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Update

OSHA doesn't bar state action against unsafe firms: N.Y. court

BROOKLYN, N.Y.—Federal workplace safety regulations do not prohibit states from criminally prosecuting employers who subject their workers to unsafe conditions, New York's highest court ruled last week.

In its Oct. 16 decision, the New York Court of Appeals upheld a lower appellate court's 1989 ruling that reinstated criminal convictions against Pymm Thermometer Co. owners William and Edward Pymm (*BI*, Oct. 30, 1989).

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Public Citizen report draws fire

Study alleges 5 big insurers may be at risk

By JERRY GEISEL

WASHINGTON—A report by a consumer organization that contends five of the nation's 20 largest property/casualty insurers are financially vulnerable and potentially at risk in a severe economic downturn is "irresponsible and preposterous," insurers charge.

The report—released last week by Public Citizen, a consumer group founded by Ralph Nader—said the property/casualty units of Aetna Life & Casualty Co., American International Group Inc., Hartford Insurance Group, Liberty Mutual Insurance Co. and USF&G Corp. triggered four of six solvency warning tests drawn up by the group.

Those tests monitored the insurers' surplus levels, ratio of surplus to losses, swings in premium volume, leverage, liquidity and junk bond holdings.

Public Citizen said a combination of low premium volume, high claims and a weak return on investment "could spell financial trouble" for the five insurance companies.

But insurance rating services say they cannot conceive that any of the five insurers will become insolvent nor will they downgrade the ratings of the companies because of the findings of the Public Citizen report.

"I could not foresee a reasonable scenario that would result in these companies cited in the report becoming insolvent. These companies, by and large, are financially strong for the long-term future," said William O'Neill, vp with Standard & Poor's Corp. of New York.

"We will not, as a result of this report, change any rating or rating techniques. The report is just too simplistic," said Paul Wish, vp with A.M. Best Co. of Oldwick, N.J.

Rating services and insurers reject the findings of the Public Citizen report on several grounds. Those include:

- The six quantitative tests simply are not enough to reach any definitive conclusions about an insurer's solvency.

Best, for example, issues ratings on the basis of changes in 86 financial ratios over a five-year period. After that, Best makes its own qualitative evaluations of the insurer, reviewing reinsurance arrangements, spread of risk, quality of assets, loss reserves and experi-

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No joy at Greenbrier

Insurers, brokers divided over direction of rates

By KATHRYN J. McINTYRE

WHITE SULPHUR SPRINGS, W.Va.—Several leading property/casualty insurance and reinsurance company executives expect commercial insurance rates to increase next year, but brokers and agents aren't betting their 1991 budgets on any change.

The rising cost of claims and expenses coupled with an anticipated decline in capital gains income at year-end should force an increase in insurance prices next year to maintain a return on equity satisfactory to investors, some insurance company executives predict.

But insurance brokers and other insurance company executives see no signs that insurers will be able to make price hikes stick any time soon, pointing in particular to the industry's abundant capital and surplus.

Price cutting is continuing in the third quarter of this year, everyone agrees, and no one predicts a change by year-end.

Even if insurance prices turn upward next year, it's not expected to happen soon enough to improve the 1991 profits of insurers or brokers.

With that market outlook and a host of other troubling issues confronting the commercial insurance business, there was little joy among the 600 insurance industry executives who gathered at The Greenbrier Oct. 6-10 for the annual meetings of the National Assn. of Casualty & Surety Agents and the National Assn. of Casualty & Surety Executives.

"It was a downer," summed up Donald R. Bell, chairman and chief executive officer of brokerage Frank B. Hall & Co. Inc. in New York.

"On the carrier side, there was a pall over the meeting compared with a year ago," Mr. Bell said. "People did the same social things, but the atmosphere seemed negative."

Agents and brokers, too, were "grumpy," observed William E. Thiele, president of Continental Corp. in New York. "Commissions are going down and the producer force is being trimmed."

Even executives of privately held agencies and brokerages admitted for the first time to colleagues at publicly traded brokerages that results are down, said J. Patrick Gallagher, president of broker Arthur J. Gallagher & Co. in Rolling Meadows, Ill.

In addition to fearing a delayed upturn in low property/casualty insurance prices, industry executives expressed serious concerns about: legislative initiatives on the state and federal level aimed at the insurance business; the impact of a recession on their business; and the depressed price of insurance industry stocks (see related story, page 82).

The NACSA/NACSE meeting at The Greenbrier, traditionally beginning the first Saturday in October, is the largest annual gathering of top U.S. commercial property/casualty

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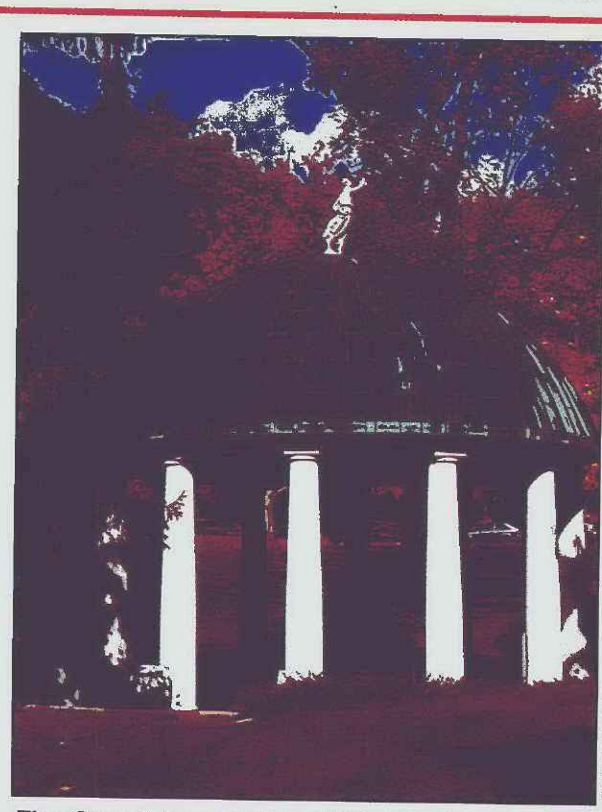

Kathryn McIntyre

The Greenbrier resort in White Sulphur Springs, W.Va., was the site of the NACSA/NACSE meeting.

Soft aviation market may be bottoming

By CAROLYN ALDRED

LONDON—Many major airlines are receiving rate reductions of up to about 50% as they renew their aviation insurance programs this fall.

However, as underwriters continue to slash rates for airline all-risk hull and liability coverage, there are signs that the soft aviation market may be bottoming out.

Brokers point out that it has been harder to complete placements this renewal season because some aviation underwriters, particularly in the U.S. market, are reducing their airline exposures.

And underwriters now are refusing to write policies that lock in premiums for 18 months, forcing airlines to return to traditional 12-month policies, brokers note.

Moreover, aviation underwriters will face higher reinsurance costs at year end and thus may be unable to slash airlines' rates next year, some brokers say.

Meanwhile, in a related move, nine aviation insurers in London are forming a consortium to write coverage as one unit rather than individually. The consortium will start underwriting for year-end renewals and is expected to account for 25% of London's aviation capacity.

Some brokers expect the consolidation of so many major aviation underwriters will increase discipline and help the market tighten.

But while rates continue to fall for all-risk aviation hull and liability policies, the Persian Gulf crisis is forcing up war risk rates for airlines flying to and from the Middle East (see story, page 94).

All-risk aviation insurance rates for airlines have been falling dramatically since 1986 so that premiums now equal only a fraction of airline underwriters' losses. For example, estimated airline premiums totaled only $350 million in 1989, while estimated claims totaled $1.1 billion, according to underwriters (*BI*, March 19).

Current rate reductions vary with each airline's loss record and when the airline last renewed, brokers point out. For example, reductions are greatest for airlines that accepted fixed-premium, 18-month policies in the spring of 1989 and thus missed out on lower rates last fall or this spring, brokers say.

Reductions also may vary for portions of each program, depending on in which market each segment was placed, brokers add.

For example, rates were cut about 50% in the London market for British Airways P.L.C., which

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Update

Pymm safety verdicts upheld

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The owners originally had been convicted of assault and reckless endangerment for exposing their workers to mercury in a windowless factory workshop in Brooklyn. But, a state Supreme Court judge overturned the conviction, ruling that the case should have been tried in federal court because violations of Occupational Safety and Health Administration rules were alleged (*BI*, Nov. 30, 1987).

A sentencing date has not been set for the defendants, who face five to 15 years in prison.

However, attorneys for the Pymms said they would ask the U.S. Supreme Court to review last week's decision.

Illinois' and Michigan's highest courts also have ruled that state criminal charges can be filed against employers for violating safety codes (*BI*, July 17, 1989; Feb. 6, 1989).

Finite risk reinsurer formed

HAMILTON, Bermuda—Eleven insurers led by American Re-Insurance Co. have formed a Bermuda-based company to write finite risk reinsurance.

Inter-Ocean Re-Insurance Co. Ltd. began writing business this month with $25 million in initial capital and a provision that may require investors to increase that amount to $100 million.

