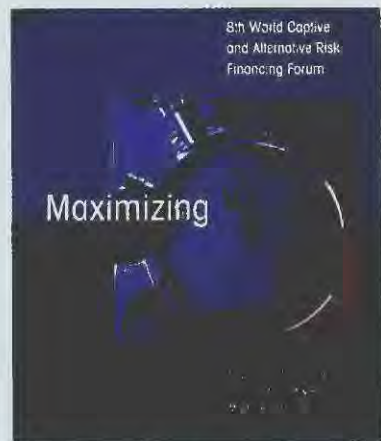
Other exposures can include income translation from foreign subsidiaries, the impact on dividends and royalties from foreign sources, or various balance sheet risks, such as the value of a foreign asset suddenly dropping with a change in the value of that country's currency.

"Foreign exchange risk isn't one thing," Mr. Sanderson said. "It's a lot of different exposures all at once."

And managing foreign exchange risks differs considerably from managing traditional insured exposures, he said.

For traditional risks, "we can usually use past history," Mr. Sanderson said. That approach won't work with currency risks, however. "What happened in the past is no predictor of what's going to happen in the future," Mr. Sanderson said.

Because currency value changes occur for political and economic reasons, nothing a company does can ac-



curately predict changes. "Anything can change the value of currency," Mr. Sanderson said. "It's completely irrational."

The process of putting an exposure such as currency risk in an insurance program relies on sophisticated modeling, both on the part of the underwriter and the policyholder, who compare their results to arrive at the details of the finished insurance contract.

"The whole process is driven by simulation modeling," Mr. Sanderson said. "It's very much a process of negotiation by mathematics."

Gregory Berg, a principal at Tillinghast-Towers Perrin in Westport, Conn., moderated the session. **BI**

Reinsurers look at alternatives

By RODD ZOLKOS

MIAMI—Reinsurers are showing a willingness to work closely with captive insurance companies, whether by providing traditional reinsurance or crafting customized products to facilitate cutting-edge approaches to risk transfer, according to one group of industry insiders.

Participating in an informal panel on reinsurance at the Eighth World Captive and Alternative Risk Financing Forum earlier this month in Miami, Michael D. Schnur, managing director at Guy Carpenter & Co. in Chicago, said, "In general, reinsurers are extremely bullish about captives."

Many captives have tough underwriting criteria, Mr. Schnur said, which to a reinsurer makes them better risks.

In some specific circumstances, however, reinsurers might be less bullish about working with captives, Mr. Schnur said. For example, some captives can be just too small to generate enough premium to merit a reinsurer's attention, he said.

"This is a market that's really delivering specialized risk financing products," said Philip M. Roels, vp for operations at Dorinco Reinsurance Co. in Midland, Mich., which is one of several captives owned by Dow Chemical Co.

"The markets are working with us to deliver solutions rather than bringing us a product off the shelf," he said.

However, even though reinsurers are providing those specialized client-based products, there will always be a place for conventional reinsurance, Mr. Roels added.

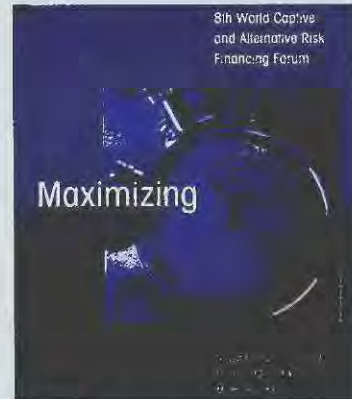
"I really don't see this market becoming the traditional market," he said. "This product isn't going to meet everybody's needs. There will still be a need for traditional reinsurance."

Albert J. Beer, president of Munich-American Risk Partners in Princeton, N.J., said in his opinion the state of the art of reinsurance has improved in recent years.

"I'm beginning to see better services brought to clients," he said. And industry consolidation, he said, "has arguably shrunk the reinsurance industry, but I don't think it's limited opportunities for buyers."

Mr. Schnur suggested that consolidation may actually benefit reinsurance buyers. "As an intermediary we really are seeing the benefits of consolidation," he said.

Consolidation has streamlined the buying process, he said, "and it also gives clients access to a broader range of services." For example, a buyer might now be able to place more lines of coverage with a single reinsurer, he said.



But Mr. Roels said he sees consolidation among reinsurers lessening competition, while providing no real pluses for buyers.

"We see much stronger companies out there, but from a buyer's standpoint we really don't see that as an advantage," he said.

In the near future, Mr. Beer said he expects captive parents to begin working more closely with reinsurers in bringing non-traditional sorts of risks such as currency or commodity price exposures into their captive insurance programs.

"I do believe the larger entities will begin integrating their financial risks," he said.

"We're seeing some very slow progress," Mr. Beer said. Then, offering a possible explanation for policyholders' deliberate pace in moving in that direction, he said, "I've heard it said the pioneers are the ones with the arrows in their chests."

"There's a lot of expertise out there, and you can tap into that," Mr. Beer said. "But the only way to develop that is if people start demanding more."

Robert J. Roesser, senior vp at Skandia International Risk Management in Hamilton, Bermuda, moderated the session.

Captives hold unexplored benefits

Provide effective way to fund some employee benefits

By MICHAEL BRADFORD

MIAMI—If it's good enough for financing an organization's property/casualty risks, a captive also is good enough to fund its employee benefits, says the risk manager for a global delivery company.

"Risk is risk," said Hugh M. O'Neill, group risk manager at DHL International Ltd. in Brussels, Belgium, which operates outside the United States. "It really does seem unusual" to treat the financing of employee benefit risks differently from the financing of property/casualty risks, he said.

Speaking at a panel discussion during the Eighth Annual World Captive and Alternative Risk Financing Forum in Miami earlier this month, Mr. O'Neill was addressing the funding of employee benefits outside the United States. He did not address the restrictions under the Employee Retirement Income Security Act that effectively prevent the use of captives to fund benefit programs for active U.S. employees.

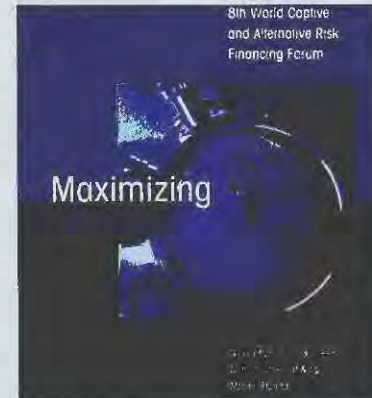
DHL International in 1994 began funding employee benefits for non-U.S. employees through its Bermuda-based captive, Marias Falls Insurance Co. The captive already had been used to provide coverage for "a significant international risk portfolio of typical (property/casualty) exposures," Mr. O'Neill pointed out.

Where previously DHL International had exclusively used local insurers to fund employee benefits, today it uses the captive to provide the coverages for 40,000 of its employees in 49 countries.

And since it began using the captive for benefits four years ago, DHL International's cost savings have amounted to \$8.1 million, Mr. O'Neill said.

Funding employee benefits through the captive also solved several problems for DHL International.

In some countries, for example, the company has 300 to 400 work-



ers, which is a relatively small number, Mr. O'Neill explained. It was difficult to get life insurance or disability for senior executives in some of those countries, he said; insurers were hesitant to take on the risk relative to the premium paid for the covered population. Those that did accept the risk required extensive medical screening, and executives with medical conditions became uninsurable.

Another problem with the old approach stemmed from DHL International's policy of moving senior executives around the world so that they gain experience in

different areas. Previously, that meant transferring the executives from medical plan to medical plan. Having a single plan through the captive overcomes that problem, Mr. O'Neill said.

And buying coverage locally was producing "high frictional costs," he said. Administrative costs were high and broker commissions were significant, helping make the risk transfer costs "quite a bit higher than the underlying inherent risk," Mr. O'Neill said.

Acknowledging restrictions created by ERISA, Karin J. Landry, Northeast health care practice leader at Watson Wyatt Worldwide in Wellesley Hills, Mass., noted that U.S. employers can use captives to fund retiree medical and life benefits.

An advantage is direct access to reinsurance, she said. "We've been able to structure reinsurance transactions in a very cost-effective way for some of the clients we work with."

And, she pointed out, "in many instances, we're able to set up arrangements where our clients don't have to change their service providers. For example, they keep the same third-party administrator, they use the same banks," while adding a captive manager and other advisers, she said.

A captive's lower cost structure "enhances cash flow," Ms. Landry pointed out, and policies typically can be manuscripted and changed more easily than they could be with traditional insurers.

Kathryn J. McIntyre, publisher and editorial director of *Business Insurance*, moderated the session. **BI**

225 attend Miami forum on captives

MIAMI—The lush fairways of the Doral Golf Resort & Spa were the backdrop for the Eighth World Captive and Alternative Risk Financing Forum in Miami earlier this month.

Risk managers, captive owners, reinsurers, brokers, consultants and others made up the group of 225 attendees who gathered Nov. 15-18 to hear a lineup of industry profession-

als discuss alternative risk financing.

The forum, sponsored by *Business Insurance*, Skandia International Risk Management and Tillinghast-Towers Perrin, consisted of panel discussions and social events.

Keynote speakers from Bermuda and Lloyd's of London gave a look at how buyers are demanding more from insurance markets. Panelists

discussed group captives, third-party business, rent-a-captives, concerns in various domiciles and other issues.

Next year's conference will be held Nov. 14-17 at the Doral. Information is available from the World Captive Forum, 4248 Park Glen Road, Minneapolis, Minn., 55416; 612-928-4659.

ASK A BENEFIT MANAGER

Q

Can you please update me with regard to the Medicare + Choice program? What is the government doing about providing information on these programs as well as some of the key issues for employers relating to the Medicare + Choice program?

A

The Medicare + Choice program was provided for in the Balanced Budget Act of 1997. The primary purpose of this program is to provide Medicare beneficiaries with a wider range of options in addition to the original Medicare program, which provides health

care through traditional fee for service. These additional health care options are available as of Jan. 1, 1999. There are three general categories of Medicare + Choice plans, as shown below:

- Coordinated care plans: These include health maintenance organizations, preferred provider organizations and provider-sponsored organizations.
- Private fee-for-service plans.
- Medical savings accounts, or MSAs.

With regard to eligibility for the Medicare + Choice program, a Medicare recipient is eligible to enroll if he or she: is entitled to Medicare Part A and is enrolled in Medicare Part B; has not been diagnosed with end-stage renal disease; and lives in the service area of the plan in which he or she would like to enroll.

Medicare + Choice organizations offering plans as of Jan. 1, 1999, had to offer a general open enrollment period for those eligible this month. Each year after this year's annual open enrollment period, which ended today, there will be a coordinated open enrollment period in November for the following year's coverage. Additionally, until the end of 2001, individuals eligible for Medicare + Choice will generally be able to make unlimited changes in coverage options, including switching among different Medicare + Choice plans or between Medicare + Choice and original Medicare. The ability to change elections will be more limited in later years.

As a result of Medicare + Choice, employers will need to rethink their retiree medical strategy.

Employers are not required to make major design changes to their retiree medical plans for 1999, but they will need to develop strategies for 1999 and beyond. Employers will need to decide which Medicare + Choice options will be subsidized under their retiree medical plans. For 1999, employers will need to decide the level of subsidy, if any, that they will contribute toward Medicare + Choice options. If the employer chooses not to offer a certain Medicare + Choice option to its plan, it will need to notify its retirees that the retirees will be responsible for the full cost if they elect a Medicare + Choice plan not offered through the employer.

An employer can choose to negotiate with the Medicare + Choice plan to provide a more generous package of benefits to its retirees if it so desires. These supplemental benefits must be provided uniformly to retirees in the employer group. The employer also can subsidize all or part of the premium for basic coverage charged by the Medicare + Choice plan. Also, employers can subsidize all or a portion of the cost of deductibles, coinsurance or other cost sharing for any Medicare + Choice plan, except a Medicare + Choice MSA.

The new regulations also impact Medicare + Choice and the integration with Medigap policies. In general, an individual who originally becomes eligible for Medicare and chooses Medicare + Choice, or an individual who chooses a Medicare + Choice plan for

the first time, can disenroll from the Medicare + Choice plan within 12 months and re-enroll in the Medigap plan he or she previously had elected. The regulations provide for expanded opportunities for Medicare beneficiaries to purchase Medicare policies on a guaranteed-issue basis and require notices to beneficiaries by Medicare + Choice organizations concerning Medigap.

Basic issues that employers must address include:

- What Medicare + Choice plans will be offered in each of the geographic areas covered by their retiree plans? Which existing Medicare risk HMOs under the employer plan will be continuing after Jan. 1, 1999, as a Medicare + Choice plan? Should employers redesign any retiree medical benefits as a result of Medicare + Choice and the other changes in health care that have been occurring over the past few years?

If an employer does not sponsor a Medicare + Choice plan and a retiree drops the employer coverage in favor of such a plan, will the employer allow the retiree to re-enroll in the original employer-sponsored plan at a later date?

- Communication issues: The 1998 Communication Campaign, called the "National Medicare Education Program," is coordinated through Health Care Financing Administration. There are multiple channels of communication, including a mass mailing to beneficiaries of a short newsletter or a longer "Medicare and You" handbook. The also is a toll-free hot line beginning in five states—Arizona, Florida, Ohio, Oregon and Washington—a Medicare World Wide Web site, a national publicity campaign and a community-based outreach program.

With this extensive communication campaign launched by HCFA, plus the advertising done by health plans that will be offering Medicare + Choice programs, retirees will likely look to their former employer for explanations about the specific Medicare + Choice options available in their area. Retirees will be looking to the employer to see how the employer will coordinate with Medicare + Choice.

The "Medicare and You" handbook, which will be provided in the five pilot states, is online and is approximately 40 pages. The shorter "Medicare and You" bulletin is approximately 10 pages online. These documents can be accessed on the World Wide Web at www.medicare.gov.

