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update

Manville objects to plan to settle property claims

NEW YORK—Manville Corp. objects to a plan to provide at least $125 million to settle asbestos-related property damage claims filed by states, cities and school districts nationwide.

Denver-based Manville says it questions whether asbestos present in buildings poses a serious health threat and whether the company is liable in most of the cases.

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Problems endanger insurers' recovery

By LINDA J. COLLINS

WHITE SULPHUR SPRINGS, W.Va.—Boosted by hefty rate increases, property/casualty insurers' bottom lines already are looking better. But, behind the improving numbers lurk critical problems that threaten to nip the industry's budding recovery, warn key industry observers.

Insurers must concentrate on the "quality" of their earnings rather than engage in "one-shot deals" to improve their results, the experts say. They also must come to grips with thorny problems like the solvency of state guaranty funds, public misconceptions regarding the underwriting cycle, and the need for civil justice reform.

Those were among the topics discussed by five industry observers during a panel discussion entitled "Profitability: Myth or Reality" at the annual joint meeting of the National Assn. of Casualty & Surety Agents and the National Assn. of Casualty & Surety Executives.

The meeting, held Oct. 6-9 at The Greenbrier, the posh West Virginia resort, draws the top executives from the leading commercial insurers, reinsurers, agents and brokers in the United States.

The property/casualty industry's "first-half 1985 results present both positive and negative facts," noted Daniel J. McNamara, president of the Insurance Services Office in New York and moderator of the panel.

"Which facts are accurate signals that show the future course of our business?" he asked.

The "positive facts" cited by Mr. McNamara include:

- Written premium growth of 18% in the first half of 1985, "higher than any growth

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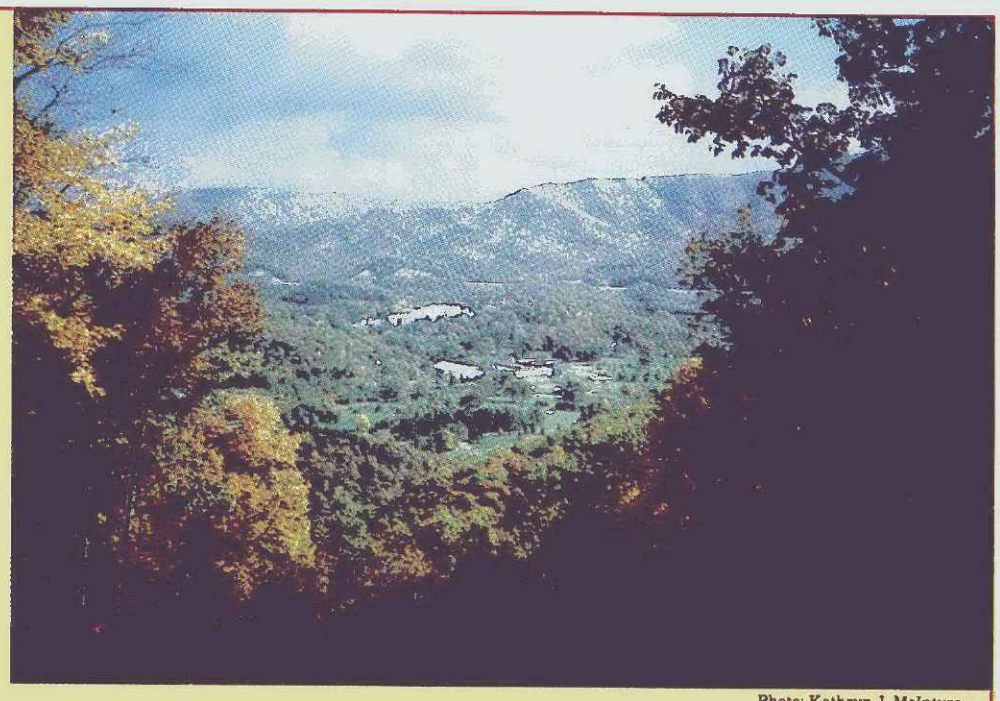

Photo: Kathryn J. McIntyre

Top industry officials met at the stately Greenbrier, nestled in the hills of West Virginia.

NESCO to pay most of Hilton settlement

By STEVE TARAVELLA

LAS VEGAS, Nev.—Hilton Hotels Corp.'s excess liability insurer Northbrook Excess & Surplus Insurance Co. will pay $16.5 million—almost three-fourths—of a $22.8 million settlement reached last week in litigation stemming from the 1981 Las Vegas Hilton fire.

The settlement ends almost five years of litigation brought on behalf of people injured or killed in one of the worst hotel disasters in recent U.S. history.

But, still pending is a subrogation claim filed by Mission Insurance Co. against numerous manufacturing, service and supply companies to recover the $25 million Mission paid Hilton for property and business interruption losses.

Fire struck The Hilton in February 1981, killing eight guests and injuring more than 200 others. Just three months earlier, fire had ravaged the MGM Grand Hotel two miles away, killing 84 people and injuring more than 700 (*BI*, Dec. 1, 1980; Feb. 16, 1981).

Last week's settlement closes 92 personal injury claims, 11 claims brought by businesses or organizations, and six claims brought by families of people killed by the fire.

The $22.8 million will be distributed shortly by two attorneys representing the 109 settling plaintiffs: Jim Fetterly of Fetterly & Purdy in Minneapolis and Neil Galatz of Galatz, Earl, Catalano & Smith in Las Vegas. Mr. Fetterly and Mr. Galatz were among the

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Supreme Court will hear challenge to Multiemployer Amendments Act Page 2

Regulators scrutinizing claims-made revisions

By CAROL CAIN

The Insurance Services Office will finalize the language of its recent major revision of the new commercial general liability claims-made policy form and file for approval in all states before the end of the month.

When the form arrives, state insurance commissioners will be prepared to scrutinize it. Many were in and out of meetings with ISO last week discussing the new revisions to the controversial form.

'Our concern is that policyholders understand the new policy, and that there are no gaps in the coverage,' says Mr. Foudree of the NAIC.

Meanwhile, although the Risk & Insurance Management Society is hoping to negotiate more changes in the form with ISO, the Independent Insurance Agents of America and the National Assn. of Insurance Brokers have given the form their "qualified" support, pending release of the final language.

The latest proposed revisions to the claims-made form, described earlier this month by ISO, will change the trigger of coverage to include claims made verbally to policyholders rather than only claims made in writing; establish a five-year, automatic extended claims reporting period for known occurrences; limit when an insurer can advance the retroactive date of a policy; provide for the reinstatement of the aggregate limits of the policy for tail coverage; and control how tail coverage can be priced (*BI*, Oct 7; Oct. 14).

ISO has not yet decided how it will file the revisions for approval with state insurance departments. The revisions could be filed as amendments to existing filings, or an entire new form could be filed.

"But certainly, we will not withdraw any existing filing where the form has been approved," an ISO spokesman said.

ISO says its new occurrence and claims-made forms have been approved for use in 27 states. The last state to approve the form was Oklahoma on June 27; further approvals have been stalled over the last several months after buyers and agents lobbied insurance commissioners to take a closer look at the new claims-made form.

Controversy over the new ISO claims-made form marks the first time that state insurance commissioners have delayed approving new insurance forms.

How insurance regulators will react to the most recent revisions is still unknown.

An informational meeting was held Oct. 16 between ISO and state insurance regulators at the Kansas City, Mo., headquarters of the National Assn. of Insurance Commissioners. Some 25 state regulators attended the meeting for a detailed presentation of the revisions, but no joint action was taken.

A second informational meeting was held Oct. 17 in Chicago between ISO and a second group of 28 state regulators. The meeting was a follow-up to one held

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update

Manville objects to settlement

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Representatives of 32 states and thousands of cities and schools have agreed to the plan, which would settle billions of dollars in asbestos-related property claims against Manville. The plan would give property claimants $125 million in cash, any insurance payments above the $615 million Manville already has allocated to personal injury claimants and any money left over from a settlement fund for personal injury claims.

An estimated $80 billion in asbestos property damage claims have been filed against Manville.

Leon Silverman, a New York attorney for the claimants, proposed the plan Oct. 15 in bankruptcy proceedings in New York. "It represents an enormous step forward," he said.

But, Manville Chairman John A. McKinney said the plan "needs a lot of work if it is to become the basis for a reasonable settlement."

"Manville is convinced that asbestos products now in place only rarely present any risks or hazards to occupants of buildings," Mr. McKinney said.

And, the company doubts it has liability in many of the cases. "The majority of the claims involved spray-on insulation," and Manville did not make or install such insulation, he said.

According to observers, most of the public entities agreed to the plan because of two recent court decisions in which juries decided school districts could not recover asbestos removal costs from asbestos producers National Gypsum Co. and U.S. Gypsum Co.

Manville, which filed for bankruptcy in 1982, recently approved a plan to create a trust fund to provide asbestos health claimants with at least $2.5 billion over 25 years (*BI*, Aug. 12).

Gun companies face liability

ANNAPOLIS, Md.—Manufacturers and vendors of small, inexpensive handguns face strict liability in Maryland if a gun user intentionally shoots an innocent person, according to a Maryland Court of Appeals decision filed Oct. 3.

The precedent-setting decision will apply to all shooting cases in Maryland if the gun is first sold after the date of the decision.

"This will just make already high product liability insurance go even higher," said a spokesman for the National Rifle Assn. in Washington. Also, manufacturers probably will stop shipping the guns—coined "Saturday Night Specials"—to Maryland, he said.

Mike Hancock, president of the Foundation for Handgun Education, said it is going to make it "difficult, if not impossible" for gun manufacturers to obtain insurance at any price.

The case, *Olen J. Kelley vs. R.G. Industries Inc.*, was filed by a food store manager shot during a robbery in Silver Spring, Md. The defendant is Rohm Gesellschaft, a West German gun manufacturer.

Miami-based R.G. Industries Inc. also was named as a defendant but was dismissed on the grounds that it did not market or distribute the gun in question, although it is an assembler of such guns.

Representatives of Rohm Gesellschaft declined to comment.

The case has been returned to the U.S. District Court in Baltimore, which had asked the state court to interpret state law.

Howard named C&F chairman

STAMFORD, Conn—Melvin Howard, executive vp and president of Xerox Corp.'s Financial Services Organization unit, has been named chairman and chief executive officer at Morristown, N.J.-based Crum & Forster Inc. Mr. Howard, who retains his previous titles, succeeds former Chairman John K. Lundberg, who resigned.

In addition, Sidney F. Wentz, C&F president and former chief financial officer, continues as president and assumes the additional title of chief operating officer.

Also, John J. McGinty, vp and treasurer of Xerox, becomes vice chairman and chief financial officer at C&F. James J. Cutro, C&F senior executive vp, becomes vice chairman and chief administrative officer.

Messrs. Howard, Wentz, McGinty and Cutro will form an executive office that will direct the management of the various Crum & Forster companies.

Also, C&F Vice Chairman Donald H. McComber announced plans to retire.

Xerox acquired Crum & Forster in 1983.

Crump reports record results

MEMPHIS, Tenn.—The Crump Companies Inc. has reported the highest quarterly net income and gross revenues in its history.

Net income for Crump, the ninth-largest U.S. brokerage, jumped 97% to $2.74 million in the third quarter from $1.39 million in the third quarter of 1984. Crump's revenues increased 50% in the quarter to $27.3 million from $18.2 million in third-quarter 1984.

For the first nine months of 1985, Crump's net income increased 73% to $7 million from $4 million in the first nine months of 1984. Total revenues climbed 39% to nearly $71 million in 1985 from $50.9 million for the first nine months of 1984.

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Supreme Court will review multiemployer pension law

By JERRY GEISEL

WASHINGTON—The Supreme Court will decide the constitutionality of the 1980 federal law that allows multiemployer pension plans to demand huge payments from companies that leave underfunded plans.

At issue is whether the Multiemployer Pension Plan Amendments Act represents an unfair seizure of a company's property. The court's decision could affect thousands of companies that participate in the nation's 2,000 multiemployer pension plans.

The court will also decide during its new session whether an aviation treaty that places a $75,000 cap on liability payments to international air crash victims or their survivors allows interest to be added to awards.

In addition, the court last week declined to review—and thus let stand—an appellate court ruling upholding a 1975 California law that limits awards for non-economic damages, like pain and suffering, in medical malpractice cases.

But, the justices agreed to decide whether a dentist group's refusal to submit X-rays to insurers violates federal antitrust law.

The pension case involves a challenge to the Multiemployer Act by Woodward Sand Co., a small family-owned sand delivery company in Santee, Calif. The company was slapped with a $200,000 withdrawal liability claim when it left the underfunded Operating Engineers Pension Trust of Pasadena, Calif., in 1980.

Under the Multiemployer Act, an underfunded multiemployer plan has the right to require employers leaving the plan to pay a share of the plan's promised but unfunded benefits.

Some of the plans have enormous unfunded liabilities, and some companies leaving those plans have been slapped with withdrawal liability bills that exceed their net worth.

Woodward challenged in federal court the plans' authority to impose withdrawal liability, but a special three-judge panel in California ruled in May 1984 that the act was constitutional.

In a brief filed with the Supreme Court, attorneys for Woodward Sand said the Multiemployer Act is unconstitutional because it authorizes the uncompensated seizure of an employer's assets.

"MPPAA's effect is the complete destruction of the bundle of rights associated with an employer's entitle-

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Colonial Penn to cooperate in NAIC exam

By CAROL CAIN

Colonial Penn Insurance Co., one of the three Pennsylvania-domiciled insurers targeted for special market conduct examinations by the National Assn. of Insurance Commissioners, says it will cooperate with the NAIC while defending its actions.

The other two companies, however, are not commenting on the examinations until their findings are revealed.

The exams, which were ordered Oct. 3, are scheduled to begin Dec. 2 and are to be completed by the end of the year.

The three insurers to be examined are Colonial Penn in Philadelphia, a subsidiary of The Colonial Penn Group; Insurance Co. of North America in Philadelphia, a unit of CIGNA Corp.; and National Union Fire Insurance Co. of Pittsburgh, Pa., a New York-based unit of American International Group Inc. (*BI*, Oct. 14).

The examinations will determine if the three insurers have been participating in unfair trade practices, said Nevada Insurance Commissioner David Gates, who chairs the NAIC's 16-member Western Zone, which ordered the action.

The exams will look into several controversial insurer practices, including midterm cancellation of

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Agencies' plans may ease satellite coverage crunch

By STACY SHAPIRO

LONDON—Actions by the U.S. and European space agencies could help ease satellite launch insurance capacity problems, agency officials say.

French-based Arianespace says it will form a captive insurer that will cover the launch costs of satellites aboard an Ariane rocket that fails.

In addition, the National Aeronautics and Space Administration in Washington is offering a new clause in its launch services agreement for space shuttle users that would reduce the cost of a satellite relaunch by half should a satellite malfunction, regardless of the cause of the malfunction.

Both agencies hope that by reducing launch costs for satellite owners, the owners will have an easier time finding launch insurance to cover the cost of the satellite itself and any subsequent loss of revenues.

Currently, the insured value of a satellite includes launch costs. A space shuttle launch currently costs up to $71 million, while an Ariane launch costs up to $50 million.

These costs are divided among the owners of the satellites to be launched on the same mission, and each owner's share will be based on the size of its satellite.

Only about $70 million to $80 million of launch insurance capacity is now available for satellites to be launched aboard one spacecraft, even though satellites with a combined value of up to $300 million can be launched at one time, explained Mohammed Dahbi, head of the aviation and aerospace division at Faugiere & Jutheau in Paris, Arianespace's broker.

"What we want to do is give additional capacity to the market," Mr. Dahbi explained.

"But, insurance will still be needed for the satellite itself during the launch phase and post-launch phase," he said.

Under Arianespace's proposed program, the agency—through a French-domiciled captive—would pay satellite owners for the cost of a launch aboard an Ariane rocket that fails or provide a free relaunch, he said.

The agency says it will charge a fee, possibly 11% of the cost of the

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Seaway repair costs may exceed cover

By MICHAEL BRADFORD

THOROLD, Ontario—The St. Lawrence Seaway Authority does not have sufficient property insurance to pay for repairs of a lock wall that collapsed last week and left 30 ships stranded in the waterway, an official says.

Besides the property damage, the authority also expects to face claims from the owners of the ships that have been idled waiting for the repairs, says Norm Willans, the authority's general counsel. The owners of those ships are losing about $15,000 per day, he says.

No shippers had filed notices of intent to sue the authority as of late last week, but Mr. Willans said, "I will certainly not be surprised to see some."

While Mr. Willans said no estimates are available on the cost of repairs to the lock, he remarked that the final bill would be "substantial. We have property insurance coverage, but there will be some out-of-pocket expense. We can't tell how much yet."

He declined to release any insurance information, except to say that deductibles on the authority's property and liability coverage "were quite high."

A spokesman for Johnson & Higgins Willis Faber Inc. in Toronto, the authority's broker, would not comment on the coverage.

Mr. Willans said no vessels were damaged when a portion of a lock's concrete wall collapsed in the Welland Canal between Lake Erie and Lake Ontario last week.

The repairs will take several weeks to complete, he added. If the ships are stranded in the waterway for as long as a month, shippers' losses could total $13.5 million from idle time alone, using Mr. Willan's figures.

And that amount does not include losses for future shipments that cannot be made because of the blockage.

The seaway was closed for about three weeks in late November and December 1984 when a bridge spanning the waterway broke down and stranded 164 vessels (*BI*, Dec. 17, 1984).

As a result of that accident, shippers filed 280 notices of intent to sue. However, Mr. Willans said last week that only 18 of those notices materialized into lawsuits, adding that the rest of the claims have been dropped by the shippers.

Although this year's mishap could take longer to correct, it is not as critical in one sense: "We're not as close to the end of the navigation season," Mr. Willans ex-

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International options

Market tightening some for overseas exposures

By ROBERT A. FINLAYSON

U.S. multinationals renewing property/casualty coverage for overseas operations face a relatively smooth road—compared with the bumpy, hair-raising route to placing domestic coverage, international insurance brokers and underwriters say.

But, they warn, the signposts point to capacity problems for jumbo foreign property risks and liability exposures that could result in litigation in the United States. Capacity for umbrella liability coverages also has been slashed.

Insurers are underwriting overseas programs much more closely this year than they have in the past because they are trying to allocate scarce capacity more judiciously, brokers conclude.

"There's a trend toward more close underwriting of risks and some hardening of rates," says Jerry Karter, a vp with Johnson & Higgins in New York and manager of the broker's international department.

Shrinking reinsurance capacity, which has had such an adverse impact on the U.S. property and casualty market, is the main factor behind the hardening of the international insurance market, too, he explained.

Capacity for foreign risks also has been reduced by the plethora of insurance company mergers that has left only two surviving major multinational insurers, CIGNA Worldwide Inc.—the international division of CIGNA Corp.—and American International Underwriters Inc., the international marketing arm of American International Group.

Brokers say these two powerhouses are the only insurers that can put together a multinational insurance program for a large, U.S.-based company. And, the consolidation of reinsurance treaties once held by the component parts of the present-day CIGNA Worldwide has reduced total international insurance capacity.

"A few years ago there were about 10 multinational insurers; now there are only two. That means less spread of risk and less capacity," concludes one broker.

The introduction of the new claims-made commercial general liability policy form on Jan. 1 by the Insurance Services Office also will affect

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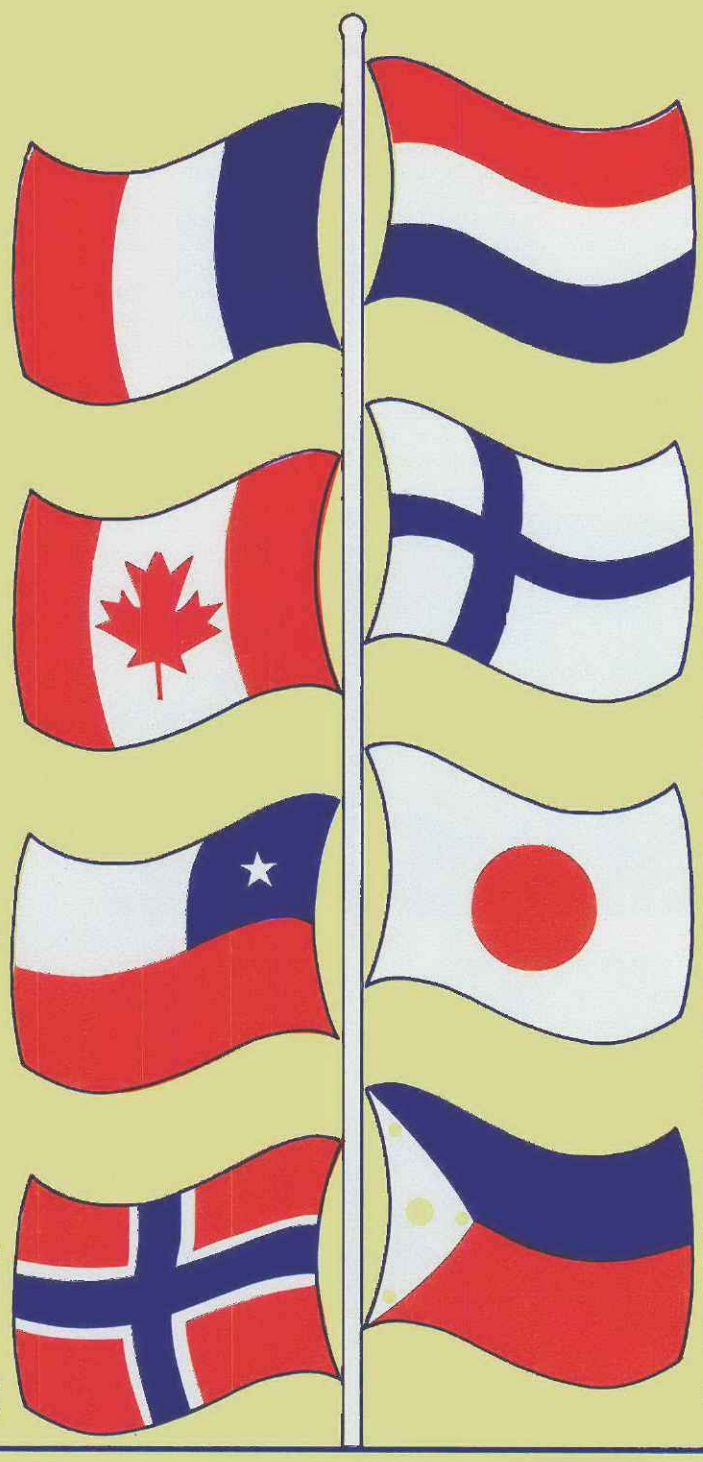

Benefit networks offer variety of new products

By DIANE LYNN KASTIEL

International employee benefits networks are branching out to further their growth.

The networks, which have traditionally provided benefits for large multinational companies, are now offering their services to more midsized and small employers with as few as 20 employees.

In addition, the networks are offering their clients new options to improve their cash flow, like flexible premium payment schedules and the opportunity to reinsure benefit coverages with captive insurance companies.

Networks are hoping these innovations will not only allow them to compete more effectively with their rivals, but also allow them to continue to grow.

Almost all of the 11 international benefit networks surveyed by *Business Insurance* reported some growth in the past year, and most predict that growth will continue into 1986.

However, some observers say that network growth has already peaked.

"I think they've all flattened out," said Michael Ponical, vp with benefit consultant Towers, Perrin, Forster & Crosby in New York. "These things have been marketed so heavily and been so successful that they peaked.

"I just had a meeting with one of the networks—which is one of the most famous ones—and they really were flat last year," he said. "And, I know of two of them who have had (employees) leave and they're not replacing them—not because they can't afford it, but because they don't have the activity."

Network officials and consultants point to two specific factors they say could hinder further expansion of the networks.

First, most of the large multinational companies already have decided whether they will join a network.

"The big companies either are already in one or two networks or have considered being in a network already and decided not to," explained Roger Nicholas Balsiger, a consultant for Vita Life Insurance Co. Ltd., which operates an international network.

"They've seen somewhat of a saturation in the larger companies," agreed Terry Doyle, principal in

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Meeting worldwide risk management challenges

The theme of the AEAI/RIMS International Risk Management Conference held Oct. 6-9 in Monte Carlo, Monaco, was "New Tools, New Practices, New Challenges—Risk Management Faces the Future," but the emphasis was on how risk management can meet the challenges.

Shrinking insurance capacity, rising insurance rates, product liability and the high cost of cleaning up a polluted environment—critical challenges confronting risk managers around the world—dominated discussions at the gathering of 525 risk managers, brokers, insurance company executives and risk management consultants from 23 countries around the world.

Europeans sought answers on the complex workings of the U.S. legal system while warily eyeing their own future now that the European Community has issued a product liability directive imposing strict liability on member countries.

Americans probed into foreign insurance laws and customs and defended their prevalent centralized worldwide insurance programs against objections from Europeans who often prefer decentralized management of all kinds.

The solutions offered to today's insurance market problems included improved loss-prevention and loss-control programs, more self-assumption of risk by corporations and reform of the U.S. tort system.

No consensus was reached on European vs. U.S. risk management techniques, but participants went home wiser to their colleagues' points of view.

Communication at the conference, too, was a challenge at times, with something lost—or added—in the simultaneous translation to English, French and German. One U.S. risk manager was surprised to find out that his description of lawyers as "hired guns" had been translated into French as "assassins."

The conference was sponsored by the Assn. Europeenne des Assures de l'Industrie in Europe and The Risk & Insurance Management Society in the United States and Canada.

AEAI encompasses risk management associations in Belgium, France, the United Kingdom, Italy, the Netherlands and West Germany. RIMS represents risk managers of more than 3,700 U.S. and Canadian corporations.

By far the largest number of registrants—159—came from France. Other countries with large delegations: the United States with 84, Belgium with 58 and the United Kingdom with 55.

The 1985 AEAI/RIMS International Risk Management Conference was the third, and the largest, conference sponsored by the two groups, following meetings in 1981 and 1983. Another conference in Monte Carlo is expected in 1987.

Coverage of the AEAI/RIMS conference begins on page 67.

Overseas market

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international coverages.

U.S. insurers of international risks will find it difficult to implement a claims-made form overseas because many countries have regulations restricting such policy forms, according to Marnix L.K. Guillaume, president of Corroon & Black International.

As a result, he says, if underwriters cannot write foreign risks on a claims-made basis, they simply will not write coverage for risks that could result in litigation in the United States.

Rate increases imposed, however, are small—in the low double-digits—primarily because international insurance programs have not produced the huge losses that have come from U.S. domestic insurance programs.

For example, Factory Mutual International reported a 64% combined ratio for 1984 while the aggregate combined ratio for U.S. insurers in 1984 was 117.4%.

Brokers and risk managers are not marketing their foreign programs, Mr. Hite says. 'They're just taking what they can get and accepting increases that they normally wouldn't have. They're not taking a strong stance.'

Similarly, the combined ratio on international property/casualty and life business for CIGNA Worldwide was 109.8% last year, significantly better than the 128.3% combined ratio posted by CIGNA Corp. overall.

And, Chubb earned $13.5 million on its international business in 1984, while losing $65 million on its domestic business.

And, international insurers that are imposing higher rates or cutting capacity are having an easy time, thanks to the shockingly high rate increases risk managers are facing in the U.S. domestic insurance market.

Brokers and risk managers are so busy scrambling around to put together their domestic programs that they cannot devote much time to placing their foreign programs, says Thomas H. Hite, director of the international department, special risk division, of Zurich-American Insurance Co.

They are not marketing their foreign programs, he says. "They're just taking what they can get," he notes.

"They're accepting increases that they normally wouldn't have. They're not taking a strong stance," he added.

Risk managers seem more willing to accept rate increases on their international insurance coverages because the increases seem so nominal in comparison with the increase they are forced to accept on their domestic programs, brokers say.

Low double-digit rate increases look good compared with rate hikes of 100% to 200% and more on U.S. exposures.

In the United Kingdom—the country most often cited by insurers and brokers as an area where the market is hardening—commercial property/casualty rates are up only about 25% over last year, says Bruce K. Howson, president of CIGNA Worldwide.

Rate increases in France are averaging only 5% to 10%, Mr. Howson notes.

And, rate increases are marginal or non-existent in Italy, the Netherlands, West Germany, Australia and Singapore, brokers and insurers say.

In fact, Mr. Howson says rates are still so competitive in the Netherlands that CIGNA Worldwide is reducing the size of its books of business in the Netherlands "simply because we have refused to write underpriced business this year."

On the other hand, rates are hardening significantly in Ireland, Japan and South Africa, in addition to Great Britain.

The problem in Ireland involves increasing liability litigation, says Al Martz, vp and senior underwriter in Chubb's international division.

"Ireland has a liability climate closest to the U.S. than any other country overseas," according to Mr. Martz.

Many insureds there face liability insurance rate increases of 200%, he said.

"It's a myth that there is no liability overseas," adds Dennis J. Orio, assistant vp responsible for non-domestic business of U.S. and Canadian clients at Chubb.

"And, the EC (European Community) just passed a strict liability law," Mr. Martz added, referring to the European Community's new product liability directive (see story, page 31).

In Japan, there is a squeeze on capacity for earthquake insurance, he commented. The market now will cover only 15% to 30% of the value of property damaged by an earthquake.

South Africa's market is "very restrictive" and has little capacity, due to the frequent civil disturbances there and government controls on currency, which have an impact on reinsurance, Mr. Martz said.

In Australia, insurers are adjusting for years of underpricing, according to Mr. Martz.

"Australia is notoriously underpriced," he said.

Chubb's property/casualty rates increased about 25% this year and will increase an additional 15% to 25% in 1986 for lower limits, Mr. Martz said.

Substandard overseas risks will suffer the most, says Mr. Orio. "This is where a company's risk management investment will bear fruit."

Other international insurers are predicting rate increases in the 10% to 25% range.

In general, capacity for casualty rates overseas is decreasing more than property rates and buyers are being asked to accept lower limits and larger retentions.

For example, capacity for casualty umbrellas in the United States and overseas is less than half of what it was a year ago, according to Geoffrey W. Kennedy, managing director and head of the newly formed James International, the international arm of broker Fred S. James & Co. Inc.

"The most you can put together today, in general terms, is about $50 million," he says.

And, if an underwriter was writing liability coverage excess of a $1 million retention last year, it now will want to write excess of $2 million or even $3 million, Mr. Kennedy explains.

However, the reduced capacity for foreign liability risks does not present a major problem for companies because the limits that are needed overseas have never been as high as they are in the United States because of the differences in legal systems, according to Mr. Kennedy.

U.S. multinationals are experiencing the most capacity problems for foreign risks—like prod-

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Are global plans thing of past or wave of future?

Brokers and insurers disagree whether the current market is good or bad news for global insurance programs.

Under a global plan, a multinational's domestic and foreign risks are combined in one master policy.

"The concept of global programs is coming apart," said Dennis Orio, assistant vp responsible for non-domestic business of U.S. and Canadian clients with Chubb Corp.

Many insurers previously wrote global programs by including a policyholder's overseas operations under its domestic umbrella coverage, he explained.

"But now they're looking at it in the light of Bhopal," he said, referring to last year's chemical accident at a Union Carbide plant in Bhopal, India, which killed more than 2,000 and injured thousands more.

Also, many insurers face capacity restraints that limit the global coverage they can provide, he said.

Since a limited number of insurers can handle both domestic and foreign programs for a U.S. multinational, global programs limit possible solutions, said Thomas H. Hite, director of the international department in Zurich-American Insurance Cos.' special risk division.

Zurich-American has the capability to write global programs for U.S. multinationals, but no U.S. company has purchased this coverage from the insurer.

Some insurers, like, Travelers Corp., will write global policies only under special circumstances.

Others, like Hartford Fire International, will not consider underwriting global programs.

J. Kenneth Seward, director of Johnson & Higgins' international department in New York, says it doesn't make much sense for a U.S. multinational to combine its domestic and foreign exposures in one policy, because domestic losses are high compared with overseas losses and force up the cost of the program.

But other brokers and insurers disagree.

The current situation in the domestic market "is even more reason to arrange global programs," says Geoffrey W. Kennedy, managing director and head of newly formed James International, the international arm of broker Fred S. James & Co. Inc.

He says such programs provide an underwriter with a greater spread of risk in one policy, because overseas exposures represent such a limited risk compared with domestic exposures.

Paul F. Butler, chairman of the retail operation of Frank B. Hall & Co. Overseas Inc., says the global concept concentrates a company's insurance-buying power and can "give the risk manager a greater degree of control over his account."

Three major insurers expect their underwriting of global programs to grow.

CIGNA Worldwide Inc., the international insurance arm of CIGNA Corp., hopes global programs will produce about 20% of its total revenues in the next three to five years, says President Bruce K. Howson.

Similarly, Continental Insurance Co. expects that one-third of its premium volume will be generated by global programs by next year, up from 10%.

And, in its first year of writing global programs, Royal Insurance Co. of America has written about a half dozen. It believes the secret to writing successful global plans is to limit the type of coverage offered through such programs so the insurer is not overextended.

Overseas market

Continued from page 4

uct liability, pollution and aviation —that could result in litigation in the United States, says Mr. Guillaume of C&B.

And, U.S. insurers that underwrite multinational risks often won't write coverages overseas that they have stopped writing in the United States.

"If an underwriter doesn't want to write a certain type of risk, he generally won't write it anywhere," says Mr. Kennedy of James.

Directors and officers and professional liability coverages especially are feeling the effects of this stance.

"If there is any way the risk could come back to America, they wouldn't be interested in writing it," Mr. Kennedy maintains.

"D&O is almost unattainable by a U.S. parent," he says.

'D&O is almost unattainable by a U.S. parent,' comments Mr. Kennedy of James.

"And pollution is out the window at the moment," Mr. Kennedy adds.

Meanwhile, rates for small and medium-sized overseas property risks have remained fairly soft and capacity stable, says Stephen Simpson, director of underwriting and engineering for Factory Mutual International.

But, capacity for jumbo property risks requiring coverage of $100 million or more is shrinking because of the contraction of the facultative reinsurance market. Large property risks usually require facultative reinsurance.

And, as Zurich-American's Mr. Hite puts it, "the facultative market isn't around much anymore."

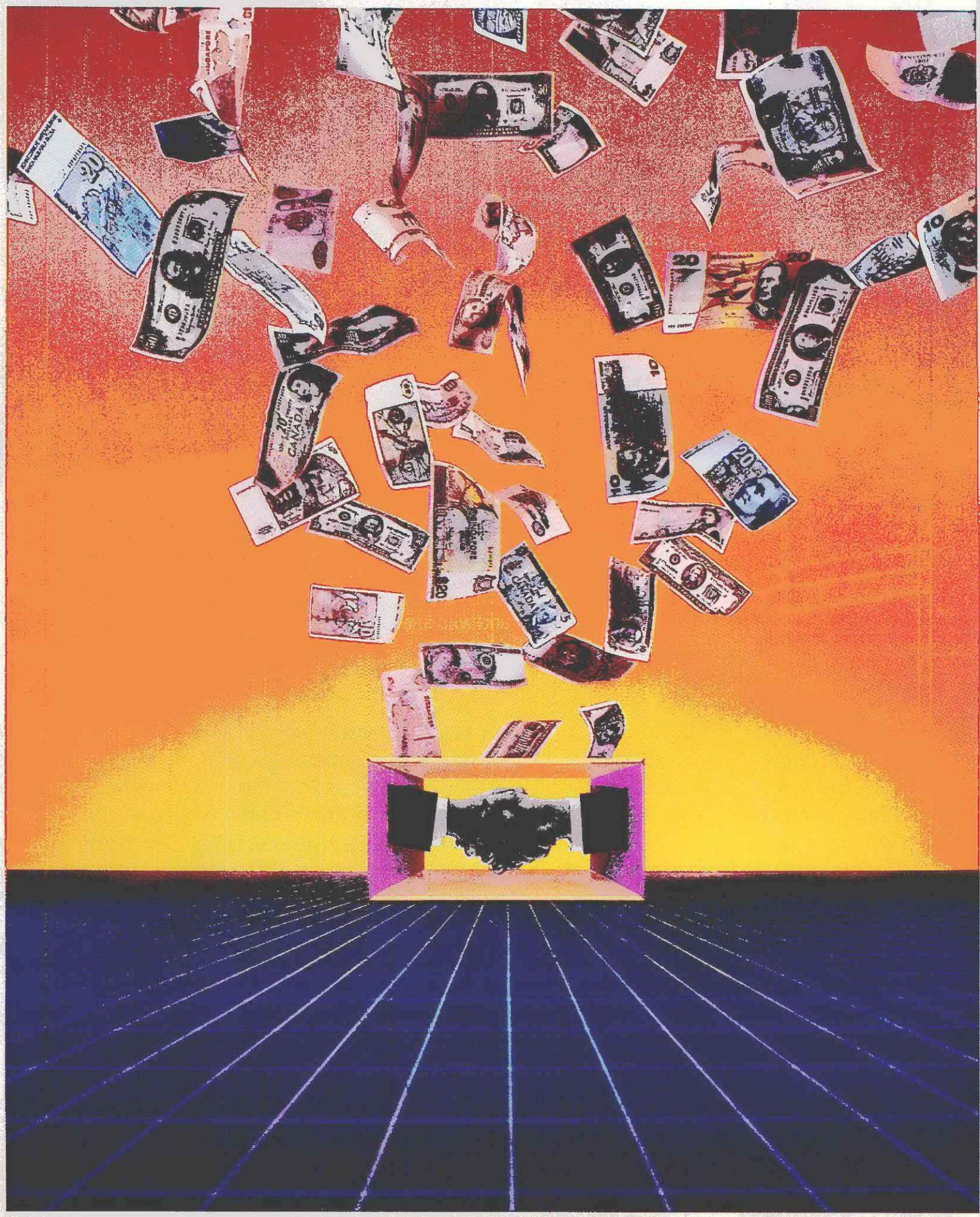
Earthquake coverage also is tightening up in response to the recent earthquake in Mexico City, brokers explain.

"On the earthquake side, everybody's taking a second look," notes Evelyn Wolovnick, a senior vp in the international department of Marsh & McLennan Cos. Inc. in New York.

"We'll know more when the insurers have figured out what the exposure was" as a result of the Mexican quake, she adds. Preliminary reports are that insurance claims filed so far in Mexico total about $400 million.

But in the end, the tightening in the international insurance market is nothing compared with the crisis in the United States.

Continued on next page



Overseas market tightens

Continued from previous page

"It is not comparable," says Peter Ilias, vp in the international department at Continental Insurance Co.

"I do not see any tightening. There's still plenty of capacity available overseas" and rates remain "barely adequate," although "we can see a gradual improvement," he says.

There is still "quite a bit of competitiveness" on rates for the business of Fortune 100 companies, says Dennis Fassett, vp in charge of underwriting for international operations at Continental.

Continental probably has had the greatest success in introducing rate increases in its medium-sized accounts; these accounts have seen rate hikes in the 10% to 25% range.

In some cases, Mr. Fassett says, rather than introduce rate hikes, Continental is reintroducing sublimits within policies for certain coverages, such as floods or earthquakes.

These sublimits, which once were common, fell by the wayside during the recent soft market, according to Mr. Fassett.

The future is "really going to depend on the results of the CIGNAs and the AIUs," maintains Mr. Fassett, labeling them the "two most powerful forces in the market."

The future is 'really going to depend on the results of the CIGNAs and the AIUs. . . .A lot of what we're going to do will depend on their results,' says Mr. Fassett.

"A lot of what we're going to do will depend on their results," he says.

"We haven't seen any dramatic change" in rates for overseas coverage, says Tony DiSarcina, director of international casualty/property operations at the Travelers Corp.

Rates have risen about 10% to 15%, and, in rare cases, 20%, according to Peter M. Fontaine, assistant director of international casualty/property operations at Travelers.

Also contributing to this report were New York Bureau Chief Douglas McLeod; Associate Editor Judy Greenwald in New York; Assistant Managing Editor Dave Lenckus in Chicago; and free-lance writer Steve Sherwood in Missoula, Mont.

Foreign cover not tough to find: Risk managers

By STEVE TARAVELLA

Risk managers may have an easier time arranging property and casualty coverage for overseas operations than they are having with their domestic renewals.

The Coca-Cola Co., for example, says its Jan. 1 international renewals are proceeding routinely.

"So far it looks pretty good for us," says Kathy Meredith, foreign risk manager for Atlanta-based Coca-Cola, which has facilities in some 50 countries.

The company, whose principal broker is Johnson & Higgins, expects to renew its property and casualty insurance at the same rates, limits and terms of its existing coverage, she says.

"Overall, there hasn't been near the problem insuring foreign risks that there has been with U.S. risks," observes Tom Hulett, insurance manager at Halliburton Co. Halliburton, in Duncan, Okla., is an oil field service company with operations in some 70 countries at various times during the year.

It self-insures its property risks but buys liability insurance.

Mr. Hulett reports "modest-to-medium" premium increases in Halliburton's international casualty coverage, which it renewed with CIGNA Corp. in June. The company, working with broker Bayly, Martin & Fay International Inc. in Tulsa, Okla., was able to secure the same limits it had last year, he says.

Ford Motor Co. doesn't expect trouble renewing its overseas property program but fears difficulties renewing its casualty program, which covers the liability exposures of Ford's non-U.S. affiliates.

The auto giant, with sales and manufacturing facilities in more than 30 countries, currently is preparing for its year-end renewal, says Robert Ozment, corporate insurance manager. Ford's principal broker is Marsh & McLennan Inc. in Detroit.

"We're not sure we can hold our (casualty) program together on a worldwide basis," Mr. Ozment says, explaining that Ford expects to see less capacity, restricted coverage terms and higher pricing for its casualty program.

He says that to combat this, the company may consider insuring some overseas affiliates individually or "turning them loose" and letting the operations seek their own insurance in local markets.

But the company doesn't expect any headaches over its property program, Mr. Ozment reports. Ford's worldwide property coverage is underwritten by CIGNA Worldwide and American International Underwriters. Ford's Bermuda-based subsidiary, Transcon Insurance Ltd., reinsures some property risks of Ford's overseas operations through CIGNA and AIU.

The overseas property program at NCR Corp. is also expected to be virtually unaffected by today's tightening market. Next month the Dayton, Ohio, computer firm will renew the third and last year of a three-year guaranteed rate property policy.

The coverage was issued in 1983 by a major U.S. insurer and guarantees that NCR will not have a premium increase or adjustment unless the value of the insured property rises or drops by 5%, explains Daniel W. Houston, director of risk management and insurance.

Mr. Houston declined to identify the insurer but says Marsh & McLennan Inc. is the broker.

The policy covers property in 89 of the 130 countries where NCR operates. Its overseas business ranges from printing to manufacture of personal computers, including an operation in Scotland that produces more automated teller machines than any other plant in the world, Mr. Houston says.

With facilities in some 130 countries, NCR may operate in more nations than any other U.S. industrial firm, Mr. Houston says.

Although NCR is having no problem with its property coverages, it does expect to see a 20% to 30% rate increase when it renews its worldwide casualty program next month, Mr. Houston predicts.

This program also is brokered by M&M and covers exposures in some 89 countries. ■

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opinions

Respect local laws, customs

RISK MANAGERS with operations in foreign countries should heed the sound and logical advice of international insurance broker David Cowley:

Mind local customs and laws.

That may sound obvious to some risk managers, but the obvious often is overlooked in the quest for creative, efficient and economical risk management programs.

Mr. Cowley, director of Bowring London Ltd., delivered his advice with the conviction of a crusader at the AEAI/RIMS International Risk Management Conference held in Monte Carlo, Monaco, earlier this month (see stories, pages 67-84).

He was vociferous in his objection to the widely held view that "the circumvention of inhibiting regulations is a key part of a risk manager's job."

Local insurance laws reflect local customs, Mr. Cowley explains. Even if the laws aren't on the books, there are local ways of conducting business that should be respected. Indeed, inhibiting regulations are adopted after local customs are violated, Mr. Cowley notes.

Good corporate citizens respect local customs and abide by local laws, Mr. Cowley contends.

We agree.

This is not to say we support regulation or laws that inhibit the rights of commercial insurance buyers to do business with the best insurer they can find, regardless of where that insurer is domiciled. On the contrary, we'd like to see these barriers to insurance trade broken down.

But, for numerous reasons these barriers exist now and will certainly exist for many years to come. And, as long as these barriers exist, we don't think risk managers should try to barge through them or sneak around them.

Fortunately, it's not especially difficult to play by the rules in other countries, now that U.S. and European insurers own locally licensed insurers around the world or have developed international networks of local insurers. Risk managers with international operations have numerous options, which are described in our special report this week.

Of course, it does take more creativity and savvy to be a good corporate citizen in a foreign country and at the same time accomplish one's risk management goals, than it does to forge ahead according to one's own limited vision, running roughshod over local customs and local laws.

letters

Fair and workable alternative to Superfund needed

To the editor: The conclusion of your editorial "Dump Superfund" (*BI*, Sept. 16) should be apparent to everyone. Despite the protestations of the Environmental Protection Agency to the contrary, Superfund is not working to restore deteriorating waste sites to a safe condition.

As you say, in all probability no insurer was selling cover for this exposure and no insured was buying it. The reason was simply that no one, insurer or insured, considered it a liability.

This was a logical and correct assumption. Superfund took what should have been an operating cost—preventing hazardous waste from contaminating the environment—called it "Clean-Up" and made all generators strictly and jointly and severally liable.

Insureds justifiably argue that they do not have the financial resources to deal with the problem. The result is that they look for coverage under a comprehensive liability policy, Superfund having created this liability. Insurers object to such a retrospective extension to their coverage. They seek relief from its burdens, not least because they do not have the financial resources to pay to get the job done either. The Congressional Office of Technology Assessment has estimated the total cost as in excess of $100 billion, but it is probably in the region of $250 billion.

If preventing damage to the environment is a major priority, as it should be, then a new initiative is required. It does us little good to exchange insults and protect our respective corners.

Your call for such an initiative deserves support. Such support should be broadly based so that the problems can be identified and consensus solutions arrived at. No one has the solution in hand; finding it will involve a lot of hard work. Neither of those are good reasons for declining the challenge of what will be the major liability problem for the remainder of this century and beyond.

R.M. Aicken
Director
ERAS (International) Ltd.
London

AIDS-related panic is unfair, unwarranted

To the editor: Thank you for excellent articles about AIDS in your Sept. 30 issue. The information was new and factual.

However, I hope that future articles could be more direct about the means of transmission. The panic at Lincoln National Life Insurance Co. and other insurers is unfortunate and misinformed.

More unfortunate is the movement by some life and health insurers to either require the HTLV-III test for single males or attempt to exclude homosexuals as a class.

The test is illegal in California, and the attempt at exclusion qualifies as discrimination in many cities and the state of Wisconsin.

Homosexuals comprise 6% to 10% of the population, including insurance people. We are part and parcel of the American profile. For generations, this part of the population paid for fertility-related and child-bearing risks.

An epidemic has come to us first and we will not be cast out and thrown into the bonfire.

Carl Heimann
Schmidt & Schmidt
Insurance Associates Inc.
San Francisco

Editors guilty of first-degree assault on language

To the editor: I was amused by Mary Carroll's letter concerning cliches and their manglers but feel compelled to point out to her a primary source—the copy editor.

Contributions to *Business Insurance* are entirely at the mercy of headline writers and copy editors.

If I may quote a trivial example, in a fairly recent book review I used the timeworn phrase "moral suasion," which became "moral persuasion" when it appeared in print.

Apart from setting my teeth on edge, this solecism probably had little effect on anybody, but it and others like it have done one other thing for me: I no longer assume automatically that the source or reporter are nitwits and am content to wait for further evidence before making a judgment.

Peter Downes
Manager of Insurance
American Trading and
Production Corp.
Baltimore

Broker was omitted from cast cover story

To the editor: Regarding the article about cast insurance on Samantha Smith (*BI*, Sept. 2), there is one fact that was omitted: Columbia Pictures is brokered to Albert G. Ruben & Co. Inc through Johnson & Higgins' office in Atlanta.

Shirley D. Griffith
Vp
Albert G. Ruben & Co. Inc.
Beverly Hills, Calif.

Emphasis on quality more facade than fact

To the editor: The current marketplace has generated among companies renewed interest in the concept of agency management.

We agents are constantly being advised, verbally and in print, that underwriting experience and professionally submitted risks are the keys to service and continued relationships.

"The days of telex and phone submissions are over. We want a quality agency plant."

While I happen to agree with this posturing, in reality it's more lip service than established practice.

Being a new agent myself and a former executive with an underwriting company, requests for agency/brokerage appointments are usually met with, "Sorry, but we have X amount of agents now, and in fact we expect to trim this down to X amount."

It does not seem to matter what a person's underwriting credentials are or what the underwriting experience of the company's current agency plant is.

Shouldn't companies underwrite their agents as well as the risks they receive from them?

Are they stressing quantity and overlooking quality?

David W. Driscoll
Executive Vp
Mann Bergen Driscoll
& Associates
Atlanta

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"WHO DO YOU LIKE?"

"FOR MY MONEY, FIREMAN'S FUND."

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But don't take our word for it. Ask WestPoint Pepperell. Or Digital Equipment. Or American Greetings. They're all our clients. And we've designed programs for their individual needs, too.

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ARKWRIGHT BOSTON INSURANCE

AIG eyes foreign multinationals for growth

By DOUGLAS McLEOD

NEW YORK—American International Group Inc.—long the leader in international insurance—is looking to foreign-based multinational corporations for growth.

AIG and its international marketing arm, American International Underwriters Inc., continue to offer a wide variety of insurance products to U.S. and foreign-based multinationals and to indigenous foreign buyers.

However, AIU hopes to expand its business with foreign multinationals, many of which use local foreign insurers for their overseas risks instead of maintaining a coordinated worldwide insurance program, according to John Malloy, an AIU vp for primary casualty.

This issue of *Business Insurance* profiles the major insurers that offer international property/casualty coverages to multinational companies. The profiles, which begin on this page, continue through page 30.

"The concept of a coordinated master worldwide program is a concept that has been well-sold and well-understood by risk managers here in the U.S.," Mr. Malloy noted, adding that the idea has not been as widely developed overseas.

AIG's main competitor in the international field—CIGNA Worldwide Inc.—also is targeting foreign multinationals for future growth (see story, page 14).

AIG's foreign gross premium volume grew by a slight 3.6% to $2.53 billion in 1984 from $2.44 billion in 1983, with most of the growth coming from foreign life insurance operations rather than foreign property/casualty operations.

CIGNA Worldwide—the product of a 1984 merger of CIGNA Corp.'s international operations with AFIA Worldwide Insurance—produced $1.67 billion in foreign gross premiums last year. However, the CIGNA Worldwide figure excludes international reinsurance premiums, which are included in the AIG gross premium figure.

The international business of AIG comprises three types of risks, including:

- Global programs, which may be mono- or multiline insurance packages intended to cover the domestic and foreign exposures of multinational corporations.
- Multinational accounts, for which AIG writes coverage for clients' individual foreign exposures, or as a coordinated worldwide package, excluding U.S. risks.
- Indigenous foreign accounts, representing the local foreign risks of overseas clients.

AIG's foreign general division—which handles property/casualty risks and which accounted for $1.7 billion, or 67%, of AIG's total foreign premiums last year—operates through a complex structure of geographic divisions and profit centers.

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

One previous geographic division, the Transoceanic, was divided last year into two new divisions, United Kingdom and Ireland; and Australasia, which includes Australia, New Zealand and the South Pacific Islands.

AIG also moved its global division, which handles worldwide programs for multinational clients, to AIU last year from one of the company's domestic divisions.

Each of the geographic divisions, in turn, is divided into profit centers by types of insurance written. These include property, which was split last year into major and commercial accounts divisions; primary casualty; accident and health; automobile; marine; casualty special risks; reinsurance; construction all risks; boiler and machinery; bonding and product warranty.

AIU formed a new financial services division in the United Kingdom, which now incorporates political risk and export credit insurance and other related profit centers.

All told, AIU operates in more than 130 countries around the world through more than 300 underwriting and claims offices.

The foreign general division's $1.7 billion in 1984 premiums represented a slight drop from the $1.71 billion produced in 1983, a decline that the company blamed in part on the continuing strength of the U.S. dollar.

Foreign general premiums accounted for about 34% of AIG's total 1984 general property/casualty gross premium volume of $4.98 billion.

Results deteriorated slightly, with the combined ratio on AIU business climbing to 102.1% last year from 96.9% in 1983.

The North American division, which opened marketing offices in Boston and Philadelphia last year, continued to be hurt by poor experience on underpriced casualty accounts, according to the company's annual report.

On the casualty side, Mr. Malloy said that the largest rate increases and biggest drops in capacity have come on the U.S. exposures of multinational corporations, though he said he couldn't estimate how big those changes have been.

"Foreign casualty (experience) did deteriorate, but not to the degree that we have experienced here in the States," Mr. Malloy said.

"Capacity has shrunk mostly for risks that have exposures here in the U.S.," Mr. Malloy added.

Mr. Malloy added that if the U.S. casualty exposures of a foreign multinational risk are heavy, AIU may arrange for the U.S. component of the risk to be separately insured with domestic AIG affiliates like American Home Assurance Co.

