

# Business Insurance

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

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## Labor Department approves plan for TCW to give 401(k) advice

WASHINGTON—TCW Group Inc. has been given the green light to provide personalized investment and retirement planning advice to 401(k) plan participants.

The Department of Labor late last week granted the Los Angeles-based money manager a prohibited transaction exemption allowing it to receive fees for advising participants in 401(k) plans with \$5 million or more in assets on how to allocate their retirement money among a family of TCW mutual funds.

Until last week, Labor Department guidance  
*See Updates on next page*

## Brokers' ears open to RIMS

By MICHAEL BRADFORD

Insurance brokerages welcome an opportunity to meet with members of the Risk & Insurance Management Society Inc. to discuss buyer concerns about industry consolidation and efficiency efforts.

RIMS members also are applauding the association initiative.

The call for the meetings, which are yet to be scheduled, was prompted by some risk managers' concerns over a memo detailing a placement strategy implemented by J&H Marsh & McLennan Inc. The broker is placing some Chubb Corp. business from regional offices instead of the brokers local offices (BI, Oct. 20).

Despite assurances from J&H Marsh & McLennan to the contrary, some risk managers expressed concern that this strategy could signal that the world's

largest broker would increasingly dictate how all their accounts are handled, and that a trend toward regionalized business eventually could disrupt long-term relationships between policyholders and underwriters.

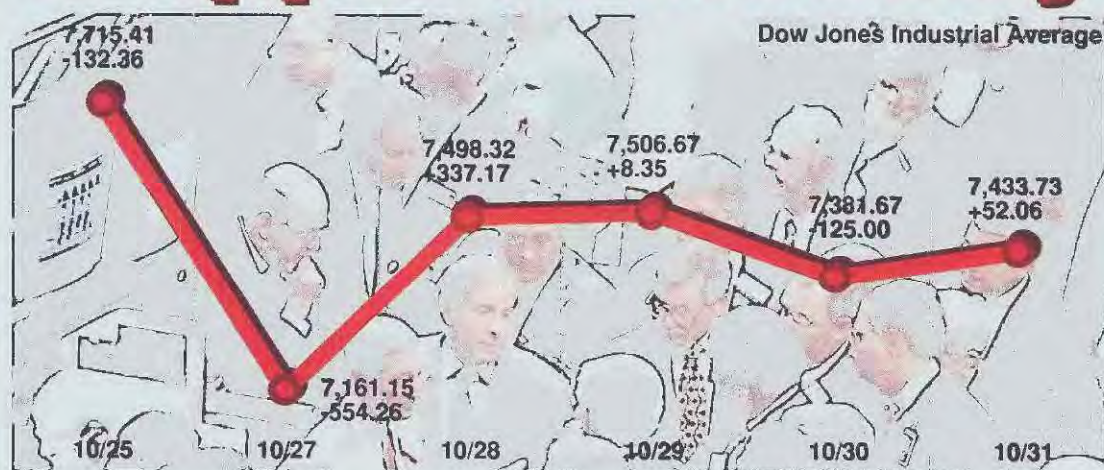
"I think risk managers are nervous. It's an unsettling climate," said Susan R. Meltzer, assistant vp-insurance and risk management at Sun Life Assurance Co. in Toronto.

As a result, RIMS plans to seek the meetings to assure policyholders' voices are heard as brokers and insurers become larger and fewer (BI, Oct. 27).

J&H Marsh & McLennan is eager to meet with RIMS to discuss policyholders' concerns, said Robert J. Newhouse III, executive vp and chairman of U.S. operations at J&H Marsh & McLennan in New York. "We are willing to discuss anything they want to talk

*See Memo on page 38*

## Market shakeup a ripple in industry



## Property/casualty insurers could withstand larger drop

Less than 13% of industry assets in equities

By DAVE LENCKUS

Blip.

That is all that last week's wild stock market gyrations amounted to on property/casualty insurers' financial screens. Even a far more precipitous and sustained fall in stock values would not have imperiled the industry, analysts say.

The stock market would have to lose almost six times more of its value than it did Oct. 27 before the insurance industry would be forced to react by, among other things, boosting rates because of reduced capacity, according to analysts.

Last Monday, the Dow Jones Industrial Average fell a record 554.26 points. But, in percentage terms, the 7.18% decline ranked as only the 12th-worst in history. The decline was about one-third

as steep as the 22.6% record drop on Oct. 19, 1987.

The same day, the *Business Insurance Index* fell 94.85 points, or 6.7%, to 1416.47 from 1511.31 at its Friday, Oct. 24, closing.

Stocks began to rebound the next day, though they suffered additional declines on Thursday and had not fully recovered by late in the week.

The stock market's gyrations, however, did not faze insurer rating agencies.

"We use a 15% charge on equity investments when we look at an insurer's capital. So even if there's a 15% decline in the stock market, we're confident a company's capital position is secure," said Alan M. Levin, managing director of insurance ratings at Standard & Poor's Corp. in

*See Stocks on page 33*

## 401(k) savers stay cool

Participants check balances but don't move money

By JERRY GEISEL

Calls from employees in 401(k) plans flooded benefit plan administration centers last week amid the stock market's volatility, but few employees are moving their savings out of equities and into safer investments.

Benefit administration centers said call volumes early last week were double and in some cases triple the volumes that would be normal at this time of year.

The vast majority of calls were from plan participants checking account balances through voice response systems or seeking other information

about their accounts or investment options.

"There was a tremendous surge of calls, but very few people actually made transactions," said John McGlone, director of participant services at Buck Consultants Inc. in Secaucus, N.J.

For example, at The Principal Financial Group, the nation's largest 401(k) plan administrator, less than 0.1% of plan participants moved funds from one type of investment to another.

"We did not see a hysteria of participants piling out of equities," said George Tracy, director of savings plan operations with Wellspring Resources L.L.C., a Jacksonville, Fla.-based benefit outsourcing venture of Watson Wyatt Worldwide and State Street Bank.

Other plan administrators reported a slightly higher, though still a very small level of transactions.

*See 401(k) on page 36*

### Market coverage continues on page 35:

- Reinsurers not significantly affected by volatile week
- Potential positives and negatives for risk securitization outlined
- Little effect on captives, RRGs

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## Updates

### TCW wins 401(k) exemption

Continued from previous page  
lines limited 401(k) plan sponsors who contract with the money managers to providing participants general financial and investment information. It was thought that if money managers gave participants detailed recommendations, they would be influenced by the level of fees associated with various investment options. Plan sponsors, subsequently, would face potential fiduciary liability due to a decision to contract with the money manager.

Under TCW's proposal, sent to the DOL in September and approved last Thursday, TCW will use outside experts to develop asset allocation scenarios tailored to an individual's retirement goals and risk tolerances. All investment advice will be based on responses provided by participants to worksheet questions developed by the independent experts. Participants have the option to disregard the recommendations (BI, Sept. 8).

"Because TCW will have limited discretion in recommending in which trust participants will invest, the department believes there is little likelihood for abuse," the DOL said in a statement.

Those familiar with TCW's plan say it will be a blueprint for other companies to begin offering more detailed advice and recommendations. As a result, they say, 401(k) plan sponsors will see improved 401(k) participation.

Brian Tarbox, senior vp of the defined contribution group at TCW, said if all goes as planned, the product would be introduced to the public July 1, 1998. TCW plans to target companies with at least 1,000 employees.

### Consumers oppose liability bill

WASHINGTON—A group of consumer organizations is seeking a meeting with President Clinton to persuade him to oppose a compromise federal product liability bill.

Meanwhile, Senate negotiators have continued to meet to iron out differences between a White House-backed draft product liability reform proposal put together by Sen. John D. Rockefeller IV, D-W.Va., and a version of the measure redrafted by Sen. Slade Gorton, R-Wash. (BI, Oct. 27). Business groups said a consensus measure could be unveiled as early as this week before Congress enters its year-end recess.

The Rockefeller proposal would cap punitive damages only for small business, set an 18-year statute of repose for manufacturers of products that have been used in the workplace, protect retailers and wholesalers from product liability suits, and establish clear rules involving the misuse or alteration of a product.

The consumer groups opposing the bill, which include the National Breast Implant Task Force and the Dalkon Shield Information Network, branded the Rockefeller bill as "anti-consumer" and contrary to the principles espoused by President Clinton when he vetoed last year's product liability reform bill (BI, May 6, 1996). The letter's authors said they are concerned that families of victims of faulty products "have been ignored in this backroom process," and they requested a meeting with the president to air their views.

### Sears settlement approved

BOSTON—Under a settlement approved by two federal judges in Boston last week, Sears, Roebuck & Co. will pay \$158 million to 190,000 credit card customers in connection with improper collection practices applied to customers who had received bankruptcy protection.

"What it amounted to was Sears paying back everything that had been collected by the company under reaffirmation agreements that were not filed," said a company spokeswoman. In addition, the settlement amount includes 10% accrued interest, forgives the bankrupt customers' debt and includes an additional \$25 million settlement to be distributed among the participants in the class action.

Plaintiffs attorneys' fees will not be paid out of the \$25 million, the Sears spokeswoman said. "Sears has agreed to pay those separately." The court has yet to approve a figure for those attorneys' fees.

Earlier this year, Sears reached a separate \$40 million settlement agreement with the attorneys general of the 50 states in connection with the case. The company estimates researching its credit card records to identify affected customers going back to 1992 will cost another \$14 million.

Hoffman Estates, Ill.-based Sears never disputed that it failed to obtain necessary judicial approval in collecting debts from some bankrupt customers. The company took a \$320 million post-tax charge against second-quarter earnings in connection with the case.

"When the issue came up in April we alerted our insurers, but beyond that I wouldn't want to comment," the spokeswoman said.

Class members should begin receiving restitution and interest checks in December, with their shares of the additional settlement payment probably going out in March 1998.

### Briefly noted

The California Supreme Court last week let stand an appellate decision in *Michael J. Marks vs. Loral Corp.* (BI, Aug. 11) that held that companies can replace higher-paid employees with younger, lower-paid workers for economic reasons without violating age discrimination laws. . . . Wilmington, Del.-based Dupont Merck Pharmaceutical Co. has reached a tentative settlement in connection with drug pricing antitrust suit taking place in U.S. District Court in Chicago. While confirming that a tentative settlement had been reached with the thousands of retail drug stores that are plaintiffs in the case, a spokesman for the E.I. du Pont de Nemours & Co. and Merck & Co. joint venture would not confirm reports that the settlement is for \$22 million or discuss other details of the agreement.

### Errors & omissions

\* A reader service coupon in the Oct. 27 workers compensation Information Resource section incorrectly noted the expiration date as Sept. 29, 1997, on pages 33 and 36. The correct expiration date for using the coupon is Dec. 22, 1997. A corrected version of the coupon is on page 38.

## FMR settlement insured

### \$10 million settles charges of fund manager manipulating stock

By DAVE LENCKUS

BOSTON—FMR Co., the investment adviser to the Fidelity funds, is fully covered for the \$10 million settlement it has reached in a class-action lawsuit over a comment made by a former Magellan Fund manager regarding the value of a company's shares held by the fund.

Jeff Vinik, who managed the Magellan Fund in 1995, informed fund shareholders in a Sept. 30 semi-annual report that the fund

continued to be optimistic about technology stocks and that shares of Micron Technology in particular remained "relatively cheap."

A class of Micron shareholders who purchased their stakes between Nov. 9 and Nov. 30 that year alleged that Mr. Vinik made his comments in an effort to manipulate Micron's stock price so Magellan could easily sell off its Micron stake at a substantial profit. That alleged manipulation, which is prohibited by federal securities law, financially harmed

the several thousand class members, the lawsuit claimed.

From Sept. 30 until Nov. 9, Micron share prices increased substantially because of Mr. Vinik's comments, said Glen DeValerio, the plaintiff attorney for the class. But, instead of holding onto its Micron stake, the Magellan Fund sold about 2 million of its 15 million Micron shares during that period, said the attorney, a partner with Berman, DeValerio & Pease L.L.P. of Boston.

See Fidelity on page 39

## Kentucky suit faults Anthem's handling of Blues' assets

By SALLY ROBERTS

FRANKFORT, Ky.—Anthem Insurance Cos. is coming under fire for its 1993 acquisition of Blue Cross & Blue Shield of Kentucky.

Kentucky Attorney General Albert Chandler III sued the Indianapolis-based mutual insurer late last month, alleging it owes the state at least \$230 million in charitable assets he claims An-

them illegally pocketed when it acquired the Blues plan four years ago.

Anthem called the lawsuit "flawed" and said it will "vigorously defend" the allegations.

At issue is whether the Kentucky Blues plan is a charitable organization. In Kentucky, as well as in other states, a charity may not be terminated or dissolved without transferring its assets to another charity operating with—

or as close as possible to—the same charitable purpose.

Charitable assets became an issue with Blues plans in 1996 when Blue Cross of California converted to for-profit status after merging with its publicly held subsidiary WellPoint Health Networks Inc. As part of the conversion, Blue Cross of California transferred more than \$3 billion to charitable foundations at the

See Anthem on page 4

## Employers exposed to suits by children injured in womb

SAN FRANCISCO—California employers now can be sued for workplace injuries an unborn child sustains while its mother is on the job, the state's Supreme Court ruled last week.

The 7-0 decision in the case of *Snyder vs. Michael's Stores Inc.* nullifies a 1989 Court of Appeal decision in *Bell vs. Macy's California*, which held that workers compensation provides the exclusive remedy for unborn children injured when their mothers are hurt at work, according to court documents.

Last week's Supreme Court decision stemmed from the case of Naomi Snyder, who was several months' pregnant in October 1993 while working in Modesto, Calif., for Irving, Texas-based Michaels Stores. She claimed carbon monoxide generated by an outside janitorial company hired to buff floors accumulated in the arts-and-crafts store because of inadequate ventilation. That resulted in 21 customers and workers being

taken to a hospital after complaining of nausea, breathing problems and headaches.

Later, Ms. Snyder filed suit against Michaels, claiming her daughter's cerebral palsy and other disabilities were caused by the incident. A trial court threw out the suit, citing the 1989 ruling. A court of appeal reinstated the case, reasoning that the exclusive remedy provision did not apply to the daughter's injuries, court documents show.

The Supreme Court agreed, rejecting an argument by Michaels that, under case law, an unborn child can be considered an employee. The court also rejected an argument that employers are caught between its ruling and federal law prohibiting employers from discriminating by citing fetal protection policies to exclude child-bearing women from potentially hazardous jobs. That issue needs to be addressed by the Legislature, the court ruled.

—By Roberto Cenicerros

## RMIS listing nears

*Business Insurance* will publish its annual Directory of Risk Management Information Systems in the Dec. 1 issue, which also will feature a Spotlight report on risk management systems and online resources.

The directory is published as an editorial service, and there is no charge to be included.

The RMIS directory also appears on the Internet exclusively at [www.rmisweb.com](http://www.rmisweb.com).

To be listed, companies must submit a completed questionnaire by the extended deadline of Nov. 7. If your company produces or provides risk management software products to risk management personnel and has not yet received a questionnaire, please request one by calling Assistant Directory Editor Matt Scroggins at 312-649-5483.

### Inside

• The market activity last week clearly demonstrated the value of 401(k) education and the use of technology in benefit administration, which helped employees get information quickly, this week's editorial says. **PAGE 8**

• Even though the United Kingdom initially won't join European Monetary Union, the London insurance market is preparing to do business using the new single European currency. **PAGE 29**

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# Minor claims clog California system

## RAND report recommends fast track system for handling permanent partial disability

By ROBERTO CENICEROS

SANTA MONICA, Calif.—California should create a fast-track disability rating system for resolving minor claims that are driving up costs and slowing the resolution of all permanent disability claims, a research group says.

Claims-handling costs as a percentage of expenses are horribly out of whack for low-injury claims, said Rachel Kaganoff Stern, associate political scientist with Santa Monica, Calif.-based RAND Institute, a public policy research organization. Workers with minor disabilities receive relatively low compensation, yet the legal cost and effort to resolve their claims remains high.

RAND has spent the past year evaluating California's widely criticized permanent partial disability system. RAND was assigned the study by the Commission on Health Safety and Workers Compensation, a non-partisan commission created as part of 1993 reforms to the state's workers compensation system. The commission, which is charged with examining California's workers comp system and efforts to prevent occupational injuries, is expected to propose legislative changes in the spring.

The PPD system has come under fire because of its complexity and a perception that its costs are high while it delivers few benefits.

A full report on RAND's conclusions and policy recommendations will be released Nov. 21. But last week Ms. Kaganoff Stern said RAND researchers

See **Claims** on page 16



Additional coverage of the conference begins on page 24.

# Integrated disability not so simple today

## As aging baby boomers increase costs, more complex programs may be needed

By MEG FLETCHER

SANTA MONICA, Calif.—Moving toward true integrated disability management first requires recognizing several myths and rooting them out of a company's culture.

That is the advice from Dwight E. Davis, president and chief operating officer of Wausau Insurance Cos. of Wausau, Wis., during a keynote address to attendees of the Fifth Annual Workers Compensation Conference sponsored by Business Insurance.

The conference drew a record 350 people to the Loews Santa Monica Beach Hotel in Santa Monica, Calif., last week.

According to Mr. Davis, true integrated

disability management combines disability management and claims administration for occupational and non-occupational injuries and illnesses.

The mission of such a program is "to empower employers with the means to manage workforce absences so productivity can be improved and direct and indirect disability expenses controlled," he said.

In its simplest form, it combines disability management and claims administration for short-term and long-term disability programs, as well as workers comp, said Mr. Davis. However, a more complex program to manage the time employees are off the job may also take into account group medical, unemployment compensation, wellness programs and even leave for military service and jury duty.

The need for such a comprehensive See **Keynote** on page 20

# Gray market could hurt structured settlements

By RODD ZOLKOS

CHICAGO—Structured settlements can offer significant benefits to defendant companies and claimants in many situations, but an emerging "gray market" might cause Congress to rethink the settlements' favorable tax treatment.

"There are a growing number of companies that started out their lives buying lottery earnings," Randy Dyer, executive vp of the Washington-based National Structured Settlement Trade Assn. said last month in Chicago during REBEX '97, the annual Risk & Employee Benefits Exposition sponsored by the Chicago, Northeastern Illinois and Wisconsin chapters of the Risk & Insurance Management Society Inc.

"These same companies have now discovered the wonderful world of structured settlements, and these companies are now advertising and attempting to buy structured settlements from people," Mr. Dyer said.

Mr. Dyer noted that the federal tax code clearly recognizes periodic payments as a tax-excluded means of making settlements

because Congress recognized the social value of structured settlements.

But current tax law also specifies that structured settlements can't be encumbered or accelerated, he noted, adding that legislation stemming from companies' efforts to buy the settlements already has emerged on the state level.

An Illinois law enacted last year prohibits anyone from selling a stream of payments from a structured settlement without the approval of the judge who originally approved the settlement, Mr. Dyer said.

Structured settlements enjoy support from attorneys for plaintiffs and defendants, Mr. Dyer noted. "They're the one place where there's a truce in the tort wars because both sides generally agree on this," he said.

Detailing just how structured settlements could be used, Joseph E. Gargan, a senior vp with Settlement Planning Associates in Washington, explained that a structured settlement is a voluntary agreement between the parties under which the injured victim receives damages in the form of a stream of periodic payments vs. a single lump sum.

"Really, what a structured settlement is, See **REBEX** on page 12

# HIV/AIDS education has declined: Report

## Kodak says management support required

By SALLY ROBERTS

Fewer employers are offering HIV/AIDS education and training to their employees today than five years ago, according to a new report.

In 1992, 28% of the private sector employees responding to a similar report said they had been offered HIV/AIDS education by their employers over the past 12 months. In 1997, however, only 18% of the employees answered accordingly.

Furthermore, the report, released by the National AIDS Fund and the National Assn. of Manufacturers last week, reveals that 29% of the 2,000 polled employees believe an HIV-infected employee would be fired or placed on disability by their employers at the first sign of illness. An additional 32% said they think their employers would restrict an HIV- or AIDS-infected employee's benefits.

Sharon Canner, vp-entitlements policy for NAM in Washington, attributes the decline in workplace AIDS education programs to the "changing nature of the epidemic."

With the success of new treatments and the recent downturn in the number of AIDS-related deaths in certain demo-

graphic areas, people lack a feeling of urgency, which leads employers to believe, "My gosh, maybe we don't need to do as much as before," Ms. Canner said.

This perception is "absolutely wrong," she said. "Complacency is foolhardy. This is the time to be educating, and the workplace is the best place to educate."

Pat Alekson, unit director for preventive services at Eastman Kodak Co. in Rochester, N.Y., agrees.

"We feel (AIDS/HIV education) is even more important now because people are returning to the workplace either affected or infected," she said.

The workforce needs to understand what is fact and what is fiction with the disease, and employees need to share that with their families.

Kodak has been educating its employees about HIV and AIDS since the mid-1980s, Ms. Alekson said. The company constantly updates its workbooks, videos and seminars, available to all its employees. The human resources and medical staff all have received corporate training, as have all managers and supervisors in the United States and abroad. A toll-free telephone line allows employees to find out where resources See **AIDS** on page 39



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# MBIA, CapMAC discuss possible merger

## Transaction could be valued at \$510 million

NEW YORK—Financial guarantee insurers MBIA Inc. and CapMAC Holdings Inc. are discussing a possible merger.

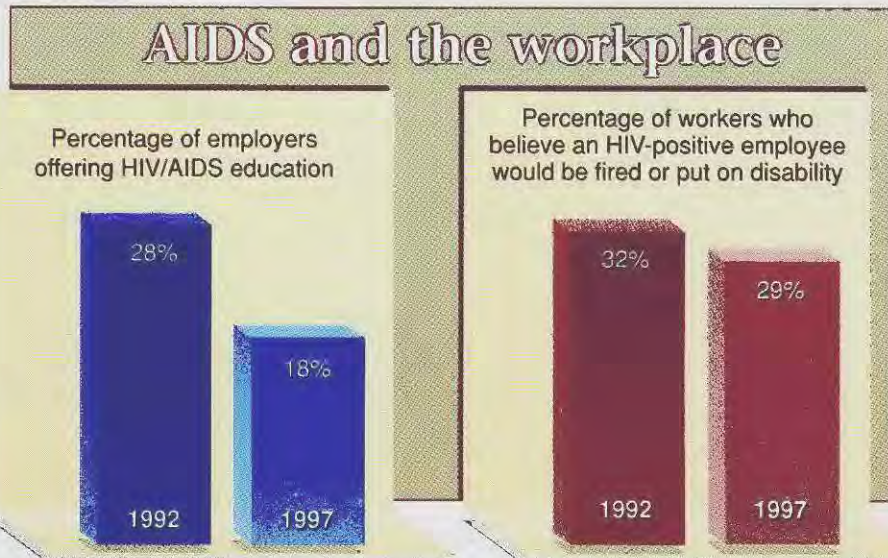
Armonk, N.Y.-based MBIA, through subsidiary MBIA Insurance Corp., is the nation's largest municipal bond insurer. The subsidiaries of New York-based CapMAC focus on structured finance, including underwriting financial guarantee insurance for asset-backed securities.

Based on CapMAC's closing stock price on Thursday and its outstanding shares, a deal between the two insurers could be valued at about \$510 million. As of June 30, MBIA had \$2.54 billion in capital, while CapMAC had \$272 million, according to rating agency Standard & Poor's Corp. A CapMAC spokeswoman said there is no time frame as

The MBIA-CapMAC talks follow the announcement that financial guarantee insurer Connie Lee Insurance Co. will be acquired by a subsidiary of New York-based Ambac Assurance Corp. (BI, Oct. 27; Oct. 13).

Richard P. Smith, an S&P senior vp, noted that CapMAC holds about a 4% share of the financial guarantee market, while Connie Lee's market share totaled about 2%. "We don't really view this as substantive consolidation in the industry," he said.

He noted also that because CapMAC addresses a segment of the market in which other bond insurers rarely participate, a merger with MBIA would not necessarily mean the removal of a competitor from the market.



Source: National AIDS Fund Survey on AIDS in the Workplace 1992 & 1997

GRAPHIC BY ADAM DO

# Anthem

Continued from page 2

request of state legislators (BI, June 3, 1996).

According to the complaint, filed in Franklin Circuit Court in Frankfort, Ky., the attorney general claims the Kentucky Blues plan's roots are as a charitable trust incorporated in 1938 for the "purpose of promoting public health for the benefit of all mankind." He claims all of BC/BS of Kentucky's assets were held in a charitable trust until 1993 when, he alleges, the assets were illegally converted by Anthem to its own for-profit use. In the process of completing the deal, the suit alleges Anthem made "unfair, false, misleading and deceptive representations and omissions."

Anthem refutes the claims. BC/BS of Kentucky "is not and

never has been a charity," Anthem said in a statement.

While the Blues plan is a not-for-profit company, not all non-profits are charities. The company has never met the qualifications of a charity, it said.

Furthermore, Anthem states the Blues plan merged with a mutual company, not a for-profit company, so the assets that were developed by the Blues plan are working on behalf of all Anthem BC/BS members and not outside investors.

In addition to Kentucky, Anthem also operates Blues plans in Indiana, Ohio and Connecticut.

Attorneys general in Connecticut and Ohio are said to be considering similar actions related to charitable assets.

Anthem and BC/BS of New Jersey halted their merger agreement last year due to regulatory delays and litigation related to the charitable assets issue. **BI**

# Superfund

Continued from page 1

1993 but has repeatedly failed. Insurers and risk managers have sought throughout the legislative process to get a bill that would provide the broadest possible relief from retroactive liability for cleaning up Superfund sites where legal dumping took place before CERCLA took effect in late 1980.

The Boehlert measure has drawn considerable support from insurance groups and business groups even though it does not provide as much liability relief as they had sought. Such disparate groups as the Chemical Manufacturers Assn., the National Automobile Dealers Assn. and the National Federation of Independent Business are supporting Rep. Boehlert's approach.

"It doesn't go as far as we wanted it to, but we're ecstatic to see some-

thing moving at last," said John Arlington, assistant vp of the American Insurance Assn. in Washington.

Peter Lefkin, senior vp-government affairs in the Washington office of Fireman's Fund Insurance Co., said "All of us would prefer a much broader measure. Nonetheless, Rep. Boehlert is a realist, and we have to support his decision that this is probably the best we can hope for. As in any legislation, we cannot let the perfect be the enemy of the good." He said the Boehlert bill would "rid the system of a large number of potential litigants."