In addition to American Re, a unit of Aetna Casualty & Surety Co., investors in the new reinsurer are: Arab Insurance Group (B.S.C.); Argus Insurance Co. Ltd.; Associated Electric & Gas Insurance Services Ltd.; Hannover Ruckversicherungs A.G.; Heritage Reinsurance Co. Ltd., a Lincoln National Corp. unit; Laurentian Insurance Co. Inc.; La Mutuelle du Mans Assurances; Nippon Fire & Marine Insurance Co. Ltd.; Transamerica Insurance Co.; and United Community Insurance Co., a Lawrence Insurance Group Inc. unit.

AM-RE Managers (Bermuda) Ltd. is the underwriting manager and Becher & Carlson Management Ltd. is the principal representative for Inter-Ocean Re. Both are American Re units.

Paul H. Inderbitzen, executive vp of American Re, is president of Inter-Ocean Holdings Ltd., the new reinsurer's Bermuda parent.

More Denver crash suits settled

HOUSTON—Continental Airlines Corp.'s liability insurer will pay $10 million to settle four lawsuits stemming from the 1987 crash of a DC-9 in Denver.

The settlement amount represents the cost of annuities purchased by United States Aircraft Insurance Group in New York, said plaintiffs' attorney Kelli McDonald of Hagans & Sydow in Houston. Ms. McDonald could not provide the ultimate value of the settlement.

The four lawsuits were consolidated in state district court in Harris County, Texas.

The National Transportation Safety Board concluded that an inexperienced cockpit crew and confusion among air traffic controllers led to the disaster (*BI*, Oct. 3, 1988). The crash killed 28 people and injured 54 others (*BI*, Nov. 23, 1987).

Ms. McDonald said at least two other cases related to the crash are outstanding. The airline previously had reached 36 out-of-court settlements totaling more than $20 million (*BI*, Feb. 6, 1989).

A&A to consolidate operations

NEW YORK—Alexander & Alexander Services Inc. will consolidate its worldwide retail insurance brokering and risk management operations effective Jan. 1.

"Our new retail structure was developed to ensure that our clients throughout the world receive a consistently high level of service," A&A Chairman Tinsley H. Irvin said. "We believe these changes will offer additional professional opportunities to our employees and strengthen our strategic business position."

A&A's retail brokering and risk management companies beginning next year will report to Deputy Chairman Michael K. White, who is based in New York.

Also, James A. McCormick, president and chief operating officer of Alexander & Alexander Inc., A&A's U.S. retail unit, will assume additional responsibility for retail operations in Latin America.

Retail operations in the United Kingdom, continental Europe and Canada also will begin to report to Mr. White.

A&A's retail operations for Asia, the Middle East, Australia and New Zealand will report to Senior Vp Ron W. Forrest, who will be based in London.

A&A also will establish four global units to coordinate worldwide marketing, sales, client services and specialties resources. These units will report to Mr. Forrest, who along with Mr. McCormick will report to Mr. White.

A&A is the world's second-largest broker, based on gross revenues of $1.25 billion in 1989 (*BI*, June 18).

Updates continued on page 93

Errors and omissions

• Chris Burbidge, who led the British crews in the recent London-New York Insurance Regatta, is director of marine underwriting for Terra Nova Insurance Co. Ltd. His title was misstated in the Oct. 15 issue.

• Douglas O. Ruedlinger Inc. is the administrator of the Chicago Board of Education's interscholastic athletic insurance, which has a $25,000 deductible. The coverage was written by United International Insurance Co., a unit of Wheatland Group Holdings Inc. (*BI*, Oct. 15).

• The "personal protection policy" proposed in Arizona's Proposition 203 would provide an aggregate limit of $15,000 per person with a $250 deductible for medical expenses of the policyholder. This limit would include up to $200 per week in lost wages, $100 per week in replacement services and a $5,000 death benefit. These payments were incorrectly described in an Oct. 8 article.

Asbestos class action may lead to huge award

By STACY ADLER

BEAUMONT, Texas—A novel experiment in consolidating asbestos personal injury cases could lead to compensatory damage awards exceeding $1 billion to plaintiffs that are part of a class-action lawsuit, attorneys say.

Results of this experiment, according to attorneys, also could indicate the viability of a nationwide asbestos class-action lawsuit.

In an intermediate phase of the class-action lawsuit—which was filed on behalf of 2,300 oil industry workers in Beaumont, Texas, who allege injury from asbestos exposure—juries earlier this month awarded $122 million in compensatory damages to a representative sample of about 160 plaintiffs.

U.S. District Judge Robert M. Parker in Tyler, Texas, will decide on Oct. 29 if the $122 million in compensatory damages should be extrapolated to set the amount of compensatory damages for the entire class of 2,300 oil industry workers who are alleging injury.

If that happens, the final award to the 2,300 workers could total $1.3 billion, plaintiffs' attorneys say. Defense lawyers, though, dismiss the figure as "pure speculation."

Already, during an earlier phase in the trial, Judge Parker said he would award punitive damages and post-judgment interest on top of any compensatory damages, which could raise a final award to several billion dollars, according to plaintiffs' attorneys.

Defendants in the lawsuit—Pittsburgh-based Pittsburgh Corning Corp.; Concord, Calif.-based Fibreboard Corp.; and Tampa, Fla.-based Celotex Corp.—have vowed to appeal both the amount of the award and the methods used to calculate it.

"There is no law anywhere in the country that supports what this judge is doing," said Pittsburgh Corning attorney Henry Garrard of Blasingame, Burch, Garrard & Bryant in Athens, Ga.

Mr. Garrard maintains that consolidating suits brought by workers who can prove they were injured and those who cannot is unconstitutional. Specifically, he thinks the defendants' right to a jury trial and to due process,

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House, Senate bills call for benefit cost hikes

By JERRY GEISEL

WASHINGTON—Congressional conferees began to meet late last week to iron out differences in deficit reduction bills passed earlier by the House and Senate that will boost employers' benefit costs and increase the tax bite on life and property/casualty insurers.

Those differences include provisions boosting FICA taxes and Medicare deductibles and restricting an employer's ability to terminate an overfunded defined benefit pension plan.

Regardless of compromises that are reached by conferees, "there will be both substantial direct and indirect benefit cost increases to employers," said Frank McArdle, a consultant in Hewitt Associates' Washington, D.C., office.

Other benefit provisions in the two bills are identical, including higher insurance premiums to be charged by the Pension Benefit Guaranty Corp. and a little-noted provision that would allow states, in certain situations, to pay for employer-provided health care coverage for families of the working poor if doing so is less expensive than providing Medicaid coverage for those individuals (*BI*, Oct. 15; Oct. 8).

Both bills also contain similar provisions boosting taxes on life and property/casualty insurers, but, after objections from the Bush administration, they no longer include a provision that would have boosted fines on employers that violate Occupational Safety & Health Administration rules.

Differences in the two bills that would affect businesses include:

• FICA taxes. The House bill would increase the amount of employee wages subject to the 1.45% Medicare portion of the FICA tax to $100,000 from the current $51,300 limit. The Senate bill would boost the wage cap to $89,000.

In addition, the Senate bill would extend the Medicare portion of the FICA tax to all state and local governments and their employees. Currently, the tax does not apply to public employees hired before March 31, 1986, if the employer does not participate in the Social Security program. The House bill does not include such a provision.

However, both bills include similar provisions that would require public employers and employees to pay the entire 7.51% FICA tax—which covers both Social Security and Medicare—for workers like part-time employees who are not covered under state and local governments' retirement programs.

• Medicare. The Senate bill would boost the Medicare Part B deductible to $150 next year, while the House measure would raise the deductible to $100. The current Part B deductible is $75.

In addition, the Senate bill would impose a new 20% coinsurance requirement on Medicare beneficiaries for laboratory tests, while the House bill would retain 100% Medicare coverage for those tests.

The two measures also contain similar provisions that would cut about $30 billion in expected Medicare payments to hospitals

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Benefit consultants to be listed

Business Insurance will publish the annual directory of employee benefit consultants in the Dec. 17 issue, which will also contain a Spotlight Report predicting trends in the employee benefit market in 1990.

The directory is published as an editorial service; there is no charge for companies to be included. However, to be listed, consultants must fill out and return a questionnaire provided by *BI*.

If your company provides employee benefit consulting services and you have not yet received a questionnaire, please request one by writing Sarah Polster, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590; or call 312-280-3195.

The deadline for returning completed questionnaires to *Business Insurance* is Nov. 12.

Inside

- The Public Citizen report is tragically destructive to any constructive dialogue between consumer groups and insurers, says this week's editorial. **PAGE 8**
- In Perspectives, Robert Bell and John Machir of Ringler Associates explore using structured settlements to fund waste site cleanups. **PAGE 51**
- Risk managers pay too little attention to loss prevention, an insurer says at the Canadian risk management conference. Coverage begins on **PAGE 71**
- The increasing threat of natural disasters will hike catastrophe reinsurance prices, a reinsurer says at the annual meeting of the Society of CPCU. **PAGE 75**
- In Ticker, analyst Leonard Wilson asks if bad real estate loans and a bear market won't turn property/casualty pricing, what will? **PAGE 95**

Departments

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International markets

Americans are striving to find niche amid global competition

By JOANNE WOJCIK

Competition among international insurers is heating up as European underwriters give U.S. insurers a run for their money both on their home turf and in Europe.