While the North American division was recovering from the soft market, an underwriting profit was recorded by the Far East/Southeast Asia division in 1984, according to AIG's annual report. AIU opened 11 new branch offices in South Korea and formed a new Hong Kong unit, AIU Banking Services Ltd., to provide financial coverages

Continued on page 14

HEALTH NET.
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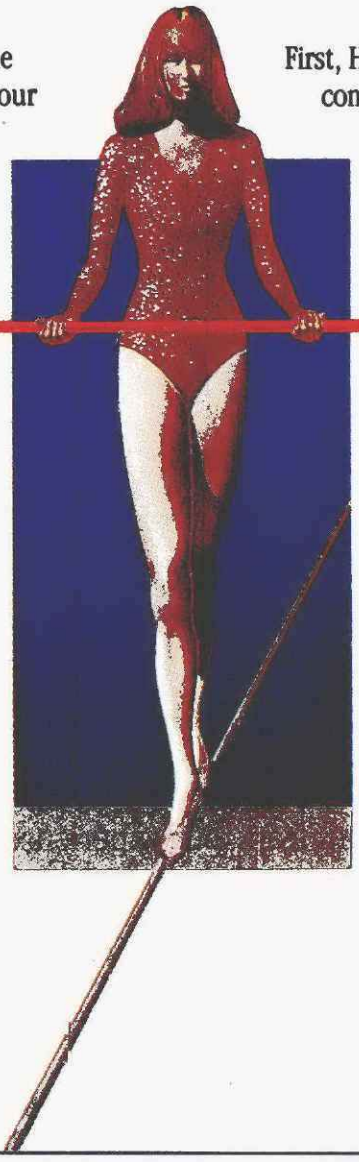

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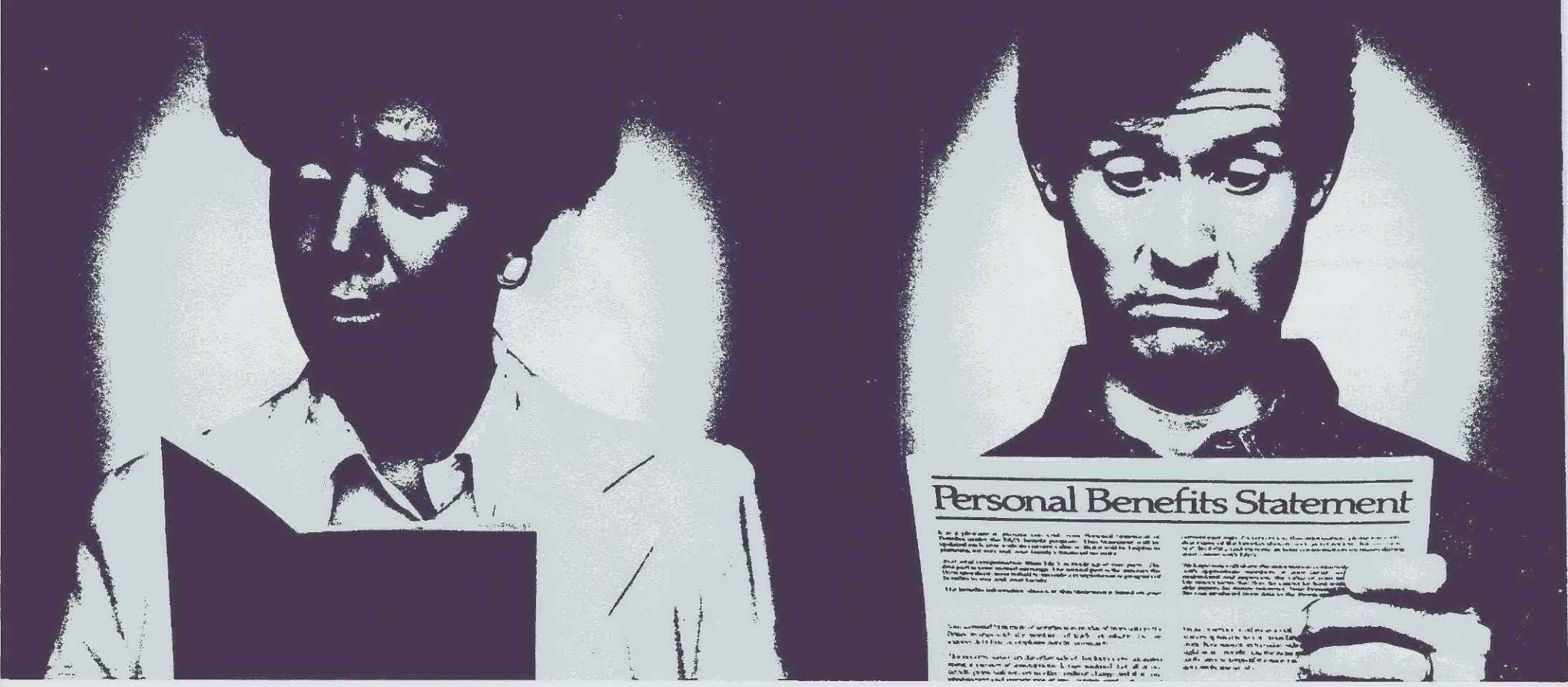

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CIGNA Worldwide targets multinationals

By DOUGLAS McLEOD

PHILADELPHIA—CIGNA Worldwide is drawing proportionally more of its revenues from multinational corporations since its acquisitions of AFIA Worldwide Insurance and two other overseas insurance operations.

While U.S. and foreign multinationals accounted for only about 6% of CIGNA Worldwide's total revenues before the 1983 and 1984 acquisitions, multinational premiums now account for about 11% of the total.

The remaining 89% of CIGNA Worldwide's property/casualty and life insurance premiums are produced by foreign local policyholders.

Bruce K. Howson, president of CIGNA Worldwide, the international insurance arm of CIGNA Corp., said the insurer has targeted multinational business—particularly foreign-based multinationals—for growth.

"By and large, the U.S. multinational market is pretty well saturated," he said, explaining that many U.S.-based multinationals already have worldwide insurance programs with insurers such as CIGNA or American International Group Inc.

However, such programs are less common among foreign companies.

Mr. Howson noted that of the world's 500 largest industrial corporations, roughly half are based outside the United States in Japan, the United Kingdom, France, West Germany and elsewhere.

'By and large, the U.S. multinational market is pretty well saturated,' says Mr. Howson of CIGNA Worldwide, explaining that many U.S.-based multinationals already have worldwide insurance programs in place.

"That's where we are going to be aiming our efforts in the next few years," Mr. Howson said, adding that CIGNA recently landed a major Japanese multinational account in conjunction with a Japanese insurer.

CIGNA Worldwide is hoping that global programs grow to produce about 20% of the operation's total revenues in the next three to five years, according to Mr. Howson.

CIGNA Worldwide—which recorded a total of $1.67 billion in 1984 gross premiums excluding international reinsurance premiums—has seen a number of other developments since its 1984 acquisition of AFIA and its 1983 acquisitions of U.K.-based Crusader Insurance P.L.C. and the Brazilian insurance operations of Kemper Group. These developments include:

- A proportional growth of business in the Far East and Caribbean and a proportional decline in Europe, Britain and Canada.
- A proportional growth of life insurance and casualty premiums and a shrinkage of marine and aviation business.
- The development of worldwide data processing facilities.
- A change in top management. Earlier this year, Mr. Howson replaced David W. Schrempf as president of CIGNA Worldwide. Mr Schrempf left to become president of Teledyne Insurance Group. (*BI*, April 22).

CIGNA Worldwide's 1984 gross property/casualty and life prem-

Continued on next page

AIG programs

Continued from page 12
to banks and their customers.

New Latin American division offices were opened in the Dominican Republic and Brazil.

Outside the United States, the largest rate increases have been demanded of British-based risks, according to Mr. Malloy.

AIU also imposed "significant" rate increases on general liability risks in the Caribbean and on automobile lines in Chile and Panama, according to the company's annual report.

In contrast to the slight decline in foreign property/casualty volume, AIG's foreign life insurance premiums jumped nearly 15% last year to $830.9 million from $723.9 million in 1983.

'Capacity has shrunk mostly for risks that have exposures here in the U.S.,' Mr. Malloy says.

AIG provides life insurance products through a number of foreign affiliates.

The affiliates include American International Insurance Co. Ltd., operating in Southeast Asia; Nan Shan Insurance Co. Ltd., based in Hong Kong; American Life Insurance Co., operating in Japan, Canada, Europe, the Middle East, the Caribbean and South America; Philippine American Life Insurance Co. in the Philippines; and Ticino Societa d'Assicurazzioni Sulla Vita, a Swiss life insurer acquired by AIG in December 1983.

Although most of the life insurance units produced positive results last year, Philippine American's operating gains were wiped out by the devaluation of the Philippine peso.

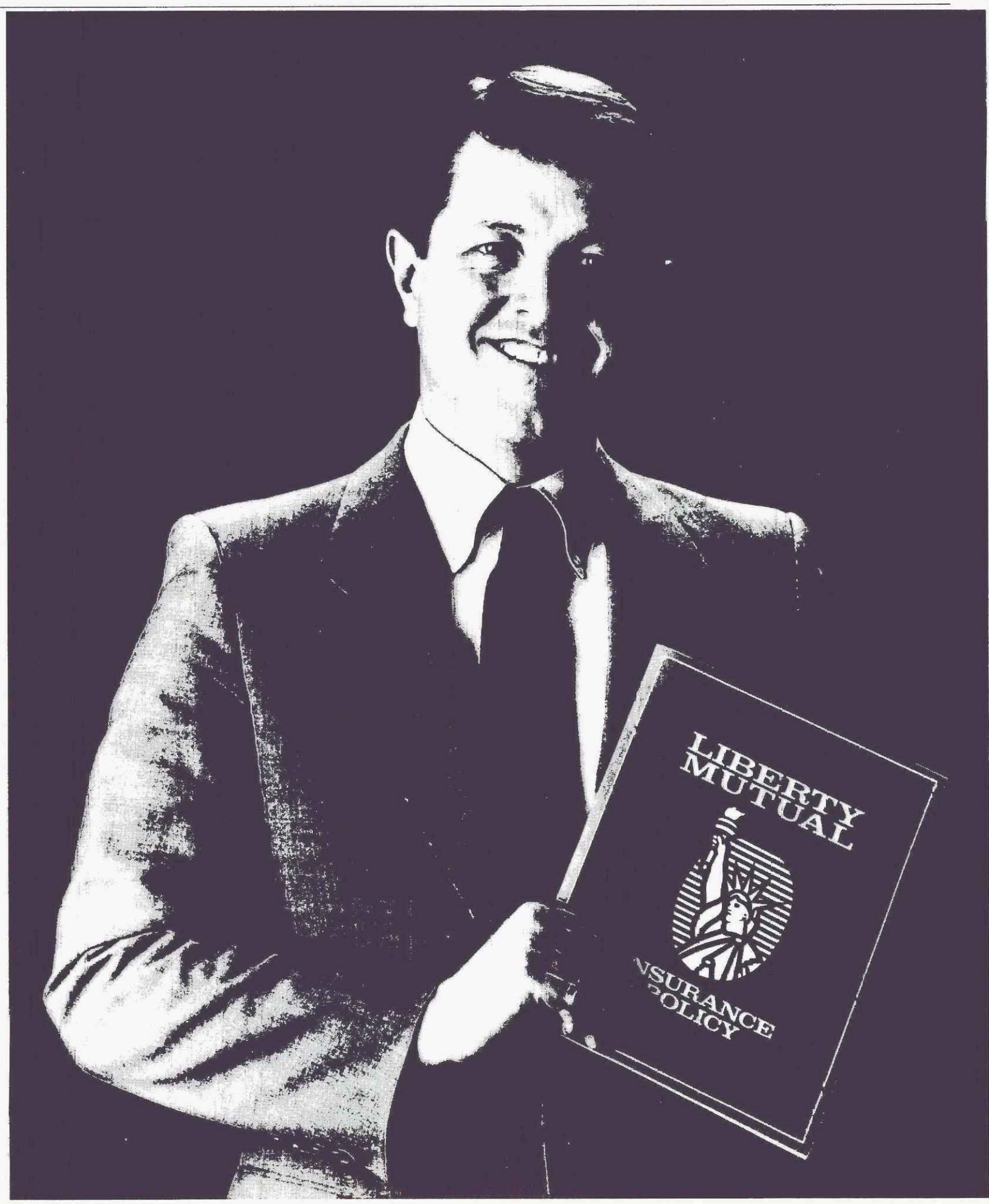
And, AIG has taken steps to hedge its Philippine assets, including investment in U.S. dollar Treasury bills.

Overall, foreign life insurance premiums of $830.9 million represented about 69% of AIG's total life premium volume of $1.21 billion during 1984.

Other AIG units providing insurance services to multinational corporations include:

- AIG Risk Management Inc., which designs risk management programs for major corporations and provides cash management and risk management information systems.
- North American Managers Inc., which provides coverage for foreign companies operating in the United States.

AIG has about 14,000 employees outside the United States. ■



Continued from previous page
ums of $1.67 billion were down about 10% from the $1.85 billion produced by its operations in 1983. (The 1983 figure includes full-year AFIA and Crusader premiums but excludes $489 million in CIGNA and AFIA international reinsurance premiums. CIGNA Worldwide has no management responsibility for international reinsurance.)

Of 1984's $1.67 billion in gross premiums, $1.54 billion was derived from property/casualty business while life insurance premiums amounted to $127.7 million.

The combined ratio on international property/casualty and life business was 109.8% last year, significantly better than the 128.3% combined ratio posted by CIGNA Corp. overall.

CIGNA Worldwide's 1984 loss ratio was 72.2% and its expense ratio was 37.6%.

The insurer's goal is to bring the loss ratio down to the high 60s over the next few years and the expense ratio down to the low to middle 30s, according to Mr. Howson.

The loss ratio may be improved somewhat by rate increases, notably on U.S. exposures, Mr. Howson added.

"We have been very sensitive to pricing on U.S. global programs," Mr. Howson explained, noting that pricing on the U.S. exposures in multinational programs should be in line with U.S. domestic underwriting practices.

Prices on the U.S. exposures in global programs have increased by as much as 100% to 200% in the last year, he said.

Rate hikes on foreign exposures have been more modest, though. In the United Kingdom, where experience has been poor, property/casualty rates have risen 25% on the average, while rate hikes in France have been in the 5% to 10% range, Mr. Howson said.

However, the insurance capacity in some countries—notably the Netherlands—continues to be so plentiful that property/casualty insurance rates still are falling, he added.

"We will be reducing the size of our book (in the Netherlands) simply because we have refused to write underpriced business this year," Mr. Howson said.

CIGNA Worldwide has controlled expenses partly by trimming the size of its staff to about 6,800 employees from 7,000 a year ago.

When CIGNA and AFIA merged in early 1984, the two companies had a combined staff of 8,500.

Mr. Howson said that CIGNA Worldwide will maintain its present staffing level, noting that any further cutbacks "would affect our services and would be unacceptable."

The insurer actually is increasing staff in some areas, though. The loss-control staff for jumbo highly protected risk accounts will be increased by about 10% as the insurer forms large loss-adjusting teams to handle losses of more than $1 million.

Two such teams will be based in Europe, one in the Far East and a fourth will be available in Latin American countries, Mr. Howson explained.

With the AFIA acquisition, CIGNA Worldwide now has underwriting operations in about 80 countries. Including claims offices, the insurer has a presence in about 160 countries.

CIGNA Worldwide offices total about 400, and though there have been no "major" office closings since last year, the insurer has shut down some "uneconomic offices," two of them in France, Mr. Howson said.

The geographic mix of CIGNA Worldwide's business has shifted since the AFIA acquisition. The largest proportional declines have been in Britain, which produced 29.2% of CIGNA Worldwide's gross premiums in 1984 compared with 34.9% in 1982; Continental Europe, which accounted for 17.6% last year compared with 21.2% in 1982; and Canada, which accounted for only 3.2% last year compared with 6.9% in 1982.

Meanwhile, Japanese and Korean business grew, producing 10.2% of the insurer's 1984 gross premiums, up from only 3.7% in 1982.

Similar growth was recorded in the Caribbean, which accounted for 4.7% of gross premiums last year compared with 2.6% in 1982; and the United States, which accounted for 16.4% of gross premiums last year, reflecting an increase from 9.7% in 1982.

Other areas in which CIGNA Worldwide operates, and their share of the insurer's 1984 volume, include Australia and New Zealand, 7.5%; South Africa, 1.8%; Latin America, 4.0%; Southeast Asia, 3.5%; and the Middle East and Africa, 1.9%

CIGNA Worldwide's product mix also has changed since the acquisitions of AFIA, Crusader and the Kemper Brazilian operations, with a proportional increase in life insurance business and a drastic reduction of marine and aviation business.

Life business accounted for 18.6% of CIGNA Worldwide's gross premiums last year compared with 5.2% in 1982. Accident and health business showed a smaller increase, to 11.7% last year from 10.6% in 1982.

Marine and aviation business, however, dropped to 15.6% of CIGNA Worldwide's 1984 book from 30.2% in 1982.

Casualty's share of overall gross premiums increased to 29.6% from 25.1%, while property's share declined slightly to 24.5% from 28.9% in 1982.

Most of CIGNA Worldwide's global insurance programs continue to be property only, with worldwide casualty exposures being handled by a separate CIGNA special risk unit, according to Mr. Howson.

However, CIGNA Worldwide still offers a variety of casualty coverages for international risks.

And, it provides bonding, credit and political risk insurance.

While CIGNA Worldwide hasn't stopped writing any particular lines, it is moving away from writing monoline automobile, workers compensation or professional liability risks, and now prefers to assume these risks only where it can also assume other lines for a policyholder, such as property.

CIGNA Worldwide's gross capacity per risk on property business is about $80 million.

CIGNA and AFIA had a combined capacity of $360 million per risk before their reinsurance treaties were merged.

On casualty risks, CIGNA Worldwide won't write a gross line of more than $10 million per risk, Mr. Howson said. Casualty capacity last year—after the CIGNA and AFIA casualty treaties had been combined—was $25 million per risk.

"It would have been naive to say that we could have maintained our capacity," Mr. Howson said.

"When we went to the (reinsurance) market, they said, 'What do you guys really need?'" he said.

He added that CIGNA didn't use most of the huge capacity available before the property treaties were merged.

After the treaties were merged, Mr. Howson said that CIGNA Worldwide was able to find facultative reinsurance to add limits where needed and that only about four of CIGNA Worldwide's 200 accounts couldn't find the capacity they wanted. ■

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Hartford Fire ready to write direct business overseas

By JUDY GREENWALD

HARTFORD, Conn.—Hartford Fire International is revving up to write insurance for U.S. clients with overseas business beginning Jan. 1.

The Hartford Insurance Group created Hartford Fire in October 1984, after it sold its interest in AFIA Worldwide Insurance to a CIGNA Corp. subsidiary (*EI*, Oct. 15, 1984).

Now, after a year of preparation, Hartford Fire is ready to start writing direct insurance business in the United Kingdom, Germany, Holland, Italy and Belgium

In addition, arrangements are being made to write business no later than the first quarter of next year in Spain, France, Australia, Japan, Hong Kong, Singapore, Malaysia, New Zealand, Thailand, Taiwan and Korea, says Lawrence S. Doyle, president of Hartford Fire.

In each country, says Mr. Doyle, Hartford will write the business either through a branch office, a Hartford overseas subsidiary or a foreign correspondent insurer.

Hartford's foreign subsidiaries include Transatlantische Insurance Co. of Hamburg, West Germany; Dutch underwriter Zwolsche Algemeene; and Excess Insurance Co. in the United Kingdom.

In all, the insurer has about 1,500 employees in its foreign subsidiaries. But until now, Mr. Doyle says, they wrote insurance only for indigenously based companies.

In countries where Hartford does not have subsidiaries, it plans to expand primarily through the use of foreign correspondents who will write business exclusively for Hartford's U.S.-based clients in exchange for Hartford writing business for the foreign insurers' overseas clients, he says.

"At this point, it is a little bit easier to organize a network because foreign insurers have a significant need" for a U.S. outlet, he said.

Foreign insurers can't write the U.S. business because most international reinsurers have had poor results in the United States and have written an exclusion for U.S. business into their treaties with foreign insurers, he says.

Besides determining the countries in which Hartford Fire will operate, Mr. Doyle says the insurer has been "developing the backroom operation to provide foreign coverages for U.S. clients," including data processing and underwriting.

Mr. Doyle says Hartford Fire has "accomplished a lot" this year in putting together the mechanism to write direct insurance overseas.

Hartford Fire will direct its marketing thrust at companies with less than $25 million in revenues, he says.

It does not plan to offer an excess difference-in-conditions policy, which would fill the gaps between any foreign policies issued and the firm's U.S. insurance policy and make all the coverage uniform.

There instead will be individual contracts for each country, he says.

And, Hartford Fire also will not offer global plans, which include U.S. and foreign coverages in one overall policy.

Mr. Doyle was reluctant to estimate how much Hartford Fire will generate in net premiums. The figure could range from $3 million to $20 million, "depending on a variety of factors," he says.

In the meantime, Hartford Fire already has started to write reinsurance coverage in Japan, Australia, Hong Kong, Singapore, Malaysia, Thailand and Taiwan.

Hartford Fire is working in these countries with domestically based insurers, says Mr. Doyle.

Once this relationship is established, it will be a good opening to have these insurers act as correspondents for Hartford's primary direct business as well, he says.

Hartford is also considering "selected" reinsurance business from South American countries. This business would be written in U.S. dollars, he says.

Hartford's reinsurance operations are headed by Robert M. De Boer, senior vp, who was vp for Far Eastern and Pacific treaty reinsurance operations at Excess & Treaty Management Corp. in New York.

Mr. Doyle notes the insurer has already reached its goal of $3.5 million in net written premiums for its reinsurance business this year. ■

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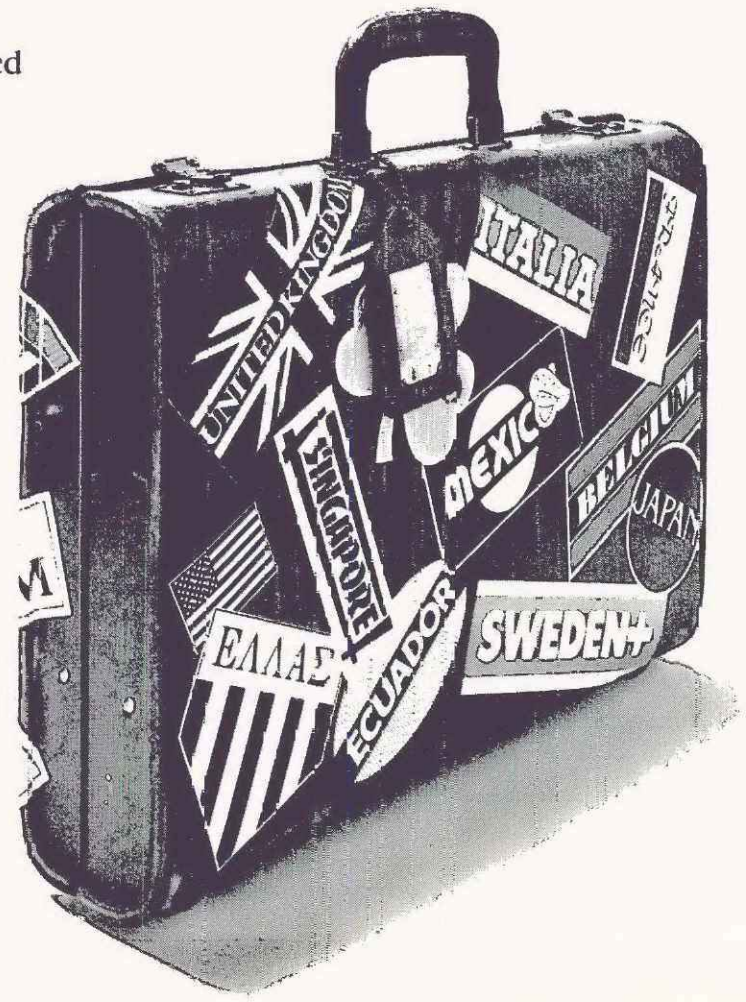

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Chubb makes changes in bid for No. 3 spot

By DAVE LENCKUS

WARREN, N.J.—Centralized, high-speed issuing of locally admitted contracts tops the list of moves by Chubb Corp.'s international division to improve underwriting of foreign risks of U.S. multinationals.

Other moves include decentralizing underwriting authority, increasing its presence overseas and implementing a foreign investment package, which combines property and political risk coverage.

The result has been higher visibility for Chubb among brokers and about 30% growth in its international property/casualty revenues, according to Al Martz, vp and senior underwriting officer for the international division.

Mr. Martz says Chubb is the fourth-largest U.S. underwriter of international risks behind American International Group Inc., CIGNA Corp. and Continental Insurance Co., but is shooting to be the third largest.

To expedite the issuance of locally admitted policies to subsidiaries of multinational clients, Chubb opened in June its International Central Service Unit at its home office in Warren, N.J.

Now, policies are issued about 30 days after an international contract is bound and written, said Dennis J. Orio, assistant vp responsible for the non-domestic business of U.S. and Canadian clients. "That function used to be with the local branches, and it was spotty."

The central service unit is fully computerized and supports U.S. and Canadian underwriters and producers.

Underwriting authority has been decentralized, however. For example, if an agent has questions about an account, he can obtain answers from a local or zone Chubb office rather than go through channels at the insurer's home office.

Over the past year, Chubb has moved to strengthen its position in several countries.

In Italy, Chubb acquired 25% interest in Prudential of Italy (no relation to Prudential Property & Casualty Insurance Co.).

In Holland, it now operates through a direct brokerage through its Brussels, Belgium, office. The insurer operated in Holland previously through general agents.

In Puerto Rico, the insurer has established a full operating branch, again replacing general agents.

In Asia, Chubb has branch offices in Singapore and Hong Kong. The Singapore operation was started last year. The Hong Kong operation was converted to a direct branch two years ago.

"It's a very stable environment in which to do business," Mr. Martz said. "They're trying to attract foreign investments, and U.S. companies seem to have no qualms" about locating there, he said.

Chubb has pulled out of Bolivia, however, because of the lack of U.S. business there.

Chubb's new foreign investment package for multinationals with risks in unstable Third World countries was implemented this spring. It is geared to midsized companies that may face losses due to civil war or insurrection.

Multinationals previously insured these risks under separate policies with different insurers, but they sometimes encountered trouble making a claim when the insurers disputed whether the loss was covered under property or political risk policies, Mr. Orio noted.

Coverages under the package include $10 million for political risks, with a sublimit of $7.5 million on damage from civil war, and $20 million on property risks.

Chubb's prime target for its international business is the electronics industry. That segment represents about one-third—and the largest portion—of the international property/casualty business.

"We're looking for companies with sales in the $1 billion range and that operate in one to 30 countries," Mr. Orio said.

In its international department, Chubb has added five full-time North American international underwriters, bringing the total to 45.

And, it has established international departments in New Haven, Conn.; Charlotte, N.C.; Irvine, Calif., to service multinationals located in Orange County; Minneapolis; Detroit; and New York. Those additions bring the total of international departments in the U.S. and Canada to 26.

Including its North American international underwriters, Chubb employs more than 350 persons in its international department.

Chubb will write global plans but finds little demand for them. "The concept of a global program is coming apart," Mr. Orio said.

Gross foreign revenues for its international business—which includes premiums, investment income and other income—totaled $189 million in 1984, an increase of $22 million from the previous year. Projected gross foreign premiums for 1985 are $245 million.

While Chubb earned $13.5 million on its international business in 1984, it lost $65.1 million on its domestic business.

Chubb raised its rates for international property/casualty insurance more than 25% this year. Its 1986 rates probably will jump 15% to 25%, and capacity will shrink somewhat, Mr. Martz said.

Mr. Orio says substandard overseas risks will suffer most. "This is where a company's risk management investment will bear fruit."

However, he said: "A quality multinational can get primary insurance, and we can get the reinsurance for it." ■

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Zurich-American plans umbrella product

By DAVE LENCKUS

SCHAUMBURG, Ill.—To further strengthen its new international property/casualty program for U.S. multinationals, Zurich-American Insurance Cos. is developing a product to fill gaps in umbrella liability coverages of foreign exposures.

Because some umbrella underwriters now seek higher attachment points for foreign exposures than for domestic exposures, many multinationals must contend with an umbrella liability coverage gap, explained Thomas H. Hite, director of the international department of Zurich-American's special risk division in Schaumburg, Ill.

"Our plan will provide the means to get the attachment point to the domestic level," Mr. Hite said. The program provides $5 million in coverage.

Mr. Hite said insurers' reluctance to write umbrella coverage for foreign risks at the same attachment point as domestic risks is not widespread yet, but he has seen some instances where the insurer was not interested in the foreign risks and therefore set the attachment point higher.

Despite the fact that the Insurance Services Office is introducing a new claims-made form that excludes pollution coverage, Zurich-American's plan may provide coverage on an occurrence form and include some accidental pollution coverage, depending on the risk.

Emphasizing that the plan will not be written for U.S.-based risks in U.S. legal jurisdiction, he said: "We would not feel the same kind of pressure to write the coverage on a claims-made basis."

"It may be as broad as European plans," added Christian Meyer, vp-international division of Zurich Insurance Co., the Zurich, Switzerland-based parent of Zurich-American.

Although the plan adds another element to Zurich-American's liability programs, for which the insurer is better known, the company is shifting its emphasis to property coverage, Mr. Hite said.

'The facultative market isn't around much anymore,' says Mr. Hite of Zurich-American.

For example, most of the international coverage it has written for Beatrice Foods is property, he explained.

In general, the company is concentrating on standard products on both the property and the casualty side.

"Being relatively new, we're making a name for ourselves in the area of standard products with standard solutions," Mr. Hite said.

Zurich-American began covering foreign exposures of U.S. multinationals early last year. The insurer is targeting medium to large multinationals seeking primary international programs.

Besides Beatrice, the insurer's half dozen international accounts include drug manufacturer Eli Lilly & Co.

Zurich-American expects to generate $47 million in premiums from U.S. multinationals and foreign companies with U.S.-based risks. This will represent a $20 million increase over 1983. However, only $4 million of the $47 million is from U.S. multinationals. The bulk is from insurance on the U.S. exposures of foreign-based companies.

Last year's combined ratio was 102%.

Including its 36 U.S. offices, the Zurich Insurance Group has 550 offices and more than 23,000 employees worldwide.

The company has subsidiaries and affiliates in 29 countries and cooperating partners in 45 more. Since last year, the company has added offices in Mexico, Brazil and Japan.

"We now have the whole Far East covered," Mr. Hite said.

In addition, Mr. Meyer noted that the insurer has stationed engineers in South America for the first time.

The company is trying to promote the feeling among agents and brokers that it is a viable alternative to CIGNA Worldwide and American International Group for U.S. multinationals' overseas business. In this effort, the company has concentrated on international brokers in New York and the Midwest.

"Our wanting to be No. 3 has less to do with numbers than the way we want to be regarded by agents and brokers," Mr. Hite said. "In the areas we have chosen to focus, we have made significant strides in that regard."

Zurich currently is deciding what its 1986 rates and capacity will be, and Mr. Hite expects both property and casualty rates will increase at least 10% to 15%. Zurich's property rates and capacity will depend on the reinsurance it can muster.

"If it's a large program, we're dependent on facultative reinsurance," he said. "The facultative market isn't around much anymore."

He said the insurer is "trying to keep together what property capacity" it has.

Rates for smaller, foreign risks may be somewhat greater, he said.

However, casualty capacity on foreign exposures in 1986 could expand, he said. Capacity in 1985 was virtually unchanged from the $5 million available for most lines in 1984. ■

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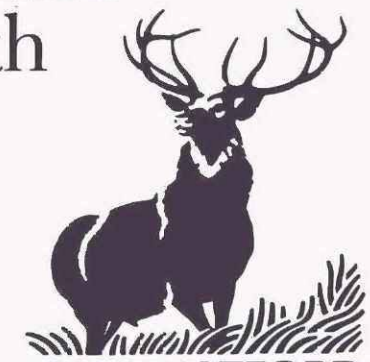

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Introduction of global plans a successful venture for Royal

By DAVE LENCKUS

NEW YORK—While many insurers speculate that global insurance packages may be a thing of the past, Royal Insurance Co. of America is successfully marketing global plans to U.S. multinationals.

In the past year—since the major restructuring of the insurer's property/casualty operations—Royal Insurance has underwritten a half dozen global accounts, according to Gary Orford, secretary of Royal's international division.

This is the first year Royal has written global plans for U.S. multinationals.

The secret is to underwrite only major lines of coverage in global plans, says Mr. Orford, who was recruited last year from American International Underwriters, an American International Group unit.

Earlier in the year, Mr. Orford completed staffing the international division, which falls under Royal's special risk operations.

The international division handles all of Royal's global and international coverage for U.S. multinationals and coverage for foreign companies with risks in the United States.

Previously, Royal wrote separate domestic and overseas insurance for U.S. multinationals for property, general liability, auto, boiler and machinery, inland and ocean marine and kidnap and ransom risks.

However, global programs must be more narrowly focused so the insurer is not overextended, Mr. Orford said.

On the property side, Royal's global program includes automobile, business interruption, contingent business interruption, difference-in-conditions, difference-in-valuation, extra exposure and inland marine coverage.

On the casualty side, the program includes general/product liability, workers compensation, excess liability and umbrella liability insurance.

Royal also helps the policyholder secure coverage for ocean marine, boiler and machinery and bond risks that are not included in the global program.

Royal has capacity of $40 million for property risks, $5 million for primary liability risks and $5 million for umbrella/excess liability risks.

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

Obtaining reinsurance for global accounts "sometimes gets dicey," Mr. Orford acknowledged.

"Not many reinsurers can handle global accounts," he said.

"Usually, one handles the domestic risks and one handles the foreign," he added.

Royal Insurance of America is not targeting any single business segment on which to build its global business.

"We're just putting the word out and letting the clients come to us," Mr. Orford said.

One of the global accounts it underwrites is for Hitachi Ltd. of Tokyo, which has a U.S. subsidiary in New York. This includes both property and casualty coverages.

Royal writes a property-only global program for Kendavis Industries Inc., a Fort Worth, Texas-based manufacturer of off-highway trucks used by the mining and petroleum industries that has facilities in 13 countries.

Royal has not established its 1986 rates or capacity, but Mr. Orford said the insurer "is trying to inject a little more rationale and not overreact" to the hardening in the market.

"We're just starting out so we do not have a lot of historical portfolio to clean up," he said.

However, pricing will be restricted by the reinsurance market, he said.

The parent company of Royal Insurance of America is Royal Insurance P.L.C. in the United Kingdom.

The group has eight major operating companies, four in the United Kingdom and one each in Canada, Australia, the United States and the Netherlands.

The Royal group has more than 500 offices throughout the world, is represented in 80 countries and has 22,000 employees worldwide. ■

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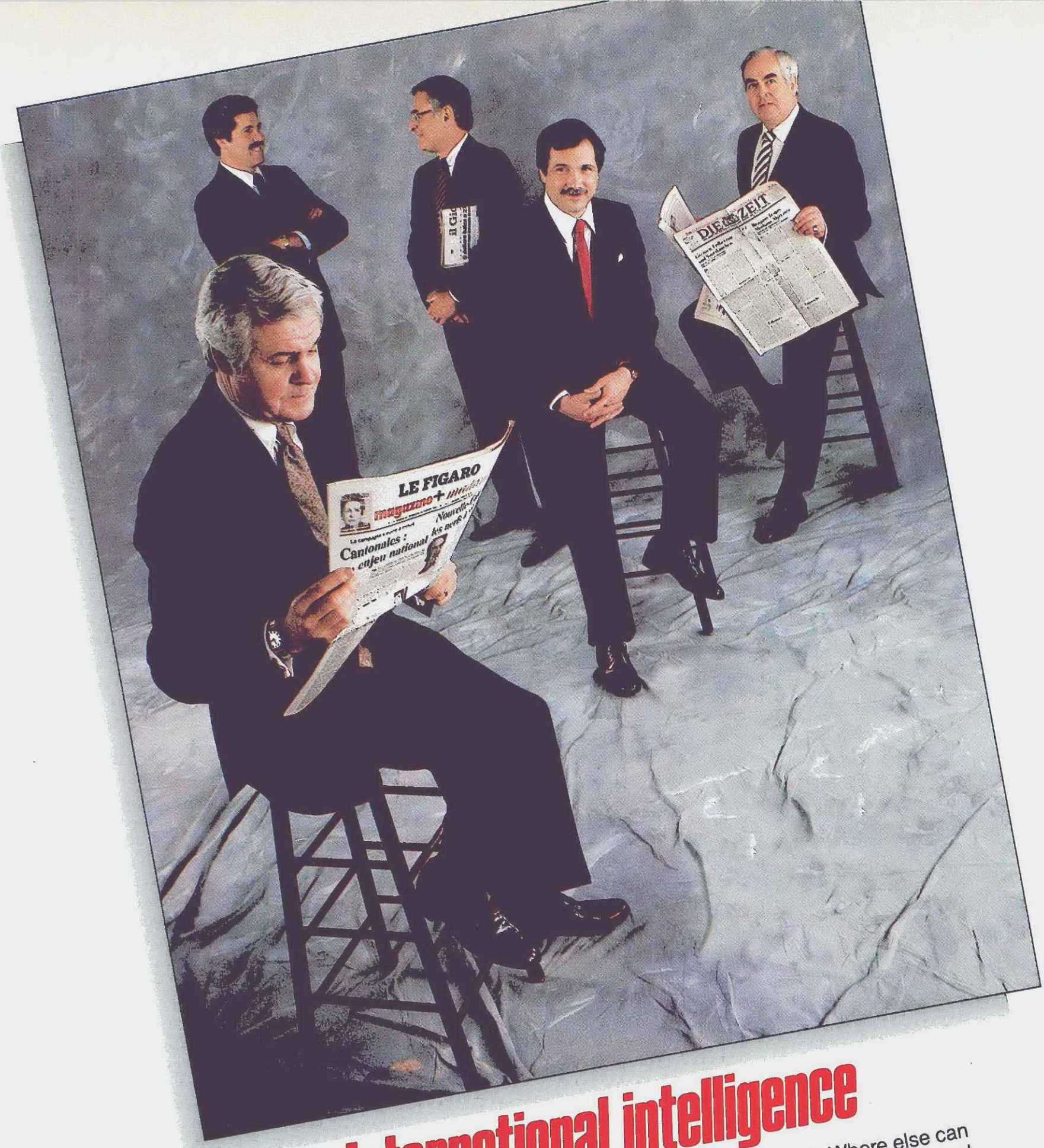

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Continental sets focus on global plans

By JUDY GREENWALD

NEW YORK—Continental Insurance Co. is mounting a major marketing push for its global insurance plans.

Global plans, which the insurer has promoted actively only in the past year, now account for about 10% of Continental's premium volume. But, in a year they should account for one-third of its business, says Peter Ilias, vp in Continental's international department, which is represented in 100 countries.

A global plan is an insurance plan that includes a client's coverages in all countries where it operates, including the United States.

Mr. Ilias says potential clients for Continental's global plans include all of the Fortune 500 companies. "Each one is a candidate," he says.

One new global plan client acquired during the last year is Beverly Hills, Calif.-based Hilton Hotels Corp., which had insured its overseas exposures with Continental. But, Hilton now has expanded the cover to include its North American risks as well, says Mr. Ilias.

Continental's international department generated an estimated $168 million in gross premiums in 1984, compared with $140 million in 1983. This will increase to an estimated $250 million in 1985, Mr. Ilias predicts.

The international department employs 350 people, about the same as a year ago.

Continental does not release the department's combined ratio, but Mr. Ilias notes that it has improved. "We have seen a substantial improvement from 1984 to 1985. . . .Our combined ratio dropped by almost 20 points." And, he predicts a "continuing, gradual improvement."

Besides its global plans, a second major thrust for Continental is a continuation of its strategy to increase its direct presence overseas.

During the past year, Continental obtained a license to operate in West Germany and moved into new offices in Frankfurt, Mr. Ilias says. The insurer also opened a branch office in Brussels, Belgium, and it soon will open offices in Rome and Amsterdam.

Also, Continental has established a regional office in London and has named Bruce Hayden as vp in that office, with responsibilities for Europe and the Middle East.

With the addition of new offices in Italy, Germany, Belgium and Holland, Continental now has branch or subsidiary offices in 56 locations and affiliates or general agencies in 37 more, Mr. Ilias says.

The insurer has also obtained a 60% interest in the Hong Kong-based Lombard Group, an insurer that formerly represented Continental in offices in 14 countries in the Far East, including Japan, South Korea, China and Thailand.

The remaining 40% interest in the insurer was obtained by Hong Kong-based Jardine Matheson Holdings Ltd.

Future areas of growth include the Scandinavian countries, Switzerland, Austria, Spain and Portugal, he said.

And, Continental officials)promise that wherever it has branches, clients will be well-served. "We've got a very good servicing network that an awful lot of companies don't have," says William Bolinder, executive vp in charge of international operations at Continental.

Continental makes sure underwriters in both its Far Eastern and European offices are familiar with local coverages as well as with U.S. exposures, he says.

And, Continental offers its clients a strong domestic organization as well as a very good international organization, says Mr. Ilias.

New developments in the international program during the past year include the introduction of a transnational unit "whose mission in life is to assist us in writing global accounts by including North American exporters in multinational programs," says Mr. Ilias.

"We're looking at it as a key department to facilitate the writing of global accounts," says Dennis Fassett, vp in charge of underwriting for international operations.

The transnational unit includes underwriters from all Continental's profit centers, including Marine Office of America Corp., special risks and national brokerage services, says Mr. Fassett.

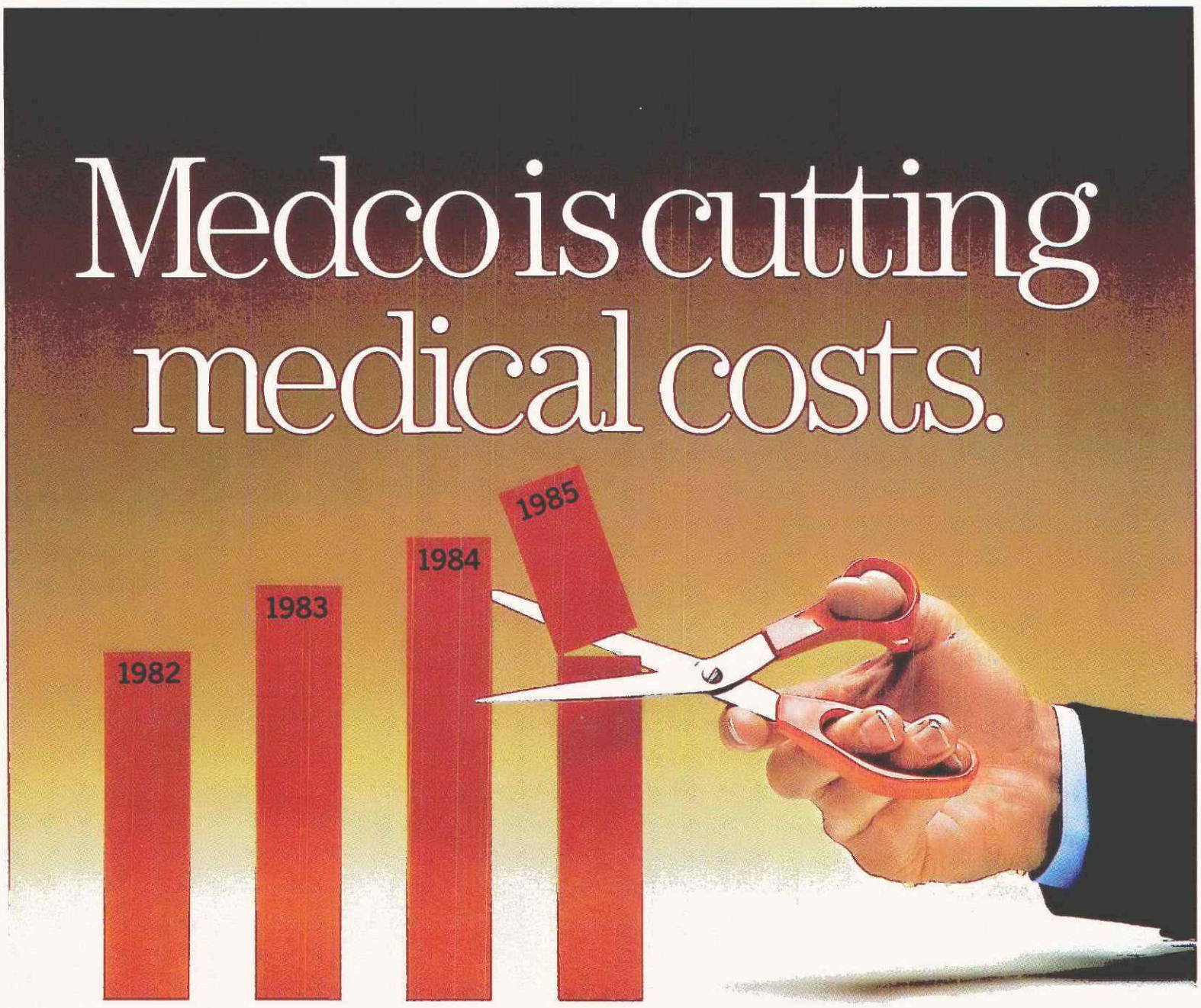
By bringing together underwriters from different profit centers, Mr. Fassett explains, the unit can make decisions on whether to accept a client's business on a "pure account underwriting" basis.

This way, if the international underwriter is lukewarm about handling a potential client's business but the domestic underwriter is enthusiastic about it, the unit may accept the business, he says. Putting the underwriters together in one unit centralizes the decision-making process, he explains.

Continental also has introduced a Reverse Home Foreign Accounts program, which is directed at overseas firms seeking insurance coverage for their U.S. investments, Mr. Ilias says. This would not necessarily be part of a global or multinational program, but could be just a "one-shot deal," he says.

It could, however, represent an opportunity for Continental to expand by handling foreign investors' business abroad, Mr. Fassett notes.

The program, which was introduced about six months ago, has generated only a few million dollars in premiums to date. But, Continental expects "substantial growth here," Mr. Ilias says. ■



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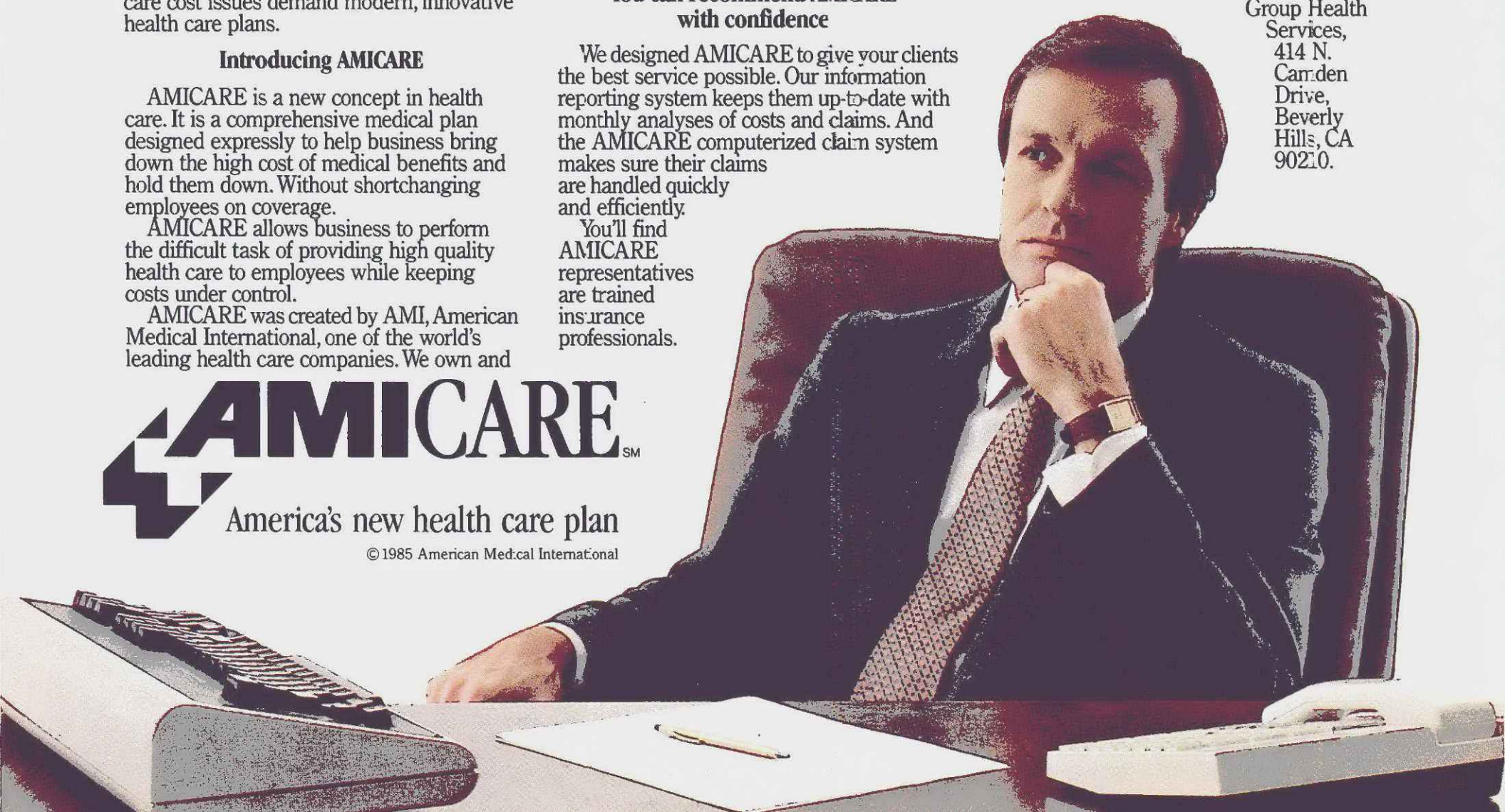

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Additional offices, employees spur growth at Kemper unit

By STEVE SHERWOOD

LONG GROVE, Ill.—An increase in employees and offices is helping Kemper International Insurance Co. grow substantially, an official says.

"I see our higher premium volume as a direct result of having more people in more offices," says Theodore Hoeh, senior vp.

Since October 1984, Kemper Group's international subsidiary has added nine offices in the United States and abroad for a total of 16. And it hired 25 new employees, for a total of 125, he says.

Correspondingly, Mr. Hoeh projects a 39% rise in premium volume this year. He estimated that 1985 premiums will total $25 million, up from $18 million in 1984 and $14.9 million in 1983.

The company expects 1986's premium volume to reach $34 million.

"International business, overall, has been profitable and has remained attractive to U.S. insurers," Mr. Hoeh says.

Kemper International's results have been fairly good, he adds, estimating its 1984 combined ratio at 110%, compared with 106% in 1983.

"We've permitted expenses on the international side to run high because we're developing new markets and building staffs, but losses are under control," he says.

Kemper International has an engineering approach, he says. Its underwriters and engineers have backgrounds in highly protected risks and when possible apply HPR techniques to overseas risks.

"We're happy to write an HPR facility when we find one, but there aren't many outside North America," he says. But, he added Kemper is promoting the concept of high-quality risk protection.

Obviously, Kemper is not writing HPR-style risks exclusively, he says. "If we did, we wouldn't grow at the rate we're growing."

Kemper's indigenous foreign clients typically generate premiums of less than $100,000 a year and comprise three-fourths of its total business, Mr. Hoeh says.

Except in Japan, where it writes liability, auto and personal lines policies for local businesses, Kemper International concentrates almost exclusively on property coverages for foreign companies.

But, for U.S. multinationals, the company writes worldwide multiline coverages tailored to fit each corporation's needs, he says. "This is done by master contract, with coverages arranged through our partner companies or through fronting companies in countries where we aren't admitted."

Multinational clients generated about $6 million in premiums during 1984, Mr. Hoeh says. He estimates Kemper insures five or six large multinationals with annual premiums exceeding $200,000, and 30 or more smaller multinationals.

Bermuda-based Seven Continents Insurance Co. serves as a clearinghouse for Kemper's international business. Seven Continents is owned by Kemper and six insurer partners in the United Kingdom, Europe, Asia, Australia and New Zealand, he says.

"If you are a multinational that wants coverages in every country, we go to the appropriate partners and ask them to write it locally," he says. "The partner either retains the coverage or cedes a portion of it back to Bermuda, spreading its risk and, at the same time, increasing the value of its Seven Continents shares."

Kemper International has arranged separate partnership agreements with other large European and Pacific insurers, most recently with General Accident Fire & Life Insurance Corp. P.L.C. in Britain and Winterthur Swiss Insurance Co. and Switzerland General Insurance Co. Ltd. in Switzerland.

Kemper International now has five U.S. offices, located in New York, Los Angeles, Chicago, Long Grove, Ill., and Quincy, Mass.

Its 11 overseas offices are in Bermuda; Brussels, Belgium; Frankfurt, West Germany; Paris; London; Singapore; Sydney and Melbourne, Australia; Yokohama, Japan; and two in Tokyo.

Mr. Hoeh expects Kemper's growth to be steady worldwide, with a few exceptions: "The Southeast Asian market is difficult and competitive, so we will probably have only modest growth there." ■

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Ironically, two separate developments are making the problem more complicated:

- A recent statement of the Financial Accounting Standards Board (FASB) requires the disclosure of costs and expense/funding policy for current retiree health and life benefits. In addition, FASB is working on accounting standards for the proper expensing of these deferred liabilities for active employees.
- The Deficit Reduction Act of 1984 sharply limits corporate options for funding post-retirement benefits, thereby discouraging the establishment (or continuation, in some cases) of earmarked funds.