"It reduces the parameters of the chaos that afflicts the current system," Mr. Lefkin said.

"I think it's a shot in the arm for an otherwise lackadaisical legislative process. It's still a step in the right direction despite the lack of comprehensive liability reform," said Francis D. Bouchard, director-federal affairs for the Reinsurance

Assn. of America in Washington.

The New York-based Risk & Insurance Management Society Inc., while welcoming parts of the measure, questions the wisdom of exempting small businesses from liability, noted David R. Haight, vp-environmental for RIMS and director-risk management for CF Industries in Long Grove, Ill.

"Basically, Superfund doesn't work and is an impediment to getting things done. In the past, there have been attempts to exclude classes of people. While there are many good things in the bill they're trying to take the class exemption approach, which really doesn't fix Superfund," said Mr. Haight.

The administration, however, thinks the bill goes several steps too far.

While Ms. Browner praised the measure as a "good-faith effort" during testimony before the House Transportation and Infrastructure Committee's Subcommittee on Water Resources and Environment, which Rep. Boehlert chairs, she said the administration could not support the bill as written.

Of particular concern to the EPA are the liability provisions, which Ms. Browner said could shift the burden of cleanup costs from polluters to taxpayers. She said the liability exemptions should be based on the ability to pay, not on the number of employees on a company's payroll. She also criticized using profit margins as a factor in determining a company's liability, saying there are a number of ways to calculate a profit margin.

Ms. Browner also complained that the Boehlert bill does not provide adequate safeguards for ground water quality, would promote more—rather than less—litigation over cleanup responsibilities, and would permit states to limit the EPA's ability to enforce cleanup standards.

But reform advocates do not take Ms. Browner's complaints as a kiss of death for the bill's chances.

"I look at this, everybody is talking about the same kind of structure of reform; now we seem to be debating the details," said AIA's Mr. Arlington. He noted, for example, that Ms. Browner agreed that small businesses deserve protection under Superfund, although she and Rep. Boehlert disagreed over exactly what constitutes a small business.

"That suggests to me that there's a compromise in here somewhere," said Mr. Arlington.

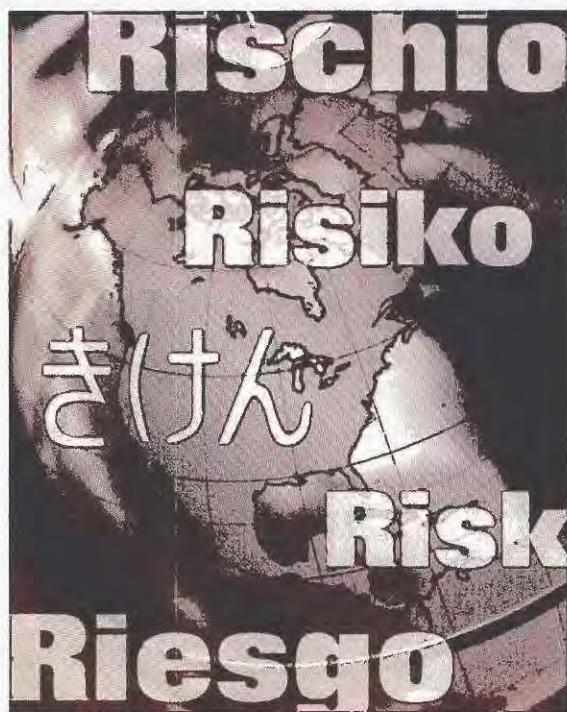
"It is a consensus vehicle that should politically have enough support on the Democratic side to make its passage clear and decisive on the House and Senate floors. The problem with this bill, as in any piece of legislation, is whether or not the Clinton administration really wants to address the structural problems of Superfund or continue their electioneering for another three years. If the latter is true, nothing will satisfy them," said Mr. Lefkin.

The Boehlert bill is only one of several Superfund reform measures likely to come into play during the current Congress. Reps. James Barcia, D-Mich., and Calvin Dooley, D-Calif., introduced a measure that resembles the Boehlert bill in many respects but that defines a small business as one with fewer than 30 employees. Other Democrats may follow suit with their own measures in coming weeks. Rep. Michael Oxley, R-Ohio, also is considering introducing his own measure. And Senate Republican and Democratic negotiators are continuing to discuss the Senate GOP leadership's Superfund bill, S.8, with Ms. Browner. **BI**

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## Back to work already?

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WHETHER IT HAPPENED AT WORK OR AT HOME.  
WHETHER THE RECOVERY PERIOD IS SHORT OR LONG  
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ASSESSMENT OF THE DISABILITY, CLEAR AND IMMEDIATE  
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MANAGEMENT AND RETURN-TO-WORK PLANNING. THE  
RESULT IS A HEALTHIER EMPLOYEE, A FASTER RETURN, A  
MORE PROFITABLE COMPANY. WAUSAU CAREMANAGED  
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# University, insurer to build center

By ROBERT KAZEL

SCHAUMBURG, Ill.—A university and an insurance company are joining forces to build a child care center both can use.

Roosevelt University's satellite campus and Zurich-American Insurance Group, situated on adjacent property in Schaumburg, Ill., last month broke ground for a 10,000-square-foot child day and evening care center that will be able to serve up to 124 youngsters from age 6 weeks to 6 years old.

The decision to build the center at the school's suburban Schaumburg campus, which will serve university students and staff as well as Zurich workers, has its roots in a longstanding relationship between the school and its

corporate neighbor, said Theodore Gross, Roosevelt president. In 1990, Roosevelt faculty began teaching classes at Zurich in Roosevelt's new Partners In Corporate Education program.

This program was designed to make it easier for Zurich employees to work on their degrees by taking some classes at the work-site.

Zurich's financial contribution to the child care center will amount to more than \$1 million, said Mr. Gross. Roosevelt University is donating the land for the center.

\* These are two private institu-

## Benefit Beat

tions with no taxpayer subsidy from the state or federal government," Mr. Gross said.

The child care center is scheduled to open in the spring of 1998 and will be built as an addition to a classroom building.

Those who use it will pay a moderate fee, Mr. Gross said. It also will be used as a laboratory for the university's College of Education and psychology department.

Bright Horizons, a national child care management company based in Cambridge, Mass., will run the facility and receive all fees, Mr. Gross said.

Seventy percent of the spaces in the center have been slotted for Zurich and the remainder for school staff and students. It is expected that the center will be used by children of Zurich workers primarily during the day and Roosevelt students and staff at night, because the school mainly offers evening classes.

## Dental PPOs gain favor

Taking a new middle ground, employers are gradually adopting more dental preferred provider organizations, although dental indemnity plans and dental health maintenance organizations are still more prevalent.

Over the past two years, the number of plan sponsors that

have moved to dental PPOs, which offer an optional list of approved dentists for discounted service, has risen between 4% and 5%, according to Cor van der Wal, a principal in the San Jose, Calif., office of benefit consulting firm William M. Mercer Inc.

Mr. van der Wal, Mercer's national director of dental consulting, found in a survey of 482 employers that some employers apparently have turned against dental HMOs as being too restrictive or suffering from a lack of employee access.

"Employees just can't get appointments," said Kathy Smithwick, a special consultant at Mercer.

According to the survey, 57% of companies reported offering only a traditional unmanaged plan. Nine percent offered a preferred provider organization only, 2% offered a dental HMO only, and 7% offered both a traditional plan and a PPO.

Additionally, 19% of employers offered both a traditional plan and a dental HMO and 6% offered either a PPO and a dental HMO or all choices.

The level of satisfaction with dental managed care is up an impressive 15%, Mr. van der Wal said, compared with two years ago.

More companies are considering moving to managed care plans than before, though few say it is likely they will do so within two years.

The survey found that only about four in 10 respondents were able to estimate how much money they had saved through dental managed care programs. Those who knew reported average savings of 14%, with a median of 10%. But 14% reported no savings.

Most employers reported being very or somewhat satisfied with dental managed care. But 23% are only slightly satisfied, and 6% are dissatisfied.

Free single copies of the report, "Mercer's 1997 Fax Facts Dental Benefits Survey," may be ordered by calling Sarah Markfield, 212-345-7584.

## VOA common benefits

NEW YORK—The Volunteers of America, a leading national charity with 9,000 employees, wants to bring its 51 large and small independent affiliates under one benefit plan.

Individual units of VOA always have dealt with insurance by themselves. Now, benefit consultant Chernoff Diamond & Co. of Albertson, N.Y., has been hired to create a common benefit program for all of VOA, including life insurance, long-term disability, medical benefits and dental coverage.

The whole process, according to Chernoff partner Kevin Quinn, is certain to save coverage costs in the future due to economies of scale and more competitive bidding.

Chernoff is creating a database of health information it will use in negotiating medical insurance. The benefit consulting firm intends to invite both HMOs and POS programs to the table, Mr. Quinn said.

"Hopefully what we're trying to do is increase the level of benefits to employees on a cost-effective basis," Mr. Quinn said.

It will take until the first quarter of 1998 for common life and long-term disability coverages to be put in place. Medical and dental coverage will follow in the second quarter of 1998. **BI**



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## Opinions

## Bullish on 401(k) education

IF THERE EVER WAS any doubt about the value of educating employees about their 401(k) savings plan options, this week's turmoil in the stock market should forever quash those doubts.

When the stock market plunged by more than 500 points last Monday, it would not have been surprising if a high percentage of the roughly 25 million participants in 401(k) plans had panicked and moved out of the equities market, an action that would have exacerbated the fall in stock prices.

But that didn't happen. By the close of the market Tuesday, investments in equities funds held by 401(k) plan participants probably showed a slight increase compared with the start of the week, benefit consultants and employers said.

At the same time, benefit managers said they were struck by the virtual absence of calls from employees concerned about their 401(k) plan investments. Reason and calm—amid an ultra-volatile market—were the order of the day for plan participants.

This calm employee response to a turbulent stock market is not an accident. It is a direct response, to the multiyear communications campaigns employers across the country have been conducting to educate employees about their 401(k) plans. A message employers have been trying to deliver during those campaigns is that employees should think of their 401(k) plans as long-term savings vehicles.

Certainly, implicit in that message is that trying to chase the equities market—constantly jumping in and out—makes little sense and in fact can be financially ill-advised if your savings plan objectives stretch out over many years.

The fact that 401(k) plan participants did not flee the equities market is an indication the message is being heard.

We also think the revolution in benefit administration technology played a key role in preventing panic. It was unimaginable a few years ago that employees could retrieve information or take care of certain savings plan functions with the ease of a telephone call.



Through voice-response systems and benefit administration centers run by benefit consultants and other vendors, 401(k) plan participants can get up-to-date information about the values of their accounts and seamlessly change from one type of investment to another.

Call volumes to voice response systems and call centers surged last week. In some cases, volumes were double and triple normal volumes. But a good percentage of calls by participants were simply to find out account balances and to get assurance that if they wanted to change investments, they could do so.

Just knowing they could get information quickly and move their investments easily had to have had a calming influence.

With probably more market turbulence ahead, one thing that employers can do is give employees more investment choices. The risk of putting all of one's eggs in one basket is much reduced when savings plan investments are spread out among many options.

## Letters

## Reinsurers' celebration smaller than it looked

To the editor: The Sept. 22 article, "Mission Veterans Fete End of Reinsurance Battle" sadly gives the impression that the group of reinsurers involved were contesting cessions from the entire Mission organization, whereas the subject lawsuit related only to the business ceded to them as pool members of Pacific Reinsurance Management Corp., an MGA that was one of many subsidiaries of Mission Insurance Group Inc.

Indeed, a number of these "veterans" have settled their obligations to other Mission entities at 100 cents on the dollar and all of them have contributed to a settlement amount of approximately \$43 million arising from the legal proceedings described in your article.

In addition, those who have followed the fortunes of the Mission estates will recall that in an earlier dispute with another, similar group of PRMC pool members—Abeille-Paix et al.—the majority of an arbitration panel of reinsurance professionals found no evidence of fraud on the part of PRMC and ordered the payment of virtually all of the recoverables due as a result of the pool members' participations in PRMC business.

The recent ruling obtained by the "veterans" who celebrated in Monte Carlo was given by a referral panel of retired judges who, at the outset, admitted to little or no knowledge of the reinsurance business.

R. Gaylord Smith, counsel to these "veterans," is reported as saying that Mission has collected more than \$1 billion as a result of "bullying" by the Mission liquidator's lawyers. It is true that, to date, the Mission

liquidator has marshaled a total amount of assets in excess of \$1.4 billion, the majority of which arises from reinsurance recoverables. However, most of the reinsurance collections have emanated from mutual agreements negotiated between reinsurers and the Mission liquidator's staff as respect contracts that have nothing whatever to do with the PRMC operation.

At Mission, we say that reinsurers that would rather not pay will serve on the ceding company a list of allegations that appear in page one of an imaginary industry book-

let entitled, "The Reinsurers' Handy Guide to Contract Rescission."

Your picture of the group of "veterans" gathered in Monte Carlo clearly shows their happiness that, this time, it worked. For an earlier group of PRMC pool members, it did not.

**Geoffrey A. Nicholls**  
Special Deputy  
Insurance Commissioner  
Chief Executive Officer  
Mission Insurance Cos.' Trusts  
Los Angeles

## Regulation costs justify RRG fees

To the editor: Your bias with respect to risk retention groups was exemplified again in your Oct. 6 opinion, "Averting Death by 1,000 Fees."

It is obvious that little research exists behind such opinions. In fact, risk retention groups continue to demand a disproportionate amount of state regulators' attention on matters of financial solvency. While there are a number of well-managed RRGs operating with sufficient capital, there is an even larger group that requires close scrutiny from regulators not only because of solvency concerns but also the added discomfort of regulators knowing that RRGs provide no guaranty fund protection for their residents, who may become RRG claimants.

It is appropriate to think of RRGs as loose confederations of insureds with similar risks who have entered into joint and

several liability relationships. Those relationships are only as strong as their weakest links, and in the current competitive marketplace, where traditional insurers are cherry-picking the better risks out of RRGs, the solvency concerns are only aggravated.

It would be easy for state regulators to look the other way and blame the federal government every time an RRG failed, but it would not be the responsible thing to do. State regulators have valid added concerns with out-of-state RRGs that do business in their jurisdictions, and to address those concerns costs money.

Your editorial makes it appear that the regulatory process imposes fees for punitive purposes rather than to recover the higher costs associated with RRGs.

**Robert C. Quigley**  
Quigley & Associates  
Hatboro, Pa.

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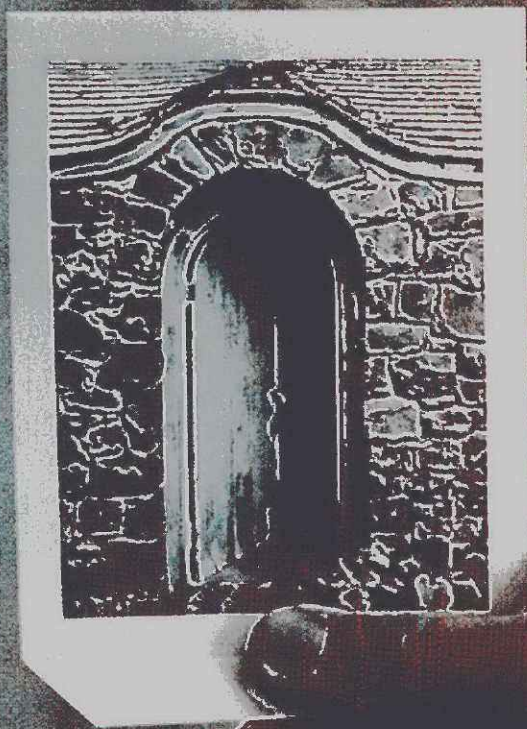
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# REBEX

Continued from page 3

is anything but a lump-sum cash payment," he said.

Among the advantages are that payments can be scheduled for any length of time—even for a claimant's lifetime, and can be paid in a variety of ways, such as monthly, quarterly or on a joint-life basis.

Payments are structured to meet the future financial needs of the claimant, such as lost wages, medical needs, college funds or mortgage payments. "They can be matched to future financial needs," Mr. Gargan said.

The reasons a company should establish a comprehensive structured settlement program are that it helps to negotiate better settlements, it reduces legal and financial liabilities, and a structured settlement professional can provide a wide range of services and expertise, Mr. Gargan said.

But, "most defendants don't establish a structured settlement program," he noted. "They allow claim reps to select a structured settlement broker that they're going to use."

Mr. Gargan noted that what can distinguish structured settlement brokers is the level of service and added value they can provide.

Among other things, they can help establish a structured settlement policy with the client company's senior management, conduct file reviews, train claims people on how to use structured settlements, provide life care plans, economic cost analysis and wage-loss analysis, he said.

A structured settlement broker also will attend defense meetings and settlement conferences, provide administrative and legal support and report on the status and success of structured settlements they've helped arrange.

The last element is critical, Mr. Gargan suggested. "If you're putting together a program, you want to know how that program's working," he said. "You want to know where you stand, if you are saving money."

The actual cost savings a defendant company can gain through the use of structured settlements

comes "through the process," Mr. Gargan said.

A defendant company needs to initiate discussions early, he suggested. It also should divide the larger demand into its smaller components, addressing each separately and focus on net income rather than gross.

It also should address the claimant's actual needs rather than perceived wants. "If somebody says they want to go to Disney World every year, well, they wouldn't have gone to Disney World every year prior to getting hit by the bus," Mr. Gargan said. The defendant company should continuously make good-faith structured offers that reflect those identified needs.

Done early in the process, structured settlements can reduce legal costs in several ways, generating savings "on both sides of the fence," Mr. Gargan said, reducing

the number of hours billed by the defense counsel and the legal expenses the plaintiff will seek to recover.

And, because legal expenses escalate dramatically as trial nears,

**Structured settlements can reduce legal costs, generating savings 'on both sides of the fence,' says Joseph E. Gargan.**

additional money is saved by initiating serious discussions early in the process.

Structured settlement programs need broad corporate support, Mr. Gargan said, with senior management defining the program and setting goals, selecting the fund-

ing vehicle, providing financial due diligence and continuously monitoring the program's results.

Structured settlements can make sense to both sides in the process. The most notable advantage that structured settlements offer claimants is that periodic payments are received free of federal income taxes. They also reduce the claimant's chances of squandering or mismanaging the money or falling victim to unscrupulous or unqualified investment advisers.

Among the cases for which structured settlements are ideally suited are temporary or permanent disabilities, guardianship cases, wrongful death cases or severe injury cases, especially those with long-term needs for medical care, living expenses and support of a family.

Structured settlements also could be used in some property

loss cases, particularly to satisfy cases involving groups of homeowners seeking reimbursement for construction defects, Mr. Gargan said, as well as in environmental and pollution liability cases.

"Whenever there's a future need for payments, usually a structured settlement will work," he said.

Federal law does provide that the defendant may transfer the cost of future damage payments to a third party by means of a "qualified assignment" to a financially secure institution. Such an assignment provides the claimant with security that future payments will be made.

To qualify, the assignment must meet certain provisions, including that the payments are fixed and determinable and cannot be accelerated, deferred, increased, decreased or otherwise changed after agreement is reached. **BI**



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# Putting risk transfer provisions in writing

## Contract law continues to offer opportunity to reduce liability, attorney says

By **RODD ZOLKOS**

CHICAGO—Although the law has changed over the years, "the old contract doctrine still survives," according to one defense attorney, and with it considerable contractual opportunities to transfer risk.

Properly used, those contractual provisions are effective means of transferring risk, said Patrick W. Brennan, a partner with the Crivello, Carlson, Mentkowski & Steeves S.C. law firm in Milwaukee.

If properly written, courts will uphold those provisions, Mr. Brennan said.



He discussed various aspects of risk transfer devices last month in Chicago at REBEX '97, the annual Risk & Employee Benefits Exposition sponsored by the Chicago, Northeastern Illinois and Wisconsin chapters of the Risk & Insurance Management Society Inc.

Generally, contractual risk transfer provisions can be broken into two groups: protective "risk deflection devices" and risk transfer devices that actually shift the obligation to another party, Mr.

Brennan noted.

Risk deflection devices include exculpatory clauses, which essentially bar a party's right to sue for negligent behavior; disclaimers, which in effect say "Don't rely on anything I've said or agreed to do," by putting the other party on notice of limited responsibility; waivers, which are similar to exculpatory clauses and are an explicit agreement in advance not to bring claim or suit; and limitations of liability, which basically say "You can sue me, but only for . . ." Mr. Brennan said.

Limitation-of-liability provisions essentially restrict the kinds of damages that can be obtained

or specify that only certain degrees of negligence will be considered actionable, Mr. Brennan said.

One reason courts allow limitation-of-liability provisions is that the provisions make clear who's responsible for providing insurance.

Indemnity and hold-harmless agreements fall into the risk transferring device group.

"The classical definition of these is that there's a complete shift of liability," Mr. Brennan said. There are, however, hybrid agreements that might provide for only partial transfer of liability, he said.

"The indemnity agreements that I've seen are most dangerous when

they come on the back of a document and nobody's seen it," Mr. Brennan said. "They'll still be upheld in many cases."

"Indemnity agreements should be in writing one way or another," Mr. Brennan said. He noted, however, that "negligent vs. intentional behavior can lead to indemnity as well," and indemnity has been allowed in a case involving one co-defendant who was merely negligent vs. the other who was engaged in intentional behavior.

"Don't stop thinking about indemnity when there isn't a contract," Mr. Brennan said.

"Probably the hardest cases that I see are those where you seek indemnity for your own negligence," he said. Indemnity can be obtained in even those cases, however, the attorney said. "Even though it's not favored, it will be upheld if there is sufficient indication that this indeed is the parties' agreement."

In order to trigger indemnity, the best thing a company can do is send the indemnifying party a timely letter that is clear and precise, providing full information about the occurrence, Mr. Brennan said.

The letter should make an unequivocal demand to defend and offer to surrender control of the defense to the indemnifying party.

In making a case for indemnity in court, companies should "be prepared to show that you acted in a way that is consistent with the argument you want to make," Mr. Brennan advised.

In drafting the contract, anyone thinking they might later have to make that risk transfer case in court needs to consider several factors.

One key is whether the contract is contrary to public policy. "If the contract smacks of unfairness, the courts are going to find a way to say public policy prohibits this," Mr. Brennan said.

Of course, if the agreement is against state law, it will not be upheld. And ambiguous contracts will be interpreted against the drafter, Mr. Brennan said.

## REBEX meeting draws 600 to Chicago

CHICAGO—REBEX '97, the annual Risk & Employee Benefits Exposition sponsored by the Chicago, Northeastern Illinois and Wisconsin chapters of the Risk & Insurance Management Society Inc., drew about 600 attendees to Chicago's Palmer House Hilton Oct. 21 and 22.

REBEX '97 attendees were able to select from more than 30 different concurrent sessions during the two-day conference.

In addition, the conference gave them the opportunity to visit more than 50 exhibitors in the conference's exhibit hall.

REBEX '98 is scheduled for Nov. 17-18, 1998, at the Palmer House Hilton in Chicago.

For more information, call 847-480-9712.



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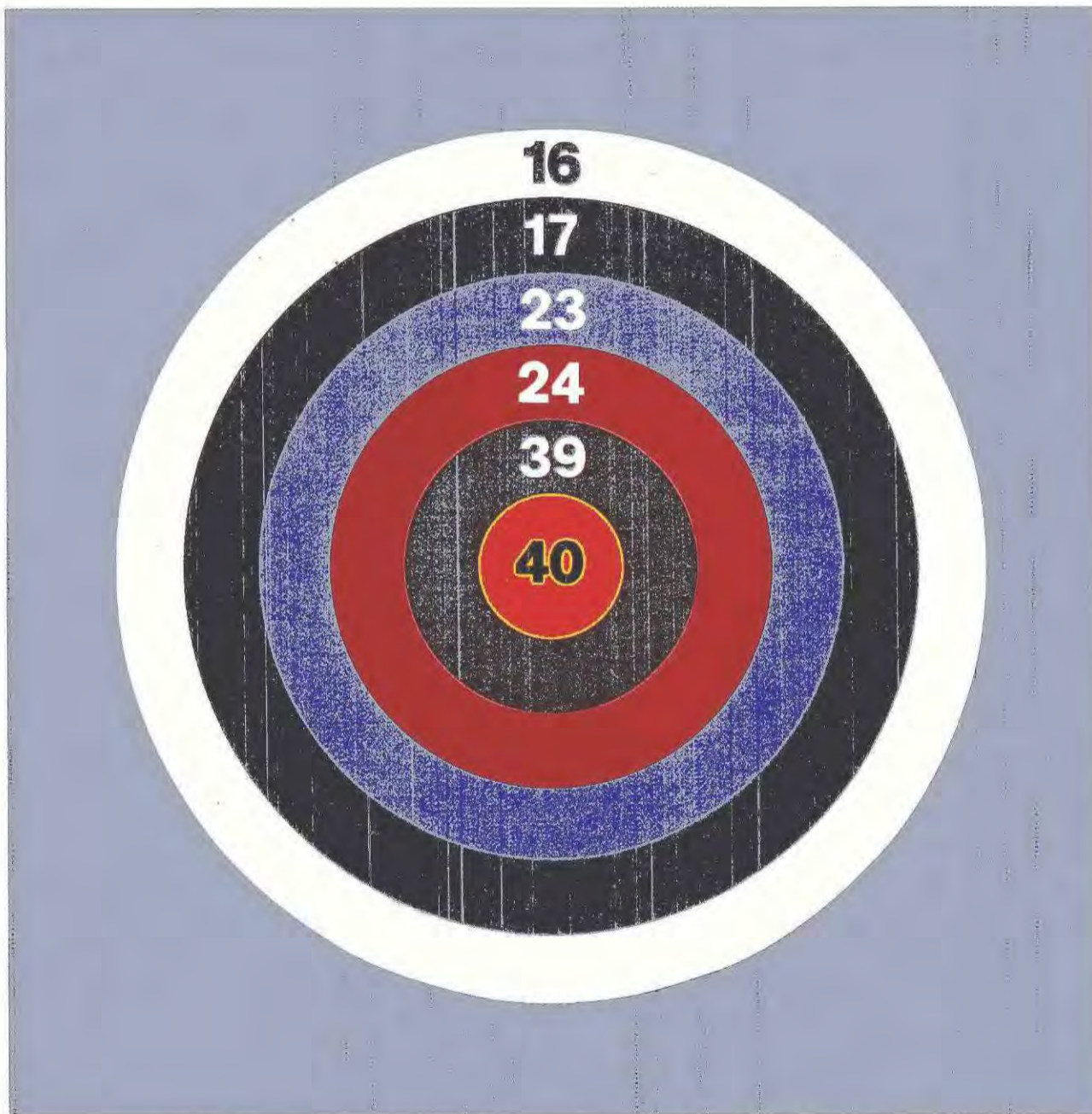
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# Claims

Continued from page 3

were particularly struck by a log-jam of low-level claims that take a disproportionate amount of time to resolve.