A toll-free hot line will be available initially for those individuals in the five pilot states. Every three months, an additional 25% of the covered population will have the toll-free hot line available, so that the hot line will be available to all states by October 1999 in time for the fall enrollment for the year 2000.

An interactive voice-response option will be available to the retirees. Three options, including "Information on Plans Available," "Requesting A Disenrollment Form" and "Frequently Asked Questions," will be available. This automated part of the hot line will be available 24 hours a day, but the customer service representatives will only be available from 8 a.m. to 4:30 p.m. local time.

- Survey findings: Hewitt Associates L.L.C. conducted a survey in August 1998 and received responses from 350 employers, all of which have more than 1,000 employees. Some findings from that survey include the following: About 60% of employers plan to have their internal staff handle individual retiree inquiries, while 10% will be contracting with outside organizations to handle the inquiries, and about one-third of employers expect to offer one or more employer-sponsored Medicare + Choice plan with an employer subsidy. The most likely employer-sponsored Medicare + Choice option will be HMOs, with 71% of the employers considering offering an HMO and 60% of the employers considering offering an HMO with a point-of-service option.

For the first year or two of Medicare + Choice, one-third of the employers expect to allow for a later re-enrollment in an employer-sponsored option after that

retiree enrolls in a Medicare + Choice option not sponsored by the employer. Another one-third have not yet established any re-enrollment policy. However, 23% of the employers do not expect to allow for re-enrollment in an employer-sponsored option after disenrollment from a Medicare + Choice plan not offered by the employer. The re-enrollment issue will be a key decision point for employers.

- Medicare HMO plan terminations: There has been growing concern about the number of HMOs that have discontinued service for Medicare-type plans. As of October, 43 managed care plans were not renewing their Medicare contracts, and 52 managed care plans were reducing their service area. This will impact about 415,000 beneficiaries, or about 7% of those enrolled in managed care plans. Fifty thousand beneficiaries who currently participate in Medicare HMOs will no longer have any managed care options offered in their service areas. There has been about a 12% reduction in the overall number of Medicare managed care plans. Although many have dropped Medicare HMO coverage, there are 48 new Medicare managed care contracts pending and 25 pending applications to expand service areas.

Managed health care plans' participation will need to be watched closely over the next two to three years.

These significant changes in the coverage available to retirees will certainly cause anxiety and disruption for employers to take a step back and reassess their overall health care strategy as it relates to retirees. Although the government's push is for managed care for retirees, it remains to be seen how many retirees will take advantage of these programs. With the continued concern in the press about managed care and HMOs, such discussion will certainly serve to keep retirees out of managed care. As employers, we will need to assess the degree of interest in these managed care programs by our retirees. One item to keep in mind throughout this process is that if retirees opt for the managed care options, this has potential positive impact on employers' FAS 106 liabilities. This will be an area that employers should watch closely.

Material in this article does not constitute accounting, tax, investment, legal or business advice. Employers should review their situations with professional advisers.

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

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

This month's column on employee benefit management issues is written by Dennis J. Nirtaut, managing director of compensation and benefits for Arthur Andersen & Co. L.L.P. in Chicago. Christopher E. Mandel, director-risk management at Tricon Global Restaurants Inc. in Louisville, Ky., answers questions on risk management issues. William J. Miner, an actuary with Watson Wyatt



Mr. Nirtaut

Worldwide in Chicago, answers actuarial questions on benefits issues. And, Richard E. Sherman, president of Richard E. Sherman & Associates Inc. in Ashland, Ore., answers actuarial questions in the casualty field.

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

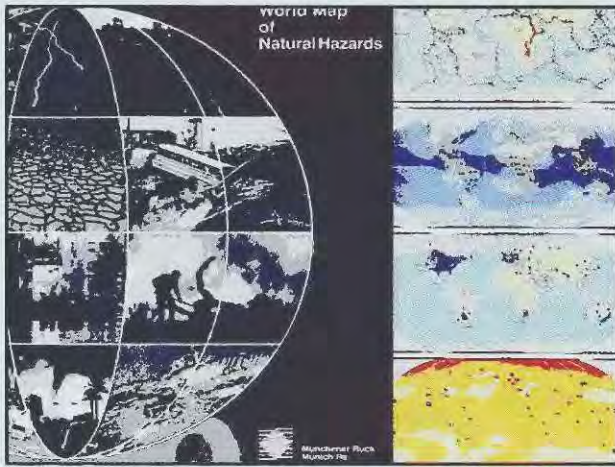
INTERNATIONAL

Global Briefs

Creditors of failed London market insurer **Chancellor Insurance Co. Ltd.** could find themselves making significant recoveries from retrocessional policies. Chancellor collapsed in 1992 with about £250 million (\$414.3 million) in liabilities from a string of catastrophes that hit the London excess-of-loss market. Few creditors so far have come forward since scheme administrator Jamie Smith of Deloitte & Touche announced an increase in the scheme dividend to 10% in July. "The reason so few have made a claim on this money may be because they don't think it is worth their while," said Mr. Smith. "But if they had spiral business with Chancellor and agree to significant amounts of set-off on their retrocession, the amount they could further claim from the solvent market is potentially vast." ... London-based **Aon Risk Services** has acquired U.K. claims management firm **IRISC Claims Management Ltd.** for an undisclosed amount. ICM, based in Sheffield, England, employs 125 claims managers servicing government departments and private companies. ICM will operate under Aon Risk Services' Managed Services Division. The move is related to one in the United States whereby Aon consolidated **IRISC Inc.** and eight other U.S. TPAs into one company (*BI*, Oct. 26). ... Dublin, Ireland-based **Starr Excess Liability Insurance International Ltd.** began underwriting under manager Graham Nankivell in a London office after receiving regulatory approval last week. The office is the second of Starr Excess International's branches; its Bermuda operation converted to branch office status earlier this year. Regulatory oversight falls under the insurance division of the Department of Enterprise, Trade and Employment in Dublin. ... Standard & Poor's Corp. has assigned an AA claims-paying ability rating to **Allianz Risk Transfer**, a subsidiary of German insurer Allianz A.G. Allianz Risk Transfer, based in Zurich, Switzerland, was established in 1997 to develop Allianz's alternative risk transfer business. S&P expects Allianz Risk Transfer to increase its gross annual premiums from 275 million Swiss francs (\$195.9 million) in 1997 to 1.1 billion Swiss francs (\$783.4 million) over the next five years. ... Peter Murray, chief executive of the U.K. Railways Pension Trustee Co. Ltd., will step down as chairman of the U.K. **National Assn. of Pension Funds** in May. He will be replaced by current NAPF Vice Chairman Alan Pickering, a partner in the London office of consulting firm Watson Wyatt Worldwide. Geoff Pearson, head of group pensions at U.K. supermarket chain J. Sainsbury P.L.C., will be the new NAPF vice chairman. ... Rob Page has been appointed to the new position of marketing director for Lloyd's of London managing agency and corporate capital provider **SVB Holdings P.L.C.** Mr. Page previously was marketing director at ACE (UK) Ltd. ... Jim Jarret has been appointed head of claims management at U.K. claims adjusting firm **Crawford-THG Ltd.** Mr. Jarret previously was a claims manager with claims adjuster Ellis & Buckle.

Cats mean higher rates likely

By EDWIN UNSWORTH



The third edition of Munich Re's World Map of Natural Hazards contains a supplementary map on climate change.

LONDON—The increasing severity of losses resulting from natural disasters and climate change mean that in more and more parts of the world insurance coverage is becoming difficult—if not impossible—to obtain, according to insurers.

Insurers on both sides of the Atlantic are beginning to predict that after the recent surge in catastrophe claims, rate increases are becoming more likely.

Their remarks came during the fourth annual session of the United Nations Convention on Climate Change, held for two weeks earlier this month in Buenos Aires, Argentina.

The United Nations Environment Program Insurance Industry Initiative, a body representing about 80 insurers from around the world, addressed the audience.

It said insurers would be willing to do more, if given the chance, to help promote more sound environmental protection policies. Current trends in climate change are contributing to the severity of some natural disasters and high catastrophe losses, the UNEP Initiative says.

Underwriting property at risk from natural hazards like windstorm, flood and subsidence is based on the concept of "return periods," which are generally calculated on historic claims costs over a cycle of natural hazard occurrences. However, rapidly changing climatic conditions will lead to difficulties in calculating these return periods, and thus to delays for insurers in adjusting rates to reflect their results against the return periods, warned the UNEP Initiative.

In a statement issued at the start of the *See Climate on next page*

German leader pledges cuts in tax rates, retirement age

By DON LEWIS KIRK

BONN, Germany—German businesses are getting some good news and some bad news, as Chancellor Gerhard Schroeder makes deeper-than-expected tax cuts but stands his ground on lowering the retirement age to 60 from age 65 as a means to stimulate job growth.

"With the help of unions and management, we want to find an arrangement that allows older workers to retire at 60 without any cut to their pensions," Mr. Schroeder was quoted as saying in a German magazine earlier this month.

Mr. Schroeder was elected in September in large part because he promised to create new jobs. To reduce Germany's 10.1% unemployment rate, he pledged to cut taxes and unite workers and employers in an "Alliance for Jobs."

At the end of October, Mr. Schroeder announced initial tax cuts, but German businesses complained the cuts were too modest. Mr. Schroeder and his coalition partners since have approved new cuts nearly 50% deeper than originally proposed. By 2002, the German government plans to reduce corporate taxes by 15.3 billion deutsche marks (\$9.16 billion), with bigger breaks for midsize companies.

While applauding the deeper tax cuts, employers say the plan to reduce the retirement age is "unaffordable."

Last year, the government of former Chancellor Helmut Kohl approved raising the retirement age for both men and women to reduce employer costs. The change, to 65 from 60, would have taken effect in 1999.

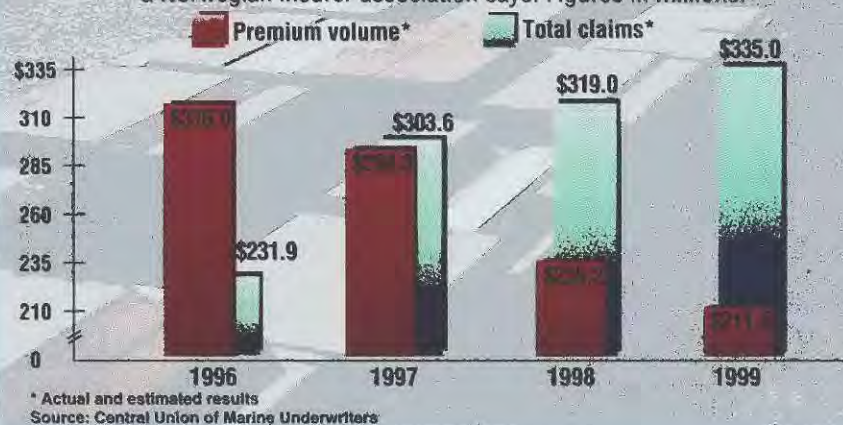
The current plan is, in the words of Dieter Hundt, head of the German Assn. of Employers, an "inept attempt to redistribute work."

Employers insist that early retirement would only be possible with accompanying reductions in pension benefits.

In addition, the Schroeder government has introduced *See Germany on page 17*

Rising tide of marine claims

Marine insurance rates are likely to increase in the wake of higher claims, a Norwegian insurer association says. Figures in millions.



Losses to spur hull rate increase

By EDWIN UNSWORTH

LONDON—Shipowners should prepare for reduced coverage or a substantial rise in hull rates next year, as current premiums are creating mounting underwriting losses for insurers, according to leading figures in the market.

Tore Forsmo, managing director of Norway's Central Union of Marine Underwriters, whose members are primary insurers for one of the world's largest national merchant shipping fleets, said severe losses are occurring in all marine markets.

As a result, he warned, "Come 1999, the logical consequence will be to pull out or increase premiums to accurately reflect the risks underwritten."

Logically, given the loss ratios of marine insurers, hull premiums need to rise

by 50% to 100%, he said. But while he believes that is how much rates must rise, he is less certain that underwriters will be able to achieve rate increases of that magnitude.

"The magnitude is something that will be very interesting to see," he said. Certainly, rather than charging the same premiums for all risks, as they do now, insurers will become more selective and avoid certain risks if they believe the rate they can get is too low, he said.

Mr. Forsmo said he thinks it is extremely unlikely that any CEFOR members would actively pursue new business under the present market conditions.

He largely based his comments on figures for the four insurance companies that make up CEFOR: Gjensidige Marine & Energy Insurance A/S, Storebrand *See Hull on next page*

Report signs off on islands' regulation

No major captive oversight problems

By EDWIN UNSWORTH

LONDON—Regulators in the Channel Islands and the Isle of Man say a new report fully endorses their oversight of insurance and financial services.

The report, released this month, concluded that the islands' oversight of financial services are generally well-run and "clearly in the top division of offshore finance centres."

The report is the culmination of the 10-month long Edwards Review of Financial Regulation in the Crown Dependencies, which was led by Andrew Edwards, a former U.K. Treasury official. The review, commissioned by the U.K. Home Office, was aimed primarily at examining tax-avoidance and illegal activities, such as money laundering, though it also looked at all aspects of regulating banking, insur-

ance and other financial services in Guernsey, Jersey and the Isle of Man (*BI*, Jan. 26).

The Edwards Review found no major problems with regulation of captive insurers in the Channel Islands and the Isle of Man. Chief among the report's few references to captives was a statement that "within the area of commercial and captive insurance, supervision of third-party business deserves special priority."

Captive regulators were quick to stress that they already closely mon-

itor companies writing third-party risks.

"We give priority to third-party business, but in addition we give almost equal priority to captive business which will involve third-party claimants... such as casualty business," said Steve Butterworth, director of insurance in Guernsey, one of the Channel Islands. Guernsey also is Europe's largest captive insurance domicile.