In such an environment, it is critical for corporations, especially those that have been handling retiree obligations on a pay-as-you-go basis, to pinpoint overall liability.

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FMI looks to improved position with tightening of foreign market

By STEVE SHERWOOD

LONDON—Factory Mutual International should be in a good position to further spread its risk management and loss-prevention philosophy when foreign property insurance rates harden, company officials say.

However, the overseas direct property insurance market has not yet tightened significantly, says Stephen Simpson, FMI's director of underwriting and engineering. "There is a tremendous tightening in the London reinsurance market, and it's only a matter of time before this works its way down to the direct market," he says.

But, in general, rates remain competitive, with those in Australia and West Germany being among the lowest in the world.

'We're a mirror image of our parents on the international scene,' FMI's Mr. Simpson explained.

In a tighter market, FMI will be able to offer reduced rates to clients with highly protected risks, Mr. Simpson says. "In the last few years, this has been eroded, since everyone is paying a low premium whether his risk is protected or not."

Meanwhile, FMI suffered virtually no major losses during fiscal 1984, he said.

"Our combined ratio for the year was an incredible 64%," he says. "We had an excellent year with an unusually low loss frequency. That's loss prevention for you."

FMI expects a 3% increase in gross written premiums for 1985, up to 43 million pounds ($60.6 million) from 1984's 41 million pounds ($57.8 million), officials say.

Mr. Simpson notes the increase is due to both new business and increased premiums on existing accounts with poor loss experience.

Three Factory Mutual System companies—Allendale Mutual Insurance Co., Arkwright-Boston Manufacturers Mutual Insurance Co. and Protection Mutual Insurance Co.—share ownership of FMI, which provides property insurance and loss-control services to clients worldwide. "We're a mirror image of our parents on the international scene," Mr. Simpson says.

FMI's corporate goal is to become the premier supplier of risk management services worldwide and, wherever possible, to give the overseas facilities of U.S. companies the same level of loss-control services that the Factory Mutual companies offer in the United States, FMI officials say.

Ninety-six of FMI's 340 employees are loss-prevention engineers, scattered through Europe, the Pacific Basin and South America.

Each year they conduct thousands of engineering inspections of clients' overseas facilities, an Allendale spokesman says. "We have more overseas engineers than any of our major U.S. competitors."

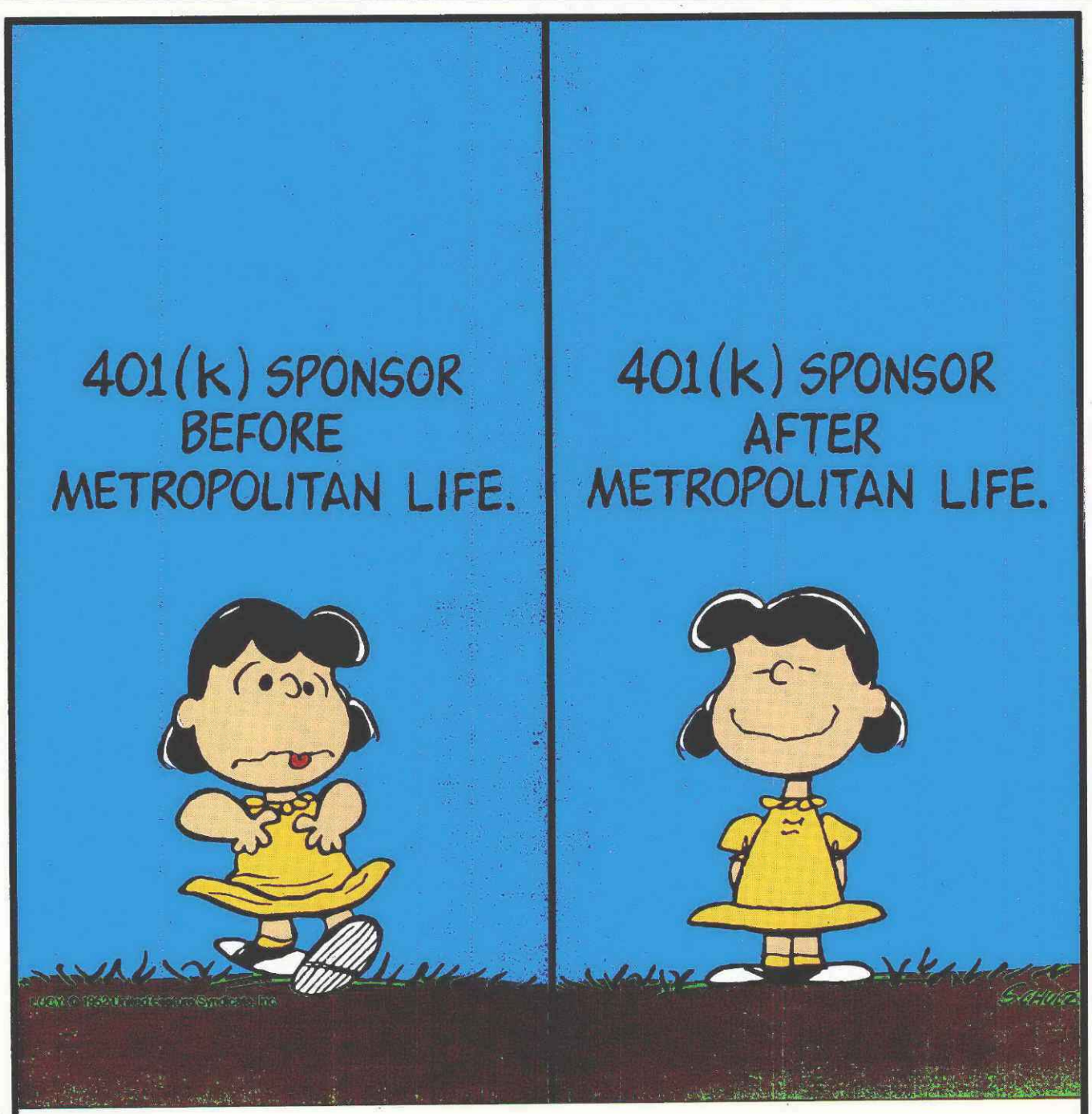
About 35% of FMI's business comes from indigenous foreign clients and the rest from U.S. or Canadian companies with overseas facilities, Mr. Simpson says.

To cover firms' international property insurance needs, FMI issues global property policies, he says. "It's done on the master policy concept. Our parents write the North American portion of the clients' business, and we write the rest of the world, when necessary arranging coverages through fronting companies in the individual countries."

The global policy, which has been available for three years, covers fire and extended coverage, boiler and machinery, difference-in-conditions, business interruption, earthquake and flood risks, FMI officials say.

FMI has a small number of large accounts, including some Fortune 500 companies, an official says.

FMI has underwriting and claims offices in London; Paris; Frankfurt, West Germany; and Melbourne, Australia. It also has marketing offices in Ireland and Belgium, with resident engineers throughout Europe and subsidiary engineering companies in Brazil and Singapore. ■



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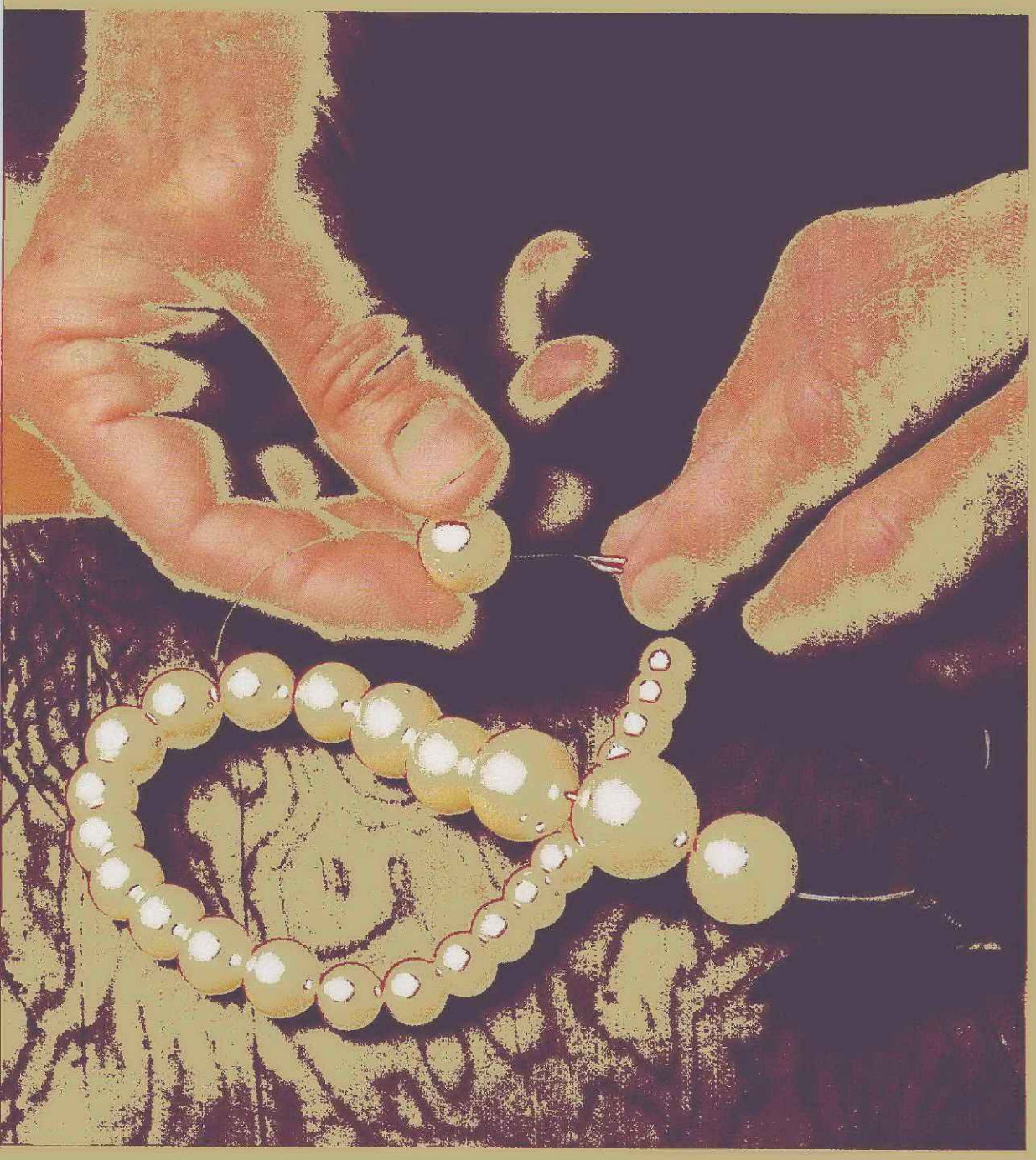

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CU operations remain the same despite chief executive changes

By DAVE LENCKUS

BOSTON—No major operational changes are expected at Commercial Union companies next year when new chief executive officers step in to head worldwide and U.S. operations.

Cecil R. Harris, CEO of worldwide operations for Commercial Union Assurance Co. P.L.C. in London, retires Jan. 1. Assuming his post will be Anthony L. Brend, currently president and CEO of U.S. operations for Commercial Union Insurance Cos., a Boston-based subsidiary. Mr. Brend will be based in London.

Mr. Brend has worldwide experience with CU, including tours of duty in London, Australia, New Zealand, Singapore, Malaysia and the United States.

Kenneth J. Duffy becomes CEO of U.S. operations and will be based in Boston. Mr. Duffy, who has been with CU for 32 years, has been an executive vp in CU's U.S. operation since 1983. He previously held various senior executive capacities in CU's London office.

Mr. Duffy also is a vp of the Insurance Institute of London.

CU underwrites property and casualty coverages directly in the more than 80 countries in which it has agents, branches or wholly- or partially-owned subsidiaries. And, it is represented in Australia, Ireland, New Zealand and South Africa by associated companies.

CU's clients are predominantly large, non-U.S. corporations with risks in several international locations, although it does write coverage for some U.S. multinationals through its London office. Generally, CU underwrites most classes of business, depending on the particular countries' regulations. Rates, underwriting restrictions and capacity for international property/casualty lines also vary by country.

CU does not write global programs as such, because it believes each risk must be looked at individually. For its international business, CU has both standing treaties and facultative reinsurance.

For 1984, the CU Group had $2.504 billion in total written property/casualty premiums.

The CU Group posted an overall operating loss in 1984, before taxation, of 72.8 million pounds ($84.4 million, based on year-end 1984 exchange rates), primarily due its U.S. operation, which suffered a 146.9 million pound ($170.4 million) loss. Its U.K. operation posted a profit of 12.4 million pounds ($14.4 million), nearly 29 million pounds ($33.6 million) less than in 1983. ■

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PCN is a preferred alternative to traditional healthcare benefits for employers in the Chicagoland area. Through **PCN,** employers can provide health services at preferred rates via a network of over 20 healthcare institutions. The following hospitals are a few of the medical providers that **PCN** has chosen because they have demonstrated their ability to deliver excellent care while maintaining costs.

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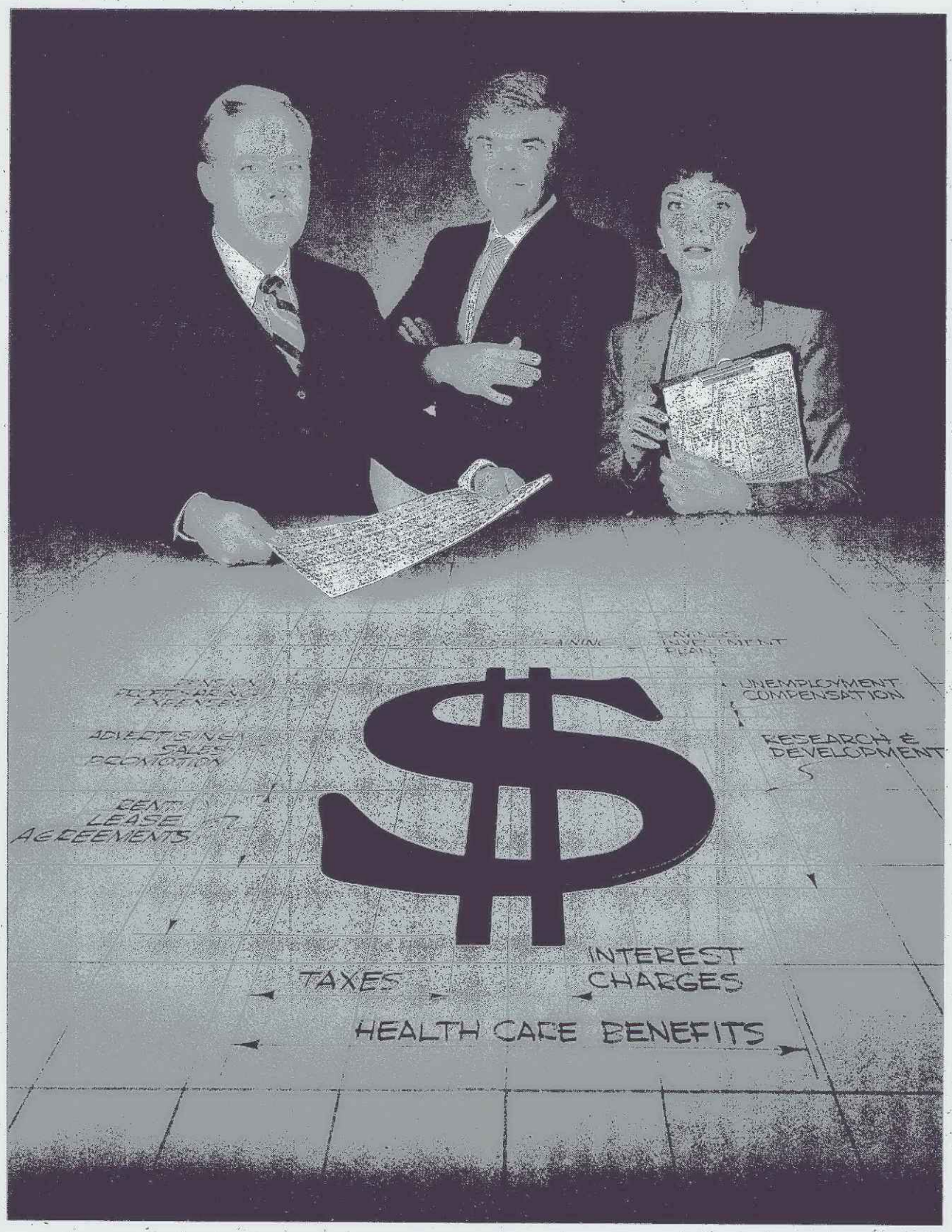
A 454-bed full service acute care medical complex, serving Chicago's northwest side, the nearby O'Hare complex and adjacent suburbs. Known as a major cancer care center, Resurrection also offers same day and laser surgery, endoscopy diagnostic services, and special care nursery and neonatalogy units. Supportive services include a pain control/behavioral medicine center, home health care, and an acute care alcohol treatment unit.

South Chicago Community Hospital

This 90-year-old teaching hospital serves a half-million residents in the southeast metropolitan Chicago area. A 436-bed facility, South Chicago prides itself on never reducing staff or services. Among its services are a new ambulatory surgery program, state-of-the-art nuclear medicine and radiology departments, a chemical dependency unit, a department of physical medicine and an advanced respiratory therapy program.

Holy Cross Hospital

A full-service, 417-bed hospital serving Chicago's southwest side, Holy Cross offers a complete range of services from one day surgery to home health care, a quick care center, physician referral, a speaker's bureau, and a fully-accredited rehabilitation hospital facility. Clinics for psychological counseling, hand injuries, and ear, nose, and throat treatment are part of Holy Cross Hospital's rehabilitation service.



SwedishAmerican Hospital

Located in Rockford, a 413-bed acute care medical center serving the greater Rockford area, northern Illinois and southern Wisconsin. Specialties include cancer care, pediatric and adult cardiology, a pediatric intensive care unit, ambulatory and outpatient surgery and laser eye surgery. Swedish American offers special services in dentistry, neurology, and physical, pulmonary and occupational medicine.

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Travelers taps local insurers extensively

By JUDY GREENWALD

HARTFORD, Conn.—Travelers Corp. believes that for international property/casualty insurance coverage, it has friends in all the right places.

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

In addition, Travelers believes these local insurers' strength and local knowledge are advantages for its policyholders, says Tony DiSarcina, director of international property/casualty operations.

Most of Travelers' international coverage is coordinated through three foreign insurance groups: London-based Guardian Royal Exchange; Milan-based Riunione Adriatica DiSicurta in Italy; and L'Union D'Assurance de Paris in France.

In all, the insurer works with 36 different foreign insurers, each of which issues a policy and then reinsures 60% to 90% of the risk with Travelers.

Although Travelers operates in 80 countries, it does not do a significant amount of business in each of them, Mr. DiSarcina says. In fact, he notes, in some cases, business is only "incidental."

However, he says, "You've got to be everywhere in order to write a worldwide program. You've got to be able to respond everywhere."

Most of Travelers' business is conducted in Europe and the Pacific Basin, notes Peter M. Fontaine, assistant director of international casualty/property operations.

"We are in the midst now of completing a worldwide marketing study" that shows these areas have the greatest potential growth, he says.

Mr. DiSarcina says that in addition to its reliance on strong indigenous insurers, another advantage to Travelers' international operation is its relatively small size. "We try to sell a more personalized service to our customers."

And, it can provide such service to smaller companies as well as big ones. Only about a dozen of its customers are Fortune 500 companies.

Mr. Fontaine estimated that Travelers has a total of about 300 international customers, up from about 200 last year.

"We really are turning our attention to the midsized companies" that have revenues of less than $100 million, according to Mr. DiSarcina.

Travelers' entire international operation, including property/casualty as well as benefits and reinsurance business, generated "in excess of" $375 million in net premiums in 1984, compared with about $365 million in 1983. This year, Mr. DiSarcina predicts, it will generate about $400 million in net premiums.

Travelers does not release financial data on its international property/casualty operations alone. However, Mr. DiSarcina notes the insurer anticipates property/casualty premium volume will increase 30% this year over 1984 and increase another 30% in 1986.

"We had a very profitable year in 1984 and anticipate making an underwriting profit in 1985," he says.

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

The rest of Travelers' multinational clients have "fractured" policies, in which clients are covered by locally issued policies without any Travelers excess policy.

With a few exceptions, Travelers does not issue global policies, which would cover a policyholder's U.S. as well as international risks, notes Mr. DiSarcina. Brokers and clients generally prefer to keep these coverages separate, he says.

"We really have never found that to be a factor," he says. "We've not found that there's a great demand for it."

Unless such a demand materializes, Travelers is not "going to use it as a marketing tool," he says.

There are no set limits or deductibles on Travelers' international policies.

Among the coverages Travelers offers its international clients are workers compensation, employers liability, general liability and property insurance. In addition, it offers more specialized types of coverage, like inland and ocean marine insurance.

Travelers also offers International PAC, a streamlined comprehensive property and liability package designed for small companies that have limited overseas operations.

Travelers has been stronger in international casualty insurance than in property coverage, but the insurer had been working to create a better balance, Mr. DiSarcina said (*BI*, Oct. 15, 1984).

"We have achieved that," he now says. "I think we're getting more and more into the large property risks."

For example, he says, about 80% of Travelers' business was casualty a year ago.

Today, it accounts for only two-thirds of the total.

About 15 members of Travelers' 50-man international department work exclusively on property/casualty insurance. ■

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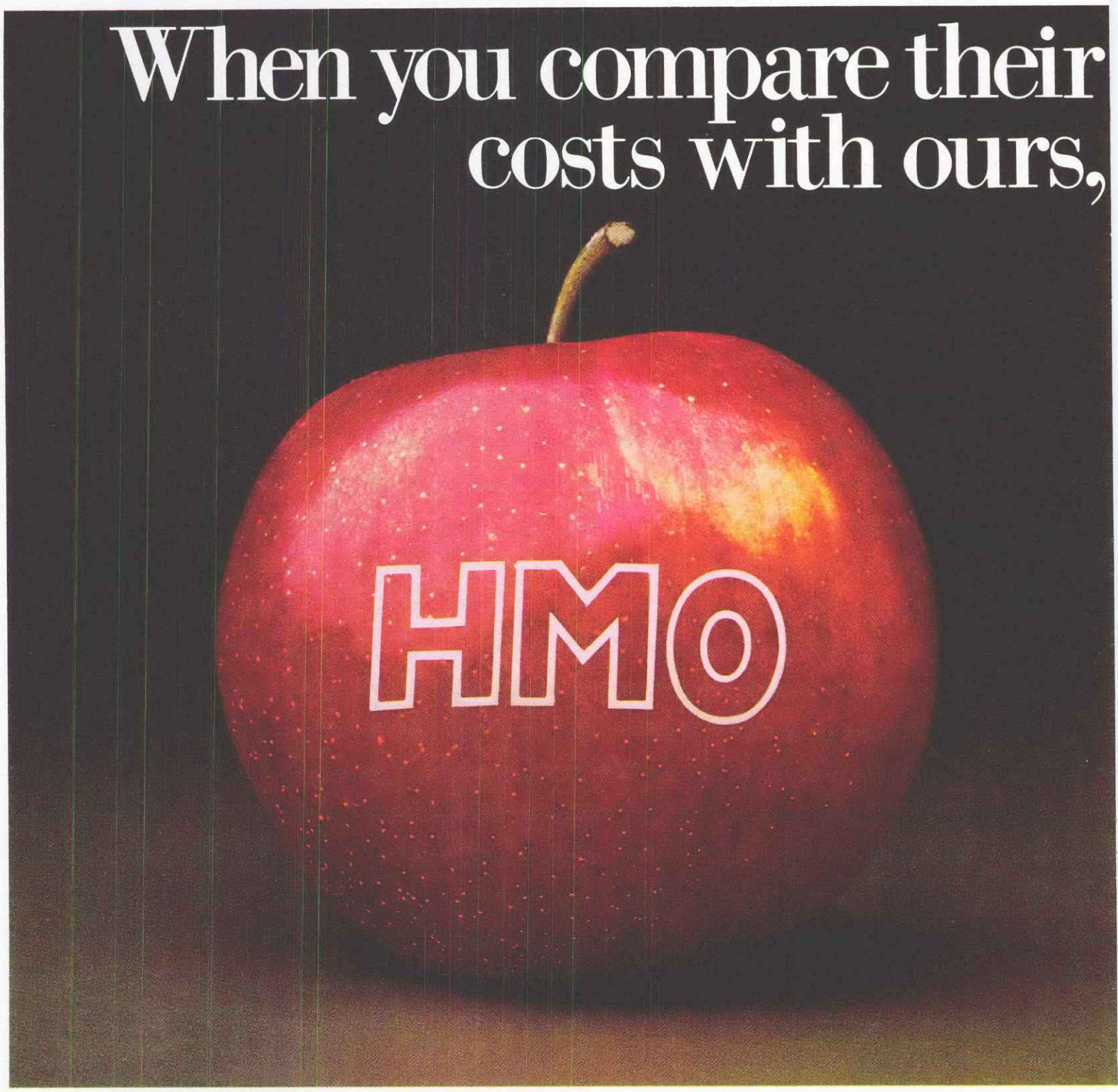

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Impact of EC product liability rule unclear

By STEPHEN TARNOFF

Whether manufacturers and distributors will be more at risk under the European Community's new product liability directive will depend largely on how the individual EC member countries implement the law.

And, although specific areas within the directive could significantly increase manufacturers' liability, most experts agree that the legal climate in Europe will not allow the directive to create a product liability crisis for manufacturers doing business there.

Still, some predict product liability insurance rates will increase for companies doing business overseas as a result of the directive.

The European Community's Council of Ministers adopted the compromise directive last July after almost 10 years of discussion (*BI*, Aug. 5).

The directive first was proposed by the Commission of European Communities in 1976 to address differing product liability laws restricting the free movement of goods in Europe and uneven consumer protection in the EC member countries: the United Kingdom, Belgium, the Netherlands, Ireland, Luxembourg, France, Italy, Denmark, Greece and West Germany.

In addition, the directive also will apply in Spain and Portugal if those two nations join the European Community next year as expected.

EC member countries would have three years to implement the directive as national legislation.

Specifically, the directive requires member countries to impose strict liability standards on manufacturers as well as suppliers, importers or any company representing itself as a producer of goods.

Under strict liability, an injured party does not have to prove that a manufacturer was negligent to recover damages; instead, the consumer needs to prove only that he was injured or suffered a loss as a result of a defective product.

Because of this reduced burden of proof on the consumer, it is likely that recoveries against businesses will increase under the directive.

To business' favor, however, the directive does not allow punitive damages in product liability cases and it does allow contributory negligence defenses, which absolve a manufacturer of all liability if the user of the product was at all negligent.

Experts note, however, that it is difficult to assess the absolute effect of the directive because the individual EC countries will not necessarily implement the law in a uniform manner.

"How the directive is implemented will be the determining factor," said Tom Jones, an attorney for Procter & Gamble Co. in Cincinnati. "It still is relatively new."

For instance, each nation will make its own law regarding so-called "development risks," which are similar to what is known as the state-of-the-art defense in the United States.

According to the directive, a producer shall not be held liable if it proves that the state of scientific and technical knowledge at the time it put the product into circulation did not enable the defect to be discovered.

However, the directive, through a so-called "derogation," permits each member country to pass legislation that would allow producers to be held liable for such development risks.

Whether this defense is included in a country's national laws could have a tremendous impact on companies' liability, according to observers.

In addition, the directive also allows member countries to place a financial ceiling on the amount of liability a company can face for one product as long as the ceiling is not less than 70 million European Currency Units, or about $59.3 million.

This ceiling would especially come into play if a manufacturer were faced with many claims stemming from the use of a product, like the massive litigation surrounding the anti-miscarriage pharmaceutical DES and the Dalkon Shield intrauterine device.

According to an official for a major drug manufacturer in Europe, who asked not to be identified, these two derogations create four possible options that EC nations can take when implementing the directive.

A nation could adopt strict liability with:

- The state-of-the-art defense and a financial ceiling. This option is probably most preferred by industry.
- The state-of-the-art defense but with no financial ceiling. The United Kingdom, which already has a strict liability law, has already indicated this is the route it will take.
- No state-of-the-art defense but a financial ceiling.
- No state-of-the-art defense and no financial ceiling.

France, Belgium and Luxembourg, which also already have strict liability laws for defective products, will most likely adopt the final option, observers say.

Another observer predicted that West Germany will enact a financial ceiling, while the other nations will not.

Although manufacturers largely favor a financial ceiling, some insurers do not because the ceiling could become a target amount for

Continued on next page

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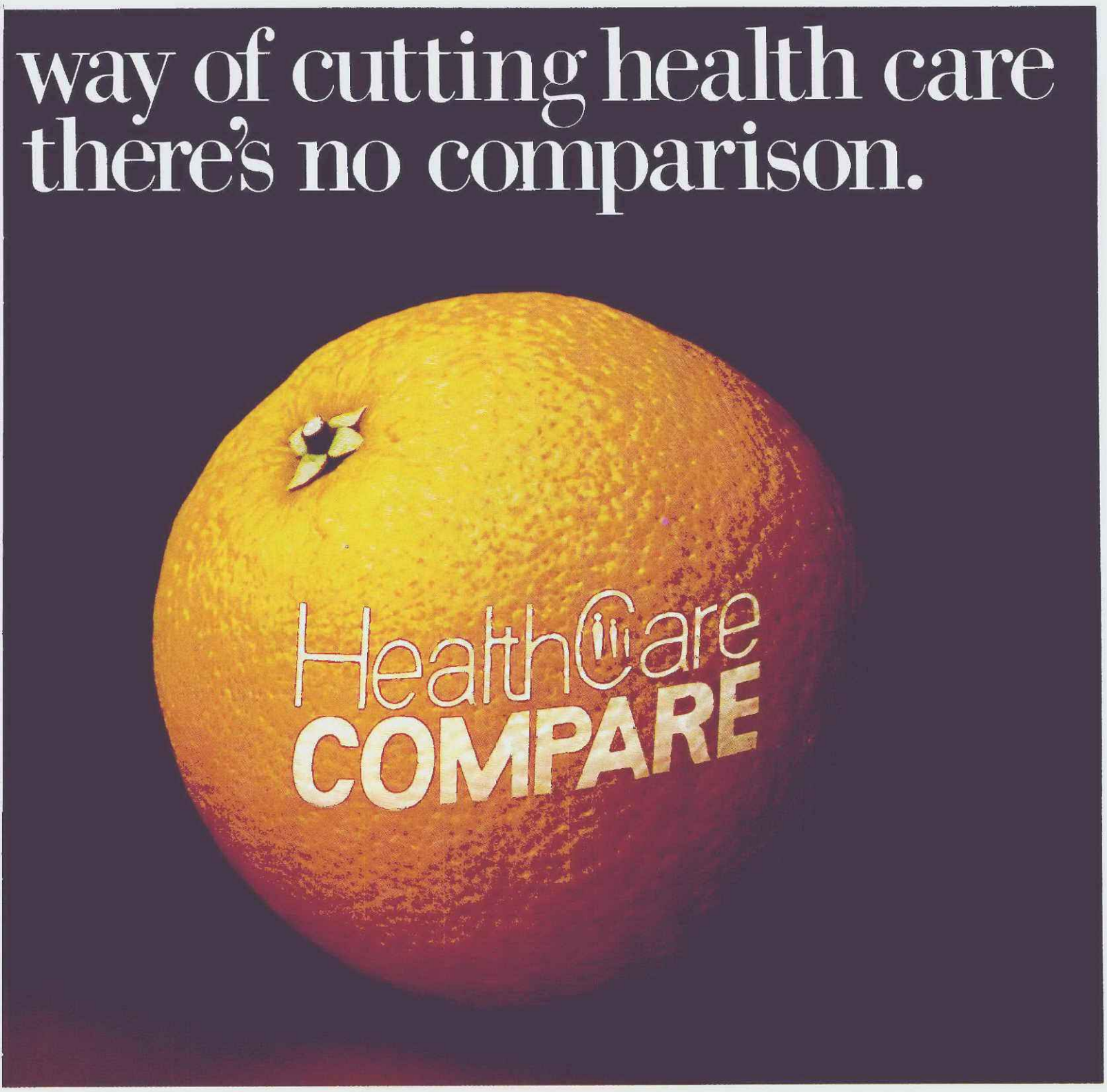

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EC directive

Continued from previous page

plaintiffs and potentially lead to higher damage awards than if there were no ceiling, said John Cowell, deputy secretary general of the European Insurance Committee in Paris, an international organization of insurance associations in 18 European countries.

Moreover, another section of the directive provides that the plaintiff retains his common law rights, which could be interpreted to allow a plaintiff to recover amounts beyond the financial ceiling, Mr. Cowell said.

The impact of the directive on U.S. manufacturers also will depend upon the product liability law currently applied in the nations in which they do business, according to Hans C. Taschner, an EC official who wrote the first draft of the directive.

For example, because France already has adopted strict liability, similar to that imposed by the directive, there should be little impact on U.S. manufacturers exporting goods to France, says Mr. Taschner.

'It seems this directive makes litigation more likely,' Mr. Schneebaum comments.

However, in countries—like Italy, Spain, Greece and Portugal—in which a company's negligence now must be proven before it can be held liable, the directive could greatly increase a manufacturer's liability, according to Mr. Taschner.

Some companies, like pharmaceutical and chemical manufacturers, have more to fear than others, observers say.

"There's no doubt pharmaceutical and chemical companies represent the target risk," Mr. Cowell said, because of the long-latent diseases that can be caused by exposure to or ingestion of their products.

Attorney Steven M. Schneebaum says the directive is far-reaching—extending liability where it did not exist before—and could be expanded even further if companies are indeed held liable for development risks.

"Any California plaintiffs' lawyer would have a field day with this directive," says Mr. Schneebaum of the Washington firm of Patton, Boggs & Blow.

"It seems this directive makes litigation more likely."

Mr. Schneebaum believes it is inevitable that EC member nations will eliminate development risks as a defense.

"Before long, the state-of-the-art defense now available will no longer be available," Mr. Schneebaum predicted.

The directive's 10-year statute of repose, which bars suits against manufacturers whose products have been in circulation for more than 10 years, also creates potential problems, points out Tony Ventrella, legal adviser to the Federation of British Electrotechnical Allied Manufacturers Assn.

A problem could arise if a manufacturer of a finished product uses a component that was manufactured long before the finished product was completed.

Conceivably, Mr. Ventrella says, the product manufacturer may be liable to a consumer if such a component is defective, while the component manufacturer would not be liable because the component is more than 10 years old.

"The component manufacturer can hide behind the 10-year statute of limitation," Mr. Ventrella explained. "The possibility of liability will result where it doesn't really belong. Liability may not follow fault."

As a result, manufacturers should keep records of their transactions with their own suppliers and be aware of the age of the products they use in the manufacturing process, Mr. Ventrella advised.

Despite these problems, most observers say the directive will not cause the same product liability burden in Europe that companies currently are facing in the United States.

They point out that Europe does not permit contingency fees, which enable plaintiffs' attorneys to collect one-third or more of an award or settlement, thus encouraging litigation.

Also, judges—rather than more emotional juries—hear civil cases in Europe, which keeps judgments

Continued on page 34

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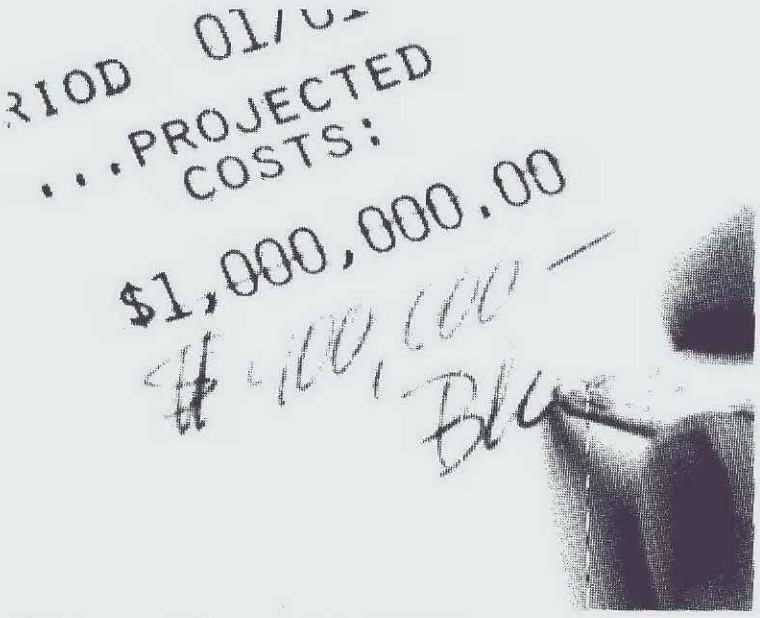

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Experts give advice for cutting risk

Although observers agree the European Community's new product liability directive increases manufacturers' exposures, companies can take action to reduce the chances they will be sued.

A U.S. company that sells goods in Europe through an importer should make sure the importer has enough liability insurance on its own to cover potential claims, says attorney Steven Schneebaum of the Washington-based firm of Patton, Boggs & Blow.

Article 3 of the directive provides that any person who, in the course of his business, imports a product for sale, hire or leasing or any form of distribution into an EC nation is considered a producer.

While this article does not absolve the exporter from liability, a plaintiff in Europe is less likely to sue a U.S. company if the importer has adequate insurance to pay the claim, says Mr. Schneebaum.

It might even be possible to include in a contract with the importer that the importer must purchase and exhaust product liability coverage before seeking to recover these damages from the U.S. producer, Mr. Schneebaum adds.

U.S. companies also may prefer to deal with a European agent rather than set up a European division, he says, since maintaining even a small European office would make it easier for a plaintiff to sue than if the company were to deal only with an agent. But, for manufacturers that produce products in Europe, "the only thing they can do is insure."

Attorney Sheila Birnbaum, an expert in product liability law, suggests that "a great deal of rethinking should be done by those companies with a large part of their sales overseas."

Ms. Birnbaum, with the New York-based firm of Skadden, Arps, Slate, Meagher & Flom, suggests that those companies should review warnings printed on their products and in product manuals and reconsider the safety design of their products.

Also, she says companies should consider putting warnings on all products leaving the country.

Other observers suggest companies improve their product testing and keep better records of testing.

EC directive

Continued from page 32
lower.

And, European plaintiffs are more hesitant to file suit because often a losing party has to pay the winner's attorneys' fees.

"I think that most in-house lawyers believe that if this (the directive) will be the only change in the laws of EC member states, it probably will not have a major effect," said the official for the drug manufacturer.

"But if it is combined with other changes in the law, such as the introduction of class actions or the contingency fee system, then people would begin to get very worried," he adds.

The adoption of the directive is just one change in a legal system composed of many parts, said Gerald Ducharme, European counsel for Ford Motor Co.

"On its own, I don't think it will have any major impact. I don't anticipate an enormous onslaught of lawsuits," he said.

'We are convinced that it is not going to Americanize Europe,' Mr. Hite says.

Even though the rules of law will change, procedural laws stay the same, adds Sheila Birnbaum, a product liability law expert with the New York-based firm of Skadden, Arps, Slate, Meagher & Flom. "All of these factors mitigate against an avalanche of new litigation in Europe."

However, Ms. Birnbaum predicts that litigation will increase some because there is now an incentive to bring claims where there previously was none.

If litigation does increase, the increase will be in the number of suits from consumers and not workers, others predict.

Workers who are injured by a product will be less likely to file product liability actions than consumers because of the well-developed workers compensation and social security systems in European nations, says Randolph Staynin, with the Washington law firm of Taft, Stettinius & Hollister.

"It will expand and encourage cases in the consumer product liability field rather than the workplace product liability field," he notes.

But, he adds, the amount of product liability litigation filed by European consumers under the directive will not approach the amount of litigation in the United States.

However, most observers believe the directive still will increase manufacturers' liability insurance costs.

The European Insurance Committee's Mr. Cowell says the directive will be an "aggravating factor rather than a determining factor" on insurance affordability and capacity.

Insurers may take a closer look at adopting a claims-made policy form rather than an occurrence form because of the increased potential for long-tail liability for manufacturers under the directive, he added.

"For the long-term, this will cause an upward trend in claims and premiums in Common Market countries," says Wayne L. Halvorsen, general manager-Europe for Kemper Group.

However, "We don't see liability markets in Europe becoming anything parallel to what we see in the U.S.," he said.

"Our opinion is that it is not going to change things dramatically in Europe," adds Thomas Hite, director of the international department for Zurich Insurance Group in Schaumburg, Ill.

"We are convinced that it is not going to Americanize Europe," he said.

Mr. Hite says the impact of the change won't be known until the end of the directive's three-year implementation period. However, at that time, he does not believe that insurance rate increases will exceed 50%.

Mr. Hite also points out that authorities in various countries that must approve rate increases may not permit whopping rate hikes.

Mr. Ventrella of the Federation of British Electrotechnical Allied Manufacturers Assn. says that because insurers will have difficulty assessing potential claims and damages under the directive, they likely will hike rates initially more than necessary and moderate them only after a good track record is established. ■

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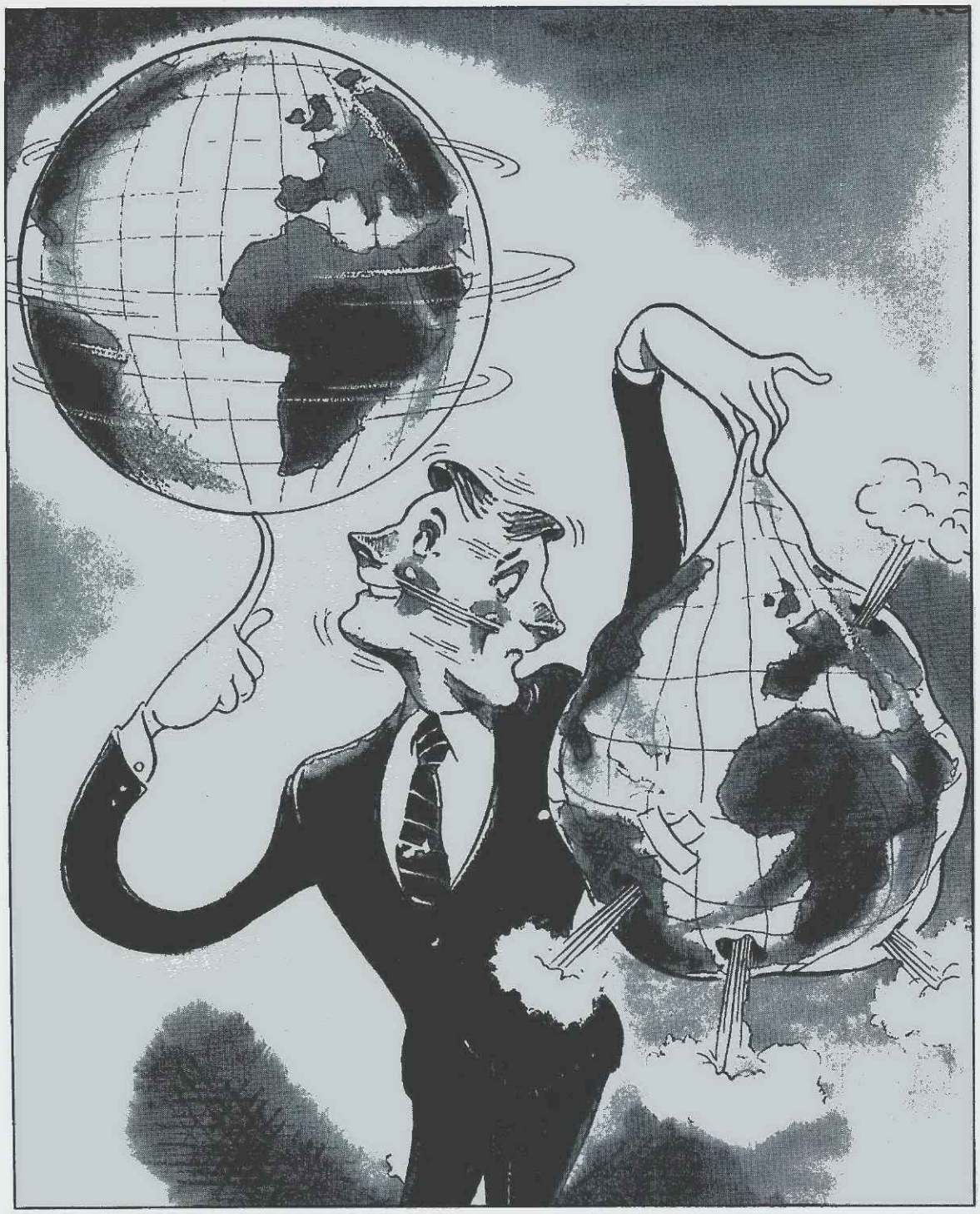

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How networks operate

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

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

Benefits covered through networks include medical, life, disability and pension plans.

However, networks' structures can vary.

A network can be formed by one insurer with subsidiaries in many foreign countries. Or, it might be formed by two large life insurance companies, usually one in the United States and one overseas, that cooperate. Or, it might be operated by several, independent foreign insurers.

The master cover contract issued by a network includes two agreements:

- The first is between the multinational corporation's local subsidiary and the local insurer that is a member of the network.

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

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

- The second agreement is between the network and the multinational company's corporate headquarters. It provides for the pooling of all local contracts.

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

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

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

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

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

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

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

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Benefit networks

Continued from page 3

the international consulting division of William M. Mercer-Meidinger Inc. in New York.

"Most large companies have a pool arrangement already. And, if they don't, it usually means they've looked at it and decided against it. And, it's pretty hard to pull companies away from competition," Mr. Doyle said.

Another factor that is eroding the networks' growth potential is that larger companies are now questioning the financial advantages of pooling.

Benefit managers are evaluating their international benefit programs, both coverage-by-coverage and country-by-country, to make the most of their money, consultants say (see story, page 64).

In some cases, this means purchasing insurance individually from non-network insurers in each country. In other instances, multinationals are finding it advantageous to self-insure their overseas benefit programs.

Consultants note that networks in the past have touted the large international dividends they pay to clients at the end of the year as an astute reason to use networks. However, employers now are realizing this may be cash-flow foolish.

"Multinational pooling is where we were in the 1960s," said Mr. Ponical. "It's experience-rating, that's all. And it has all the disadvantage of experiencing rating—you pay up front to get a dividend later. . . .

"It's good that you get a dividend, but why do you have to wait to get it?

"We're seeing a lot of movement on the part of large companies away from networks to get into cash-flow devices that eliminate insurance altogether or minimize it," he added.

More companies will question their participation in networks in the future, Mr. Ponical said.

"I know for a fact that companies are going to be looking at each country and asking 'What's the best way to finance the benefits plan?'" he said. "The pools have a useful role for the scattered subsidiaries with a few employees, but with a subsidiary with 3,000 employees, you're talking about a real cash-flow consideration."

"You don't want to put out a lot of money and screw up cash flow just to get it back at the end of the year," agreed Richard Sounders, vp and manager of international benefits for Johnson & Higgins in New York. "It's better to have small dividends and have made good predictions and managed your account well."

To overcome these problems, many of the networks are launch-

Continued on page 38

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Benefit networks

Continued from page 36
ing a twofold strategy.

First, they are actively courting medium to small employers, offering to pool their international benefits.

For example, Swiss Life Network, owned by Swiss Life Insurance & Pension Co. in Zurich, Switzerland, is marketing a "master precursor contract" to multinational employers with as few as 100 employees.

While the Swiss Life network previously would pool the benefits of these small companies on an ad-hoc basis, it was more of an exception than a practice.

Under the Swiss Life program, the smaller the group, the less frequently it receives an international dividend.

A pool with 100 employees generally will be eligible for an international dividend every three years, while a company with 200 employees will be eligible every two years.

'The big companies either are already in one or two networks or have considered being in a network already and decided not to,' says Roger Nicholas Balsiger, a consultant for Vita Life Insurance Co. Ltd.

Comparatively, groups with at least 300 employees can receive dividends annually.

The Vita network is offering the same arrangement, reviewing clients with 100 to 199 pooled employees every three years and those with 200 to 299 employees every two years.

Clients with at least 300 employees are reviewed annually.

The WIN-Plan, the international benefit network operated by Winterthur Swiss Insurance Co., has introduced what it calls a "time pool" for companies with as few as 60 or 70 employees.

Under this program, the small employer is eligible for international benefits based on its own loss experience after a two- to five-year period.

The AREA Benefit Network, a network composed of 37 insurers in 40 different nations, is introducing the "A Pool," a special product for companies with as few as 20 employees.

Companies that ordinarily would not meet AREA's minimum requirements for membership—100 lives in two nations—will be able to pool their benefits and receive an international dividend based on the experience of all members of the A Pool.

The network is hoping the A Pool will lure small, high-tech employers that will grow in size and eventually qualify for AREA's regular international benefit pooling program.

In addition to offering programs targeted specifically to small employers, the networks also are going after larger employers by offering pooling options that can improve the multinational company's cash flow.

For example, American International Group Inc. offers several cash-flow products that have experienced increased popularity in the past year, according to Christopher Mooney, deputy director of AIG's Group Management Division, which is responsible for the insurer's international pooling programs.

"AIG understands that corporations are trying to maximize effective use of their cash," Mr. Mooney said.

"The issue is how to get the premiums and experience into equilibrium."

AIG's "premium-deferral" arrangement allows a fully insured client to pay only a portion—usually 80%—of its premium throughout the year. The client only is required to pay the remainder of the premium at the end of the year if its experience warrants it.

Although a client may have to pay the remainder of the premium at the end of the year, the client has been able to use that money throughout the year, Mr. Mooney explained.

In addition, a client with very good experience still will receive an international dividend at the end of the year.

However, this dividend will be smaller than the international dividend the company would have received had it paid 100% of the premium.

"Quite a few of our clients use the premium-deferral arrangement," Mr. Mooney said. "It's a good way to knock down the dividend."

AIG also is writing more administrative services only contracts, under which network insurers provide claims payment and accounting services for a client that self-insures its worldwide benefits.

Mr. Mooney said a "visible majority of the jumbos" are using the ASO contract.

John Hancock Mutual Life Insurance Co. introduced a cash-flow plan this year for larger clients participating in the International Group Program, a network composed entirely of local insurers and managed by Hancock.

The cash-flow plan allows a client to pay premiums at a specified time at which a client historically expects claims to occur rather than paying a uniform amount monthly, explains Geraldine Pangaro, a Hancock field vp.

The IGP network also provides administrative services only for employers that self-insure their international benefits.

In addition, several networks allow their clients to reinsure their international benefit coverages with their captive insurers, "giving the client's money back to their controlled captive," AIG Mr. Mooney says.

Networks offering this option include AIG; Insurope, a network composed of 40 non-U.S. insurers in 38 nations; and Swiss Life Network.

Besides the small-employer and cash-flow programs, some networks are introducing other new products.

For example, AREA is offering a new pension product to its clients.

The program allows employees to build their pension benefits in a new form of currency called "Golden Eagle" units. These Golden Eagle units are based on a composite of international currencies.

The units are named after Eagle Star Insurance Co. Ltd., whose international division on the Isle of Man manages the program.

Because the Golden Eagle units are not linked to any one currency, employees will not suffer a dramatic decrease in pension benefits if a certain currency's value drops on the international money markets.