"So our main policy recommendation, or the premier one, is that we begin to focus on these low-rated claims differently than we focus on high-rated major claims," she said last week at *Business Insurance's* Fifth Annual Workers Compensation Conference in Santa Monica. "They are clogging up the system. We are told that claims adjusters and attorneys are cutting back on caseloads because claims have gotten so complicated. Why we are treating these low-rated claims with this complex process is beyond RAND.

"We are recommending a fast

track for these claims—much like the quick-checkout aisle of a grocery store—that would limit the paperwork and would focus on getting these claims resolved very quickly. They would actually use a different schedule than the main disability rating schedule."

RAND also studied wage loss among disabled workers to see if there is any correlation between lost earnings and benefits paid under the state's disability rating schedule. In that respect, the researchers found the disability rating schedule lacking, so they will recommend it be revised based on a wage-loss study.

In conducting the study, researchers were not able to collect data from self-insured employers because the state does not collect it. Therefore, another recommendation is that the state create a claims database that captures information from self-insurers.

RAND's findings were based on statistical reviews and interviews with employers, workers, insurers and regulators in California's workers compensation system.

## RAND thinks lower-rated workers compensation claims in California should be put on a fast track and handled quickly, says Rachel Kaganoff Stern.

Many of those participants still find the system complicated, adversarial and litigious despite reform efforts.

"Everybody agrees that the system is complicated," Ms. Kaganoff Stern said.

"Basically every stakeholder we talked to thinks that it is worse,

not better, and would gladly go back to pre-reform in terms of structural complexity in workers comp in California. The transaction costs are very high, particu-

larly in comparison to the benefits that are paid in the state," she said.

In discussing workers comp trends in California, Ms. Kaganoff Stern was joined by Edward C. Woodward, president of the California Workers Compensation Institute and John G. Pasqualetto,

president of American Home Assurance Co.'s Specialty Workers Compensation Division in New York.

Mr. Pasqualetto noted that premiums in California have dropped 35% in recent years and that insurer premiums collected in 1996 are comparable to those collected 10 years earlier. Losses have moderated since 1991 and were relatively flat in the post-reform years between 1993 and 1996.

But the stability in claims losses came about because of efforts that focused on the "picking of low-hanging fruit," he said. "The hypothesis that I have going forward is that those losses are going to increase."

From 1992 to 1994, losses decreased steadily, but from 1994 to 1996 the trend reversed.

"That suggests a very negative trend, because what you are seeing is reserves being taken down by carriers for prior years to make their accounting periods look better," Mr. Pasqualetto said. "We are essentially taking some of the fruit from the past and showing it in today's earnings. But the message from that is there isn't a lot left in the cupboard."

Loss evidence also "suggests the industry is having some reserving issues," he added.

At the same time, severity has not been stamped out of the system despite the reforms. "Quite to the contrary, we are seeing an emergence of severity," he said. Added to that, frequency has increased during the past two quarters.

"So there is some trouble in River City, although employers still enjoy a pretty good deal," Mr. Pasqualetto said.

Many cost factors in the system are being driven by factors other than the legislative reforms that began in 1993, Mr. Woodward said. Those factors include California's economic state, the aging of the workforce and an increase in carpal tunnel claims.

"So the trend that I see is probably increasing costs for the next year or two," he said. "Although (insured) employers are happy today, I would say that there is certainly trouble ahead in the next two years." **BI**

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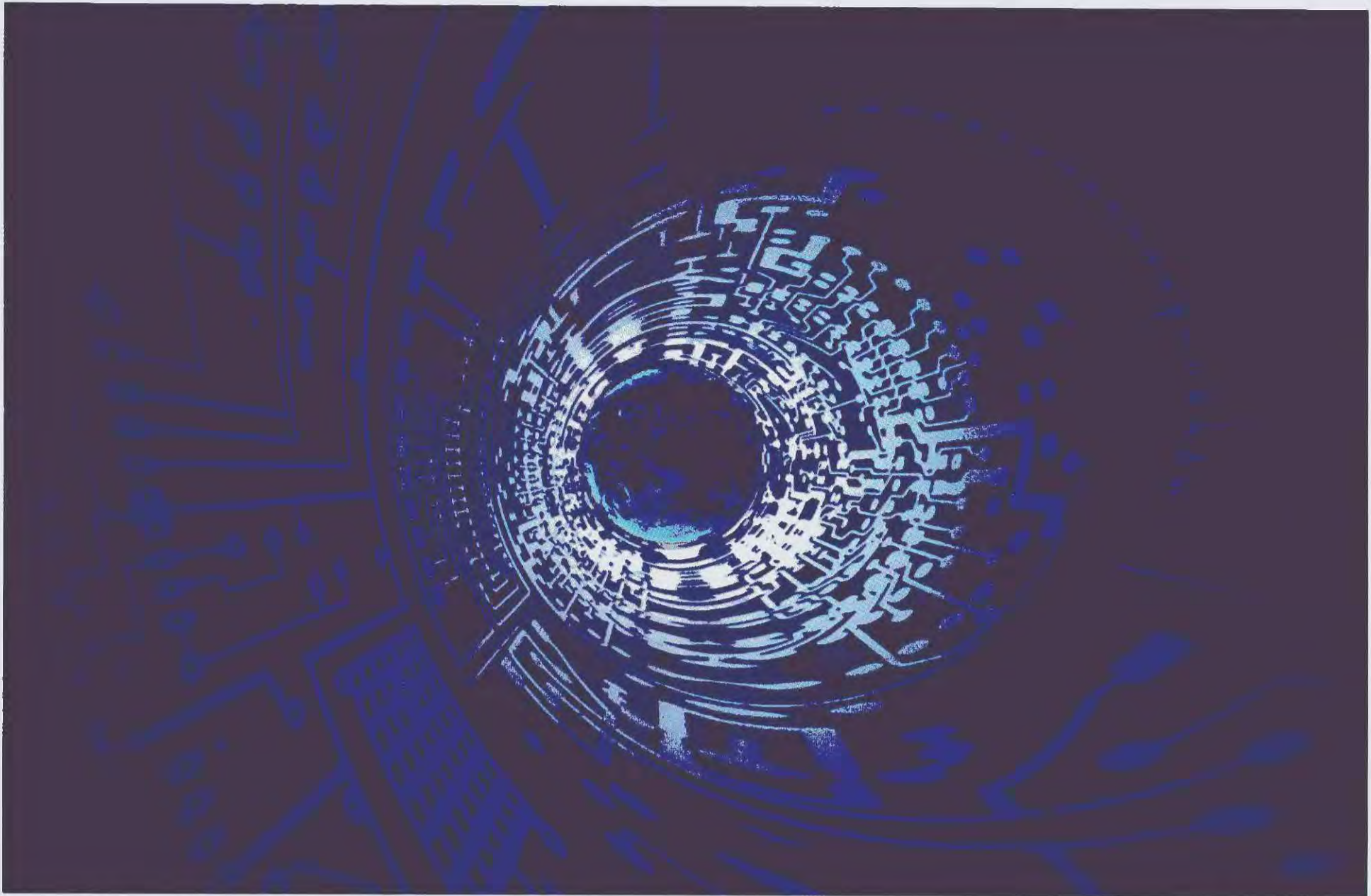
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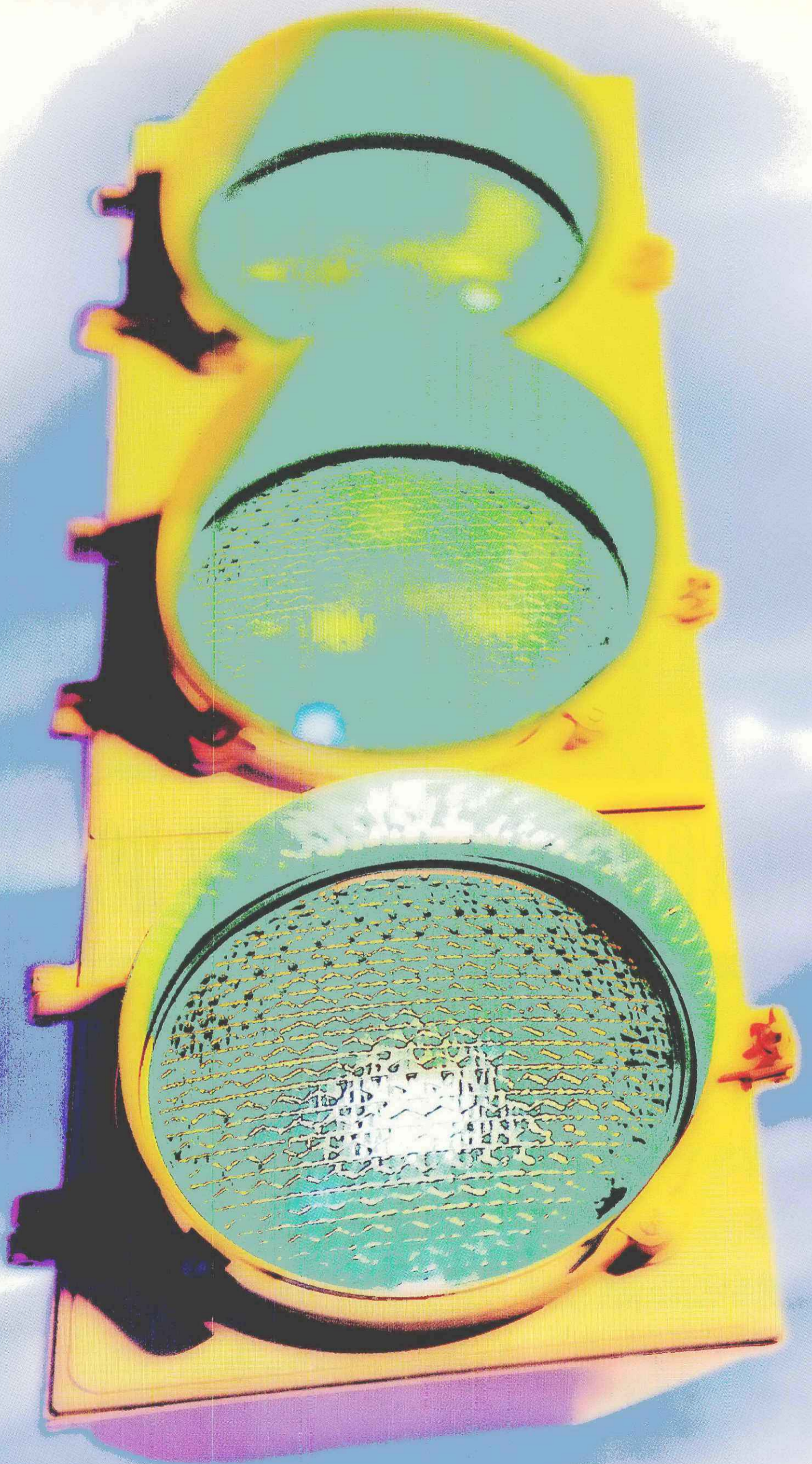
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# Keynote

Continued from page 3

approach is increasing, especially because the aging of baby boomers will generate a 37% increase in disability costs over the next 10 years, according to Social Security Administration statistics that Mr. Davis cited.

Wausau, a unit of Nationwide Group, provides integrated services for about 75 clients by integrating service for all types of disability programs it offers and using a coordinated team approach from loss control through disability management.

In addition, the common goal of returning ill or injured workers to the job is fostered by single-source reporting of all claims, common data collection and tracking, as well as open communication among the worker, employer, case manager and care giver.

However, Mr. Davis said implementing an effective integrated program first requires overcoming eight myths within the typical organization:

- Workers comp is not 'an employee benefit.'

"Rather than viewing workers comp as merely a statutory requirement, employers and employees should view workers comp as part of a continuum of

integrated benefits which promote productivity, profitability and improve the health status of employees," Mr. Davis said.

Such a mind-set sends the right signal to the worker and will hopefully motivate the worker to return to work as promptly as possible.

That should minimize the worker's desire to litigate the claim and inspire workers to share this posi-

Disabilities Act would report to one corporate officer," Mr. Davis recommended.

- Workers comp, STD and LTD benefits cannot all be managed by the same person.

A claims examiner with workers comp expertise sometimes is the best person to manage the wage-loss portion of any disability claim.

Such an examiner tends to be

## Workers comp should be viewed 'as part of a continuum of integrated benefits that promote productivity, profitability' and improve employee health, says Dwight E. Davis.

tive story with co-workers, he said.

- Risk managers and human resource managers have "silo mentalities" and can't work together.

"Companies should consider establishing one cost center for all programs that have an impact on employee health. Under this approach, all departments responsible for human resources, risk management, safety, benefits, disability employee health, workers comp, employee assistance programs and the Americans with

"more aggressive and more likely to investigate claims and question disability status," Mr. Davis said.

However, the medical portion of a claim can best be managed by a medical professional.

Both overseers need to work as a team to effectively manage claims, he said.

- A lack of benchmarking data makes it impossible to provide top management with cost/benefit analyses to justify integrated disability programs.

A lack of data has been a problem, though more sophisticated data warehouse software, capable of generating cost/benefit models, is rapidly being developed, he said.

Such data can be important in demonstrating the savings from an integrated disability management program.

Those savings are estimated at 10% to 15% of non-integrated programs.

- The purpose of integrated disability management is only to reduce medical and indemnity costs over the long term.

In reality, savings from integrated disability management far exceed those direct costs, Mr. Davis said.

- Medical treatment is different, depending upon whether the source of the disability is occupational or non-occupational.

Insurers and employers need to send the message to health care providers that aggressive medical care and therapy in the short term is appropriate, regardless of the source of an injury, if it helps a worker return to the job more quickly, he said.

- Managed care increases the number of workdays lost due to injury or illness.

While some employers may think that, integrated disability management makes it possible to combine both high-quality care

and cost containment, which should keep lost workdays to a minimum, he said.

- Integrated disability management is an off-the-shelf product that can be provided by many different insurers.

The program "is not effective as an off-the-shelf product, especially for medium-sized and larger employers who have complex needs. It has to be customized," he said.

In addition, employers need to ask the right questions when choosing integrated disability management providers, Mr. Davis said.

Such programs are available from about 50 providers, half of which began operations within the past 12 months, Mr. Davis said.

According to Mr. Davis, key areas of concern for an employer when assessing a provider should include explanations of how an integrated program will:

- Improve return-to-work results.

- Increase productivity.
- Minimize administrative redundancies.

- Eliminate dual or overlapping coverages.

- Reduce worker confusion.
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# Agent/Broker Topics

A monthly editorial section sent exclusively to agents and brokers

## Putting a stop to E&O



Liability coverage, loss control  
help keep producers in the game

CALLERSTON

# Agents avoid compounding their errors

## E&O prevention and insurance key to avoiding costly repercussions from mistakes

By REGIS COCCIA

**T**o err is human, but for an insurance agent or broker, an error or omission in servicing customers can lead to a costly lawsuit.

Sources of E&O suits vary, but some common causes of policyholder action include failure to procure adequate limits or coverage terms, and failure to notify an insurer or policyholder of a change in coverage

or cancellation of a policy, which could leave a customer without insurance for a loss.

Fortunately, however, agents and brokers have several tools to help combat E&O liability, primarily E&O liability coverage. In addition, loss control measures help to prevent claims from occurring.

A dozen years ago, "a few people" had agents' E&O coverage, said Colletta Kemper, director of industry affairs at the Council of Insurance Agents & Brokers in Washington.

Now, however, "you just don't operate without it any longer."

Agents and brokers "are much more conscious of the issue than they were a few years ago," Ms. Kemper said.

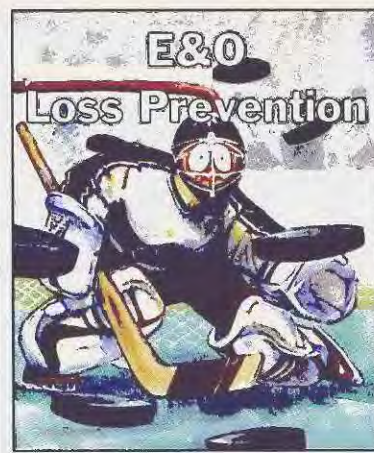
"Ten, 20 years ago, it was a different business," with brokers and clients doing business verbally, she said. "There was a lot less exact science on both sides, between the broker and the risk manager."

Today, more and more agents and brokers are using coverage checklists

and software to track claims and submissions, which help reduce the risk of E&O, Ms. Kemper said.

Keeping track of promises and agreements is not only a good business practice, but it also is crucial to avoiding a lawsuit from a dissatisfied client.

"We push on agents we insure to document everything," said Chuck Brady, director of marketing and underwriting at Cal-Surance Associates Inc. in Orange, Calif., one of the nation's largest writers of agency E&O



coverage. "Without the documentation, you've put yourself in a tough situation to defend. With the documentation there, you're in an easily defensible position," Mr. Brady said.

"Litigation has surpassed baseball as the national pastime," Mr. Brady said. "Most (E&O) claims arise out of differences in expectations," he said. For example, an agent or broker should be specific on what a policy does—and does not—cover, because a client may assume that everything is covered, he advised.

Cal-Surance is putting together a training manual for insurance agents and brokers to prevent errors and omissions. Using 15 years of E&O loss data that the insurer has collected, the manual provides case studies of fictitious events and discusses ways that the losses could have been avoided, Mr. Brady explained.

Mr. Brady noted that competition among casualty insurers over the past few years has been tough, and rates on agents and brokers professional liability coverage are "flat to decreasing."

The good news for agents and brokers is they may select coverage from many sources, including two programs established by the leading industry associations.

Members of the Council of Insurance Agents & Brokers have access to E&O coverage through a Bermuda-based captive, Professional Agencies Reinsurance Ltd.

PAR was formed in 1986 by the Council, Fireman's Fund Insurance Co. and agency network Assurex International in response to the limited availability of liability coverage in the mid-1980s.

Underwritten by Novato, Calif.-based Fireman's Fund, PAR offers up to \$10 million in limits on a claims-made basis. The captive was designed to address the liability risks of large agencies and brokerages, and PAR's shareholders include more than 100 large agencies and their affiliates in the United States and Canada. Loss prevention also is an objective for PAR, which offers a Quality Management Program that helps agents and brokers increase efficiency and reduce their liability exposure.

For information on PAR, contact Demmie Hicks at DBH Consulting in Atlanta, 404-325-1466.

The Independent Insurance Agents of America Inc. in Alexandria, Va., operates an agents' E&O program that is underwritten by Overland Park, Kan.-based Employers Reinsurance Corp. According to

See E&O on page 20D

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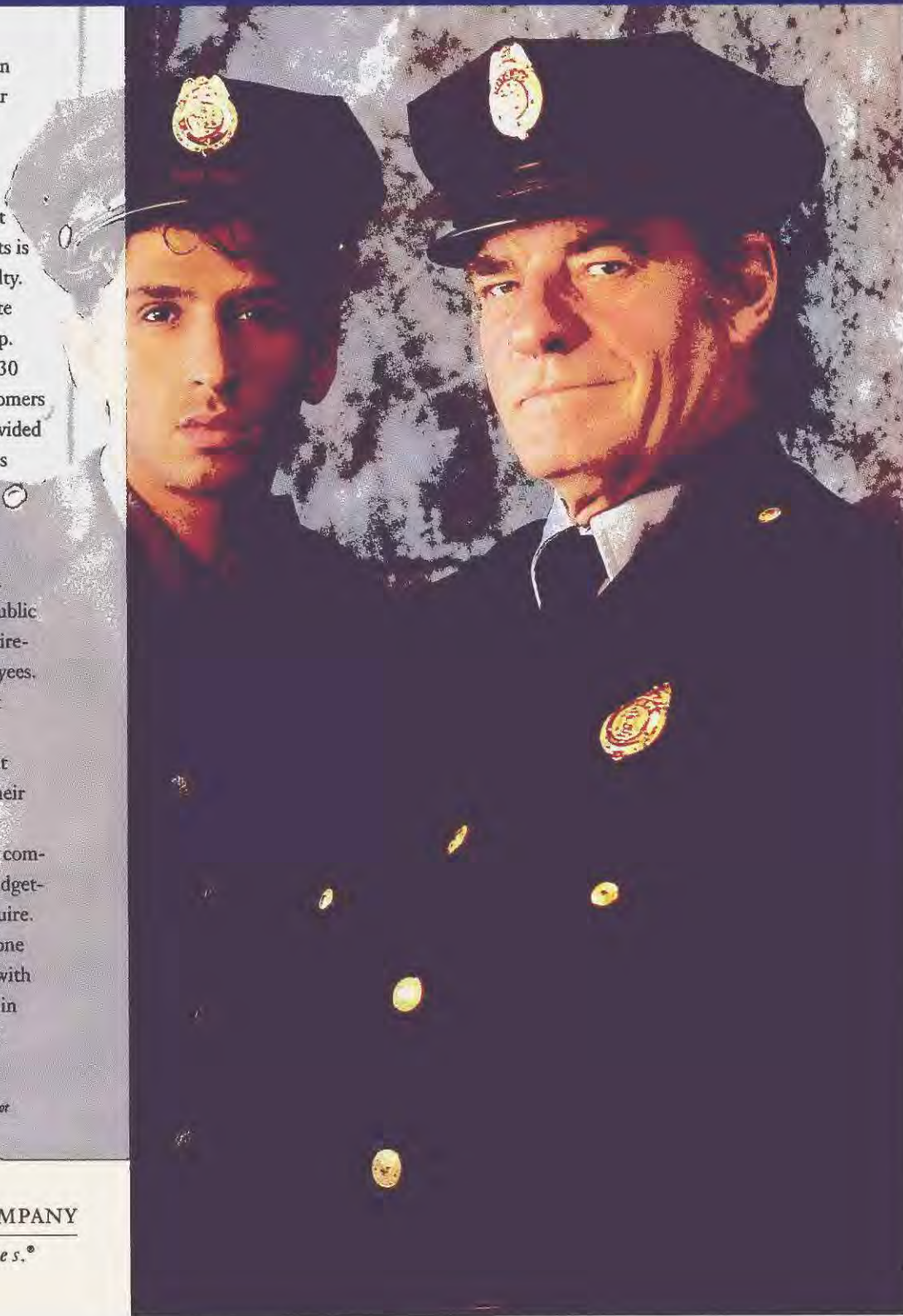
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## Agent/Broker Topics

## E&amp;O

Continued from page 20B

the IIAA, more than 15,000 independent agencies and 49 state agents' associations participate in the program, launched 15 years ago.

The IIAA program covers agents in the event that an insurance company becomes insolvent, leaving an agent's business with an uninsured loss. In addition, the program includes coverage for: prior acts made by the agent, first-dollar defense costs, additional defense costs beyond the policy limits and contractual liability.

Coverage under the IIAA/Employers Re program is written on a claim-made basis, with limits of up to \$10 million and an aggregate deductible of \$50,000.

The IIAA program stresses liability loss prevention and offers several incentives toward that end. Agents who attend loss control seminars offered in conjunction with the program are eligible for a 10% premium discount. Agency audits to help improve operations and correct potential sources of E&O claims also are available, as is a procedural guide outlining steps to reduce the risk of liability.

For more information, contact the IIAA E&O program administrator at 800-221-7917. **BI**

## Claims workshop

The Council of Insurance Agents & Brokers is sponsoring a claims management workshop Nov. 7-8 in Dallas; a focus of the workshop is how to avoid errors and omissions liability.

Among other topics, the workshop will discuss how agents and brokers can audit claims to spot potential E&O problems, develop checklists and identify coverage gaps to prevent making an error or omission.

For more information, contact the Council in Washington at 202-783-4400.

## Getting personal about loss control

Online links let buyers, industry share data

By MICHAEL BRADFORD

Internet technology is making loss control more efficient.

A quickly developing Internet use involves "push technology," which allows users to receive customized information, making it easier for risk managers to get tailored loss in-

formation from insurers, agents and other sources.

Push technology allows Internet users to customize requests for personalized information, such as weather reports for specific areas, sports scores, information on particular types of businesses, stock reports or other specific requests. The information is compiled daily and is available when the user logs on. Internet users need only download or buy a program that will push the information to them

and make their choices.

"You don't have to do anything," explained

Gary A. Nes-

bit, director of loss control services with St. Paul Major Markets, a St. Paul Fire & Marine Insurance Co. unit in Eagan, Minn. The service "finds that information that you requested and pushes it back onto your computer," he said.

Speaking during a seminar at the CPCU Society's annual meeting in Dallas last month, Mr. Nesbit was part of a panel that discussed how the technology can be used to help control losses.

It means insurers, brokers and others can "push" customized loss and safety information to clients on a schedule, he said.

"Say that you're working in loss control, and you're working with a number of clients," Mr. Nesbit suggested. "You can use this technology to customize the loss and safety information that you want to provide to your individual customers."

With a few quick selections to establish the service, risk managers can choose what safety information will be routinely delivered to their desktops.

Users can select from a "menu of safety services that are out there, whether they are material safety data sheets, regulatory updates, product liability information," or other choices, he explained.

Risk managers can know instantly when a site they have selected to push information changes, said Jim Kroviak, managing director of Market Connections, a San Diego company that helps insurers take advantage of electronic commerce technology.

"When the owner of the site goes in and makes updates or adds contents, it will notify you," he pointed out. In some cases, the changes will be automatically downloaded, or the user will be alerted that there are new options to choose from.

See **Loss** on page 20F

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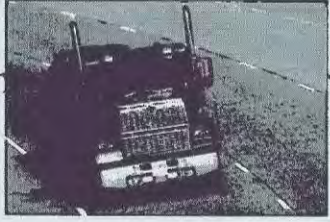
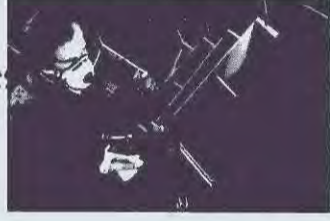
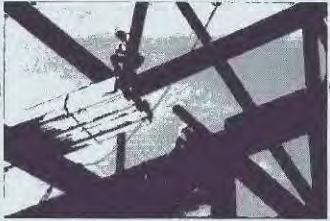
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## Loss

Continued from page 20D

Along with safety information, the technology is being developed to provide "loss information from the insurance company to the individual agent, broker or client," Mr. Nesbit said.