Proposed acquisitions of U.S. insurers by Allianz A.G. Holdings of Germany and an investment group led by Swedish insurer Trygg-Hansa Holding AB demonstrate the growing European appetite for U.S. business.

Increased capacity offered by the Europeans has left U.S. insurers to tout their Yankee know-how in areas like risk management and loss control engineering.

These concepts, old hat to U.S. insurance buyers, are becoming more common in Europe. More multinationals are realizing that even the best insurance program cannot replace business lost when a plant is shut down after a fire or other loss.

Rather than face stiff competition in Europe, many U.S. insurers are focusing resources on Latin America and the Pacific Rim.

"The international insurance market will maintain its competitive posture partly because of the scramble in Europe for market share," predicts Douglas N. Smith, vp and manager of the international department at Johnson & Higgins in New York.

"It's the softest I've seen for a sustained period of time. It's becoming as heated as the U.S. market," he added.

"We're in a continuing competitive market that has capacity as a result of European insurers' increased appetite for U.S. multinational business," observed Bob Solomon, managing director of international operations for Marsh & McLennan Cos. Inc. in New York.

"The market is flooded with capacity," said Steve Schleisman, senior vp at AIGlobal, a unit of American International Group Inc. in New York.

"There's as much capacity as anyone could want," agreed Dick Wilson, corporate risk manager for Hewlett-Packard Co. in Palo Alto, Calif., which is in the process of developing a single global insurance program for all its non-U.S. risks.

"It's like they're priming everybody for the next hard market," he quipped.

CIGNA Insurance Co. of Europe S.A.-N.V. has increased its casualty capacity to $25 million from $5 million this year, according to Stewart Steffey Jr., senior vp in the international division of Philadelphia-based CIGNA Corp.

"We're seeing selective hardening on certain renewals," based on individual claims experience, "but in general, capacity is the same as last year," said Ken Zeigler, president of the international unit of Continental Insurance Co. in Cranbury, N.J., a Continental Corp. subsidiary.

Capacity for property risks is up significantly, according to Tom Hite, president and general manager of the international division for Zurich-American Insurance Group of Schaumburg, Ill.

The insurer, a unit of Switzerland-based Zurich Insurance Co., also "is looking at increasing its cap on casualty," said Mr. Hite, who would not disclose available limits.

Risk managers with international operations are noting the ease with which global insur-

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Benefit networks think small

By CHRISTINE WOOLSEY

With the Fortune 500 market nearly saturated, multinational benefit networks are targeting small, growing multinationals interested in pooling.

Networks also increasingly stress flexibility and quality service in vying for new business and market share. The size of dividends paid to employers no longer drives competition in the global benefits marketplace, say insurers and consultants.

"Mega-growth years when the networks were signing up brand new corporate accounts are gone," says Giles Archibald, a managing director at William M. Mercer Inc. in New York.

"The large, mature multinationals market is pretty well saturated," said Joe LaSorte, an international compensation and benefits consultant with Hewitt Associates in Lincolnshire, Ill.

Mr. LaSorte, however, does see some fertile ground. "There is an entire tier of multinationals out there that until two or three years ago didn't have many employees overseas. Now those companies have 500 to 2,500 (lives) worldwide and that's an open game for the networks."

While most networks still focus attention on larger employers, "market forces are driving them in the direction of smaller company arrangements," said Jerry Long, a senior vp and managing director of international consulting in Washington D.C., for Alexander Consulting Group Inc., an Alexander & Alexander Services Inc. unit.

Small group products are not necessarily new to the marketplace, though nearly "all of the networks are coming out with products that are attractive to companies with small groups," Mr. Long noted.

Products, he said, are now targeted at three specific "small groups": those with fewer than 1,000 lives worldwide; those with fewer than 500; and those with fewer than 100.

Smaller companies, especially those with fewer than 100 lives worldwide, are particularly attractive to the Group Assurance International Network in Brussels, Belgium, says Eric M. Janssen, director of GAIN. "If a big employer comes to us, we'll enter the fray, but we don't specifically solicit that business. We are much more after smaller multinational corporations."

A GAIN group pooling arrangement is now offered to employers with 25 to 500 lives in at least two countries, Mr. Janssen said. It is available only on a stop-loss basis—no losses are carried forward to future years (see story, page 54)—and the employer must have at least 10 lives in each country. No minimum premium is required.

The Multinational Insurance Arrangement from Travelers Corp. will introduce a small group pooling product in January, said Michael Sandmann, a second vp in Hartford, Conn.

Life, health and disability coverage arrangements would be provided for employers with at least 100 lives in two countries, he said. No minimum premium is required.

Many of the smaller U.S. firms interested in pooling are electronics and computer concerns just now sending employees abroad, say insurers and consultants.

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Benefit networks

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ance programs can be placed.

"For three years we have heard about the impending hard market on the horizon, but so far nothing has materialized," said Michelle Patton, vp-risk management at Hilton Hotels Corp. in Beverly Hills, Calif., which just completed its Nov. 1 liability renewals.

Banking giant BankAmerica Corp. expects "continued soft market conditions" for its March 1 international renewals, said Peter McDonough, vp and director of risk management at the San Francisco company. This year, there were "no problems placing D&O coverage," he added.

"I don't think we've reached the bottom of the soft market," said Jonathan M. Chettle, managing director-international for Sedgwick James Inc. in New York.

With capacity abundant in Europe, Mr. Chettle predicts that some larger European insurers "not only will be crossing the 1992 borders, but will be spreading their wings to the United States."

Allianz and other companies with "tremendous capacity" will build U.S. business primarily through acquisitions, he says, citing Allianz's pending purchase of Fireman's Fund Insurance Co. and the proposed acquisition of The Home Insurance Co. led by Trygg-Hansa.

Foreign insurers want a slice of the more than 50% of world premiums generated in the United States, say Mr. Chettle and other players in the international market.

"Europeans have demonstrated through investment that they want to be players here," said M&M's Mr. Solomon.

"The big foreign insurers are getting their act together" and are creating substantial capacity in the European market, according to Joseph H. Albert, president of J.H. Albert International Advisors, a risk management consultant in Needham, Mass.

"European insurers seem to be interested in taking a bigger piece of the U.S. market," said Lawrence L. Drake, an M&M managing director in New York.

As examples, he points to the opening of a New York office by Sun Alliance & London Insurance P.L.C. of London as well as the Fireman's Fund and Home acquisitions.

Observers consider European insurers likely to capture some U.S. business by underwriting global programs that include U.S.-based exposures.

"More underwriters are prepared to look at the totality of the risk—including the U.S. risks," said Ron Forrest, senior vp and managing director of global business development at Alexander & Alexander Services Inc. in New York.

"More European insurers are willing to underwrite U.S. risks," agreed AIGlobal's Mr. Schleisman.

European companies are positioning themselves to compete with U.S. insurers by writing international programs, according to Jim Webb, division vp-property/casualty for the international division of Travelers Corp. of Hartford, Conn.

"Our partner companies are more willing to underwrite U.S. risks"—the key ingredient that often was missing from foreign multinational programs, he said.

In the next year, European companies will become more involved in writing the U.S. portion of multinational or global insurance programs, predicts Mr. Drake of M&M.

In fact, M&M is "seriously contemplating" packaging U.S. risks in syndicate programs underwritten by several European and U.S. insurers to create what Mr. Drake calls "truly global programs." M&M's syndicate programs are underwritten by a number of insurers in a manner that resembles how several Lloyd's of London syndicates participate on the same piece of business.

To hold their own in hotly competitive Europe, U.S. insurers are touting their individual expertise.

CIGNA's European operations, for example, are focusing on risk management advice. Earlier this month, CIGNA Europe appointed Terry Sparkes, a risk manager and former chairman of the Assn. of Insurance & Risk Managers in Industry and Commerce, to the newly created position of U.K. director of risk management services (see story, page 88).

Adding Mr. Sparkes is part of the company's plan to expand its offerings to risk managers in Europe. "One of the best ways to be customer-oriented is to have one working for us," said Mr. Steffey.

And CIGNA Europe is well-placed to serve risk managers, according to Mr. Steffey: It has 57 European branch offices with 12 key risk management centers.

Its European network, he said, "is commonly managed as one company" and not "decentralized like our European competitors who usually are dominant in just one country."

That "knitting of the network," allows risk managers to contact CIGNA anywhere in Europe, he said.

The company also is promoting its CRIS risk management information system to help European risk managers with foreign operations coordinate claims handling. And CIGNA is touting the speed of its loss adjustment services, according to Mr. Steffey.

As an example, he recalls that an executive loss adjuster was on the scene two hours after a large fire was reported at a Belgian refinery.

CIGNA's international property/casualty operations reported nearly $2 billion in premiums in 1989, up from $1.9 billion in 1988.

AIGlobal is boasting increased access to the existing capacity of parent American International Group Inc., according to Mr. Schleisman.

For example, AIGlobal is adding an excess casualty underwriter in Paris and has strengthened its financial lines unit, which underwrites D&O liability and other professional liability lines, he said.