In addition, several networks say they have developed programs to provide benefits to so-called third-country nationals, who are citizens of one country who work in another country for an employer that is based in a third nation. ■

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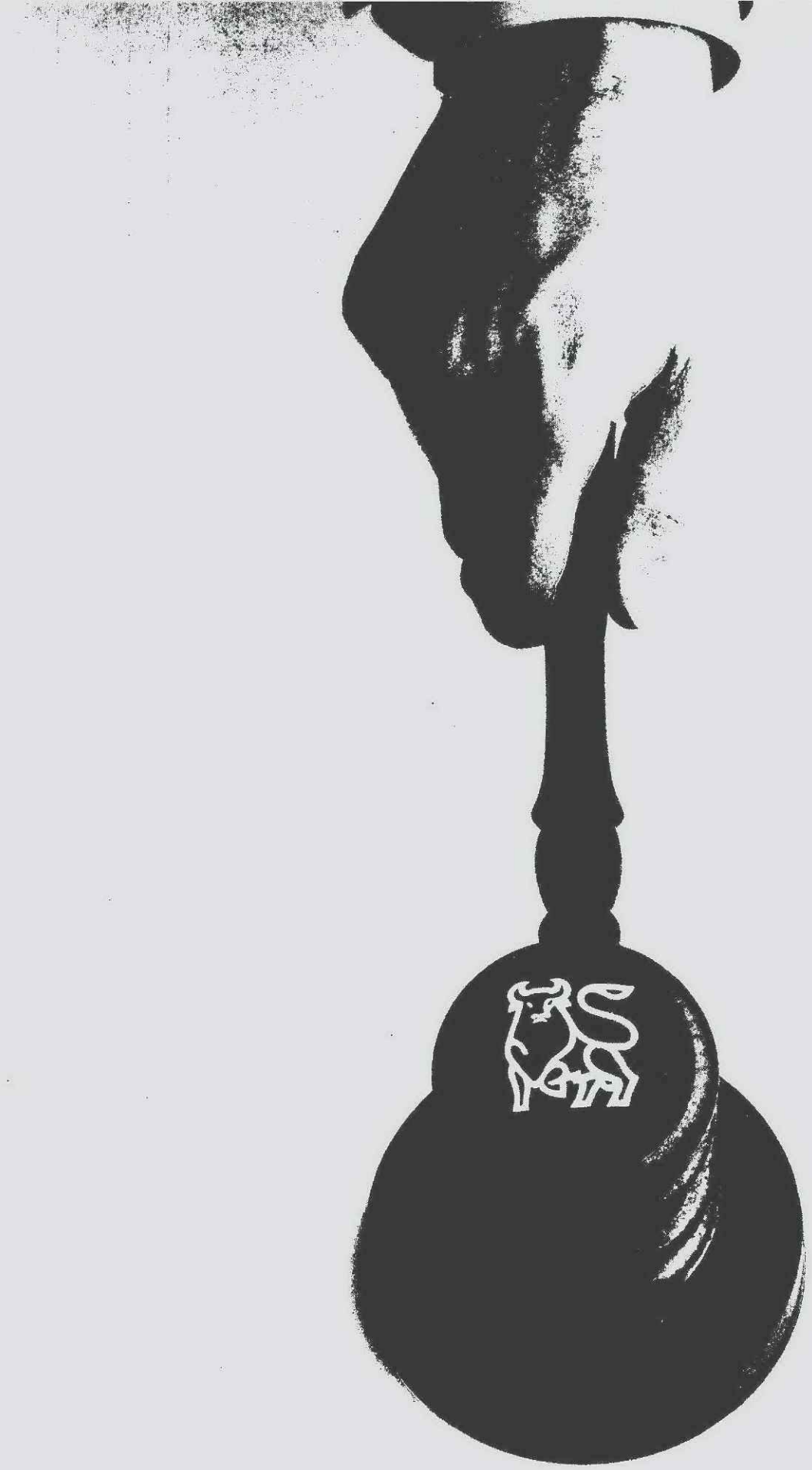

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Aetna/Generali changing with the times

This issue of *Business Insurance* profiles the major international networks serving benefit needs of multinational companies and describes new products and services now being offered. The profiles, which begin on this page, continue through page 62.

By MICHAEL BRADFORD

HARTFORD, Conn.—Aetna/Generali International Benefit Network is developing new products and entering new territories to increase its business.

The international benefits market is "becoming more and more competitive. We have to work harder to achieve our goals of acquiring more business," says Gianni Ban, senior vp at the New York office.

Since forming in 1966, the network has offered group life, medical, dental, disability, pension and accidental death benefits. But as competition heats up among networks, Aetna/Generali has become more innovative, Mr. Ban says.

"Multinationals, particularly American companies, are looking more for products that are designed closer to the products in America," he noted. So, Aetna/Generali has developed, for use in Spain, new medical and dental contracts similar to most U.S. medical plans.

In Brazil, a pension product has been developed that Mr. Ban says is "flexible enough to cope with the great inflation" in that country.

And, Daehan Education Insurance Co. in South Korea has joined Aetna/Generali as a network insurer. In London, Aetna Life Insurance Co. Ltd. has joined the network, replacing Clerical Medical & General Life Assurance Society.

Aetna/Generali's officials say that, as in the past, the network's real strength lies in its flexibility, its close contact with its local insurers and a qualified worldwide staff.

"Our network is unique because we own most of our facilities," says Bruce MacMillian, director of international marketing for Aetna Life & Casualty Co. in Hartford.

He explained that around 75% of the network's insurers are owned either by Aetna or by its partner, Assicurazioni Generali in Trieste, Italy. That gives Aetna/Generali close ties with local underwriters and the ability to be more flexible than networks that rely on non-owned insurers, he said.

Mr. Ban emphasized the network is poised for growth because "there will be more emphasis on the strength of local insurers. . . .More and more multinationals are using that as a criterion."

Aetna/Generali has a worldwide staff of about 60 and operates in around 50 countries, providing benefit coverages for about 80 master contract holders, approximately a 15% increase in the past year. In addition, some 220 other clients purchase benefit coverages from network insurers, but do not pool their coverage.

The network had a premium volume of $125 million over the last year, Mr. MacMillian said.

About 85% of the network's clients are U.S. multinationals, he said. And, 60% of its business written is for employees based in Europe.

The network is coordinated through Aetna's office in Hartford and Generali's headquarters in Trieste. In addition, there is a marketing office in Brussels, Belgium, and a satellite branch in London. Regional offices in New York, Chicago and San Francisco also service U.S. accounts.

Aetna/Generali operates on international and local levels, much as the other networks do.

On the local level, a contract issued to the subsidiary of a multinational is structured according to conditions of the local market. It pays year-end dividends according to local regulations and based on the insurer's overall experience, rather than the policyholder's loss experience.

International dividends on the client's pooled loss experience are paid with interest within three to six months from the end of the policy period. Losses created by the international account generally are carried forward to the next year with no interest charge, to allow the client to erase the deficit if it generates an account surplus in the next year.

While this loss-carryforward system is generally used by the network, a stop-loss system is available if a client specifically requests it. Under this system, losses are capped for an additional premium.

A client is not required to cover a minimum number of employees to purchase a master contract, but clients must meet certain requirements to become eligible for an international dividend.

For large companies to qualify, a corporation must insure at least 300 lives in at least two countries. The annual risk premium must be at least $30,000.

But, companies with smaller subsidiaries can belong to a group contingency plan that requires at least 100 lives covered in at least two countries with a minimum premium of $10,000. Part of the annual dividend to these companies is paid in cash and part is placed in a contingency fund, where it remains until the client leaves the network or the fund reaches a certain amount, Mr. Ban says.

No clients have left the network in the past year, says Mr. Ban.

Aetna/Generali's major U.S. clients include the Upjohn Co., PepsiCo Inc. and General Electric Co.

The typical client has subsidiaries in six or seven countries with a total of 500 to 600 covered employees, Mr. MacMillian says, and its premiums average near $500,000 per year.

There is increased interest in networking among multinationals expanding into the Far East and Mexico, Mr. Ban says. But, there is less interest in South America because of high inflation, he says.

●

For more information on Aetna/Generali, contact Bruce MacMillian, Director of International Marketing, at Aetna headquarters, 151 Farmington Ave., Hartford, Conn. 06156; 203-636-6806, or Gianni Ban, senior vp, at the Aetna/Generali international network office, 60 Broad St., New York, N.Y. 10004; 212-269-3322.

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AIG offering clients cash-flow options

By DIANE LYNN KASTIEL

NEW YORK—American International Group Inc.'s Group Management Division is trying to meet its clients' needs by offering alternatives to traditional international benefits pooling that improve employers' cash flow, a division official says.

"AIG understands that corporations are trying to maximize effective use of their cash and we'll do anything we can that's reasonable and legal to help them accomplish that goal," said Christopher Mooney, deputy director of AIG's Group Management Division, which is responsible for international benefits pools.

"The issue is how to get the premiums and experience into equilibrium."

These "cash-flow" alternatives, introduced prior to 1984, have experienced increased popularity last year, Mr. Mooney said.

One of these alternatives is a "premium-deferral" arrangement, in which a client pays only a portion—usually 80%—of the required premium throughout the year. At year-end, the client may not have to pay the remaining premium, depending on its claims experience.

"Quite a few of our clients use it," Mr. Mooney said. "Companies want cash flow, not dividends. This is a good way to knock down the dividend."

Another alternative offered by the AIG network is an administrative services only contract, a departure from traditional pooling services.

Under this contract, the AIG network—for an administrative fee based on services provided—provides claim-payment and accounting services for a client that self-insures its worldwide benefits.

Mr. Mooney said the insurer provides ASO contracts to "a visible majority of the jumbos—the biggest companies"—though he would not say exactly how many companies use the service.

Another product that has gained popularity this year is an arrangement whereby AIG reinsures the client's pooled employee benefits through the client's own captive insurer, "giving the client's money back to their controlled captive." Mr. Mooney said several AIG clients have opted for this arrangement.

The AIG network, which may have been the first international benefits pool, was formed in 1954. AIG has owned-operations in 132 countries, including offices that opened in Scandinavia and Portugal this year.

The AIG network now has "more than 100" clients, Mr. Mooney said, but he declined to disclose the exact number.

He also said the network had "substantial growth" in premium volume, but again would not be specific.

AIG manages pools for many Fortune 500 multinational companies.

The type of flexibility AIG offers has won it clients over the past year, Mr. Mooney said, including companies that also belong to other networks.

"Our claim to fame is that we're one of the most flexible organizations on the street," he said.

For example, AIG will consider for pooling purposes coverages underwritten by non-AIG insurers. "We're not going to say, 'Hey, they're not in our family—we can't do it.' If the client wants it and it makes good sense, we'll do it."

The network will service clients with a minimum of 200 employees in at least two countries.

But, the network's typical client is a "classic multinational," Mr. Mooney said—a manufacturing, service or petrochemical company employing about 1,000 people in five or six countries.

Most AIG clients are based in the United States, but the network recently picked up multinationals based in Asia and Europe.

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

Last year, the minimum annual premium required to earn an international dividend was $30,000.

Last year, the typical AIG network client received a dividend equal to about 15% of annual premium paid, Mr. Mooney said.

Dividends—in cash or as credits to a client's retention—are usually paid within 90 days after the end of the accounting year; interest begins accruing on the 91st day after the accounting year ends, he said.

Dividends usually are paid on an annual basis, but some large clients receive semi-annual payments, he added.

The AIG network offers clients both the stop-loss and the carryforward systems for handling losses that exceed the client's surplus.

"The vast majority use loss carryforward and, to minimize the potential of the heavy loss-carryforward, we'll use reinsurance."

The network does not require a minimum number of employees for a company to pool its benefits, Mr. Mooney said.

Currently, the network pools benefits for about 150,000 lives, he said.

•

For more information on the American International Group Inc.'s multinational benefits network contact Christopher G. Mooney, Deputy Director, Group Management Division, American International Group Inc., 70 Pine St., New York, N.Y. 10270; 212-770-7407.

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AREA offers pool option to smaller employers

By MICHAEL BRADFORD

BRUSSELS, Belgium—A new option offered by the AREA Benefits Network is giving small employers a chance to find out if pooling can offer them the same advantages it offers larger companies.

And, another new product, available to AREA's traditional large clients, helps protect the pensions of employees who work in several foreign countries against the fluctuations of any one currency.

For smaller employers, AREA has designed a multiemployer pool that allows companies that would not ordinarily meet the minimum requirements for joining the network to band together and participate.

The network generally has required that employers cover at least 100 lives in two countries. But AREA's multiemployer pool, called the "A Pool," will be made up of companies with a minimum of 25 covered lives or at least 10 lives per country if the company has subsidiaries in more than one country.

The employer only has to have one foreign subsidiary to join.

Hugo Clemeur, secretary general of the AREA network in Brussels, said he expects the A Pool to be made up of 10 to 20 employers when it is activated Jan. 1.

Members of the multiemployer pool will be able to fund group life, pension, disability and group accident benefits. "There will be no medical insurance of any kind provided by the pool," he says.

"The multiemployer pool is for companies that don't meet the normal (pooling) requirements," he said, adding that small, high-tech firms are among the companies he expects to join the A Pool.

And, he stressed that the A Pool is offered only to employers that show growth potential.

"They can start with one country, but we expect them to grow. We will not maintain an employer forever in the A Pool," he said.

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

Although AREA is promoting its network concept to small firms, its 30 current contract holders are large companies, including Rank Xerox Ltd. in Britain and Electrolux in Sweden. Mr. Clemeur would not comment on the network's premium volume.

Those 30 contract holders represent a 50% increase in accounts during the past year. Mr. Clemeur said he would not be surprised to see AREA grow to 50 clients by this time next year or early 1987.

Currently, about two-thirds of the network's clients are based in Europe, and the remainder are in the United States.

AREA is an acronym for the network's founding partners: Allianz Versicherungs-A.G. in Munich, West Germany; Royale Belge S.A. in Brussels; Eagle Star Insurance Co. Ltd. in London; and N.V. AMEV Levensverzekering in Utrecht, Netherlands. AREA is made up of 37 insurers in 40 countries, including three that have joined within the past year in Bahrain, Oman and Kuwait.

In the United States, AREA's insuring partner is Equitable Life Assurance Society of the United States in New York. Equitable's arrangement is non-exclusive, a spokesman there said, explaining that the insurer also provides coverage through other networks.

The benefit plans offered by the 7-year-old network vary from country to country. Generally, however, members of AREA have been able to structure master contracts to cover group life, retirement, pension, long-term disability and group accident benefits.

In addition, AREA is providing a new pension plan for clients with employees who are expatriates or "executives who have international careers," says Mr. Clemeur.

The plan, which will be managed by Eagle Star's international department on the Isle of Man, allows employees to build up pension

Continued on page 52

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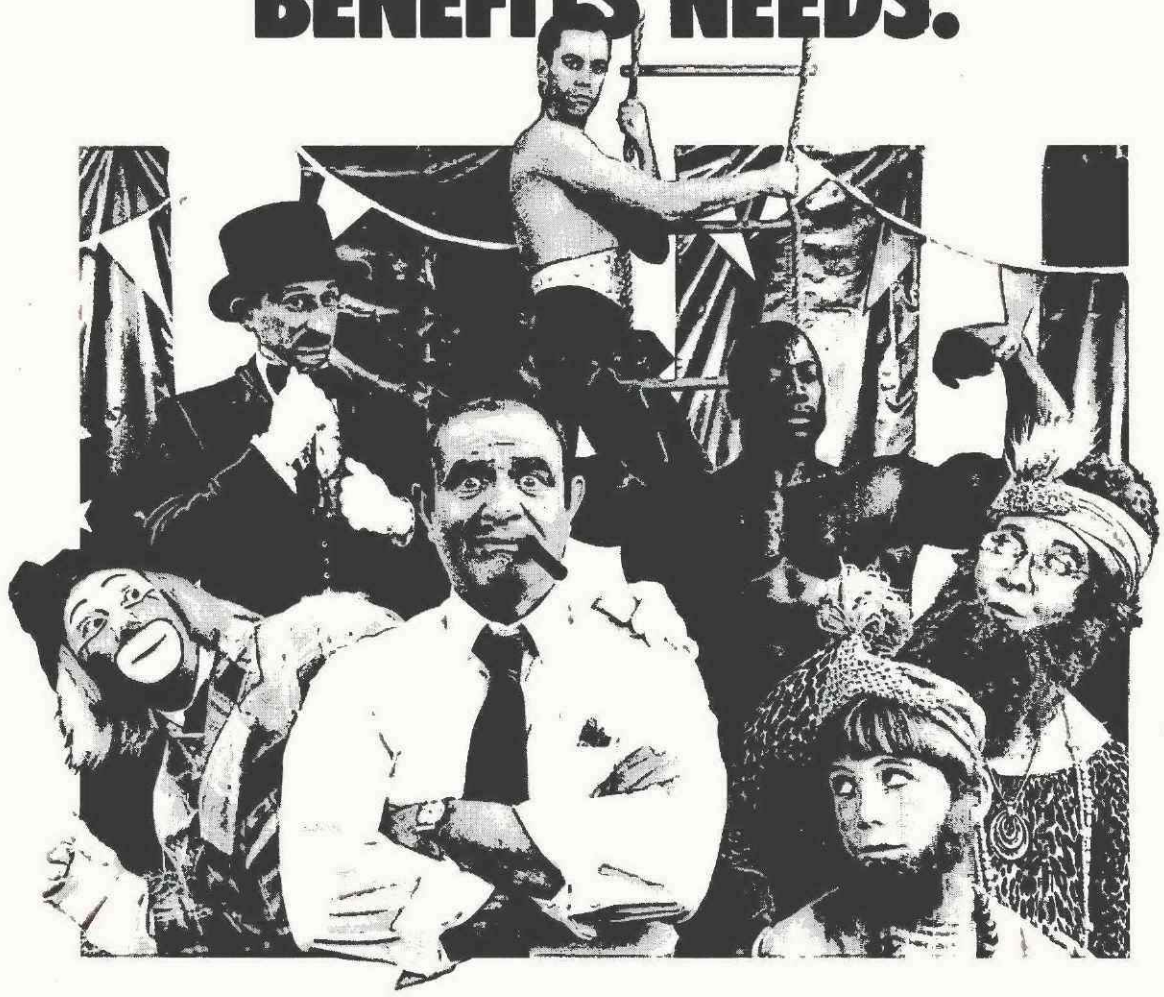

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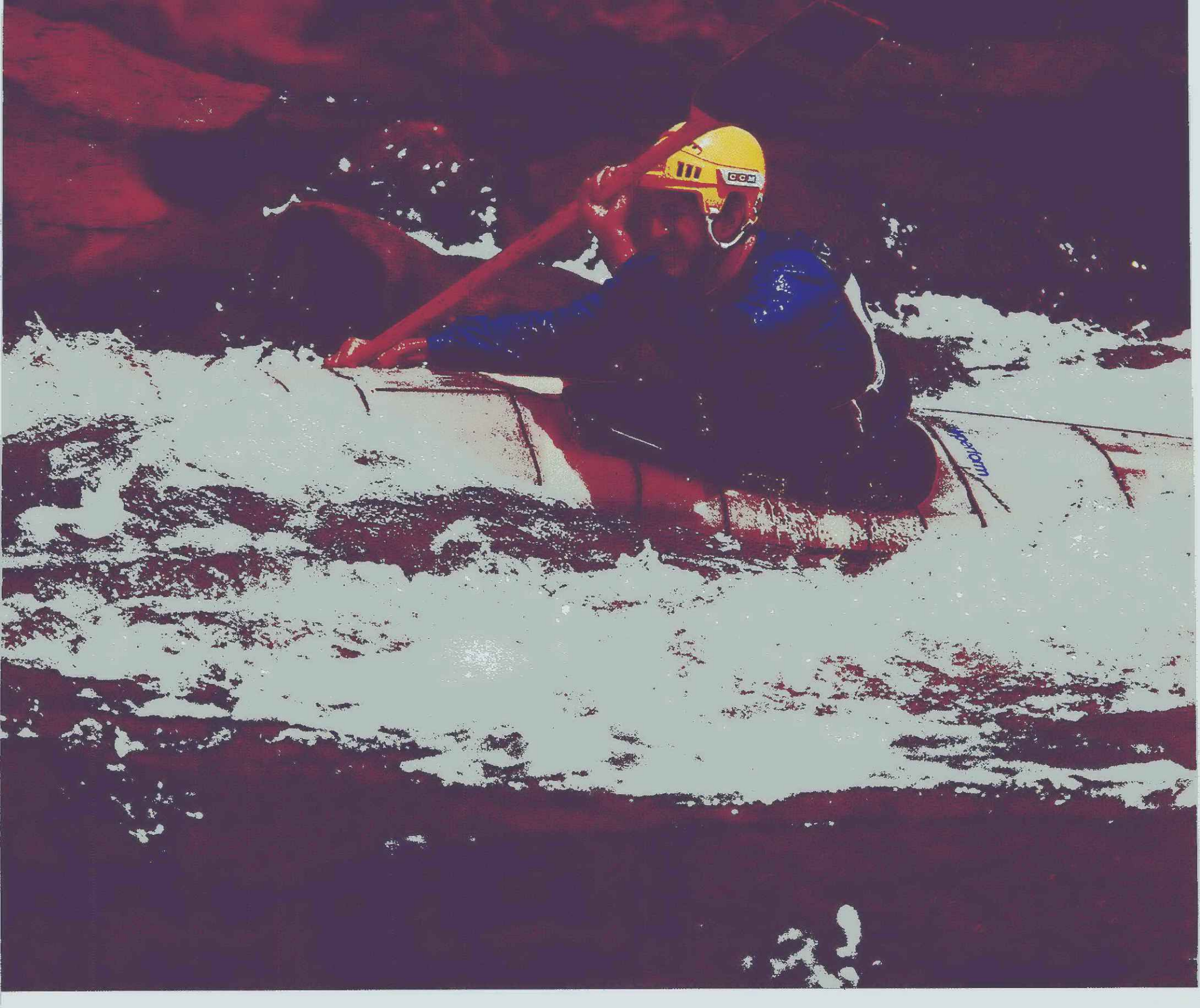

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CONFUSION OVER 404A

Long-awaited IRS rules don't end multinationals' tax questions

By Barry S. Blecher

SECTION 404A was added to the Internal Revenue Code in 1980 to provide U.S. multinationals with a new option on how to treat their foreign deferred compensation plans for U.S. tax purposes. It allows them to opt for rules that are not as restrictive as those governing U.S. plans.

In the past five years, U.S. multinationals have paid taxes using this difficult and ambiguously worded section, but without regulations for guidance. In doing so, they relied on everything from carefully considered legal opinions to "your guess is as good as mine" interpretations.

Then, in April 1985, the Internal Revenue Service finally issued proposed regulations.

Understanding the effect of the proposed regulations requires an understanding of how 404A came about and how it works.

Before 404A, U.S. tax treatment of foreign plans varied. For example, many companies maintaining book reserve pension plans in West Germany felt that as long as German tax authorities viewed the book reserve accrual as a tax-deductible expense, the IRS ought to do the same. After all, with roughly 85% of German pension plans using book reserve funding, what business was it of the IRS' to involve itself in questioning the deduction?

The IRS, on the other hand, was wary of a tax deduction based on a mere book reserve entry. Their position was essentially that cash must physically leave the company for a deduction to be granted—the rule that applies to U.S. plans. For a book reserve plan, this meant that only the cash benefits paid to plan participants were deductible for U.S. purposes.

In a sense, then, 404A provided a compromise solution. Under 404A, a German book reserve plan valued using the prescribed methods and assumptions generally yields a U.S. deduction somewhat in excess of the plan's benefit payments but also less than the German tax deduction.

(Technically, if the German company is a subsidiary rather than a branch, the U.S. parent takes a "reduction in earnings and profits or accumulated profits" rather than a "deduction," but the bottom-line impact on U.S. tax liabilities is comparable.)

Did U.S. taxes increase or decrease for U.S.-based multinational companies as a result of 404A? That depends on how the company was calculating its deduction prior to the passage of the law.

Those multinationals that were taking aggressive positions on their tax returns—that is, that were taking the full German deduction on their U.S. return—found that their U.S. taxes were higher under 404A than previously. Those that took cautious tax postures—that is, those limiting their U.S. deduction to pension payments—found that 404A provided relief in the form of higher deductions.

The "aggressive" companies, who still tend to view 404A as a burden, probably were due for a nasty surprise from their IRS auditors anyway. The whole area of foreign plans had begun to come under intense IRS scrutiny, and some companies were facing disallowances of deductions.

These disallowances were the spur for the lobbying group of multinational companies that was formed in 1980 and that was very influential in getting the law enacted.

That, in general, is where things stood on 404A when the proposed regulations were issued. The regulations, for the most part, either create additional problems or fail to clear up former ambiguities.

For example, all companies, whether their taxes are higher or lower as a result of the law, will find the required documentation proposed in the regulations to be extraordinarily burdensome.

Under the proposed regulations, taxpayers would have to submit a copy of the foreign tax return, if it separately identifies the items in question; a statement from the foreign tax authorities specifying the amount of deduction allowable under foreign law; or a certified statement supported by excerpts from employer records, computations of the foreign deduction and other documentation, including the plan itself. "Certified" translations satisfactory to the IRS would be required for any documents not in English. These requirements would add reams of paper to a large multinational's tax filings.

It's hard to believe that the second item above—a statement from foreign tax authorities—was written in earnest. Imagine trying to get a statement specifying the allowable deduction for a pension plan from U.S. tax authorities, let alone from foreign authorities.

The proposed regulations call for a responsible corporate officer or individual to sign the statements and forms, verifying under penalty of perjury that all documents submitted are true and correct to his or her knowledge and belief. The IRS is making every attempt to see that nothing gets hidden behind a veil of foreign complexities.

Actuarial valuations would be required annually for qualified reserve plans and at least once every three years for qualified funded plans. The annual valuation requirement for reserve plans would be particularly burdensome. Ironically, valuations have to be done for U.S. plans only every three years.

'All companies, whether their taxes are higher or lower as a result of 404A, will find the required documentation proposed (by the IRS). . .to be extraordinarily burdensome.'

Other propsed IRS regulations detail procedures to be followed for U.S plans if valuations are not completed annually. These procedures could and should be adapted by the IRS to foreign plans as well.

There has been much discussion as to whether 404A applies to funded plans of subsidiaries and whether it applies to termination indemnity plans. One widely held view has been that 404A is not applicable to funded subsidiary plans. Although such plans were provided for in the law, shortly after the law was passed, the IRS issued an announcement that was interpreted as meaning 404A elections were not necessary. The proposed regulations unfortunately do not fully clarify the situation.

While the proposed regulations essentially reaffirm the view that 404A is not needed for funded plans of subsidiaries, there is one statement in the rules to the effect that certain changes made by the Tax Reform Act of 1984 to Section 461(h) of the code would apply. Since regulations have not been issued on 461(h), no one can know what this will mean.

And, 404A itself generally imposes greater restrictions on deductions for reserve plans than for funded subsidiary plans. I have heard people suggest that the way to avoid these restrictions is to switch away from book reserves to funded arrangements.

This may be a wise move in some situations, but certainly not in all. 404A in and of itself is insufficient reason for a U.S. subsidiary in Germany, for example, to switch away from book reserves to a support fund.

There are many considerations in choosing a German funding medium that are likely to take precedence over the U.S. tax implications. Local taxes, for example, may well be more important to many companies.

The deduction allowed a support fund in Germany usually is less than the deduction allowed a book reserve. So, companies must look at the total financial impact of the higher deduction in Germany for a book reserve plan, only a portion of which is deductible in the United States, against a lower deduction for a support fund plan, which may be fully deductible in the United States.

Furthermore, the rules governing the maximum tax-deductible contribution to a support fund in Germany are non-actuarial, and most companies with support funds find that at some point they are unable to make further tax-deductible contributions to their plan, even though an actuarial valuation would reveal substantial underfunding.

One very popular aspect of support funds comes under heavy attack in the proposed regulations. With a support fund, the company can make a contribution that is locally tax deductible and then borrow the money back at a favorable interest rate.

Under the proposed regulations, if the entire fund is loaned back, the support fund will not qualify as a funded plan. If only a portion of the fund is loaned back, there may be more flexibility involved. However, the situation only can be resolved with certainty with an audit.

Coverage for termination indemnity plans under 404A also has been in question. Termination indemnity plans are common in many countries, like Italy, Japan and Venezuela. They are not the same as severance pay plans, which compensate an employee for loss of a job. Rather, employees are paid a lump sum on voluntary termination or retirement in lieu of any sort of pension coverage.

Typically, the benefit is defined in terms such as "one month's final salary times years of service." Such plans usually are book-reserved.

In certain IRS districts, auditors have taken the position that 404A does not apply to such plans. The proposed regulations don't deal with the subject directly, and it looks like IRS may intend to exclude termination indemnity plans from 404A treatment.

While it may be preferable, from the employer's viewpoint, to see funded subsidiary plans excluded from 404A treatment, this is not the case for termination indemnity plans. Exclusion would mean, for example, that in Italy, where locally tax-deductible book reserve accruals for termination indemnity plans are in the neighborhood of 15% of payroll a year, no U.S. tax deduction would be available until benefits were paid out.

Shortly after 404A was made law, the IRS stated that it would allow companies 90 days after the issuance of final regulations to make corrections to prior years' tax returns and to revoke any elections the companies had made under 404A. This 90-day grace period, which is reaffirmed in the proposed regulations, is the greatest problem companies will encounter in trying to comply with 404A.

Ninety days will be insufficient time to collect the necessary information and employee data from foreign sources and to make intelligent decisions on these complex issues. This rush to finalize tax filings is especially difficult to understand, since the government delayed the regulations for so long.

In addition, companies ought to be allowed to do more than simply revoke their elections.

These elections were made without benefit of final regulations. It only seems reasonable that the grace period should be expanded to permit faulty elections to be amended and new elections to be made with respect to prior years.

But, since the possibility remains that the 90-day period will be confirmed in the final regulations, we strongly advise that any companies that have taken minimal or little action to comply with 404A do so as soon as possible

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Barry S. Blecher is a consulting actuary in the international operation of consultant Kwasha Lipton in Fort Lee, N.J.

perspective

Tap in-house, vendor help for RMIS

A RISK MANAGER faces three options once he or she has decided to invest in a risk management information system: The RMIS will be developed by in-house data processing technicians, it will be purchased or leased from an outside vendor or some combination of those options will be used.

Of course, each organization developing an RMIS has its own unique application and selection process. However, the intent of this column is to outline the basic advantages and disadvantages of the available options.

This framework would be the same regardless of the hardware environment chosen: mainframe, minicomputer, microcomputer or a combination.

In-house systems

Several immediate advantages to in-house system development are apparent, including:

- Greater understanding of corporate needs and goals. If the data processing department is chosen to build the RMIS, it will have the advantage of knowing its own organization's structure, goals and peculiarities, and it will have access to essential financial data useful to an RMIS exposure data base.

The data processing manager would have—or should have—instant credibility with other line and staff management people and would be in a good position to build a reflective data base on which the risk manager could develop analytical software needs.

Obviously, there is a little learning curve—the cost associated with the time needed to gather information—involved in terms of start-up costs for the data processing department, as opposed to an outside vendor, which would need to spend considerable time in getting to know the organization.

- Greater security. Another significant advantage would be that the internally developed system would be on a par with the security, quality control and editing features of the existing internal systems. If those systems are excellent already, then the RMIS extension should also have that quality.

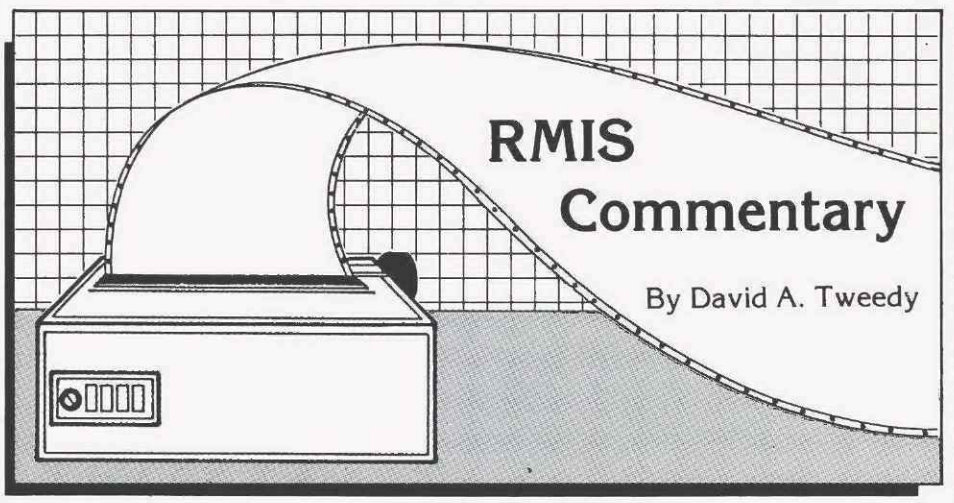
But, there also are a number of possible disadvantages associated with an internally developed RMIS, including:

- Low priority within the organization. Unless the risk manager and risk management department enjoy a high visibility within an organization, the needs of the risk manager may not receive the priority required to quickly develop a sound and efficient RMIS.

Other corporate and management priorities and projects would be in keen competition with the needs of the risk management department. Unless there is a senior executive backing the development of the RMIS, it might not get done for some time.

This becomes true also if an internally developed RMIS is in place already and maintenance work or system upgrading or debugging routines need to be performed. The priority assigned to the risk management department may not be as high as desired, and therefore results may be slow.

- Learning curve problem. Although the internal data processing department may have no problem understanding the organization, it might not have a thorough understanding of risk management and the types of data bases, analytical procedures, report requirements, etc., that are required by the risk manager and senior management. Therefore, the department may spend its own learning curve in terms of time and development costs.



- Subjective problems. Finally, if delays, misunderstandings or other problems surface between the data processing department and risk management department, it may cause some inter-departmental strife that could further exacerbate the problem. Keen political and diplomatic insight by those involved are essential.

Purchased/leased system

This option is becoming a more popular one, especially with the greater availability of a low-cost microcomputer-based RMIS. Yet, there are offsetting advantages and disadvantages in going with an outside vendor and system.

The advantages include:

- Experience. Assuming the risk manager selects the proper outside vendor, the vendor has the experience and understanding of risk management information system development, implementation and monitoring. There is no learning curve involved concerning the systems themselves and potential applications in different situations.

Usually, these vendors have well-qualified and experienced staffs that can design system solutions to the recognized needs of the risk manager. And, they have qualified support staffs able to keep the system running properly.

- Availability. These vendors also are readily available. There is no priority scheduling, as with a data processing department. These vendors are willing and able to sell the interested buyer a system now.

They also generally are available for routine maintenance, system enhancement, etc. after the contract is signed.

However, there also are some disadvantages to purchasing or leasing a risk management information system from an outside vendor, including:

- Learning curve. There is some start-up cost involved here because the vendor must familiarize itself with the particular operation. Not all companies are the same. Although these vendors probably have had similar experience with other companies, a thorough understanding of the information flow and needs of the specific organization are essential before an RMIS can be designed and installed.

This, of course, leads to increased technical assistance costs during this initial "get acquainted" period. But again, the problem should not be too severe, because the RMIS vendor is in the business of installing its systems in a number of different environments.

- Expense. Whereas the costs associated with an internally developed RMIS often can be spread among various departments using the system, the bill for a vendor-supported system will be directed at the risk management department. If it is an extensive, mainframe-based, time-sharing system, the costs can be quite high.

That is not to say that the system is not worth the expense, because there are many benefits that will be derived from having this system in place. And, it is assumed that the risk manager already has convinced senior management of those benefits to be derived from an RMIS.

Nevertheless, the costs will be directed to the risk management department, and the expectations of staff and line management and other departments, to justify the purchase, will be high.

- Hardware/software incompatibility. Another potential problem is that the hardware and software environment of an organization may not be compatible with that provided by the desired vendor and system. For example, the organization may have an IBM environment for hardware, but the vendor and system that is most attractive to the risk manager may use Digital.

Although today this hardware gap has been bridged effectively between many hardware environments, it is an additional barrier to be considered. Even among IBM systems, some bridging is necessary for true compatibility between a new RMIS and other data processing elements of an organization.

Therefore, more technical assistance is required to ensure proper integration among systems.

- Data control. I dealt with the problem of ownership of data in an earlier column (*BI*, March 25). Although many vendors provide up-front contracts in a relationship guaranteeing the organization ownership of the data, this is a very important point to consider.

The risk manager must be certain that he or she has control over that data if a relationship is terminated with an outside vendor. That data must be made available immediately upon the end of that relationship.

- Increasing variety. The RMIS industry is expanding constantly in terms of number of vendors and systems. This offers unique opportunities for the risk manager but also presents a dilemma: How does one choose among the variety of systems—all essentially claiming the same capabilities—and decide that one particular system is the best for a particular organization?

The risk manager is probably not a computer engineer, able to tell the difference among these growing numbers of alternatives. Therefore, he or she must rely on an objective outside consultant or an internal specialist, such as the data processing manager, for guidance. But, correct selection is essential considering the expense and the high expectations from senior management and the risk management department itself.

- Political sensitivities. Deciding to use an outside vendor—and essentially bypassing the data processing department—may cause some sensitivities. However, the experienced risk manager should be able to carefully chart a course through these potentially difficult waters.

Combination of options

The best solution to the RMIS dilemma often is a combination of the two options discussed above. The blending can take many forms.

In one case, the risk manager will have access to the time-sharing system of an outside vendor but will use his or her own personal computer to extract information from that data base when needed and will perform necessary analyses and reports.

Or, the risk manager may purchase a stand-alone microcomputer from an outside vendor with analytical software and communications ability and tie that in with the company's central computer.

The personal computer can act as a dedicated terminal in hooking up not only with the company's mainframe and data base, but also with an external vendor, if necessary.

Many outside vendors are providing stand-alone microcomputer-based products and hoping the risk manager will buy continuous service help from them or occasionally tie in with the mainframe.

This option seems to be the best compromise, including the benefits of an internally developed system and an externally developed system.

More and more, this option is being selected and used by risk managers desiring to have better control over their own programs and becoming more involved in the overall decision-making process of their organization.

David A. Tweedy is a risk management consultant for D.A. Betterley Risk Consultants Inc. in Worcester, Mass. He is the assistant editor of Betterley Risk Management Commentary and the author of RMIS Update, a yearly publication analyzing major risk management information systems and vendors. His column on risk management information systems appears the third Monday of every month.

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AREA network

Continued from page 44
funds in a new form of currency developed by the insurer—Golden Eagle units.

Mr. Clemeur explained that a Golden Eagle unit is "a kind of special currency that is the sum of one pound sterling, two U.S. dollars, 100 yen" and other currencies.

The idea, he says, "is to have people build up pensions not linked to one currency so they can avoid the particular risks of one currency. It is a very unique product."

For its larger clients—those with 100 or more employees in at least two countries—AREA offers a Multinational Insurance Cover agreement.

The agreement is between one of the multinational company's offices, usually the parent, and the AREA partner chosen by the multinational. The partner, known as the administering company, is responsible for implementing and administering the benefits coverages at the international level.

Together, the administering company and the multinational design the local employee benefit plans for each location, taking into account corporate objectives and specific conditions such as local legislation and taxation that would affect the plans.

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In determining international dividends, AREA experience-rates according to one of three systems.

When at least 500 lives are covered, clients can use an annual stop-loss system under which a loss in any accounting period is eliminated and not carried forward. A stop-loss premium is charged.

For clients with at least 100 lives covered, a loss-carryforward system is available. Losses are carried forward for three to five years, depending on the size of the group.

A contingency fund is used to fund losses.

Smaller, rapidly growing clients with at least 50 lives covered can use a version of the loss-carryforward system known as the small groups product.

AREA pays international dividends within three months after the international account date if the account is profitable and credits interest if there is a delay in paying.

AREA clients can save varying amounts, Mr. Clemeur says. "It depends on how big the client is and the types of risks. One client may get 70% of its premium back in a year with no claims. For others, it may go down to 1% or 2%. For our big accounts, an average of 10% is not unusual."

According to Mr. Clemeur, the future of networking is solid—and not only because of the financial advantages.

"The refund is not always the essential advantage," he explains. "In the coming years, the emphasis will be more on communication and information services provided by the networks than on the financial advantages.

"Of course, the financial advantages will always remain important," he adds.

●

For more information on AREA, contact Hugo Clemeur, AREA Secretariat General, AREA Benefits Network, Blvd. du Souverain 25, 1170 Brussels, Belgium; 322-660-6613.

CIGNA unit not seeking new business

By MEG FLETCHER

REIGATE, England—CIGNA Worldwide Inc. is not soliciting new business for its international benefit network while it evaluates future plans, although the network is still serving its existing clients.

The CIGNA Corp. affiliate has put the network's expansion on hold despite the growth possibilities that came with CIGNA's acquisition of AFIA Worldwide Insurance last year. In addition, CIGNA in 1983 acquired Crusader Insurance P.L.C. in London and Kemper Group's Brazilian operations.

Determining its plans for the network "will be a longer process than. . .anticipated a year ago," said David K. Bullard, director of personal accident underwriting for CIGNA Worldwide in Reigate, England.

A year ago, Mr. Bullard predicted the network would set its goals by December 1984 (*BI*, Sept. 3, 1984).

The network has no target date for offering its services to new clients, he said, adding the network asked not to be included in the 1985 edition of the multinational pooling guide produced annually by William M. Mercer International.

"We are studying (the network), and every time we study it, we learn that there are more intricacies," he explained.

These complex factors include coordinating the network's international operations with CIGNA's own operations in the United States and expanding operations to other countries by obtaining additional licenses or coordinating with other established benefit networks, Mr. Bullard said.

However, CIGNA Worldwide would prefer to operate its network independently of other networks so it can maintain control of its operations, Mr. Bullard said.

Although development of the network has not been a high priority, it is "very unlikely" that the CIGNA Worldwide network would be disbanded, because increasing multinational business worldwide is a corporate objective, he said.

One reason for the lack of emphasis on network development is the belief that the increased competition among international networks will cause a "sorting out" in the marketplace, he said.

"We will let the market go through a shakeout period before offering a product," he said.

In addition, corporate officials have given greater priority to property/casualty insurance programs lately, he added.

When the CIGNA Worldwide network again seeks new business, one of its strengths will be its abil-

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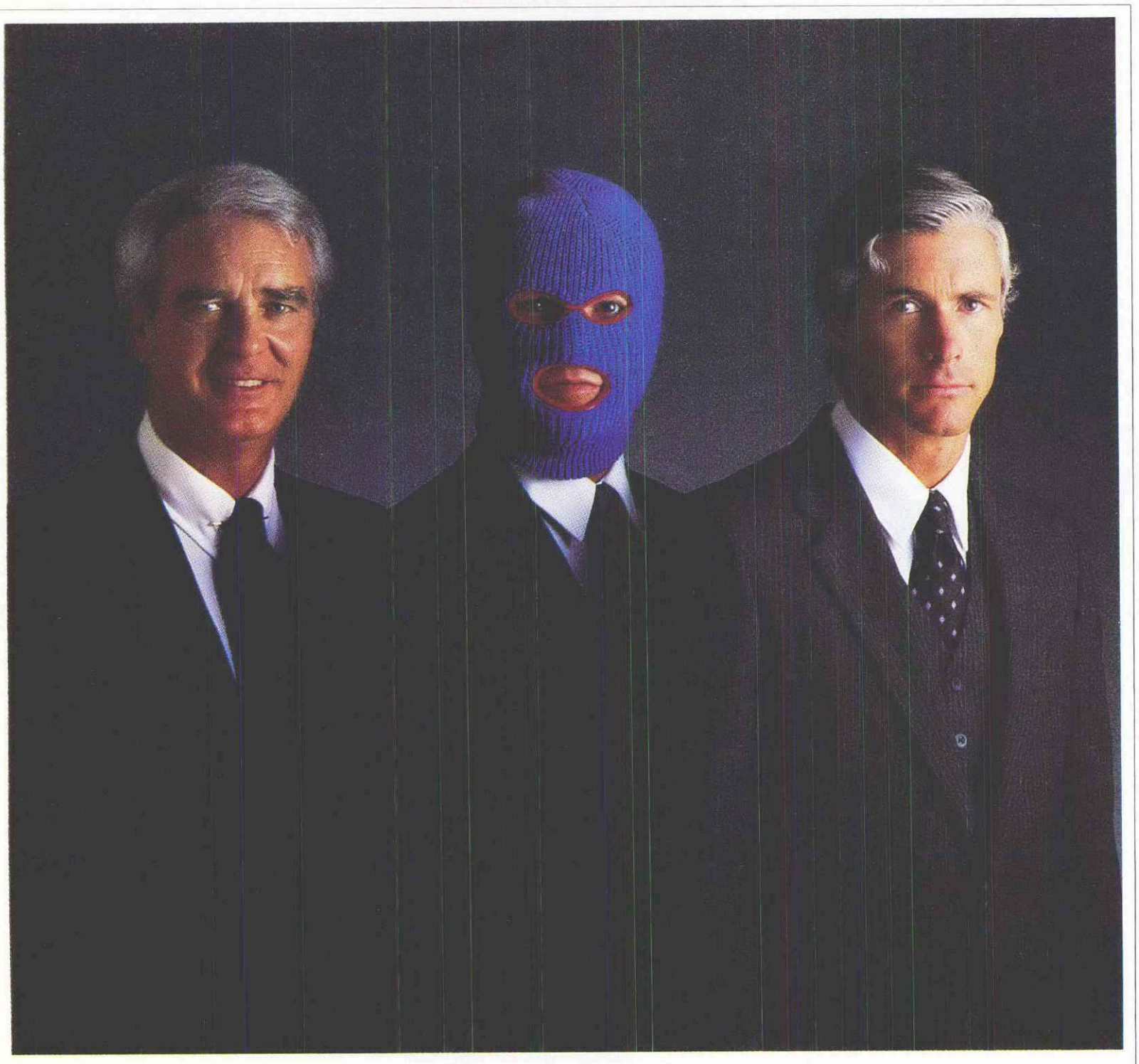

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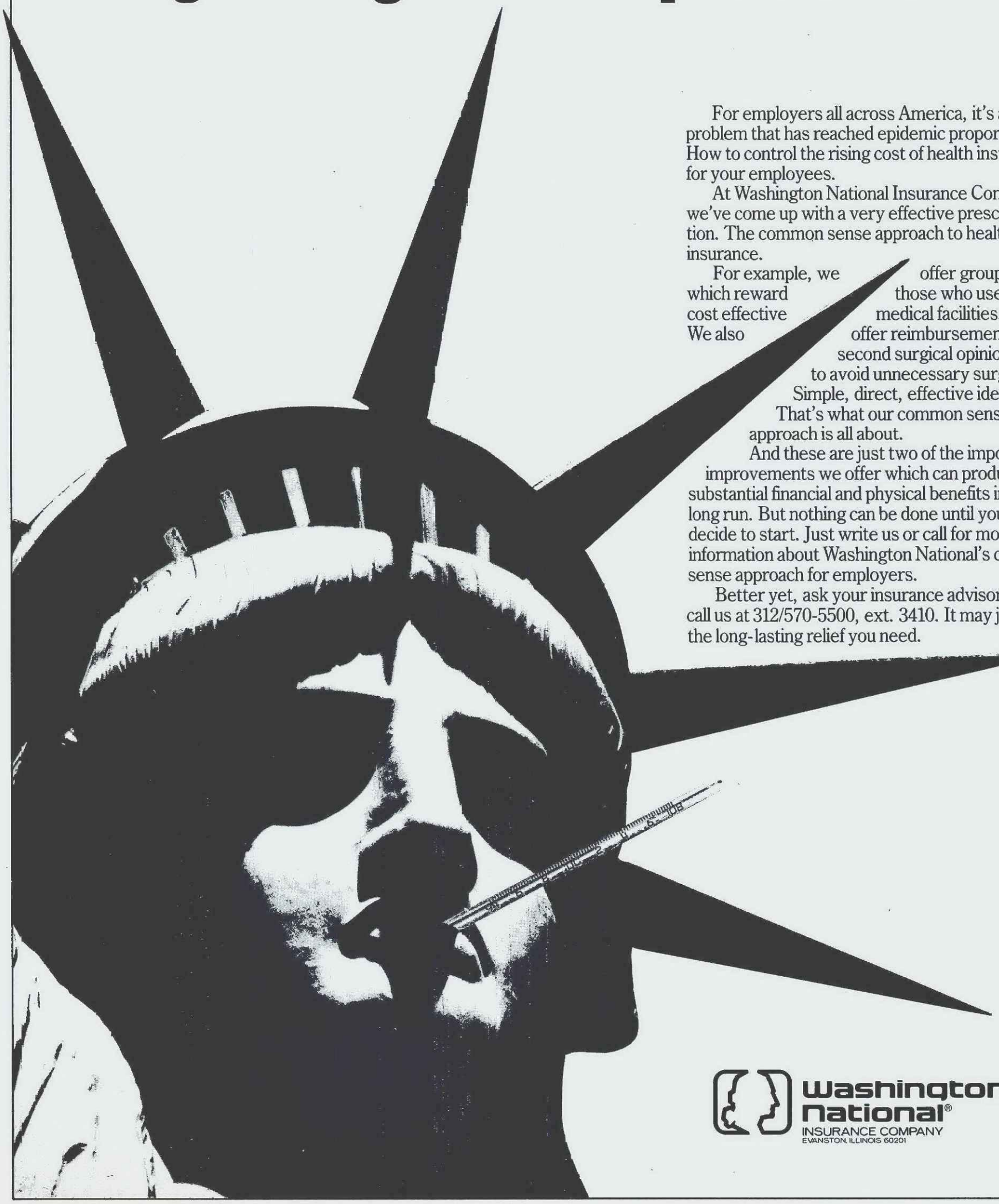

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CIGNA network

Continued from page 52

ity to coordinate benefit coverage with property/casualty coverages for multinational companies, Mr. Bullard said.

"When we do it, we will do it right, and until we are absolutely sure we can do it right, we won't."

The network, which began operations in 1980, currently provides benefit services for "a few selective benefit accounts," which number "fewer than 12," he said. A typical client is a U.S.-based, Fortune 500 company in the banking, pharmaceutical or oil-related industries. The network also has at least one foreign-based client, he said.

CIGNA Worldwide does not expect the number of clients or covered employees to change this year. The network also has not changed any of its minimum requirements, services or coverages.

"We are holding the status quo," Mr. Bullard said.

In addition, the network's annual master contract premium volume this year is expected to remain the same as it was in 1984—less than $25 million. That is less than 8% of the premium volume of CIGNA Worldwide's Life and Accident Division, which is expected to record more than $337 million in premium in 1985.

Clients use the CIGNA Worldwide network primarily to provide life, health and some pension benefits for their employees in South America, the Far East, Greece and a few European countries, including the United Kingdom, Mr. Bullard said.

Despite the network's re-evaluation of its operations, CIGNA Wordwide has not cut back on the number of wholly owned foreign subsidiaries or branches of subsidiaries, he said.

Offices are located in the Bahamas, Barbados, Brazil, Chile, Greece, Guatemala, Haiti, Hong Kong, Japan, Liberia, Puerto Rico and the United Kingdom. CIGNA Worldwide also has a partially owned subsidiary in New Zealand.

Those operations continue writing primarily local business, he said.

In addition, the network has arrangements with local insurers in 100 other countries, where it writes accidental death coverage and some related products. It also has licenses to write various products in an additional 60 countries, Mr. Bullard said.

Despite the competition in the marketplace, international employee benefit networks have a "fair" amount of potential, Mr. Bullard said. Growth can be anticipated, especially in the number of medium-sized clients—those that have at least 200 employees.

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For additional information about CIGNA Worldwide Inc.'s network, contact Matt Wilhelm, 110 William St., New York, N.Y. 10038; 212-306-9764; or Geoff Saggers, Crusader House, Reigate, Surrey, England, RH2 8BN; 01-44-73-72-42424.

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GAIN network adds servicing insurer, dozen new clients

By DIANE LYNN KASTIEL

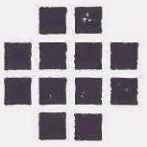
LONDON—Group Assurance International Network is taking its acronym—GAIN—quite literally.

Over the past year, the network has added 12 clients and another servicing insurer, Mutual Life Assurance Co. of Canada.

GAIN now has 21 insurers operating in 23 countries and "fewer than 25 clients," said Ken Stuart, GAIN secretary. He would not specify the number of clients.

He also declined to reveal the network's premium volume, but he said he expects it to increase this year.

"My own belief is by this time next year we'll be pulling double the numbers we are right now. We think we have a good chance of getting some of the business and some of the largest companies," he said.



Although many international benefits experts contend that most large multinationals interested in networks have already joined one, this will not prevent GAIN from expanding, he says.

In fact, two of GAIN's new clients—both huge multinationals—still participate in the networks they had originally joined, he said.

Although Mr. Stuart would not name these two companies, he described one as a U.S.-based multinational manufacturing and service company with 64,000 employees and subsidiaries in at least 30 countries. The other is a European conglomerate with 10,000 employees and subsidiaries in about 20 countries, he said.

While acknowledging potential for growth in the large-company market, Mr. Stuart said he expects most of GAIN's growth this year to come from untapped medium-sized to large European multinationals with 1,000 to 5,000 employees.

GAIN will accept as a client any company with a minimum of 250 employees in at least two countries. However, GAIN will consider companies with fewer than 250 employees in some circumstances, Mr. Stuart said.

GAIN pays international dividends, usually to the multinational's parent company, on the basis of the number of "life units" that companies accumulate. Life units are calculated on the basis of the number of employees covered under benefit plans in any given year.

International dividends reflect the total loss experience of all of a parent corporation's subsidiaries whose benefits are funded through the network. A company receives one life unit for each employee covered by life, health or disability insurance. A maximum of two life units are granted for each employee covered for retirement benefits. If a company accumulates at least 750 life units in a year, it receives its full dividend, paid six months after the end of the fiscal year.

Companies with 375 to 749 life units receive half of the year's dividend six months after the end of the fiscal year, and the other half one year later.

Companies with 250 to 374 life units receive one-third of their dividend six months after the fiscal year. One-third is paid over each of the following two years.

Mr. Stuart could not estimate the usual local dividend, but he said most clients got international dividends last year of 5% to 10% of their premium volume.

To employers with a minimum of 2,500 covered lives, GAIN offers a stop-loss coverage option under which the network's insurers fully underwrite all losses that exceed the surplus in a client's account, Mr. Stuart said.

Companies with fewer than 2,500 covered lives are covered under a loss-carryforward system, in which deficits are carried to the following year. But, GAIN may agree to pay losses that are higher than a specified percentage of premiums paid, he said.

Most of GAIN's insurers are European-based with primary expertise in employee benefits, he said.

In addition to Mutual Life of Canada, GAIN insurers include Legal & General Assurance Society Ltd. in Britain, Assubel-Vie S.A. in Belgium, Aegon Verzekeringen in the Netherlands, Colonia Lebensversicherung A.G. in West Germany, Assurances Generales de France in France and Vaudoise Vie in Switzerland. The network's U.S. affiliate is Bankers Life Co. of Des Moines, Iowa.

GAIN had hoped to add Mexico to the list of countries in which it has insurers this year, but the recent earthquakes have put this plan on hold, Mr. Stuart said.