Mr. Butterworth said Guernsey has captive insurers that write third- *See Review on next page*

Climate

Continued from previous page

Buenos Aires meeting, Klaus Topfer, executive director of UNEP, said insurers have welcomed the Kyoto Protocol agreed upon by the U.N. Convention on Climate Change in Kyoto, Japan, in 1997. It calls for cutting industrial pollution by setting a quota of carbon dioxide emissions per country. Countries with less industry—or more pollution-free industry—that don't reach their quotas can sell their excess under the quota to other countries, principally the United States.

Mr. Topfer said insurers welcome emissions trading mechanisms as a practical way to assist in reducing pollution, but they are calling for the creation of generally acceptable reporting standards for industries and have already proposed a CO₂ indicator under the auspices of the UNEP Insurance Industry Initiative. A CO₂ indicator would allow every company to calculate its own contribution to global warming by measuring the amount of its CO₂ emissions.

He said it "simply makes good economic sense" for insurers to be involved in the conference because they know from experience how expensive it can be when people fail to protect themselves adequately from risks and do not take preventive measures where possible and necessary.

In a study issued after last year's U.N. Convention on Climate Change in Kyoto, the UNEP Insurance Industry Initiative said it is particularly concerned about the impacts of climate change on natural hazards and the possible link between global warming and the severity and frequency of the natural El Niño effect.

While the group wants governments to come down hard on industry to reduce the pollution and greenhouse gases that cause environmental change, it also says more needs to be done to improve forecasting of weather patterns and to map areas vulnerable to natural disasters.

The group maintains that insurers can offer valuable services in reducing exposures because they have the skills to provide the assessment, quantification and mapping of risks.

The world's largest reinsurer in *Business Insurance's* annual ranking, Germany's Munich Re Group, has done work in this area and recently

produced the third edition of its world map of natural hazards, which it introduced 20 years ago. The map includes for the first time a supplementary map on climate change.

Gerhard Berz, head of Munich Re's Geoscience Research Group, said the map is now used not just by insurance companies but by government authorities, engineering offices and scientific institutes everywhere as a global planning instrument.

However, Munich Re also sees the map as an aid for corporate risk managers in planning projects, in catastrophe prevention and in helping to assess their exposures and how they will affect their insurance costs.

Adding to the call for a combination of governmental and commercial interests in dealing with climate change is Andrew Dlugolecki, director of general insurance development for London-based CGU P.L.C., one of Britain's largest insurers.

Mr. Dlugolecki, who until recently was on the committee of the UNEP Insurance Industry Initiative and remains an adviser to it, said one way in which this joint initiative could work is for governments to provide initial property coverage for specific natural disasters such as floods, with the private sector acting as reinsurers. He said it could work in a similar fashion to the flood insurance offered by the U.S. government.

Such an approach may become the only solution because "there is no doubt that there will be places that are going to disappear" in terms of insurability, warned Mr. Dlugolecki. For the most part, this will not matter much to the insurance industry because most of these places, such as parts of Central America and Africa, already have low levels of insurance penetration and insured values.

However, he said that areas in more developed countries, such as the United States and the United Kingdom, where there is a high level of potential insured losses, also are becoming more prone to natural disasters. In both countries, not only are more and more people living in areas that are traditionally subject to flooding and windstorms, but also the number and severity of the floods and storms appears to be rising due to climate change.

Mr. Dlugolecki's assertion about the rise the number of in people living in higher risk areas is borne out in a study by Property Claim Services, a

unit of Insurance Services Office Inc. The study, "The Impact of Catastrophes on Property Insurance," said that from 1960 until 1994, the number of people living in the most catastrophe-prone areas of the United States—mainly along the coasts of Florida, the Carolinas and California—had grown by 100%.

Mr. Dlugolecki also says that scientists cannot give sufficiently detailed guidance regarding the forecasting of weather patterns. Somehow insurers need to find a way to build in the factor for climate change, he added.

"If it can't be quantified, then there is at least a need to build in a (geographical) safety margin," he stressed.

Insurers' concerns about climate change and natural hazards were expressed as two of Britain's biggest insurance companies reported significantly increased weather-related claims in the first nine months of 1998 (*BI*, Nov. 16).

CGU P.L.C. said its weather-related claims for January to September 1998 nearly doubled to £272 million from £138 million (\$455.8 million from \$231.3 million) from the same period last year. This included £28 million (\$46.9 million) for January storms and £37 million (\$62.0 million) for April floods, both in the United Kingdom. In addition, CGU paid out £25 million (\$41.9 million) on October storms in the United Kingdom, with those payments going into fourth-quarter results. But CGU has already withdrawn capacity in high-risk areas, such as coastal regions of the southern United States, and its share of losses from Hurricanes Bonnie and Georges was only £4 million (\$6.7 million).

For the same nine-month period, Royal & Sun Alliance Insurance Group P.L.C. reported a 69% increase in weather-related claims—£403 million from £239 million (\$675.3 million

from \$400.5 million). However, it paid out £60 million (\$100.5 million) in claims from Hurricane Georges. The U.K.'s January storms cost it £26 million (\$43.6 million), and the April floods £32 million (\$53.6 million).

When reporting its sharply lower nine-month profits this month, The St. Paul Cos. Inc. blamed the deterioration largely on a surge in catastrophe losses for the period. Claims increased to \$381.2 million from \$119.7 million in the first nine months of last year. Hurricane Georges accounted for over \$88 million of this.

St. Paul Chairman and Chief Executive Officer Douglas Leatherdale emphasized that the group "will not sell insurance for less than an adequate rate" and will "undertake corrective action on individual accounts we have determined to be significantly underpriced."

In the United States, \$8.3 billion in total catastrophe losses for insurers in the first nine months of 1998 are triple those for the whole of 1997, according to ISO figures (*BI*, Oct. 26).

At their annual meeting last month in Baden-Baden, Germany, reinsurers and brokers consistently said that a marked increase in catastrophe claims was one of the factors needed, along with a deterioration in investment markets, to reverse the downward trend in insurance rates (*BI*, Nov. 9).

Insurers are also bracing for claims from more recent flooding in parts of Western Europe and more floods this month in Eastern Europe.

Although Hurricane Mitch is being termed the deadliest Atlantic storm in more than 200 years, having recently caused devastation in central America with over 11,000 killed, 13,000 missing and whole national economies left in tatters, the event has left commercial insurers relatively unscathed. Royal & Sun Alliance said

that so far it hasn't had a single claim from the area; other insurers also are expected to get off lightly.

The Munich Re World Map of Natural Hazards is available for 20 deutsche marks (\$11.80) for a folding map or 50 deutsche marks (\$29.50) for a larger wall map, from Munich Re, D-80791 Munich, Germany; 49-89-3891-5291; fax: 49-89-3891-5696.

Review

Continued from previous page

party business, as well as captives that insure only the risks of their parent. He said the latter category gets equal regulatory attention, "because if a company is writing property and business interruption policies, then there are third parties that rely on that company to be properly insured."

Bill Hastings, chief executive of the Isle of Man Insurance and Pensions Authority, expressed a similar view.

Mr. Hastings maintained that Mr. Edwards' mention of third-party business in the report does not suggest that the islands don't already make third-party business a priority. "He's saying it needs priority, and indeed it gets it."

Mr. Edwards was unavailable to comment, but a Home Office spokeswoman said she agreed with this interpretation, pointing out that the report's concluding recommendations made no mention of action on captives' third-party business.

Both regulators maintained the review completely vindicated the quality of insurance oversight in their domiciles.

"From our point of view, it's an endorsement about how we do things," said Mr. Butterworth.

"Andrew Edwards is entirely content with the nature of the framework for insurance regulation," echoed Mr. Hastings.

The Edwards Review's report stated that the Isle of Man's captive legislation could make it clearer which particular rules governing insurance may apply to captive insurance, and Mr. Hastings said, "I'm reasonably receptive to the principle of giving that clarity."

However, he emphasized that in his view "it is not a fundamental issue."

While regulators from Guernsey, Jersey and the Isle of Man have endorsed the review, they will not necessarily implement all of its recommendations, most of which apply to non-captive operations.

Regulators from the islands have agreed to a series of meetings with the U.K. government beginning in January to develop a plan of action for responding to the recommendations. However, U.K. Home Office Minister Lord Williams said these meetings would mark only the beginning and that he foresees talks lasting through 1999.

Little of what comes out of the talks is expected to affect captive operations in the islands.

"The report clearly demonstrates that those who have criticized our regulatory standards are comprehensively wrong," said Frank Walker, president of the States of Jersey's finance and economics committee.

Nigel Woodroffe, deputy director-insurance division, of Jersey's Financial Services Department, declined to comment on the Edwards report, referring inquiries instead to a statement put out by the Jersey Financial Services Commission. That statement welcomed the report, saying it further reinforces Jersey's position as an international finance center. It also said that Jersey considers the work in carrying out the recommendations "an opportunity we welcome and will grasp with enthusiasm." **BI**

Hull

Continued from previous page

Insurance A/S, Vesta Forsikring A/S and Zurich Protector Forsikring A/S. But he said recent developments in international marine insurance and signals from other key geographic markets lead him to believe that CEFOR's experience "is of global relevance and that no international (marine) markets are in a position where these losses can be avoided."

CEFOR's computer database, which Mr. Forsmo said is a unique feature of the Norwegian marine market because it gives insurers a clearer understanding of marine hull business, shows that the loss ratio of Norwegian marine insurers for the 1997 underwriting year was 104%. Worse still for insurers, this looks set to rise to 135% for 1998 and to an estimated 160% for 1999.

However, Mr. Forsmo said CEFOR thinks many marine underwriters in other markets will turn in worse results.

He maintained that the American market and London-based marine insurers have reported similar loss ratios.

Walter Kramer, president of the American Institute of Marine Underwriters, said he believes the projected loss ratios cited by CEFOR are likely to be correct. Of rates, he said, "there's no question but that they have to go up." As the representative of a trade association rather than an individual company, however, he said is not certain by how much they need to increase.

However, Mr. Kramer added, "This is the worst competitive cycle I've ever seen in my 38 years in the business."

Stephen Redmond, underwriting and claims director, Eagle Star Reinsurance Co. Ltd. in London, agreed

that hull rates are too low and that underwriters need to become more selective for rating purposes in differentiating between good and bad ship operators. While Mr. Redmond, who is also the last chairman of the Institute of London Underwriters before its pending merger with the London Insurance & Reinsurance Market Assn., did not want to pin himself down to stating the level of rate rises that are needed generally, he agreed that increases of 50% or more would be appropriate for some ship operators.

Mr. Forsmo said all marine insurance markets have contributed to the position they find themselves in today of mounting underwriting losses and inadequate insurance rates. In their rush to gain market share, they over-compensated for the improvements many ship operators have made in safety in the 1990s by extending premium reductions even to operators with persistently bad loss records.

He issued a warning, too, that the introduction in July of the International Safety Management Code is unlikely to significantly reduce claims. The ISM Code was introduced by the United Nations International Maritime Organization. For countries that are signatories to the Code, their merchant ships of more than 500 gross tons that trade internationally must pass inspections showing they have in place safety management procedures that meet internationally agreed standards.

Mr. Forsmo said weak freight rates and increased scrutiny and pressure on maintenance costs may actually counteract the desired ISM Code effects in terms of loss reduction, as shipowners may be less able to afford tighter safety standards. A slow erosion of deductibles also may lead to a general increase in claims volumes, he maintained. **BI**

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INTERNATIONAL

Profits down at Lambert Fenchurch

By SARAH GODDARD

LONDON—Despite a near 5% growth in revenues in the six months ending Sept. 30, profits plunged at London broker Lambert Fenchurch Group P.L.C.

Revenues for the six months ending Sept. 30 rose 4.7% to £60.4 million (\$100.1 million) compared with the same period of 1997, while pre-tax profits plunged more than 83%.

Lambert Fenchurch is seventh in the *Business Insurance* ranking of the world's largest brokers based on 1997 revenues. It moved up one place since the ranking was issued in July because Marsh & McLennan Cos. Inc. subsequently bought Sedgwick Group P.L.C.

Revenues from associated undertakings pushed the full revenue figure for the six months to £68 million (\$112.6 million), up from £64 million (\$104.8 million) for the same period last year.

At the same time, operating expenses rose 13.6% to £60.3 million (\$99.9 million).

But pre-tax profits for the six months plummeted 83.1% to £1.2 million (\$2 million), compared with the same period in 1997 after the effects of severance costs and writing off a computer system were taken into account. Before adding in these non-recurring expenses, pre-tax profits reached £4.1 million (\$6.8 million) for the six months, down 42.3% on the same period

last year. After-tax profits came in at just £700,000 (\$1.2 million), including the non-recurring items, down 85.4% on the previous year's

The broker has been increasing its business by expanding activities in the United Kingdom to overseas operations.

figure.

During the period, Lambert Fenchurch has invested £5.2 million (\$8.6 million) in new teams,

projects and acquisitions, with a net increase in expenses of £4.7 million (\$7.8 million).

Lambert Fenchurch has been increasing its business by expanding activities from the United Kingdom to overseas operations, explained Finance Director William Wilks. These include expanding its reinsurance brokerage operations to Singapore and Australia and developing political risks and financial services business in Australia.

At the same time, the broker has been stepping up its personal lines business in the United Kingdom, he said, and has spent £1.7 million (\$2.8 million) on new teams, primarily in its London market operations.

It has also combined its three U.K. operating divisions into one, said Mr. Wilks, resulting in £1.5 million (\$2.5 million) in cost savings in the first six months of the fiscal year.

The bulk of Lambert Fenchurch's revenue comes in the second half of the reporting period, which ends March 31, Mr. Wilks said.