In addition, "we have increased our resources and focus on the liability programs of U.S. multinationals," Mr. Schleisman added.

AIGlobal, which has a presence in 67 countries, wrote $2.89 billion in premiums in 1989, up slightly from $2.86 billion the year before.

Kemper International Corp. is focusing its loss control services for highly protected risk and other forms of property insurance.

"Traditionally, that's been a U.S. phenomenon, but we believe that with 1992 and world economic conditions, changes are occurring that will bring strong risk management concepts, including HPR, to the forefront," said Ted Hoeh, senior vp.

"A lot of belt-tightening to reduce costs and increase efficiency" has made European industry more vulnerable to catastrophic losses, Mr. Hoeh said.

When inventories, for instance, are kept at low, "just-in-time" levels, a fire or other catastrophe could shut a plant down permanently, explained Tom Briggin, a Wyatt Co. consultant in San Francisco.

That fact gives policyholders "a real incentive" to prevent a catastrophic loss, he added.

Also, many countries require companies to continue to pay workers during a plant shutdown as a form of unemployment compensation, Mr. Briggin pointed out.

At the same time, "greater interdependency between plants" renders the entire production chain vulnerable to a single plant shutdown, Mr. Hoeh said (see story, page 34).

"It's not good enough just to collect insurance," Mr. Hoeh stressed. "They need to keep companies running without interruption. All this points to a need for strong risk management and aggressive steps

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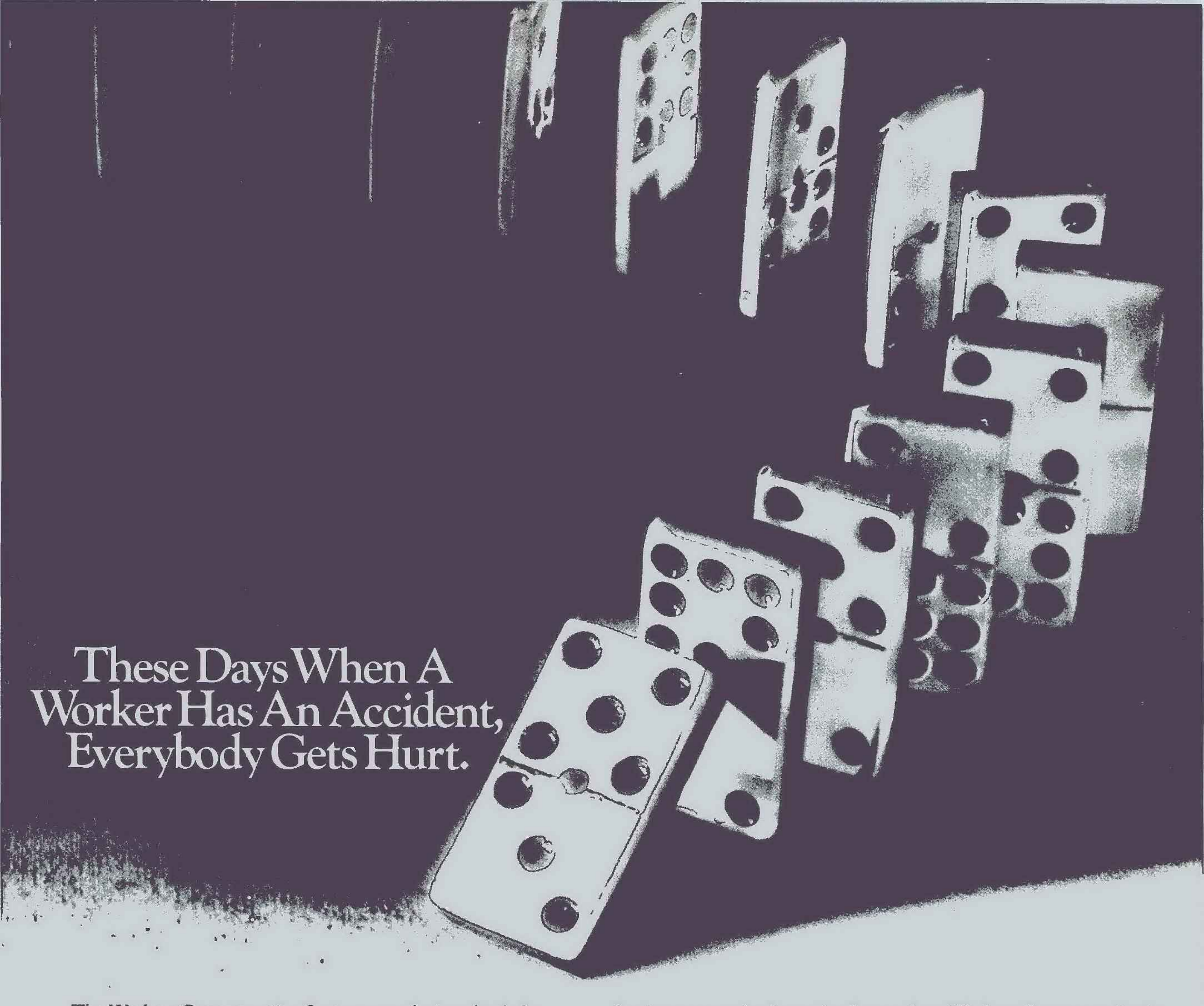

The Workers Compensation System was designed to help injured workers get well, and return to work. In most states, it does. In other states, the problems aren't simply big. They're enormous.

And beginning to spread into other states. Right down the line, everybody's starting to feel the effects—from the workers, to their families, to the employers, to the insurers.

The System

Over 75 years ago, when it was created to protect workers from on-the-job injuries, Workers Compensation was based on some well-intentioned and well-received ideas:

To prevent work-related accidents from ever happening.

To give prompt, quality medical attention and equally prompt income benefits.

To rehabilitate injured workers and help them get back to work.

To offer cost stability to the employer.

And ultimately, to keep the entire workplace productive—the less down-time, the more time you have to be competitive, and stay competitive.

The Obstacles

It bears repeating: There are problems. Big problems, in many states, that need fixing. We also need to strengthen the system so that these problems don't spread to other states.

Problems like unnecessary, time-consuming litigation. Soaring claims costs. Underfunded, understaffed state-administered agencies. And on a national level, runaway medical costs.

Fact is, the economies of entire states are hurting—partly because businesses won't relocate in places where Workers Compensation is in disarray.

For some states, the situation is so critical, insurers have stopped writing Workers Compensation Insurance altogether—premiums won't even cover losses and expenses.

The Way To Help

What can *you* possibly do to help? You'd be surprised. To help restore and strengthen the system in your state, you can take two courses of action.

First: Be aware. Find out what's happening in your state, how you're affected, and what you can do to help. Talk to your insurance company or business trade association.

Or two: Share your views by writing to Gary Countryman, President and CEO of Liberty Mutual, 175 Berkeley Street, Boston, MA 02117. We'll help you get in touch with people in your state who can help.

When strong and fit, the Workers Compensation System works hard, and works well. Everyone it touches, it benefits—especially the injured worker.

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Opinions

Superficial analysis

THE PUBLIC CITIZEN study released last week purporting to identify five insurers that are financially vulnerable to an economic downturn is tragically destructive.

At this critical juncture in the debate over how to best regulate the business of insurance, Public Citizen has just driven a spike between itself and the insurance industry, impeding any future constructive dialogue.

Furthermore, the group's superficial analysis of insurance company financial statements does nothing to contribute to the public's understanding of the economics of insurance. Instead, it further confuses a public already befuddled by the insurance industry.

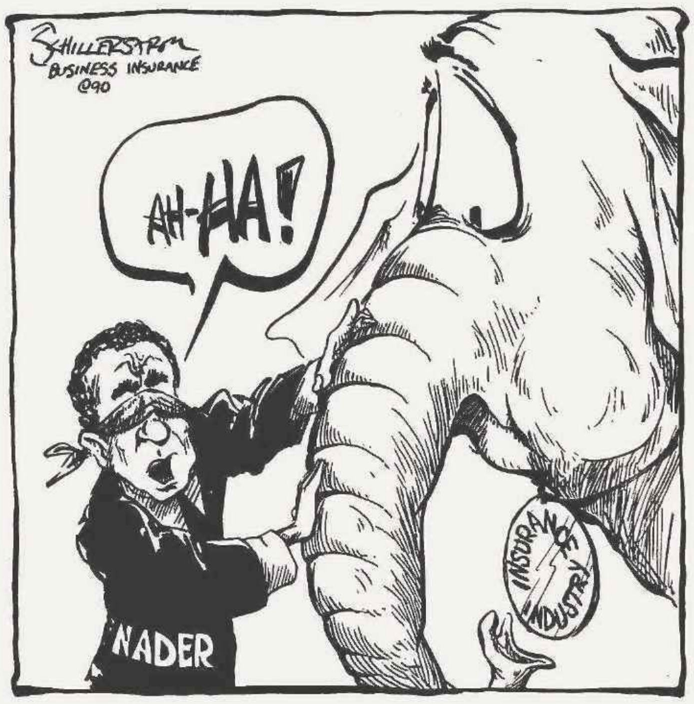
Clearly, the report was politically motivated, designed to enhance Public Citizen's demand that the McCarran-Ferguson Act be repealed and the federal government regulate insurers.