However, GAIN will go ahead with plans to add an insurer in the Orient, he said. "Japan is a great big blank space on our map right now, and that's a country we definitely would like to do something about."

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For more information on GAIN, contact Ken Stuart, GAIN Secretary, Bucklersbury House, 3 Queen Victoria St., London EC4N 8EL, England; 01-248-8129; telex 892971, Legen G.

IGP luring prospective clients with offers of new products

By MICHAEL BRADFORD

BOSTON—John Hancock Mutual Life Insurance Co.'s international benefit network is hoping new features will lure additional master-contract holders.

"We are offering some benefits to third-country nationals and have become more proactive with our larger clients to implement cash-flow approaches for life and medical programs," said Geraldine Pangaro, field vp for Hancock.

Hancock's International Group Program now has about 380 master-contract holders, up from about 350 at the same time last year.

IGP writes about 2,150 separate benefit plans, about 150 more than last year, through 33 associate insurers in about 40 countries.

Currently, IGP is generating around $200 million in premiums from contracts in force, Ms. Pangaro said. She declined to release premium figures for prior years, explaining that premium volume is not an accurate measure of the amount of business a benefit network conducts.

IGP

Last year, IGP—which offers disability, life, medical and pension benefits—would only write coverages for local nationals that were employees of parent-company subsidiaries.

However, the network can now provide multinational companies with pension plans for third-country nationals, employees who are citizens of one nation who work in another country for a parent company based in a third nation.

In addition, IGP can write life and medical plans for third-country nationals on a limited basis.

In addition to those products, IGP now offers "cash-flow plans" for larger clients' medical and life benefits.

Ms. Pangaro explained the cash-flow approach allows clients to "tie the timing of paying the premium more closely to when claims usually occur."

Instead of paying monthly premiums, the premiums under the cash-flow plans are paid at specified times at which a client historically expects claims to occur, she said.

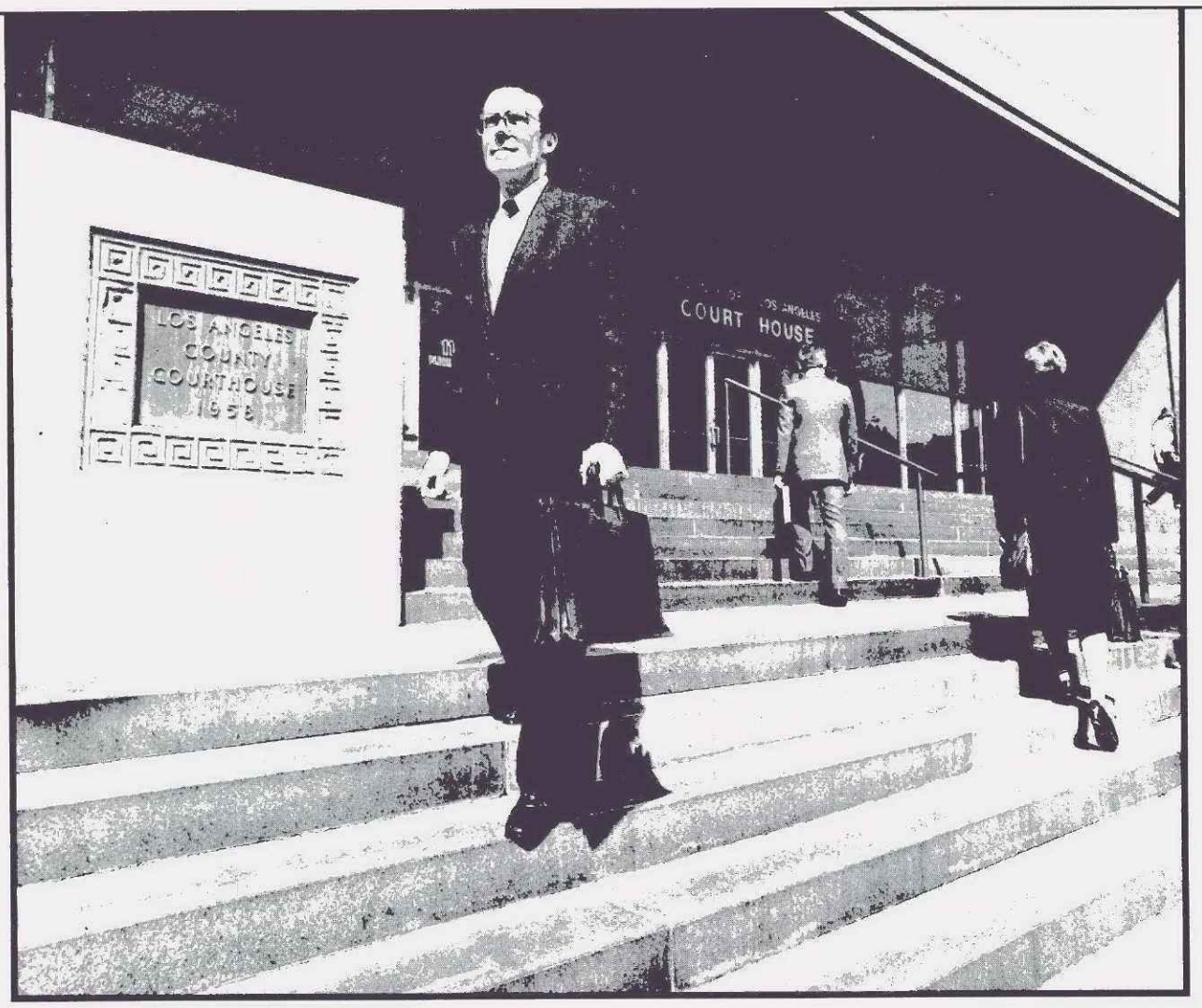
This gives the client use of its money for a longer period of time. She added that the plan can be tailored so there is "smoothing of premium payments" over the life of the contract if the client prefers.

The cash-flow plans are being used by large clients in Mexico, Spain and South Africa, Ms. Pangaro said.

IGP relies on local insurers, none of which are owned by Hancock, to provide benefit coverages for its multinational clients.

Hancock, in turn, manages the network from its Boston headquarters. The network has 31 U.S. staff members, she said.

Continued on page 58



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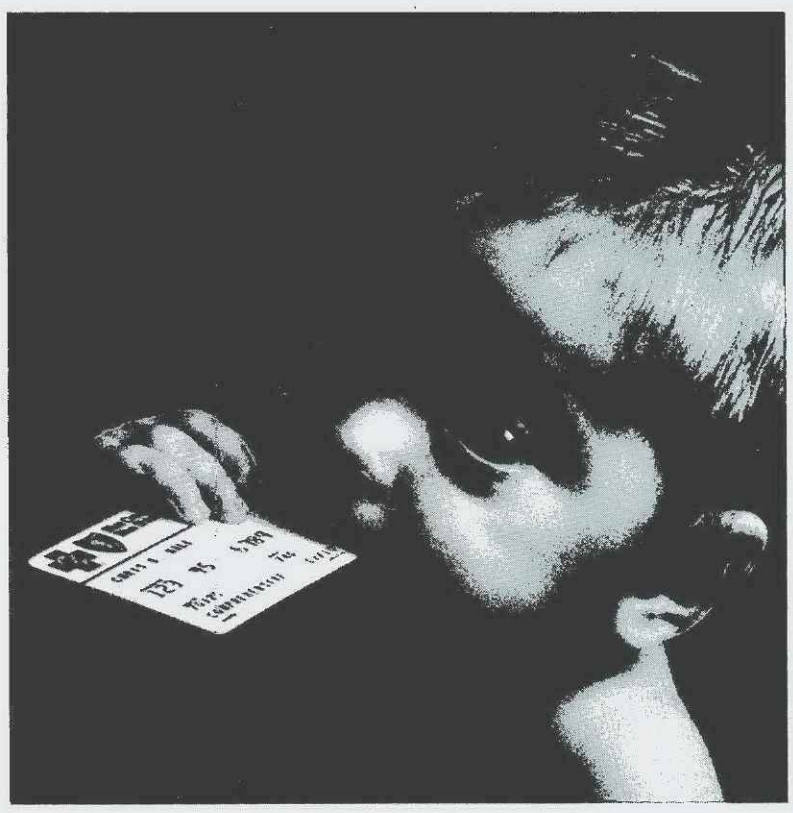

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Hancock's IGP network

Continued from page 56

Major associate insurers in IGP include The Prudential Assurance Co. in London, Sul America Life Insurance Co. in Brazil and The Australian Mutual Provident Society in Australia and New Zealand.

IGP's clients include Digital Equipment Corp., which insures 14,000 employees of its foreign subsidiaries through the network, and Bristol-Myers Co., which uses IGP to cover about 6,000 workers in 20 countries.

About two-thirds of IGP's clients are U.S.-based.

A prospective multinational client needs to meet only one requirement to become a contract holder in IGP: It must have enough employees to write a group contract under the regulations of the individual countries. In most cases, the minimum number of lives is 10, Ms. Pangaro said.

However, IGP carefully reviews the growth potential of small clients before they are accepted by the network, she said.

IGP provides separate categories for clients with more than 1,000 lives covered, those with 300 to 999 lives and those with fewer than 300 lives.

All clients are eligible for both local and international dividends. Local dividends are paid if there is an underwriting surplus in the country where the subsidiary is located, according to local regulations and regardless of the client's international claims experience.

International dividends are calculated according to the number of lives covered.

For a client with more than 1,000 lives, each subsidiary's contribution to the parent company's overall international account is figured.

If there is a surplus in the international account, the client gets a dividend. Deficits are carried forward with interest into the next year.

There are two international dividend options available to companies with fewer than 300 covered lives, whose risks are pooled with the risks of other small employers.

Under the first option, international account deficits are paid on a pro-rata basis by all companies in the pool that have chosen this option. Thus, deficits are not carried over to the next year. If a company has an international account surplus, it receives a dividend after its pro-rata share of other members' losses is paid.

Under the second option, all pool members' results are lumped together. Clients receive a portion of the total surplus or must share the loss, based on a complex formula.

These two options are also available to clients with 300 to 999 lives. In addition, clients in this size category may choose a dividend system in which each year of coverage for an employee or dependent equals one "life-year."

When 1,000 life-years are reached, a dividend is paid based on the client's own experience. Any life-years above 1,000 accumulated during a year are carried over to the next year's account.

Also, all IGP clients get an International Experience Report within three months of the end of each accounting year. The report is a country-by-country statement that provides detailed financial data on the client's account.

Dividends are paid within the same three-month period. If dividends are paid late, interest is credited to the account until payment is made.

Ms. Pangaro said dividends paid to IGP clients generally equal about 10% of the premiums paid to the local insurers.

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

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Insurope says '85 will show major growth

By CAROL CAIN

BRUSSELS, Belgium—This will be a year of great growth for the Insurope network, predicts the president of its U.S. representative.

"By the end of 1985, we'll probably have 15 to 20 new multinational accounts for 165 to 170 total accounts," said Robert M. Pickrell, president of South Norwalk, Conn.-based Multinational Benefit Associates, which represents the Insurope network in the United States and Canada.

About a dozen of those new accounts already are on board, with the remaining agreements waiting for signatures, Mr. Pickrell said.

But once Jan. 1 rolls around, Insurope won't rest.

"We're committed to having 35 new multinational accounts by Oct. 1, 1986," he said.

Insurope, which was formed in 1966, is an alliance of 40 non-U.S.-based insurers in 38 countries. Three new insurers and three new countries were added this year.

The new insurers are Seguros Pan American C.A. in Caracas, Venezuela; CITC Life in Taiwan; and Jamaica Mutual in Kingston, Jamaica.

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

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

About 65% of the network's clients are U.S.-based companies, while the remainder are based in Europe and the Far East, he said.

"And Insurope is still proud to say we never had a client cancel its multinational account," Mr. Pickrell said.

However, some accounts have been lost when a client company has merged with another company that is not part of the network.

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

However, many of the network's newer clients generally fall into one of two other categories: high-tech industrial companies or small industrial companies with interests overseas, he said.

"A greater percentage seems to lie in high-tech industries. . .computer software firms," Mr. Pickrell said. That may be because Multinational Benefit Associates has an office in Santa Clara County, Calif., in which the Silicon Valley is located, he added.

To join the Insurope network, a company must have a minimum of 200 lives in at least two countries. The average Insurope client has several hundred to several thousand lives in four to five countries, Mr. Pickrell said.

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

For example, for those employers with fewer than 200 lives, Insurope offers a "multipool." Basically functioning like a multiple employer pool, the profits and losses of all employers in that pool

Continued on next page

Continued from previous page
are applied to the experience rating of each individual employer, Mr. Pickrell said.

This multipool program is growing, but at a very slow pace, Mr. Pickrell said. He added that employers in this program are not counted among the network's total multinational contracts. Rather, the multipool program is treated as a separate entity, he said.

Insurope also has set up special arrangements at clients' requests in which the premium from a client's multinational contract is reinsured with the company's own captive. Not all the international benefit networks offer clients this type of arrangement, Mr. Pickrell said.

"Clients want better financial arrangements than just multinational pooling," he said. "A number of years ago, service was important, but today the emphasis is on the best financial arrangement."

For instance, Insurope is one of a few of the multinational networks that pay interest on the unused portion of the premium that is returned as a dividend, according to Mr. Pickrell.

Mr. Pickrell estimated that the network's premium volume for 1984 could reach $50 million. Given the number of new accounts out for signature now, that figure could jump by $8 million to $10 million, but it depends on the size of the accounts that actually are signed, he said.

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

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MIA stresses loss experience

By MICHAEL BRADFORD

HARTFORD, Conn.—Travelers Corp.'s Multinational Insurance Arrangement stresses that it bases all clients' international dividends solely on their loss experience, an MIA official says.

"We are dedicated to individual experience-rating for each account," says Paul M. Shimer, assistant secretary in Travelers' international department in Hartford, Conn.

"We have no non-experience-rated or semi-experience-rated accounts. We are completely account-driven."

Mr. Shimer explained that MIA refunds the entire surplus in a client's international account based on the client's loss experience,

TheTravelers

while other networks will refund only a percentage of the final surplus.

In addition, the dividends paid by some networks to small companies are not based on the client's own experience but on the experience of all small employers in the network, he adds.

MIA currently boasts 133 accounts, up from 112 last year. MIA provides pension, group life, disability and supplemental health benefit plans for about 144,000 employees in more than 60 countries.

Travelers declined to release figures on MIA's premium volume.

MIA is owned by a partnership of international insurers and is administered by Travelers through its international department in Hartford.

To qualify for an MIA account, a multinational corporation must insure at least 100 employees of subsidiaries or branch offices in at least two countries outside the United States. There are no minimum premium requirements.

MIA's experience-rating formula calculates a client's dividend or account deficit by deducting claims, expenses and local dividends from the premiums paid in each country. Any deficits are carried forward to the next accounting year with an interest charge.

Mr. Shimer said MIA also will include the U.S. parent's experience to determine the international dividend, another unique feature of the network.

How often dividends are paid is based on the number of lives.

For eligible clients that insure less than 300 lives, the dividend is paid every three years. It is paid

Continued on next page

"We believe in IGP."

John Sagan
Vice President-
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MIA network

Continued from previous page
biennially for clients with 300 to 500 covered lives, while dividends are paid annually for those with more than 500 lives.

MIA is anchored by six international insurers: Guardian Royal Exchange Assurance P.L.C. in London; Nationale Nederlanden in Rotterdam, Netherlands; Riunione Adriatica Di Sicurta in Milan and Trieste, Italy; L'Union des Assurances de Paris in Paris; Nippon Life Insurance Co. in Tokyo; and Grupo Nacional Provincial in Mexico. There are also "a number of companies cooperating with MIA that are strictly local," he says.

Some of MIA's major U.S. clients include United Technologies Corp., Grey Advertising Inc., Dean Witter Reynolds Inc., Honeywell Inc., Phillips Petroleum Co. and Pan American World Airways Inc.

Mr. Shimer said 85% of the multinationals served by MIA are based in the United States.

One client left the network in the last year, he said, the first to drop out of MIA in 15 years. The company was a Midwest-based international food corporation, he said.

One of the company's two foreign subsidiaries that were enrolled in MIA worked out an arrangement with its local network insurer that met its benefits needs on the local level, said Mr. Shimer. Because the parent had only two subsidiaries in the MIA program, it fell below the network's minimum requirements.

Mr. Shimer said MIA's clients, which are mostly Fortune 500 multinationals, realize an average savings of 10% to 25% of worldwide pooled premiums over the lifetime of a long-term contract, which is about 10 to 20 years.

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For information about MIA, contact Travelers Corp., One Tower Square, Hartford, Conn. 06115; 203-277-0111.

New products abound at Swiss Life

By MEG FLETCHER

MINNEAPOLIS—Swiss Life Network is celebrating its 25th anniversary this year with new products and new offices.

"I think we are very optimistic. Our business is developing better than last year," said Kent Barker, president of Minneapolis-based Swiss International Services Inc., the North American service representative for the network, which is owned by Swiss Life Insurance & Pension Co. in Zurich, Switzerland.

And, last year, Swiss Life Network reported growth in both the number of master cover contracts and the number of local contracts.

The network generated 545 million Swiss francs ($207.1 million) from 402 master cover contracts in force at the end of 1984, which is a 10% increase from the 365 contracts in effect at the end of 1983. Those master cover contracts included 3,800 local contracts, 500 more than at year-end 1983, Mr. Barker said.

Swiss Life Network has not lost any master cover contracts in the past year, although it may have lost a local contract, he added.

Depending upon the countries involved, disability, group life, medical and pension benefits can be written through the network. Accidental death and disability coverage is also available.

One expected source of new business for the network is a "master precursor contract," which was introduced in January. The master precursor contract allows an employer with as few as 100 employees in at least two nations to pool its benefit experience.

The development of the master precursor contract represents a more formal approach to previous ad hoc arrangements that allowed companies with fewer than the traditional minimum of 300 employees to pool their benefits.

But, the smaller the number of employees, the longer a client will have to wait before it is evaluated for an international dividend.

Holders of the network's traditional master cover contract must have a minimum of 300 employees in at least two nations and are evaluated annually.

Companies of any size are paid local dividends according to prevailing local practice, he added.

Swiss Life is also offering for the first time this year in Belgium a "separate account" system option, which is a pension funding investment vehicle set up for groups of employers. The system has been used previously in the Netherlands, Mr. Barker said.

In addition, it is offering employers with operations in Switzerland a variation of a managed fund, in which the insurer manages the employer's pension funds without a guaranteed rate of return.

Swiss Life Network also will reinsure a client's premiums through the client's own captive insurance company, Mr. Barker said. The number of companies taking advantage of that option increased to 11 at year-end 1984 from seven in 1983, he said.

An employer usually should have about 10,000 employees outside the United States before considering this option, so the program has sufficient stability to withstand loss fluctuations, he said.

The network now offers support services from two new locations. Swiss International Services Inc. opened a third U.S. office earlier this year in Campbell, Calif. Other U.S. offices are in Englewood Cliffs, N.J., and Minneapolis.

The opening of an office in Luxembourg raises to eight the number of European nations in which Swiss Life has direct operations, he said. The others are Belgium, France, the Netherlands, Spain, Switzerland, the United Kingdom and West Germany.

Swiss Life Network also has working relationships with local insurers in 17 additional countries. And, by tapping American International Group Inc.'s network, it can provide coverage in about 100 other countries.

In the United States, the network's working partners include The Prudential Insurance Co. of America in Newark, N.J., and The Equitable Life Assurance Society of the United States in New York.

Swiss Life Network's clients are typically large multinational companies, Mr. Barker said.

The network's clients include Polaroid Corp., Hewlett-Packard Co., Syntex Corp., R.J. Reynolds Industries Inc., Sperry Corp., 3M Corp., Goodyear Tire & Rubber Co. and Memorex Corp.

U.S. multinational companies represent 60% to 62% of Swiss Life's clientele, which is down slightly from 67% in 1984, said Mr. Barker.

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For more information about Swiss Life Network, contact Kent Barker, President, Suite 818, 7900 Xerxes Ave. S., Minneapolis, Minn. 55431; 612-835-2060; Henry F. Magnusen, 560 Sylvan Ave., Englewood Cliffs, N.J. 07632; 201-568-8080; or Martin Sheridan, 1999 S. Bascom Ave., Pruneyard Towers II, Suite 749, Campbell, Calif. 95008; 408-559-2030.

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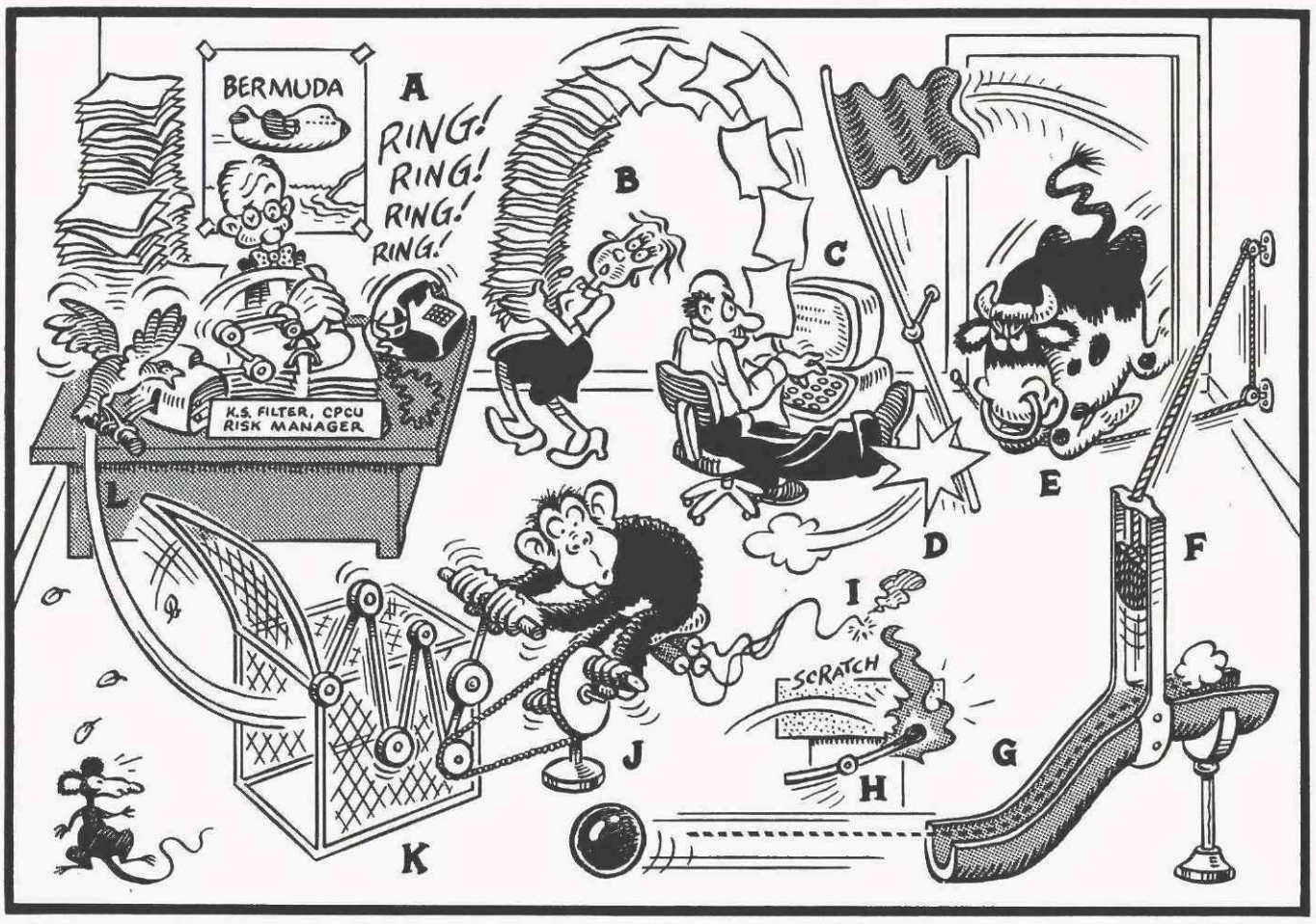

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Vita still targeting the European market

By DIANE LYNN KASTIEL

ZURICH, Switzerland—The Vita international benefits network's bread and butter will continue to be European rather than U.S. multinational companies, even though the European market is harder to crack, a network official says.

"In the U.S., you're going for market share ad absurdum very often. Over here, tradition plays a stronger role," said Roger Nicholas Balsiger, a consultant for Vita Life Insurance Co. Ltd.

"Relations between the (European) client and the insurance company are stronger. They may even sink once or twice before they change networks."

This loyalty often prevents European-based multinationals from switching networks or adding another network to its existing arrangement, he said.

Pursuing the European multinational market also has other roadblocks, Mr. Balsiger added. "The problem area is that it is a very lengthy process to, first of all, convince a company's headquarters that this can be profitable for them and, in Europe, there's usually decentralization of a headquarters and its subsidiaries," he said.

"It's always been the European viewpoint to let the subsidiaries run their own show because you're dealing with different mentalities. The Italian manager of a subsidiary may look at things different than someone hundreds of miles away in France."

Vita tries to overcome this aversion to centralizing employee benefits by showing European multinationals how they can save money by pooling.

"We provide (the company) with an exhibit of what the contract would have looked like if it had been done on an international basis," Mr. Balsiger said. "And we lay out exactly how we calculate charges so there's no secrets."

Despite the uphill battle, Mr. Balsiger said the network's strategy to pursue European multinationals is working. Between 90% and 95% of its clients are European companies and, therefore, the network sees no reason to have a U.S. representative office, he said.

The network experienced "quite some growth" in the last year, he said, although he wouldn't reveal the network's total clients or premium volume. Mr. Balsiger did say, however, that it gained new clients in the past year without losing any.

Another part of the network's strategy is to concentrate its efforts on midsize—rather than large—companies, he pointed out.

"As a policy, we go for the mid-sized European-based companies. If we tried to compete for the U.S.-based operations, we'd be up against seven or eight of the big networks."

The Vita network is targeting midsized multinationals because most of the large multinationals already use other networks or are not interested in pooling their employee benefits, Mr. Balsiger said.

"We specialize in midsized companies where we present the idea (of pooling benefits) to them," he said. "Whereas, the big companies either are already in one or two networks or have considered being in a network already and decided not to."

Vita, a subsidiary of Zurich Insurance Co., was founded in 1922 to underwrite life insurance.

The number of insurers and countries in the Vita network remained the same last year; all of the insurers are affiliates of the Zurich Insurance Group.

The network has offices in Belgium, Denmark, France, West Germany, Italy, Luxembourg, the Netherlands, Hong Kong and Spain. It also uses the life insurance subsidiaries of Zurich Insurance Group in Australia, Austria, Canada, West Germany, Great Britain, Spain and the United States.

And, although the network currently has no plans to add insurers in other countries, Mr. Balsiger said it "would try to accommodate a client in a country where we aren't located. We would invite an insurer (in that country) to join our network."

The network's typical client has 300 to 1,000 employees. About half the members are manufacturing companies and the other half are service companies, he said.

It will accept clients with a minimum of 100 employees in two countries, "but that client should be fairly certain that he is going to pick up employees in the near future," Mr. Balsiger said.

Experience rating for clients with 300 to 1,000 employees is usually calculated over a one-year period. Clients with 200 to 300 employees are given two-year experience rating and those with 100 to 200 employees are given three-year experience rating, he said.

In the past year, Vita has written an increasing number of contracts for clients' expatriate employees and third-country nationals—natives of one country working in a second country for an employer from a third country.

"We're specializing in that more and more," he said, though he would not disclose the exact number of contracts written. "This is one of the real growth areas.

"We feel that we take a very flexible approach to the individual company's problems. We're very flexible in marketing tailor-made products and going into a tailor-made situation with a client and not saying, 'This is what we provide and that is what we don't provide.'"

Vita will provide both the stop-loss system, in which the insurer covers excess losses in a given year, and the loss-carryforward system, in which losses are carried forward into future accounting years. VITA recommends the stop-loss system for companies with up to 1,000 covered lives and the loss-carry forward system for those with more than 1,000 lives.

It also will write loss-carryforward coverage with a contingency fund attached, "but contingency funds are pretty well out because of the cash-flow problems (it creates for the company)," Mr. Balsiger said. "But, we will provide for it if a company wants it."

Vita pays international dividends within six months after an international account is closed, but does not pay interest on the dividend during that time, he said.

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For information, contact Roger Nicholas Balsiger, Consultant, Vita Life Insurance Co. Ltd., P.O. Box CH-8022, Zurich, Switzerland; 01-465-6565; telex 813596 (VITA CH)

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Winterthur adds option for smaller firms

By CAROL CAIN

WINTERTHUR, Switzerland—Winterthur Swiss Insurance Co. is continuing to add new features to the WIN-Plan, its international employee benefits network.

Last year, the company redesigned its network, liberalizing the master contract by offering many experience-rating options (*BI*, Sept. 3, 1984).

This year, Winterthur has made the program available to small clients with fewer than Winterthur's usual minimum of 100 employees in two countries.

"In order to meet market requirements for small group pools, we offer a 'time pool' for lives as few as 60 or 70 in a group," said Yogee M. Thakkar, vp of the international division of Winterthur. He also is the managing director of Zurich-based IFISCO (International Financial & Insurance Services Co.), a Winterthur subsidiary.

The new time pool "means that a company currently small but with a growth potential can straight away begin to accumulate the advantages of multinational pooling." Under this program, the small employer's international benefits are pooled over a two- to five-year period, after which international dividends are paid, Mr. Thakkar said.

Larger clients participating in the WIN program are paid international dividends annually.

Once the small company grows to more than 100 covered lives, it receives dividends every year, he said.

The new concept was the idea of Gerald Watts, an account executive with Winterthur who joined the insurer Aug. 1. He previously worked for Swiss Life Insurance Co.

"Gerald Watts insisted we should show more flexibility," Mr. Thakkar said.

The time-pool concept would especially apply to high-tech firms that are initially small but often grow rapidly to meet the minimum requirements to join a network.

"We think high-tech is a fast-growing industry. This means within a couple of years, a company can grow very fast in a number of lines. . . .And since these companies attract sophisticated employees, there is a need for attractive benefits coverage," Mr. Thakkar said.

He was unable to predict how many small employers might participate in the new time pool, but he noted the WIN-Plan now has 60 multinational contracts, a net increase of nine in the past year.

These contracts represent 17,000 employees, an increase of 2,000 over last year.

"We did much better than our expected performance. . . .We had not hoped to write more than five new ones," Mr. Thakkar said, explaining that 12 new accounts were written, but three old accounts were lost in the past year.

One of the accounts that was lost announced it was leaving the Winterthur network prior to the unveiling of the new WIN-Plan, one contract was restructured by Winterthur as a captive reinsurance arrangement and the third fell below the network's minimum requirements for multinational pooling.

"These losses, therefore, do not impinge on the otherwise very competitive and growth-oriented market position of the Winterthur Group," Mr. Thakkar said.

Of the 12 new contracts written this year, four came to Winterthur from other networks, while eight were new acquisitions or extensions of single-country contracts that are now multinational contracts, he added.

"We seem to be increasingly writing multinationally expanding companies, so that the typical client is a medium-sized company or a large Fortune 500 company that has placed its business with a number of different networks," Mr. Thakkar said.

Some 70% of Winterthur's WIN-Plan clients are European-based employers, 20% North American-based employers and 10% from other continents, primarily Asia.

Adding new clients means additional premium volume. Winterthur's gross premium volume from its multinational accounts reached about $30 million at year-end 1984, an increase of $4 million over 1983.

Because of the number of clients that joined the Winterthur network this year, Mr. Thakkar said: "The only conclusion we can draw at this point is that the 1985 result will represent above-average growth."

There were no material changes or additions to the 1-year-old WIN-Plan this year. But, plan documents now are available in French or German, as well as English.

The WIN-Plan offers seven experience-rating systems, but because of the relatively small size of the master contracts, most employers choose either stop-loss systems or loss-carryforward systems with an option that all excess losses are written off after five years.

The roots of Winterthur Swiss Insurance Co. can be traced to the Winterthur Accident & Casualty Insurance Co., founded in 1875.

Since 1975, the parent company of the Winterthur Group has been called Winterthur Swiss Insurance Co. Besides the parent company, there are 19 subsidiaries in Switzerland; Toronto; Winnipeg, Manitoba; Bermuda; and Dallas.

Winterthur has branch offices in Belgium, Luxembourg, Denmark, Canada, West Germany, Spain, France, Italy, the Netherlands, Austria, Portugal, Sweden and the United States.

In nations where it doesn't have branches—as in Australia, Saudi Arabia and Nigeria—Winterthur maintains operations through Norwich Winterthur, a joint venture with Norwich Union Life Insurance Co. of Great Britain.

And in other countries, particularly the United States, Britain and Japan, Winterthur uses cooperating partners—CNA Insurance Cos., Norwich Union and Chiyoda Mutual Life Insurance Co.—to issue coverage.

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For more information, contact Winterthur Insurance, International Division, Rudolfstrasse 1, Postfach 286, CH-8401 Winterthur, Switzerland; 052-85-11-11; or Yogee Thakkar, Executive Managing Director, IFISCO, Gartenhofstrasse 17, CH-8004, Zurich, Switzerland; 01-241-94-41. In the United States, contact Daniel Nikles, Manager, Winterthur Swiss Insurance Co., U.S. Marketing & Service Unit, 55 E. Jackson Blvd., 12th Floor, Chicago, Ill. 60604; 312-822-4512.

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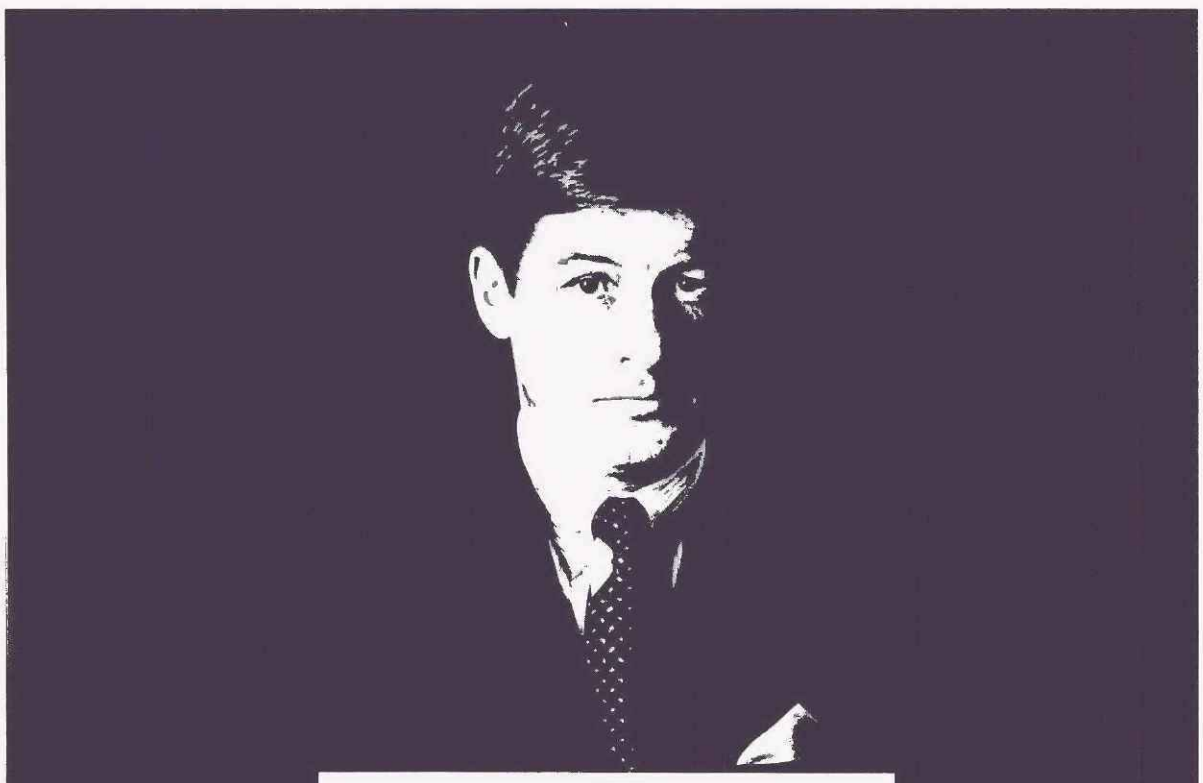

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Gerling emphasizes flexibility of personalized pooling option

By CAROL CAIN

COLOGNE, West Germany—German insurer Gerling-Konzern says it gives its clients flexibility missing in other insurers' multinational benefit networks.

The Gerling Pooling Instrument lets a multinational company form its own network by using insurers of its choice, says Kim J. Singh, director of Gerling's international employee benefits division.

Often, the employer's current insurers become part of this personalized network, so there is a minimal change in benefits or in the relationship with the insurer.

Gerling acts as the broker and administrator, setting up the pooling arrangement between the employer and its insurers.

While the concept sounds innovative and workable, it hasn't really caught on. Only four employers use GPI and only one is U.S.-based: Arthur Andersen & Co.

The others are two German-based and one Swedish-based multinationals, all with U.S. operations. Mr. Singh would not name them.

Last year, Mr. Singh predicted five to 10 employers would use the Gerling approach by Jan. 1.

"We're quite satisfied. . . but we're still facing one big problem: those 'sit-and-wait' types," he said.

A big problem is getting major foreign insurers to agree to become part of an employer's personalized network, he said. Many major foreign insurers belong to one of the 11 multinational networks and say they have exclusive arrangements with those networks.

"The big networks are not going to cooperate. . .because of the exclusive contracts," said Robert M. Pickrell, president of Multinational Benefit Associates, the Insurope network's North American representative.

Other network competitors, who did not want to be named, said the Gerling approach is so radically new, more time is needed to see of it will work. But Mr. Singh hopes pressure from buyers will change insurers' attitudes.

"The flexibility is not there with the current network system. The buyer has to accept the network's insurer," Mr. Singh said.

Although the Gerling concept is different than a traditional multinational network, it still offers a multinational corporation an opportunity to recoup some of the premiums paid to local insurers through an international dividend.

When Gerling contracts with an insurer to join an employer's network, it is understood that the insurer will relinquish some of its profits to help pay the international dividend.

To receive an annual dividend under the Gerling concept, an employer must have a minimum of 500 employees in at least two countries. If the employer has fewer than 500 employees, a dividend would be paid only every two or three years.

One Gerling pool covers as few as 450 people, while another covers 3,000 people.

Mr. Singh said a Gerling pool could be written to include the following benefits: retirement, survivor pension, endowment, term life, accidental death, accidental dismemberment, long- and short-term disability and medical.

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

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

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

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The international contact for Gerling's multinational pooling concept is: Kim J. Singh, Director, International Employee Benefits Division, Gerling-Konzern Welt Service, GmbH, Gereonshof, Postfach 10 08 08, D-5000 Cologne 1, West Germany; 221-144-5661. The U.S. contact is: James M. Bennett, Assistant Vp, Gerling-Konzern American Service Corp, 717 Fifth Ave., 18th Floor, New York, N.Y. 10022; 212-752-8900.

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Multinationals examine alternatives to pooling

By MEG FLETCHER

Benefit managers at multinational companies are increasingly exploring alternatives to international benefit networks or using them more creatively, benefit consultants say.

Many benefit managers are now viewing network pooling as a component to an overall benefits program, rather than a panacea to the problems of providing benefits in several foreign countries.

"More companies are looking to alternatives than in the past," said Giles C. Archibald, head of international consulting in the United States for William M. Mercer-Meidinger Inc.

The benefit managers' common goal is to increase cash flow and contain costs, consultants explain.

Large companies previously were content to use a network to pool benefits and reap the international dividend at the end of every year.

"Now they are looking for an opportunity for cash flow up front," said Vince Kelly, an international consultant with Hewitt Associates in Lincolnshire, Ill. Many companies would prefer to reduce their premium payment at the outset by using the most cost-effective mix of funding sources for international benefits, he said.

As a consequence, benefit managers are evaluating their plans coverage-by-coverage and country-by-country to find the most financially optimal mix of program alternatives, Mr. Kelly said.

This exercise is teaching benefit managers that sometimes there is little to gain from pooling some benefits—like accidental death and disability coverages—and perhaps a lot to lose, he said.

For example, if a company's four top sales representatives in a European operation were killed in a car crash, it would significantly hurt a pool's experience unless the contract contained a provision providing for catastrophic losses, he said.

A better alternative to pooling would be to purchase that coverage from a local insurer with competitive rates.

The alternatives or creative approaches to providing international employee benefits include:

- Self-insuring the benefits directly through a captive insurer.

"Use of a captive can be a very complex exercise and is rarely feasible unless the captive exists for other purposes, for example, general insurance," said David H. Healy, a principal in the international office of consultant Towers, Perrin, Forster & Crosby in New York.

Generally, employers that use a captive to directly insure foreign benefit exposures have several thousand employees in several locations, Mr. Healy said.

"It is quite complicated to get in place," he added.

But, the use of a captive has the advantage of decreasing the net cost of insurance by minimizing insurer profits and retentions, he explained.

The Church of Jesus Christ of Latter-day Saints uses its wholly owned captive insurance company to provide life and disability coverages for about 80% of its foreign employees, who are concentrated in about 35 nations worldwide, said Charles W. Durr, vp of the Deseret Mutual Benefit Assn., the Salt Lake City-based captive.

Besides covering foreign employees, the church-owned insurer also provides 100% of U.S. employees' life, health and disability coverages, he said.

The program, which was begun about eight years ago, has not been used for the remaining 20% of the church's foreign employees either because employees are not sufficiently concentrated to make their inclusion a priority or because they are based in nations where the captive arrangement would be illegal.

For example, it would be illegal for the captive to insure benefits in Mexico directly, so benefits are funded through a trust account that is set up at a local bank, Mr. Durr said.

"We are not really plugged into any network," Mr. Durr said, adding that the church previously had used a network to pool its international benefits.

One of the biggest advantages of the captive arrangement "is the control we have," Mr. Durr added.

The Mormon Church, which is a non-profit corporation, enjoys cash-flow advantages from its benefit captive because the church saves money by not paying brokers' commissions and insurers' administrative costs, he said. In addition, it earns investment income on premiums paid to the captive until the funds are needed for benefit payments.

Employees profit from the captive arrangement because benefit payments can be made promptly, Mr. Durr said. For instance, through the use of the church's centralized accounting records, a death benefit to an Australian employee's heirs can be paid in as little as two days, he explained.

Mr. Durr said he knows of no other organization or company that has this extensive a captive arrangement to provide employee benefits internationally.

"Yet, from the reaction I get from people I talk to, they definitely would like to," he said.

"It is certainly a workable program," he added. "The Mormon Church is in so many countries, it is a natural for us."

- Insuring benefits through a traditional international network, which then reinsures the benefits through the employer's captive insurance company.

Swiss Life Network, Insurope and AIG are among the networks that provide fronting arrangements for employers. And, according to network spokesmen, this alternative is increasing in popularity.

For example, the number of Swiss Life Network clients using captives to reinsure benefit exposures has increased to 11 in 1984 from seven in 1983, said Kent Barker, president of Swiss Life International Services Inc., the network's North American service representative.

However, reinsuring through a captive may be difficult in some South American countries in which it is illegal to transfer funds outside those countries, consultants say.

In addition, national laws may require that local companies be used not only to insure employee benefit coverages but also to reinsure at least a portion of a program, said Hewitt's Mr. Kelly.

Since June 1983, American Cyanamid Co. of Wayne, N.J., has used a captive insurer to reinsure

Continued on next page

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Continued from previous page
benefits pooled through Swiss Life Network, subject to an aggregate stop-loss limit, according to Thomas A. Caldwell Jr., director of corporate insurance.

The program provides life insurance, pension and some health benefits to fewer than 3,600 foreign employees in Europe and South Africa.

Mr. Caldwell said it is still "too early" to tell how well the arrangement is working. The first review of the program was not favorable because of some one-time penalties that were assessed by previous insurers, he explained.

"I'm confident in the long-run it will prove its worth," he added.

However, setting up the captive-network arrangement took longer than expected, and the arrangement is "a rocky road" that is "fraught with surprises," he said. Resistance from foreign operations made the job more difficult, he noted.

Another source of concern was the fact that some local policies allowed the insurer to assess cancellation and non-renewal penalties, sometimes equal to 10% of outstanding reserves, he said.

Benefit managers should carefully scrutinize the rules and regulations of each insurer they currently use so they are informed about any burden on their companies' ability to establish a captive reinsurance plan, he advised.

American Cyanamid's long-term plan is to expand the use of its captive program to reinsure benefits of employees in South America and the Far East, he said.

- Self-insuring increasing amounts of foreign benefit exposures.

Self-insurance "is a possibility for a very large company," said Hewitt's Mr. Kelly, though he noted "it takes a lot of coordination and planning."

Fortune 200 companies clearly could consider it, added TPF&C's Mr. Healy.

Large companies already are self-insuring pension funds up to certain levels in West Germany and the Netherlands, one insurer said.

A U.S. multinational wanting to self-insure international benefits often does it first in the United Kingdom, said Mr. Kelly, though he added that few companies are self-insuring.

There could be greater self-insurance of medical benefits, added H. Richard Souders, vp and manager of international benefits at Johnson & Higgins in New York.

Maximizing self-insurance has the advantage of increasing cost savings and improving cash flow because it reduces premium payments to an insurer.

However, stop-loss coverage is necessary to provide catastrophic coverage, TPF&C's Mr. Healy said.

In addition, there are some disadvantages to self-insurance.

By increasing retention of predictable losses, like death benefits for lower-paid workers, a company increases the cost of benefits it would want to continue to insure, like key-man coverage, because insuring a smaller pool of employees leads to unpredictability of losses, said an insurer.

U.S. multinationals wishing to self-insure also must check carefully to make sure that it is legal to do so in the countries in which they are operating and that there are no tax disadvantages to the program, Mr. Healy said.

- Directly negotiating local contracts with insurers.

This option is primarily available to a large employer if it has enough employees in a country.

Local experience-rating programs offered by local insurers in Mexico and Spain can be attractive enough to lure an employer away from a network, one insurer said.

In addition, an employer may do better by negotiating his own contracts for employee life insurance in the United Kingdom and in the United States, consultants say.

Negotiating insurer contracts outside a network also may be advantageous in Italy, West Germany and Switzerland, consultants say.

One insurer allows multinational employers to negotiate local coverage individually and still retain the benefits of pooling through an international network.

West German insurer Gerling-Konzern offers a program, called the Gerling Pooling Instrument, which allows an employer to form its own network of individual insurers in various countries. The loss experience in each country is then pooled together and an international dividend, if warranted, is paid (see story, page 63).

Gerling's approach has the "very powerful" advantage of not disrupting existing relationships between a multinational's foreign operation and local insurers, Mr. Healy pointed out.

However, it has proven to be a "nightmare" to implement, Mr. Healy said. "It seems to be of limited use to most U.S.-based multinationals."

"Gerling is having a difficult time doing it," added Hewitt's Mr. Kelly. "The multinational insurance carriers will have to be under a lot of pressure to agree to cooperate with Gerling," he said.

In addition, the approach requires that managers in foreign operations spend more time on benefit issues, which may not be considered cost-effective, Mr. Kelly said.

- Forming a group with other employers in an industry to pool their benefits through an international benefit network and possibly reinsure the program through a group captive.

A group of advertising agencies has taken this approach, one consultant says.

Other groups that this may appeal to would be hotel chains with local franchises and perhaps religious organizations with missionaries in foreign countries, said Hewitt's Mr. Kelly.

One such association program has been operating for four years but it has provided few advantages to its participants, an insurer said.

"They are hard to make work," he said, "The administration is difficult and time-consuming."

However, the concept has potential for development, says Mercer-Meidinger's Mr. Archibald. If an insurer sees an industry contemplating such a move, it probably will be receptive to the idea and agree to reinsure benefits through a trade group's captive insurer, Mr. Archibald said.

Of course, none of these approaches will be totally suitable for some multinational companies, consultants say, forcing international benefit managers to pick and choose among different components.

There is no one answer to what is the best arrangement for some companies' overseas benefits because companies' operations differ, Mr. Kelly explained.

Some large companies are taking a planned, "hybrid" approach by selecting an optimal mix of self-insurance, pooling through international networks and individually negotiated local contracts, added TPF&C's Mr. Healy.

NCR Corp. uses such a hybrid program, consisting of network pooling and directly written local contracts to provide benefits for 32,000 foreign employees, according to H.W. "Bud" Compton, director of international employee benefits for the Dayton, Ohio-based company.

The program includes 30 foreign pension plans and 20 benefit programs with death and/or medical

Continued on next page

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IMPACT

Alternatives

Continued from previous page
coverage.

NCR uses two networks—IGP and Insurope—to provide benefits in 11 countries. And, within the next year, NCR may add Travelers Corp.'s Multinational Insurance Arrangement network, he said.

Benefits pooled include group life insurance, some medical benefits and pension plans in the Netherlands and Belgium.

Besides pooling, local contracts not tied to a network are used to insure some benefits in some British Commonwealth countries, he said, noting that it is more cost-effective to insure through individual contracts in some nations.

NCR's operations are "highly decentralized," so headquarters met a lot of local resistance when it decided to use a network system that might have disrupted existing local contracts, Mr. Compton said.

Using more than one network helped ease the tension that developed within the foreign operations, he said.

NCR also has studied the feasibility of funding employee benefits through a captive at least twice in the past 10 years, but found it was not as cost-effective as other alternatives, he added.

Despite the attention given to pooling and other funding alternatives, not all U.S. multinationals have given high priority to evaluating their international benefits, consultants say.

Many corporations "aren't doing anything" about pooling benefits, said Robert M. Pickrell, president of Multinational Benefit Associates, Insurope's North American representative.

"Many multinationals have 50% of their workforce and 50% of their sales overseas, but they don't know what is going on over there," said J&H's Mr. Souders. ■

Multinationals altering pension plans

By MEG FLETCHER

A growing crisis among foreign social security programs is prompting U.S. multinationals to make changes to privately sponsored pension programs for overseas workers, benefit experts say.

International benefit managers are holding down pension costs by no longer integrating their own programs with government-sponsored retirement plans and establishing new defined contribution plans, consultants say.

The main causes of the international social security crisis, especially in Europe, is the aging of the population and the high level of benefits now paid in some countries, consultants say.

"It's simply the population pyramid catching up with them," said David H. Healy, principal in the international office of Towers, Perrin, Forster & Crosby in New York.

Currently, there are three active workers for every pensioner in Western Europe, said Giles C. Archibald, head of international consulting in the United States for William M. Mercer-Meidinger Inc. in New York. By 2020, however, there will be only two active workers for every retiree and that dwindles to 1¾ if unemployment projections are factored in the equation, he said in a recent report.

In addition, retirement benefit provisions in Western European social security plans have historically been "very generous," said H. Richard Souders, vp and manager of international benefits at Johnson & Higgins in New York.

Mr. Archibald reported that social security retirement benefits equal 50% of an employee's final salary in West Germany and the Netherlands; 60% in France; 65% in Belgium; 75% in Italy; and 95% in Spain.

Belgium recently increased social security contributions for higher-paid employees, while the Netherlands has cut some benefits slightly, Mr. Archibald said.

Meanwhile, Britain is considering abolishing a second tier of pension benefits based on employee earnings, said Ray Sharp, director of international services for Buck Consultants Inc.

European nations "are shifting the burden on the private sector a whole lot more heavily," said Karl Heckman, chairman of the International Employment Policy Assn., a group of U.S. employers with international operations.

This is forcing U.S. multinationals' foreign operations to pressure headquarters to supplement social security benefits, said J&H's Mr. Souders.

But U.S. multinationals are more likely to restructure their private pension program for overseas employees rather than supplement government-sponsored programs, consultants say.

For instance, many U.S. multinationals are amending defined benefit pension programs so they no longer integrate with social security programs to provide a promised benefit, Mr. Healy said.

In addition, companies are putting more emphasis on defined contribution plans, which are not integrated with social security benefits, rather than defined benefit plans, said Mr. Heckman.

For example, NCR Corp. has changed a "considerable number" of its worldwide pension programs to either a defined contribution plan or a combination of a minimum level of defined benefits based on career average salary with a voluntary defined contribution plan, said H.W. (Bud) Compton, NCR's director of international employee benefits in Dayton, Ohio.

"We have recognized the fact that governments are getting to be an unreliable partner and that we need to take steps to mitigate the impact of the lack of their reliability on our costs and our pension funds," Mr. Compton said.

The switch to defined contribution plans also was prompted by employees' desire for more individual treatment of pensions, he said.

"There is more money to be saved and money to be earned" by properly managing pension benefits than other types of employees benefits, he said, because more money is spent on pensions.

Last year, NCR contributed almost $17 million to foreign pension funds, compared with $2.5 million paid for group insurance in foreign nations, he said.

But, while most consultants say the popularity of defined contribution plans is growing overseas, Mr. Heckman said.

"I'm seeing a tempering of the trend toward defined contribution" because of companies' concern that defined contribution plans may not provide a sufficient level of benefits for retirees, he noted.

Companies looking to reduce overseas pension costs have other alternatives.

Mr. Archibald suggests, "One possible approach is to reduce the company plan benefits but to attach to the company plan a tax-efficient savings facility," like a 401(k) plan in the United States.