Lambert Fenchurch will continue to recruit new teams and individuals "where they become available," he said, and is planning to strengthen its overseas network. This could involve opening new offices, acquiring local businesses or starting joint ventures, said Mr. Wilks. In particular, the broker is interested in extending its Eastern European operations and is not ruling out mergers and acquisitions in the United Kingdom. **BI**

Germany

Continued from page 15

a bill that would bar employers from passing a 20% tax on pension fund contributions on to employees. Many workers currently pay the pension tax because it is much lower than if they took the contributions as additional income.

German employers claim the bill could lead some companies to stop offering pension funds.

Germany's new government coalition of Social Democrats and Greens favors the creation of a national fund to pay for increased pension costs from a lowering of the retirement age. The national fund would require employer contributions as well as subsidies from the Federal Labor Office, a national unemployment and work placement agency. The plan also calls for part of any wage increases negotiated by employers and unions to flow into the fund.

Mr. Schroeder's plan is supported by labor unions and is expected to be a major component of Alliance for Jobs, which is to coordinate the efforts of unions, employers and the government to reduce unemployment.

This month, the SPD and Green coalition followed through on a promise to roll back other Kohl government reforms. Legislation introduced Nov. 19 that would reinstate some sick-pay benefits, job protection rules and pension benefits is pending.

Last year, employers lauded the Kohl government for eliminating some sick-pay benefits. In 1996, the Kohl government changed the conditions under which employers could lay off employees, making it possible for smaller companies to avoid paying termination bonuses to workers. **BI**

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GRE

Continued from page 1

an opportunity becomes available in our major markets—Western Europe, America and Asia—at a reasonable price, we'd consider going for it."

Speculation about the future of GRE increased earlier this year after two of its main U.K. competitors merged to form CGU P.L.C., following the 1996 merger of two other leading rivals that formed Royal & Sun Alliance Insurance Group P.L.C. Both merged insurer groups now dwarf GRE, which last year wrote combined

life and non-life premiums of more than £4 billion (\$6.64 billion).

Insurance analysts at Salomon Smith Barney said earlier this year that GRE suffers from having a broad spread of decentralized operations, leaving it as "neither a global leader nor a niche player."

This year GRE has undertaken some restructuring that has further fueled speculation about its future. This includes the merger of its health care operations into PPP healthcare group P.L.C., a health care insurer it acquired in February; and the sale this month of its New Zealand life subsidiary. **BI**

Swett

Continued from page 2

and underwriters as well as exceptional strengths in placement of large accounts and program development and marketing." The merger also means that the new entity "will significantly expand our product offerings to the customer bases" of both firms.

Neither Mr. Hartoch nor Mr. McConnell were available for further comment last week because of the Thanksgiving holiday, according to a Swett & Crawford spokeswoman.

The combined operation will offer a variety of commercial insurance products to its more than 10,000

agents and brokers, including employment practices liability, directors and officers liability and umbrella coverages.

In an unrelated development, Swett & Crawford opened a new office in Miami earlier this month. Mr. Hartoch said in a statement announcing the opening that "Miami has become a center for companies doing business with Latin American countries. We see great potential for business on the entire east coast of the state." Jorge Andino has been named branch manager of the new office.

The Miami branch is Swett & Crawford's second beachhead in Florida, where it already has a Clearwater branch office. **BI**

Letters

Lloyd's rejects requisitionist views

To the editor: Your Nov. 9 report, "Names Call Protest of Lloyd's," about a group of individual members who have requisitioned an Extraordinary General Meeting of members, needs to be set in its proper context.

The amending bylaws that the requisitionists are challenging are not proposed amendments as your report stated; they were enacted by the Council two months ago after almost 12 months of discussion, debate and consultation with the membership. They are the product of a thorough review of Lloyd's governance arrangements, conducted by an eminent in-

dependent committee. Moreover, they are supported by the Assn. of Lloyd's Members, which represents the majority of individual trading members.

The requisitionists of the EGM are not representative of Lloyd's membership. Of the 540 individuals who requisitioned the meeting, 87% are no longer underwriting in the present trading year, and 39% presently have debts to Lloyd's amounting to £55.3 million (\$91.6 million when converted at a current exchange rate).

Needless to say, the Council of Lloyd's rejects the assertions made by the requisitionists and is advising

members to vote against the resolution, which has been tabled. It is doing so because it considers that the new arrangements for the election of members to the Council initiated by the amending bylaws provide fair representation to all members; it is confident that these reforms are in the interests of the Society as a whole; and they were introduced after extensive consultation with members and have the support of the ALM.

Peter J. Hill

Head of Corporate Communications
Lloyd's of London
London

Impact of proposed U.S. names bill minimized

To the editor: The American Names have certainly been damaged by the fiddling, fooling and fancy footwork of Lloyd's of London.

Nevertheless, in an Oct. 26 letter to the editor, Jack Shettle, chairman of the American Names Assn., is not correct in minimizing the impact on policyholders of the proposed federal legislation that would have eliminated the liability of the U.S. names.

Lloyd's and its fatherless child, Eq-

uitas, have already caused immeasurable damage to U.S. policyholders. Federal legislation allowing U.S. names to escape their obligations would have given Lloyd's another excuse for nullifying its insurance policies and would have given added ammunition to Lloyd's persistent and pernicious argument that its problems result from the United States legal system.

Lloyd's and Equitas are now anti-

policyholder litigation machines seething with completely unjustified rage at policyholder claims. Mr. Shettle and the American Names Assn. will give Lloyd's witches, ghosts and hobgoblins new impetus.

I am, indeed, sympathetic for the names, but it was they who funded and permitted the shenanigans.

Eugene R. Anderson

Anderson Kill & Olick P.C.
New York

The Professional Marketplace

RATES AND CLOSING TIME:

Rates: Display classified is \$180.00 per column inch, minimum of one inch. Straight classified is \$16.00 per line, minimum of 5 lines. Count 34 characters per line (include each space and punctuation as a character). Additional \$25.00 charge for all blind box ads. Only those responses which fit into a business size envelope will be forwarded. Responses are forwarded daily.

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BUSINESS OPPORTUNITIES

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Florida Surplus Lines Licensee person wanted to manage branch office - Ownership potential - Good markets available - Reply immediately to: Business Insurance, Box 3092, Chicago, Illinois 60611-2590

HELP WANTED

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American Capital Access, the single A rated bond insurance company is seeking a Staff Accountant. The position is located in our New York City office. The job will require the ability to handle primarily reinsurance reporting and expense budgets. The ideal candidate knows the Freedom G/L Package, is a CPA and has 5-10 yrs. insurance experience. Applicants should fax resume and salary requirements to: Attn: Human Resources: (212)766-4034. Equal opportunity employer. M/F/D/V.

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LEGAL NOTICE

No. 04544 of 1997

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF HIR (UK) LIMITED
AND IN THE MATTER OF THE
COMPANIES ACT 1985

NOTICE

NOTICE IS HEREBY GIVEN that by an Order dated 2 February 1998 made in the above matters, the Court sanctioned a solvent Scheme of Arrangement (the "Scheme") between HIR (UK) Limited (the "Company") and its Insureds and Non-Insurance Creditors (as defined in the Scheme) following a meeting of its creditors held on 22 January 1998 which approved the Scheme. On 2 February 1998 a copy of that Order was filed with the Registrar of Companies and on that date the Scheme became effective.

It is a provision of the Scheme that all claims against the Company must be notified to the Scheme Managers before the Bar Date which is 3 February 1999. Any claims notified to the Scheme Managers after 3 February 1999 will not be paid by the Company and any creditor who fails to notify the Scheme Managers of a claim before the Bar Date shall be deemed to have relinquished his right to payment in respect of that claim and he will have no right to institute legal proceedings in order to enforce that claim.

Any party claiming to be a creditor of the Company who has not already notified his claim to the Scheme Managers should therefore contact them at the address below before 3 February 1999. Copies of the Scheme Document and claim sheets are also available from the Scheme Managers.

The Scheme Managers are Ipe Jacob and Nigel Ruddock of Robson Rhodes, 186 City Road, London EC1V 2NU, England

DATED this 1st day of October 1998.

Davies Arnold Cooper
6 - 8 Bouverie Street
London EC4Y 8DD
England

ref. 423
Solicitors for the Company.

Business Insurance

Circulation Breakdown Commercial Consumers

Administrative:

CEO's, Presidents, and Owners, 5,007
Vice Presidents, General Managers and
Other Administrative Personnel 5,346

Financial:

Chief Financial Officers and Vice Presidents
of Finance 4,872
Secretaries, Treasurers, controllers and
other Financial Personnel 3,927

Risk/Employee Benefits:

Vice Presidents, Directors, Managers, and other
related department personnel of: insurance, risk,
employee benefits, personnel, compensation,
pension, safety, security, industrial relations,
human resources and employee/
labor relations 13,774

Sub-total 32,926

Associations 259
Government, Unions and
Educational Institutions 931

Commercial Consumers

Sub-total 34,116

Insurance Agents and Brokers 7,735
Insurance Companies 6,668
Accountants, Actuaries,
Attorneys & Consultants 2,520

Adjusters, Appraisers, TPA's, Captive Managers
& Health Care Providers 1,432
Others Allied to the Field 759

Total Qualified 53,235

Non-qualified/Paid Subscription 17
Single Copy Sales 3

TOTAL CIRCULATION 53,255

★ Source Business/Occupational
breakdown of qualified circulation,
May 25, 1998 Issue, as
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BPA Publisher's Statement

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VP-INSURANCE

A NYC Risk Management advisory company seeks a VP for Insurance. Responsible for directing all broker activities, for primarily casualty coverages (e.g. professional liability, GL, and D & O).

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Business Insurance

Guidance

Continued from page 2

others say the guidance provided is strictly informational and does not carry the weight of regulations. Regulations, which the federal law requires the Labor Department to develop, are not expected until sometime next year.

"This is not binding the Labor Department to any particular policy. The department is free to change

what it is now saying through later regulations," said Pamela Scott, a principal with PwC Kwasha in Fort Lee, N.J.

Those regulations are expected to focus more heavily on the annual notice requirement. Department officials earlier said they would draft regulations with a view toward minimizing employers' notification burden.

Last week's general guidance, issued in the form of questions and answers, suggests that virtually all

health plans, including those that now provide coverage for reconstructive surgery after a mastectomy, will have to provide employees with the one-time notice of the law.

The only plans clearly exempted from the initial notice requirements are those that already have detailed in plan documents exactly how they cover reconstructive surgery after a mastectomy.

"It is very unlikely plans have provided that kind of specificity," said John Piro, a consultant with Hewitt

Associates L.L.C. in Rowayton, Conn.

Other information in the guidance:

- Only one party that provides coverage or administers the health plan has to issue the notice. For example, an employer with a fully funded plan would satisfy the notice requirement if it worked out an agreement with its insurers or HMOs for them to provide the notices.

- Notices can be sent to participants via first-class mail or through electronic means. A general posting

of the notice, such as on a company lunchroom bulletin board, would not be acceptable.

- A separate notice would have to be provided to a beneficiary in situations where the last known address of the beneficiary is different than the participant's address.

This could occur, for example, if two, people divorced and a non-working ex-spouse was receiving COBRA health care continuation coverage through her former husband's employer. **BI**

FTR FOR THE RECORD

No liability for this cup of coffee

MARENGO, Iowa—A McDonald's Corp. franchise and its owner are not liable for second-degree burns a toddler suffered after spilling a cup of hot coffee on himself, an Iowa County jury ruled earlier this month.

Chris and Susan Leu of Kansas City, Kan., sued the Coralville, Iowa, restaurant and owner Kevin O'Brian after their 18-month-old was burned last year. They alleged that the coffee was too hot, but the jury did not agree.

In 1994, a New Mexico jury awarded Stella Liebeck, then 81, \$2.7 million in punitive damages and \$160,000 in compensatory damages for third-degree burns she sustained on her lap from coffee served at a McDonald's drive-through restaurant. A judge later reduced the punitive damages award to \$480,000. In the meantime, Ms. Liebeck had settled her lawsuit for an undisclosed amount.

"We appreciate the recognition that our coffee is perfectly safe" but will continue to warn customers that coffee is between 170 and 180 degrees when poured, a McDonald's spokeswoman said.



PHOTO: AFP

Santa Barbara insured in wharf fire

SANTA BARBARA, Calif.—The city has insurance coverage for 165 feet of Santa Barbara's historic Stearns Wharf and buildings that were destroyed in a Nov. 18 fire, Santa Barbara officials said.

The damage ranges between \$5 million and \$10 million. A sprinkler system helped limit the blaze.

The city of Santa Barbara is insured through Public Entity Property Insurance Program, a purchasing consortium of 174 entities arranged by Robert F. Driver Associates, said Brad Landreth, the city's risk manager. Lexington Insurance Co. insures the consortium, which has policy limits of \$1 billion per occurrence, Mr. Landreth said. Coverage for the wharf fire is subject to a \$250,000 deductible.

Two restaurants and a bait shop also were destroyed along with wharf decking and pylons. The city owns the buildings but requires the occupants to carry coverage for property, liability and business interruption risks.

Appeals court rules for employee

WASHINGTON—A federal appeals court has allowed a disabled hospital employee to sue his former employer under federal anti-discrimination law because the disabled worker did not get another job for which he had applied.

A sharply divided full U.S. Circuit Court of Appeals for the District of Columbia ruled 7-4 in *Etim U. Aka vs. Washington Hospital Center* that a U.S. District Court had erred in blocking Mr. Aka's ADA claim. Mr. Aka, a 56-year-old man who had worked for the Washington-based hospital as an orderly, had heart bypass surgery in 1991 and spent months in rehabilitation. His doctor said he could return to work, provided that the job did not involve more than a "light or moderate level of exertion." Because his former job required more physical activity than he was allowed, Mr. Aka asked the hospital to assign him a less strenuous job. The hospital declined, saying Mr. Aka had to review WHC's job postings and apply for openings himself.