Specific information on a policyholder's losses could be sent to users, such as policyholders or brokers, by the same method as frequently as the user requests, he added. The requests are processed over the Internet and tap the insurer's database for information that is sent back to the user, Mr. Nesbit said. Processes allowing retrieval of that kind of information would require passwords.

Electronic mail, the most frequently used feature of the Internet, also offers a loss control tool, the panelists pointed out.

A Gallup poll conducted last year found that 90% of the large companies surveyed used Internet e-mail, said Thaddeus A. Nosal, manager-environmental hazards at American Insurance Services Group Inc. in New York.

The study found that 64% of midsize companies and 42% of small businesses use e-mail, he pointed out.

That translates into about 3 billion messages sent each month, Mr. Nosal said.

Risk managers, agents and brokers are using e-mail for much more than saying hello.

"One of the things that we're looking at with the use of Internet e-mail is the capability to do attachments," Mr. Nesbit said.

"What that would mean is, loss control reps would go out and fill out their reports on their laptops. Using a digital camera, they could take pictures of either the hazards or the operations, save those on the hard drive" and send it all to the underwriter, Mr. Nesbit said.

Mr. Kroviak emphasized that Internet technology allows the attachment of "virtually anything" to an e-mail message, whether it is text, video or still images.

Internet technology also is providing training applications, he noted.

Whereas audio tapes with training information routinely have been mailed to users, those tapes can be transferred to an Internet site where they are available for downloading.

The Occupational Health and Safety Administration has used video on some of the ergonomic case studies it has placed on the World Wide Web, Mr. Nesbit noted. Related text detailing violations and remedial actions is placed at another site.

As the technology improves and users become more familiar with what's available, such information increasingly will be used in the loss control arena, Mr. Nesbit pointed out.

Warren L. Farrar, assistant vpproperty claims at State Farm Fire & Casualty Co. in Bloomington, Ill., moderated the panel. **BI**

# Partnerships creating effective programs

Developing specialty business a way for agents, brokers to differentiate themselves

By MICHAEL BRADFORD

**A**gents and brokers are pairing up with insurers to offer specialty program business as a way to distinguish themselves in a crowded and competitive marketplace.

"It gives you the differentiation and the edge you really need to compete in the marketplace," said Robert Cohen, senior vp with

United National Insurance Co. in Bala Cynwyd, Pa.

Speaking as a panelist at the CPCU Society's annual meeting in Dallas last month, Mr. Cohen pointed out that United National looks at specialty programs "as a strategic alliance," or essentially a joint venture between the insurer and the agent.

He explained that under such an arrangement, the insurer bears the risk but looks to the intermediary to handle other duties, in-



cluding product development, marketing, policy administration and underwriting.

"It's been our success to partner with people we know, we trust and have confidence in," Mr. Cohen remarked. "We're different from a lot of program companies because we are going to give

you complete autonomy to drive the ship," he said. "But at the same time, make sure that you're staying within a pre-agreed underwriting box" established by United National and its reinsurers, he said.

Many agents are eager to establish niche markets and relationships with insurers that will underwrite the programs.

"We realized that if we are going to choose to pursue being *Continued on next page*

**SALES GROWTH OF VARIABLE ANNUITIES**

Year	% Sales Increase
1993	~100
1994	~150
1995	~250

ReliaStar variable annuity sales

Chart depicts sales increase since 1992. Source: The VARD

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Continued from previous page  
generalists...that frequently the only differential between products is price," said Nicholas D. Cortezi, executive vp with All Risks Ltd., a Towson, Md.-based wholesaler and managing general agent. "And as far as I'm concerned, if the only basis on which you can compete is price" in the soft market "you've got a losing proposition."

Since All Risks began offering specialty programs about six years ago, the MGA has grown steadily each year, Mr. Cortezi noted. "And more importantly, our carriers have been making money on the programs, so we believe it's going to be a long-

term source of success for the agency.'

Reinsurance brokers are getting into the specialty program business for many of the same

by program business," said panelist William L. Hillman, vp with Guy Carpenter & Co. in New York. "And that is expected to grow dramatically because of the

**'As far as I'm concerned, if the only basis on which you can compete is price' in the soft market, 'then you've got a losing proposition,' says Nicholas D. Cortezi.**

reasons as intermediaries that serve primary underwriters.

"Right now we have about \$450 million that is generated

pressures in the other areas of traditional reinsurance that are depressing our revenues."

Reinsurers are operating in a

marketplace in which many ceding companies are retaining more risk in order to increase their net premiums, Mr. Hillman pointed out.

"So reinsurers have focused on trying to identify segments of the market where they can support an underwriter that has developed an expertise in that area," he said. "The attraction is that the segment will have fewer competitors in it because there is a need for expertise to underwrite the business. That should enhance the profit potential."

Reinsurers in some cases are so eager for the business they are forming ceding companies that will pursue specialty niches.

Mr. Hillman said about 15 reinsurers have established their own ceding companies to work with MGAs to develop specialties, a move that doesn't sit well with some other primary insurers.

"You can just imagine how we feel about being a ceding company ceding business to what in essence is our competition," Mr. Cohen said.

The situation leaves specialty insurers between a rock and a hard place, he added. "We need these reinsurers to support our deals, yet at the same time they're sending us a pretty clear message that they don't need us. So ultimately we're trying to sort out who are our friends and who are our foes."

Mr. Cohen also pointed out that a lot of primary insurers are "reinventing themselves" to focus on specialty programs as their market share erodes in the current competitive environment.

One good thing about the soft market is that with so many competitors scrambling for market share, it's a time when a lot of new business is being written, and new opportunities are appearing for insurers, reinsurers and intermediaries, Mr. Cohen said.

He said it is "just amazing what you can get done in the soft market."

Mr. Cortezi said intermediaries can design programs where there are coverage inadequacies or in cases where coverage exists but pricing is out of line.

As an example, he pointed to a program All Risks designed to provide spectator liability insurance for race car teams. NASCAR teams were having problems locating the coverage that would pay, for example, if a wheel flew into the crowd and injured race fans, Mr. Cortezi said.

After studying the risk, fan injuries were found not to be a major exposure, Mr. Cortezi explained, and a program was developed to meet the coverage need.

All Risks met a pricing need in developing a liability program that covered security guards when the MGA's research determined such coverage was too expensive for companies with superior training, lower turnover and more motivated workers.

Mr. Cortezi acknowledged that lower pricing isn't always warranted when writing such group programs.

"Just because you can gather together a large number of risks doesn't necessarily mean that they are a better group of risks together than they are individually."

A program priced solely on group numbers is "really doomed to fail, because in this soft market, pricing is not the key to success," Mr. Cortezi stressed.

Kurt C. Bingeman, president of Russell Bond & Co. in Buffalo, N.Y., moderated the panel. ■

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# Programs bring education to execs

By REGIS COCCIA

Formal educational programs in insurance and risk management long have been available to undergraduate students, and now insurance executives are getting new opportunities to study their industry in depth.

Recognizing the need for company personnel to increase their knowledge of insurance issues, the Insurance Institute of America and American Institute for Chartered Property & Casualty Underwriters

this year launched a program designed for executives and middle managers at insurers, agencies and brokerages.

Insurance Executive Development, a two-week program at The Wharton School at the University of Pennsylvania, is intended to train managers for leadership roles, said George White, senior vp at the IIA/AICPCU in Malvern, Pa.

The experience students get from the program can help them obtain executive positions within their own companies or at others, he noted.

"It's like any developmental or ed-

ucational program. People who take the time to develop themselves are always going to be more marketable," Mr. White said.

"Anything that somebody does today to make themselves more marketable is going to pay off."

Companies recognize that everyone "is in business for themselves," Mr. White said.

Insurers are telling employees that "you have to manage your career as best you can while making a contribution" to the company, according to Mr. White.

Insurance Executive Development

is designed to prepare managers to take on greater responsibility.

The course, offered for the first time in April, stemmed from an advanced executive program the IIA/AICPCU and Wharton have run for the past six years.

Advanced Executive Education is a four-week program in which leading executives from insurers, reinsurers and brokers around the world gather to examine global insurance issues, Mr. White said.

Among the issues the program studies are strategic alliances, mergers and acquisitions, and cultural is-

suess in various business markets.

"It's really dealing with competitive issues, how to compete in the world," according to Mr. White.

"It's an excellent program. We're getting the top people in the industry in that program," he said.

At the conclusion of the program, which meets for two weeks in the spring and two weeks in the fall, the institutes ask participants to evaluate it, Mr. White said. "Out of that discussion, the executives said, 'We have a need for a program tailored to developing insurance managers.'"

Executives suggested a curriculum and the institutes took the concept last year to the IIA/AICPCU board of trustees, which was very supportive, Mr. White said.

Insurance Executive Development stresses leadership and conducts exercises to help students understand all facets of a company's operations.

"They get a dose of everything people do in the insurance company—claims, underwriting, everything," Mr. White said.

As the Advanced Executive Education program does, Insurance Executive Development combines Wharton faculty and insurance industry experts whom the IIA/AICPCU recruits to address classes, he said.

"We tailor it on the insurance side, supplementing their faculty with insurance experts," he said.

The Insurance Executive Development program's 40 to 45 students are chosen on the basis of nominations from other executives, Mr. White said. For more information or to submit a nomination, contact George White or Joanna Spaziani at the IIA/AICPCU, 610-644-2100.

Another program designed to help insurance industry executives acquire deeper knowledge of the industry is being developed at the Katie Insurance School at the University of Illinois in Normal.

A master of business administration degree program for experienced insurance and financial services executives is being considered, said Andrew Nappi, director of the Katie Insurance School.

"As far as we know, there is no such program" for insurance executives, he said. MBA programs typically offer courses in general management, marketing and finance—"a wide variety of areas and fields," Mr. Nappi pointed out.

A strategic planning session at the Katie Insurance School this year led the school to consider an insurance MBA program, Mr. Nappi said.

"The idea of a program designed for managers and professionals that gave them additional education" was appealing, he said. "It looked to us that this was a niche we could respond to."

The school is conducting market research on the possibility of offering the degree program and is getting curriculum ideas from an advisory board comprising industry executives, Mr. Nappi said.

If interest and funding for the MBA program are sufficient, the Katie School hopes to have it in place next year. Tentatively, classes would be offered in the Chicago area on an alternating weekend basis to accommodate executives' schedules, Mr. Nappi said.



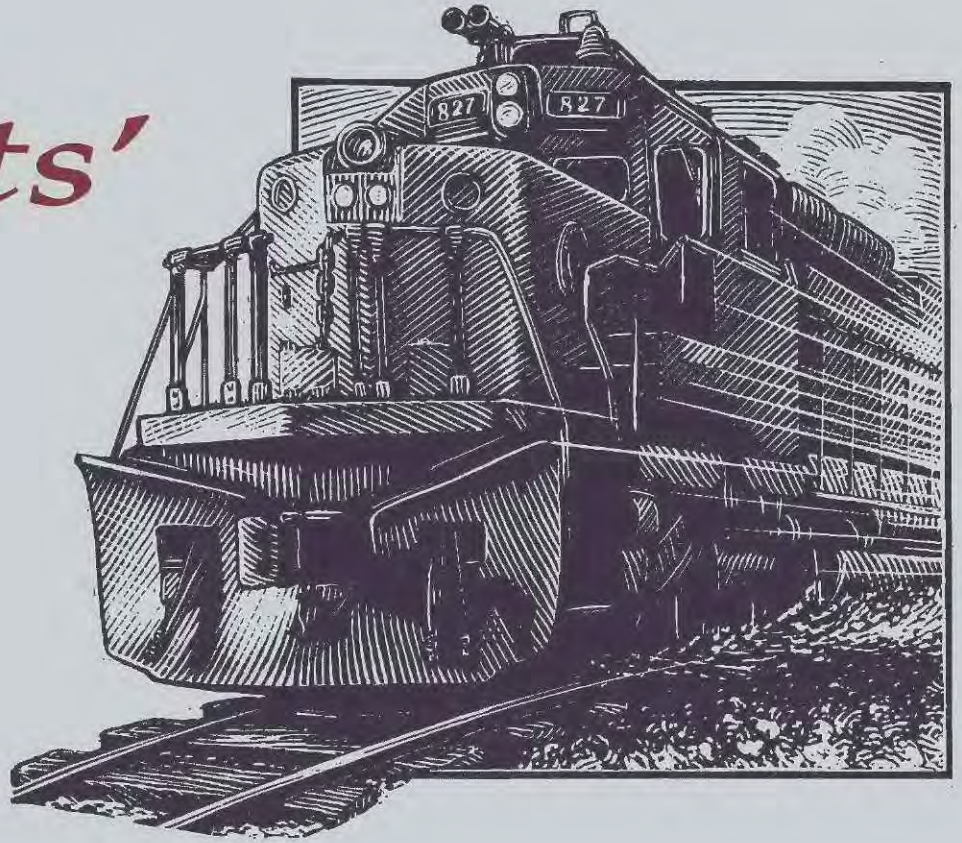
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# Reinsurers rethinking their way of business

Industry's missteps encouraged growth of alternative markets, executive says

By MICHAEL PRINCE

**T**raditional reinsurers face extinction unless they continue to evolve and meet the needs of customers in order to keep pace with alternative risk transfer companies, said a reinsurance executive.

"If we stand still, we're lost," said

John Berger, president of F&G Reinsurance Inc. in Morristown, N.J. F&G Re supplies both traditional and financial reinsurance.

The alternative risk transfer industry has grown to include about half the reinsurance business, and that growth is mainly the fault of the traditional reinsurers, Mr. Berger said while addressing the recent Producer's Forum in Philadelphia sponsored by Commonwealth Risk

Services Inc.

Part of the reason for the alternative market's growth stems from risk managers' dislike of insurance companies, he said. "Insurance companies have let the consumer down," Mr. Berger said.

Mostly, however, the alternative market has grown in response to hard markets, when prices increased and risk managers realized the alternative market is "a better,

cheaper way of managing risk," he said.

Risk managers who didn't want to pay the high prices looked for an alternative. "Smart businessmen will look for alternatives to stay in business," he said. "And the innovators take over."

The rapid growth created its own problems. When profits were made in one area of alternative risk financing, he said, other companies quickly jumped in, causing a surplus of supply. This caused prices to fall along with reinsurers' income.

Another problem facing reinsurers is that retentions have increased while prices have decreased. This means reinsurers are selling less reinsurance for less money. This puts reinsurers in a "black hole," where the only escape is increasing revenue, he said. "There is an insatiable demand for revenue growth," he said.

The future of alternative risk financing lies in expanding globally, Mr. Berger said. He described a

cycle of economic growth that must occur in a country before an alternative market takes root. The cycle starts with economic development followed by development of the insurance industry. The alternative market will flourish once a problem develops with that local insurance market, he explained. Such a cycle is starting in many developing countries but currently exists in some countries, such as Great Britain and Australia, he said.

Mr. Berger said three factors pose threats to alternative risk financing companies. The first is whether they are making a profit. Although loss trends are down, prices also are down and are too low to make money.

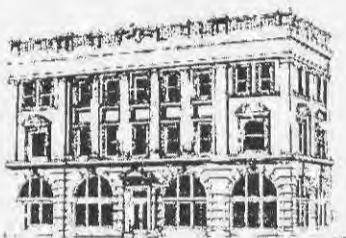
Second, he cited the threat from electronic commerce. One day customers will be able to buy directly from insurers and also from banks.

But perhaps the greatest competition, he said, is from securitization. It represents "the biggest threat to my way of life," Mr. Berger said.

Securitizing risk is attractive to investors because it is not related to other types of investments tied to interest rates or the stock market. **BI**

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## Large brokers to tap smaller markets

By MICHAEL PRINCE

**D**isagreements abound among brokerage executives on whether the large brokers have advantages over smaller ones, whether the

merger wave has been advantageous for clients and whether the top brokers can receive special price considerations from insurers.

One point on which the brokerage executives agree is that the large brokers will start to reach out to midsize companies, a market area that large brokers currently underserve.

The panel discussion took place recently at the Producers' Forum sponsored by Commonwealth Risk Services Inc. in Philadelphia.

Large brokers do have advantages over smaller ones, said Edward Kiessling, executive vp with Aon Risk Services Inc. in New York.

One advantage is that larger companies that can utilize greater technology and economies of scale have lower distribution costs. But, to succeed, the larger brokers need to invest in people and professional development, he said.

Mr. Kiessling predicted consolidations will continue because internal growth in the brokerage industry is slow and profits are declining.

To grow without merging, insurance brokers must deliver higher value to clients, develop new products and services, expand the reach of their brokerage services beyond traditional placement of insurance and build market share in untapped business areas.

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## Brokers

Continued from page 20J

But P. Joseph McCarthy, executive vp at Sedgwick Inc. in New York, questions the value of the deals.

They make sense, he said, if the large brokers can eliminate

Lockton Cos. in Shawnee Mission, Kan., also is not certain that mergers help the large brokers. Mr. Lockton said an acquisition helps a broker's bottom line for a year or two—not permanently. There are only so many brokers out there to acquire, so what does a broker do when there is nothing more to

**'Most of these deals get done because the chairmen want to do it. Afterward, you back into a rationale,' says P. Joseph McCarthy of Sedgwick Inc. in New York.**

competition, create synergy for collateral services or predict the price of insurance. None of these is possible, however, Mr. McCarthy said.

One possible advantage of the mergers is that they might create an advantage with insurers on pricing. "This could be the home run of the mergers," Mr. McCarthy said.

Both Messrs. McCarthy and Kiessling predict that in the future brokers will turn themselves into diversified financial firms or become part of one.

David Lockton, president of

buy? he asked.

Both Messrs. Lockton and Kiessling said mergers create opportunities for small brokers to gain business because sometimes the client is unhappy with the new merged organization. Mr. Lockton said it also helps smaller brokers grab additional producers for the same reason.

"We've picked up some great people," he said. But, he added, the few people and clients they might acquire, though important to a small broker, have almost no impact on the large ones.

Mr. Lockton doesn't think the mergers help policyholders, either. The deals are done to satisfy shareholders, Mr. McCarthy said.

"Most of these deals get done because the chairmen want to do it. Afterward, you back into a rationale," he said.

Mr. Lockton added that he does not know what a \$3 billion broker can do that a \$2 billion broker cannot.

Opinion was divided on whether the large brokers will be able to get better pricing from insurers.

In today's soft market, it doesn't require much muscle to get lower prices, and smaller brokers can do it, Mr. Kiessling said. "The clients in the end will win," he said.

Whether or not larger brokers get better pricing, Mr. Lockton said he is concerned that the large brokers will get special compensation arrangements with insurers.

Although saying the mergers could be a great benefit to large brokers, Mr. McCarthy said it's too early to tell. "We're just beginning to see the early stages of how the industry works," he said.

Now is "the beginning of a sea change," and insurers will feel the loss of their distribution system, which they won't tolerate, he said.

Both Messrs. Kiessling and McCarthy agreed that the large brokers will try to expand into middle-market clients.

Mr. Kiessling said Aon will focus on niche markets and mid-sized companies because that's its history and because those areas are underserved by large brokers.

Mr. McCarthy of Sedgwick said middle markets represent a large opportunity and are a place where they can change the rules to their advantage and try to get a shift toward fee compensation from a commission.

Robert Mulderig, chairman and CEO of Mutual Risk Management Ltd. in Bermuda, moderated the session. **BI**

## A/BT Briefs

### Council Web site

WASHINGTON—An enhanced World Wide Web site is available now for members of The Council of Insurance Agents & Brokers and other users.

Offerings of the redesigned site include Council and industry information, direct electronic mail to staffers of the Washington-based Council, online conferencing and discussion groups, and online registration for Council workshops and programs, the Council said in a release.

Another feature of the site is an online version of its 1997 Membership Directory. That portion is security-protected for member use only and lets users find information on members of the Council, as well as the Council of Insurance Company Executives, by company name or state; individual members by name; companies' specialties or expertise by state; companies represented for countersignature by state; and agency management system contacts, the Council said in the release.

Members also will be able to maintain their firms' directory information online, making the directory more current and accurate.

The site is at <http://www.ciab.com>.

### Education help

ALEXANDRIA, Va.—Two scholarship programs administered by the Independent Insurance Agents of America are combining their efforts.

The programs are the Independent Insurance Agent Junior Classic and Insurance Vocational Education Student Training.

The InVEST program will award about \$15,000 a year to high school and community college students who graduate from the program, IIAA said in a release. InVEST—which is sponsored by DORIS Inc., a maker of agency management software—trains students in insurance-related business skills, and nearly 75% of its graduates take jobs in the industry, the IIAA said.

The IIAJC Scholarship Program was set up in 1995 to give financial help to young people interested in higher education, to promote the independent agency system and to increase recognition for golf, the IIAA said. The program has awarded \$30,000 in scholarships since its inception.

"Combining the two scholarship programs makes a great deal of sense," Joyce Vogel, chair of the InVEST board of directors, said in a statement.

"These scholarship recipients have shown an interest in the insurance industry, and as insurance professionals, we need to be supportive of their aspirations. This joint project allows more individuals to receive assistance in that

process," Ms. Vogel of San Diego-based Barney & Barney said in the statement.

IIAJC National Chairman Paul L. Miller of Jolma, Millis & Miller Agency in Corvallis, Ore., said in the statement that by combining the programs, "we continue to help individuals who are pursuing college degrees, but narrow the focus to those who are considering careers as insurance professionals."

The 30th annual IIAJC will be played Aug. 6-13, 1998, at Oak Tree Country Club in Edmond, Okla.

### New IIAA venture

ALEXANDRIA, Va.—In an effort to raise money for activities separate from dues, the Independent Insurance Agents of America plans to launch a for-profit subsidiary to provide products and services to members and their customers.

Member Services Inc. will begin full-time Jan. 1, 1998, and will operate from Alexandria, Va., where the IIAA is based.

Edgar W. Armstrong Jr. will be president of Member Services. He will begin Jan. 1 and will be available to consult until then, the IIAA said in a release.

Helping an agency in a joint venture with a bank is an example of a service the subsidiary might provide, an IIAA spokesman said.

### New graduates

MALVERN, Pa.—A first class of 152 graduates has completed the Associate in Surplus Lines designation program of the Insurance Institute of America.

Graduates were recognized earlier this year at the annual meeting of the National Assn. of Surplus Lines Offices and the NAPSLO/Derek Hughes Educational Foundation, the IIA said in a release.

Awards went to the four top graduates. The Distinguished Graduate Award, for the student with the highest cumulative grade average for the four examinations in the program, went to Lee Ann Bush, an underwriter for General Star Management Co. in New York. She got a \$500 check and a plaque.

Awards for Academic Excellence went to the next three highest-scoring students, who each got a \$250 check and a plaque. They are:

- Bryan D. Meyer, a product manager with Northland Insurance Co. in St. Paul, Minn.

- Paul S. Miller, a business development specialist with Russell Bond & Co. in Buffalo, N.Y.

- Carl R. Sadler, president and chief executive officer of Baldwin Sadler Corp. in Norristown, Pa.

Graduates came from 30 states and England. The largest number came from California, with 18, followed by Illinois, with 14, and New York, with 11 graduates, the IIA said. **BI**

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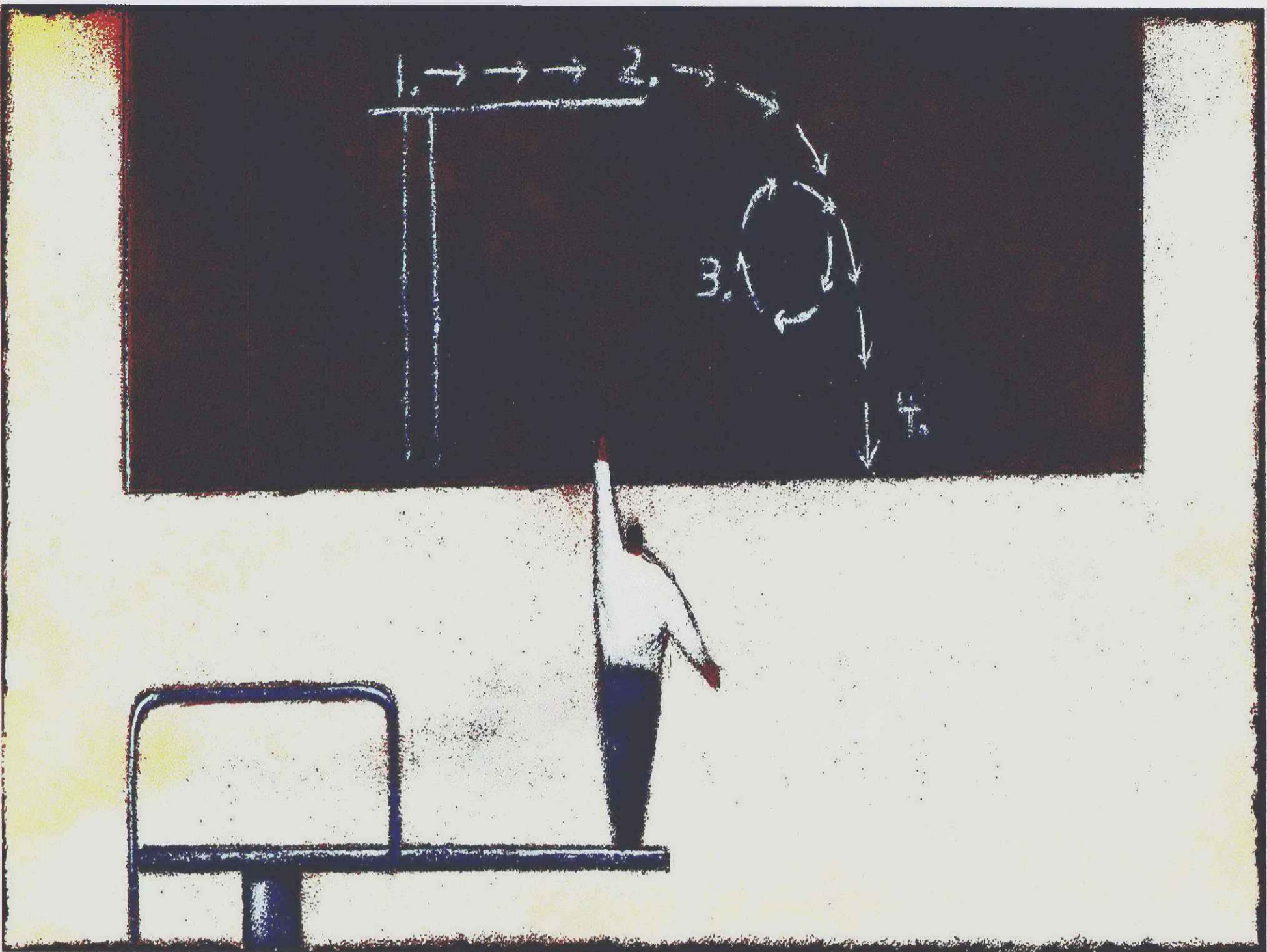
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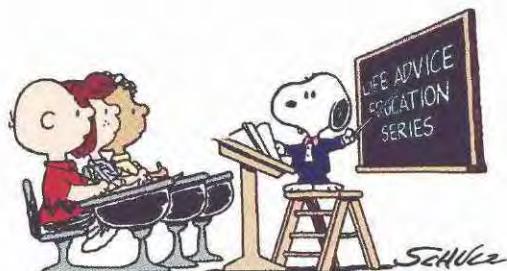


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# Allergy-related costs nothing to sneeze at

By Pamela M. Hastie and G. Todd Swim

**W**HEN EMPLOYERS LOOK at the cost of various diseases that strike their employees, the impact on their medical plan costs is usually top of mind. For acute conditions, such as cancer and heart disease, the costs of medical treatment are considerable. However, other costs, such as lost work time, disability costs and in some cases death and employee replacement costs, are significant. Considering the total cost to employers of high-profile diseases, it is easy to understand why most employers and even some benefits professionals would not identify allergy as a disease with a significant impact on total benefit costs.