It's unfortunate that Public Citizen is too deaf to hear the willingness of the insurance industry to discuss the future of McCarran-Ferguson. Where were the watchdogs when American Insurance Assn. President Robert Vagley told a congressional committee that the federal government may need to take some role in supplementing state regulation of insurers for solvency? (*BI*, Sept. 24).

Executives of insurance companies, which are being bled by guaranty fund assessments used to mop up the mess created by insolvent insurers, are committed to negotiating a more effective system of regulation for solvency. They are disgusted with losing customers to insurers that underprice their products and then having to cover the claims anyway through guaranty fund assessments. For instance, CIGNA Corp. Chairman and Chief Executive Officer Wilson H. Taylor earlier this month called for a federal role in the regulation of insurance (see story, page 84).

Why, with an opponent willing to negotiate, would Public Citizen throw up a roadblock to any substantive discussions with the insurance industry?

Could it be that Ralph Nader-affiliated Public Citizen has motivation beyond what meets the eye?



Is it just a coincidence that four of the five targeted companies are high-profile, outspoken advocates of tort reform? American International Group Inc., Aetna Life & Casualty Co. and Hartford Insurance Group have all campaigned openly for reform of either product liability laws, the Superfund act or both. And Liberty Mutual Insurance Co. is putting its resources behind efforts to reform costly and inefficient workers compensation systems.

We also find it ironic that there is a sudden concern for the solvency of insurance companies from consumer advocates affiliated with those who have supported mandatory rate rollbacks of insurance premiums without regard to insurers' costs and have complained that State Farm Mutual Automobile Insurance Co. retains too much surplus.

The debate over the best system for regulating insurers to protect the public interest is too important to be subjected to such a superficial analysis and irresponsible report.

Letters

View of PBGC is too 'rosy'

To the editor: You were right to state in the Oct. 15 editorial that the Pension Benefit Guaranty Corp. did not seek a premium increase, but I am afraid you are looking at the agency through rose-colored glasses.

At this point, with a $1 billion deficit and an uncertain future, it is impossible to say that a premium increase is not needed. I would hope that a magazine that has chronicled the dire fate of many a "cash-flow underwriter" in the "long-tail" businesses such as ours would not be advocating that we ignore future liabilities.

The PBGC got into the budget agreement because the administration is rightfully concerned with the future of the various government insurance companies. President Bush, in addressing the joint session of Congress, set forth the four requirements for a successful agreement and one of them was, "we must address the government's hidden liabilities." The PBGC, with more than $800 billion in outstanding insurance, ranks as one of the larger hidden liabilities.

Let me hasten to add that, as the vast majority of pension plans are well funded, the PBGC's risk universe is about $20 billion to $30 billion in underfunded plans. Of immediate concern is about $7 billion of that underfunding related to some sponsors who are in poor financial condition.

It is also impossible for me to say that the 1987 "amendments should continue to protect the agency from large claims." The situation of Eastern Air Lines Inc. was unique in that its parent, Continental Airlines Inc., is not bankrupt (*BI*, Sept. 24). Without Continental, PBGC and its premium payers would have taken a $500 million loss. Unfortunately, most of the other potential losses that we face do not come with "deep pockets."

A properly structured premium to reflect exposures and risk is a way to address these "hidden liabilities." Among other things, a properly priced premium would induce sponsors to reduce the liabilities by better funding.

We are also reviewing other ways to address these hidden liabilities and improve the economic incentives for companies to fund pension plans and to not terminate them. Our proposals would address such issues as the priority of PBGC clams in bankruptcy, the sponsor's responsibility for funding pensions during bankruptcy, the effectiveness of the 1987 funding rules, and the lack of funding or premiums for shutdown benefits.

I reject the idea that we should have an "immediate financial crisis" to fix the program. We are trying to build upon the 1986 and 1987 changes and restore those legislative tools that have been weakened or taken away by the courts.

If we can do that, the defined benefit system and the PBGC will be stronger, and our premium will not become an annual budget gimmick.

James B. Lockhart III
Executive Director
Pension Benefit Guaranty Corp.
Washington

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Health plan only part of impetus for strike

To the editor: The Sept. 17 article on the strike at Temple University, "Walkout Over Health Plan Stops Classes at Temple," does not meet your normally high standards of journalism. The body of the article discusses only the issue of faculty contribution to health insurance as an issue. As one striking professor publicly states, "We would be damn fools to strike over $260 per year demanded as a contribution for health insurance." Instead, the fundamental issue is the faculty perception that available financial resources are not being used to meet legitimate educational needs.

For example, for the 1989-90 year, a subsidy to intercollegiate athletics of $2.3 million was budgeted, although an actual loss of $3.1 million was sustained. The 1990-91 budget calls for a subsidy of $2.9 million for intercollegiate athletics, although the actual loss may approach $4 million.

H. Wayne Snider
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Global insurers

Continued from page 4

to avoid losses."

Mr. Hoeh feels that Kemper's "high-quality loss control engineering services" distinguish it from other international insurers. "All of the major international insurers have a stake in industrial risk business, but we're making more of a commitment."

An agreement the company signed last year with French insurer Union des Assurances de Paris calls for building a large, HPR-qualified staff of local nationals, said Mr. Hoeh.

Five engineers staff the venture. Two manage the operation and three recently completed training in the United States, where all training will be conducted initially. Eventually, said Mr. Hoeh, some training is to be done overseas.

In addition to the joint venture, Kemper S.A., a division based in Brussels, Belgium, has its own HPR-qualified engineering division, he said. The company has not yet decided whether to merge this unit with the UAP joint venture.

Kemper, which has a presence in 77 countries, wrote $44.4 million in premiums in 1989, up from $35.5 million the year before.

To gain market share in Europe, Warren, N.J.-based Chubb Corp. is banking on its reputation for "innovation and creativity" in underwriting, said Don Mergen, vp and manager in the international department.

Chubb, said Assistant Vp Dennis Orio, is "leading the charge for package programs in Europe."

And the insurer "put together the first all-risk filing in Germany last year," Mr. Mergen said.

"Clients like our willingness to design an insurance package to fit them," said Mr. Orio.

Chubb is among the world's largest underwriters of D&O coverage for financial institutions. "Our reputation follows us," said Mr. Orio. "We try to stick with products that we understand."

Chubb, which has a presence in 104 countries, wrote $438 million in international premiums in 1989, up from $429 million in 1988.

Continental Corp., another insurer that emphasizes single, coordinated global insurance programs, plans to underwrite coverage for Europe from a new London facility expected to open within six months.

The new unit, Continental Insurance-Europe, is awaiting British government approval, said Mr. Zeigler.

Continental can coordinate and package international marine coverages through its Marine Office of America Corp. unit and other coverages through other units to create a single, cohesive and comprehensive global program, he said.

Continental has a presence in 106 countries. Its premiums rose 16% last year to $630 million from $542 million in 1988.

To create a higher profile, Travelers Corp. has reorganized its international operations into a free-standing unit, according to Mr. Webb. What used to be the international department "is now a free-standing unit, like a subsidiary, called Travelers International Operations," he said.

Hartford, Conn.-based Travelers has affiliates in about 110 countries.

Most international market observers say interest is increasing in global programs, which combine property/casualty risks for all company branches under one policy.

"As market economies become less encumbered by protectionism, more companies will be buying global programs," said CIGNA's Mr. Steffey, citing the removal of trade barriers within the European Community as an example.

Globals aren't for everybody, he concedes. If a customer operates as four or five entities, it may not want a global program, Mr. Steffey said. "But for those moving toward being more transnational in nature, global is becoming more popular," he said. In such cases, "a composite program is more cost-effective."

New global programs that Kemper may develop in response to customer interest are still "at the talking and prospecting stage," said Mr. Hoeh. "It's too early to say there will be a lot of business written this way."

While Continental has been pitching the concept of global insurance programs, it has lost some of that business, according to Mr. Zeigler. "It's a mixed bag by countries," he explained. "Sometimes management philosophy drives its insurance business."

For example, if a company has to abide by local content laws in its manufacturing, it may purchase insurance from local insurers as well, he explained.

U.S. insurers also are setting up so-called reverse-flow units to capture the business of foreign multinationals with U.S. branches before their home countries' insurers get to them.

For example, in the last two years, a stand-alone CIGNA facility in Philadelphia has underwritten the U.S. risks of French, German, U.K., Swedish, Japanese, Australian, Canadian and Italian companies.

A branch office at Kemper's Long Grove, Ill., headquarters handles the reverse-flow business of foreign corporations insured by Kemper affiliates. That office does not seek new business.

And Zurich-American hopes its name recognition will attract European multinationals to its new U.S. reverse-flow unit. "Unlike a U.S. company that has gone abroad, we started as an insider in these major markets," said Mr. Hite.

Many U.S.-based insurers also are concentrating their efforts on other world markets, such as Mexico, Latin America and the Pacific Rim, in an effort to gain market share.

Chubb plans "a much bigger presence in Mexico," including underwriting and loss control services, said Mr. Mergen.

"There will be Chubb people there in the next year," concurred Mr. Orio. "There are over 4,000 U.S. companies doing business there and it's right next door."