Mr. Aka did so but was repeatedly turned down despite the fact that he had earned a master's degree in business and public administration while working as an orderly and that he was covered by a collective bargaining agreement holding that qualified em-

ployees "will be given preferential treatment over non-hospital employees in filling bargaining unit vacancies." After being turned down for a job as central pharmacy technician in favor of another employee without a college degree, and after being rebuffed when he applied for one of four file clerk jobs, Mr. Aka sued the hospital in 1994, claiming it had violated both the Age Discrimination in Employment Act and the Americans With Disabilities Act for turning him down.

The U.S. District Court granted the hospital summary judgment; Mr. Aka appealed. An appeals court panel reversed part of the district court's ruling, and WHC appealed for a hearing by the full court.

The majority of the full appeals court judges agreed with Mr. Aka, noting that his education and nearly 20 years of employment by WHC certainly qualified him for the pharmacy clerk and file clerk positions. The majority also held that WHC had misread the collective bargaining agreement. "The question of whether WHC intentionally discriminated against Aka in the pharmacy technician hiring decision because of his age and/or his disability is one for a jury to decide," wrote Judge Patricia Wald for the majority. The case was sent back to district court.

Trade groups seek E.U. clarification

WASHINGTON—A group of insurance trade organizations has asked the Commerce Department to clarify whether existing U.S. data privacy standards meet the new European Union Data Privacy Directive.

The E.U. directive requires all countries doing business with E.U. member nations to meet data privacy standards. "Our reading of the principles is that U.S. industries that are subject to privacy oversight created by statutory, regulatory, administrative, industry or other standards are within a safe harbor. However, we are looking for clarification from the Commerce Department on certain issues," said J. Stephen Zielezienski, senior counsel for the American Insurance Assn. in Washington.

He added that "we believe that the laws under which we operate more than comply with the E.U. directive."

AIA was joined in its comments by the American Council of Life Insurance, the Reinsurance Assn. of America, Insurance Services Office Inc., the Alliance of American Insurers, the Council of Insurance Agents & Brokers, the Independent Insurance Agents of America, the International Insurance Council, the National Assn. of Independent Insurers, the National Assn. of Mutual Insurance Cos. and the National Assn. of Professional Insurance Agents.

Meanwhile, the European Union rejected the United States' most recent data privacy transfer proposal last week. Further talks are expected next month.

Ceridian acquires work/life business

MINNEAPOLIS—Minneapolis-based Ceridian Corp. has acquired Work/Family Directions Inc.'s global work/life services business. The Boston-based Work/Family has been a leader in the creation of childcare and other work/family employee benefits. Terms of the deal were not announced. The Work/Family business joins Ceridian's existing workplace group, making Ceridian the largest provider of such services in the United States, with projected revenue in 1999 of more than \$100 million, the company said. Work/Family will retain a small consulting business.

ACE launches branding campaign

HAMILTON, Bermuda—Bermuda-based ACE Ltd. is rebranding its empire in a move designed to "unify (its) operations under a common banner," according to ACE President and Chief Executive Officer Brian Duperreault.

As well as a new company logo to be officially launched in January, ACE will rename two of its companies: ACE Insurance Co. Ltd. is to be known as ACE Bermuda, and ACE London at Lloyd's is to be shortened to ACE at Lloyd's.

In addition, ACE's London contact office will be called the ACE International Representative Office, and Tempest Re eventually will come under the ACE Re umbrella. As ACE expands its operations, new additions to the organization will receive the new branding treatment. "We want our clients to be able to view any of our individual offices around the world as an entryway to the full range of ACE services and people wherever they are located," said Mr. Duperreault.



BC/BS Assn. names chairman

CHICAGO—The Blue Cross & Blue Shield Assn. has named Richard L. Woodworth chairman of the board for a one-year term. Mr. Woodworth will continue as chairman and chief executive officer of The Regence Group in Portland, Ore.; the group is an affiliation of Blues plans in Idaho, Oregon, Utah and Washington.

In his new role with the Chicago-based BC/BS Assn., Mr. Woodworth replaces Raymond McCasky, president and CEO of Blue Cross & Blue Shield of Illinois.

Meanwhile, the BC/BS Assn. has honored Andrew Czajkowski, CEO of Blue Cross & Blue Shield of Minnesota, with its C. Rufus Rorem Health Service Award.

The award, established in 1985 to honor a pioneer in the development of the Blue Cross system, is given annually to individuals with exemplary leadership skills, according to the association.

Mr. Czajkowski was honored for his organization's efforts to fight smoking and challenge the tobacco industry, including BC/BS of Minnesota's lawsuit against cigarette manufacturers.

Product provides information daily

SCHAUMBURG, Ill.—Zurich-American Insurance has launched RiskIntelligence, which provides daily updates of customer loss information through the World Wide Web.

Through RiskIntelligence, customers can access their loss data with either standardized or customized Zurich-American reports.

Each day, risk managers can enter their password-protected RiskIntelligence area to study detailed claim, claimant and payment activities. The data is downloaded from Zurich-American's mainframe claims system each day.

RiskIntelligence also features the convenience of electronic storage and filing and the ability to download information into a spreadsheet, and it can be used in both Mac and PC environments. RiskIntelligence offers information in more than 30 template reports, including loss data by state, by customer location, by type of injury, by product line, by loss and by size of loss, along with trend analysis and lag-time reporting.

RiskIntelligence can be accessed either through the Internet via Zurich-American's Web page at www.zurichamerican.com or through a modem and local CompuServe number that will pass users directly to the system. Users will need a 28.8 modem or better and a Java-enabled browser—either Microsoft Internet Explorer 4.0 or better or Netscape Navigator 4.0 or better.

For information, contact Frank Colletti, project manager at Zurich-American, at 847-605-6438.

Comings & Goings: Industry

James A. Sears has been named chief accounting officer at CIGNA Corp. In his new role, Mr. Sears, who previously was vp and chief accounting officer at CIGNA's property & casualty division, will be responsible for corporatewide financial issues and accounting controls. . . . ACE Insurance Co. Ltd. of Hamilton, Bermuda, has promoted **Randi Cigelnik** to the position of general counsel from her previous position with ACE Insurance as assistant general counsel. Ms. Cigelnik takes over from Peter Mear, general counsel of ACE Ltd., the parent company of ACE Insurance. Mr. Mear will work full-time for the holding company. . . . **Joseph L. Besnard Jr.** has been promoted to Eastern regional vp of the brokerage services division of Itasca, Ill.-based Arthur J. Gallagher & Co., and he has been appointed corporate vp of the company. Mr. Besnard currently is area president of Gallagher's Tampa/Clearwater office; he will continue to oversee this function while heading the company's Eastern region and assisting in developing the corporation's long-term growth plans.

Information in brief

Kemper Insurance Cos. has agreed to purchase 80% of Universal Bonding Insurance Co. Terms were not disclosed. The remaining 20% of Universal will be owned by the current management team. Universal is a surety bond underwriter based in Lyndhurst, N.J. As part of the purchase, Kemper will also acquire Universal's subsidiary Heart of America Fire & Casualty Co. Kemper intends to operate Universal as a separate entity, the company announced. . . . **Frontier Insurance Group Inc.** has acquired Agents Bond Connection Agency Inc., Surety Bond Connection Agency Inc. and Advantage Casualty & Health Agency Inc., all of Dallas. The agencies expand Frontier's surety operations as well as its Texas presence; the Rock Hill, N.Y.-based company said. **BI**

Insurers

Continued from page 2

American International Group Inc., Chubb Corp., Hartford Financial Services Group and The St. Paul Cos. Inc.

AIG Chairman Maurice R. Greenberg said in announcing third-quarter results, for example, that AIG "aggressively non-renewed" U.S. commercial business "where rates had fallen well below acceptable levels."

He mentioned commercial "commodity lines" and workers compensation as areas where pricing has eroded and said AIG will focus instead on "specialty lines" and other areas where rates are firmer.

St. Paul Chairman, President and Chief Executive Officer Douglas W. Leatherdale similarly announced that the insurer will let go up to \$250 million in unprofitable medium-sized commercial business over the next nine to 12 months.

Chubb has also begun re-underwriting its \$1.2 billion standard commercial lines book, placing risks in categories from the most underpriced to the least underpriced, said Senior Vp Glenn Montgomery. The insurer will seek rate increases on the most underpriced business and will not renew risks where it can't get the increases, he said.

Chubb is prepared to lose up to \$200 million of this book, Mr. Montgomery confirmed.

Industry analysts are reserving judgment about these moves, though, and are skeptical that they represent the beginning of a tightening market.

"Company A says that. Company B hears Company A say that and says the same thing," Mr. Frinquelli observed. "The real test comes if and when they pull away" from underpriced risks. "We'll believe it

when we see it."

"Now that a few brave souls have gone first, it's easier for everyone else to get people's expectations where they want them to be," said Ronald Frank, an analyst with Salomon Smith Barney in New York.

Whether that leads to a tighter market is another story.

"I'm not holding my breath for a rip-roaring turn," Mr. Frank said. "Evidence continues to point to an all-too-accommodating reinsurance market that is willing to provide some pretty silly terms, and that does not augur well for discipline in the primary market."

John L. Ward, chairman of Cincinnati-based Ward Financial Group, said: "As much as companies would like to get tough and firm up pricing, I just don't see it happening in the near term. There's too much capital and too much capacity for companies to implement that strategy at this point."

"In a business where nobody has much more than 3% of the market—except for personal lines—it's hard to get any kind of leadership," Mr. Smith of Bear, Stearns added.

A few large insurers may drop as much as \$1 billion in commercial premiums, but that represents a minuscule percentage of the total market, he noted.

Business that is not renewed "will not have any problem at all finding a home," Mr. Smith predicted.

Meanwhile, property/casualty insurers continued to suffer the ill effects of rate competition and other problems.

Among the highlights during the first nine months of 1998 for the companies surveyed:

- Net written premiums rose a modest 3.7% to \$74.73 billion. This compares with a 3.9% increase in first-half 1998 from the previous year's first half and a 5.5% increase for all of 1997 (BI, Aug. 31).

- Underwriting results continued to deteriorate. The combined ratios of the surveyed companies deteriorated to 104.4% from 101.9% in the same period last year. Most companies reported widening pretax underwriting losses, with the total underwriting loss expanding 87.5% to \$3.48 billion from a loss of \$1.9 bil-

year, insured cat losses totaled \$8.3 billion, nearly triple the \$2.6 billion recorded for all of 1997. Catastrophe losses of \$3.66 billion in this year's third quarter alone made it the costliest three months on record, according to the Insurance Services Office's Property Claim Services unit (BI, Oct. 26).

vestment income, analysts say.

Over several recent quarters, insurers have been able to offset the earnings impact of meager premium growth and price competition by releasing redundant reserves from workers compensation and other lines, insurance industry observers note.

This option may no longer be available to many companies, though.

"The (reserve) drawdowns that the industry has relied on in the past to generate higher earnings are not there anymore," said Matthew Coyle, a director with Standard & Poor's Corp. in New York.

"They've done such a marvelous job strip-mining the reserves, the environmentalists are going to get after them pretty soon," Mr. Smith joked.

"I would say the reserve take-downs are all about over," agreed Robert M. Steinberg, chairman and chief executive officer of Reliance Insurance Group in New York.

"Companies today are faced with nowhere to go," he said. "And when you're faced with nowhere to go, there's only one thing to do: raise prices" or let the underpriced business go, Mr. Steinberg said.

Many companies, he said, are reaching a "threshold point" where their returns on equity are so poor that they will review their pricing practices.

"Some of the pain of some of these companies is so severe that I think they will have the courage to do the right thing," he said.

Mr. Smith offered another warning, though: He said he believes insurers' third-quarter results are probably much worse than reported because many companies are holding up earnings by under-reserving for their current business.

"They are creating an ugly past today that they are going to have to pay for tomorrow," he said. **BI**

'Certainly, it has been an unusual year for weather. Hopefully, we can get that behind us and get back to normal, whatever normal is,' says SAFECO's George P. Yonker.

lion a year earlier.

- Investment income fell 4.7% to \$12.0 billion from the same period last year. This compares with a 8.6% decline in the first half and a 17.1% increase in 1997. Most insurers surveyed actually reported investment gains, but a 60.7% drop in investment income at Nationwide Mutual Insurance Co.—stemming from a special dividend in the first quarter—brought down the overall average.

- Policyholder surplus for the 20 companies reporting a figure rose 10.6% to \$70.14 billion.

- Net income for the 19 insurers reporting the data fell 4.8% to \$9.41 billion. This compares with a 0.6% increase in the first half and a 46% increase for all of 1997.

"In general, it looks like a somewhat disappointing quarter for most of the major commercial lines companies," Mr. Ward noted.

Most observers cited catastrophe losses, principally losses from Hurricanes Georges and Bonnie, as the primary reason for the period's poor underwriting results.

For the first nine months of the

"Certainly, it has been an unusual year for weather. Hopefully, we can get that behind us and get back to normal, whatever normal is," said George P. Yonker, vp-finance for SAFECO Corp. in Seattle.

For much of the industry, though, "normal" is looking increasingly bleak, several analysts say.

Even without catastrophe losses, commercial property/casualty insurers are facing pressures that will continue to hold down earnings in coming quarters, they say.

"The short-term outlook is not too different from the third-quarter results, which is a pretty difficult operating environment," Mr. Ward said.

"Premium growth is really abysmal given the growth of the economy," Mr. Frinquelli said, ascribing this not only to ongoing rate competition but also to increased self-insurance that is effectively removing business from the commercial market.

In addition, while the stock market has staged a comeback, interest rates are falling, cutting into bond yields and putting pressure on in-

Major property/casualty insurers' 1998 nine-month results

Ranked by change in net income. All amounts in thousands of dollars.