Benefit managers should consider these major costs of allergic rhinitis:

- About 3.5 million lost workdays per year (more than 9% of all lost work days), at a cost of more than \$500 million.
- About 1.5 million lost schooldays, leading to additional parenting time that affects work performance and productivity.
- Seven million to 8 million physician office visits annually for the treatment of allergies, at a cost of more than \$400 million.
- More than \$2 billion annually spent on prescription and over-the-counter medications for allergies.
- Inappropriate self-medication with sedating products has been directly linked to increased workers compensation costs due to workplace injuries as well as impaired work performance.

## What employers can do

About one in five Americans suffers from allergic rhinitis, making the disease more common than back problems or high blood pressure. Given this high incidence, employers need to integrate an allergy education campaign in any wellness program they may offer. Employers also need to require health plans to educate employees about the disease and the most cost-effective treatments. Because self-treatment is so common, employees need to understand the advantages and disadvantages of the over-the-counter and prescription medications available. Of particular importance are the sedating effects of some medications, which can produce the impairment equivalent of a

0.05% blood alcohol level—legal intoxication in many states. Therefore, making employees and their dependents aware of allergy problems and providing education regarding individual risk assessment, treatment options and effective treatment options is critical.

The risk management area should carefully review the occupational safety impacts of allergies and their treatments and develop monitoring and educational programs. Dangerous side-effects of allergies and some medications to treat the disease include confusion, fatigue, drowsiness and depressed physical and mental function. Some jobs are particularly at risk, especially those requiring high levels of awareness and cognitive skills. The Federal Aviation Administration, for example, has banned pilots from using sedating antihistamines, a primary source of the dangerous side-effects discussed above.

Sick building syndrome, poor air quality and air filtration systems are important environmental risks to assess. Building air-quality monitoring programs may be warranted depending on the location and type of building.

## What the condition is

Often called "hay fever," allergic rhinitis is the most common allergy disease. There are two principal types. Seasonal rhinitis, commonly known as hay fever, is the most prevalent. Seasonal rhinitis coincides with pollination, and symptoms climax during spring (tree pollen), late spring (grasses) and late summer or early fall (various weeds). Perennial rhinitis can occur at any time of the year depending upon exposure to various antigens, which are irritants to air passages and the respiratory system. The most common perennial antigens are dust mites, mold spores, dander, house dust and pollutants. For seasonal and perennial allergies, avoiding exposure to antigens is effective but often not possible, as most antigens are airborne and most ventilation systems are not capable of filtering out a substantial number of antigens. Fortunately, pharmacological interventions allow most symptoms to be managed to tolerable levels. However, some pharmacological interventions can have undesirable side-effects.

Allergies affect people in many ways and as a result affect their work performance. Individuals with allergies generally suffer from watery eyes, sneezing, nasal concentration, headaches and various other

maladies. The severity and duration of these allergic reactions will vary based on an employee's age, family history, level of antigens, exposure and individual immune system response. The severity of the disease can be wide-ranging and individually specific, both in terms of the individual sensitivity to particular antigens and the number of antigens that create an allergic reaction.

The total cost of allergies in terms of lost workdays and impaired productivity is estimated to be more than \$11 billion, or \$1,000 per afflicted worker per year. This significant level of lost productivity is due to a number of factors. Lost workdays (and lost schooldays for dependents of workers) create significant amounts of time away from the job. In addition, surveys of allergy sufferers report nearly three workweeks annually of reduced performance while at work due to allergic rhinitis. This lessened productivity results from decreased mental alertness and impaired motor skills. These debilitating conditions can be caused by the disease symptoms as well as the side-effects of medications. Additionally, there are workers compensation claims for on-the-job injuries resulting from the dangerous side-effects of inappropriate medications.

Common pharmacological responses to these allergies include antihistamines, decongestants, anticholinergics, mast cell stabilizers and corticosteroids. However, some antihistamines—principally first generation antihistamines—can cause anxiety, confusion, fatigue, drowsiness, irritability and depress physical and mental function. Decongestants can cause palpitations and increased blood pressure. Anticholinergics infrequently cause palpitations and increased blood pressure, as well as nose dryness bloody mucus. These side-effects can have serious implications. In many states, it is illegal to drive a car while under the influence of certain antihistamines. Operators of heavy equipment, transportation workers and jobs requiring high levels of awareness and/or cognitive skills are particularly at risk to adverse side-effects.

Many employees underestimate or are unaware of the adverse impact on work performance of some medications. Additionally, the self-diagnosis and self-medication common with this disease can lead to dangerous drug interactions. **BI**

*Pamela M. Hastie is a principal and benefits consultant and G. Todd Swim is a principal and health actuary, both at Buck Consultants Inc. in Chicago.*

# Policyholder not entitled to defense in harassment case

**A**n insurer under a comprehensive general liability insurance policy was not obligated to defend the insured in a suit alleging sexual harassment, assault and battery, according to the Court of Appeals of Georgia.

Daniel Lee O'Dell owned two companies that were covered under CGL policies issued by St. Paul Fire & Marine Insurance Co. The policies covered bodily injury, property damage, personal injury and advertising injury. Tracey Gilleland, an O'Dell employee, sued Mr. O'Dell and his two companies, alleging that Mr. O'Dell sexually taunted and harassed her with the knowledge of both of his companies during her employment as office manager of the two companies. Ms. Gilleland sought damages for claims of assault, battery, intentional infliction of emotional distress, and sexual harassment. Mr. O'Dell sought coverage and defense of the suit from St. Paul. St. Paul declined coverage. Mr. O'Dell brought this suit seeking to force St. Paul to provide coverage. The trial court ruled for the insurer.

The appellate court said it was undisputed that Ms. Gilleland sought damages for bodily and personal injury. The court said that, in Georgia, bodily injury means just "bodily injury." According to the court, it pertains to physical injury to the body, not emotional or mental harm. Furthermore, the court said the policy required the bodily injury to arise out of an "event," e.g., an accident. An

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accident refers to an event which takes place without one's foresight or expectation or design, the court said. Thus, the court agreed that the CGL policies did not cover Ms. Gilleland's claims and that St. Paul did not have a duty to defend Mr. O'Dell. The trial court decision was affirmed.

*O'Dell vs. St. Paul Fire & Marine Insurance, Court of Appeals of Georgia, Nov. 18, 1996 (BI/03/Ju.-\$10).*

## Subrogation clause ruled non-enforceable

In a case of first impression in Oklahoma, the state Supreme Court ruled that a subrogation and reimbursement clause in an ERISA plan was not enforceable against a beneficiary.

L.C. Youngblood was covered under an ERISA plan as an employee of Ft. Howard Paper Co. A subrogation and reimbursement provision in the plan gave the plan certain rights to repayment for amounts it had paid on behalf of a "plan member." Kim Youngblood, a minor daughter of L.C. Youngblood, was injured in an automobile accident. Her medical expenses and damages exceeded \$150,000. She received only \$40,000 from liability insurance companies for

the negligent driver. The plan paid \$31,845 in medical expenses for Ms. Youngblood arising from the accident. The plan then sought subrogation of the payment by the automobile insurance policies. The trial court ruled against the plan; however, the Court of Appeals found for the plan.

The state Supreme Court held that, where the subrogation or reimbursement contract does not expressly sets priorities for the repayment of benefits, nor otherwise gives a right to subrogation or reimbursement before any funds are paid to the beneficiary, nor vests the plan manager's discretionary authority to interpret ambiguous plan provisions, and the compensation received by the beneficiary from settlement or judgment against a third party represents less than full compensation, then the subrogation or reimbursement clause is not enforceable against the beneficiary. The appellate decision was reversed.

*Equity Fire & Cas. Co. vs. Youngblood, Supreme Court of Oklahoma, Nov. 12, 1996 (BI/04/Ju.-\$10).* **BI**

*These abstracts were prepared by Mayo H. Stiegler. Copies of these decisions are available by sending a \$10 check payable to Mayo H. Stiegler, to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. List the number for each opinion.*

# Continental program takes off

## Communication helps airline cut its occupational injury costs by 45%

By JOANNE WOJCIK

SANTA MONICA, Calif.—Continental Airlines Inc. has slashed its occupational injury costs by 45% in less than two years by cultivating a workers compensation and safety mind-set that fosters communication.

The program, which also incorporates file reviews, faster claims reporting, aggressive case management and return to work, medical bill audits and increased use of company clinics, was developed by Adam W. Potter shortly after he joined the Houston-based airline in 1995 as managing director of risk management and ground safety.

"Continental was spending as much on workers compensation costs as it did for a brand-new 757 aircraft," estimated Mr. Potter, who now serves as a consultant to the airline. "Two years ago, we downsized to a much smaller aircraft: a brand-new 737. And today we're spending the equivalent of a regional jet."

"In a very short period of time, we were able to decrease our workers compensation costs by 45% and reduce on-the-job injuries by 54%," Mr. Potter told those attending a luncheon at the Fifth Annual Business Insurance Workers Compensation Conference last week in Santa Monica, Calif.

Mr. Potter began the daunting challenge of turning around Continental's workers compensation claims experience by conducting a thorough analysis of the company's pre- and post-injury management process.

"This process consisted of not only reviewing policies, programs and procedures, interviewing all levels of management and non-management employees, conducting focus groups and surveys, but also performing various job functions as well," he explained.

"For example, I actually loaded and unloaded cargo from aircraft, marshaled aircraft into position and ran ground support equipment. I assisted flight attendants in flight and sat with pilots in the cockpit to understand how they actually performed the job. But they never actually let me fly the plane," he quipped.

After assessing the problem, Mr. Potter developed a plan with the primary objective of reducing workers compensation costs and injuries by at least 25%.

A key element of the plan was improving communication.

Starting with a simple letter addressed to employees at home, followed by articles published in every employee newsletter, daily bulletin and company magazine, the objective of the communication strategy was to ensure that all 20,000 of Continental's employees knew, understood and supported the plan, Mr. Potter said.

The communication strategy was an "instant hit," he recalled. "Employees knew the company's cost of workers compensation, how it affected their individual profit sharing, the number of employees injured on a daily basis and, most important, what the company was going to do about it."

Then the work began: Mr. Potter's team reviewed more than 1,600 open workers compensation files.

"We adjusted reserves, closed files and settled claims. It didn't take long for the word to get out that we were actually doing something," he said. "And, while some employees were not overjoyed with the results, all employees were pleased that after a long period of dormancy something was actually being done."

In addition to the initial file review, Mr. Potter set up ongoing audits of a large sample of open and closed claims files.

Next, Continental's convoluted claims-reporting system, which had an average reporting time of three months, was scrapped.

"Previously, a lengthy form was filed by the supervisor of the injured employee or a specific point person in the department, and then either called, faxed or mailed in. We had two individuals answering the phone and entering information," Mr. Potter said.

Now, under the new system, Continental uses electronic incident reports taken by a third-party administrator available 24 hours a day.

To ensure that claims are reported quickly, "we took a unique approach: Employees became responsible for reporting their own

claims," he said.

To assist in the notification process, the TPA sends voice mail to each supervisor and the supervisor's manager each time an employee calls in a claim.

After each claim is received, it is assigned to one of two in-house nurse case managers for up to 14 days. Cases taking longer to resolve are referred to outside case management.

### A key element of the airline's plan to reduce its workers compensation costs was improving communication with employees.

Previously, "we were spending over \$1.2 million in outside case management," Mr. Potter said.

Throughout the case management process, registered nurses specializing in rehabilitation services maintain contact with injured employees, provide physician referral when necessary and help explain diagnosis and treatment.

"The nurses let the employees know that we're concerned about their condition and want to ensure they are being treated by the proper physician," Mr. Potter said.

The objective of the case management process is to ensure appropriate treatment and expedite recovery and return to work, because "we understand that saving \$1 in medicals may cost upwards of \$10 in lost time," he added.

Continental also regularly reviews bills submitted by providers to ensure they are reasonable and meet fee schedules.

The airline now offers employees access to treatment at four company-owned occupational clinics—three of which are open 24 hours—staffed by doctors, nurses, paramedics and physical therapists all focusing on employees' "total health," he said. Employees can use the clinics for occupational and non-occupational illnesses and injuries without copayments or deductibles.

The objective is to make employees com-

fortable with the company clinics so that they have no qualms going to them when they have work-related injuries, Mr. Potter said.

Working with Continental's legal, human resources and various operations departments, Mr. Potter also developed a tough policy that addresses length of time on transitional duty, accommodating employees under the Americans with Disabilities Act, light-duty assignments and other relevant issues. The policy also provides for monitoring every employee on transitional duty for up to 90 days.

Continental has revised its subrogation policies and is working with its TPA to develop a system to encourage recovery from third parties and second-injury funds when possible.

The airline also met with more than 75 of its workers comp defense lawyers to ensure uniform and fair treatment of injured workers. The objective was to dissuade claimants from hiring attorneys of their own, Mr. Potter pointed out.

Continental's new workers compensation program also altered the company's injury allocation system so that departments not only are held responsible for claims, but also receive credit for helping return an injured worker to the job quickly.

Finally, the workers compensation group and the safety group—two groups that typically are rivals in most organizations—were combined under one umbrella.

"This seemingly small task was a pivotal point to our turnaround," Mr. Potter said. "We now have the safety and workers compensation groups working together. Each director understands the issues, obstacles and programs of the other. In addition, the group works on tasks together."

The collaboration enabled Continental to revamp its accident investigation process to focus more on determining the root cause of injuries and eliminating hazards so that injuries do not recur.

"For many years, our safety group focused only on discipline and blame," Mr. Potter said. "Employees were punished for causing damage to company equipment. Investigations were not even completed for on-the-job injuries."

It seemed as if Continental cared more about its equipment than about its employees, Mr. Potter said. But, "by investigating both injuries and mishaps, not only does it show that we value employees as the No. 1 asset of the organization, it has been very effective in drastically reducing injuries." **B**

# Structure strengthens return-to-work plans: Panel

## Human element important in retraining low-skilled workers, speaker says

By MEG FLETCHER

SANTA MONICA, Calif.—Adding more structure to a return-to-work program can enhance its success, especially among lower-skilled workers.

That is the advice of panelists who discussed the issue during the Fifth Annual Workers Compensation conference sponsored last week by Business Insurance.

"Companies are moving toward creating more structure in return-to-work," said Daniel L. King, president and chief executive officer of The Risk Control Group Inc. in San Clemente, Calif.

The risk management consulting organization specializes in outsourcing risk management and safety-related services to the food service, health care and hospitality industries.

He recommends following, in order, this hierarchy for vocational case management:

- Return to work in the same job with the same employer.
- Return to work in the same job, modified, with the same employer.
- Return to work in a new job with the same employer.
- Return to work to a new employer with a direct job placement.
- Retraining for new job skills.

"This hierarchy supports the injured

employee's strengths and capabilities and is the most cost-effective case management model," according to Mr. King.

In addition, he urged employers to find meaningful work-related experiences for recuperating employees,

rather than making them perform degrading tasks such as counting straws, as one hotel chain did.

He praised a program used by Specialized Distribution Management

Inc., the largest distributor for Safeway Stores in California. The distributor created an innovative light duty and return-to-work program that uses a special "safety room" in a grocery warehouse to help train recuperating employees in safety and keep them in a work-type environment instead of at home watching television.

The room is equipped with chairs and tables and decorated with safety posters. Medically able employees are assigned there while recovering, to receive training on safety and health issues, and are held accountable for their attendance when not receiving medical care.

Mr. King also recommended performing a cost/benefit analysis to determine the

savings most return-to-work programs can provide companies.

A return-to-work program at the self-insured University of Pennsylvania

### The University of Pennsylvania Health System uses a four-part program for workers injured on the job that includes retraining, if needed.

Health System has saved nearly half of a \$6 million expense over the past five years, said Rosemary Osman-Koss.

She is the workers compensation manager for a rapidly growing Philadelphia-based health care system of six institutions.

The organization employs about 14,000 workers and has about 200 lost-time claims annually, including 20 to 25 from low-skilled workers who cannot return to their labor-intensive jobs, Ms. Osman-Koss said.

The heart of the health care system's effort is a four-part program used for workers at all skill levels:

- Medical case management.

The employer coordinates contacts with

medical providers, obtains current physical capacity evaluations and obtains medical approval of proposed return-to-work activities and jobs.

- Return-to-work activities.

The employer surveys departments to determine possible sedentary or light-duty job tasks, maintains close contact with supervisors and workers and monitors the job's physical demands and job performance.

- Internal job development.

The employer arranges regular meetings with human resources personnel, encourages return-to-work supervisors to hire their program's employees and advocates cost-effectiveness of returning injured workers to work.

- Retraining employees.

Because higher-skilled workers usually can find jobs, the employer considers retraining all unskilled or lower-skilled workers.

That includes assessing a worker's work-related aptitudes and educational skills, providing training for upcoming jobs and providing outplacement services as needed.

The last component was added three years ago and is "very important," she said.

Thus far, the program has provided retraining services to 42 unskilled and lower-skilled workers. Of those, 39 graduated, and 26 have returned to work in new, budgeted jobs. "To me, this is a fantastic

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# Ergonomics programs sit well

Turner Broadcasting, Bankers Trust educate and train to reduce claims

By ROBERTO CENICEROS

SANTA MONICA, Calif.—Ergonomics programs are successful when they include employee and management education and involve representatives of many disciplines within a company.

"Our program has been very successful," said Cynthia R. Parks, manager of employment related risk for Atlanta-based Turner Broadcasting System Inc., the parent company of the Cable News Network and the Atlanta Braves. She noted that the program, which has an employee education component and is supervised by a broad-based task force, is especially helpful because it has so many "type-A personality" employees who don't like to take breaks and often work long hours.

"Initially when we started the program, we did see an increase in frequency with employees reporting claims, but we did experience a decrease in severity," she said. Since the program was instituted in 1993, "We have only had three employees that have had surgery for carpal tunnel syndrome. With a workforce of more than 8,000, we are very pleased with those results," she said.

Ms. Parks spoke as part of a panel that discussed effective ergonomic systems at *Business Insurance's* Fifth Annual Workers Compensation Con-

ference in Santa Monica, Calif., last week.



Even with all the media and regulatory attention heaped on ergonomics over the past few years, a widespread perception persists among the public and management that ergonomic practices are too costly and complicated to implement in the workplace, said Wayne S. Maynard, product director for ergonomics and manufacturing technology ser-

vices for Liberty Mutual Insurance Co. in Boston, who served as the panel's moderator.

But those practices don't have to be

part ergonomics program, which focuses on: workstation analysis, employee educational awareness, medical treatment and working with er-

**'When we started the program, we did see an increase in frequency with employees reporting claims, but we did experience a decrease in severity,' says Cynthia R. Parks.**

costly or complex and they do reduce injuries, the panelists agreed.

Turner Broadcasting aims to reduce or eliminate injuries through a four-

ergonomics equipment and furniture manufacturers, Ms. Parks said.

The work in those four areas is supervised by a task force that includes

employees, medical doctors and personnel from several departments, including risk management, human resources, benefits, and facility managers who order furniture and equipment.

Exposure identification is conducted through general workstation evaluations, periodic employee surveys and specific workstation evaluations for any employee who files a workers comp claim for a cumulative trauma disorder. Job and task analysis is performed by casualty loss control vendors, such as Philadelphia-based Intracorp.

The training and awareness program begins with new employee orientation, Ms. Parks said. New employees learn about various types of cumulative trauma, such as tendinitis and carpal tunnel syndrome. That can discourage employees from later filing a costly claim for carpal tunnel syndrome when many have a simpler

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Continued from previous page result," she said.

The retraining component has saved about \$400,000 in annual wage loss benefits and \$15 million in potential long-term wage loss benefits at the self-insured institution, she said.

However, it is important to remember the human element when retraining low-skilled workers, said Larry Kurtz, president of The Achievement Institute in Bryn Mawr, Pa. The organization provides employer-based assessment and retraining services for permanently injured hospital employees.

"They often fear that other employees will learn of their limited language and math skills," he said.

Common characteristics that may limit an employee's ability to return to work include language and math skills at less than a sixth-grade level, poor school records, fear of traditional group-oriented classroom learning programs because of past problems, and self-doubt.

"That has to be kept in mind," he said.

A good retraining program will include all of these steps: vocational assessment, planning, remediation, skills training—often on a one-to-one basis—interview skills preparation and outplacement activities.

It is important that the training room "doesn't look like a school," so it is best to use an office-like setup rather than a room with a blackboard, he said.

"If you skip a step, you set things up for failure," he said.

Individual success stories, such as a hospital cleaner with an injured back who becomes an office worker, are not only inspiring but good for the company and the worker.

Rebecca Shafer Bruce, president and CEO of Aon Management Institute in Glastonbury, Conn., moderated the panel. **BI**

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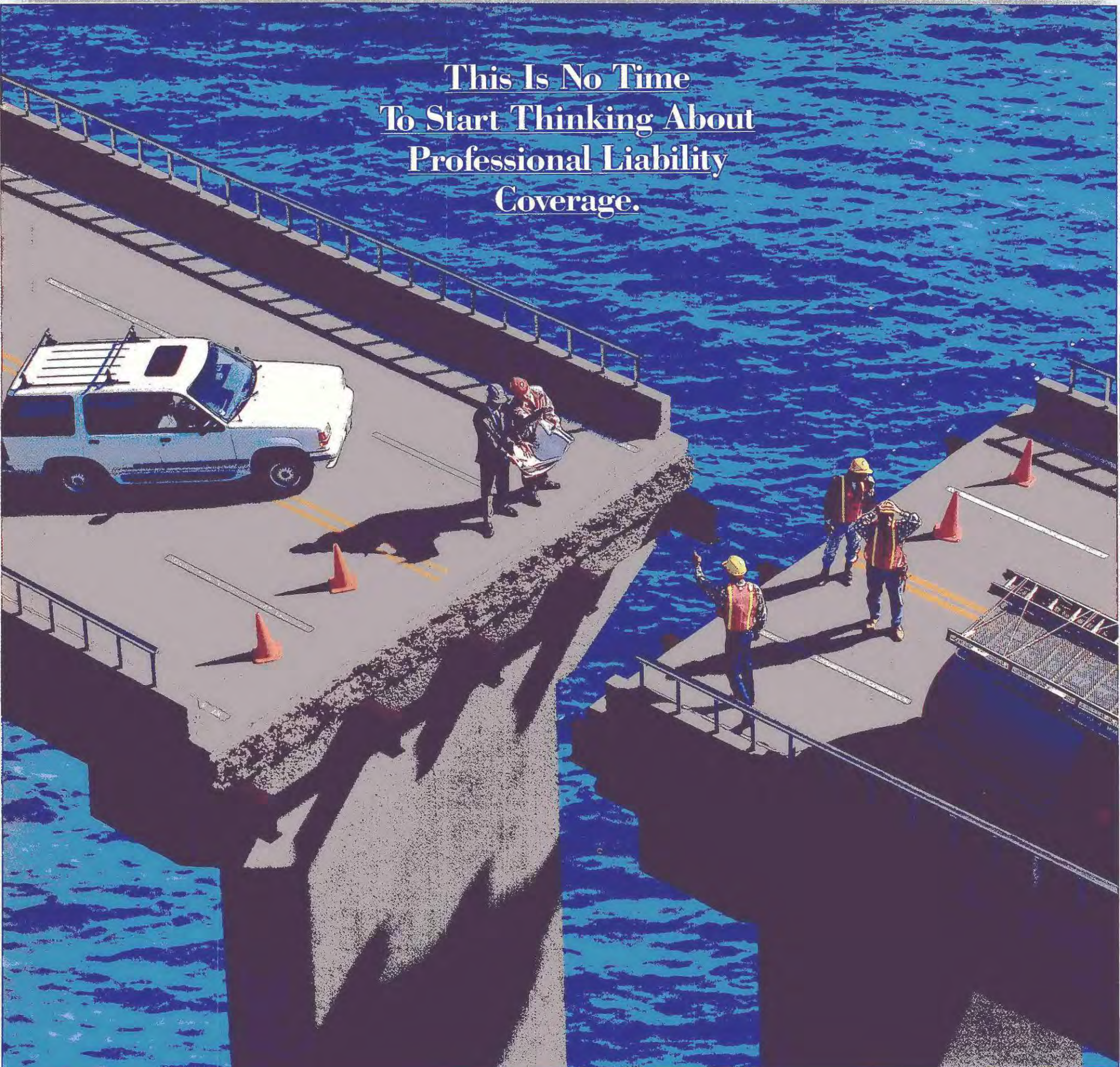
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# INTERNATIONAL

## Global Briefs

**Liberty Re Ltd.**, the London reinsurance unit of Boston-based Liberty Mutual Group, has been authorized to operate by the U.K. Department of Trade and Industry. Liberty Re also has become a member of the London International Insurance & Reinsurance Market Assn. Backed by £250 million (\$418 million) in paid-up capital, Liberty Re describes itself as a multiline global reinsurer writing property and casualty, life and health, and non-traditional reinsurance. . . . Members of **The United Kingdom Mutual Steam Ship Assurance Assn. (Bermuda) Ltd.**, also known as the U.K. P&I Club, have voted to make club members maintain a valid International Safety Management Code certification or risk being unable to claim losses from the club. At the club's annual general meeting in Bermuda last month, members voted to approve a rule change to meet the standard recommended by the International Group of P&I Clubs of denying claims of ship owners not certified by the ISM if the claims were caused by failure to comply with ISM requirements. The club directors have retained the discretionary right to pay uncertified owners in special circumstances. The change in club rules takes effect Feb. 20, 1998, though in practical terms its force will not be felt until July 1, when ISM Code certification becomes mandatory for tankers, bulk carriers, passenger ships and high-speed cargo craft. Other vessels must comply with the code on July 1, 2002. . . . The U.K. P&I Club has **reduced its supplementary call** for a policy year for the fourth time in the past five years. At the Bermuda meeting, the club's directors decided to cut the call to 25% from 40% because of its strong reserving position. But premiums are set to increase 5% for the 1998 policy year, beginning in February. . . . Cliff Simmonds has been appointed underwriter for Lloyd's syndicate 947/2947 and a director of **Archer Managing Agents Ltd.**, the syndicate's managing agency. Mr. Simmonds formerly was the deputy underwriter for the syndicate, and his position has been filled by Colin Baker, previously the syndicate's underwriter. Archer syndicate 270 also has a new underwriter, Gerard Knowles, who has become a director of the agency. He takes over for Richard Maylam, who will retire in February. . . . Money invested in new **U.K. group personal pensions will increase** by 89% to an estimated £416 million (\$ million) this year, according to a report by consultant Datamonitor Europe. Since 1991, the value of new group pensions has seen an annual growth rate of 30%, but this is accelerating, and last year, they saw a 57% increase. Datamonitor attributed the popularity of group pensions to their relative lack of regulation compared with traditional occupational plans and potential administrative savings and portability for employees. . . . In the past year, U.K. trade unions have won a record £340 million (\$568.5 million) in compensation for employees with **workplace injuries or illnesses**, according to figures published by the Trades Union Congress, which represents U.K. labor unions. . . . **ReliaStar Reinsurance Group (U.K.) Ltd.**, the recently established subsidiary of Woodbury, N.Y.-based ReliaStar Life Insurance Co., has been assigned an initial A.M. Best Co. rating of A with a positive outlook. . . . **Copenhagen Re Group** has been assigned an A claims-paying ability rating by Standard & Poor's Corp. The rating applies to all parts of the Copenhagen Re Group. S&P previously rated the company's London operation A- and the Singapore operation BBB based on public information. . . . Gordon Breslin has been appointed insurance manager for **CNA Reinsurance Co. Ltd.** in London. . . . Chris Charman has been named managing director of **Commercial Union Risk Management, Asia**, based in Singapore.