Next on Chubb's list are Asia and the Nordic countries, where the insurer hopes to build a presence in four or five additional countries by next year.

Chubb now has affiliates in 104 countries.

CIGNA also ranks Mexico, where it now has several policyholders, high on its list of growth priorities, according to Mr. Steffey. "We plan to have the CIGNA banner in Mexico by 1991," he said.

Luis Murette, CIGNA's manager for Mexico, and Jim McCarty, senior vp for Latin American operations based in Philadelphia, are working on the strategy, Mr. Steffey said.

Current law bars foreigners from owning a majority interest in Mexican insurance companies, but CIGNA expects that law to be liberalized, he said.

CIGNA also is beefing up its risk management unit in Japan, where it has 49 branch offices, and has relocated some of its experienced personnel in Japan to Southeast Asia, where "more accelerated growth is anticipated than in Eastern Europe," Mr. Steffey said.

In another effort to provide better service to its clients, CIGNA Worldwide has reorganized its management reporting structure, according to Mr. Steffey.

H. Edward Hanway, president of CIGNA Worldwide, now reports directly to Wilson Taylor, chief executive officer of CIGNA Corp. Previously, Mr. Hanway reported to CIGNA's brokerage division chief.

As a result of the change, "the decision making is now faster," Mr. Steffey said. ■

European boon so far eludes insurers

By JOANNE WOJCIK

The wall fell. The Germanys united. Trade barriers are falling. More liberal laws are on the way.

So where is the promised European boon for the insurance industry?

Several market observers now believe that the advent of the European Community's promise of an open market in 1992 is turning out to be all show and no go. Stalled by sluggish legislators, disparate premium tax rates and long-held allegiances, they say, the single European market remains a long way off.

Only five of eight E.C. nations met their July 1 deadline for modifying their laws to permit cross-border insurance purchases for large non-life risks: Germany, The Netherlands, the United Kingdom, France and Denmark.

Four others—Spain, Portugal, Greece and Ireland—have until at least 1992 to make such changes.

Another impediment for insurers looking abroad is that premium taxes still vary among countries. And allegiances to domestic insurers often make companies hesitant to purchase coverage from a foreign concern, observers point out.

"When the gong went off, everybody didn't change their programs overnight," said Douglas N. Smith, vp and manager of the international department at Johnson & Higgins in New York.

Some buyers are looking for a single policy to cover their E.C. risks, but "it's not the general trend," he said.

"To assume that everything was going to happen by July 1 was a bit optimistic," said Ron Forrest, senior vp and managing director of global business development for Alexander & Alexander Services Inc. in New York.

"When the dust cleared, there were still a lot of obstacles" blocking a truly unified insurance market, said Tom Briggin, a consultant with The Wyatt Co. in San Francisco.

Service is one such obstacle. Many companies lacking offices in some nations may have trouble serving clients with risks in those countries, he pointed out.

"It looks great on paper, but there are a lot of administrative details to work out," said Dick Wilson, corporate risk manager for Palo Alto, Calif.-based Hewlett-Packard Co.

Widespread protectionism also impedes competition, said Fred Feldman, president of RBH International, a division of broker Rollins Burdick Hunter Co. of Chicago. "Crossing borders is one thing, but being able to compete with the local insurers is something else."

But varying premium taxes are "the biggest hang-up," said Mr. Wilson of Hewlett-Packard.

"True unification in the E.C. is still a long way away," asserted Jonathan Chettle, managing director-international for Sedgwick James Inc. in New York.

Unification, he said, will require harmonization of premium taxes and of national legal systems.

Insurers are issuing master European policies, said Mr. Chettle, "but there are so many idiosyncrasies." In some cases, "they're slapping on the back of a master policy a German policy form, an Italian policy form, (and) a French policy form. . .to take care of the risks indigenous to those countries," he said.

Indeed, administrative costs could cancel out any savings on a pan-European policy from a foreign insurer, agreed Ted Hoeh, senior vp at Kemper International Corp. in Long Grove, Ill.

However, a risk management consultant asserts, such administrative obstacles are not insurmountable.

Endorsements attached to the single Europolicy "are not unlike a workers compensation policy in the United States" for a company with operations in more than one state, according to Joseph H. Albert, president of J.H. Albert International Insurance Advisors of Needham, Mass.

Still, he agrees with others that insurers aren't "banging on doors over in Europe" following the July 1 removal of insurance trade barriers for cross-border placement of large non-life risks.

"I find it hard to believe that German companies will accept proposals from English companies," he said, except perhaps as part of a coinsurance arrangement in which the domestic insurer underwrites more than 50% of the risk.

Management's own philosophy often determines whether a company opts for a single Europolicy.

"Typically, companies involve local management in selecting policies," said Tom Hite, president and general manager of the international division of Zurich-American Insurance Group in Schaumburg, Ill.

Dennis Orio, assistant vp in the international department at Warren, N.J.-based Chubb Corp., agreed: "Europeans like to do things at a local, personal level. It'll take some time to change people's habits and customs."

Another reason no apparent change occurred after July 1 is because many large companies—those to which the first non-life directive applied—already are merging their E.C. coverages through pan-European or global programs, suggested Jim Webb, a division vp-property/casualty for Travelers Corp. in Hartford, Conn.

Despite the sluggish pace of change, most international players are gearing up for the day the markets truly become one.

"The 1992 movement is irreversible. It's just going to take some time to implement," said Bob Solomon, managing director for international operations with Marsh & McLennan Cos. Inc. in New York.

"1992 is in its infancy," concurred Travelers' Mr. Webb.

Much attention is focused on Dublin, where the Irish government has lowered corporate tax rates to stimulate growth in financial services. Profits earned by captives in Dublin are taxed at 10% (*BI*, April 30).

And, like other E.C. insurers, captives in Dublin will be able to issue single policies to cover all E.C.-based risks, Mr. Webb pointed out.

The city "will increasingly be viewed as a sort of Bermuda for Europe," predicts Stewart Steffey Jr., senior vp at CIGNA Corp. in Philadelphia.

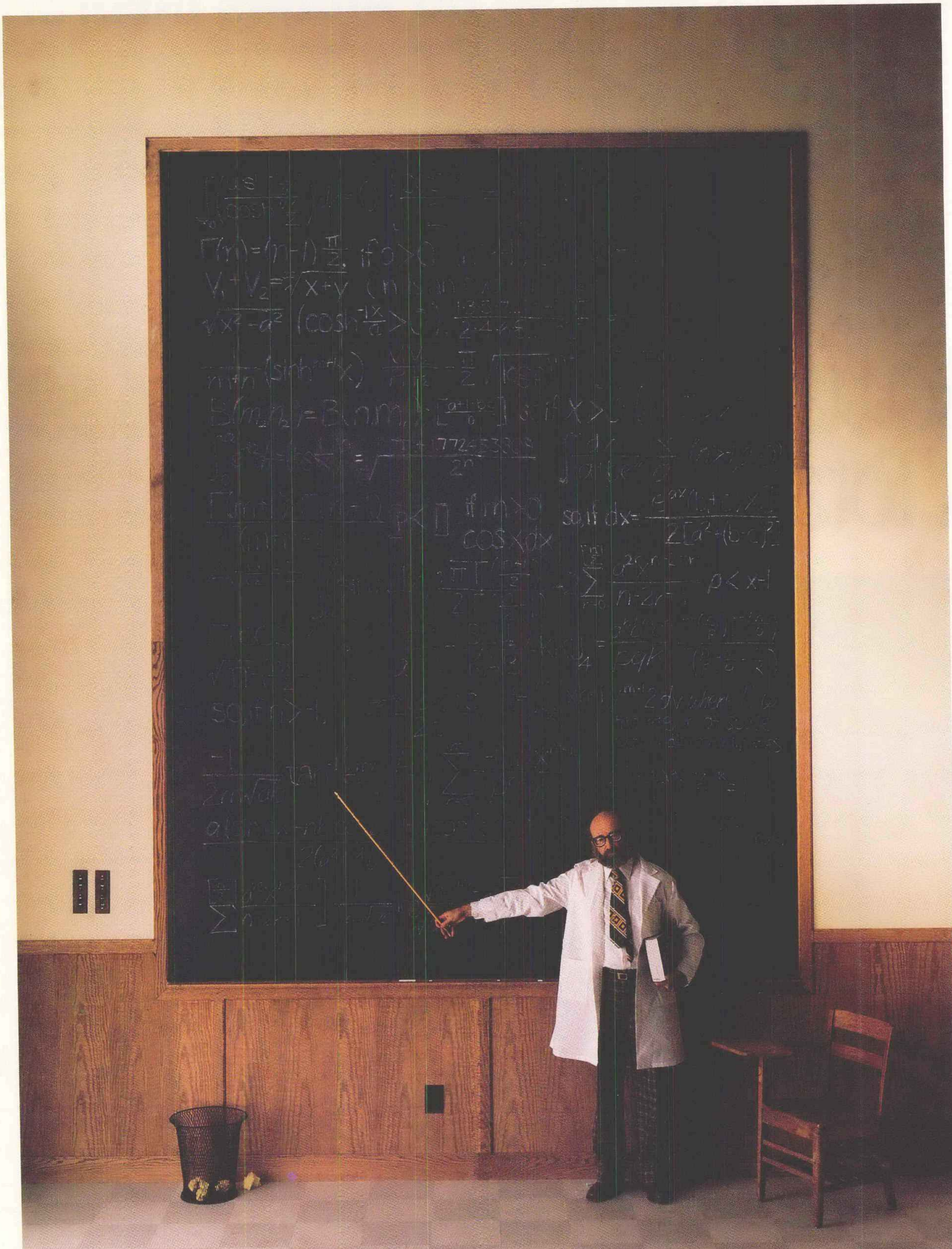
Forming captives is relatively new to European multinationals, though "some U.S. multinationals might want to open a branch of their Bermuda operations" in Dublin, suggested M&M's Mr. Solomon.