"This savings facility could include an incentive for the employee to save" if the employer provides matching contributions, he said. ■

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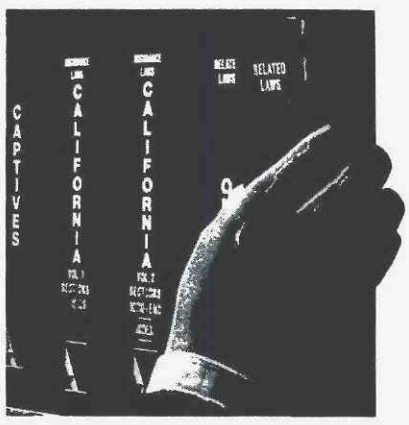

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Risk managers to go it alone: Hackenburg

By KATHRYN J. McINTYRE

MONTE CARLO, Monaco—Abandoned by a troubled insurance industry, risk management will develop the risk-control and risk-funding programs that business needs without insurers' help, predicts a leading U.S. risk manager.

In the process, risk management will break away from its dependency on the insurance industry, says P. Richard Hackenburg, staff vp and assistant treasurer-risk management and realty services at Allegheny International Inc. in Pittsburgh. "The insurance industry is facing an irrevocable loss of market share," he says.

Mr. Hackenburg, who is also president of the Risk & Insurance Management Society, addressed "Risk Management in the Decade of the 1990s" at the AEAI/RIMS International Risk Management Conference held in Monte Carlo earlier this month.

The insurance industry is faced with difficult problems, Mr. Hackenburg acknowledged. He cited the industry's unprecedented operating losses and their causes, including society's demands for redress for every loss suffered, demands that pollution to the environment be cleaned up and the increased incidence of lawsuits seeking recovery for losses and the courts' willingness to provide the compensation demanded.

Mr. Hackenburg

But, faced with these problems, insurers incorrectly have "simply surrendered and have started to devise insurance contracts that do not insure," Mr. Hackenburg charged.

Instead of underwriting insurance at a time when there appears to be a potential for profit, insurers are ceasing to underwrite, Mr. Hackenberg said.

Insurer management is "abdicating its risk-taking role," he said.

Furthermore, by excluding insurance coverage for certain types of risks, insurers are denying their policyholders the benefit of sophisticated loss-prevention programs and use of engineers employed by insurers, Mr. Hackenburg said.

In response, risk management will enable business and industry to pick up the gauntlet and accept responsibility for controlling and financing risks and equitably passing those costs onto the consumer, Mr. Hackenburg said.

In the last five years, Mr. Hackenburg noted, "risk managers have concentrated on acquiring the financial skills necessary to fund loss." They have analyzed the concept of cash flow and a variety of self-insurance and captive insurance company techniques, he said. And, risk managers have learned to accumulate, computerize and analyze loss statistics to determine the lowest net cost of alternative risk-financing programs, he added.

With these new skills, risk managers will turn their attention back to the basic concept of risk management, Mr. Hackenburg said.

"The next 10 years will require that the risk manager once again be most concerned with the identification and analysis of risk and its impact on his organization," Mr. Hackenburg advised. "Less use of insurance as a transfer technique will exist. The risk manager, working closely with management at the most senior levels, will have to concentrate on controlling and minimizing risk."

With risk control and risk minimization regaining top priority in the risk management process, "we are assured that there will be no slowdown in the development of financing schemes," Mr. Hackenburg declared. Captive insurance companies and more cooperative risk-pooling ventures among businesses will grow.

Once business and industry has successfully accomplished self-funding risks, it will not return to buying commercial insurance, Mr. Hackenburg predicted.

But, while self-funding is a viable alternative for predictable losses, how to cope with "non-predictable risks of a catastrophic nature" is a dilemma, Mr. Hackenburg observed.

"Perhaps, as a last resort, governments, on behalf of society as a whole, will be called upon to step in," Mr. Hackenburg said.

"The precedent is clearly there, but is a poor second choice to private enterprise," he suggested.

Risk managers, in their new and expanded role as part of a senior management team, will increasingly need "a broadly based education, not only in finance, but in the humanities, sciences and law," Mr. Hackenburg advised.

And, risk managers will have to be far more active politically. "Risk management may well be more greatly impacted by events in the capitals of our countries than by the events in the capital markets," Mr. Hackenburg predicted.

"The ability of risk managers to influence proposed legislation, bring reality to funding environmental cleanup, effectively urge deregulation of financial services and promote tax and accounting equity for alternative risk-funding and captive insurance schemes will have tremendous impact in the next 10 years," he added.

Further, risk managers "will have to strengthen their networking with each other on a global basis," Mr. Hackenburg advised, noting the importance of the international conference at which he was speaking.

"Risk managers in the 1990s will have to become great communicators to assist others in understanding risks, their impact on an organization, how they may be controlled and how residual, nonquantifiable risks may be financed properly," Mr. Hackenburg said.

"Perhaps, when risk managers are no longer shackled with the jingo of insurance terms, we will be better prepared to relate in general management terms," he said.

Noting that the current lack of insurance availability is the "worst it's ever been," Mr. Hackenburg predicted that by 1987-88 "insurers will be awash with money."

While the cyclical nature of the insurance industry, market-driven in its operations, has served the consumer rather well in the past, "we have to reduce the degree of oscillation in the insurance cycle," Mr. Hackenburg advised. ■

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Task force should study tort system: Greenberg

By KATHRYN J. McINTYRE

MONTE CARLO, Monaco—A national task force on the U.S. tort system should be appointed by the president, suggests Maurice R. Greenberg, president and chief executive officer of American International Group Inc.

Such a task force should be charged with identifying the important issues, debating them, developing alternative measures and coming up with recommendations for reforming the tort system in the United States, Mr. Greenberg advises.

Public debate on the issue of tort reform is needed, Mr. Greenberg stressed in the closing keynote address at the AEAI/RIMS International Risk Management Conference held in Monte Carlo earlier this month.

The tort system in the United States is partially to blame for the shortage of insurance capacity, Mr. Greenberg said.

Currently, the U.S. tort system resembles a "national lottery system," in which anyone can play by merely finding a lawyer, Mr. Greenberg said. Injury, rather than negligence, seems to be the test for whether damages should be awarded, he added.

The insurance industry is funding this lottery system. But, the insurance industry "can't be the last stop in this lottery system," or else business won't have an industry from which to buy insurance, Mr. Greenberg noted.

"If America wants a lottery system, all right. But we have to pay for it."

When the real cost of the current tort system is known, reform will be supported, Mr. Greenberg believes. But just complaining about the tort system and telling war stories won't bring about change, he warned.

"It's your battle just as much as ours," he told risk managers in the audience. "You have to be at the forefront" of demand for tort reform, he advised.

In addition to rallying the support of risk management organizations for tort reform, risk managers should discuss the issue with their chief executive officers in an effort to secure the support of the Business Roundtable, a national organization of U.S. corporate leaders.

Mr. Greenberg

So far, the minimal advocacy of tort reform by business has been "disappointing," Mr. Greenberg said. Support for a federal product liability law has been the extent of business support for such reform, he said.

But other issues—such as punitive damages, joint and several liability and the contingency fee system for compensating plaintiffs' attorneys—are important, Mr. Greenberg said.

(In his written paper distributed at the conference, Mr. Greenberg said, "The number of punitive damage awards that we live with today is outrageous. Punitive damages used to be limited to gross criminal negligence. This is no longer true. Almost every plaintiff injects punitive damage into a lawsuit and the courts have been, more frequently than not, going along with it. . .I think punitive damage awards have reached the point of absurdity."

Regarding the contingency fee system, Mr. Greenberg said, "It is probably one of the gravest contributors to the litigious nature of our civil justice system. It encourages and proliferates lawsuits, and all of us are paying for it.")

The insurance industry can't be expected to accomplish tort reform alone, Mr. Greenberg stressed in his remarks to the conference. The insurance industry sounds too

Continued on next page

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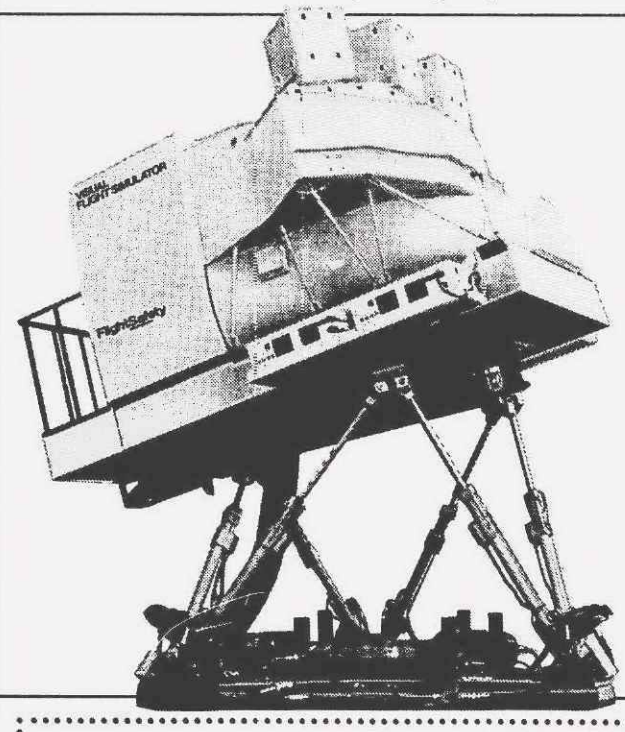

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RIMS head offers tax-deduction plan

If the insurance industry wants corporations to assume more of their own risk, the insurance industry should support tax deductions for corporations' self-funded loss reserves, says the president of the Risk & Insurance Management Society.

Responding to American International Group Inc. President Maurice R. Greenberg, who said corporations should expect to assume more of their own risks, RIMS President P. Richard Hackenburg said: "We'd like the insurance industry to help us get favorable tax equity to tax deduct reserves for our risks and exposures."

Currently, only insurance companies are permitted to immediately deduct money set aside to pay claims in the future. All other taxpayers are permitted to deduct only the amount paid for insurance or the cost of an uninsured loss at the time the loss is paid.

Mr. Greenberg, who did not have the opportunity to respond publicly to Mr. Hackenburg's suggestion, told *Business Insurance* that he would want to know more about the specifics of the proposal before he would comment on whether he would support tax deductions for corporate self-insurance reserves. He added, however, "I have no philosophical objections" to the proposal.

Mr. Hackenburg also responded to Mr. Greenberg's suggestion that businesses, and risk managers, should support tort reform. "RIMS will be supportive and work on the issue of tort reform," he said.

And, he noted, a special committee of the Association Europeenne des Assures de l'Industrie in Europe—which co-sponsored the AEAI/RIMS International Risk Management Conference held earlier this month in Monte Carlo—is studying the product liability directive of the European Community that requires its member countries to impose strict liability standards on manufacturers and distributors (see story, page 31).

"If we don't start to do something," Mr. Hackenburg said regarding tort reform, "we are the ones who have only ourselves to blame."

—By Kathryn J. McIntyre

Continued from page 68

much like it is acting out of self-interest to be successful alone, he said.

Tort reform won't be easy, he admitted. Many legislators are lawyers, and asking them to vote for tort reform is like "asking them to break their own rice bowl."

And, tort reform "is not a popular subject for politicians," Mr. Greenberg added.

Nonetheless, he is encouraged that U.S. Attorney General Edwin Meese recently advocated tort reform. "His interest will go a long way to bring change."

Change will occur, but it will come slowly, Mr. Greenberg said. In the meantime, to protect itself, the insurance industry "will have to resort to claims-made" insurance policies, he said.

"We at AIG will be entirely claims-made by November of this year," Mr. Greenberg announced (see story, page 70).

Risk managers who have not accepted the claims-made form should do so, he advised. "Claims-made is the only step left short of withdrawal from the liability field entirely," Mr. Greenberg maintained. "We've not been able to price our contracts."

The courts so far have "essentially rewritten what we've agreed to do with you," Mr. Greenberg said, in apparent reference to the broad court interpretations of coverage under general liability and other insurance policies.

These factors, which are beyond the control of the industry, are partly to blame for today's difficult market conditions, according to Mr. Greenberg.

While there is a capacity shortage today, "1986 will be worse than 1985," Mr. Greenberg warned.

The primary insurance industry is underreserved to pay the losses due under insurance policies written in the past.

It's now estimated that insurers are underreserved by 15% instead of 10%, he reported.

And, if commercial insurance reserves are 40% short of what will be needed to pay losses, as is speculated, then $30 billion of the industry's $68 billion in capacity is needed to fund loss reserves, he noted.

The reinsurance industry is in worse shape: "The problems of our business are more concentrated in the reinsurance sector," Mr. Greenberg said, citing an "appalling lack of professionalism."

Reinsurers have disappeared, many reinsurers have failed to pay losses and others are slowing down the speed with which they pay claims. "That strains the system" and impacts the risk manager, Mr. Greenberg said, adding that the reinsurance business needs to be recapitalized.

In the face of the current market conditions, all participants in the insurance business have responsibilities, he suggested.

Risk managers, for example, will have to spend more money on safety programs.

Because insurance was so cheap over the last several years, many corporations chose to forego safety programs, he said.

Primary insurance companies will have to devote more resources to the technical side of the business. They must return to the basics of pricing insurance for the exposure, spending money on engineering and safety and practicing risk selection.

And, professional reinsurers have a responsibility to make capacity available to primary insurers, selectively and at the proper terms, proper conditions and proper rates, according to Mr. Greenberg.

Risk managers also should be prepared for other changes in the way they purchase insurance, Mr. Greenberg advised.

For example, retrospectively rated insurance programs will be more prevalent, he suggested. "Risk-sharing combinations will be more in vogue," he added.

Methods for placing insurance also will change.

For example, risk managers should not expect to place a company's directors and officers liability insurance with one insurer and its property/casualty programs with other insurers.

The import: The underwriter of highly risky D&O insurance generally will want an opportunity to participate in the more predictable property/casualty program.

While tort reform and current market conditions were the focus

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AIG units to switch to claims-made forms by November

MONTE CARLO, Monaco—American International Group Inc. insurers will use both the Insurance Services Office claims-made form and their own claims-made forms when they switch to writing U.S. commercial liability risks exclusively on a claims-made basis beginning in November, says AIG President and Chief Executive Officer Maurice R. Greenberg.

Mr. Greenberg announced that AIG will be "entirely claims-made by November" for U.S. commercial liability risks in his remarks to the AEAI/RIMS International Risk Management Conference held earlier this month in Monte Carlo.

The ISO commercial general liability claims-made form has been approved for use in only 27 states, causing some concern among insurers that they will not be able to make the switch entirely to claims-made by the Jan. 1 target date set by ISO for approval of the form. However, ISO intends to amend its form in order to gain insurance buyer support, and insurance department approval, for the policy (*BI*, Oct. 7; Oct. 14).

AIG member insurers, moreover, have already been issuing for various risks claims-made policy forms that have been filed and approved for use in many states.

In those states where neither the ISO claims-made form nor an AIG claims-made form has been approved for use but a policyholder wants to purchase a claims-made policy from an AIG insurer, the insurance company will file with the appropriate state insurance department for permission to issue the claims-made form to the individual policyholder, Mr. Greenberg said.

Although not specifically mentioned by Mr. Greenberg, another option open to AIG in states where claims-made forms have not been approved is to issue its policies through its member insurance companies that write insurance on a surplus lines or non-admitted basis.

Insurance policies issued on a surplus lines basis do not have to be filed for approval with state insurance departments.

AIG's Lexington Insurance Co. is the largest U.S. underwriter of surplus lines insurance with 1984 premiums of $209 million written on a non-admitted basis (*BI*, Aug. 12).

AIG Associate General Counsel Patrick Foley noted that since reinsurers are offering reinsurance only on a claims-made basis, AIG has no alternative other than to write commercial liability risks—such as product liability, professional liability, excess liability and umbrella policies—on a claims-made basis.

Among AIG insurers in the United States are National Union Fire Insurance Co. of Pittsburgh, Pa.; The New Hampshire Insurance Co.; American Home Assurance Co.; Birmingham Fire Insurance Co. of Pennsylvania; Granite State Insurance Co.; The Insurance Co. of the State of Pennsylvania; and Landmark Insurance Co.

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Greenberg speech

Continued from previous page

of his remarks, Mr. Greenberg also identified other issues he said need to be addressed in the future:

- Insolvency funds for reinsurers. The full impact of the insolvency of reinsurers is yet to be felt, he said. The lack of insolvency funds for reinsurers is a "weakness in our system."

He acknowledged that reinsurers have historically opposed insolvency funds, saying sophisticated primary insurance companies could choose professional reinsurance partners. "But that's not a very powerful argument," he said. "The size of risks makes it impossible to place reinsurance only with the few financially stable professional reinsurers."

If a voluntary solution to the problem is not found, "one will be imposed by regulators," he warned.

- Regulation of insurance companies. While noting that he has advocated state regulation of insurance companies in the past, Mr. Greenberg said, "I'm not sure that the system of state regulation is capable of dealing with the complexity of our business today."

The U.S. banking industry "possibly has a better system," Mr. Greenberg said. Banks can choose to be chartered federally or by a state.

"I'm not suggesting that federal regulation is a panacea or better than state regulation," he added. "But state regulation that fails to recognize solvency issues is not doing anyone a service."

- Earthquake insurance capacity. For years, AIG has said the insurance industry probably could not respond totally to the losses from a severe earthquake. So, AIG has proposed the U.S. government become the reinsurer of last resort against severe quake losses.

He expressed hope that, within the next several years, Congress will approve a program to provide the insurance industry with the protection it needs to underwrite earthquake insurance. ■

U.S. market woes concern Europeans

MONTE CARLO, Monaco—European risk managers with U.S. risks must be concerned with the current insurance market problems in the United States, says American International Group Inc. President Maurice R. Greenberg.

While Mr. Greenberg concentrated on the need to reform the U.S. tort system in his remarks at the recent AEAI/RIMS International Risk Management Conference, he addressed the special concerns of European risk managers in his written paper distributed at the conference.

The current problems in the U.S. civil justice system and the resulting contraction in insurance capacity "creates a new reality for European risk managers, who have been insulated from much of the pressures of the U.S. insurance markets," Mr. Greenberg wrote.

European risk managers "need to prepare themselves now for sharp changes at renewal time. Liability covers, which have been written by local European insurers in recent years, will be far more difficult to place, and a return to U.S. markets will be necessary.

"Budgeting for insurance programs will become more challenging, as a disproportionate amount of premium must be allocated to U.S. exposures," Mr. Greenberg warned.

"European risk managers must realize that pricing for their U.S. exposures will be entirely different from the rest of the world, and that it is, in fact, almost impossible to determine sufficient coverage in the United States."

—By Kathryn J. McIntyre

Reinsurer says corporations, risk managers must share burden of preventing losses

By KATHRYN J. McINTYRE

MONTE CARLO, Monaco—Corporations must be more involved in bearing the risk of their losses, a leading European reinsurer advises.

And, risk managers must develop loss-prevention programs for the products and services rendered by their companies, he says.

"Risk managers have thought too much short-term on how to save bucks," charges Rolf Tolle, senior vp of Storebrand-Norden Re in Oslo, Norway. Storebrand-Norden Re is the largest commercial insurer in Norway and one of the leading insurers of offshore oil risks.

Mr. Tolle addressed the issue of "Business in the '90s" from a reinsurance company's point of view during the AEAI/RIMS International Risk Management Conference held in Monte Carlo earlier this month.

Mr. Tolle

Risk managers helped create and sustain the competition that has caused the current upheaval in the insurance marketplace by seeking the cheapest price for insurance, often without regard to the financial security of the insurer, Mr. Tolle charged.

Now, corporations must assume more risk and develop better loss-prevention programs to improve the availability of reinsurance, Mr. Tolle suggested.

Corporations that form captive insurance companies to retain and fund their risk will find reinsurance support, Mr. Tolle says.

Wholly owned captive insurance companies and group-owned captives that underwrite risks that are properly engineered to control loss will find reinsurance support, he said. But, he also noted that reinsurance capacity will be available to support corporate insurance programs only if reinsurers have "a better understanding of the long-term effects of the risks we are covering."

He contended that risk managers are responsible for providing reinsurance companies with that better understanding of their corporation's risks.

In addition, the amount of reinsurance capacity available to support corporate insurance programs will depend upon successful development of insurance policies that better define the risks being assumed by insurers and on changes in the tort system, Mr. Tolle said. "The tort system will have to undergo some change or else some risks will be uninsurable," he emphasized.

While charging risk managers with some of the blame for the current upheaval in the insurance marketplace, Mr. Tolle conceded that the insurance and reinsurance industry has been "misguided by cash-flow underwriting and short-term management concerned with market share."

Mr. Tolle noted that it is ironic that insurers are discarding cash-flow underwriting now and looking for underwriting profit. In the past, when interest rates were high and insurers practiced cash-flow underwriting, inflation rates also were high and the real interest rate was only 1% to 3%.

Today, interest rates are lower, but so is inflation, and the real interest rate is 5% to 6%.

But, he dismissed cash-flow underwriting as imprudent and advised risk managers not to expect insurers to consider investment income when pricing insurance.

"Investment income is the cushion for that part of the risk we cannot judge," Mr. Tolle explained.

If insurance buyers want insurers to consider investment income in rating, then insurance buyers will have to "pay more risk premium," he said.

Mr. Tolle characterized concerns about market share as "a strange theory. The market leaders have the responsibility to lose market share to keep prices at a level they are satisfied with," he said. ■

Cooperation needed to handle new risks: Insurer

By STACY SHAPIRO

MONTE CARLO, Monaco—Risk managers can help ensure the the financial losses caused by future technology are insured by informing insurers of expected problems, according to the president of the largest insurance company in France.

To ensure coverage of future risks, insurers and risk managers "will have to talk to anticipate the prevention of loss," Yvette Chassagne, president and director general of Union des Assurances de Paris explained during the AEAI/RIMS International Risk Management Conference in Monte Carlo.

Ms. Chassagne, a civil servant appointed by the French president to chair the nationalized UAP, is probably the most important individual in the French insurance industry. UAP includes subsidiaries such as aviation insurers La Reunion Aerienne and La Reunion Spatiale.

Ms. Chassagne told the audience that a risk manager must collect data on future risks. "Gazing into the crystal ball, what will the insurance, legal and social environment be like tomorrow?" Ms. Chassagne asked.

The emergence of other corporations in developing areas, like Africa and Asia, "should also not be overlooked," she said.

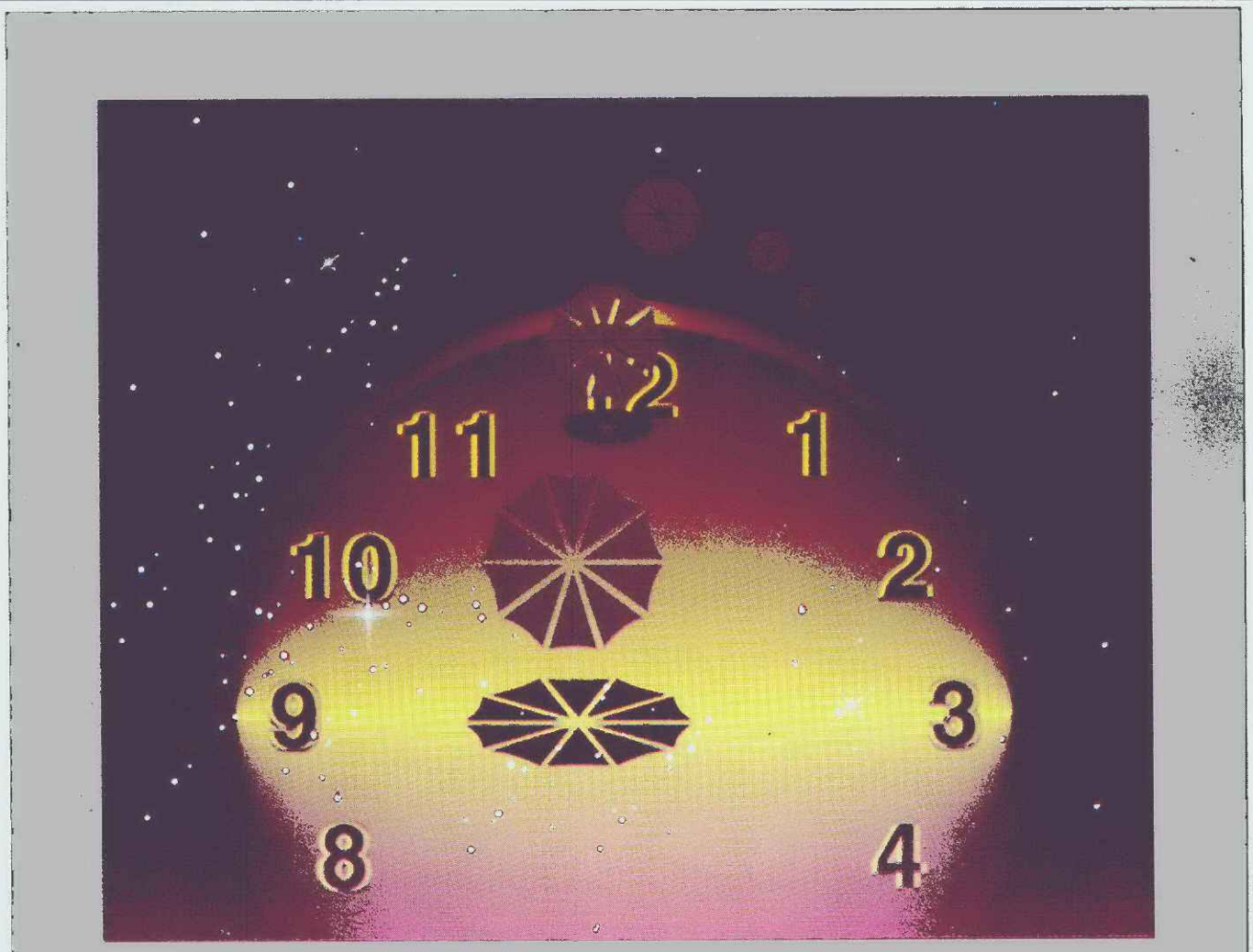
These corporations may bring developments in space, oceanography, biology, genetics and electronics, which will breed larger risks, Ms Chassagne said.

While risk managers and insurers must tackle the problem of new risks together, insurers can meet their clients' needs only if they are kept well-informed of those new developments, she said.

Risk managers, too, should realize their companies will have to share the risks through self-insured retentions, deductibles or coinsurance, she said.

Ms. Chassagne also expressed hope that risk managers and insurers acquire further training to handle future risks.

"Insurance will be essential in the furure on future risks, but constraints for all concerned is necessary," she said.



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Cooperate with local laws, broker advises

Illustration courtesy of Bowring London Ltd.

David Cowley of Bowring used this cartoon to illustrate his points.

By KATHRYN J. McINTYRE

MONTE CARLO, Monaco—Multinational insurance buyers and brokers should learn to live with local insurance laws where they operate, not try to circumvent them, an international broker advises.

"I'm afraid that we all suffer from the conviction that the insurance practice in our country is the norm, and that the differing practices in other countries are deviations from the norm which should be treated with great suspicion," says David Cowley, director of Bowring London Ltd. in London.

However, Mr. Cowley advises, "It is not necessary to avoid or overminimize local legislation to operate an effective worldwide program." Indeed, he contends, "It's no good to impose something that upsets local law or local practices. It creates resentment."

And, with access to international insurance networks, multinational corporations do not have to circumvent local laws to arrange effective multinational insurance programs, Mr. Cowley suggested.

Mr. Cowley spoke at a seminar on legal and tax constraints on the placement of international insurance at the AEAI/RIMS International Risk Management Conference held earlier this month in Monte Carlo.

Also on the panel were Wolfram Rohde-Liebenau, senior director responsible for risk management and insurance at Siemens AG in Munich, and James A. Greer II, resident partner of LeBoeuf, Lamb, Leiby & MacRae in London.

Mr. Cowley has been on both sides of the multinational insurance program: serving as a broker on the scene in the Far East who was dictated to regarding what the home office of policyholders wanted and now as a broker in London structuring international insurance programs.

"I could take two opposing views," Mr. Cowley said: one of the country where an international insurance program is being imposed and one of the broker or buyer putting together a centrally controlled worldwide insurance program.

Instead of taking either side, Mr. Cowley said, "I would like to bring the two sides together."

Mr. Cowley notes that "it is no good calling for the end of restrictive legislation. In fact, there seems to be a direct relationship between the number of conference papers calling for an end to trade barriers and the number of barriers that keep appearing.

"On the other hand, it is no good hoping that international insurance programs will go away. They may well change dramatically in the current market, but they will not go away."

If an international company had completely free choice, it probably would arrange all its insurance for all its operations centrally in the country of its corporate headquarters, Mr. Cowley noted.

"It would have a wonderful time: It would be able to maximize purchasing power, arrange completely standard cover, no need for protection against gaps or shortfalls in cover," he said.

But, that is the thinking of "business imperialism," Mr. Cowley charged.

"We mustn't assume what happens in foreign countries. And we must realize that foreign countries have a very different conception of what insurance is about and it is those conceptions that dictate what their insurance laws are," Mr. Cowley stressed.

"The key is to realize that the local legislation represents the local way of doing business and thinking and even if that legislation did not exist, the basic national differences would still continue, and we must learn to respect and live with them."

Mr. Cowley took issue with a risk manager who said at a similar conference in 1983: "The circumvention of inhibiting regulations is a key part of a risk manager's job."

"I disagree so strongly with that view," Mr. Cowley said. "That view demonstrates why in some developing countries and in the Far East particularly there is tremendous disgust and wariness of the big multinational buyer and big broker and insurer. The more we try to minimize and circumvent their local legislation, the more restrictive the legislation they will introduce.

"I don't think the international broker's and buyer's job should be to minimize the effect of local legislation," he declared.

Indeed, Mr. Cowley said, "If I were a local regulator, I'd come to these sessions to see what loopholes in my local legislation should be blocked."

There are already hundreds of examples of how international insurance is fettered, Mr. Cowley noted. To summarize the problem, he noted:

- More than 75% of the nations in the free world have statutes outlawing non-admitted insurance. Penalties for breaking these laws vary from fines to imprisonment.
- More than 45 countries have

Continued on next page

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Continued from previous page
restrictive trade measures requiring marine insurance to be placed in local markets.

- There are more than 800 legally enforceable trade barriers in force against the United States in the service sector—most of these relate to insurance.

In the face of these restrictions, insurance markets have responded to the needs of international insurance buyers for group purchasing and consistency of cover through the effective use of overseas offices, Mr. Cowley said.

"In my experience, the insurance markets have gone as far as perhaps they can to meet the requirements of the global buyers by setting up local offices in most of the significant trading countries," Mr. Cowley said.

"Since they couldn't beat the opposition by providing non-admitted cover, they joined it by establishing locally admitted companies," he said.

"Now, insurers, both American and European, are licensed on very nearly a worldwide basis and can negotiate centrally on cost and cover and at the same time can issue local policies to meet local requirements and local market practice," Mr. Cowley explained.

These locally licensed companies serve not only to satisfy legal requirements, but also to provide the local service that is needed in each country. And, these offices serve to demonstrate respect for local insurance practices and support for the local insurance market, Mr. Cowley said.

For the buyer, these networks have reduced concern about contravening local legislation, and, more important, reduced the need for international insurance buyers to circumvent restrictive legislation, Mr. Cowley said.

And, an international insurance program arranged through networks of local insurers are effective in that they ensure that claims will be paid in the right currency and in the right country and they exhibit good citizenship.

U.S. insurers were ahead of their European counterparts in providing the needed services of local services and quoting a worldwide premium, Mr. Cowley noted.

But while international insurance programs can be effectively established to satisfy local laws and customs, a new directive intended to harmonize the product liability laws in the member countries of the European Community presents another problem, Mr. Cowley said (see story, page 31).

The directive imposes strict liability on manufacturers and distributors, but it permits member countries to make their own decisions on two issues:

- Whether a state-of-the-art defense is allowed.
- Whether a monetary limit on claims should be adopted.

As a result, Mr. Cowley suggested, the directive does not succeed in standardizing product liability laws.

While there has not been any definitive reaction to the directive from insurers, Mr. Cowley predicted that as a result of the directive it is likely:

- The number of claims will increase, as there will be a much reduced chance for a successful defense.
- The actual cost of claims will reduce. "While this may be wishful thinking, we will not suffer in Europe from the problems experienced in the United States as our proposal does not include jury awards and contingency fees.

With certainty, Mr. Cowley predicted "premiums will increase."

While Mr. Cowley advocated complying with local insurance customs and regulations, risk manager Mr. Rohde-Liebenau advocated more freedom in the purchase of insurance.

'In my experience, the insurance markets have gone as far as perhaps they can to meet the requirements of the global buyers by setting up local offices in most of the significant trading countries,' Mr. Cowley said.

He suggested that there are two issues: the freedom of insurers to sell their services in other countries and the freedom of insurance buyers in one country to buy insurance from an insurer in another country.

Noting that there are legal and tax constraints on both freedoms in countries around the world, Mr. Rohde-Liebenau advocated that insurers should be able to sell their services wherever they have clients. Protectionism should not be employed to keep out foreign insurers who can provide better services at better terms and conditions to insurance buyers, he suggested.

And, he predicted that legal constraints on the sale and purchase of insurance will decrease in the future. "The insurance business is an international business," he observed.

Mr. Greer of Le Beouf, Lamb explained the U.S. system of state regulation of insurance and the laws governing pollution liability in the United States.

The session was moderated by Edith Lichota, senior vp of Irving Trust Co. in New York. ■

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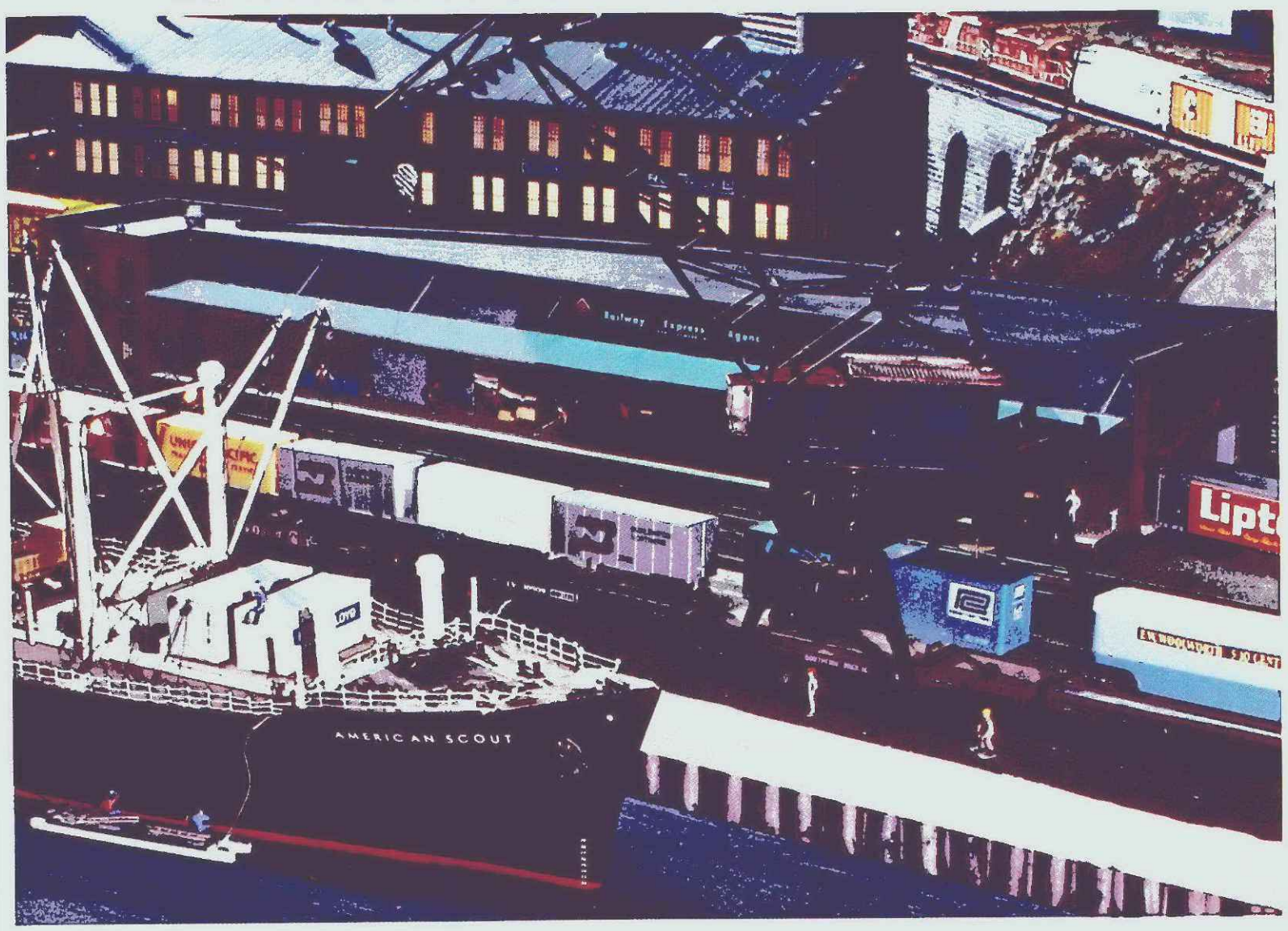

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Computer losses are costly but preventable, experts say

By STACY SHAPIRO

MONTE CARLO, Monaco—Computer losses, both those perpetrated by criminals and those caused by natural events, are costing companies worldwide lots of money, a consultant says.

For example, more than $10 billion in computer fraud will be committed in 1986, estimated Faith W. Lamberts, vp of Anistics Inc. in San Francisco, a unit of Alexander & Alexander Services Inc.

In addition, nearly $300 million in claims have been filed on computer crime insurance policies in the United States and London since 1981, Ms. Lamberts said during a session on data center protection at the AEAI/RIMS International Risk Management Conference in Monte Carlo.

And, despite the large actual and projected crime losses, they represent only a tiny fraction of the total computer-related losses.

Some 95% of all computer-related losses are accidental, including losses from fire, faulty hardware or software, electrical problems or human error, noted Anne Finet, chief of projects at the audit and security department of Centre Informatique Generale in Belgium.

Only 5% of computer losses are caused by criminal acts, said Ms. Finet.

But, whatever the cause, many computer losses can be prevented, risk managers were told.

"Computer loss does not have to happen at all," Ms. Lamberts said.

Ms. Finet and Bernard Amory, an assistant at the Centre for Data Research & Law in Brussels and professor at the Universitaire Notre Dame de la Paix in Belgium, gave advice for preventing computer losses.

Ms. Finet said that the first step is to identify all the possible risks to the system, including:

- Problems involved in installation of the computer system. For example, she said, hardware needs or the time needed for installation may be incorrectly estimated.
- Loss by natural causes, such as fire, flood and explosion.
- Theft of hardware and software.

Ms. Finet also suggested risk managers calculate the cost-effectiveness of various loss-prevention methods compared with the potential for computer-related losses. Such loss-prevention costs include safety installations, the salary of security guards, insurance coverage and data processing system audits.

Ms. Finet said there are four categories of safeguards to protect computer systems.

First, there are corporate safeguards—steps taken by the company's management to protect the system. Such safeguards include audits of the system, contract protection and insurance coverage.

System safeguards are special devices or procedures to protect the hardware or software. These include password controls, disconnecting the phone system during off-duty hours and fire protection.

There also are environmental safeguards, she said. For example, the computer system should be centrally located, and there should be no remote terminals.

And, finally, there are recovery safeguards, or a plan of action to help a company recover software and relocate quickly in case of a disaster, Ms. Finet said.

Mr. Amory mentioned another safeguard: legal protection of software. He said companies can protect their rights to the software they create. Copyright laws for software are now enforced in France, Japan and Britain, he said.

And, contracts also can spell out ownership of software and data, he explained.

Also, companies should specify their requirements in contracts with the system suppliers so that, if there is a loss because a computer does not do the job it was bought to do, the company has legal recourse against the supplier, he said.

"Keep records of the information given to the supplier; otherwise, if equipment fails, a judge will consider that the company is partially responsible for the failure of the project," he said. ■

WHO'S WHO: IRI

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Risk management worldwide can be improved

By KATHRYN J. McINTYRE

MONTE CARLO, Monaco—Risk management practice, while more developed in the United States than in Europe, should progress even more on both sides of the Atlantic, a veteran European risk manager says.

U.S. risk managers could get a needed boost from current tough conditions in the commercial insurance market, a U.S. risk manager predicts.

These were the conclusions reached in a seminar entitled "Better or Just Different? Risk Management in Europe and the United States," held during the AEAI/RIMS International Risk Management Conference in Monte Carlo earlier this month.

Large companies based in Western Europe are embracing risk management as it is practiced in the United States, says Bertus Kik, retired international risk manager of Unilever N.V. in Rotterdam, the Netherlands. But, the development has reached different levels in different countries, and in all cases risk management is practiced according to local culture and management style.

And, Mr. Kik admits, "ideas have advanced further in general terms in North America than in Europe."

One roadblock to the development of risk management in Europe had been the tendency for seminars and meetings on risk management to be held in English.

"More and more regional seminars are now being held in the local language, organized by local organizations—insurance companies, brokers and risk management consultants," Mr. Kik said.

"Unfortunately," he noted, "the interest for meetings and seminars on the part of smaller and medium-sized companies is practically nil." But, he added, in several countries new risk management groups are attracting such companies.

Mr. Kik, who first was appointed a senior manager responsible for risk and insurance management in 1951, recalled that Europeans were not entirely enthused about "risk management American-style when they first heard about it in the later 1960s and early 1970s."

Europeans already were investing large amounts of money in fire loss prevention as a result of dramatically rising premiums.

"New production processes, new products, new building materials, modern systems of goods handling, storage and distribution and new means of transportation" had led to higher claims in Europe, Mr. Kik recalled.

And, those higher claims were "lodged by those who had not paid sufficient attention to or had not invested enough money in risk prevention and loss limitation."

When the "risk management concept was blown over from North America via the United Kingdom to Continental Europe," Mr. Kik said, "at first most of our colleagues, including myself, were not so enthusiastic, saying that, 'What we hear about risk management we have been doing ourselves for many years already.'

"However, gradually they came to the conclusion that risk management in the broadest sense would serve the goals of their companies."

Now, formal risk management groups exist in several European countries, banded together under the umbrella of AEAI.

But, neither in North America nor in Europe has risk management "developed to the extent that is desirable," Mr. Kik says.

"Risk management will never progress to a desirable extent until it is recognized by chairmen, presidents and boards of directors that the preservation of assets and continuing operations are a major part of their responsibility," he says.

The current capacity crunch will raise the visibility and stature of U.S. risk managers, suggests William F. Quinn Jr., assistant vp and director of insurance of Phibro-Salomon Inc. in New York.

And, he noted, "thank heavens," senior management is now ready to accept larger self-funded risks.

"We can't come close to what we need for liability insurance. The directors and officers liability and fidelity markets in the United States are in shambles," he said.

The premium for Phibro-Salomon's excess liability insurance program increased tenfold for half the coverage—with a few holes—when it was renewed July 1, he noted. Previously the company had $150 million in coverage. Now, Mr. Quinn expects to pay about $1.8 million for $80 million of liability insurance.

Mr. Quinn

And, Phibro-Salomon never has exhausted its $1 million per occurrence/$2 million aggregate primary program in 10 years, which has been written on a paid-loss or incurred loss retrospectively rated program. Now, the company is self-insuring its primary program to build the excess program.

Mr. Quinn charged the reasons for the loss of capacity are "unjustified." The company has one chemical plant that is basically—though not officially—closed, and underwriters say they can't write insurance because their reinsurance treaties exclude chemical plants.

Mr. Quinn had anticipated the capacity crunch and acted to preserve the directors and officers liability insurance. He canceled the D&O policy two years ago and rewrote it to extend until May 1986.

But, already it has lost part of the coverage when an excess company canceled its participation when it lost reinsurance for D&O risks.

Now down $25 million in limits to $55 million, Mr. Quinn says, "I have serious reservations that we will get $55 million again."

But, he said, he would be satisfied with $50 million in D&O cover.

There is some remaining good news in the U.S. market, he noted. "The marine market is still stable." And, marine cargo risks account for $22 million of the company's $30 million insurance budget.

Session moderator John F. O'Sullivan, a managing director of Marsh & McLennan Inc., asked if U.S. risk management has progressed to the extent that "we're creating problems for commercial insurers.

"We're taking the most predictable losses and self-insuring them and taking the least predictable losses and asking the commercial market to handle them," he said.

"And, we want them to predict claims and give us credit for the cash flow," he added. ■

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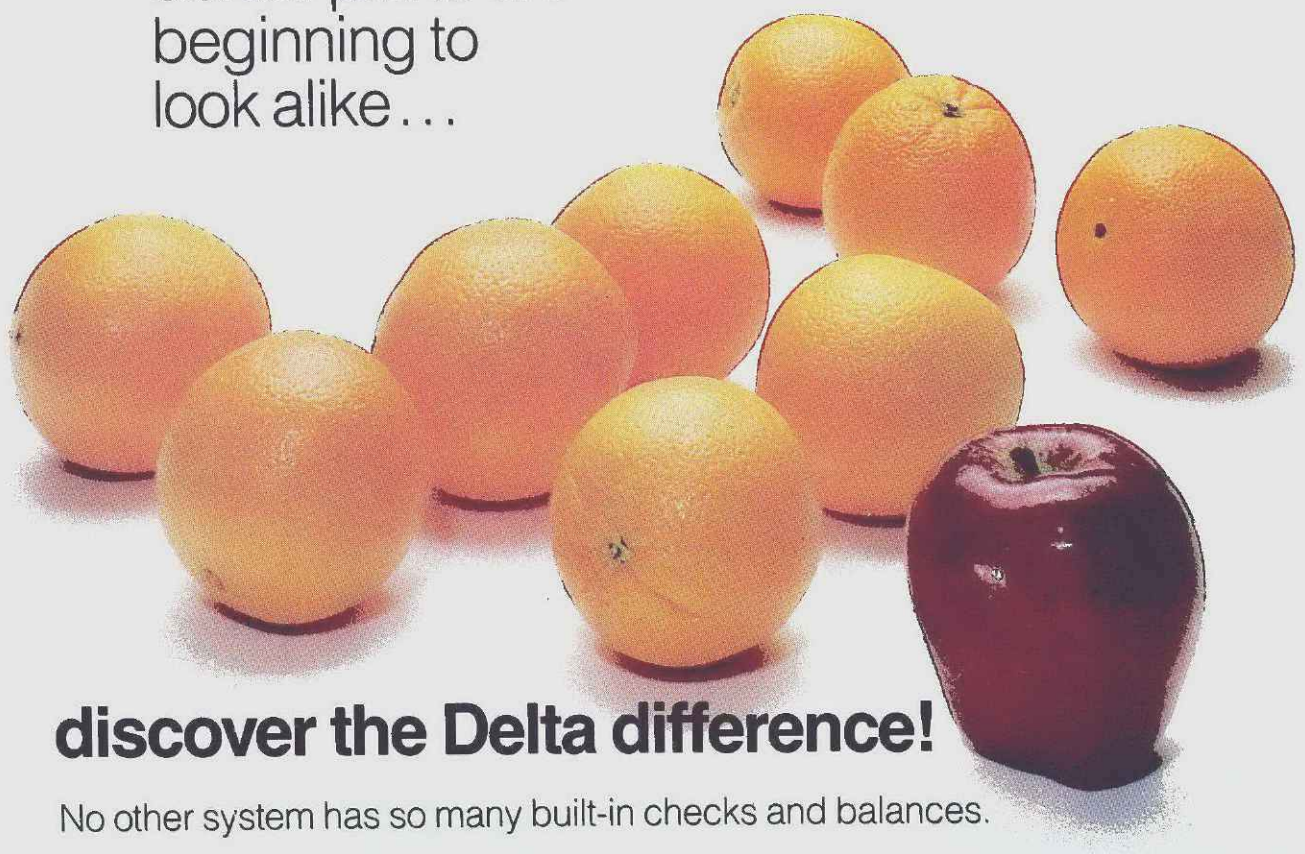

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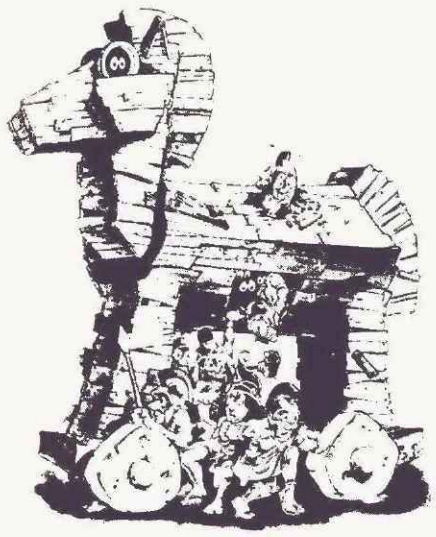

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We take the myth out of corporate insurance.

Risk manager has big role in mergers, sales: Experts

BY KATHRYN J. McINTYRE

MONTE CARLO, Monaco—Integrating a corporate acquisition, merger or new venture into a centralized multinational insurance program requires attention to details, a European risk manager advises.

"Interests have to be safeguarded and the right insurance cover must be available," sums up Albert W. van Blitterswijk, risk and insurance manager for Unilever N.V. in Rotterdam, the Netherlands.

He spoke on mergers, acquisitions, divestitures and new operations at a seminar during the AEAI/RIMS International Risk Management Conference in Monte Carlo earlier this month.

While generally a multinational's worldwide insurance program automatically will provide coverage for new operations, there are issues to be resolved first, Mr. van Blitterswijk pointed out.

"Whether local insurance arrangements are long-term ones, for what risks they cover and for what premium, will have to be looked into," he noted.

If local policies are allowed to continue until expiration, then gaps in coverage between the local policies and the international policy can be insured under the international policy.

Mr. van Blitterswijk

The premium for insuring the same risks under the master policy, however, may be much lower than the local premium due to "bulk buying," Mr. van Blitterswijk noted. "If that is the case, the local policy sometimes is 'bought off' and the risks are insured under the international policy."

But, the risk manager should determine the claims experience of the company taken over.

"If the claims figures for a longer period prove to be poor, care must be taken when including the new risk in the international policy to prevent the claims figures for the entire group from being adversely affected," he advised.

Limits purchased by the local company also must be analyzed, recognizing that the limits needed by the company in its own country may be less than the limits of the international insurance program.

But, now that the acquired company is part of a "well-off international company," claims against it may be higher, he said.

Risk managers, in weighing how to insure a merger or acquisition, must consider "local guidelines and customs. It is not wise to be at loggerheads with the local authorities or to do away with all the local insurances for the sake of handling them centrally," he noted.

"Properly worded local policies controlled from the center of an international group will avoid a lot of problems," Mr. van Blitterswijk advised. "Then there are central difference-in-conditions policies and umbrella policies" to fill in gaps.

He recommended the risk manager visit the new company "at an early stage" to inspect plants, analyze risks and explain the risk management program and philosophy. The risk manager may find that specialized local coverage is needed, such as political risk insurance.

In approaching the new company's management, "tact must be employed," Mr. van Blitterswijk reminded risk managers.

It must be made clear, however, what risk management and insurance information is to be reported to the headquarters.

Divestitures create entirely different challenges, he said, noting that Unilever is in the process of divesting operations that do not fit its core business of consumer goods.

"It is important that there is clarity on any future liabilities of a company after it has ceased to operate or has been sold," Mr. van Blitterswijk stressed. Product liability and warranty claims may arise, as well as pollution liability claims.

"It is usually hard to quantify such future claims, but from past experience it should be possible to make estimates," he advised.

"If operations are discontinued, provisions will have to be made against future claims, either by establishing internal reserves or by insurance cover. If a firm is sold, agreement must be reached with the new owner as to who will be responsible for claims regarding past business."

Panelist W. Michael McDonald, risk manager, foreign administration for United Technologies Corp. in Hartford, Conn., noted risk managers may find it easier in the current difficult insurance market to consolidate insurance programs into a worldwide program.

Local companies that find it difficult to purchase their own insurance may seek coverage under a worldwide program, he said.

Explaining why United Technologies centralizes its risk management program, Mr. McDonald said, "We're not as interested in cost containment as in capacity and common loss-control and loss-prevention programs."

In acquisitions and divestitures, Mr. McDonald noted that the risk manager's goals differ depending upon whether his company is buying or selling an operation.

In buying an operation, the risk manager wants the selling company to retain liability for prior losses; when selling a company, the risk manager wants to sell as many of its liabilities with it as possible.

However, the risk manager's goals may well take a secondary position to top management's goals if top management considers the purchase or sale of a company more important than the issue of which company assumes or retains liabilities, Mr. McDonald noted.

John Merckx, managing director of broker Kruller & Co. Assurantien B.V. in the Netherlands, commented that often the risk manager is not informed of an acquisition, merger or divestiture before it occurs. As a result, "the broker is often informed when the merger is over" and the advice it could have rendered becomes moot.

All three speakers agreed that risk managers should know about mergers, acquisitions, new ventures and divestitures as soon as possible so they can begin advising on the risks and liabilities entailed and arranging insurance.

Mr. McDonald suggested that the risk manager "prove there is a need to know" to others in the company, particularly the legal department.

New ventures, he noted, are "one of the most difficult areas for risk managers in today's market."

Liability insurance for new ventures is very difficult to arrange, he explained later. "A new venture by definition is something without a track record—and normally you are talking about new products. It's difficult enough to get underwriters to give you product liability insurance for products with track records. It's even worse when there is fear of the unknown."