Rank 1998	Corporate						Property/casualty operations							
	Net income 1998	Percent increase (decline) 1997-1998	Consolidated revenues 1998	Combined ratio 1998	Combined ratio 1997	Net premiums written 1998	Percent increase (decrease) 1997-1998	Pretax underwriting income (loss) 1998	Percent increase (decline) 1997-1998	Pretax investment income 1998	Percent increase (decrease) 1997-1998	Policyholder surplus 1998	Percent increase (decrease) 1997-1998	
1	Hartford Steam Boiler	115,900	144.5	700,500	88.7	91.3	279,000	(22.9)	31,400	1.6	46,600	80.6	610,600	103.0
2	Reliance Ins. Co. and subs.	295,685	136.0	2,573,802	101.4	100.9	1,818,727	18.3	(28,302)	(31.1)	219,332	12.3	1,678,924	24.6
3	Argonaut Insurance Co.	72,647	51.4	177,176	115.2 ²	107.9 ²	91,504 ²	(1.8)	(18,071) ²	(69.1)	23,086 ²	(26.3)	608,998	5.7
4	General Re Corp.	917,700	27.3	5,713,700	101.3	100.6	3,599,100	(12.4)	(47,300)	(95.5)	882,600	0.5	6,311,000	0.0
5	CIGNA Corp.	1,054,000	25.0	15,958,000	103.4	99.9	2,497,000	0.0	(82,000)	N/M	255,000	(8.0)	1,800,000	(8.0)
6	Fremont Compensation Ins. Group	83,848	14.8	526,184	96.3	92.0	405,473	(2.5)	14,604	(54.9)	128,210	44.1	620,231	13.6
7	American International Group Inc.	2,759,613	12.7	24,230,914	96.3 ²	96.2 ²	10,758,856 ²	4.6	404,920	9.0	1,587,337 ²	16.2	N/A	N/A
8	Travelers P/C Corp.	974,900	11.3	7,726,800	102.4 ^{2,3}	102.3 ^{2,3}	6,089,400 ²	2.3	(225,300) ^{2,3}	20.8	1,527,400	0.0	6,754,300	12.5
9	Sentry Insurance Cos.	80,081	10.5	1,031,759	106.2 ²	106.6 ²	718,670 ²	(12.9)	(48,170) ²	18.7	154,138 ²	1.3	1,532,344	5.4
10	Old Republic Int'l Corp.	236,641	6.3	1,598,755	99.5	98.5	669,349 ²	0.1	(12,421) ²	(232.1)	144,839 ²	(2.7)	1,517,384	4.7
11	Berkshire Hathaway Group	636,000	2.6	4,683,000	94.6	93.0	4,292,000	12.4	217,000	(6.9)	700,000	10.9	N/A	N/A
12	Chubb Corp.	549,400	(4.4)	4,778,100	99.2	96.4	4,136,500	0.1	4,000	(96.1)	558,000	5.7	2,610,000	(3.4)
13	Royal & Sun Alliance USA ²	193,800	(8.8)	1,466,300	106.0	103.5	1,126,600	4.9	(69,600)	(148.7)	260,700	0.8	2,719,600	4.4
14	SAFECO Corp.	255,700	(27.0)	5,000,400	103.1	98.9	3,239,300	74.6	(95,700)	N/A	362,100	72.2	2,992,600	58.2
15	Ohio Casualty Corp.	64,709	(29.7)	1,080,180	107.1 ²	106.1 ²	966,630 ²	4.8	(61,941)	(11.9)	122,575	(6.1)	1,037,297	(6.4)
16	Hartford Financial Services Group	714,000	(34.0)	10,861,000	104.1	103.0	5,783,000	5.0	(232,000)	(44.0)	728,000	8.0	7,063,000	33.0
17	CNA Financial Corp.	429,000	(37.6)	12,890,000	110.6	109.4	8,220,000	2.0	(972,000)	(11.2)	1,260,000	(2.3)	7,120,000	5.0
18	TIG Holdings	16,000	(86.1)	1,303,000	107.3 ²	101.8 ²	1,135,000	(3.7)	(102,000)	(628.6)	184,000	(16.0)	981,000	(4.1)
19	The St. Paul Cos. Inc.	(38,801)	(105.8)	6,912,265	118.3 ²	104.3 ²	5,126,759	(3.7)	(882,955)	(353.1)	984,987	(0.1)	4,355,692	(9.8)
—	Nationwide Mutual Ins. Co. ²	N/A	N/A	N/A	106.7	103.6	6,554,376	5.3	(466,861)	(79.8)	741,613	(60.7)	10,438,573	18.7
—	Kemper Insurance Cos.	N/A	N/A	3,267,727	108.4 ²	105.1 ²	2,630,833 ²	(5.5)	(214,331) ²	(14.6)	334,974 ²	0.1	2,335,793	12.7
—	Liberty Mutual Ins. Co. ²	N/A	N/A	N/A	112.9	109.7	4,592,879	3.3	(594,715)	(26.1)	825,909	5.2	7,054,828	10.6
Total		9,410,823	(4.8)	112,479,562	104.4	101.9	74,730,956	3.7	(3,481,743)	(87.5)	12,031,400	(4.7)	70,142,164	10.6

¹ After dividends ² Statutory ³ Before dividends N/A-Company did not provide data; N/M-Not meaningful

Source: BI survey

Commentary

A prescription for disaster?

Picture a 5-year-old girl skipping down the hallway of an elementary school, entering the school nurse's office.

Student: *I need to take my medicine.*

Adult: *OK, it's over there in the tray.*

Student: *I can't read the... is this one mine?*

Adult: *No, this one is yours. I'm not supposed to do this, but here, I'll open it for you.*

Student: *How many do I have to take?*

Adult: *Don't you know?*

Student: *I think my mommy gives me this many...?*

Adult: *I can't help you. Do you want to call your mom?*

Student: *I take this many. Can I have a glass of water?*

Adult: *Are you sure that's the right number?*

Student: *I think so.*

Adult: *OK.*

What would it take for the adult in this scenario to simply read the prescription label and give the student her correct dosage of medication?

Apparently too much for some school districts in Illinois.

According to a recent article in the Chicago Tribune, some school districts in Illinois (and perhaps in other states) are taking advantage of a state law that allows them to require students to self-administer their prescription medications.

The article reports that at least one school in suburban Chicago is applying that requirement to 5-year-olds, many of whom are unable to read or tell time, let alone recall when they last took their medicine.

This same school also reportedly shows kids how to open prescription bottles so they can take their own medicine. As one anonymous parent says in the article, "There's a reason why they make those

bottles childproof."

Are the school district's risk managers cutting class, or what?

The school districts taking advantage of the law claim their approach is necessary because they cannot afford to staff all schools with full-time trained nurses to administer medication. Even if hiring nurses is not in the budget, why not at least rely on adults to help children take their prescription drugs?

Not only does the hands-off approach being taken by some schools jeopardize the health of children, it also exposes the schools to liability for failing to care for their charges.

No doubt, some schools also see a liability exposure in allowing untrained adults to help children take their medicines. But rather than run away from that risk, why not take steps to reduce it?

There are several basic options that could provide a safer environment for children while minimizing the liability exposure to the schools.

First, schools should require that the parents of a child who must take medication send the school information on what medication the child takes and when it must be taken.

In cases where a nurse is unavailable, a school should require that an adult in a position of responsibility for children—such as a teacher or principal—be present to help administer proper dosages to children. I'm not talking about giving kids shots, but simply reading a pharmacy label or a parent's directions to know when and in what quantity a medicine should be taken—or not taken.

Schools could also require that parents sign hold-harmless agreements for having non-nurses administer medications. While not a guarantee against litigation, a hold-harmless agreement is likely to bolster the school's protection from liability, especially in combination with sovereign immunity statutes. Signing such a liability waiver also serves to bring the issue to the forefront, where it will focus the attention of parents and schools on the need to more closely manage the risks of kids taking medicines in an unsupervised environment.

These simple steps would go a long way toward assuring that someone in a position of trust will be there, applying common sense if not medical know-how to the administration of prescription medications.

The self-administration policy followed by some school districts is nothing less than a prescription for disaster. Before the first instance in which an incorrect dose harms a child, those districts need to take their own strong medicine and accept responsibility for the well-being of their charges.

Editor Paul D. Winston's commentary appears biweekly.

OSHA

Continued from page 1

parties who have an active role in the OSP, including organized labor," and last more than two years. Limited OSPs last less than two years and focus on identifying and correcting hazards associated with worker deaths, injuries or illnesses rather than establishing comprehensive safety and health plans.

OSPs do not apply to all types of cooperative activity. For example, OSHA's Voluntary Protection Program—praised by many employers as a model way to promote safety and cooperation—isn't part of the OSP plan. The Safety and Health Achievement Recognition Program also is outside the OSP purview, as are less formal cooperative outreach, technical assistance and training programs and certain enforcement programs that contain cooperative elements.

The OSP proposal drew generally supportive reviews from employers.

"Our basic read on it is anything OSHA can do to move away from confrontation to cooperation, we absolutely support," said Jenny Saunders Krese, director-employment policy for the National Assn. of Manufacturers in Washington. She added that she hoped this initiative represented OSHA's "getting away from the old OSHA 'gotcha' mentality."

"If that's what these partnerships are, we support that move. Obviously, safe work environments mean good business. Anything that OSHA can do to edu-

cate and work with business—our members—we support," she said.

Randy Johnson, vp-labor and employee benefits for the U.S. Chamber of Commerce in Washington, said: "It's not an extensive program with a huge impact, but as far as it goes, we view it favorably. I would like to emphasize that it is a voluntary program, meaning that employers have the right to determine whether to participate or not, and if they don't

'Anything that OSHA can do to educate and work with business—our members—we support,' says Jenny Saunders Krese.

participate, there is no penalty associated with that. That's in contrast to the Cooperative Compliance Program, where, if an employer doesn't participate, it would be put on a more targeted inspection list." The Chamber spearheaded a successful legal effort to block implementation of the CCP earlier this year (*BI*, Feb. 23).

"In terms of promoting the fact that many employers voluntarily make efforts to improve occupational safety and health, it sets an example for businesses that don't," said the Alliance's Mr. Lessner, adding that the insurer trade group is "strongly in favor of voluntary cooperative initiatives."

Mr. Lessner said that, in the Al-

liance's eyes, OSHA doesn't include enough parties in its definition of voluntary cooperative relationships.

"What OSHA calls a voluntary cooperative relationship is between the regulator and the regulated party. What we at the Alliance call a voluntary cooperative relationship essentially involves all the stakeholders: the regulator, the regulated, the safety professionals, everyone who has a stake in this," he said, noting that the insurance industry has a key role to play in this relationship.

But RIMS' Mr. Ewing questioned just how committed OSHA is to partnerships.

"RIMS signed a partnership agreement with OSHA in August this year. It was hoped that OSHA and RIMS could work together in proposals which OSHA was considering. To date, the response has been less than stellar on OSHA's behalf. Therefore, I think many RIMS members, which include over 80% of the Fortune 1000 companies, have to wonder about OSHA's true commitment to partnering."

Anne Allen, RIMS' director-government affairs, said "the mere fact that OSHA is making steps toward partnering is positive. Part of the frustration on both sides may be that previous OSHA administrations have left employers with a lot of distrust about the inspection process. Once bitten, twice shy. That would also be hard for OSHA folks who are sincerely trying to effect change, because they may not be getting the enthusiastic response from business that they anticipated." **BI**

Y2K

Continued from page 1

which is a more specific type of Y2K statement that includes essentially the same type of Y2K status information but applies only to the statement's maker. Such a disclosure must be issued in writing or in an electronic format and must be identified clearly on its face as a disclosure.

IRDA bars

plaintiffs from using

readiness disclosures

issued on or after Oct. 19

"to prove the accuracy

or truth" of any

Y2K statement included

in the disclosures. That

means, with some

exceptions, plaintiffs

cannot introduce

into evidence disclosures

that reveal adverse information

about the company's Y2K status.

Because disclosures are a subset

of Y2K statements, they also receive

the limited liability protections that

apply to Y2K statements.

Companies also may retroactively

designate as readiness disclosures

Y2K statements that were issued

as early as Jan. 1, 1996. IRDA still bars

plaintiffs from introducing those

retroactively designated disclosures

into evidence, unless they object

within 45 days from the time the

statement is retroactively designat-

ed. The plaintiffs also would have to

show they were harmed by relying

on the original statement.

However, for companies that

retroactively designate as disclo-

sures Y2K statements that initially

were issued from Jan. 1, 1996,

through July 13 of this year, IRDA

does not provide limited liability

protection in lawsuits.

IRDA provides both the evidenti-

ary and limited liability immunity

protection to companies that

retroactively designate as readiness disclosures Y2K statements issued on or after July 14.

Companies have until Dec. 3 to complete their retroactive designations of the many types of pronouncements that qualify as Y2K statements. But because of ambiguous language in the law, attorneys advise completing the retroactive designations by the end of Dec. 2.

Representatives of business groups said the limited protections

details of the Chamber's proposal before it has been completed. However, he said, under the measure, IRDA essentially would become part of a bigger package of protections for business.

The Arlington, Va.-based Information Technology Assn. of America also will be seeking congressional support for greater protection than IRDA provides.

The ITAA wants standardized rules of evidence in lawsuits over

breaches of con-

tracts that arise

from Y2K prob-

lems, said Marco

A. Perl, senior

vp-government

affairs and gen-

eral counsel for

the ITAA.

Under contract

law, many courts

will not evaluate

why a company

did not honor a contract, except in cases involving natural disasters. Mr. Perl explained. The ITAA will be seeking legislation that would require all courts to consider evidence that a Y2K computer problem caused a company to breach a contract.

Within the next few weeks, a business group that is dissatisfied with IRDA is scheduled to meet with staff for Sen. Patrick Leahy, D-Vt., a co-sponsor of IRDA, a spokesman for Sen. Leahy confirmed. Sen. Leahy is the ranking Democrat on the Senate Judiciary Committee.

Messrs. Kraus and Perl said their respective groups are not involved in that meeting.