A captive manager, formed in Dublin last year by A&A, already has two Fortune 500 customers interested in forming captives, according to Mr. Forrest.

Hewlett-Packard's Mr. Wilson said he has "the basic go-ahead" to form a captive in Dublin after completing a feasibility study earlier this year.

Initially, the captive will reinsure the high-tech manufacturer's international property/casualty insurance program, which its broker, A&A, is

Continued on page 14



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European boon?

Continued from page 11

now arranging with CIGNA Corp., said Mr. Wilson. The company plans to insure its European employee benefits and some specialty lines through the captive, he added.

CIGNA affiliates now write separate policies for Hewlett-Packard plants in Germany, the United Kingdom, France and Spain.

Michelle Patton, vp-risk management for Hilton Hotels Corp., also said she would be interested in eventually forming a captive in Dublin.

Like Hewlett-Packard, Hilton purchases liability coverage from the European domestic market. However, it has a global property program brokered by Johnson & Higgins for primary layers and Beecher & Carlson for excess layers.

Hilton's Conrad Hotels subsidiary is building new hotels in Brussels, Belgium, and Istanbul, Turkey. It already has hotels in Monte Carlo, London and Dublin.

To ensure operating division autonomy while unifying insurance purchases, the Tillinghast division of Towers, Perrin, Forster & Crosby is advising European firms to set up Dublin captives. Each local manager would then be able to buy coverage with individually determined retention levels and limits, according to H. Felix Kloman, a principal with Tillinghast.

Local managers would be directors of the captive, and each unit would receive dividends, much like a mutual insurer.

Mr. Kloman described the "captive as mutual insurance company" concept as "an untested idea" that Tillinghast will develop.

He admits, however, that selling a captive to European risk managers will be difficult since they generally eschew self-insurance.

"Some even purchase insurance to cover their deductibles," Mr. Kloman quipped. ■

Events abroad trouble risk managers at home

By MEG FLETCHER

U.S. risk managers face their share of problems when dealing with operations overseas, and recent international events are no exception.

In addition to the usual problems of varying laws, coverage requirements and communication problems, some risk managers are facing unique risks and challenges from the standoff in the Persian Gulf and the development of market economies in Eastern Europe.

"We had goods damaged in Kuwait when Iraq bombed it," said Glenn MacCorkle, director-risk management and insurance for NCR Corp. in Dayton, Ohio.

A shipment of computers and computer equipment was damaged at an airport there when the country was invaded, Mr. MacCorkle explained.

NCR has cargo war risk coverage, though its representatives have not been allowed into the country to assess damages, Mr. MacCorkle said. He would not elaborate on the coverage.

Despite the Kuwait loss and tensions in the Persian Gulf area, NCR does not anticipate withdrawing company personnel from the region because it primarily employs local nationals there, he said.

However, another U.S. manufacturer—Kohler Co.—has had a key sales representative return to the United States from the region until the crisis is over, said Harold Lang, director-insurance and risk management for the Kohler, Wis.-based company.

In addition, Mr. Lang has ordered that Kohler salesmen shipping goods to clients in the Persian Gulf area should quote the basic ocean cargo shipping rate but also tell clients to expect that an up-to-date price for war risk coverage will be added to the bill when the goods are shipped.

Other risk managers have their eyes on the opportunities—and challenges—created by emerging market economies in Eastern Europe (see stories, pages 24 and 28).

"I think it is a great step forward," a risk manager for a Midwest manufacturer said of the reunification. The former East Germany probably will lead other, previously Communist countries in economic development, due to its reunification, he predicted.

However, foreign expansion into the former Eastern bloc countries will come with its share of problems, the risk manager said.

For example, U.S. multinationals may face "terrible" pollution problems, which are reported to exist in these countries, he said.

In addition, "it will be difficult to retrain (local) managers to think in different terms," he said. For example, until now they have been concerned only with meeting government-imposed production schedules and unconcerned about other important things like the company's overall profitability or insurance-related issues like loss prevention, the risk manager explained.

A U.S.-based risk manager also faces the difficult task of "trying to see the risk as it is seen locally," he said. "Risk managers need to make sure that the terms they use have the same meaning," in the foreign country, he added.

The Gillette Co. is entering largely uncharted waters following an agreement reached earlier this year with the Soviet Union's Central Scientific-Production Assn. to manufacture and sell products like razor blades in the Soviet market, said William L. Mather, director of risk management for the Boston-based company.

However, Gillette's expansion into China, India and Pakistan during the past few years has helped prepare company officials for dealing with a wide variety of new cultures, he said.

Gillette currently has major manufacturing operations in 25 countries around the world and about 50 other operations including warehouses, laboratories and sales offices, he said.

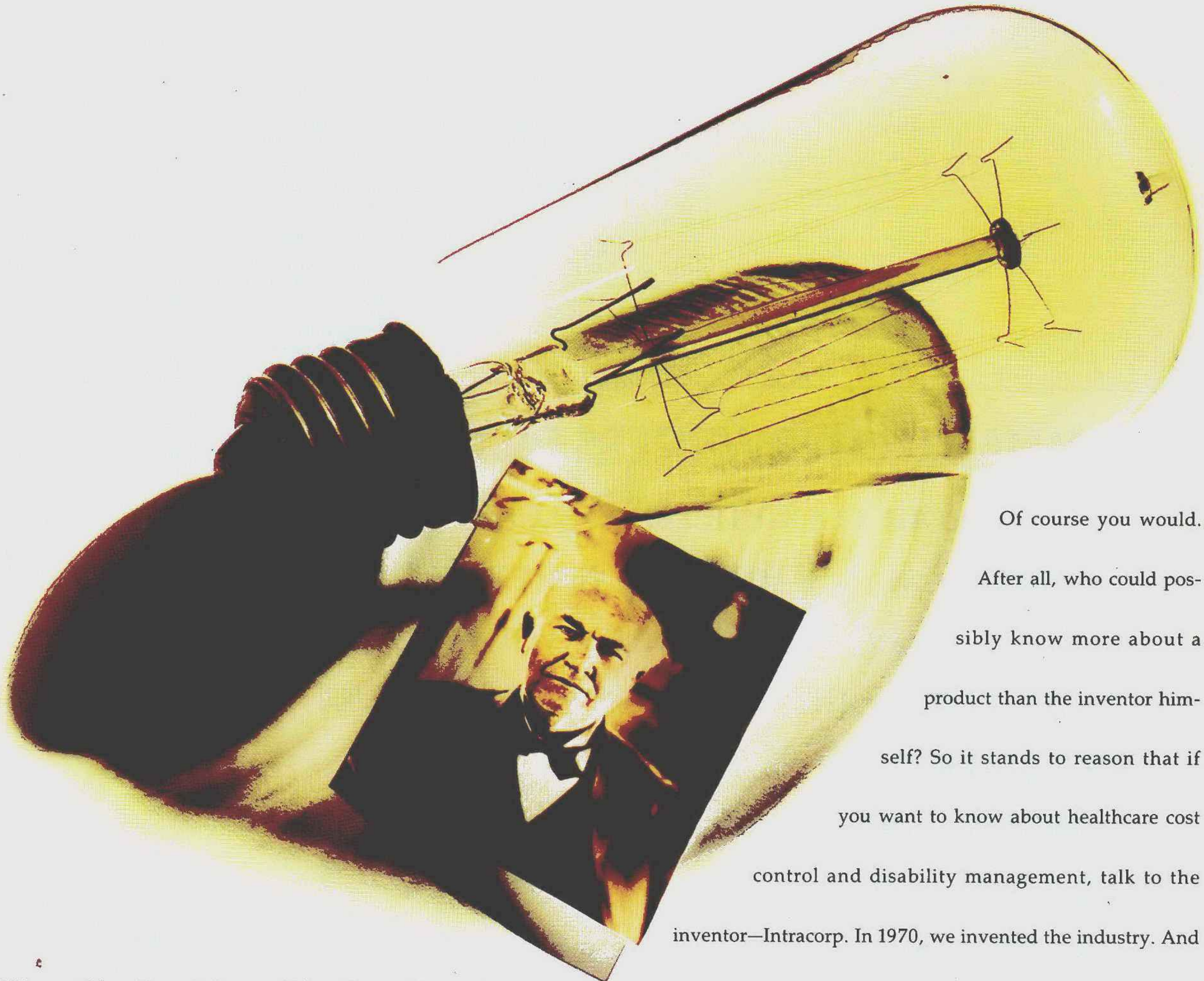
On a wider scale, risk managers cite a host of challenges in maintaining effective controls over far-flung operations.