# Reinsurers' size relative

## Executives debate the abilities of large players vs. smaller competitors

By KATE TILLEY

SINGAPORE—Is there room for small reinsurers in today's market pattern of the big getting bigger? The question was debated at length at the fourth biennial Singapore International Reinsurance Conference last month, with the answers varying according to the size of the reinsurer responding.

David Denning, chairman and chief executive officer of Copenhagen Reinsurance Co. (U.K.) Ltd. in London, told delegates, "Good things come in small packages." The slogan "big is beautiful" is not necessarily relevant in the reinsurance industry, Mr. Denning said.

But Werner G. Bugl, chief executive of the Singapore branch of Munich Reinsurance Co., said the "concentration process" is giving big reinsurers a market advantage geographically and in product lines.

He predicted the concentration has "not yet found its end."

Large risks, such as earthquakes, storms, aviation fleets and large industrial risks, can be covered only in global accounts, he said.

Mr. Denning, who is a former chairman of the London International Insurance & Reinsurance Market Assn., said: "You only have to look at the Lloyd's building in London to agree that big isn't necessarily beauti-

ful. . . . It can be quite ugly."

However, he said the smaller reinsurers have no place in the alternative risk transfer products market. "It's best left to the larger companies that can afford to make major mistakes," Mr. Denning said.

Mr. Bugl said the alternative markets are a possible threat to insurers and reinsurers but that there is "more smoke than fire, more talk than facts, in this field." If reinsurers continue to act as "superior risk managers for commerce and industry," risk-carrying that involves the financial markets "may become a useful supplement, at best, to insurance and reinsurance, but not a real threat to its existence."

Mr. Denning said mergers and acquisitions have "decimated" the reinsurance industry and are motivated by a "perceived need to improve shareholder value," not to improve the situation for policyholders or employees. Too often, the motivation is "to do what's fashionable," Mr. Denning said.

While some buyers argue that bigger is better because they equate size with security, smaller reinsurers have their strengths, and those that will survive are "quick on their feet, flexible, and have clear, strategic direction," Mr. Denning said.

For example, his company, the U.K. See Niche on page 31



PHOTO: PHOTODISC  
Singapore, which recently hosted the fourth biennial Singapore International Reinsurance Conference, is encouraging reinsurers to locate there.

# Singapore seeks 'dynamic' industry

## Government wants more autonomy in reinsurers' local offices

By KATE TILLEY

SINGAPORE—Singapore is rapidly developing as a regional reinsurance center, with 50 reinsurers now established in the region.

The Monetary Authority of Singapore is encouraging more reinsurers to come to the region, according to Lee Yock Suan, Singapore's minister for trade and industry and second minister for finance, who officially opened the fourth Singapore International

Reinsurance Conference at Singapore's Shangri-La Hotel last month. Also, the Singapore government wants international reinsurers to grant their Singapore offices greater autonomy to help develop a "dynamic, competitive reinsurance industry." The offices currently are "limited in scope," Mr. Lee said.

"MAS is keen for reinsurers to establish full offices here and for those here to expand their scope and underwriting authority," he said.

The MAS, which regulates the industry, will set no limit on the number of reinsurers or reinsurance brokers licensed to operate in Singapore, he noted.

Mr. Lee said reinsurers are gaining access to the relatively uninsured Asian markets, with 1996 gross written premiums for Singapore's reinsurers reaching \$916 million Singapore (\$654.7 million), of which \$714 million Singapore (\$510 million) is from business outside Singapore.

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# Another kind of consolidation

## U.K. insurance industry prepares for introduction of single currency

By MARIA KIELMAS

The British insurance market is hustling to prepare for European Monetary Union, even though the government has ruled out immediate U.K. entry into the system.

London-based insurers and brokers must adapt to dealing with a new currency because of the city's dominant position in the world insurance market, regardless of the British government's position on the matter.

About 11 European Union member countries hope to participate in EMU, to be formed Jan. 1, 1999. E.U. countries will not agree on the membership of the EMU's first phase until the first quarter next year. Britain, Sweden, Denmark and Greece have officially ruled out first phase membership.

U.K. insurers are behind their European counterparts and clients in preparations.

Chris Smith, assistant manager of economic research at the London-based Assn. of British Insurers, explained in an earlier study on the effects of EMU on insurers that main reason for the lack of preparation has been the uncertainty surrounding EMU: whether and when it will start; whether and when the United Kingdom will join; whether and when the "euro" will be widely used before notes

and coins are available.

However, multinationals domiciled in countries such as France and Germany, which have declared they will join the first tranche of EMU, already have made preparations.

"We have been told by large European multinational clients and customers that they will deal only in the euro after 1 January 1999," says Nick Stone, group treasurer at London-based broker Lambert Fenchurch.

The costs for the British insurance sector for converting to use of the new single currency, the euro, have been variously estimated at between £1 billion to £1.5 billion (\$1.7 billion to \$2.5 billion). Costs for the E.U. insurance sector as a whole have been given by various institutions at £5 billion (\$8.36 billion). But this total only includes the costs of the transition. There is no estimate for any growing pains that may arise during the euro's early years or of future economic and political problems as the currency either succeeds or fails, according to Mr. Smith.

Costs to industry as a whole from the EMU transition have not been estimated, says Douglas Gooden, head of economic research at the London-based Confederation of British Industry, an industry group with corporate

membership. "With banks we found that it could add about 2% to overall costs over three years. In the retail sector the costs would be higher probably, about 4%," Mr. Gooden says.

The chief expense will be changing computer systems to accommodate the euro. The ABI thinks that this could account for 60% to 70% of overall costs of EMU transition. A complicating factor is that the new currency coincides with problems arising from the need to adapt computer systems to deal with the year 2000. "Are there physically enough specialists available to cope with the change?" asks the CBI's Mr. Gooden.

Lambert Fenchurch's Mr. Stone says his company has outsourced most of its information technology work to a service company, which itself may be overloaded with work as the millennium approaches.

Multinational brokers, insurers and businesses are used to dealing with a large number of currencies, so one extra in the form of the euro should not cause many problems.

In fact, insurers may benefit from the euro through reduced currency transaction costs.

However, long-term insurance contracts could be hit if the existence of See EMU on next page

# EMU

Continued from previous page  
the EMU led to lower interest rates throughout member countries. Mr. Smith says that if the EMU causes interest rates to be lower than they otherwise would have been, an insurance company may find it cannot meet its liabilities from its invested

assets, perhaps forcing it to draw on reserves.

The London-based Institute of Directors, an association of individual company directors, opposes Britain's joining the EMU and thinks the savings for British and European corporations in currency transactions costs will be negligible, if any.

EMU membership does not affect Britain's most important trading

partner: the United States.

"Only half of our current account transactions are with European currencies," says Ruth Lea, head of the IOD's Policy Unit.

The United Kingdom conducts 15% of its physical trade and the majority of its currency transactions with North America and the U.S. dollar. "If you are talking about monetary union, then the best union to talk about is joining the U.S. dollar with sterling," Ms. Lea said.

The insurance sector in London also transacts the majority of its business with the dollar.

Mr. Stone of Lambert Fenchurch said about 20% of his company's business is transacted in the European currencies expected to join EMU. The currency union will make a great difference to his company's currency hedging strategy. Nevertheless, the majority of business is transacted in U.S. dollars and sterling.

U.K. Chancellor of the Exchequer Gordon Brown last week ruled out British membership of EMU for the term of the current British Parliament, about the next five years. British membership after that depends on the way EMU progresses and how it fulfills certain economic criteria aimed at converging the U.K. economic cycle with that of EMU members. Mr. Brown said the criteria are:

- Whether there is sustainable convergence between Britain and the EMU member countries.
- Whether there is enough flexibility to cope with economic change.
- The effect on investment.
- The impact on the financial ser-

vice industry.

• Whether it is good for employment.

Lambert Fenchurch has adopted three scenarios for its preparations for EMU, Mr. Stone said. They are:

• The euro goes ahead without the United Kingdom and is a soft currency as far as transactions are concerned.

• Underwriting agencies such as Lloyd's of London and others adopt the euro as a settlement currency, but the United Kingdom stays out.

• Sterling goes into EMU, and all of the London underwriting markets adopt the euro as a settlement currency.

London brokers and underwriters have convened working groups to review their trading relationships once the EMU is formed. Lloyd's already has confirmed it will introduce the euro as a settlement currency and is upgrading its system accordingly.

The euro is expected to become legal tender in check and credit form on Jan. 1, 1999, until Jan. 1, 2002.

Throughout the transition period, companies in the EMU zone will have to file reports and accounts in euros and their domestic currencies. All new issues of government debt of participating states will be in euros from the outset.

EMU proponents hope this will result in a critical mass of wholesale financial market transactions being in euros from the start. But it will complicate accounting because of the duplicated reporting requirement during the transition.

"I don't think anyone has invented an accounting procedure to cope with this yet," says a spokesman for

Willis Corroon Group P.L.C.

Mr. Smith lists a number of issues insurers must confront with the euro.

During the transition period, insurance buyers will be able to choose to pay premiums or receive payments in euros or domestic currencies. This is called the "no compulsion, no prohibition" principle.

"Potentially, an insured could offer their insurer euros in payment of an insurance premium on 1 January 1999, and if the insurer did not have the capacity to accept and account for this conversion, charges, etc. could fall to the company," Mr. Smith says.

Insurers have a large number of long-term contracts in sterling and other domestic currencies. Some policyholders may be difficult to contact. Problems could arise if insurers are obligated to contact policyholders to report that the terms of the contract have changed.

Mr. Smith said the EMU remains a risky project with collapse a real possibility. The risk may be particularly high during the transition period. As part of their risk management strategy, some insurers, as well as other commercial organizations, are devising both an entry and an exit strategy into EMU.

The IOD's Ms. Lea said that once the euro goes ahead, it is unlikely to be demolished by currency speculators. "This will be a replacement for the deutsche mark. This is not something speculators will tear apart. The real problem is who knows how much pain and economic dislocation will be caused to put it into effect," Ms. Lea added. **BI**

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# INTERNATIONAL

## Singapore

Continued from page 29

That compares with only \$263 million Singapore (\$166.8 million) of premium written by Singapore-based reinsurers 10 years ago.

Singapore reinsurers have to serve a wider region, use state-of-the-art technology and use their "main competitive weapon," which is human resources, Mr. Lee said.

Reinsurers in Singapore now employ 600 people, of whom 45% are college graduates, which is "higher than the insurance industry as a whole," Mr. Lee observed.

However, 43% of the staff have less than five years' experience in the industry, and much training is required to "bring up their levels of experience."

In addition, Singapore is becoming an information technology hub and that will assist reinsurers.

In a separate panel session, Teddy Hailamsah, president/director of PT Asuransi Central Asia, based in Jakarta, Indonesia, told the conference delegates price still

## Niche

Continued from page 29

arm of Copenhagen Re, is "one of the most profitable reinsurers in the world, but only 5% the size of Munich Re."

But Mr. Denning did not underestimate the value of ratings, saying a good rating is important to a small company.

While larger reinsurers can afford to be "choosy" about the business they write, Mr. Denning warned smaller reinsurers that profit, not market share, should be the driving force and that they should not be tempted to write bad business. "If your premium level drops to unacceptable levels, don't be tempted to write bad business. Identify and develop new lines of expertise instead," he said.

Small reinsurers have to develop niches in which they can excel and write business they "understand at least as well as anyone else, and a good deal better than most." When asked what niches small reinsurers should be in, Mr. Denning said those in which they can provide service with less capital.

During his presentation, Mr. Denning said smaller reinsurers are able to make decisions quickly and independently. "There are no proven economies of scale in our business," he noted.

Mr. Bugl argued that a large, global player can accept large shares of treaties and individual risks. The costs per piece of business will, in relative terms, be smaller than those of a smaller reinsurer accepting smaller portions of the business, he said.

Large reinsurers are able to afford "superb underwriting expertise," he said. Mr. Bugl also argued that smaller reinsurers are unable to maintain networks of offices around the world.

However, Mr. Bugl conceded there are "ample opportunities for good, small niche players," although the market favors the larger reinsurers.

He said the demand for insurance and reinsurance will continue to grow but that risks, and thus the loss potentials, will become more complex, more hazardous and more difficult to assess. **BI**

is the key issue for cedents in Asia.

However, in the long term that will change, and service will be the prime factor, though "it may take another 10 years," Mr. Hailamsah said.

**'The governments are like our parents, they cannot keep us at home all the time,' says Teddy Hailamsah.**

Mr. Hailamsah said regional insurers have to step outside regulated markets.

"The governments are like our parents, they cannot keep us at

home all the time," Mr. Hailamsah said.

Governments in highly regulated markets are "trying to protect their children, but they must release them into the world's playground," Mr. Hailamsah said.

John S. Davidson, regional manager of Commercial Union P.L.C. in Singapore, said customers will dictate what they want from the market, and "protected markets don't give the customer a good deal."

"There are examples of markets where customers can't get the wordings they want because the market is protected. It's artificial to try to protect customers from foreign entrants, because ultimately, the customer wants to deal with someone who can provide what he wants," Mr. Davidson said. **BI**

## Reinsurance rates too low, exec says

By KATE TILLEY

SINGAPORE—The global reinsurance market will continue to consolidate through mergers and acquisitions, a reinsurance executive says.

"In the next two to three, and possibly four years, rates will decline further," Jacques Blondeau, chairman and chief executive officer of the SCOR Re Group, told attendees at the fourth biennial Singapore International Reinsurance Conference, held last month at Singapore's Shangri-La Hotel.

The soft market will delay the

growth of catastrophe bonds and pure financial products, he predicts.

Mr. Blondeau pointed out that reinsurance rates will not rise in a hurry.

He said "common sense" will not prevail in the reinsurance industry as the quest for market share intensifies, because larger reinsurers will be trying to amass market share to justify expensive acquisitions to shareholders. And small reinsurers will "fight to the death" to retain their market share.

See Reinsurers on next page

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## Reinsurers

Continued from previous page

But neither an influx of capital nor softer demand are the major factors fueling overcapacity, Mr. Blondeau noted. He blamed the reinsurers themselves, saying they are becoming "more aggressive" as they seek to expand, or retain, market share.

Good technical results from cedents in the past three to four years have reduced their reinsurance needs, he noted, and the lack of catastrophes in the past three years has impacted heavily on the reinsurance markets.

Mr. Blondeau sees emerging markets in central Europe, South America, particularly Brazil, and Russia as "positive trends," however, pointing out that the positives exceed the negatives for reinsurers.

atives for reinsurers.

Average growth in demand is still 3% to 5% a year over the past five years, and the total global reinsurance market is now more than \$100 billion, Mr. Blondeau said.

From 1992 to 1997, the number of reinsurers has dropped to less than 200 from 400, and that trend is likely to continue.

The two major reinsurance groups, Munich Reinsurance Co. and Swiss Reinsurance Group, now have a combined 31% market share, and the top four, including General Reinsurance Corp. and Employers Reinsurance Corp., command a combined 48% market share.

"We have become one of the most concentrated industries in the world," he said. As with other concentrated industries, such as airlines, chemicals

and computer chips, that means increased competition.

While there is overall global overcapacity, different classes and markets fare very differently, with overcapacity most obvious in the property, marine, aviation and excess-of-loss catastrophe classes. Casualty, space and construction covers are "better balanced."

Reinsurers will need to use technology better and provide more sophisticated products for insurers, Mr. Blondeau said.

He warned that reinsurers would be "foolish" to think the low claims level in commercial classes will continue and that catastrophe claims will continue to be low.

Casualty lines, too, will see claims continuing from tobacco products, blood contamination and breast im-

plants, and as reinsurers become larger through acquisitions, they will have to be wary of accumulating long-tail claims increasing their exposures.

Phua Kia Ting, managing director of Cologne Reinsurance Co. P.L.C. in Singapore, who moderated the session, said it would be "up to shareholders and the stock markets to make common sense prevail."

However, Mr. Blondeau said it is impossible to stop the competition that occurs through the increasing market concentration. However, "consumers are the winners... at least in the short term," he said.

During the question and answer period after the presentation, Mr. Blondeau said reinsurance brokers will follow the same trend of consolidation. "If we emerge with two or

three megabrokers and nothing else, that could be a problem for insurers and reinsurers. Any market needs competition."

Dieter Losse, chairman and chief executive of reinsurance intermediary Greig Fester Group Ltd. in the United Kingdom, said the "middle ground" of reinsurance brokers needs to be strengthened to ensure the industry is not dominated by "megagroups," because that is "potentially unhealthy."

"I personally am skeptical about megabrokers and reinsurers managing business in the best interests of the customers," he said.

He said Greig Fester is "strengthening the middle ground" with its sale to Benfield Group Ltd. (BI, Sept 29). Mr. Losse will become deputy chairman of the new entity, Benfield Greig. **BI**

## Tough times ahead for Japanese insurers: Exec

By KATE TILLEY

SINGAPORE—Japan's insurance market will see dramatic changes as the market deregulates, suggests a Japanese insurance executive.

Prior to deregulation, the market's stability and order, "unparalleled in other countries... made it enjoyable for insurers," but full deregulation will be implemented by 2001, according to Megumi Ugai, associate director and general manager of Yasuda Fire & Marine Insurance Co. Ltd. in Tokyo, at the fourth biennial Singapore International Reinsurance Conference last month.

Mr. Ugai predicted Japanese insurers' days of easy profitability are com-

ing to an end as the Japanese government's deregulation of financial markets is put in place. "The law of the jungle, survival of the fittest, will come into play," he told delegates.

"It is likely to be impossible to produce underwriting profits as insurers always did before," he noted. He said he expects commercial business to "migrate to larger companies, which have the technological superiority and ability to compete on price."

Much of the impetus for change was fueled by the United States-Japan Insurance Talks.

The 1996 Insurance Business Law, which took effect Oct. 1, permits life and non-life insurance companies to compete in each others' sectors; the

introduction of brokers; and the licensing of Lloyd's agents.

Since then, 11 non-life insurers have entered the life market, and six life insurers have entered the non-life market. The number of non-life companies has risen to 59, including foreign-owned companies. Lloyd's Japan Inc., a Tokyo-based Lloyd's service company, was set up in April this year.

Mr. Ugai's company, Yasuda, chose to expand by taking a stake in INA Life Insurance Co. of New York—a unit of CIGNA Corp.—a strategy that Mr. Ugai noted would have been "im-

possible before regulation."

Mr. Ugai said deregulation of premium rates is occurring slowly because if premiums are completely liberalized, "some high-risk consumers would be unable to afford insurance as the premium demanded of them rises or the policy conditions are tightened."

He predicted job losses in the insurance industry as job opportunities are eroded and the industry goes through "a round of cost-cutting of a severity never before experienced." The non-life sector always has been seen as a first-choice career path for university



graduates, with high wages and lifetime employment, he noted. **BI**

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## U.N. asking U.S. insurers to join international environment initiative

By CAROLYN ALDRED

GENEVA—U.S. insurers are being urged by the United Nations to sign the U.N.'s Statement of Environment Commitment by the Insurance Industry and to take a more active part in climate change negotiations.

The U.N. Environment Program's Insurance Initiative has 71 insurance and reinsurance company signatories from 25 countries around the world and, of those, 21 companies formed an association this summer to strengthen their voice in intergovernmental climate change debates.

Despite the fact that the largest weather-related losses to the industry occur regularly in the United States, U.S. insurers are noticeably absent among the U.N.'s list of

signatories. In fact, just one U.S.-based company, Employers Reinsurance Corp., has signed the industry statement, and no U.S. companies have joined the association.

The statement advocates sustainable development with a greater focus on environmental management.

"It is a major problem that we don't have an active U.S. insurance company on board," said Bernd Schanzenbaecher, an officer with the Geneva-based UNEP.

Extreme weather events have caused substantial losses to the U.S. insurance industry and "it would be logical if more U.S. companies get engaged in the UNEP Initiative and share their experience with other nations," he pointed out.

Part of the problem is that the

United Nations has a "weaker image" in the United States, said Andrew Dlugolecki, an underwriting manager with General Accident Fire & Life Assurance Corp. P.L.C. in Perth, Scotland, and a member of the UNEP's Insurance Assn.

The U.N. often is seen as a Eurocentric organization, noted Mr. Schanzenbaecher. However, the UNEP Insurance Initiative is a global initiative with signatories in every continent, he said.

Mr. Schanzenbaecher also pointed out that an independent assessment by a U.S. attorney on the legal obligations of the UNEP Banking Statement, which is similar to the Insurance Statement, has concluded that "even a direct breach of the Statement appears unlikely to expose a signatory to new forms of liabilities under U.S. law."

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# Stocks

Continued from page 1  
New York.

A.M. Best Co. of Oldwick, N.J., keeps a "hit list" of insurers susceptible to a stock market downturn, but there are a "very limited number" of such insurers, said Eric Simpson, a senior vp in the rating agency's property/casualty insurance division.

Even if stocks had not rebounded or if another and more long-term stock market correction lies ahead, the impact on the insurance industry would be minimal for a couple reasons.

One is that the industry has a relatively small equities exposure, analysts said.

At year-end 1996, the insurance industry's common stock holdings were valued at about \$104.2 billion, or 12.6% of its \$825.28 billion of total assets, according to the Insurance Information Institute of New York. The industry's total surplus was \$265.29 billion, which means 39.3% of the surplus was exposed to equities.

But, even if an insurer's surplus was 50% exposed to equities and the company's equities portfolio's performance mirrored the Dow's Oct. 27 decline, the net effect would have been a 3.5% hit to surplus, said Claude Fongemie, vp of insurance research and publications at Hartford, Conn.-based Conning & Co., an insurance asset management and research firm.

Even a 20% stock market correction would translate into only an 8% hit to the insurance industry's surplus, Best's Mr. Simpson said. Such a correction would be "a non-event," especially considering the industry's gross underwriting leverage ratio has fallen 25% over the past four years, he said.

That ratio measures the industry's exposure to errors in pricing, liability estimates and ceded reinsurance estimates. Falling ratios mean a declining susceptibility to such errors.

The industry's investment strategy has not always been as conservative, however.

For example, in 1974, about 75% of the industry's surplus was exposed to equities, Mr. Fongemie noted.

The 1974 stock market correction was one of the forces that precipitated the mid-1970s hard insurance market, said Mr. Fongemie, noting that the S&P 500 Index fell more than 20% for the year.

With dividends reinvested, the S&P 500 index fell 26.39% that year, according to S&P.

The Oct. 27 correction does not come close in significance for the insurance industry, according to Mr. Fongemie. After the correction, the Dow Jones Average still was up 11% for the year, he pointed out.

The insurance industry had reduced its surplus' exposure to equities by the time the stock market crashed in 1987.

However, by then, the tightest insurance market in history already was well under way because of the industry's capacity problems.

Today, the insurance market is significantly overcapitalized, which further buffers it from instability in the equities market, analysts agree.

Many analysts estimated that a 40% stock market plunge would have to occur to gobble up the insurance industry's excess capital and end the industry's longest-ever soft market.

Such a stock market downturn would erase about \$41.68 billion of the industry's equities holdings at year-end 1996.

If the stock market remains flat for the remainder of the year, and if second-half income mirrors the first half's, the industry's capital should grow by about \$35.36 billion, estimated Sean Mooney, a senior vp and economist with the III in New York.

"So, to have a severe decline in capital, you would need a decline of at least as big as the industry's income

for the year and a little more to provide the shock value to change the insurance market's psychology," Mr. Mooney said.

But, that dire scenario is unlikely, Conning's Mr. Fongemie asserted. "Logic would tell you the Fed would step in to inject liquidity into the system as it did in 1987 and stop the drop-off."