Staff for Sen. Orrin Hatch, R-Utah, an IRDA co-sponsor, are studying the law "to determine what, if anything, needs to be done" about the business protections the law provides, a spokeswoman for Sen. Hatch said. Sen. Hatch is the chairman of the Senate Judiciary Committee. **BI**

Representatives of business groups call the limited protections of the IRDA good first steps but say the law does not provide the comprehensive protections businesses want.

under IRDA are good first steps but that the law does not provide near the comprehensive protections business wants.

IRDA "doesn't get to the core issue" of how to efficiently deal with the expected "explosion of litigation over this stuff," said Larry Kraus, president of the Washington-based U.S. Chamber Institute for Legal Reform, a unit of the U.S. Chamber of Commerce. "We need legislation to provide incentives to tie up such litigation efficiently" without tying up courts and bankrupting companies, Mr. Kraus said.

Chamber representatives are scheduled to meet soon with congressional staff about business' continuing Y2K liability concerns, he said.

The institute also is crafting a bill that would address business' concerns. Mr. Kraus said he expects the measure will be completed within a few weeks. The Chamber then will seek sponsorship of the bill, he said.

Mr. Kraus declined to reveal any

Checks

Continued from page 3

coalition policy or perhaps a model bill for the National Assn. of Insurance Commissioners, said Walter Dartland, the committee chairman. Mr. Dartland is executive director of Consumer Fraud Watch in Tallahassee, Fla., and special counsel to Florida's attorney general.

Insurers especially are concerned because the growth in the use of anti-fraud warnings has led to inconsistent mandates that increase insurers' administrative burdens and costs.

For example, fraud warnings in the six states that mandate them vary considerably in length. Utah's recommended wording is the shortest, consisting of 11 words: "Workers compensation insurance fraud is a crime punishable by Utah law." However, New York's mandatory wording is the longest at 54 words.

In addition, the lack of uniformity among state-mandated warnings means a typical insurer must tailor its centralized benefit check printing operation to produce state-spe-

cific warnings. That administrative requirement also may interfere with insurers' ability to comply with Year 2000 requirements, the coalition says.

And verbose wording creates a special problem because, "in some instances, the states that mandate specific language have created a problem for insurers in meeting Regulation CC of the Federal Reserve System, which restricts the space available by the endorser and the issuer to a small portion of the reverse side of a check," the coalition said.

The coalition also is concerned about the impact of the warning on legitimately injured claimants.

One survey question asks to what extent the respondent agrees or disagrees with the statement that: "Fraud warnings on benefit checks could intimidate legitimate claimants from cashing checks."

"We have not heard of that happening, but it is something that we are sensitive to," due to comments from state labor groups, Mr. Jay said.

A national labor spokesman also is concerned.

Jim Ellenberger, assistant direc-

tor of the AFL-CIO's department of occupational safety and health, said he considers fraud warnings on the back of benefit checks to be "highly objectionable." Such a practice "unavoidably adds to the stigmatization of workers comp recipients as frauds, cheats and malingerers," he said. "It's a terrible way to treat people."

Mr. Dartland said the coalition's goal "is to draft language that doesn't intimidate those who are legitimately injured but educates them about their responsibilities." Essentially, "if they no longer are eligible for the benefits, they should not cash the check," he said.

However, if anti-fraud language on checks proves to be an effective strategy, "states should grant insurers flexibility to substitute other words to achieve the same objective," the coalition recommends.

The coalition also points out that other types of fraud warnings are found on claim and application forms in more than 20 states. In addition, some states require that workers compensation claimants periodically sign forms that re-certify that they continue to be eligible for benefits. **BI**

UNUM

Continued from page 1

UNUMProvident, will be able to more readily increase sales of individual disability insurance policies outside of the traditional market for the products, said Vanessa Wilson, an equity analyst at Donaldson, Lufkin & Jenrette Inc. in New York.

Traditionally, individual disability insurance policies have largely been bought by professionals such as doctors and lawyers. However, insurers are increasingly attempting to sell supplementary coverage to workers whose employers already supply group coverage. Additionally, disability insurers are seeking to sell coverage to workers who do not have any coverage.

"They are trying to attack a new market, and now they will be able to team up on things like advertising costs and sales forces," Ms. Wilson said.

UNUM also will be able to market its long-term care coverage to Provident's individual policyholders, Ms. Vogel added.

Despite the advantages of the merger, UNUMProvident still will face some challenges, said Larry Mayewski, senior vp at A.M. Best Co., the rating agency in Oldwick, N.J.

The current low interest rates hurt insurers involved in long-tail business, and although there is the potential for growth in the individual disability market, insurers still must capitalize on the potential of the huge middle market they are targeting, he said.

Under the proposed deal, Provident shareholders will receive 0.73

shares of UNUMProvident in exchange for each Provident common share, and UNUM shareholders will receive one share of UNUMProvident for each of their shares.

Current UNUM shareholders will own 58% of the shares and current Provident shareholders will own 42% of the new entity.

The combined company will have total revenues of \$8.4 billion (see chart). The combined premium income will be \$6.1 billion, including \$2.1 billion in group disability premiums and \$1.5 billion in individual premiums. Both insurers also have group life operations.

James F. Orr III, chairman and chief executive officer of UNUM, will retain the same position at the merged company. J. Harold Chandler, Provident's chairman, president and chief executive officer, will become president and chief operating officer of UNUMProvident. On July 1, 2001, Mr. Chandler, 49, will succeed Mr. Orr, 55, as chief executive officer. Mr. Orr will remain chairman.

UNUMProvident will maintain significant corporate operations in Portland and Chattanooga, and neither office has yet been delegated as the headquarters.

Provident has offices in the United States and Canada. UNUM is in the United States, Canada, the United Kingdom and Bermuda, as well as in as other European countries, the Pacific Rim, and Latin America.

"This unique strategic merger is the perfect fit of highly complementary, healthy and growing businesses. The combination gives us enhanced financial strength, expanded national and international distribution and comprehensive product

offerings to provide superior value and integrated solutions to a broad range of customers," Mr. Orr said in a statement.

Mr. Chandler said the merger was the next logical step for Provident. "Together, UNUMProvident will have outstanding new growth opportunities," he said in a statement.

The transaction will help both companies achieve their aggressive growth targets, said Mr. Mayewski of Best. "To achieve what they wanted to achieve, both companies needed this transaction."

Both companies want to increase their penetration of the individual disability market, and the "one-stop shopping" center they will offer to employers seeking to give employees the chance to buy supplementary coverage will help them sell more policies, Mr. Mayewski said. "It potentially puts them in a strong position. . . . But in this environment, they have very sophisticated customers, so they will still have to offer value," he said.

Still, the economies of scale UNUMProvident will enjoy will put it at a competitive advantage to straddle both sides of the disability market, and that might drive many of its rivals out of the market, said Ms. Wilson of DLJ. "There will be other companies that will decide that they don't have the expertise, and they will sell their blocks of business," she said.

And the most likely purchaser will be UNUMProvident.

A.M. Best put its ratings of both companies under review after the merger was announced. UNUM currently has a A++ rating, and Provident has an A rating.

The deal is subject to regulatory approvals. **BI**

Updates

Competition cuts U.S. hull rates

Continued from page 2

Cargo rates also plummeted and reduced the overall premiums. In 1997, AIMU members reported cargo premiums of \$643.9 million, compared with \$672.8 million in 1996. The combined ratio for this line increased to 100.5% from 91.3%.

Overall, the marine results produced premiums of \$1.6 billion in 1997, a marginal decrease from 1996. The overall premiums include other marine risks, such as yachting. The overall combined ratio increased to 98.4% from 91.6%, said Mr. DeSimone, a senior vp at Atlantic Mutual Co. in New York.

"On the face of it, this is not too bad relative to the property/casualty industry. . . . Unfortunately, our business is different, and we need better combined ratios to produce profits," he said.

Most marine business is short-tail, so marine insurers cannot accumulate the same levels of investment income on premiums as casualty insurers with long-tail business, Mr. DeSimone noted.

Louisiana HMO shuts down

BATON ROUGE, La.—Advantage Health Plan Inc., Louisiana's third-largest health maintenance organization, is shutting down and paying a \$100,000 fine for poor claims handling.

The HMO provided coverage for more than 79,000 members in Louisiana, including 38,000 state employees. Earlier this month, Advantage announced plans to stop providing coverage for its 11,000 Medicare members and last week decided to cease operations altogether.

The HMO was fined because it was late in paying thousands of claims, according to the Louisiana Department of Insurance.

Advantage said in a statement that it lost \$30 million last year and that continued losses in 1998 were forcing it to close.

The plan, licensed in 1994, is owned by Touro Infirmary of New Orleans, the Franciscan Missionaries of Our Lady Health System Inc. and Louisiana Integrated Community Health Network L.L.C.

ABIG settles with 39 states

MIAMI—American Bankers Insurance Group Inc. last week announced that it will pay up to \$15 million to 39 states to resolve various market conduct issues.

In mid-1998, several states agreed to consolidate customary market conduct examinations into one multistate examination of American Bankers and its U.S.-based subsidiaries.

Some of the violations found in the multistate examination include failure to ensure that individuals soliciting and selling American Bankers' products were properly licensed; failure to comply with claim and claim-related state laws and regulations; using unapproved policy forms and premium rates; and using unclear marketing materials.

American Bankers will pay \$12 million now, and the remaining \$3 million may be collected on re-examination if the company fails to take steps to comply with state laws.

Briefly noted

Marsh & McLennan Cos. Inc. has acquired or agreed to acquire 94.8% of Sedgwick Group P.L.C.'s ordinary shares and will exercise its right under United Kingdom law to compulsorily acquire the balance. The offer will remain open indefinitely, and M&M must give at least 14 days written notice to shareholders before the offer is closed. . . . ABC Inc. as of Nov. 30 will **stop paying for medical and other benefits** for locked-out workers, the company said. The company and the National Assn. of Broadcast Employees & Technicians have been involved in a labor dispute that resulted in a lockout of the union's workers after a Nov. 2 strike. The move by the network affects about 1,600 NABET staff employees. . . . **Watson Wyatt Worldwide** is acquiring the Dallas-based group health and welfare practice of KPMG Peat Marwick L.L.P. Terms were not disclosed. In July, Watson Wyatt acquired Peat Marwick's Northeast benefit practice, while this month ASA Inc. purchased Peat Marwick's California-based benefit business. . . . The number of employers that have **health promotion programs**, such as educational seminars, health screenings and financial incentives or disincentive programs, stayed virtually the same in 1997 compared with 1996, a survey released by Hewitt Associates L.L.C. says. The Lincolnshire, Ill.-based consulting firm found that 91% of U.S. companies offered some type of health promotion program in 1997, up from 89% in 1996. . . . **William M. Mercer Cos. L.L.C.** has purchased Corporate Resources Group, a global compensation and human resources consulting firm. Terms were not disclosed. The purchase adds about 200 employees to Mercer's worldwide roster of more than 10,000 employees. In addition, CRG adds 14 new offices to Mercer's existing offices in 107 cities. CRG had particularly strong operations in Asia and Europe, Mercer said. . . . Shareholders of **Life Re Corp.** at a special meeting last week voted to approve the company's acquisition by Swiss Re Group (*BI*, Aug. 3). The deal is still subject to approval from regulators in Connecticut and Texas. . . . Glen Allen, Va.-based **Markel Corp.** will pay about \$200 million to acquire New York-based specialty property-casualty underwriter Gryphon Holdings Inc. under an agreement announced last week. The transaction, which is subject to regulatory approval, is expected to be completed in January. . . . The U.K. government has flagged its intention to bring the **financial services and markets bill** into legislation next year. The government announced that a new regulatory authority for the financial sector, the Financial Services Authority, should be debated in the next session of Parliament, though the enabling legislation is not expected to be passed until the middle of next year.

Judge sentences three for fraud

ORLANDO, Fla.—Three men who pleaded guilty to siphoning millions of dollars from the now-insolvent National Heritage Life Insurance Co. have received long prison terms from a federal judge.

U.S. District Judge Anne C. Conway earlier this month sentenced Michael D. Blutrigh and Lyle K. Pfeffer to 25 years each in prison on fraud and money laundering charges. Mr. Blutrigh was a New York-based lawyer who acted as outside counsel to National Heritage and its parent company, while Mr.

Pfeffer controlled several companies used in the fraud.

Judge Conway also sentenced Patrick C. Smythe, the insurer's former chief operating officer, to 25 years, though the sentence was reduced to 21 years for Mr. Smythe's cooperation in other cases stemming from the insurer's 1994 collapse.

Mr. Smythe's sentence could be reduced further based on his assistance in a criminal case against nine others accused of helping to loot the insurer. Trial of the nine other defendants is set for next February.

Messrs. Blutrigh and Pfeffer, meanwhile, are also expected to have their sentences reduced significantly for their testimony in the National Heritage case and in the upcoming racketeering trial of John A. Gotti, son of jailed Gambino crime family boss John J. Gotti.

Mr. Blutrigh was an owner of Scores, a topless nightclub in Manhattan from which John A. Gotti is accused of extorting money.

Messrs. Blutrigh and Pfeffer are in the federal witness protection program.

Roundtable

Continued from page 3

the political and economic activity in Asia has largely been directed at relieving poverty in the region, and there has been little interest in political reform, he said.

But in recent years there has been a growing movement toward more democratic government, Mr. Hein said. "For the most part, democracy seems to be growing steadily stronger," he said.

The economic crisis has forced some governments in the region to yield to reform pressures, Mr. Hein said.

For example, "were it not for the crisis, the new democratic constitution in Thailand would not have been passed," he said.

Western insurers that wish to take advantage of the new environment and low prices for local insurers in the region should be aware of the pros and cons of making such acquisitions, said Mr. Huang of Russell Miller.

On the one hand, the purchase of a local in-

surer gives the buyer immediate control of a distribution network, local connections and an insurer that is already known and accepted in the region, and a quick return on the investment.