Addressing Europeans buying companies in the United States, Mr. McDonald advised them to consider the exposures first, then the insurance available, particularly liability insurance. "Look at property insurance last," he said.

In analyzing U.S. liability risks, the risk manager must consider punitive damages, pollution liability, employee safety requirements under federal safety laws and liability for employee benefit programs under the federal Employee Retirement Income Security Act.

Mr. McDonald noted later that product liability insurance for products sold in the United States is becoming so difficult to find that brokers report that some European exporters no longer will export to the United States. ■

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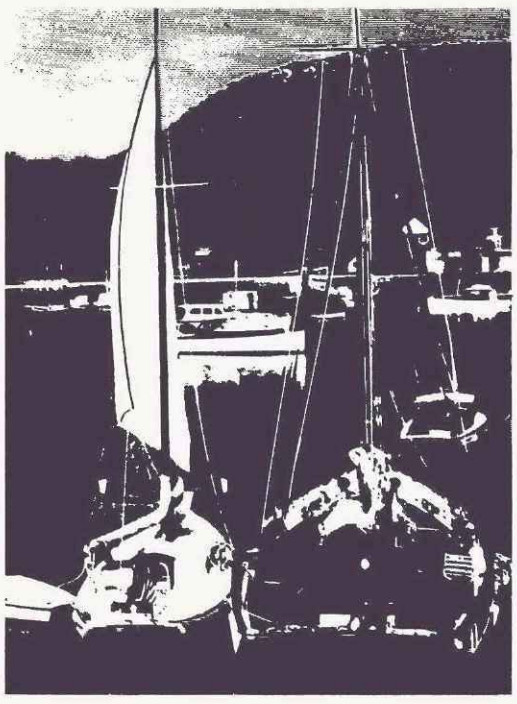

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Business interruption forms differ

By KATHRYN J. McINTYRE

MONTE CARLO, Monaco—Insurers in both the United Kingdom and Canada use a different business interruption insurance policy form from insurers in the United States.

The key difference is the reimbursement period.

In the United Kingdom and Canada, a loss-of-profits form is used, which covers the policyholder for profits lost until sales return to normal or the calendar limitation is exhausted.

In the United States, insurers issue a gross earnings form, which ties the reimbursement period to the physical reconstruction of the damaged property.

Once the property is returned to normal, reimbursement stops.

However, losses can continue after reconstruction because sales do not always immediately return to normal after reconstruction, explains William D. O'Connell, who is a partner with Touche Ross & Co. in Dallas and who specializes in business interruption claims.

Mr. O'Connell

This period following reconstruction during which profits are lost can be insured in the United States with the purchase of "a period of indemnification" endorsement, according to Mr. O'Connell.

The reimbursement period can be stated as a specified number of days or until sales return to normal.

Mr. O'Connell discussed business interruption insurance at a seminar at the AEAI/RIMS International Risk Management Conference.

The conference was held in Monte Carlo earlier this month.

Generally, business interruption policies issued in the United Kingdom and Canada limit reimbursement to a two-year period, Mr. O'Connell said.

Key issues to be considered in preparing business interruption claims also were discussed by Mr. O'Connell.

The issues include:

- Insurance interests. Is the reason for the loss of profits covered?
- Period of suspension. The physical property should be restored as soon as possible.

Generally, the test is that the property be restored as quickly as a prudent man would do so if he had no business interruption insurance.

- Definition of gross earnings. Gross earnings is very narrowly defined under the policy and considers sales or the sales value of production.

Non-manufacturing or mercantile concerns consider sales, which includes finished goods, while manufacturers consider the sales value of production, excluding finished goods.

Manufacturers that would like to insure finished goods buy a selling price endorsement to the property insurance policy to cover their profit on finished goods.

- Claim limitation. The reimbursement will not exceed the actual loss sustained to avoid encouraging businesses to shut down to recover more under business interruption insurance than they would make operating.
- Expediting expenses. The policyholder must demonstrate that the extra expense reduces the loss.

The expenses cannot exceed the loss recoverable under the policy. In addition, the insurer is permitted the 20-20 hindsight of determining whether the expenses incurred actually reduced the loss.

- Coinsurance clause. This imposes a penalty for underinsuring, reducing recovery under the policy by a ratio. The penalty is the ratio of the agreed values to the acutal values.

Mr. O'Connell advised policyholders to project gross earnings for two years when buying business interruption insurance, or else they face the possibility of underinsuring.

Session moderator Louis D. Tummers, risk manager for ICS Group PRB in Brussels, Belgium, suggested that risk managers involve claims adjusters in the contingency planning, including the determination of how much to insure.

Also speaking at the seminar was David J. Taylor, a director of Gaebel, Watkins & Taylor Ltd., insurance loss adjusters and surveyors in London, which specializes in the film industry.

Mr. Taylor noted that the film industry presents unusual business interruption losses and opportunities to contain the loss. While only half a day of production may be interrupted, the cost of the claim could amount to a whole day because contracts do not permit crews to work half-days. One solution is to try to recover the lost time with overtime work on several days, he said. ■

Mr. Taylor

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Risk managers want reform of punitive awards: Survey

By STACY SHAPIRO

MONTE CARLO, Monaco—Risk managers want restrictions placed on the awarding of punitive damages. And they advocate tort reform, specifically as it relates to product liability.

These are some of the findings in a study of risk managers' attitudes conducted by broker Marsh & McLennan Inc. and discussed at the AEAI/RIMS International Risk Management Conference held in Monte Carlo earlier this month.

M&M released preliminary results of its massive study of risk managers, begun in July 1984. Final, more comprehensive results are due soon, M&M says.

The "Marsh & McLennan Study of Risk Management Trends" surveyed 1,224 North American risk managers for their opinions on the social, legal and economic implications of punitive damages, product liability reform, environmental impairment liability and occupational disease risks.

The study should help risk managers communicate to management and insurers, said Pamela J. Newman, M&M managing director.

"The study was conducted with a desire to take a picture of what is happening today and use it as an information tool for upper management," she said at the communications industry session of the AEAI/RIMS conference. "It shows the political, legal and economic influences involved in building a risk management view of risks.

And, it appears that generally risk managers agree on the issues.

"It appears that the professional role of risk manager, rather than the peculiarities of the industries or institutions in which they work, is the primary determinant of individual response," the study says.

Specifically, the study found that risk managers shared a deep concern about punitive damages.

"While punitive damages were designed as a deterrent to anti-social but not blatantly criminal acts, a number of observers feel that this original purpose has been perverted," the study says.

"Furthermore, they believe punitive damages can have little or no deterrent effect where the acts which gave rise to current awards occurred many years, and generations of management, before the awards were rendered."

Some 62% of the respondents said the current system for assessing punitive damages does not work. Only 29% said it works, and the rest said they were not sure.

The study also shows that most risk managers believe there should be some sort of restrictions on punitive damages. For example, 90% believe that plaintiffs' attorneys should be restricted by law from bringing punitive damage suits without a "valid purpose."

Also, 62% of the respondents favor making punitive damages insurable, the study shows.

In addition, the study showed that 66% of all respondents believe product liability reform legislation is either very important or somewhat important. And 64% favor passage of the proposed federal uniform product liability act.

That bill, introduced by Sen. Robert Kasten, R-Wis., would generally restrict awards in product liability lawsuits. In addition, under the legislation, a judge rather than a jury would determine the amount of punitive damages to be awarded.

The bill also would bar plaintiffs from suing manufacturers if they were injured by a capital goods product that was more than 25 years old at the time of the accident (*BI*, March 18).

Not surprisingly, the greatest support for product liability reform legislation comes from companies that design and manufacture consumer products, the study says. About 87% of risk managers from chemical and pharmaceutical companies support legislative reform, and 84% of manufacturing firms support the reform.

Only 46% of risk managers of financial and professional institutions support product liability reform legislation.

Also regarding product liability, more than 76% of the respondents agreed that juries, operating under trial conditions, "cannot reasonably resolve complicated scientific questions of causality." And, more than 68% believe that the legal/jury system should be reformed for product liability.

Respondents prefered reform of the legal system or tort laws over federally authorized administrative mechanisms to solve product liability problems. Only 39% of the respondents agree that "present inequities" would be best resolved through federally authorized administrative mechanisms rather than tort reform, while 50% disagreed with this alternative.

"Opposition to potential expansion of federal control, commitment to the common law system and strong views concerning Black Lung Compensation Fund experience apparently influenced the consistently negative responses toward administrative solutions, as opposed to tort law changes," the study says.

The survey also asked risk managers about occupational disease.

Some 59% of the respondents opposed a proposal for a federally authorized occupational disease fund similar to that created for black lung disease victims.

However, respondents were divided over whether there should be federal legislation precisely defining an insurer's responsibilities for occupational disease: About 51% favor such legislation, 44% oppose it and 5% are not sure.

"Occupational disease represents a very complex and serious problem for corporations in their capacity as both employers and producers or service providers," the study says.

The study also touched on the issue of pollution liability.

With the passage of federal pollution cleanup legislation in 1976 and 1980, environmental impairment liability exposure has become an "explicit" corporate concern, the study says.

More than half—53%—of the respondents said the current tort system is the "most socially efficient method" of encouraging organizations to comply with "measures necessary to protect the environment and society in general."

Only 39%, in fact, believe the current tort system regarding environmental impairment liability exposures needs to be changed.

But, the study pointed out to the risk managers that there are proposals being made to change the current system for compensating victims of environmental pollution.

For example, it says, the American Bar Assn. wants to provide a two-tiered compensation system that would create a "no-fault" recovery system to aid victims with smaller economic claims.

Among the M&M survey respondents, 58% agreed with the ABA proposal, and 35% opposed it.

However, 60% of all respondents agree with current federal environmental legislation that imposes an excise tax on certain industry to fund the cleanup of hazardous-waste sites, the study says.

The study also found that risk managers:

- Believe that injured persons as well as industry and government are responsible for their future income.
- Consider insurance a useful tool to protect companies from going out of business in a highly litigious society.
- Support continued federal regulation of product testing and production.

Respondents to the survey are employed in various industries, including manufacturing; retail, franchise and consumer goods; financial and professional services; chemical and pharmaceutical; energy and maritime; and communications and technology.

The distribution of respondents by company sales/revenues ranged from 27% with sales/revenues of $100 million to $500 million to 24% with sales/revenues of $1 billion to $5 billion. ■

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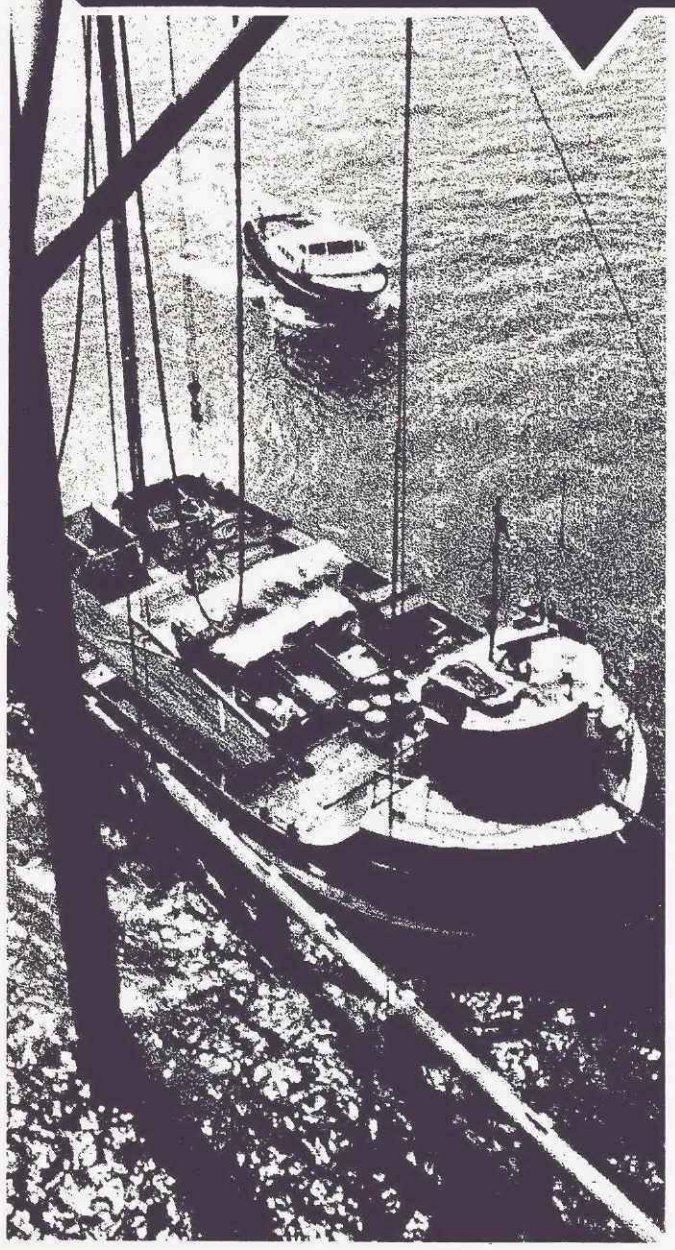

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Insurer solvency doubts increase: Panel

By STACY SHAPIRO

MONTE CARLO, Monaco—The solvency of insurers has never been so important and so in doubt, a panel of insurance experts says.

"Never in the past have concerns about the insolvency of insurance companies raised so much fear and been given so much publicity," said Jean-Marie Bioul, managing director of broker Henrijean & Cie SA of Belgium, a subsidiary of Marsh & McLennan Cos. Inc.

Mr. Bioul was a member of a panel that discussed insurer solvency at the recent AEAI/RIMS International Risk Management Conference in Monte Carlo.

The panel also included James Morone, senior vp of CIGNA Worldwide Inc. in New York; Dr. Reto W. Arpagaus, executive vp of Schweiz Allgemeine Versicherungs AG in Switzerland; and John Havers, former insurance manager of Dunlop Ltd. in Britain.

The panel underscored the importance of insurer solvency in today's market by pointing out:

- Since 1984, 27 U.S. property/casualty insurance companies have either gone into rehabilitation, conservatorship or liquidation.
- Out of 150 reinsurers writing U.S. risks in 1983, one in four have stopped underwriting in the last 18 months.
- Of the top 10 U.S. reinsurers, only three have kept their A-plus ratings from A.M. Best Co.

"Never before have so many serious doubts been raised about the insurance industry, which is supposed to protect the solvency of other companies," Mr. Bioul said.

Mr. Morone pointed out that the U.S. property/casualty insurance industry has created many of its own problems during the past several years.

In the late 1970s, primary insurers moved into the reinsurance business because the companies believed they could profit from the investment income earned on premiums, Mr. Morone said.

As the industry attracted new capital and new players, premiums were slashed even though claims, particularly on casualty business, increased.

The new reinsurers did not always employ underwriters with adequate market experience, Mr. Morone said. "Too much capacity and not enough experience is a bad mix in the insurance business. It cost us.

"Getting into the market wasn't hard," he added. "Insurance regulations weren't tough."

The blame for the problem the industry is now facing lies with "all of us, including primary insurers, reinsurers, risk managers and in part on the U.S. legal system," Mr. Morone said. "The insolvency problem has its roots in not too little money but in too much.

"Best's bluntly suggests that insolvency comes from greed and poor business judgment," said Mr. Morone. "It has seriously depleted the industry's operating capital."

Risk managers who are concerned about the solvency of an insurer have a variety of resources they can check, panel members noted, including Best's.

"In the U.S., we do not have white lists or black lists because we may be sued for this, but we do have Best's" noted Schweiz's Dr. Arpagaus, who until recently was with Swiss Reinsurance Co.

But, although Best's can be a valuable source of information, it isn't foolproof, he warned.

For example, although Best's gave Ambassador Insurance Co. an A-plus rating in 1982, the company was placed in rehabilitation in Vermont the following year.

Nonetheless, Best's was "on the nose" with its assessment of Union Indemnity Insurance Co., a unit of Frank B. Hall & Co. Inc., which was recently ordered into liquidation in New York, said Dr. Arpagaus.

To check the solvency of overseas insurers, risk managers can contact International Insurance Financial Service, an affiliate of Conning & Co. in Stamford, Conn., or Insurance Solvency International Ltd. in London, Dr. Arpagaus suggested.

Reports from securities analysts on insurance companies also can provide information about an insurer's financial footing, the panel noted.

Mr. Morone

"You must know how strong your insurance companies are," said Mr. Morone. "Check their financial position. Read Best's. Your insurance company's financial strength is of essential importance to the value of your policy."

Risk managers can also check the reinsurance behind the insurers they use, although insurers will not always release this information, the panel said.

CIGNA will allow risk managers to see its list of reinsurers if they ask, said Mr. Morone.

Risk managers can also check with brokers for information regarding an insurer's financial stability, noted Mr. Bioul, although he added "it has never been the broker's duty to back the solvency of the market he is using."

"Brokers have no legal obligation to honor any claims," he said. "Insurance is a contract between the underwriter and the client. Commissions which remunerate a broker are not big enough for him to partake in the solvency risk."

Brokers, however, will assist clients in finding sound markets, because "security has become a password in the insurance broker world," said Mr. Bioul.

He explained that Marsh & McLennan's market information center, which analyzes insurer security, asks several questions about the insurers with which it places business, including:

- Do they meet minimum financial standards? Generally, companies must have a minimum capital of $5 million if it writes long-tail liability business.
- What is the quality and reputation of company management?
- Can the assets backing the operation be liquidated quickly for cash, and are they properly valued?
- What are the company's other liabilities? What other insurance contracts may bring in claims? For how much? ■

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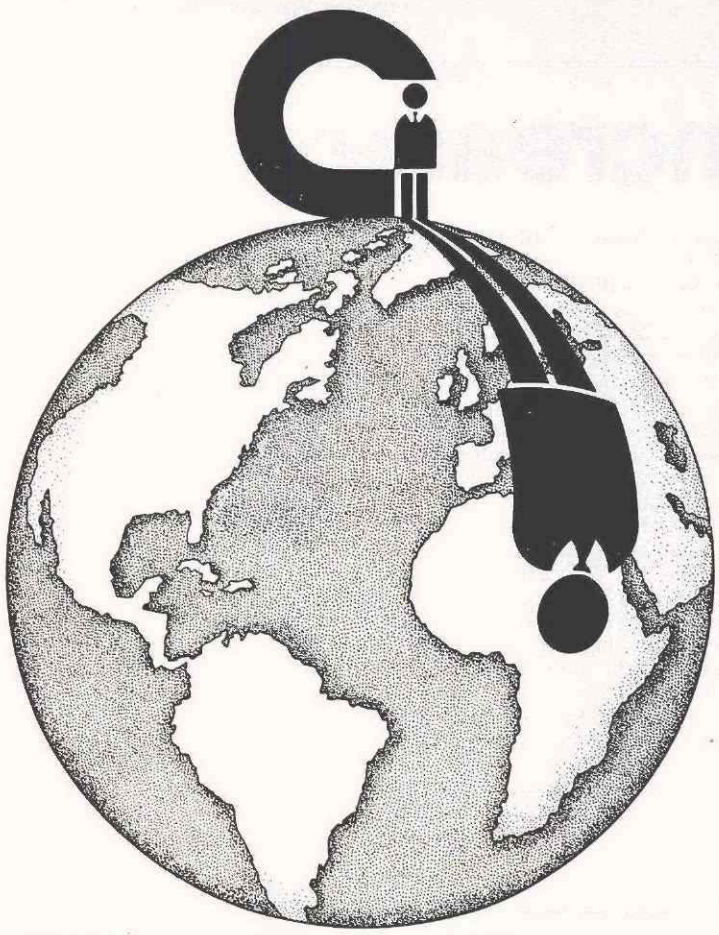

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spotlight report

European risk manager salaries don't match duties, survey says

By KATHRYN J. McINTYRE

MONTE CARLO, Monaco—European risk managers benefit from corporate status, large departments and varied responsibilities, but their specialized training may not be adequate, nor their salaries sufficient for their responsibilities.

These are the conclusions of French risk management consultant Jacques Charbonnier, who conducted a survey last year of European risk managers under the aegis of the AEAI and the Geneva Assn.

Questionnaires were sent to 1,104 risk managers throughout Europe, and 188 were returned. Half of the responses were returned by risk managers in France (50) and the United Kingdom (44).

Mr. Charbonnier reported the survey findings at a seminar during the AEAI/RIMS International Risk Management Conference held in Monte Carlo earlier this month.

More than two-thirds of the respondents are directly below the chief executive officer or one of his assistants in the corporate hierarchy: 15% are just below and 55% are one level removed.

Risk management staff size varies from one to 70, according to the survey, with an average of 13 people including three professionals, four technicians and six administrators.

In addition to risk identification and evaluation, risk managers in Europe report responsibility for loss control, safety, quality control, security, contingency planning, definition of insurance, setting self-insured retentions, budgeting, claims handling, selection of brokers and selection of insurers. However, insurance-related programs occupy more of the risk managers' time than other activities.

Almost half, or 44%, of the respondents report their initial training for their position was a combination of university study and on-the-job experience. However, almost half, or 43%, say they have never undertaken further training in insurance or risk management.

But, among the respondents, 93 said they had attended an annual RIMS meeting in the United States, 97 said they had attended a RIMS meeting in Canada, 85 had attended a previous AEAI/RIMS meeting in Monte Carlo, 81 had attended a Management Centre Europe risk management meeting and 77 had attended a meeting sponsored by The Assn. of Insurance and Risk Managers in Industry & Commerce in the United Kingdom.

Regarding salaries, 14% of the risk managers receive a basic salary of less than $20,000, 30% receive $20,000 to $30,000, 28% receive $30,000 to $40,000, 16% receive $40,000 to $50,000, 6% receive $50,000 to $60,000 and another 6% receive more than $60,000.

Salaries of European risk managers are consistently lower than risk management salaries in the United States, Mr. Charbonnier observed. U.S. risk managers in smaller companies earn 26% more than European risk managers while managers in the largest companies earn 60% more than their European counterparts.

Other findings of the survey include:

- Some 38% of the respondents have the title of insurance manager, 18% risk and insurance manager and 14% risk manager. Another 31% have another title.

And, 88% of the respondents say their title is in accordance with their activities.

- Some 60% of the respondents devote at least 90% of their time to risk management.
- Property damage is the most feared risk, followed by business interruption.
- Captive insurance companies are used by nearly 25% of the respondents, with 56 reported. Risk managers in the United Kingdom reported the highest number of captives (23), followed by risk managers in Sweden (11). Belgium reported the next largest number, with five. The captives are domiciled mostly in Bermuda (22). Captives were also reported domiciled in Jersey and Guernsey (9), the United Kingdom (7) and Luxembourg (6).
- Among risk managers who do not use captives, 53% said they never anticipate establishing a captive. Only 10% expect to establish a captive in the next two years, 18% in two to five years and 19% in more than five years.
- The average insurance budget ranges from $492,000 in companies with sales of less than $20 million to $14.1 million in companies with sales exceeding $5 billion.
- Risk managers are generally satisified with the services of their insurance brokers and give them high marks for responding to urgent problems, preparing and wording insurance policies, responding to requests and proposing improvements to coverages. However, the brokers get low grades for initiative in reducing premiums without affecting coverage and advice on loss control.

Co-panelist and risk management consultant Felix Kloman of Tillinghast, Nelson & Warren noted that in the United States, the Cost of Risk Survey is being conducted again jointly by The Risk & Insurance Management Society and Tillinghast.

The survey reports corporations' cost of risk—insurance premiums, self-funded losses, loss-prevention costs and administrative expenses—as a percentage of revenues and a percentage of assets by type of industry. Other statistics, such as average deductibles and limits of insurance purchased, are also reported.

These aggregate figures help companies compare their own cost of risk and their risk-financing programs to those of other companies in their industries and of similar size.

The Cost of Risk survey may be expanded into Europe, Mr. Kloman noted, especially to acquire more information on European-based multinational companies.

And, Mr. Kloman would like to see risk assessment included in the survey in the next seven to 10 years.

"Companies could share their risk assessments," he said. "We don't know how to do it yet, but we have to measure risk more intelligently and we can't depend upon insurance underwriters to do our risk assessment," he said.

Commenting on both the AEAI and Cost of Risk surveys, Mr. Kloman said, "The most important use of these surveys is to communicate better to senior management what you are doing and what you are trying to accomplish."

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The results of the survey of European risk managers are published in the book "European Risk Management" published by L'Argus, 2 rue de Chateaudun, Paris 9.

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Selecting consultant requires care

By STACY SHAPIRO

MONTE CARLO, Monaco—A European risk manager urges caution when using risk management consultants.

In fact, Hugh Page Taylor, group insurance manager for Merzario S.p.A. in Italy, notes there is no such thing as a risk management consultant in Italy.

Mr. Taylor told those attending the AEAI/RIMS International Risk Management Conference in Monte Carlo that Italy only gave legal status to insurance brokers in 1984.

And, if anything, the term "consultant" has an unpleasant connotation in Italy, according to Mr. Taylor.

"Those people who are choosing not to be registered as brokers are calling themselves consultants," he explained. "So the name consultant has a derogatory implication."

Mr. Taylor also believes there are other reasons risk managers should be wary about using some risk management consultants.

For example, he said, a company may build a dependence on a consultant "until the risk manager wakes up."

Also, if the consulting company is owned by a broker, it's possible the consultant will recommend the parent broker for a job that the broker is not capable of doing.

And, there are potential dangers if the consultant is owned by an insurance company, Mr. Taylor said. First, the consultant may recommend the client buy coverage from the parent insurer, even if the client does not need the coverage.

Also, he warned, "There is a danger that the insurer will gain more information of current and future risks, which could lead to increased deductibles, premiums and possible cancellation."

However, Mr. Taylor admitted that the specialized expertise of risk management consultants may be needed on specific projects.

And, he said, consultants also are valuable in conducting risk management audits to make sure that the risk manager's plans are on track.

If a manager decides to engage a consultant, there are certain precautionary steps to take, says Sven Thomson, principal consultant with The Wyatt Co. in Chicago.

First, he said, a risk management consultant should not have any conflicts of interest. The consultant's only concern should be the best interests of the client, he said.

A risk management consultant also should have good references, Mr. Thomson said. And, he urged, "Always check those references."

In addition, the consultant should have expertise in the specific areas the client needs to address, he said.

Finally, he said, if a company decides to use a risk management consultant, it should request a written proposal from the consultant that spells out the purpose of the project, the time it will take, the cost and the methods the consultant will use.

"Seek specificity," Mr. Thomson said. "Know what you are getting into. Once you have found out how much, for how long and when he's going to do the job, make sure the consultant sets it in writing."

The written proposal also can include a confidentiality clause, which says the consultant will not reveal any company secrets, Mr. Thomson said.

He suggested the risk manager get the consultant's input during the course of the project to avoid receiving an extremely long final report. ■

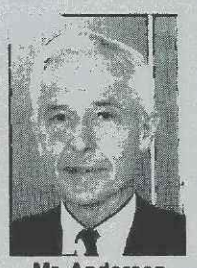
Refusal to write pollution cover may backfire: Attorney

MONTE CARLO, Monaco—By refusing to underwrite pollution liability insurance now, the insurance industry is "just asking" for the courts to force insurers to pay pollution liability claims under old insurance policies, a U.S. attorney suggests.

Because U.S. corporations can't buy environmental impairment liability insurance today, the courts will find old general liability insurance policies applicable to pollution losses as they did for asbestos claims, says Eugene R. Anderson, partner with the law firm of Anderson, Russell, Kill & Olick in New York.

Property and casualty insurance policies dating back as far as 1950 will be found to provide coverage for pollution, Mr. Anderson said at a seminar on pollution liability insurance during the AEAI/RIMS International Risk Management Conference held in Monte Carlo earlier this month.

Instead of excluding coverage for pollution liability claims and inviting this judicial interpretation of previous policies, insurance companies could set up a pollution insurance association that could "have an enormous impact on laws and they could make money," Mr. Anderson suggested.



Mr. Anderson

One of the major problems in the United States is that there is an effort to "clean up 350 years of industrial pollution in one generation," Mr. Anderson said.

Furthermore, private industry is currently expected to pay for cleaning up all the pollution "and that's impossible," he said.

He especially criticized the joint and several liability provisions of the Superfund Act.

"If you put chlorine into the Mississippi River, you could be responsible for cleaning up the entire Mississippi River," Mr. Anderson declared. He conceded that his example exaggerated the problem, but maintained "it is more true than false."

And, Mr. Anderson criticized holding businesses responsible today for pollution caused by waste they dumped 20 years ago, when there were no laws governing waste disposal.

The problem is partly created, Mr. Anderson said, by the "anti-business attitude of the courts. We love free enterprise in general, but hate it in particular."

Mr. Anderson also criticized the amount of money spent on legal fees in the United States.

Session moderator Thomas Lewison, risk and insurance manager for Degussa Corp. in Teterboro, N.J., commented that the total limits of environmental impairment liability insurance available today of $17 million per occurrence/$20 million aggregate are "insufficient for our needs." Total limits of $108 million per occurrence/$181 million aggregate had been available, he noted.

RMIS can help cope with tough market

By KATHRYN J. McINTYRE

MONTE CARLO, Monaco—A computerized risk management information system could help risk managers find needed insurance in a difficult insurance marketplace, according to a consultant.

Underwriters want a risk profile of a potential policyholder, and a risk management information system is an efficient way to develop a risk profile, said Robert L. Brown, director of European Risk Management Ltd. in London.

"It's clear that in the future, risk managers will need to sell their risks to insurers rather than just sitting passively and having insurance sold to them," he said.

Mr. Brown spoke on risk management information systems at the AEAI/RIMS International Risk Management Conference in Monte Carlo earlier this month.

In addition to developing risk profiles, risk management information systems can be used to:

- Analyze claims to identify the causes of losses and to develop needed loss-prevention and loss-control programs.
- Estimate potential losses.
- Allocate the cost of risk—insurance premiums and self-funded loss costs—to divisions or subsidiaries.

Risk managers can purchase various systems from insurers, brokers and service vendors, Mr. Brown noted.

"The alternative to buying a package is to develop one yourself," he added. "I know a number of the U.K. insurance managers who have worked with their own computer people in-house in developing their own system. This really can be one of the best ways of developing a risk management information system, because it fits in with your own company's information."

Session moderator Michael R. Vogler, international insurance manager at R.J. Reynolds Industries Inc. in Winston-Salem, N.C., noted that his company's policy inventory system and premium allocation system were developed in-house but that the company developed another program in conjunction with a broker.

While an RMIS can identify causes of losses that need to be prevented, employees have to be encouraged to adopt the loss control programs suggested, Mr. Brown noted. He suggested adopting a reward/penalty system, such as allocating the cost of claims directly to the source generating the claim.

In addition, plants can be scored on the quality of their housekeeping using a point-rating system. The points assigned are used to determine each plant's share of the total group's premium.

This method "is very effective in terms of incorporating both penalty and reward," Mr. Brown suggested.

"I like to see plant management given responsibility for risk and also made accountable for risk," he said. "Too often, the accountability is there and they don't have the ability or the tools. Or too often, they have the responsibility and aren't accountable."

Plant management also can be made accountable for safety by linking the plant manager's salary to the plant's safety record, Mr. Brown noted.

Mr. Vogler noted that safety awards, such a plaques or small gifts for accident-free driving, can encourage safety performance. "It amazes me sometimes, but you can get people to work extra hard by giving them a small wooden plaque with a brass plate on it."

"I prefer a more aggressive approach," Mr. Brown interjected. "Fire the bad drivers.

"But, the problem is, the worst drivers are the best salesmen," Mr. Brown observed. "That presents a genuine risk management problem—and opportunity. You want to retain the best salesmen and you don't want them killed."

Mr. Vogler noted Reynolds has 7,000 cars on the road in the United States. When told salesmen can't be bothered by safety, "I say, 'How many more cigarettes does the salesman have to sell to make up for a $25,000 liability accident?'" he said. "Sometimes it works."

Mr. Vogler advised risk managers to "keep everyone involved knowing the costs. We try to have regular meetings with all upper management of each division or subsidiary to show them where they've been, where they are going and what they can do to improve."■

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Product integrity market has dried up

By STACY SHAPIRO

MONTE CARLO—Virtually no capacity now exists for product integrity impairment risks, says Arthur Erickson, senior vp of Johnson & Higgins in New York.

He said a market for product integrity impairment coverage existed six months ago, when he was asked to speak on the subject at the AEAI/RIMS International Risk Management Conference earlier this month in Monte Carlo.

"Now for the bad news," he told the audience. "An erosion has taken place. The capacity is now virtually gone.

"In 1983, one company had $180 million of coverage, and in 1984 it had $125 million of coverage. But, in June 1985, the same company could only get $15 million of coverage, and it is so expensive that the company refused to buy it.

"I feel as if I am presiding over a wake," Mr. Erickson added.

Product integrity impairment coverage is a much broader form of product recall insurance, incorporating business interruption and extra-expense coverage.

Insurers stopped writing product integrity impairment risks because of general market conditions, not huge losses, Mr. Erickson said. Insurers are going back to the "bread-and-butter" classes of casualty business that they better understand and which are demanding more of the insurers' capacity, he said.

However, Mr. Erickson said companies that want to buy insurance to cover a product recall because of an extortion threat, product contamination or inherent faults in the product should take matters into their own hands.

He suggested that members of the food and/or cosmetics industry—those companies most affected by recalls—form a worldwide pool to insure product integrity risks.

This facility would be similar to a an effort by 18 chemical manufacturers to study the feasibility of a facility to write liability limits of $50 million in excess of $50 million, Mr. Erickson said (*BI*, Oct. 14).

Some members of the audience asked whether there was even a need for the coverage.

Mr. Erickson said that although recall costs are probably budgetable, "we live in a society where terrorism and insanity takes place that you cannot budget for. There is a need for catastrophic capacity, although it may be only for certain kinds of industries."

He said the idea for the coverage was spawned several years ago when one of his clients wanted coverage to protect against the costs of recall and business interruption if one of its products was impaired.

Insurers, in the throes of competition, were open to the idea, and risk managers considered it because it protected against a potentially catastrophic risk, he said.

Product integrity coverage's popularity grew in 1982 after Johnson & Johnson recalled its Extra-Strength Tylenol pain reliever. Seven Chicago-area residents died after they swallowed cyanide-laced Tylenol capsules (*BI*, Oct. 11, 1982).

Risk managers can take precautions to prevent a recall from resulting in a lost market share and profits, said Stanley King, director of corporate risk management of Kellogg Co. in Battle Creek, Mich.

The Tylenol incident shows companies must have a plan before an event occurs, and that plan must be implemented quickly and efficiently in a crisis, he said.

For example, Mr. King said: "If Kellogg recalled products, where would we put them? Our warehouses hold only two days of production. We produce 1.7 billion packages per year. Physically, how would we do it?"

Companies must also decide how much they will spend to rehabilitate a product after a recall.

"We feel we have one of those unique names. In 80 years, we have produced safe products," he said. "If confidence were eroded, we would see the loss of business for a long period of time."

Risk managers should be aware of the power of the media in creating and easing fears of the public, he said. If an extortionist says he has or will contaminate a product, it is important that the manufacturer contact the media to learn how they plan to handle the situation, said Mr. King.

In the United States, many extortion threats are ignored by the media, he said.

Mr. King explained he has been told by editors of major U.S. newspapers that they do not publish reports of extortion threats because they do not want to be used by extortionists to target companies.

"We have seen in our organization a willingness from our press to cooperate with the legal authorities and not inflame the situation," he said, adding, "I do not believe we would have the same cooperation with the European press." ■

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High rates push two buyers toward captives

By STACY SHAPIRO

MONTE CARLO, Monaco—Two risk managers say they will attempt to establish captive insurers in light of increased commercial insurance rates.

Dennis d'Oca, vp of risk management at CBS Inc. in New York, says he wants to join forces with the other major U.S. television networks to form an industry captive that would provide broadcasters liability coverage.

Broadcasters liability insurance generally includes coverage for libel and slander, errors and omissions and copyright infringement.

"We don't mind involving all insurance brokers to get the job done, but we need the catastrophe cover for the risk now," Mr. d'Oca said during the communications industry seminar at the AEAI/RIMS International Risk Management Conference in Monte Carlo.

'We take the risks now that are predictable and have coverage above that,' Mr. d'Oca said.

Although Mr. d'Oca said he hasn't approached the other networks yet, he said he hopes they will consider the idea.

CBS is interested in an industry captive because the network had a rough time renewing its broadcasters liability coverage this year, Mr. d'Oca admitted.

"We were hit with premium increases and problems getting any quotations at all for some risks," he told the session.

CBS' renewal was affected by the filing of a $6 million claim for the defense costs it incurred during the 18-week trial of a libel claim filed against CBS by retired Gen. William C. Westmoreland, Mr. d'Oca said.

The case ended in an out-of-court settlement Feb. 17. As part of the settlement, Gen. Westmoreland and CBS agreed to pay their own defense costs (*BI*, Feb. 25).

Mr. d'Oca said the claim from the Westmoreland case "blew everybody right out of the water." The claim exhausted the limits of a manuscript errors and omissions policy with a $100,000 deductible and a $3 million limit, he said, noting the rest of the claim was covered under the network's umbrella coverage.

CBS now has a $3 million self-insured retention, followed by a $3 million primary layer and the same umbrella limits it had before, Mr. d'Oca said.

"We take the risks now that are predictable and have coverage above that," he said.

Mr. d'Oca said he thought he might have a difficult time convincing upper management to accept a larger retention, but he explained that CBS has paid $5 million in premiums and received $20 million in claims payments under the coverage. "And the clock is still ticking," he said.

"Let management know there will be increases," he warned risk managers.

Another risk manager attending the communication industry session—Peter Drummond, vp and member of the executive committee of the Society for Worldwide International Fund Transfer—is experiencing similar problems: He says he is expecting hefty rate increases at the end of the year for fidelity coverage.

SWIFT, which transfers an estimated $800 billion in funds daily, "is a non-profit cooperative of banks around the world whose sole purpose is to process the taking of a message from one bank and making sure it arrives safely at another bank," Mr. Drummond explained.

Although SWIFT does not transfer any of its own money, the network assumes liability if bank funds are lost or stolen during a transaction.

"If we make a mistake in SWIFT, we will pay for it," said Mr. Drummond. "That is unlike the telephone or telex systems, which by law only have to pay $500 if a transaction is fouled up through their systems. We take full responsibility."

Because of this liability, SWIFT asked Lloyd's of London underwriters three years ago to provide insurance to cover the network's fidelity and errors and omissions risks. SWIFT subsequently purchased a three-year custom-made policy from Lloyd's (*BI*, Feb. 21, 1983).

However, London brokers now are warning SWIFT that rates and deductibles will rise when the coverage expires Dec. 31, although the system has not experienced any losses or security breaks, Mr. Drummond said.

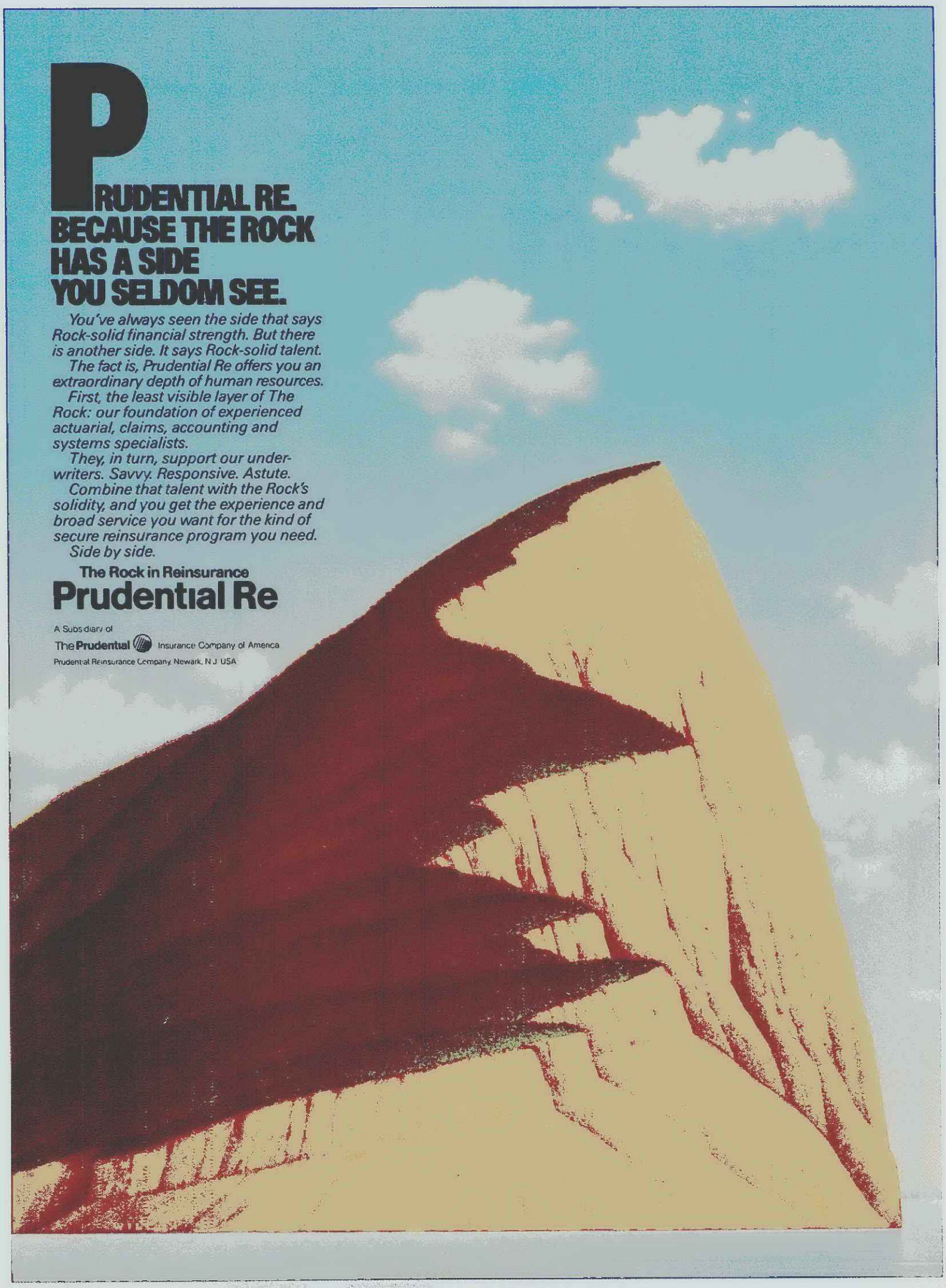
Brokers are blaming the increases on the rapidly shrinking fidelity insurance market, not on SWIFT's loss record, Mr. Drummond said.

"I don't think that is right," he said.

Instead of swallowing those increases, Mr. Drummond in June received permission from the SWIFT board to set up a captive insurance company, called SWIFT Re, in Luxembourg to cover a portion of the system's exposures.

"We are going to self-insurance," said Mr. Drummond. "I have had zero leverage with insurers up until now, and I think that it is unfair after nine years not to have any leverage with them.

"Now I do." ■



Many special risks uninsurable: Panelists

By STACY SHAPIRO

MONTE CARLO, Monaco—Although special risks still exist, many are no longer insurable in today's tight market.

And, for special risks for which coverage still exists, rates are likely to have risen and capacity plunged, said a group of panelists at the AEAI/RIMS International Risk Management Conference in Monte Carlo this month.

"Cash flow and overcapacity in the '70s and early '80s meant that anything was insurable and underwriters became creative," said Christian Meyer, vp of Zurich Insurance Co. in Switzerland. "But today we have reduced capacity for special lines."

For instance, space-related risks, especially satellite launch coverage, attracted underwriters during the soft market. But now, Mr. Meyer said, underwriters know that "insuring satellites is extraordinarily expensive."

He noted that satellite underwriters had hoped to recoup $180 million in losses by selling two satellites that had been salvaged by a space shuttle mission. But, so far, the probes remain unsold.

Underwriters are questioning other special risks in today's tight market, he said.

For example, underwriters are wary of computer risks, he said, especially since U.S. banks have told the U.S. government that computer losses cost banks more than $100 million a year.

Mr. Jorgenson

Also, virtually no product integrity impairment coverage is available, Mr. Meyer said (see story, page 83).

And, he said, it is getting difficult to locate markets for coverages like directors and officers liability insurance, surety and fidelity bonds, financial guarantees and political risk coverage.

U.S. financial institutions looking for D&O coverage have run into big problems, said Dan C. Jorgenson, vp of risk management for Citibank in New York.

Rates have risen 25% to 800% and capacity has fallen so dramatically that some institutions cannot find any coverage, he said.

However, Mr. Meyer said that the problems caused by reduced capacity have opened up some new kinds of special risks.

"The liability crisis has led to important coverage gaps, which sooner or later will be addressed by underwriters," he said. "Underwriters will be looking to offer coverage for the gaps between occurrence and claims-made forms when companies change over from one to the other."

Also, banks are interested in covering credit and financial guarantee risks, although the coverage may be issued through letters of credit rather than conventional insurance, Mr. Jorgenson said.

He added that banking and insurance are "closely related" and can complement each other in protecting and financing risks around the world.

Not all special risk coverages have dried up, the panelists said. For example, coverage is still available for kidnap and ransom risks, said Oliver Leigh-Wood, director of Control Risks Ltd., a security consultant in London.

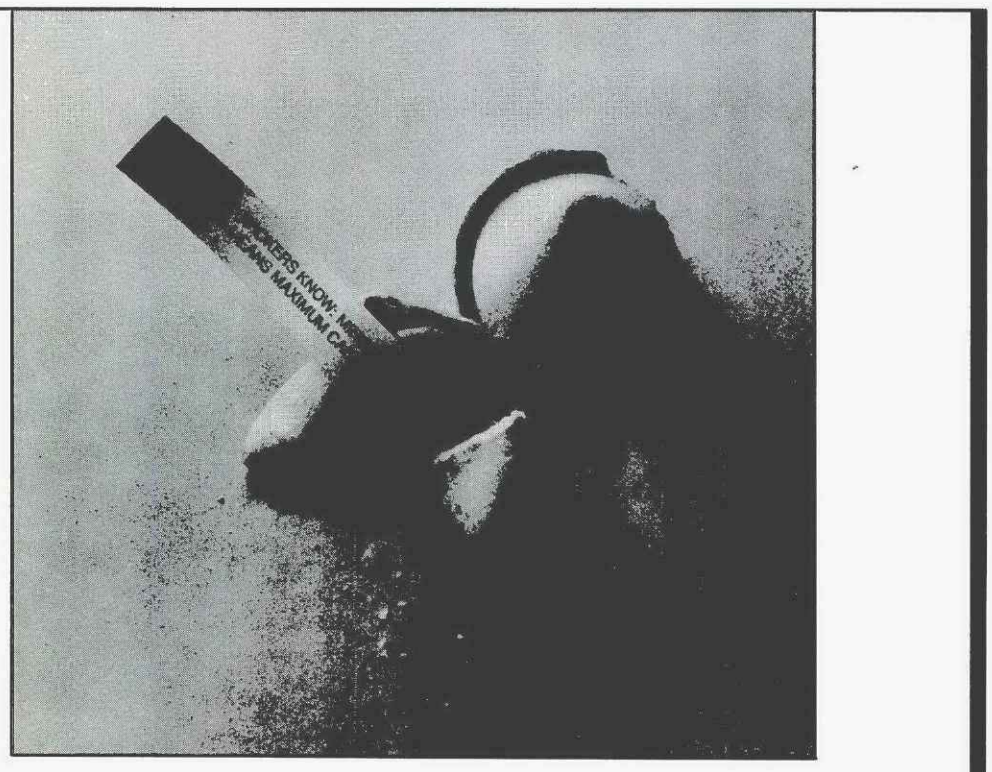
Underwriters at Lloyd's of London even write "ship-napping" coverage, he said.

However, Mr. Leigh-Wood stressed that companies must not become complacent and feel that if they have kidnap and ransom coverage, they have nothing to worry about.

"Most kidnaps are insurable," he said. But the cost of replacing the kidnapped person or making up the time other executives devote to recovering the kidnapped person are not insurable.

Mr. Leigh-Wood also pointed out to the risk managers that:

- There are about 300 kidnappings a year worldwide, but most are not reported in the press.
- Out of 262 urban kidnappings from 1980-1984, 61% ended in release of the victim after ransom was paid, 21% ended in police rescue, 2% ended in the victim's escape, 10% ended in the killing of the victim and 6% ended in the victim's release without any ransom being paid.
- The most common demand of kidnappers is cash; other demands include political recognition, return of land or cessation of trade relationships with a certain country.
- The most vulnerable companies to kidnapping are banks.
- Embassies are not a reliable source of information about terrorists in a country.
- A kidnapping can create long-term problems for a company, including forcing the abandonment of a project. One firm forced to abandon a project because of a kidnapping lost $382 million and eliminated 3,800 jobs, he said.
- Latin America will continue to have a high threat of kidnapping, as revolutionaries and terrorists look for funds. Countries with a particularly high threat include Guatemala, Chile and possibly Argentina. ■



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Insurer problems

Continued from page 1

rate in the 1980s and comparable to the rate achieved at the same point in the last recovery 10 years ago."

- Net aftertax income of $1.1 billion in the first half—double the industry's net income in the first half of 1984.
- Surplus growth in the first half of $5 billion, or 8% of total surplus.
- A 22% increase in property/casualty stock prices in the first nine months of the year, compared with a 10% increase in the Dow Jones 30 Industrials.

Mr. McNamara

However, Mr. McNamara also noted "negative facts," including:

- An all-lines combined ratio for the property/casualty insurance industry of 116% in the first half of 1985, only a "one-point improvement from the first half of 1984."
- Insurers' net income doubled in the first half over 1984, but net income in the first half was lower than during any other comparable period in the 1980s.
- A small increase in the industry's loss reserves.

Since the industry's loss reserves increased only 4% in the first half of this year, "you can assume they have not yet been strengthened," Mr. McNamara said.

He added that, according to an ISO study, reserves for general liability lines are inadequate by 40%, while medical malpractice reserves are inadequate by a whopping 70%.

- The increase in surplus was not generated from operating income—which was a negative $2.3 billion for the first half—but from realized and unrealized capital gains and a large infusion of new funds.

"Optimists point to the surplus increase of $5 billion since year-end 1984," Mr. McNamara said. "Realists question the quality of earnings and notice that much of the surplus increase is due to one-shot deals, many of which are not repeatable."

Other panelists also questioned whether the industry's earnings improvement—and the increase in stock values—are warranted.

Myron Picoult, senior insurance analyst and senior vp at Oppenheimer & Co. in New York, said the prices of property/casualty stocks have "gotten ahead of themselves.

Mr. Picoult

"There are exceptions to the rule. There always will be. But what I am finding is that there is clearly no differentiation taking place between the quality of earnings and the quality of the balance sheets," Mr. Picoult said.

"I think it will become a much more important investment criteria as you go into the next couple of quarters."

"In talking about the quality of earnings, you're not only talking about a one-shot situation," added John E. Hart, a certified public accountant and senior insurance partner at Coopers & Lybrand in New York.

Insurers are developing a philosophy of looking for short-term solutions that will tide them over to the next reporting year, Mr. Hart explained.

"Sooner or later we're going to run out of these non-recurring items" like tax credits and the discounting or transfer of loss reserves, he said. At that time, insurers will "have to focus on what the real value of earnings are," Mr. Hart warned.

Many "soft assets" can be used by insurance company managements to refine their results, especially loss reserves, Mr. Hart said.

Mr. Hart

For instance, some insurers discount their loss reserves solely to generate additional earnings, he said, though he added that accountants and actuaries find it "very difficult to disagree with the theoretical approach of discounting" if the company can support that discounting is warranted.

The industry's financial problems have led to a rash of insurer insolvencies, which threaten the stability of state guaranty funds, Mr. McNamara told the audience.

For example, he said 31 insurance companies have become insolvent since the beginning of 1984—"more insolvencies than in any full two-year period since guaranty funds were formed, and the books aren't yet closed for 1985."

He added that all admitted insurers, through contributions to state guaranty funds, must "pick up the tab for those that fail."

The future of guaranty funds depends upon whether the latest insolvencies are "the end of this horrible news," added Donald Greene, senior insurance law partner at LeBoeuf, Lamb, Leiby & MacRae in New York and U.S. general counsel for Lloyd's of London.

If the rash of insurer insolvencies subsides, "the system will hold together under a terrible strain," Mr. Greene said.

However, "if this is just the low board and we've got to climb to the high board for the event, guaranty funds will be shattered," Mr. Greene predicted. "They just don't have enough money.

"I would suspect if we have more insolvencies, the strain will be too great and what you will be rewarded with, having paid out your money to bail out the cheapest-selling competitor, will be tougher legislation that will require you to pay more money the next time around," Mr. Greene told insurers.

Mr. Greene

He added that the guaranty funds are "a very unsound concept, fundamentally wrong and tremendously popular in the political realm. There is no way to escape from it," Mr. Greene added.

One way insurers can avoid financial problems is to spurn the notion that growth is essential to the success of a property/casualty insurer, said Peter B. Walker, a director at McKinsey & Co. in New York, an international management consulting firm.

Insurers should be ready to lose market share if necessary to preserve profits, Mr. Walker said.

In fact, if a "number of insurers had stopped writing business two or three years ago and had just paid their operating costs out of capital, they would probably be in better financial positions today than they actually are," he said.