Mr. Fongemie said the Federal Reserve, as it did a decade ago, likely would purchase Treasury securities from institutional investors. Under that strategy, the investors would then have more capital and their reinvestment strategy could trigger broad new reinvestment in equities.

Another reason a steep drop in the stock market should not significantly hurt insurers is that fixed securities account for a major portion of most insurers' investment portfolios. Those securities increased in value when the bond market rallied in response to the stock market's fall.

"Therefore, the movement in bonds most likely offset the drop in stock values," said Gloria Vogel, senior vp with Advest Inc. in New York.

Among individual companies, though, the exposure of surplus to equities can vary widely.

For example, assets representing more than 100% of the surplus of the property/casualty insurance operations of Cincinnati Financial Corp. of Fairfield, Ohio, are exposed to equities. Of the insurance operations' \$5.17 billion of total assets on Sept. 30, the value of its common and preferred stocks represented \$2.9 billion. The insurance company's surplus totaled \$2.3 billion.

Still, Cincinnati Financial is found on the Ward's 50 Benchmark list, the 50 insurers that Cincinnati-based insurer management consultant Ward Financial Group says best balance solvency and financial performance (BI, Aug. 25).

Ted Elchynski, chief financial officer for Cincinnati Financial, explained that the company is comfortable with its investment strategy, which is designed to generate appreciation as well as income.

"It's been so successful that it's built up a great deal of unrealized appreciation," he said. About \$1.19 billion, or 41%, of the insurance operations' equities holding represents unrealized appreciation, Mr. Elchynski said.

He also noted that the company holds large stakes in relatively few companies—about 25 to 30—that historically are strong performers.

Insurers in court-ordered liquidation have even less exposure to equities, liquidators said.

Liquidators quickly try to convert insolvent insurers' equities holdings into fixed securities and match those securities' maturity dates to the time they need money, explained Karl Rubinstein, a partner at Rubinstein & Perry P.C. in Los Angeles. Mr. Rubinstein represents California regulators in insurer rehabilitations and liquidations.

As with active insurers, the value of insolvent insurers' fixed securities may rise in the short term as equities investors flee to the fixed income market, said Peter Gallanis, special deputy receiver for the Illinois Insurance Department in Chicago.

"But, since most receivers don't really play the bond market—they really buy and hold—any gains we might get as a result of a downswing in the equities market are gains we never really realize, because we don't dump our bonds at a high point and then try to get back in," he said.

Insurers in voluntary runoff, including CIGNA Corp.'s runoff facility and International Insurance Co., which is running off the business of former Xerox Corp. insurance units, have no equities holdings, representatives said.

While a market turn is not expected in the wake of the stock market's up-

heaval, there may be some changes in how insurer mergers and acquisitions are structured, analysts said.

But, "For those buyers who are buying for strategic purposes, I don't know that a deal will go kaput because the price changes," Ms. Vogel said.

S&P's Mr. Levin agreed. A volatile

stock market would not necessarily change the "strategic value" of a deal, he said. So, a seller may not be willing to renegotiate a deal, even if the per share value of its property has fallen.

But, only some sellers—those with little of their authorized shares held by the public—can strongly argue that point, said John L. Ward, chair-

man of Ward Financial. When 20% or less of a company's stock is in the public's hands, "it's tough to know what the stock's worth, so the market trades it more conservatively," Mr. Ward said.

Mark A. Hofmann in Washington contributed to this report.



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#### REQUEST FOR PROPOSALS

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## Business Insurance

### Circulation Breakdown Commercial Consumers

Administrative:	
CEO's, Presidents, and Owners, .....	2,499
Vice Presidents, General Managers and Other Administrative Personnel .....	4,696
Financial:	
Chief Financial Officers and Vice Presidents of Finance .....	3,084
Secretaries, Treasurers, controllers and other Financial Personnel .....	3,028
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 .....	15,387
<b>Sub-total .....</b>	<b>28,694</b>
Associations .....	305
Government, Unions and Educational Institutions .....	1,046
Commercial Consumers	
<b>Sub-total .....</b>	<b>30,045</b>
Insurance Agents and Brokers .....	8,462
Insurance Companies .....	7,336
Accountants, Actuaries, Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers .....	2,823
Others Allied to the Field .....	1,648
<b>Total Qualified .....</b>	<b>51,229</b>
Non-qualified/Paid Subscription .....	31
Single Copy Sales .....	2
<b>TOTAL CIRCULATION .....</b>	<b>51,262</b>

\* Source Business/Occupational breakdown of qualified circulation, May 26, 1997 Issue, as submitted to BPA for June 1997 BPA Publisher's Statement

# Captives, RRGs holding steady

## Conservative investments unshaken

By MARK A. HOFMANN

Last week's stock market turbulence sent few ripples through the alternative risk financing world.

The equity market turmoil did not faze most alternative risk financing vehicles. In fact, the resultant boost in bond prices, even if temporary, may have helped some risk retention groups and captives, experts point out.

"Risk retention groups, particularly those with shorter-tail exposures, are pretty darn conservative investors. If anything, assuming that they were in bonds, perversely it might have increased them a little for a little while. But I really don't think it had that much effect," said Jon Harkavy, vp and general counsel in the Arlington, Va., office of U.S. Risk Services Inc., a Sarasota, Fla.-based alternative insurance market administrator.

"Group captives, I would suggest, are similar in many ways to risk retention groups—pretty conservative," he added.

The chief captive regulator of the nation's largest captive domiciled agreed that the impact from the fluctuations appeared to be minimal.

"Eighty percent of our captives are pure captives. The only concern we would have, if any, is with our group captives. We have restrictions on investments in stocks at 10%, and most of them don't even have that. It's just not a big issue with our group captives. If

the groups do have a small portion of their investments in stock, the market's still up for the year," said Len Crouse, director of captive insurance for Vermont.

"It's not an issue," Mr. Crouse added.

Mr. Harkavy said the turbulence could have had an impact on some single-owner captives, given that their parent companies control the investments.

The assistant treasurer responsible for risk management of the parent company of a single-owner captive said that in the case of his captive, the market turmoil had no effect.

"It didn't have any effect on our captive, either in how we manage it or how we invest," said John Spies, assistant treasurer of Harnischfeger Industries Inc., a St. Francis, Wis.-based mining, materials handling and paper machinery equipment manufacturer.

He said Harnischfeger's Vermont-domiciled captive, Industries Insurance Inc., invests mostly in commercial paper and some government securities. "There was no impact," he said.

Mr. Harkavy said: "I think the more interesting speculation is what effect it will have on the insurance market generally. If you don't have investment income, the market hardens."

"But if you take a look at it even two days ago, the market was still 16% ahead of where it was a year ago," Mr. Harkavy said.

# Catastrophe bonds weather market storm

By RODD ZOLKOS

The recent volatility in the world's stock markets has several potential positive and negative implications for efforts to securitize risk.

"I think there are two implications, one good, one bad," said Morton N. Lane, president of Sedgwick Lane Financial L.L.C. in Chicago.

"First and foremost, there's a Japanese earthquake bond issue that's about to close, and the extent to which that looks attractive against higher yield or emerging market bonds may change if (higher yield) markets back up," Mr. Lane said.

Yields on catastrophe bonds brought to market this year have proved attractive to investors compared with other opportunities.

"As long as spreads remain meaningful to investors—the USAA transaction the spread was very rich and it was oversubscribed—as long as spreads are worthy of jumping in, I don't see the volatility of the past couple days impacting that," said Brian W. Kawamoto, managing director at Aon Worldwide Resources in San Francisco.

Andrew J. Kaiser, a vp at Goldman Sachs & Co. in New York, noted that yield spreads for classes such as emerging market debt have widened recently, however, in part because of the recent volatility, but also because of the perception of an increased risk of defaults, even though it's not yet clear whether that risk actually exists.

A positive implication of the re-

cent market volatility is that it underscores the value of catastrophe-linked securities as an asset uncorrelated with others in an investor's portfolio, Mr. Lane pointed out.

"One of the arguments for an investment manager to buy these assets is that they are not a correlated asset with whatever else is going on in the world," Mr. Lane said.

While recent activities in the Hong Kong stock market might have had an impact on investors' bond holdings as well, "anybody

term predictability is relatively constant," Mr. Kaiser said it's not yet clear whether the performance of catastrophe-linked securities will correlate with other asset classes in the current volatile atmosphere, because there isn't a critical mass of natural hazard securities in the market to gauge how they will perform.

"But the point that investors need to understand about insurance-linked securities is that the risk is relatively constant," Mr. Kaiser said.

One other possible implication

Mr. Kawamoto sees regards the integrated risk approaches some insurers are promoting, which embed such risks as currency risk in a larger insurance contract covering more traditional in-

**'The point that investors need to understand about insurance-linked securities is that the risk is relatively constant,' says Andrew J. Kaiser.**

that owned any of the insurance securitization would have seen no negative effect on the value of those investments," Mr. Lane said. "What better illustration could you get?"

But Mr. Kaiser was cautious of overstating the possibility that catastrophe risk's attraction as a portfolio volatility damper would make it even more appealing to investors in the present market climate.

"If emerging market debt spreads double... that could impact insurance-linked securities," he said.

And he noted, "In many volatile markets, many instruments that have very little correlation in terms of expected loss do tend to perform in somewhat of a correlated basis."

While with cat risk "the long-

sured risks.

The recent market events and the pounding some Asian currencies are taking "would certainly give underwriters pause as to how they price that (currency) risk," Mr. Kawamoto said.

"The other thing is what about the volatility's relation to risk in general?" Mr. Kawamoto asked.

Many companies have been looking for ways to lay off emerging market credit exposures, he noted, and the recent volatility in the Asian markets and the collapse of some Asian currencies might make it necessary to revisit some of those efforts.

"I think big blue-chip companies in the good times are looking at a number of things that may enable them to soften the blow of an adverse event," Mr. Kawamoto said. **BI**

# Reinsurer portfolios escape volatility

By DOUGLAS McLEOD

NEW YORK—The wobbling stock market is unlikely to have much impact on reinsurers or their products, industry observers say.

Reinsurance companies generally do not have large stock holdings, the industry is awash in capital, and financial reinsurance products—whose pricing often is pegged to U.S. Treasury securities—are largely unaffected, observers say.

The biggest potential impact, some in the market say, is that future merger and acquisition deals might be less reliant on stock if the market continues to drift downward.

"Ho-hum," Willis T. King Jr., vice chairman of intermediary Guy Carpenter & Co. Inc., remarked last Wednesday after the market had dropped approximately 554 points and then rebounded about 337 points the next day.

"It would have sobered people" if the market had continued an uninterrupted downward trend, "but a 7% drop, or whatever it was—no big deal," according to Mr. King.

"Reinsurers are not heavily invested in equities as a general rule. I wouldn't think this would

have changed anybody's capital structure," said Steven Bolland, senior vp with intermediary Gill & Roeser Inc. in New York.

"Fortunately, it's happening mid-quarter, and hopefully, things will have settled down by the end of the quarter," he added. "If it had happened at the end of September, things might have

ined when we made the (investment) decision, and (they) would not change our thinking," she said.

In fact, cash-rich reinsurance companies, such as the giant Berkshire Hathaway Insurance Group, for example, might see a falling market as an opportunity to add to their stock portfolios,

**'Even if you had a 10% market correction, it's not going to hurt. It's going to be like a sprained ankle, not a broken bone,' says Joanne Stone Morrissey.**

been a little more exciting. Volatility at the end of a quarter is a bad thing."

Some reinsurers have larger stock holdings than others, but few are expected to change their investment strategies in response to last week's market gyrations.

General Re Corp., for example, is not planning to alter its strategy of maintaining a larger than average stock portfolio, a spokeswoman said.

"Fluctuations like these are not out of the realm of what we imag-

observers say.

High levels of capitalization are cushioning reinsurers against any damage from drops like last week's: Even excluding Berkshire Hathaway, the largest U.S. reinsurers are writing at a net premium-to-surplus ratio of at most 1-to-1, pointed out James Shamberger, senior vp with the Reinsurance Assn. of America in Washington. Including Berkshire Hathaway, the ratio drops to about 0.6-to-1, he said.

Given this, a decline in stock

prices "would probably be looked at as a healthy sign, to sop up some of that excess surplus," Mr. Shamberger said.

Things have changed since the 1987 stock market crash, with insurers and reinsurers now subject to greater rating agency scrutiny and to risk-based capital rules that restrain investments in volatile instruments, pointed out Joanne Stone Morrissey, president and chief executive officer of Firemark Group Inc. in Morristown, N.J.

"Even if you had a 10% market correction, it's not going to hurt. It's going to be like a sprained ankle, not a broken bone," Ms. Morrissey said.

Still, more bad news from Wall Street could lead to changes in the reinsurance market, some industry observers say.

"It's a little bit of a wake-up call to the marketplace," said Raymond A. Dowling, vp with the integrated reinsurance and risk management unit of Towers Perrin in New York.

Reinsurers' surplus growth—and by extension their willingness to compete for business—has been fueled by realized and unrealized market gains, Mr. Dowling pointed out.

If there were a market correction that stuck, "obviously that's

going to put some pressure on companies, because some of those unrealized gains have supported some of their underpricing," he said.

Meanwhile, the market swings have had virtually no impact on financial reinsurance products, observers agree.

Pricing of these products is typically pegged in part to investment returns on U.S. Treasury securities or on the London Interbank Offered Rate. While the stock slide created ripple effects in the treasury market, those changes aren't affecting reinsurance pricing.

"Interest rates are gyrating but within a very narrow range," Mr. Bolland noted.

About the only potential impact from the stock market decline may be on future merger and acquisition deals, observers agreed.

A volatile stock market could make it more difficult to complete stock-based acquisitions, Mr. Dowling said.

"If there is a lot of uncertainty about where the market is going, that currency—using your own stock (to make acquisitions)—is going to be more difficult to sell," he explained.

"It could be an issue in the market going forward, certainly," Mr. Bolland agreed. **BI**

# 401(k)

Continued from page 1

Among 40 major 401(k) plans that Hewitt Associates L.L.C. administers, roughly one-fifth of 1% of plan assets were moved early last week.

At Kemper Insurance Cos., about 1% of its employees' 401(k) plan assets changed accounts. "It was more than a usual day but not dramatically so," said Sally Bullen, Kemper's vp of human resources in Long Grove, Ill.

Just as striking as the relatively small amount of money transferred—amid the tremendous market volatility—was how few plan participants moved funds out of equities.

While there was a shift out of equities Monday morning and into more secure investments, such as money market, guaranteed invest-

ment contacts and bond funds, the tide began to turn Monday afternoon in favor of equities.

By the time 401(k) plan transfer activity returned to normal levels on Wednesday, employees' investments in equity funds was about the same as when the week began.

"The net effect was virtually a wash," said Tom Flint, Hewitt Associates' head of participant services in Lincolnshire, Ill.

Asset transfers in and out of equities was even or very close to even, said a spokeswoman for TIAA-CREF, the largest provider of 403(b) plans—non-profit organizations' equivalent to 401(k) plans—to educational institutions.

Even as the market was plunging Monday, plan participants remained calm.

"It was basically a non-event," said Robert Cornett, vp-human resources at UNUM Corp. in Portland, Maine. "We expected and

anticipated calls, but they never came," Mr. Cornett added.

Far from reacting with hysteria, some employees instead saw Monday's stock market crash as an op-

portunity to shift money into equities after the market shut down Monday afternoon at 3:30, a half-hour before the normal market close, thinking they could buy

## 'Employees are understanding long-term trends and are not spending so much time thinking about short-term events,' says Tom Flint of Hewitt.

portunity to invest in equities at their lower prices.

"One employee in his 50s told me he wished he had more money to invest in equities," said Douglas Terp, director of personnel at Waterville, Maine-based Colby College, which offers a 403(b) plan.

In fact, some savvy 401(k) plan

participants tried to shift money into equities after the market shut down Monday afternoon at 3:30, a half-hour before the normal market close, thinking they could buy

in at the low. That forced many plan administrators to alert plan participants—through thousands of calls the following day—that any transaction conducted after the market closed Monday would not be made until Tuesday's closing.

The relative calm and low trad-

ing activity of 401(k) plan participants contrasts sharply with the last big market crash a decade ago.

"There was a tremendous reaction of people moving out of equities (in 1987). We did not see that this time around," said Mr. McGlone of Buck Consultants.

"I was heartened and gratified by the showing that it will take a fair amount to rattle 401(k) participants," said James Klein, a principal with Towers Perrin in New York.

That change in employee behavior, plan administrators and employers say, is the result of campaigns to educate employees that savings plan investments should be held for long-term returns, and that decisions on where to invest funds should not be based on short-term events.

"We have spent a lot of time educating participants about the way the investment markets work," said Jim Sager, associate director of pension investment services with The Principal Financial Group in Des Moines, Iowa.

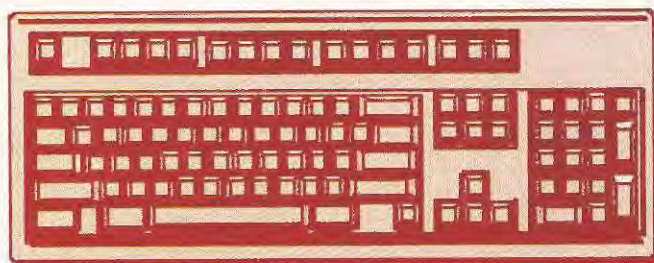
"We have pointed out that success in investments requires a long-term point of view. We've encouraged people to disregard short-term changes and focus on the long term," Mr. Sager added.

"Employees are understanding long-term trends and are not spending so much time thinking about short-term events," said Hewitt's Mr. Flint.

Still, some note that the staying power of 401(k) plan participants in equities and the effectiveness of employers' investment educational campaigns may not have yet received a true test.

"Today's 401(k) plan participant has yet to experience a true bear market when there is a steady, sickening slide... eating away at

See 401(k) on next page



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# 401(k)

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people's ability to stick" with their investments, said Mr. Sager.

Because of that potential, plan sponsors need to do an even better job of educating participants that stocks don't always go up and that there can be long periods of time when equities go—and stay—down, Mr. Sager said.

But what did receive a major test were the voice response and call center systems that service providers have established in the last few years to handle the ad-

ministration of 401(k) plans and other employee benefit plans.

Call volumes during the peak times—Monday afternoon and Tuesday morning—were as much as four times higher than normal.

While processing calls made things hectic, "It was nothing unmanageable," said Cindy Dybas, director of client servicing at Towers Perrin's benefit outsourcing center in Philadelphia.

"We had no complaints from clients that employees could not get through," said Margaret-Ann Cole, a principal with The Kwasha Lipton Group in Fort Lee, N.J.

What made the difference, according to Ms. Dybas and other service center executives, has been the revolution in technology over the past few years that allows employees to conduct transactions—such as checking account balances and transferring savings plan funds from one investment option to another—by pressing a few digits on a Touch-Tone phone.

In fact, service center staffers said anywhere between 70% and 90% of 401(k) plan-related calls last week were handled through voice response systems.

For administration centers, the

timing of last week's market volatility also was fortuitous. Many had extra staff on board because late October is busier than normal because of the high number of clients that have open enrollment periods for health care plans at this time of year.

Still, Monday turned out to be a "triple witching" day for administration centers due to open enrollment periods, the frenzied activity on Wall Street and the above-average volume of calls that centers always receive on Mondays, said Bob Byrne, managing principal at The Kwasha Lipton Group. **BI**

# Defined benefit plans still up

For defined benefit pension plans, last week's roller coaster stock market is largely a non-event.

Most pension plans now are overfunded because of the multiyear surge in the value of equities.

In fact, a survey released last week by benefit consultant Watson Wyatt Worldwide found that at the end of 1996, pension plans sponsored by major industrial companies were on average 108% funded, while plans offered by large service companies were 113% funded.

Those healthy funding levels were before this year's surge, in which the value of the Dow Jones Industrial Average—until last week's decline—had risen by more than 20%.

"Most pension plans have earned more than their funding assumptions," said Philip Schneider, director of Watson Wyatt Investment Consulting in Chicago.

"In my experience, defined benefit plans are much healthier mainly because of the long run-up in the stock market. Because they are long-term financial endeavors, pension plans can ride out storms quite well," added Raymond Sharpe, a principal and consulting actuary with Buck Consultants Inc. in Secaucus, N.J.

If the stock market falls again and the economy falters, the Pension Benefit Guaranty Corp. is in its best financial shape to handle any increase in terminations of underfunded pension plans by companies that fail.

The PBGC, funded by premiums paid by employers with defined benefit plans, had a surplus of \$869 million in 1996 in its single-employer insurance program, a sharp turnaround from 1987, when it was laboring under a \$1.5 billion deficit.

—By Jerry Geisel

# Oxford woes drag down HMO stocks

By ROBERT KAZEL

The recent volatility in HMO stocks, while hardly signaling an emergency within the sector, may be emblematic of problems in the managed care industry that might give buyers pause when shopping for a health plan, benefit experts say.

A glimpse of such behind-the-scenes trouble came Oct. 27, when HMO stocks lost value at a rate faster than the general stock market.

The HMO component of the *BI* Industry Stock Report plunged 18.37% last Monday, while the Dow Jones Industrial average lost 7.2%, or 554.26 points.

Norwalk, Conn.-based Oxford Health Plans was widely seen as the culprit dragging down the overall managed care sector.

Oxford's announcement that accounts receivable were not being collected on time and its prediction of a third-quarter loss coincided with the general marketwide sell-off.

Oxford saw its stock price plummet 62.55% on Monday to \$25.88 per share from \$68.75 the previous close, making it the leading decliner in the *BI* Industry Stock Report. By Friday, Oxford stock had climbed to only \$25.81 per share.

Oxford had predicted a third-quarter loss of between \$0.83 and \$0.88 per share, citing disappointing revenues, higher costs and having fewer plan members than it had believed. It predicted fourth-quarter net income, though, of \$0.05 to \$0.27.

Investment firms downgraded Oxford's ratings in response, and other HMOs were dragged down in the process.

The day after the stock crash, a group of Oxford shareholders filed suit against the company in feder-

al court in New York, seeking class-action status. The litigants alleged that Oxford "concealed the adverse impact of a computer crisis which arose from changes made in the company's computer system in September of 1996" and misled them with regard to accounts receivable, membership and enrollment information.

Oxford executives did not return telephone calls.

Managed care market observers said the announcement by Oxford—which had been widely viewed as a model, steady profit producer—led to a brief loss of confidence in all HMOs by investors. Many HMO stocks began to regain value as early as a day after the crash, however, though most remained down at the end of last week compared with the previous Friday close.

Ken Jacobsen, senior vp, national health practice leader for The Segal Co. in Atlanta, called last week's HMO stock drop a correction of a "market inflated by overzealous investors."

Although problems unique to Oxford accounted for its plight, market observers note that related concerns exist for many managed care plans.

The jittery stock market for HMOs can be seen as a reflection of an increased need to appease shareholders coupled with few avenues for gaining additional revenues, said Bob Braddick, a principal at William M. Mercer Inc. in New York. "All these organizations are seeing increasing pressure on profitability," he said. "There's a massive stream (of revenue) that's not sufficient to cover the cost."

Insisting that the experience of Oxford "is probably something that should be put aside," Mr. Braddick said that all HMOs can

be viewed as being in distress due in part to compact profit margins, investment in expensive new technology, lags in payment to providers and difficulty in recruiting members in "tapped" markets.

The real Wall Street story for HMOs is not what happened on "Bloody Monday" but the doldrums the industry's stocks have found themselves in for several months, said Richard Hamer, director of Minneapolis-based InterStudy, a managed care research firm. Profits are down across the board, while medical expense ratios are up, he said.

"The event on Monday does not really portend much as far as the long-term performance of HMOs," he said. "Oxford's announcement was bad luck in its timing and created downward momentum for all HMO stocks."

However, if managed care companies, such as Oxford and the managed care units of Aetna Inc. and CIGNA Corp., continue to have disappointing results beyond the third quarter of this year, "it should raise some concerns about how much they can grow and expand," said Rich Stover, a principal for Buck Consultants Inc. in Secaucus, N.J.

Most managed care stocks have reported depressed results in the past few months. Aetna Inc. said it would post a \$75 million to \$105 million aftertax charge to boost HMO medical claims reserves and would report earnings of 95 cents to \$1.10 per share, rather than analysts' estimated \$1.31 (*BI*, Oct. 6).

Some market observers suggested HMOs are going through growing pains.

Stock gyrations should be seen as gastrointestinal troubles of health plans trying to digest other plans, said Mark Hopkins, practice leader for Watson Wyatt World-

wide in Washington. United HealthCare Corp., Aetna, Well-Point Health Networks Inc. and some Blue Cross/Blue Shield plans are "struggling to swallow" acquisitions made over the past 18 months, he said.

Large managed care companies have grown significantly in recent months through acquisitions, but lack the additional claims management expertise to satisfy greater numbers of plan sponsors, said David Ives, president of Salem, Mass.-based North Shore International Insurance Service, a claims management and consulting firm. "They grow and add lives without making the critical adjustments to the infrastructure of staff and computers," he said. "Even the best personnel can be overwhelmed."

Minneapolis-based United HealthCare Corp., which lost 16.6% of its stock value last Monday, "has moved beyond integration issues" and does not see the stock loss as an important long-term event, said Bernard McDonagh, vp of investor relations. United Healthcare stock rose nearly 11% in value the day after the crash.

Although HMOs generally expect to raise rates an average of 6% this year, in other areas they are losing control over their destiny, observers say.

HMOs are losing their ability to control their costs; for example, they have a limited degree of success from utilization management programs, according to Watson Wyatt's Mr. Hopkins. In addition, employees now are demanding access and choice more than ever, causing doctor pools to be virtually identical from HMO to HMO. The result is cookie-cutter plans, he said, that don't offer the employee anything special. **BI**

# Redskins' jurisdiction move no touchdown

Federal appeals court rules retrospectively rated policies can be increased

By MICHAEL PRINCE

WASHINGTON—Policyholders with retrospectively rated workers compensation policies can have their premiums increased if employees file claims in a jurisdiction that offers higher benefits than anticipated under the original policy, a federal appeals court has ruled.

The dispute arose over a three-year workers comp policy written by The Hartford Accident & Indemnity Co., now known as The Hartford Financial Services Group Inc., covering players and coaches of the Washington Redskins football team.

The policy contained a retro-

spective rating clause that allowed the premium to be adjusted until three years after it expired. The policy used Virginia as the basis for calculating the initial premiums.

But during the first year of the policy, in 1989, injured players filed claims in the District of Columbia to receive the higher benefits paid there compared to Virginia. Washington's courts upheld this choice, as the team played its games in the District of Columbia.