On the other hand, there are often conflicts with local managers who are not used to Western business styles, and the exposure to previous liabilities is often not known or is underestimated by the local companies, he said.

Commercial and industrial insurers seeking to expand in the region probably would be better off setting up their own offices from scratch rather than acquiring local companies, Mr. Huang said.

Few insurers in the region have the expertise to underwrite complex engineering risks, so there is little advantage in taking over local companies to underwrite those risks, he said.

The business practices of insurers in Asia often are very different from those of insurers in the West, agreed Simon Hu, regional manager for Asia at A.M. Best Co., the rating agency in Oldwick, N.J.

Accounting practices in many Asian coun-

tries allow financial institutions to keep one pool of capital for all of their business. So, for example, policyholders of a financial institution that owns both an insurer and a bank might be negatively affected by banking losses, he said.

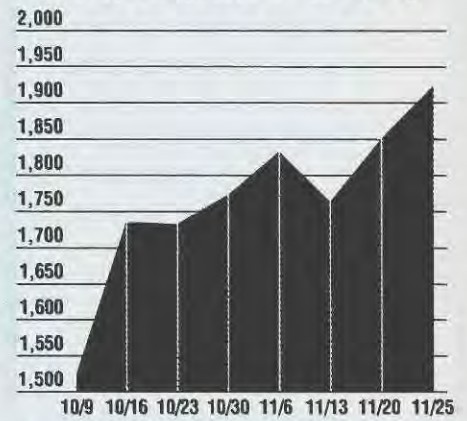
"There are no firewalls," Mr. Hu said.

Previously, many of the insurance companies in Asia engaged in cash flow underwriting and sought a high volume in premiums in order to obtain large investment returns. However, since the crisis, the investment returns have plummeted, and the companies need to adopt new strategies, he said.

And the rapid expansion of the insurance business in Asia prior to the crisis led to profits being invested back into the insurers' operations rather than the capital of the insurers. So Western investors should be wary of the thin capitalization of many insurers in the region, Mr. Hu said.

"Before you go into the region, make sure that you check all of the bases regarding regulatory minimum capital requirements and accounting," he said. **BI**

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc. (nordby.com) Boulder, Colo.

PCS catastrophe options

As of Nov. 20	Call spread	Price bid/ask	Call spread	Price bid/ask
National Annual 1998	60/60	7.0/13.5	National Annual 1999	40/60 9.2/15.0
80/100C	0.2/1.2		60/80	5.0/12.0
			100/120	2.0/—
			150C	—/6.0
National December 1998	20/20	—	Western Annual 1999	40/60 —
20/40	—		80/100	0.5/2.0
Eastern September 1999	40/60	1.5/—	Midwest June 1999	10/20 1.0/1.4
Southeastern September 1999	40/60	1.2/—		

Total volume: 0 Total open interest: 16,215

For information on PCS cat options, call the Chicago Board of Trade at 312-435-3674.

Source: Chicago Board of Trade

British Issues

Companies	Price pence	P/E	Div. pence	Yield %	52-week high-low
Gdn Royal Exch	341	5.4	13.4	3.9	495-227
Legal & Gen	725	21.8	13.3	2.2	796-460
Royal & Sun	497	15.1	23.6	4.6	825-437

Brokers

Brokers	Price	P/E	Div. pence	Yield %	52-week high-low
Lmbt Fenchurch	84	10.2	4.2	6.4	121-83
JLT	192	11.7	10.5	6.8	236-151
Sedgwick Grp	225	—	7.0	3.1	226-123

Note: Prices are Nov. 25 closings; other numbers from Nov. 24.

Source: Nordby International Inc. (nordby.com) Boulder, Colo.

Asia shows little demand for reinsurance

By GAVIN SOUTER

NEW YORK—Opportunities for life reinsurers in Asia remain limited despite the obvious need for extra capital at many of the local life insurers in the region, a life reinsurer says.

The lack of interest in non-traditional reinsurance, the poor financial condition of life insurers in many countries in the region and, in some cases, disapproval of reinsurance as a financial option by regulators all impede the growth of reinsurance in many countries in Asia, the reinsurer says.

However, there is some potential for growth once the insurance markets in the region recover from the battering they have suffered during the Asian financial crisis, he adds.

There have been few opportunities for life reinsurers in Asia, said Brendan Galligan, senior vp-Asia-Pacific division at Reinsurance Group of America Inc. in St. Louis.

He was speaking at the International Insurance Council's Roundtable on Insurance Conditions in Asia, held in New York earlier this month.

Historically, many local reinsurers in the region have been quasi-government-run monopolies that have provided only traditional reinsurance.

Although regulatory systems in the region

have been liberalized over the past several years, there is still little demand for non-traditional reinsurance, and it is non-traditional reinsurance that offers the most growth potential for reinsurers in other areas of the world, Mr. Galligan said.

In the future, there will still be tremendous opportunities for insurers in Asia, he said. "But a vibrant insurance market doesn't necessarily make for a vibrant reinsurance market."

In some cases, the purchase of any type of reinsurance is effectively discouraged by regulators, who view it as a sign of weakness rather than a sophisticated financial tool, he said.

And countries in the region that often have been seen as potential growth areas for life insurers are not necessarily growth markets for reinsurers, Mr. Galligan said. For example, China often is seen as a huge potential insurance market, but the local Chinese companies buy reinsurance coverage only from the state reinsurer.

And because the foreign direct companies that are entering the market are some of the largest insurers in the world selling personal accident and endowment policies, they do not require much reinsurance capacity.

"There are not a lot of life reinsurance opportunities in China," Mr. Galligan said.

In countries such as Singapore, the Philip-

ines, Thailand and Indonesia, only traditional reinsurance is bought, and those countries have taken such a financial battering that it will be years before the demand for reinsurance increases significantly, he said.

Even in more-developed insurance markets, such as Japan, the underlying insurance market is not growing. However, with the liberalization of the market, an increasing number of products are being offered, and there is the potential for some reinsurance growth, Mr. Galligan said.

As the sixth-largest life insurance market in the world, South Korea looks at first sight like a good opportunity for life reinsurers. But most of the insurance companies there are in severe difficulty as a result of the area's financial crisis and thus may not be attractive reinsurance risks, he said.

In many of the other countries in the region, the life market has shown solid growth over the past 20 years. But most of the insurers in the region are heavily exposed to the stock market, and so they are also adversely affected by the financial crisis, Mr. Galligan said.

All is not hopeless, however. Mr. Galligan said that some regulators in Asia are demanding that insurance companies be better capitalized, "so some non-traditional reinsurance opportunities may be emerging."

BI Industry Stock Report NOV. 23, 1998, THROUGH NOV. 25, 1998

BROKERS						INSURERS/REINSURERS						HEALTH MAINTENANCE ORGANIZATIONS											
Company	Price	Weekly % change	Year to date % change	52-week High	52-week Low	Company	Price	Weekly % change	Year to date % change	52-week High	52-week Low	Company	Price	Weekly % change	Year to date % change	52-week High	52-week Low						
Aon Corp.	NYS	59.25	-0.94	1.07	75.56	48.25	751	CNA Financial Corp.	NYS	43.31	-2.12	1.71	53.25	34.50	323	Reliastar Financial Corp.	NYS	48.06	4.06	16.69	52.44	29.00	660
E.W. Blanch Holdings Inc.	NYS	40.38	0.62	17.24	41.13	33.00	33	CNA Surety	NYS	14.63	0.43	-5.26	16.75	12.56	44	RenaissanceRe Holdings Ltd.	NYS	37.69	-7.23	-14.59	50.75	36.88	118
Gallagher Arthur J. & Co.	NYS	45.88	0.14	33.21	46.56	33.56	66	EMC Insurance Group Inc.	NDO	12.50	3.63	-5.66	15.88	9.00	20	Risk Capital Holdings	NDO	21.75	3.57	-2.25	25.50	18.81	42
Hibb, Rogal & Hamilton	NYS	18.94	0.00	-1.94	19.63	15.38	166	ESG Re Limited	NDO	19.00	-1.30	-19.15	28.88	12.75	24	RLI Corp.	NYS	35.81	1.24	-10.13	45.63	31.56	27
Kaye Group Inc.	NDO	6.00	0.00	-9.43	7.81	5.13	0	Enhance Financial Services	NYS	29.56	2.60	-0.63	37.56	17.31	1268	St. Paul Companies	NYS	36.19	0.17	-11.81	47.19	28.06	3509
Marsh & McLennan	NYS	59.50	0.00	19.70	64.31	43.38	1302	Everest Reinsurance	NYS	37.06	-2.15	-10.15	45.25	28.75	422	SCOR	NYS	60.63	6.59	26.96	72.75	43.13	4
Poe & Brown	NYS	34.50	1.66	15.97	42.50	27.00	18	Executive Risk Inc.	NYS	54.25	1.17	-22.29	75.75	35.50	62	SAFECO Corp.	NDO	43.44	1.91	-10.90	56.00	38.25	3017
Sedgwick Group PLC	NYS	18.50	-4.52	50.25	19.50	10.31	4	EXEL Ltd.	NYS	74.69	1.96	17.85	83.25	61.56	356	SCPIE Holdings Inc.	NYS	30.50	-3.17	5.40	38.38	26.63	NA
BROKERS AVERAGE			-0.30	17.86				Fremont General Corp.	NYS	50.44	0.50	-7.88	62.13	36.00	229	Seibels Bruce Group	NDO	4.38	1.45	-41.67	8.38	3.72	36
								Frontier Insurance Group	NYS	14.94	3.91	-34.70	25.69	12.19	484	Selective Ins. Group	NDO	19.13	-3.77	-29.17	29.25	16.69	163
								Gainsco Inc.	NYS	6.63	1.92	-22.06	10.00	5.75	110	Terra Nova Insurance Co. Ltd.	NYS	29.63	0.00	12.86	35.00	23.50	51
								General RE Corp.	NYS	239.44	3.79	12.94	275.00	193.50	663	TIG Holdings	NYS	13.94	2.29	-58.00	34.38	11.63	1550
								Gryphon Holdings	NDO	18.50	4.96	10.45	19.38	11.38	168	Tokio Marine & Fire	NDO	59.25	2.16	2.60	61.38	39.00	77
								Harleysville Group	NDO	21.25	-0.58	-11.46	28.50	17.25	19	Torchmark Corp.	NYS	38.75	-0.64	-8.15	49.81	31.81	1356
								Hartford Steam Boiler	NYS	41.00	1.23	11.44	59.56	33.88	285	Transatlantic Holdings	NYS	76.75	0.24	7.34	94.50	68.75	94
								HCC Insurance Holdings	NYS	18.38	-2.97	-13.53	23.94	15.63	507	Travelers Property Casualty	NYS	33.75	9.76	-23.30	46.06	24.13	1430
								ING Groep N.V.	NYS	58.88	0.96	39.14	76.75	36.06	255	Trenwick Group Inc.	NDO	31.75	3.25	-15.61	41.75	26.75	448
								IPC Holdings Ltd.	NDO	24.44	-3.69	-24.08	33.25	19.00	50	Unico American Corp.	NDO	10.38	0.00	-15.31	18.13	8.88	63
								Hartford Financial Services	NYS	57.00	5.43	21.84	60.00	37.63	3872	United Fire & Casualty	NDO	37.00	4.23	-16.38	47.00	32.13	3
								LaSalle Re Holdings Ltd.	NYS	25.00	0.00	-29.33	42.94	19.50	53	Unitrin	NDO	70.75	-0.35	9.48	74.13	55.56	133
								Life Re Corp.	NYS	94.13	0.13	44.39	94.25	55.69	701	UNUM Corp.	NYS	54.94	14.16	1.03	59.63	41.75	4781
								Lincoln National	NYS	85.88	5.37	9.92	98.88	67.00	870	Vesta Insurance Co.	NYS	5.94	1.06	-90.00	64.75	5.13	1111
								MAIC Holdings Inc.	NYS	30.19	0.63	12.70	31.25	23.94	60	Zenith National Ins.	NYS	24.13	1.05	-6.31	30.50	23.00	27
								Market Corp.	NYS	165.06	-0.56	5.72	187.00	132.00	8	INSURERS/REINSURERS AVERAGE			1.59	-2.13			
								MBA Insurance Group	NYS	65.69	-0.76	-1.68	80.94	46.06	747								
								Meadowbrook Insur. Group	NYS	15.50	-0.80	-40.53	35.00	15.25	58	HEALTH MAINTENANCE ORGANIZATIONS							
								MMI Cos. Inc.	NYS	16.44	8.91	-34.58	26.50	15.25	155	Foundation Health Systems Inc.	NYS	14.44	2.21	-35.11	32.63	5.88	2442
								Mutual Risk Mgmt. Ltd.	NYS	36.94	-4.21	23.38	39.94	25.38	331	Humana Inc.	NYS	20.25	6.58	-2.41	32.13	12.25	2058
								NAC Re Corp.	NYS	46.94	-0.53	-3.84	55.88	43.50	162	Oxford Health Plans	NDO	11.88	2.70	-23.69	24.75	5.81	3854
								Navigator Group	NDO	15.38	0.82	-18.14	20.75	13.25	14	Pacificare Health Sys.	NDO	73.50	-2.97	46.27	88.88	46.75	29
								NYMagic Inc.	NYS	20.88	0.30	-24.26	34.25	20.31	4	Salguard Health Enter.	NDO	5.25	5.00	-61.11	13.88	3.63	12
								Ohio Casualty Corp.	NDO	41.00	1.86	-8.12	51.75	33.75	701	Sierra Health Services	NYS	22.81	1.67	1.77	27.63	15.88	251
								Old Republic Int'l	NYS	22.06	0.00	-11.01	32.25	17.94	1450	United Healthcare Corp.	NYS	45.94	-4.30	-7.55	73.94	29.56	2495
								Orion Capital Corp.	NYS	36.88	5.92	-20.59	59.25										

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