"Companies should commit their resources to areas in which they are already strong to become stronger," Mr. Walker said, adding that it is not necessary for insurers

Continued on next page

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Insurer problems

Continued from previous page

to penetrate geographic areas where they have no market position or no producers.

Some insurers should also stay away from the excess/surplus lines and reinsurance business, which "a lot have gotten into with no skills whatsoever," Mr. Walker stressed.

Mr. Walker

"Bigger is not necessarily better," Mr. Picoult agreed, adding that he has always been amazed with the insurance industry's constant push for growth.

Insurers will be faced with major problems beyond what they now perceive, Mr. Picoult predicted, unless they realize that they "can't be all things to all people."

Mr. Walker added that the property/casualty business is "incredibly complicated." For decision-making to be really effective, it should take place "at the front lines," he said.

"When people sit in the home office, 10 layers removed, and start setting pricing standards. . .to be carried out by local markets in very broad brushes, (insurers) wind up playing a losing game," Mr. Walker explained.

He added that building front-line skills "is a many, many year proposition, but this business—because of its cycles and the economic pressures we're talking about today —does not really give management the luxury to take a five- to 10-year horizon and build those skills."

There is no substitute for a high level of underwriting skills, Mr. Walker said.

Underwriting is often confused with underwriting results, he commented. "Increasing the list of classes you will not write is not underwriting. . .Underwriting is the notion of really understanding a local market, having a close relationship with producers and being a problem-solver."

He suggested that insurers train good underwriting and claims personnel, even if such training programs are conducted at the expense of automation.

The industry, he said, has invested enormous amounts of money in automation endeavors, yet has focused little, if any, effort on developing basic claims and underwriting skills.

Besides training underwriters, panelists said insurers must win the trust of buyers and regulators, who are confused and angered by the volatile swings in the property/casualty insurance market.

Mr. Greene said that the public does not understand how "crazy" insurers were during the soft market of the last five years. "When prices go down, the people don't notice the madness of the vendor," he said.

When insurers "leaped back in one year" to raise rates, buyers were outraged, he said.

"So, I would think your problem is one of perception," and that insurers have "frightened the world at large with your very bad habits in the previous five years," Mr. Greene said.

"Whether or not cartelism is going to be the answer, I don't know. I think a little intelligence wouldn't hurt."

Mr. McNamara agreed that "our customers, government and indeed many producers are angry and eager to retaliate for the real or perceived excesses of the present commercial insurance marketplace.

"Cynicism and mistrust have followed the dramatic escalation of prices, the high number of non-renewals and midterm cancellations and the lack of markets for certain classes of business," Mr. McNamara said.

However, he added, "While critics are pointing to significant price increases, they should not ignore the fact the premium levels today, for many classes of business, are still below the levels of the early '80s. It is price recovery from the extremely depressed levels of the past several years that characterizes the marketplace today."

'I believe we must abandon the (U.S. civil justice) system. It is obscene,' Mr. Greene said.

These market swings "have to be modified," according to Mr. Picoult, because the industry is giving itself a "black eye."

And, Mr. Greene warned insurers that there will be "retaliatory legislation" to curb the recent market problems.

"You cannot cancel or not renew without notices or approval," he said.

"I believe that come early 1986, we're going to see 20 to 30 new JUA bills across the nation," Mr. Greene said, referring to joint underwriting authorities or assigned risk pools. He added that he believes some of these bills will be enacted.

Mr. Greene also said that federal regulation of the insurance industry, which he called "a very likely development," will not solve many problems.

"I don't see any role by the federal government making life easier or cheaper for the insurance industry."

He added that some relief for the capacity-starved U.S. insurance market may be forthcoming: Additional capacity for U.S. property/casualty risks may be offered by Lloyd's of London next year.

"Lloyd's is expecting something on the order of $1.5 billion in additional capacity, much of which will be devoted to profitable underwriting of U.S. reinsurance and direct business that comes their way," he said.

However, with the exception of Lloyd's, Mr. Greene said he has heard very little to indicate that other overseas insurers and reinsurers are generating capital to write additional U.S. property/casualty business.

"Maybe it's being collected but it's being done very quietly," he said. "We'll know in January or February."

The current property/casualty market holds promise for investors with free capital, Mr. Greene said, adding that he is surprised that more investors are not entering the market.

McKinsey & Co.'s Mr. Walker agreed.

If the industry "opts to get its reserves up and holds the line on earnings for the next year," further price increases in the property/casualty marketplace could possibly result in a 20% return on investments by 1987, said Mr. Walker.

However, Mr. Walker speculated that such a rate of return would not endure for a long period of time.

Finally, the panelists said reform of the U.S. civil justice system would help insurers overcome many of their problems.

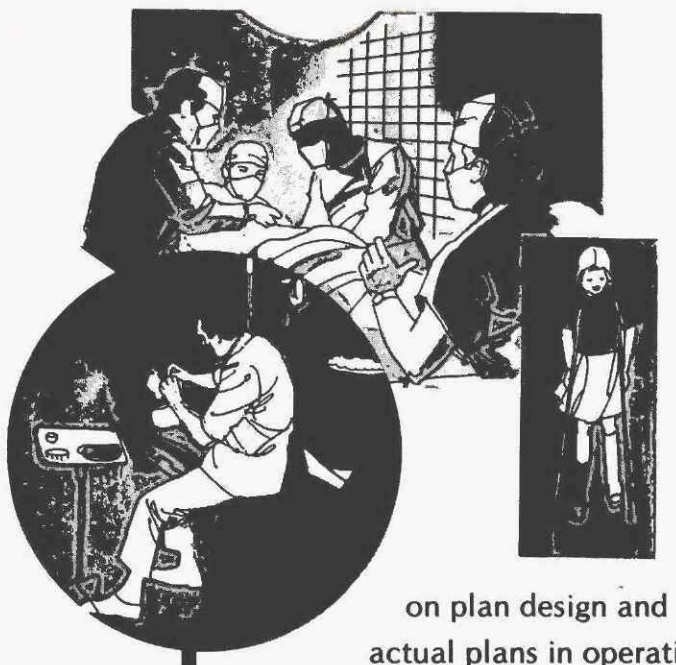
Mr. Greene commented that many of the problems facing the insurance industry result from the U.S. civil justice system.

"I believe we must abandon the system. It is obscene. The money flows in, the insurers have to recirculate it to the victims of accidents, and in the middle of it is the legal profession that devours more than a third of it," he said.

"I'm not suggesting that less money flow. . .but I'm suggesting that if the same amount flows, then it ought to flow to the people who deserve it."

Mr. Walker also urged industry leaders to take a key role in finding alternatives to the current civil justice system.

"Take the lead in tort reform," he said. "You should think deeply about how to affect change in the system." ■



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Regulators warn insurers about solvency

By LINDA J. COLLINS

WHITE SULPHUR SPRINGS, W. Va.—The United States has become a "casino society," and the current insurance market reflects this change, says the president of the National Assn. of Insurance Commissioners.

This shift toward speculation and away from sound financial practices became apparent when "states replaced prior approval laws with open competition and cut property and casualty insurers free to charge as they wished," said Bruce W. Foudree, NAIC president and Iowa insurance commissioner.

Mr. Foudree

Mr. Foudree made his remarks during a speech prior to a panel discussion of "Regulatory Responses to Insurer Insolvency" at the National Assn. of Casualty & Surety Agents/National Assn. of Casualty & Surety Executives' 1985 Conference, in White Sulphur Springs, W. Va., Oct. 6-9.

Other state insurance regulators on the panel included John E. Washburn of Illinois, John C. Neff of Tennessee and Lyndon L. Olson Jr. of Texas.

"What began as healthy competition turned into wholesale cash-flow underwriting, which in turn led to gambling by many insurers," Mr. Foudree said. Prices then became "less and less based on risks."

He said cash-flow underwriting was "virtually condoned by regulators when the NAIC mandated the inclusion of investment income in rate making."

During the cash-flow underwiting cycle, insurers put themselves into debt and gambled that investment income would cover their shortfall, Mr. Foudree said.

"They hoped, like desperate losers, to recover losses by generating increased investment income. They gambled and lost when interest rates dropped," he said.

Insurers also lost when the industry was hit with record losses in 1984, Mr. Foudree said.

As a result, some insurers became insolvent, and many others face insolvency, he said.

Illinois Director of Insurance Mr. Washburn added current insolvencies differ from past insolvencies, since it is "no longer the small, specialized insurer that's going down. Rather, these are large, multiline companies, and they're going down relatively quickly."

The result has been insurer panic, Mr. Foudree said.

"This is where we are now, with wholesale midterm cancellations by entire lines of coverage, sudden and dramatic price increases and massive non-renewals by some companies," he said.

These shock waves are being felt throughout society, creating major problems of availability of insurance and reducing public confidence in the industry, he said.

Mr. Neff, commissioner of the Tennessee Department of Commerce and Insurance, agreed that the current market situation is bringing the insurance industry's image to an all-time low.

"Wholesale midterm cancellation is just abominable," he said.

He said the NAIC is considering a model law that would prohibit midterm cancellations except for fraud or misrepresentation on the part of the policyholder and require 60 days' notice if insurers are not going to renew or if they are going to increase premiums in excess of 25%.

He added that he suspects insurers will begin to see an increased use of self-insurance and captives and that there will be more coverage through assigned-risk pools.

And, he warned that Congress may intervene if it doesn't see effective state regulation.

Mr. Olson, chairman of the Texas State Board of Commerce and Insurance, agreed that the current actions of the industry may result in federal regulation.

"We favor state regulation, but next year we will call for federal regulation" if there are not some fundamental changes in the way insurers do business, he said.

The insurance industry is giving signs that it is no longer conservatively managed, Mr. Foudree agreed.

"Going into some companies and looking at their financials today is like looking under rocks. We're finding all kinds of odd and ugly creatures," he said.

Insurance commissioners are seeing underreserving, high expense and operating ratios, abuses in the use of credits and schedule rating, and a lack of knowledge of or control over action taken by branch offices and managing general agents, Mr. Foudree said.

Mr. Washburn said the major problem regulators face today is a shortage of money or information to regulate properly.

"By the time we hear the street talk of what companies are doing, it's too late," Mr. Washburn said.

To speed up the collection and analysis of insurers' financial data, the NAIC has begun a pilot project to automate examinations and data collection, Mr. Foudree explained.

But, insurance regulators must be on guard more than ever because of insurers' "extensive use of surplus relief agreements and special accounting maneuvers, which artificially inflate surplus and hide true financial condition," he said.

Such moves are forcing regulators not to trust insurers' annual statements and quarterly financial data, he said. Regulators are forced to "get tougher," he said.

To ensure that insurance companies have made adequate provisions for future losses, Mr. Foudree said, the NAIC is considering requiring that insurers create additional reserves, especially for catastrophic and extraordinary losses. It is seeking special tax recognition for such reserves, he said.

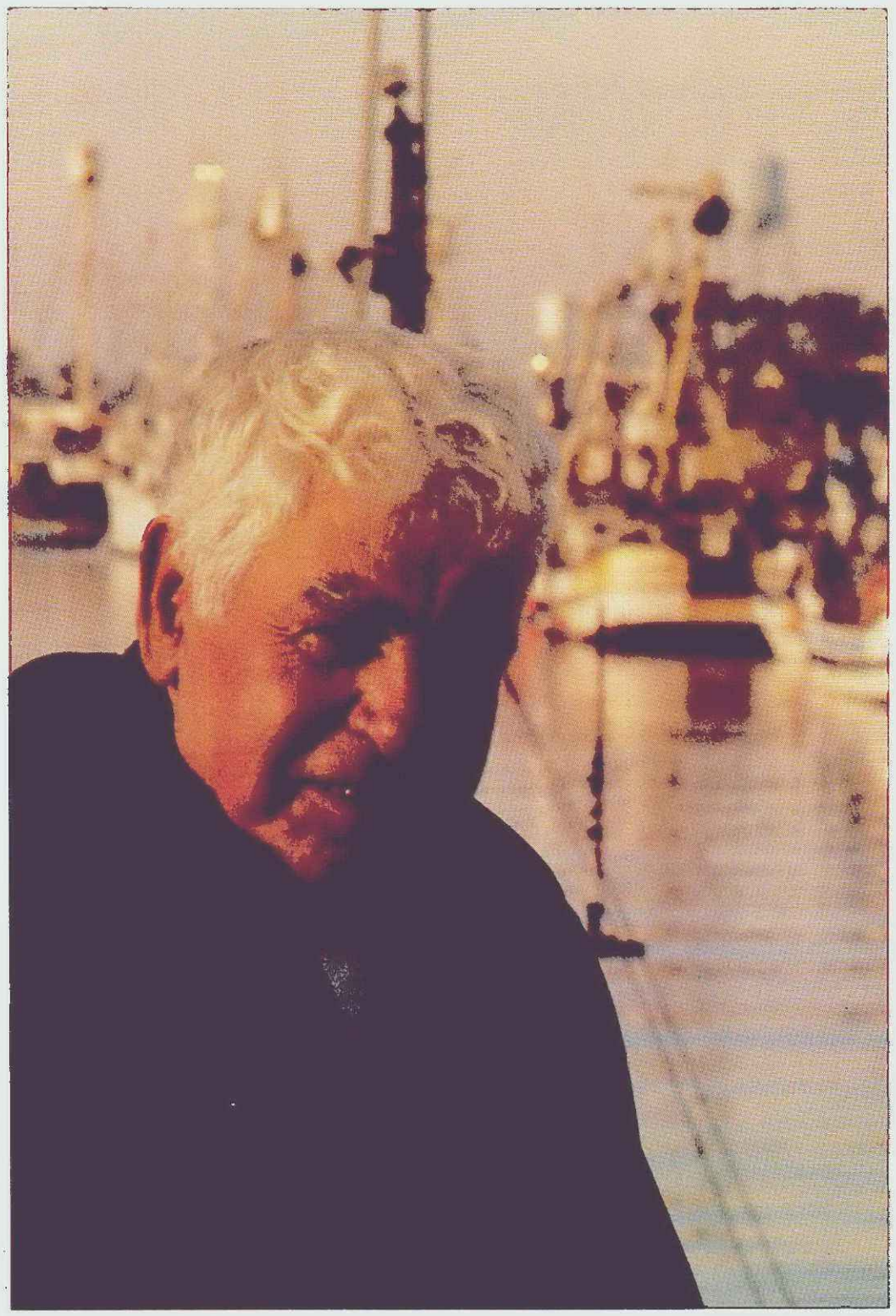
The casino society also has spawned a new kind of coverage that could prove very dangerous for the industry, he said.

Because nervous investors sought greater security for investments, insurers began to compete aggressively in the sale of financial guarantee products to back mortgages, municipal bonds and other debt instruments, he explained.

This may pose a major threat to the solvency of many insurers because "insurers gambling in financial guarantees can go down in a big way fast," he said.

Mr. Foudree sees the same absence of logic among insurers "in their headlong rush to sell financial guarantees as they used in cash-flow underwriting."

"Are we headed for a repeat performance of what we're seeing now, with panic, public outcry and possible disruption of the entire U.S. financial system?" ■



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Claims-made form

Continued from page 1

July 25 in Chicago, sponsored by Illinois Insurance Director John E. Washburn in conjunction with the New York, Texas and Connecticut insurance departments (*BI*, Aug. 5).

Regulators were expected to meet in a closed-door session after the informational meeting to "formulate a decision where to go from here," said Richard W. Carlson, assistant Illinois insurance director.

"The NAIC traditionally has not looked at form approval, but I thought this one was a little unusual," Mr. Washburn said, explaining why he spearheaded the joint meetings.

Illinois has not acted on the previous ISO filings. ISO initially filed its new claims-made form with the states in May 1984, but then filed amendments in December 1984 and February 1985.

Meanwhile, New York recently disapproved the new CGL form as originally filed (see story, page 89). Other states that ISO lists among those that have already approved the new forms are still holding public hearings on them.

New Jersey held a hearing on the CGL forms Oct. 11, although ISO claims New Jersey already approved the forms March 27 when it failed to act within a specified time after the filing.

However, New Jersey Insurance Commissioner Hazel Frank Gluck maintains that the time limitation did not apply in this case.

A decision following the Oct. 11 hearing is not expected for "quite a while," said Thomas Hooper, executive assistant to Ms. Gluck.

Similarly, New Mexico has scheduled a hearing Oct. 23 on the CGL forms although ISO says the forms won approval in New Mexico Feb. 13 when the Insurance Department did not act on the filing within a specified period.

And although Alaska had already given its approval to the new form on Feb. 25, Insurance Director John L. George withdrew his approval of the tail coverage provisions. An Oct. 9 hearing was held to discuss the tail coverage.

Deputy Director Paul Troeh pointed out that Alaska or any other state can withdraw its approval of the entire form or portions of it.

"Several states are prepared to reverse their action or disapprove the form," noted Mr. Carlson.

Minnesota, which previously disapproved the forms, has scheduled a hearing Oct. 23 and Texas, which hasn't acted on the form, has slated hearings for Oct. 30-31.

While ISO is confident the new forms will meet with regulators' approval, insurance commissioners are cautioning that they will scrutinize the new forms carefully.

"The proposals being made are really a new form. . .with substantial changes," said Iowa Insurance Commissioner Bruce Foudree, who also is president of the NAIC.

Iowa is one of the states that had already approved the new claims-made form. That action came Feb. 14. "But we're reconsidering it in light of the changes," he said.

Regulators are obliged to make sure that the new language really conforms to the concerns they've raised with ISO in recent weeks, he added. "Our concern is that policyholders understand the new policy, and that there are no gaps in the coverage," Mr. Foudree said, summing up the Oct. 16 meeting held at NAIC headquarters.

"I think there's a recognition in concept that changes need to be made because of what's happening in the civil justice system," Mr. Foudree said. Insurers contend that they are being forced to pay unexpected large judgments against their policyholders and that the courts are too broadly interpreting the provisions of the occurrence policy form.

A claims-made form addresses those concerns, he said. And though ISO's claims-made proposal may not be the perfect device to cope with the civil justice system, Mr. Foudree believes it "may be the best that good minds can come up with at this time."

Even if regulators are satisfied with ISO's latest revisions to its proposal, several expressed doubt that the form can be implemented by Jan. 1. ISO, however, insists the forms will be ready for implementation Jan. 1 without further revisions before that time.

"Even if we approved it right now, it would be unlikely that we would give a Jan. 1 effective date," said New Jersey's Mr. Hooper.

"ISO has informed us that it's very unlikely that if we approved it tomorrow that all of its members would be up and running Jan. 1. Some may even be delayed until July 1," added Deputy Vermont Insurance Commissioner Donald A. Kifer.

Members of RIMS were meeting with ISO today in hopes of negotiating still more changes in the newly revised claims-made form.

"There still are a lot of unanswered questions. . .It's hard to even ask questions without seeing the actual form," said Jon Harkavy, RIMS general counsel and director of governmental affairs.

But, the forms have won qualified support of the IIAA and NAIB, pending release of the final language of the new revisions.

"We believe the CGL revisions will have an extremely positive impact on market availability and continuity of coverage for the insurance buyer, while giving the insurance company the ability to assign some degree of predictability to future claims," said IIAA President Richard G. Taylor.

However, the IIAA says it will continue to oppose any filings ISO makes to include defense costs within policy limits. ISO plans to seek such a revision to be effective July 1, 1986.

"ISO's recent actions respond to objections raised by NAIB and are certainly a step in the right direction," said NAIB President Robert H. Moore.

According to ISO's tally, the following U.S. jurisdictions already have approved the previously filed claims-made form, either by direct approval or by not disapproving the form within a specified period:

Alaska, Feb. 25; California, Feb. 14; Colorado, Feb. 13; District of Columbia, March 25; Hawaii, April 23; Idaho, Feb. 22; Indiana, March 14; Iowa, Feb. 14; Kentucky, May 2; Louisiana, May 30; Maryland, June 3; Massachusetts, Feb. 27; Missouri, Feb. 13; Montana, Feb. 20; Nevada, Feb. 21; New Jersey, March 27; New Mexico, Feb. 13; North Dakota, Feb. 22; Ohio, Feb. 19; Oklahoma, June 27; Oregon, March 4; South Dakota, March 25; Tennessee, Feb. 27; Utah, March 8; Washington, April 24; West Virginia, March 13; and Wisconsin, April 18. ■

ISO expects New York to accept new form

NEW YORK—Despite initial rejection, the Insurance Services Office says it's confident it will be able to convince New York Insurance Superintendent James P. Corcoran to approve its revised claims-made commercial general liability policy form.

Mr. Corcoran announced Oct. 11 he had disapproved the form as filed, noting that its introduction for widespread use "would not be in the public interest."

"We are disappointed that the superintendent disapproved it, but by the end of the month we will have a new filing which will allay the preponderance of his concerns," said an ISO spokesman.

In rejecting the form, Mr. Corcoran said he considers the across-the-board application of a claims-made form "an unnecesasary and inappropriate change in the traditional insurance system."

"Even where the need for the claims-made approach can be demonstrated, standards for its application in those areas are necessary," Mr. Corcoran added.

"Universal usage of the claims-made approach would unduly shift the burden of risk assumption from the insurer, where it belongs, to the insured. Widespread application would result in confusion on the part of consumers, create potential for gaps in coverage and possible bankruptcy of a business caught by large exposures with inadequate coverage or no insurance at all," he said.

However, the New York Insurance Department will continue to look favorably on the introduction of the claims-made form for problem coverages and long-tail exposures, he said.

He noted the department for several years has approved claims-made policy forms for such exposures as professional liability, errors and omissions, product liability, pollution liability and environmental impairment.

While disapproving the claims-made form, Mr. Corcoran approved two portions of ISO's CGL filing: an annual aggregate limit and the pollution liability exclusion.

the professional marketplace

Business Insurance

Circulation Breakdown*

Commercial Consumers

Administrative:

CEO's presidents and owners...2,531
Vice-presidents, general managers and other administrative personnel 2,547

Financial:

Chief financial officers and vice-presidents of finance 2,075
Secretaries, treasurers, controllers and other financial personnel ...6,886

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 8,048

Sub-total 22,087

Associations 804
Government, unions and educational systems 1,030

Commercial Consumers

Sub-total 23,921

Insurance agents and brokers 9,548
Insurance companies 6,089
Financial institutions 536
Actuaries, attorneys, adjusters, appraisers and consultants 3,464
Others allied to the field 1,320

TOTAL 44,878

* Source: Business/Occupational breakdown of qualified circulation, May 6, 1985 issue, as submitted to BPA for June 1985. BPA Publisher's Statement.

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Hilton settlement

Continued from page 1
lead plaintiff attorneys in litigation stemming from the MGM Grand fire.

Of the $22.8 million, Hilton is responsible for $16.5 million and a group of 47 other defendants is responsible for $6.3 million, according to Mr. Galatz.

Hilton's Las Vegas attorney, Henry Rawlings of Rawlings, Olson & Cannon, said that Hilton is fully indemnified and is not contributing its own funds to the settlement, but he declined to comment on the insurers.

Mr. Rawlings also characterized the settlement as "very, very fair."

Northbrook Excess & Surplus, an Allstate Insurance Group unit that no longer is underwriting new and renewal business, had written a $20 million excess of $5 million liability insurance policy for Hilton at the time of the fire.

Northbrook Excess & Surplus ceased underwriting on Jan. 1 and is now running off its business.

Prior settlements by Northbrook Excess & Surplus on behalf of Hilton totaled $3 million, leaving $17 million available for the most recent settlement, according to an official at Sayre & Toso.

Sayre & Toso, managing general agent for Mission Insurance Co., had written primary insurance for Hilton and paid out its policy limits previously. It had also written $25 million excess of $20 million for Hilton (*BI*, Feb. 16, 1981).

A spokesman for Allstate confirmed that Northbrook Excess & Surplus is contributing to the settlement, but declined to discuss details.

The 47 defendants contributing $6.3 million to the settlement include architectural, engineering, carpeting, air conditioning and elevator installation companies, Mr. Galatz says.

These defendants "wound up paying relatively little money in the scheme of things," says an attorney who negotiated on their behalf, Martin Kravitz with Brown, Wells, Beller & Kravitz in Las Vegas.

One company paid $800,000 and one $500,000, he says, declining to identify them. Several others will contribute $25,000 and less, Mr. Kravitz reports.

In a separate settlement also agreed upon last week, defendants excluding Hilton paid a total of $50,000 to six hotel security guards who claimed emotional distress and psychological damage from the fire.

Most of these firms have commercial insurance for their portion of the two settlements, but several are self-insured, Mr. Kravitz says.

Each plaintiff's claim in the $22.8 million settlement was negotiated separately, Mr. Galatz reports.

The largest individual settlement was $5.2 million awarded to the family of one of the people killed, according to Mr. Fetterly.

Mr. Kravitz estimates that on a per-capita basis, this settlement is 15%-20% larger than settlements made in the MGM Grand hotel fire litigation.

More than 1,350 fire victims and surviving family members of those killed in the MGM Grand fire agreed to a settlement that created a $140 million settlement fund.

However, 39 plaintiffs settled for $36.6 million their demands for damages stemming from the 1980 fire at the Stouffer Inn in Harrison, N.Y. (*BI*, June 4, 1984). Twenty-six people were killed in that fire, many of them high-ranking corporate executives in the prime of their careers, and 14 people were injured.

The Hilton claims that were settled last week had been scheduled for trial in February or March, Mr. Fetterly said.

There may be one personal injury claim still pending in the Midwest, Mr. Galatz noted.

Meanwhile, Mission is pursuing its suit against dozens of construction, supply and service companies to recover $25 million it paid Hilton for property damage and business interruption claims after the fire.

In all, Hilton incurred $27 million in hotel reconstruction costs and accompanying loss of revenues, sources say, but the insurers that paid $2 million are believed to have waived their subrogation rights.

Mission filed its suit in November 1983 in Los Angeles Superior Court naming about 60 defendants.

One of the defendants, a carpet manufacturer, asked the court to dismiss the case or to stay the action in California so the case could be moved to Las Vegas.

The court denied the request to dismiss the case, but stayed the action on the condition that Mission "see what it could do" to move the case to Las Vegas, says Leon J. Gladstone, Mission's Los Angeles attorney with Berger, Kahn, Shafton & Moss.

Mr. Kravitz says the ruling ordered Mission to "insert itself" into Nevada jurisdiction; Mr. Gladstone describes the order as "very, very vague" and says a decision on venue should be reached within a month.

More than half of the $25 million—the limits of Mission's policy—was paid to cover business interruption losses, Mr. Gladstone estimates. ■

Minnesota rule limits midterm cancellations

ST. PAUL, Minn.—A new regulation in effect in Minnesota limits the ability of insurers to cancel commercial liability policies midterm.

"We agreed to a 30-day notice prior to any midterm cancellation," said Ralph Marlatt, president of the 73-member Insurance Federation of Minnesota.

The Insurance Federation of Minnesota and Commissioner of Commerce Michael A. Hatch negotiated the regulation, which took effect last week.

The law applies to all commercial liability policies except workers compensation, employer liability, ocean marine, accident and health and reinsurance.

However, under the regulation an insurer will be allowed to cancel midterm for nonpayment of premium, an adverse change in the risk, loss of reinsurance, misrepresentation or fraud or if it faces financial insolvency.

The new regulation applies standards that already are practiced by the majority of insurers writing in Minnesota, Mr. Marlatt said.

The regulation was developed after the Division of Insurance received "a flood of complaints" from consumers, according to Mr. Hatch.

He said the complaints included policies canceled midterm, non-renewal notices received on the last day of the policy and policyholders receiving a renewal or binder, and several months later receiving a premium quote that was much higher than the premium they had been paying. ■

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Seaway damage

Continued from page 2
plained. "The weather is excellent."

The authority has traditionally closed the seaway in mid-December, when ice begins to form in the waterway, making navigation hazardous. When the bridge malfunctioned in 1984, officials feared the ships in the waterway would be locked in by frozen waters if repairs were not made in time.

Mr. Willans said the authority expects repairs to the lock to be finished before weather conditions make the seaway treacherous.

Still, shippers say the blockage will cost them millions of dollars in lost revenues that they say aren't covered by insurance.

N.M. Patterson & Sons Ltd. in Thunder Bay, Ontario, expects to lose at least $3 million before the waterway is cleared. The shipping firm had three vessels stranded in the seaway last week and four others scheduled to leave port soon.

"If it runs for three to six weeks like they estimate, our losses will run into the millions," said Pat Doherty, vp and general manager of the firm. "We expect at least a $3 million loss."

None of the lost revenue is covered by insurance, he noted, pointing out that shippers don't normally carry coverage against the cost of idle time, known as blocking and trapping coverage.

Mr. Doherty said he doesn't expect firms that may be idled while waiting for shipments to attempt recovering their lost earnings from his company. Those firms might bring claims against the seaway authority, he predicted.

Algoma Central Railway Marine Division in Port Colborne, Ontario, had not estimated what its losses might be, but last week an official said the shipping company does not have insurance to cover revenue lost during the delay.

"It's costing us plenty," said Tim Dool, manager of fleet operations. "It's a busy time of year for us, and we've had a poor year already."

Seven of Algoma's 14 ships are affected by the blockage.

Mr. Dool said the company carried no insurance that would cover the delay because "this is only the second time this has happened. We as owners haven't seen it as a normal risk. But we might look at it closer in the future."

March Shipping Ltd. in Montreal, an agency that saw five of the ships for which it has responsibility become stranded by the 1984 bridge accident, has three ships idled by the current mishap.

As an agent for the ships' owners, March doesn't lose money because the ships are idled. But a spokesman said the steel producers that chartered the ships are losing around $4,000 in charter-hire costs each day the vessels don't move.

This doesn't include other expenses like payroll and the price of diesel fuel, he said.

Brokers say it isn't unusual for commercial shippers to be caught without cover that would replace revenue lost as the result of a shipping delay. The cover is not offered in standard hull or protection and indemnity policies, they say.

Peter Carlson, vp in Johnson & Higgins marine department in New York, said only a very small market exists for blocking and trapping coverage. The coverage is a named-perils policy and is "very unusual for people to buy," he said. "They just never expect to use it."

Businesses that must curtail operations while waiting on a shipment can recover from specialized business interruption policies, although such coverage is also not widely written, says Thomas Sklens, senior vp at Fred S. James & Co. Inc. in New York.

"You can't purchase coverage for delays or loss of market easily," said Mr. Sklens.

"It is difficult to obtain," he pointed out, adding that marine cargo policies would cover any cargo damage that occurred during the delay "as long as the delay was beyond the control of the insured." ■

Market conduct exams

Continued from page 2
policies, cancellation of entire books of business and inadequate notices of non-renewal.

Colonial Penn said last week that it intends to cooperate with the NAIC during the exam.

"We believe that the market conduct exam has to do with liability policies issued by Colonial Penn to municipalities and other public entities," said a Colonial Penn spokesman.

"We did cancel coverage based on an inability to secure adequate reinsurance. . .and it would be financially imprudent to continue writing this type of coverage without adequate reinsurance," he said, adding such information was presented in a hearing before the Wyoming Insurance Department (*BI*, July 8).

"Colonial Penn is relatively new in the commercial market. . . .The company took exhaustive methods to secure reinsurance, including sending people to foreign markets. Without the ability to attract reinsurers. . .we had no alternative but to withdraw," the spokesman added, noting that Colonial Penn withdrew from the municipal liability line in several states.

Officials from CIGNA and AIG said they would not now comment on the exam.

"Until the market conduct exam has been made. . .and the specific details of concern surface in absolute terms, INA feels it is inappropriate to comment on generalities," said a spokesman for CIGNA Corp., the parent of Insurance Co. of North America in Philadelphia.

Patrick Foley, vp and general counsel for National Union, said: "I think that we have to see what they're going to do before commenting."

The three insurers were targeted for different reasons, Nevada's Mr. Gates said, though he refused to divulge those reasons.

"We are fully aware of the underwriting losses that many companies are being forced to accept," Mr. Gates said. "We need to be sure of the appropriateness of their responses. The targeting of these companies does not mean that they were seen to be the worst offenders. These are companies where specific issues have arisen that require further evaluation by regulators.

"The Western Zone will recommend that other NAIC zones" conduct informal discussions to evaluate "the activities and responses of companies doing business in their own areas," Mr. Gates said.

That recommendation will be presented during the group's annual winter meeting, to be held Dec. 8-12 in Reno, Nev. ■

Supreme Court cases

Continued from page 2

ment to the assets of his enterprise," the Woodward brief says.

"MPPAA places all of these assets, in whatever form, at the disposal of pension trust trustees, yet affords no compensation to the employers affected," the brief adds.

Woodward's arguments are supported by the National Assn. of Manufacturers, which filed a friend-of-the-court brief.

The NAM, a major business lobbying organization with about 13,000 members, argues that the law "is clearly more like the outright destruction of property. . .than like traditional forms of government regulation of the use of property. . ."

The NAM brief also says: "It is a direct and absolute confiscation of one citizen's private property for the benefit of other private citizens. It is a forced contribution to the general revenues of the plan."

NAM also contends in its brief that the act has interfered with corporate sales and acquisitions.

"A business that was only marginally profitable or actually failing could no longer sell or liquidate without incurring substantial unbargained-for liabilities, which might consume what remaining worth the employer had," the brief says.

And, the NAM brief notes that while Congress may have passed MPPAA because of public concern over unfunded vested benefits in multiemployer pension plans, it is a small group of employers—not the public—that is paying for that concern.

"The public as such assumes none of the burden," the NAM brief says. "Employers who continue in the plans pay nothing more than what their contracts specify. It is only the relatively small group of employers who withdraw—many of whom are the least able to bear such burdens—who must actually pay allocated shares of unfunded vested benefits, in violation of the most fundamental tenet of the Fifth Amendment."

The Pension Benefit Guaranty Corp., which is the defendant in the case, argues in its brief that the Multiemployer Act does not take away property but defines the relationship between private parties.

"Prior to the enactment of the Multiemployer Act, a withdrawing employer could shift to the plan's remaining employers the financial obligation to fund all of the plan's vested benefits," the PBGC brief says.

"After the act took effect, the withdrawing employer became obliged to pay its fair share of any potential underfunding. Such a proper and equitable allocation of the responsibility for funding pension benefits is not subject to challenge," according to the PBGC brief.

The PBGC brief notes that Congress acted reasonably and rationally when it passed the Multiemployer Act. Studies have shown that multiple withdrawals by employers posed a serious threat to the financial stability of the plans, the PBGC says.

Prior to passage of the act, a company could withdraw from a multiemployer plan and not pay a cent toward the plan's unfunded vested benefits.

In a footnote to its brief, the PBGC also says Woodward Sand's challenge should be rejected because the arbitrator in the case hasn't decided whether the company owes the plan any money.

"Until the arbitrator determines. . .whether there is liability, it is premature to consider any claim that property has been 'taken,'" the footnote says.

The case involving the Warsaw Convention and the Montreal Agreement—international treaties that limit damage awards to $75,000 on certain commercial airline flights—involves the 1975 crash of an Eastern Airlines jet as it approached John F. Kennedy International Airport in New York.

Because of various legal proceedings, Eastern did not pay until 1982 a total of $150,000 in damage awards to the estates of Bernard Mahfoud and his wife, Odile. The Mahfouds were killed in the crash.

A brief filed with the Supreme Court on behalf of the Mahfouds said Eastern's liability to pay two $75,000 awards began at the moment of the victims' deaths and interest should have started to accrue at that time.

"Airline defendants and their insurers should not have an incentive to use the litigation process in order to reduce cost by delaying payment of moneys clearly due and owing," the Mahfoud brief says.

"Courts in a variety of contexts have established plaintiff's right to recover prejudgment interest when the defendant has delayed unduly in the payment of obligations due and owing."

But papers filed with the Supreme Court on behalf of Eastern say the framers of the Warsaw Convention and the Montreal Agreement made it clear that $75,000 would be the absolute limit on the airline's liability.

The Montreal Agreement limits the "liability" of an airline for each passenger to a fixed sum, the Eastern Airlines brief says.

"It fixes $75,000 as the carrier's maximum liability per passenger, and the $75,000 limit is stated in language that admits of no exception. The limit thus applies to all components of a carrier's total liability, including any liability for prejudgment interest," the Eastern brief says.

In the malpractice case, the justices declined to review a California Supreme Court decision upholding the state's 1975 law setting a $250,000 maximum on malpractice awards for non-economic losses.

The law was enacted by the California Legislature at the peak of the malpractice crisis of the mid-1970s, when malpractice insurance premiums skyrocketed.

A jury had ordered Permanente Medical Group, a partnership of physicians, to pay $1.29 million—including $500,000 for non-economic losses—to a patient for failing to diagnose and prevent a myocardial infarction. But the trial judge, citing the 1975 state law, cut the non-economic award to $250,000. The California Supreme Court later affirmed the ruling.

While the U.S. Supreme Court rarely comments on cases it declines to review, Justice Byron White said in a dissenting opinion that the California law limiting the size of malpractice awards deserved court review.

"Given the continued national concern over the 'malpractice crisis,' it is likely that more states will enact similar types of limitations, and that the issue will recur. . .The federal question presented by this appeal is substantial," Justice White wrote.

The high court last week did agree to decide whether the Federal Trade Commission could charge the Indiana Federation of Dentists with violations of federal antitrust law for not sending X-rays and treatment plans to insurers for review before major dental work is performed.

The FTC had charged in 1978 that the dentists had engaged in an illegal boycott and ordered an end to the practice. But the 7th U.S. Circuit Court of Appeals reversed the FTC, saying the dentists' actions were designed to ensure high-quality care. ■

Space agencies launch programs

Continued from page 2

launch, for the coverage.

After the captive, which will be fronted by a commercial insurer, pays the costs of one aborted launch, the agency will buy commercial insurance for any subsequent launch failures, Mr. Dahbi said.

Any difference between the rate Arianespace charges to satellite owners for the coverage and the rate charged to Arianespace by commercial insurers will be borne by the agency.

Funding for the captive will be decided at an Oct. 30 meeting, Mr. Dahbi added.

"This new captive is the internal business of Arianespace, and nothing is being done to take insurance business away from the traditional market," he said.

"It isn't a substitute for insurance, but additional capacity," Mr. Dahbi explained.

The announcement of the program follows the September loss of an unmanned Ariane rocket, which was intentionally destroyed after the rocket plummeted toward populated areas.

Two satellites with a combined insured value of $168 million were lost in that destruction of the Ariane rocket (*BI*, Sept. 23).

The formation of the captive insurer is not a new idea, according to Mr. Dahbi. He explained that Arianespace has considered for the past six months establishing a captive insurer to write coverage both for the cost of the launch itself and for the cost of the satellites that are aboard an Ariane rocket that subsequently malfunctions.

'Insurance will still be needed for the satellite itself during the launch phase and the post-launch phase,' says Mr. Berman of NASA.

However, following the recent losses, this expanded plan "was abandoned and made obsolete," according to Mr. Dahbi.

NASA's program is different than Arianespace's, though it is also intended to reduce launch costs for owners and insurers if satellites fail to be properly launched.

In the past, NASA's launch service agreement said that if a satellite is lost during a shuttle launch because of NASA errors, the agency will provide another launch for free, according to Robert Berman, an attorney for NASA in Washington.

Now, satellite owners can opt for a new clause that says "if the payload does not achieve its major goals—regardless of whose fault it is—then we will provide a relaunch at a marginal cost," said Mr. Berman, adding that cost will be about half of normal launch costs.

"We have no statutory authority to insure or indemnify personal property on the shuttle," Mr. Berman said.

"Insurance will still be needed for the satellite itself during the launch phase and the post-launch phase," Mr. Berman emphasized.

This new clause was developed in August, before the September loss of three satellites worth $255 million, including the Ariane losses.

While space agencies are attempting to help ease capacity problems, additional satellite losses are being reported.

Canada Telesat Co. notified its satellite launch insurers last month of a $6 million Canadian ($4.4 million U.S.) partial loss.

The company's Anik D-2 probe, which was launched last year, spun out of proper position in March and was rocketed back into position, using up fuel that was meant to power the satellite over its expected eight-year lifespan. The $6 million claim represents the shortened lifespan of the satellite.

The probe is insured for $68 million for risks during launch and its first 180 days in orbit under a five-satellite program led by the Ariel Syndicate at Lloyd's of London's, underwriters say.

The total premium that was paid for the five satellites was $23.3 million, they say. ■

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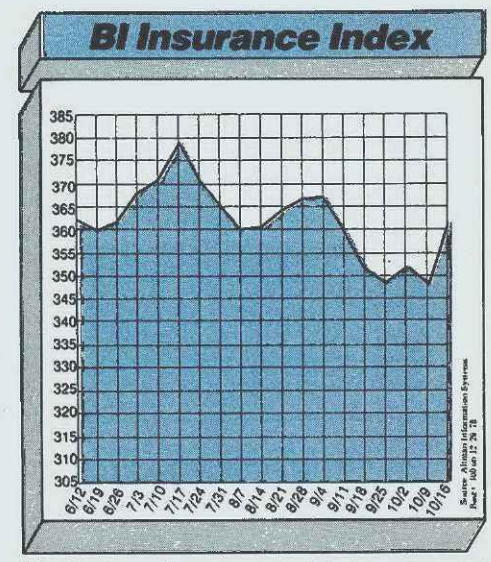
Baldwin & Lyons Inc	OTC	65.00	4.8	10.7	0.80	1.2	68.00	63.00	1.5
Corroon & Black Corp	NYSE	47.25	3.6	0.0	1.00	2.1	47.25	46.13	55.8
Crump E H Cos Inc	OTC	32.25	9.3	20.8	0.50	1.6	32.25	29.00	25.4
Emett & Chandler Cos Inc	OTC	14.50	6.4	37.2	0.00	0.0	14.50	13.63	20.6
Gallagher Arthur J & Co	OTC	39.75	13.6	22.2	0.28	0.7	39.75	35.00	57.3
Hall Frank B & Co Inc	NYSE	26.25	1.4	0.0	1.00	3.8	26.25	25.75	249.2
Marsh & Mclennan Cos Inc	NYSE	69.63	4.1	17.8	2.68	3.8	69.75	67.00	203.4
Poe & Assoc Inc	OTC	8.00	0.0	0.0	0.80	10.0	8.00	8.00	3.1
AGENTS/BROKERS	AVERAGE			38.2		2.3			
Conglomerates & Holding Cos.									
American Express(Fireman's Fd)	NYSE	42.25	4.0	14.6	1.36	3.2	42.63	40.88	3,146.2
Anderson Clayton(Ranger/PanAm)	NYSE	44.50	4.1	32.7	1.32	3.0	44.50	43.13	66.6
Amaco Inc	NYSE	8.75	0.0	0.0	0.00	0.0	8.88	8.75	195.8
Berkley W R Corp	OTC	20.00	1.3	58.8	0.32	1.6	20.00	19.88	175.3
CIGNA Corp	NYSE	58.00	6.7	81.7	2.60	4.5	58.00	54.50	710.6
CNA Finl Corp (CNA)	NYSE	51.88	8.1	17.9	0.00	0.0	51.88	48.25	72.4
General Re Corp	NYSE	87.13	7.9	138.3	1.56	1.8	87.13	81.88	474.3
ITT (Hartford Group)	NYSE	34.88	0.7	10.1	1.00	2.9	35.00	34.50	4,022.9
Sears Roebuck & Co. (Allstate)	NYSE	33.88	5.4	9.1	1.76	5.2	33.88	31.75	2,062.5
Teledyne Inc (Argonaut)	NYSE	237.38	1.0	5.1	0.00	0.0	240.75	236.00	86.5
Transamerica Corp (Occidental & Fred S. James)	NYSE	28.25	1.8	14.6	1.68	5.9	28.25	28.00	593.9
CONGLOMERATES/HOLDING COS.	AVERAGE			10.0		1.8			
Insurers									
Aetna Life & Cas Co	NYSE	46.50	5.1	19.1	2.64	5.7	46.50	44.50	1,962.8
American General Corp	NYSE	30.50	8.4	9.5	1.00	3.3	30.50	28.25	838.2
Amern Heritage Life Invt Co	NYSE	33.88	-1.1	9.9	1.20	3.5	34.13	33.88	0.7
American Indty Finl Corp	OTC	18.00	4.3	0.0	1.12	6.2	18.00	17.25	2.5
American Intl Group Inc	NYSE	91.00	9.8	24.3	0.44	0.5	91.00*	85.13	461.5
Aneco Reins Ltd	OTC	0.88	0.0	0.0	0.00	0.0	0.88	0.88	0.0
Avemco Corp	NYSE	34.13	8.8	15.0	0.60	1.8	34.13*	32.00	10.1
Business Mens Assurn Co Amer	OTC	26.50	0.5	7.7	1.04	3.9	26.75	26.25	12.1
Chubb Corp	NYSE	68.38	4.2	16.7	2.34	3.4	68.38	66.00	589.2
Combined Intl Corp	NYSE	43.88	4.2	8.3	2.16	4.9	43.88	43.00	130.9
Continental Corp	NYSE	40.13	5.2	19.7	2.60	6.5	40.38	39.13	477.0
Crown Life Ins Co	OTC	215.00	0.0	13.0	0.00	0.0	215.00	215.00	0.0
Durham Corp	OTC	38.25	2.0	7.1	1.28	3.3	38.25	37.50	6.2
Farmers Group Inc	OTC	58.88	0.6	10.1	1.76	3.0	59.25	58.13	887.8
Fremont Gen Corp	OTC	24.50	7.7	0.0	0.48	2.0	24.50	22.75	101.4
Great West Life Assurn Co	OTC	450.00	4.7	11.6	1.60	0.4	450.00	430.00	0.1
Hanover Ins Co	OTC	44.75	1.1	61.3	0.56	1.3	44.75	44.00	3.5
Hartford Steam Boiler Inspctn	OTC	52.00	3.0	16.4	2.00	3.8	52.00	50.00	11.2
Kans City Life Ins	OTC	24.00	1.1	9.4	0.87	3.6	24.00	24.00	3.4
Kemper Corp	OTC	54.25	4.6	15.6	1.80	3.3	54.25	52.00	444.8
Liberty Corp S C	NYSE	29.75	0.8	13.1	0.72	2.4	29.75	29.38	19.5
Lincoln Natl Corp Ind	NYSE	43.50	3.0	10.4	1.84	4.2	43.75	42.00	122.9
Mission Ins Group Inc	NYSE	3.50	-9.7	0.0	0.00	0.0	4.13	3.50	118.4
Monumental Corp	OTC	31.63	2.8	11.6	1.40	4.4	31.63	31.00	36.0
Nobel Ins Ltd	OTC	10.75	2.4	14.1	0.25	2.3	10.75	10.25	9.0
Northwestern Natl Life Ins	OTC	22.50	4.0	5.8	0.80	3.6	22.75	22.38	246.8
Ohio Cas Corp	OTC	58.88	3.5	22.1	2.80	4.8	58.88	56.75	251.6
Old Rep Intl Corp	OTC	30.00	2.6	8.1	0.74	2.5	30.00	29.00	94.0
Orion Cap Corp	NYSE	24.13	-0.5	0.0	0.76	3.2	24.25	23.63	26.4
Protective Corp	OTC	20.13	11.0	7.4	0.66	3.3	20.13	19.00	163.2
Provident Life & Acc Ins Co	OTC	24.63	5.9	6.7	0.76	3.1	24.63	23.50	221.5
St Paul Cos Inc	OTC	69.13	2.0	0.0	3.00	4.3	69.13	67.75	359.0
SAFECO Corp	OTC	38.88	2.6	12.6	1.60	4.1	38.88	37.50	403.3
Sri Corp	OTC	18.25	1.4	53.7	0.80	4.4	18.25	18.00	10.5
Seibels Bruce Group Inc	OTC	20.25	12.5	0.0	0.80	4.0	20.25	18.50	47.4
Statesman Group Inc	OTC	4.13	-2.9	0.0	0.15	3.6	4.13	4.13	43.0
Tokio Marine & Fire Ins Co	OTC	216.75	-1.4	40.8	1.05	0.5	224.50	216.75	8.9
Torchmark Corp	NYSE	23.38	16.9	9.8	0.60	2.6	23.38	19.88	901.4
Travelers Corp	NYSE	42.75	3.3	10.4	2.04	4.8	42.88	41.00	1,922.6
United Fire & Cas Co	OTC	23.50	-4.1	20.4	1.20	5.1	24.50	23.50	1.2
United States Fid & Gty Co	NYSE	36.13	11.2	150.5	2.20	6.1	36.13	33.13	519.4
Uslife Corp	NYSE	38.00	9.0	8.6	1.04	2.7	38.00	35.13	313.1
Washington Natl Corp	NYSE	24.75	-1.0	7.2	1.08	4.4	25.13	24.25	75.0
Zenith Natl Ins Corp	OTC	21.00	6.3	0.0	0.68	3.2	21.25*	19.75	124.2
INSURANCE COMPANIES	AVERAGE			17.9		2.3			

System design: Altman Information Systems

BI Insurance Index



The *Business Insurance* stock index rose more than 10 points during the most recent trading period. The *BI* index closed at 360.7 points on Oct. 16, up 12.9 points from 347.8 points on Oct. 9. A total of 45 stocks posted gains, seven stocks declined and five stocks were unchanged. The biggest gains were by Torchmark Corp., up 16.9%; Arthur J. Gallagher & Co., up 13.6%; USF&G Corp., up 11.2%; Protective Life Corp., up 11.0%; and American International Group Inc., up 9.8%. The biggest losses were by Mission Insurance Group Inc., down 9.7%; United Fire & Casualty Co., down 4.1%; Statesman Group Inc., down 2.9%; Tokio Marine & Fire Insurance Ltd., down 1.4%; and American Heritage Life Investment Corp., down 1.1%. The *BI* index rose 3.7% for the period.

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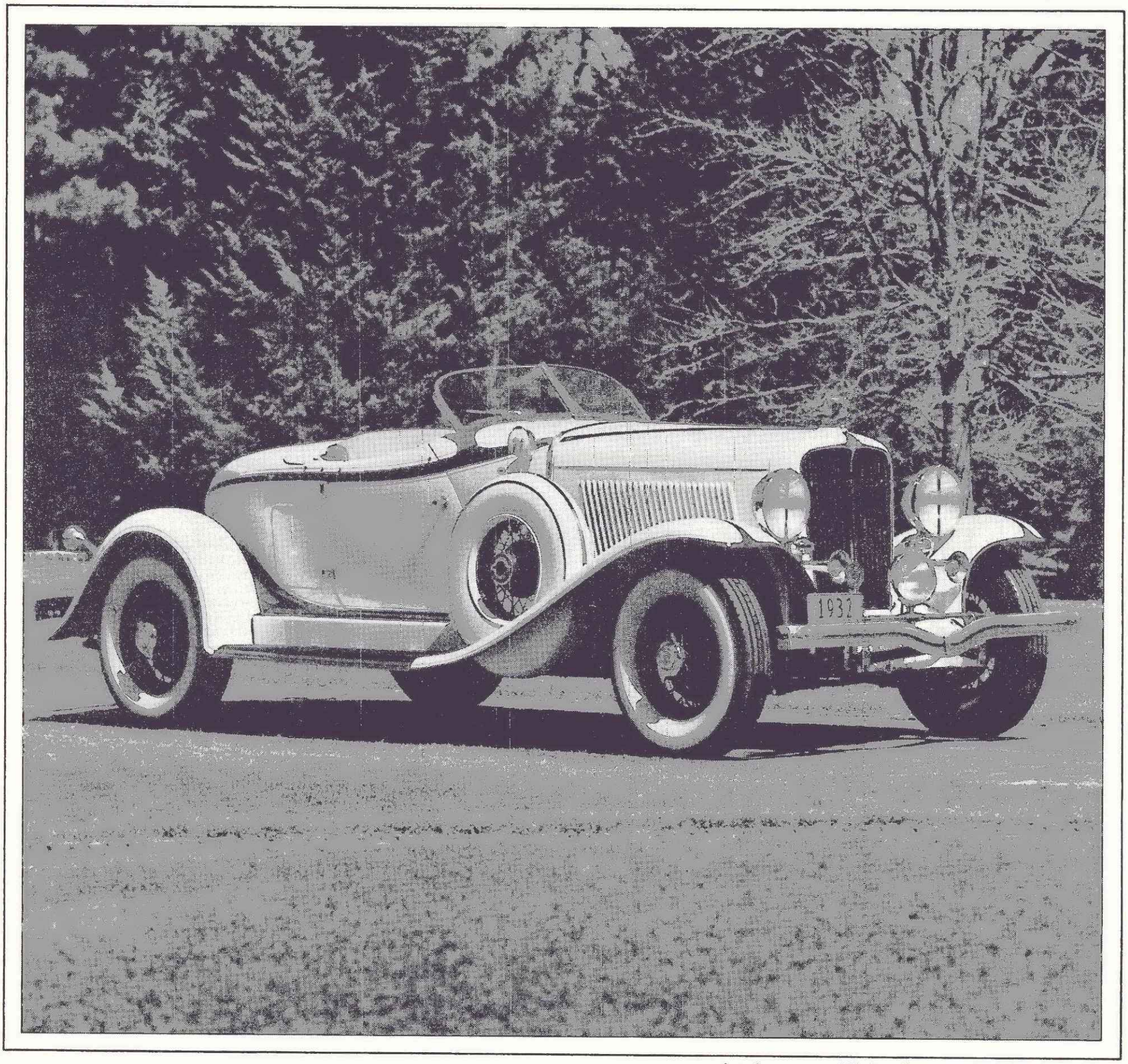

Location courtesy of Heritage Plantation, Sandwich, Massachusetts.

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