After that decision, The Hartford reclassified the Redskins players and coaches as employees working in the District of Columbia. After recalculating the

premium to reflect the higher benefit levels in Washington, the insurer billed the Redskins \$5.3 million in additional premiums. The Redskins refused to pay, prompting The Hartford to sue.

Before the appeals court, the Redskins argued that The Hartford couldn't increase premiums because of jurisdiction changes, as that could only be done if payroll or work classification changed.

The U.S. Circuit Court of Appeals for the District of Columbia, however, rejected this argument in its Oct. 28 opinion. The appeals court upheld the insurer's right to increase the premium and granted summary judgment on the issue of liability in favor of the insurer.

"Here, Hartford accounted for a large, legally mandated, rise in benefit levels through an appropriate adjustment to its premium calculation, as the policy contemplated," the opinion by Circuit Judge Stephen Williams said in reversing the district court opinion.

Lawyers for The Hartford said the opinion properly upholds its right to charge premiums that reflect benefit levels.

"This is a classic example of a case in which the experience estimated at the beginning of a three-year period turned out to be far less than the law required, and this justifies the company's right to apply the proper rating factors

even after the policy expired," said Doug Simpson, counsel for The Hartford.

He added that as there are few decisions on this topic, insurers can use this one to resolve future disputes with policyholders.

But an attorney for the team said that because the insurer agreed to use Virginia premium rates in the policies, even after the ruling by the Washington court, it cannot later change the policy. Also, because The Hartford represented team management in the Washington case and lost, they "are using the loss to their own benefit," said Barry Levine, a partner with Dickstein Shapiro Morin & Oshinsky in Washington.

The case now returns to the district court for a trial on damages, where Mr. Levine vows the insurer "will not get a dime."

The team also plans to file a motion to reargue the decision.

# Memo

Continued from page 1 about," he said.

"We would be glad to participate in that," Kenneth Pinkston, chairman of Willis Corroon Corp. of Nashville, Tenn., said of the RIMS initiative. "Risk managers as a group have a strong enough voice that their interests will not be overlooked by any broker. We plan to do everything we can to work with risk managers," he said.

"We're always interested in working with RIMS," said Gary M. Van der Voort, president of the brokerage services division of Arthur J. Gallagher & Co. of Itasca, Ill. "Their views are important to us."

"I think it's a really responsible thing for RIMS to be doing," said Scott K. Lange, director of risk management at Microsoft Corp. in Redmond, Wash.

"RIMS represents almost 4,500 companies and 7,000 risk managers," said David L. Mair, risk manager of the U.S. Olympic Committee in Colorado Springs, Colo. and vp-industry liaison and treasurer on the society's Executive Council. "We certainly hope that kind of critical mass of key players is going to generate some attention from the rest of the industry."

Mr. Mair said he believes "the key to the meetings is to identify ways we as risk managers and service providers can work to achieve the quality I hope we all desire."

Stephen M. Wilder, RIMS president and vp-risk management at The Walt Disney Co. in Burbank, Calif., said he hopes the result of the meetings will be that "the voice of the customer is heard in making the industry more efficient."

Mr. Wilder also noted that he thinks the issue was coming to the fore even without the J&H Marsh & McLennan memo as a catalyst. "I would really like to think that RIMS would have taken an active role in the absence of that memo," Mr. Wilder remarked.

But Mr. Lange called the J&H memo "a wake-up call" for risk managers. "Risk managers said, 'We need to stand up and help guide the industry'" in its efforts to modernize the distribution system, he added.

J&H Marsh & McLennan in an internal memo circulated in Au-

gust said that all property/casualty business placed with Chubb Corp. would be handled by the broker's regional Global Broking Centers (BI, Oct. 13). The broker and Chubb later said in interviews that the Global Broking Centers are to handle middle-market business, which the broker defines as coming from a policyholder without a professional risk manager.

J&H Marsh & McLennan emphasized that policyholders will realize benefits from a more efficient distribution system.

"Everything we do, including global broking, is designed to im-

tained throughout the country, he said.

By placing business through regional centers, brokers reduce their own costs and insurers are able to reduce their number of offices or the resources in those offices, Mr. Clements said.

The Global Broking Centers also give brokers and risk managers more leverage when they deal with insurers and make it easier to analyze risk information from a broad spectrum of risks placed through the centers, he said.

That information can then be used to develop new products and

through regional processing centers, my job is to say 'Aye, aye, sir,'" Mr. O'Hare said.

Mr. Lange of Microsoft emphasized that the J&H Marsh & McLennan directive is only "one very major player's strategy in the marketplace" in which brokers are consolidating.

"Every broker approaches things a little differently in terms of how we execute our strategies," agreed Mr. Pinkston. "At Willis Corroon, we feel local service is very important. We have explicitly told our offices that we are committed to local service, especially for middle-market accounts."

Even so, Willis Corroon has consolidated its smallest accounts—those that generate less than \$25,000 in premiums—into regional offices, Mr. Pinkston pointed out. Those accounts eventually will be centralized into a national location.

Mr. Van der Voort of Gallagher said regionalizing some types of business can benefit insurance buyers. "Regional consolidation of all business would fail miserably," he noted.

But for smaller buyers that don't have the same leverage as larger accounts, consolidation with similar-sized accounts creates efficiencies that buyers can share, Mr. Van der Voort explained.

While Gallagher's distribution system is structured differently than J&H Marsh & McLennan's, Gallagher provides its local marketing offices with regional or national support groups to provide services that local operations can't, according to Mr. Van der

Voort. Several risk managers say they are reaping benefits from consolidation.

"I'm gaining from it. I haven't seen the downside," said Richard C. Heydinger, director of risk management services for Hallmark Cards Inc. in Kansas City, Mo.

The merger of Johnson & Higgins and Marsh & McLennan Inc. has created a brokerage with resources that weren't available to Hallmark through M&M before the consolidation, Mr. Heydinger pointed out.

However, Mr. Heydinger emphasized that if there were any disruptions in his relationships with insurers as a result of changes on the brokerage side, "I would be upset... I certainly haven't seen any of that."

"It's been a plus for me," agreed Eugene Kiernan, director of risk management and insurance at National Semiconductor Corp. in Santa Clara, Calif.

With coverages placed through J&H Marsh & McLennan and Aon Group Inc., Mr. Kiernan said he, too, is happy with the increased resources that the megabrokers can provide.

But he emphasized he values a close relationship with his producer. "If my contact was going to move into a regional office, I would be concerned."

Even with improved telecommunications, it is still important to have face-to-face contact, Mr. Kiernan said. "To me, that local contact is important."

Gavin Souter contributed to this report.

**'We have explicitly told our offices that we are committed to local service, especially for middle-market accounts,' says Kenneth Pinkston.**

prove our services to our clients," said Mr. Newhouse, the memo's author.

Mr. Newhouse pointed out that J&H Marsh & McLennan always responds to client requests for local contacts or direct access to decision-makers at the brokerage and insurance company.

While some risk managers want a relationship with a local underwriter, others prefer to deal with decision-makers in the home office, Mr. Newhouse said. "We as brokers have to respond to both extremes and everything in between. If the client wants to retain the local underwriter in the loop, we're not going to shoot ourselves in the foot and say they can't do that."

The Global Broking Centers make the transaction of insurance more efficient, said Robert Clements, who helped develop the centers when he headed Marsh & McLennan's brokering operations in the early 1990s.

"The expense ratio of the insurance business was essentially the same in 1990 as it was in 1945 and this has frustrated customers and everybody in the business," said Mr. Clements, who recently retired from the Marsh & McLennan board but is still a consultant to the brokerage.

One of factors that helped maintain the high expense ratio was the high number of offices that insurers and brokers main-

tain throughout the country, he said.

By placing business through regional broking centers, J&H Marsh & McLennan is following systems already well-established in other areas of the financial services industry, Mr. Clements said.

"If you were doing business with Merrill Lynch in Denver and you wanted to sell commercial paper you would certainly not expect Merrill Lynch to do that in the local Denver market," Mr. Clements said.

"If we are going to provide the best service to the customers we have to work together to find ways to reduce overall cost, and this was a way that costs were reduced rather substantially," Dean O'Hare, chief executive officer of Chubb Corp. in Warren N.J., said at a RIMS chapter meeting in New York last month.

Chubb itself prefers to maintain local relationships with customers, he said.

"Chubb has always been an organization that has very strong local connections with customers," Mr. O'Hare said.

But, in a frank admission, Mr. O'Hare said that given the clout of J&H Marsh & McLennan, Chubb has little choice but accept the Global Broking Centers.

"Marsh is our biggest producer and if Marsh in its infinite judgment wants to do business

## Risk managers polled on mergers

Risk managers generally expressed confidence that they will see benefits from insurer and broker consolidation, according to a survey the Risk & Insurance Management Society Inc. conducted earlier this year.

Other comments from that poll indicate, however, that some risk managers are afraid the industry's growing clout means it will dictate to policyholders how business is handled.

RIMS polled members on the issue of consolidation's poten-

tial impact on risk managers. Another 31% said consolidations will have little effect either way.

The impact of broker consolidations on the range of products and services offered and the efficiency with which they will be provided was considered mainly positive by 57% of the respondents. Forty-one percent also indicated that the impact on quality of service would be mainly positive.

Individual comments on broker consolidations, which were

printed in RIMS' account of the survey in Risk Management magazine, showed some concerns with mergers.

One risk manager worried that staff cuts could lead to errors as workers are overloaded.

Another warned insurance buyers to "keep in close contact with their brokers, because it's (consolidation) going to have a tremendous effect on account relationships."

One RIMS member responded that while consolidations among brokers shouldn't cause short-term problems, "in the long term it will be disastrous. These consolidations scare me. I think, in 20 years, we'll have one insurance company, one agency."

—By Michael Bradford

**'I think, in 20 years, we'll have one insurance company, one agency,' says one risk manager.**

## Coupon for workers comp information resource

The Oct. 27 Information Resource: Workers Compensation section contained coupons with the incorrect expiration date on pages 33 and 36. The correct expiration date for readers to use the coupon to order information is Dec. 22, 1997.

**Business Insurance**

**Information Resource**

NOTE: THIS COUPON WILL NOT BE PROCESSED AFTER December 22, 1997

All questions must be answered in order to have your inquiry processed.

Please check one item for each category:

1. My organization is best described as:

- A  Mfg/Svcs
- B  Association
- C  Union
- D  Government
- E  Educational Inst
- F  Ins Agent
- G  Ins Broker
- H  Ins/Reins Co
- I  Consultant
- J  Actry/Attorney
- K  Adj/Apprs
- L  TPA
- M  Health Care Inst
- N  Other

2. Number of employees:

- 1  150 or fewer
- 2  151-499
- 3  500-999
- 4  1,000-4,999
- 5  5,000 or more
- 6  Unknown

3. My title is best defined as:

- A  Administrative Mgt
- B  Financial Mgt
- C  Risk Mgt
- D  Benefits Mgt
- E  Loss Prevention Mgt
- F  Other

4. My purchasing involvement for the requested products is to:

- 1  recommend only
- 2  specify
- 3  approve

5. Do you now receive a personally addressed copy of Business Insurance?

- A  Yes
- B  No, please send Business Insurance subscription information

To obtain copies of literature and information about products and services listed in the October 27 info section, simply indicate the key numbers for the items you want and mail the coupon to:

Business Insurance Reader Service Center  
650 S. Clark St., 6th Floor  
Chicago, IL 60605-1702


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Company \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ Zip \_\_\_\_\_

Phone ( ) \_\_\_\_\_

# AIDS

Continued from page 3  
are available.

Ms. Alekson said one of the driving forces behind the program's success is the commitment and support the company receives from top management.

"We've had good management commitment since the '80s," she said.

According to the report, 73% of the surveyed employees believe there should be an organized AIDS education program in the workplace.

This number remains relatively unchanged since 1992, when 75% responded the same way.

Of those employees whose companies offered HIV/AIDS programs, about 50% attended, the same as in 1992, the report found.

Respondents did say there are ways employ-

ers can improve participation rates at the programs. Suggestions include making the programs mandatory; emphasizing that the information could be brought home and taught to children; scheduling sessions during regular working hours; and inviting family members to attend.

A lack of education may be one catalyst behind 29% of the polled employees thinking their employers would fire or place on disability an HIV-infected employee, Ms. Canner said.

She also noted she would rather look at those results as "a glass 70% full."

Indeed, the number of employees with such a pessimistic outlook is down to 29% in 1997 from 32% in 1992.

For a free copy of "AIDS in the Workplace 1992 and 1997," contact the National AIDS Fund at 202-408-4848.

# Fidelity

Continued from page 2

After Nov. 9, the Magellan Fund unloaded the remainder of its Micron stake. The sell-off prompted a slide in Micron's stock price, but not as precipitous a decline as the stock would have suffered if Mr. Vinik had not made his remarks in the Sept. 30 Magellan Fund report, according to Mr. DeValerio.

Still, the Micron stock price fell far below the price at which the class members had purchased the stock, which they would not have purchased if not for Mr. Vinik's comments, Mr. DeValerio said.

FMR said in statement that it agreed to the settlement, which is subject to court approval, to avoid costly and disruptive litigation. Fidelity does not admit to any wrongdoing.

Mr. Vinik left Fidelity in 1996.

Judy Lindenmayer, vp-Fidelity insurance and risk management at FMR Corp., the parent company of FMR, would not comment on the coverage available to pay the settlement.

However, a *Business Insurance* profile of Ms. Lindenmayer, who is the 1997 Risk Manager of the Year, reported that FMR is covered for such losses by an integrated, or concentric, risk program (*BI*, April 14). The program is underwritten mainly by American International Group Inc., Chubb Corp., Reliance Insurance Group and underwriters at Lloyd's of London.

J&H Marsh & McLennan Inc. placed the coverage.

A federal court previously dismissed the Magellan Fund, which is a separate entity from FMR, and the fund's shareholders from the litigation. **BI**

# M&G Re, Toa-Re merge in U.S.

MORRISTOWN, N.J.—Mercantile & General Reinsurance Co. of America will be merged into Toa-Re Insurance Co. of America under terms of a deal announced last week.

Toa-Re of America's parent, Tokyo-based Toa Fire & Marine Reinsurance Co. Ltd., agreed to buy M&G America's outstanding stock from its parent, Swiss Reinsurance Co., in a transaction valued at about \$200 million.

The Morristown, N.J.-based reinsurance companies, which had combined premiums of \$103.9 million in 1996, have operated under common management since 1982, when Toa-Re of America was created, explained William L. Munson.

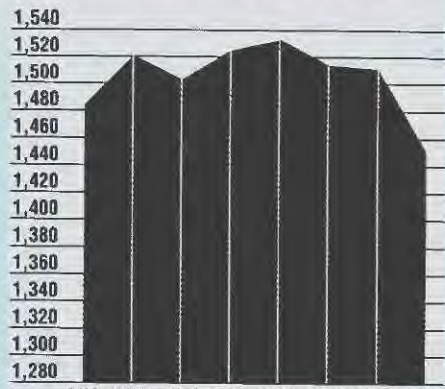
Mr. Munson serves as chairman, president and chief executive officer of Toa-Re as well as president and chief operating officer of M&G America.

The anticipated price on the deal, expected to close by year end, is based on M&G America's \$193.8 million book value as of Dec. 31, 1996, plus interest, less any appropriate closing adjustments, according to Mr. Munson.

Swiss Re acquired Mercantile & General Reinsurance Co. P.L.C., including M&G Re's operations in the United States, from Prudential Corp. P.L.C. last year (*BI*, Sept. 2, 1996).

—By Judy Greenwald

# BI Insurance Index



Base=100 on Dec. 29, 1978  
Source: Nordby International Inc.

# PCS catastrophe options

As of Oct. 31

Call spread	Price bid/ask	Call spread	Price bid/ask
<b>National Annual 1997</b>		<b>California Annual 1998</b>	
30/50	1.0/-	40/60	1.7/2.3
60/80	-2.0		
<b>National Annual 1998</b>		<b>Western Annual 1998</b>	
40/60	10.0/14.0	40/60	2.0/2.5
60/80	7.5/8.3	70/90	-2.3
80/100	6.0/7.0		
<b>National December 1997</b>		<b>Eastern September 1998</b>	
5/15	2.0/6.0	40/60	3.2/4.2
5/25	2.2/6.5		
<b>Southeast September 1998</b>			
40/60	2.0/4.0		
60/80	1.5/2.5		

Total volume: 80 Total open interest: 16,333

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
<b>Comm Union</b>	855	13.2	35.8	4.2	910-630
<b>Genl Accident</b>	1015	6.9	35.4	4.4	1158-6861
<b>Gdn Royal Exch</b>	293	4.1	12.2	4.3	350-248
<b>Legal &amp; G</b>	495	12.9	11.6	2.9	520-312
<b>Royal &amp; Sun</b>	567	15.7	19.7	4.4	651-414
<b>Brokers</b>					
<b>Lmbt Fenchurch</b>	127	8.5	8.4	8.3	138-101
<b>Lloyd Thompson</b>	170	14.2	10.8	7.9	206-163
<b>Sedgwick Grp</b>	125	10.1	7.4	6.0	144-115
<b>Willis Corroon</b>	127	12.9	6.6	6.5	165-117

Note: Prices are Oct. 31 closings; other numbers from Oct. 30

Source: Nordby International Inc.

# Returning railroad retirees face pension cut

By JERRY GEISEL

CHICAGO—Retired railroad workers who return to railroad work will temporarily lose their pension benefits, according to the U.S. Railroad Retirement Board.

Pension benefits are not payable for any month that a retired employee works for a railroad employer, even if the retiree works as little as one day that month.

In addition, spouses' annuities are not payable by the board for any month the

retired employee is not eligible for an annuity—due to a return to work—or for any month in which the spouse works for a railroad employer.

The Railroad Retirement Board, which is based in Chicago, issued its notice, 97-4, in the wake of requests by retired railroad employees for information on what effect a temporary or part-time return to railroad work would have on their annuities.

Some railroads previously cut their workforces too much and now cannot

meet a surge of business.

As of June, 746,000 retired railroad employees, spouses and survivors were collecting monthly annuities in the program administered by the board. When new cost-of-living increases kick in next January, the average monthly benefit paid to retirees will be \$1,259.

In addition, the average combined benefits for a retired employee and spouse will increase to \$1,837 per month and the average monthly survivor annuity will rise to \$754.

# BI Industry Stock Report OCT. 27, 1997, THROUGH OCT. 31, 1997

## BROKERS

	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)	
Aon Corp.	NYS	53.94	-2.27	30.23	58.44	37.38	1548
E.W. Blanch Holdings Inc.	NYS	33.50	2.68	66.46	34.63	18.00	240
Gallagher Arthur J. & Co.	NYS	35.00	-1.93	12.90	38.25	29.13	141
Hib. Rogal & Hamilton	NYS	18.13	-1.02	36.79	19.63	12.13	126
Keye Group Inc.	NDO	6.56	-6.25	25.00	9.00	4.38	267
Marsh & McLennan	NYS	71.25	-4.20	37.02	80.00	50.88	1824
Poe & Brown	NDO	41.25	-1.20	55.66	42.75	25.50	17
Sedgwick Group PLC	NYS	10.31	-4.07	-0.60	10.88	9.38	38
Willis Corroon Corp.	NYS	10.81	0.00	-5.98	13.50	9.50	171
<b>BROKERS AVERAGE</b>			-2.00	28.41			

## INSURERS/REINSURERS

	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)	
ACE Ltd.	NYS	92.94	-3.94	54.57	101.06	53.38	511
Acceptance Insurance Cos.	NYS	23.50	-12.15	18.99	28.63	17.75	221
AEGON N.V.	NYS	79.50	1.92	25.69	87.13	51.13	713
Aetna Life & Casualty	NYS	71.05	-5.72	-11.17	118.13	64.00	5364
AFLAC Inc.	NYS	50.88	-2.63	19.01	57.88	37.50	2417
Allied Group Inc.	NYS	47.25	0.40	44.83	53.63	27.13	89
Allstate Corp.	NYS	82.94	-2.14	43.30	86.00	54.88	6578
AMBAC Indemnity Corp.	NYS	42.25	-3.70	27.31	47.56	30.38	791
American Bankers Ins.	NDO	37.38	-3.70	46.21	40.00	22.88	388
American Financial Group	NYS	38.06	-1.46	0.83	49.25	32.38	718
American General	NYS	50.69	-5.70	24.01	56.06	35.75	2341
American Heritage Life Ins.	NYS	35.38	-2.92	34.76	40.50	21.50	74
American Indemnity/Fin'l	NDO	12.50	4.17	21.95	15.50	9.50	42
American International	NYS	102.06	-2.22	41.43	112.56	70.63	9247
Argonaut Group	NDO	32.25	-6.52	4.88	38.13	26.75	85
AXA-UAP Group	NYS	34.31	2.43	8.93	35.25	28.25	263
Baldwin & Lyons Inc.	NDO	20.88	-0.60	13.61	22.63	17.38	3
Berkley W.R. Corp.	NDO	41.13	-2.23	21.55	46.38	28.88	943
Berkshire Hathaway Inc.	NYS	43700.00	-2.46	28.15	48900.00	30000.00	1
Capital RE Corporation	NYS	58.94	-1.05	26.41	62.63	38.25	86
Capital Transamerica Corp.	NAS	25.88	-4.17	26.22	28.13	17.25	37
CapMac Holdings Ltd.	NYS	30.00	-7.16	-9.43	36.88	22.50	1503
Capsure Holdings Corp.	NYS	15.00	0.00	30.43	15.38	8.50	0
Centris Group Inc.	NYS	20.31	-10.96	3.50	23.56	17.13	81
Chartwell Re	NYS	32.38	-7.33	21.03	36.25	24.50	219
Chubb Corp.	NYS	66.25	-2.84	23.26	76.31	49.50	1892
CIGNA Corp.	NYS	155.25	-8.34	13.63	200.75	126.13	2341
CNA Financial Corp.	NYS	124.06	-1.59	15.95	132.25	96.38	169
CNA Surety	NYS	15.19	-3.57	1.25	16.50	12.88	81

	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)	
EMC Insurance Group Inc.	NDO	14.00	2.75	16.67	15.00	10.75	22
Enhance Financial Services	NYS	52.81	0.84	44.69	56.25	32.88	165
Everest Reinsurance	NYS	37.63	0.84	30.87	43.00	24.63	946
Executive Risk Inc.	NYS	65.88	-6.23	78.04	72.75	33.88	169
EXEL Ltd.	NYS	80.44	-0.72	59.57	64.19	38.50	626
Fremont General Corp.	NYS	47.00	1.62	51.61	49.50	26.38	409
Frontier Insurance Group	NYS	33.69	0.37	76.14	39.25	18.13	947
Gainco Inc.	NYS	9.31	-5.70	-3.25	10.19	8.13	144
General RE Corp.	NYS	197.19	-1.28	25.00	208.88	144.50	918
Gryphon Holdings	NDO	16.13	-1.53	14.16	17.75	12.50	17
Guaranty National Corp.	NYS	35.69	4.96	113.06	35.69	15.38	133
Harleysville Group	NDO	25.50	9.68	67.21	27.00	13.50	408
Hartford Steam Boiler	NYS	52.19	-0.95	12.53	56.69	42.75	238
HCC Insurance Holdings	NYS	23.38	-8.33	-2.60	32.69	21.50	463
ING Groep N.V.	NYS	41.63	-1.77	18.09	53.00	38.88	560
IPC Holdings Ltd.	NDO	30.81	0.20	37.71	31.75	21.00	376
Hartford Financial Services	NYS	81.00	-4.78	20.00	90.31	62.25	2311
LaSalle Re Ltd.	NDO	33.50	-4.29	14.53	36.13	24.50	192
Life Re Corp.	NYS	55.13	1.15	42.72	58.13	33.75	110
Lincoln National	NYS	68.75	-0.72	30.95	73.63	47.75	1170
MAIC Holdings Inc.	NYS	27.94	3.47	64.94	30.50	15.13	60
Market Corp.	NYS	153.44	2.98	70.49	161.13	83.00	17
MBA Insurance Group	NYS	59.75	-5.39	18.02	67.25	44.38	826
Meadowbrook Insur Group	NYS	23.06	-6.11	9.82	26.63	15.25	92
Mid Ocean Ltd.	NYS	64.88	1.37	23.57	65.25	44.13	254
MMI Cos. Inc.	NYS	24.94	-2.68	-22.67	32.75	20.75	114
Mutual Risk Mgmt. Ltd.	NYS	25.94	-8.39	40.20	29.75	15.00	793
NAC Re Corp.	NYS	44.50	-5.32	31.37	52.88	32.63	404
Navigator Group	NDO	19.00	-2.56	4.11	22.50	15.75	26
Nobel Insurance Ltd.	NDO	13.63	-2.68	8.46	15.38	11.38	1
NYMagic Inc.	NYS	26.69	1.43	48.26	29.81	17.25	13
Ohio Casualty Corp.	NDO	44.25	-1.12	24.65	51.00	31.75	495
Old Republic Int'l	NYS	35.75	0.00	33.64	40.19	24.50	900
Orion Capital Corp.	NYS	45.00	-3.49	47.24	51.00	26.75	308
Partner Re Ltd.	NYS	41.00	-3.53	20.59	44.94	28.00	840
Penn-America Group Inc.	NDO	18.44	-11.14	71.51	21.75	10.38	411
Philadelphia Cons. Holding	NDO	36.88	-4.22	58.60	46.50	21.75	161
PXRE Corp.	NYS	30.50	-5.61	23.23	33.63	23.25	107
Reliance Group Holdings	NYS	12.63	-8.60	38.36	15.13	8.13	1423
Reliastar Financial Corp.	NYS	37.38	-2.45	29.44	40.75	25.88	1007
RenaissanceRe Holdings Ltd.	NYS	43.50	-6.70	31.82	50.00	28.88	153

	Price	Weekly % change	Year to date % change	Year to date High	Year to date Low	Vol.(000)	
Risk Capital Holdings	NDO	22.75	-2.67	17.42	23.38	15.88	15
RLI Corp.	NYS	41.50	-4.87	24.34	46.25	27.25	1112
St. Paul Companies	NYS	79.94	-3.54	36.35	85.50	53.50	1114
SCOR	NYS	45.38	3.42	32.00	46.00	34.00	44
SAFECO Corp.	NDO	47.63	-1.30	20.76	55.38	36.50	4259
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9 April  
1100 hrs



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