"Globally, the communication and coordination of programs is an issue," said Joseph Wojdula, manager-corporate insurance for Motorola Inc. in Schaumburg, Ill.

"The big issue for all risk managers is convincing the units that what's good for the corporation is good for them," said Peter McDonough, vp and director of corporate risk and insurance management for BankAmerica Corp. in San Francisco.

Ensuring that foreign operations have uniform loss prevention standards is a key problem cited by some U.S. multinational risk managers, who note that typically local

Continued on page 16



Overseas problems

Continued from page 14

officials want local standards enforced, even if they are different from those used by the parent company.

NCR's Mr. MacCorkle said that he has experienced "a great deal of frustration" in getting European government officials like those in Switzerland and the Netherlands to accept the loss control standards for sprinklers endorsed by the Factory Mutual System, which NCR has adopted companywide but are different from those required in some European countries (see story, page 32).

Solving such a dispute takes time and requires bringing all parties to the table for face-to-face negotiations, he said. Since most local government officials at this level do not speak English, Mr. MacCorkle said he finds it helpful to involve his local broker to act as translator.

NCR has more than 1,400 worldwide locations, including four major manufacturing operations in Canada, Scotland, Germany and Japan. It also has dozens of plants on all continents that print business forms, he said.

Getting current loss runs on claims filed outside of the United States and Canada also can be a problem in foreign countries, said William V. Willcox, director-risk management for IMCERA Group Inc., a Northbrook, Ill.-based holding company with interests in medical equipment and supplies, chemicals and pharmaceuticals.

It is hard to gauge the appropriateness of a premium quotation for a foreign operation's renewal coverage without that information, he said.

Several risk managers said they rely on the foreign affiliates of their insurers or loss control consultants for local loss control advice.

James A. Mitchell Jr., corporate insurance manager for E.I. du Pont de Nemours & Co. in Wilmington, Del., said DuPont's loss control program, which covers hundreds of locations worldwide, is so extensive and well-developed that it sells safety programs to other companies.

Other firms may appoint local personnel to oversee compliance with foreign regulations and standards.

For example, DuPont has stationed an employee in Western Europe who helps it keep track of regulatory developments in European countries, Mr. Mitchell said.

Gillette's Mr. Mather said he is concerned about keeping track of changing pollution regulations, noting that many foreign countries are toughening their pollution laws.

Gillette's 25 major manufacturing operations worldwide face pollution exposures because hazardous chemicals like degreasing agents are used to make razor blades, he explained.

Mr. Mather said he wants not only to keep track of changing regulations, but also to work on developing common standards for all Gillette facilities, even though regulations vary from country to country.

Another problem facing companies with operations in several foreign countries is differing liability standards.

Mr. Lang pointed out, for example, that French law, which is based on the Napoleonic code, allows for unlimited liability for auto accidents.

However, there is less of a concern about product liability exposures in Europe "because you don't have attorneys running around dropping cards," Mr. Lang said. "The mentality is different."

Although they agree Europe does not have the same level of litigiousness as is present in the U.S. civil justice system, some risk managers predict that could change in the future.

"I suspect that Europe will probably gradually catch up with the tort problems in the U.S.," said DuPont's Mr. Mitchell.

The risk manager for a New York-based manufacturer says U.S. liability exposures are causing the company problems when insuring products manufactured by its foreign subsidiaries.

Although foreign insurers provide coverage for these overseas manufacturing operations, they have refused to provide product liability coverage for finished goods exported to the United States because they do not want any part of the U.S. civil justice system, he said.

They fear the uncertainty of the U.S. tort system and the possibility that juries sympathetic to plaintiffs could assess huge damages, he said.

As a result, the manufacturer has opted to self-insure that exposure, even though it has faced some product liability claims related to these goods, the risk manager said.

Likewise, some multinational risk managers say a problem they face is too few options for purchasing adequate insurance for foreign operations.

However, insurers and brokers point out the competition is increasing for European risks (see story, page 3).

"My biggest concern is that there are so few markets to serve global companies like ours," said NCR's Mr. MacCorkle. And sometimes, the markets that do exist are inadequate, he said.

Michael S. Scheinblum, the risk manager for Carnival Cruise Lines Inc. in Miami, said he would like to break down the barriers that require him to purchase insurance from government-approved markets in several Caribbean and Latin American countries.

These locally admitted insurers may not be highly rated and may not be able to provide the terms and conditions that Carnival requires, he said.

Filling those gaps with a difference-in-condition policy can create added headaches because the best insurer to write it may not be able to do so legally, Mr. Scheinblum said.

Currency fluctuations can also "have a tremendous effect" on multinationals corporations' risk management programs, said NCR's Mr. MacCorkle.

For example, a U.S. company's insurable values overseas can increase significantly if the U.S. dollar weakens, he noted.

In addition, the cash flow of a U.S. multinational's captive insurer—like NCR's Global Assurance Ltd. in Bermuda—can be hurt if the value of U.S. currency drops while a foreign subsidiary is making a premium payment to the parent's captive, Mr. MacCorkle said.

Although workers compensation is often not a major issue in foreign countries, many of which have government-administered health care and job industry benefits, at least one hotel chain has encountered problems in this area.

Workers compensation costs in Puerto Rico have been a significant problem, the hotel executive says.

In an attempt to solve the problem, the hotel risk manager needed help from a local consultant with The Wyatt Co. to assess information from Puerto Rico's monopolistic state insurance fund about employee classifications and claims payments.

The risk manager said he found that the fund had overcharged the hotels for workers compensation coverage for a variety of reason, including the misclassification of employees by the fund. For example, clerical workers were lumped in with engineers, who are in a riskier and more costly category, he said.

The fund acknowledged the problems and granted the hotels a more than $100,000 credit for overpayments made in 1987 and 1988, he said.

In addition, the company last month started a light-duty program to bring recuperating employees back to less strenuous jobs until their injuries are healed. That is expected to cut workers compensation costs even further, he said. ■

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Spotlight report

U.S. risk managers cool to E.C. directive

By MEG FLETCHER

Risk managers for U.S.-based multinationals are wary—but hopeful—that the European Community directive allowing coverage for large property/casualty risks to be placed across national borders will benefit their companies.

Although most risk managers don't plan to change their insurance-buying habits at this time, a few are excited about the new markets they hope will eventually develop (see story, page 11).

And, most predict that fewer trade restrictions could spur competition that may keep rates low.

Effective July 1, the European Community's second non-life insurance directive allows cross-border sales of insurance for certain large corporate risks (*BI*, July 9). This gives risk managers for large companies that operate in E.C. countries the opportunity to insure their property/casualty risks with any insurer licensed in an E.C. nation. All internal European trade barriers are to be dismantled in 1992 under the Single European Act of 1985.

Some risk managers are encouraged by the free-trade possibilities, though most say they continue to keep their existing global insurance programs in place. Such programs are usually written through a U.S. insurer with foreign affiliates and supplemented by other local insurers, where required by law.

For example, E.I. du Pont de Nemours & Co. buys excess liability and property coverage for its foreign operations, while subsidiaries buy auto and workers compensation policies locally, said James A. Mitchell Jr., corporate insurance manager for the Wilmington, Del.-based conglomerate.

Likewise, NCR Corp. in Dayton, Ohio, which has more than 1,400 locations worldwide, prefers to deal primarily with a U.S. insurer offering a worldwide program. "We don't see any benefit in regionalization," said Glenn MacCorkle, director-risk management and insurance.

At The Gillette Co., which has major manufacturing operations in 25 countries as well as 50 additional facilities, the directive will not change significantly the type of coverage it buys or the prices it pays, said William Mather, director of risk management for the Boston-based company.

In addition, the directive will not have "a meaningful impact" on San Francisco-based BankAmerica Corp., said Peter McDonough, vp and director of corporate risk and insurance management.

Motorola Inc. in Schaumburg, Ill., sees no great advantage in a pan-European program, but that may change, said Joseph Wojdula, manager-corporate insurance. Motorola's foreign plants and affiliates operate "pretty independently," he said. The company also lacks a risk manager based in Europe to coordinate such a program, he said.

Several risk managers for U.S. multinationals are interested in learning all they can about cross-border placement of insurance in the European Community so they can assess potential benefits from such arrangements.

"We are keeping an open mind and open ear," said Joseph Rinaldi, director-risk management for American Standard Inc. in New York, which manufacturers plumbing, air conditioning and transportation products.

Several risk managers agree that the new rules may be helpful if they actually lower barriers to insurance placement.

"If the new rules really work, it will streamline administration of an insurance program for European operations," said a risk manager for a Midwest manufacturer.

"It may simplify the administration of an insurance program in the European Community," said Gillette's Mr. Mather.

Other advantages may include standardization of coverages, increased types of coverages and reductions in premiums, said Harold Lang, director-insurance and risk management for Kohler Co., a plumbing fixtures manufacturer in Kohler, Wis.

Kohler has begun streamlining insurance program administration for its two European subsidiaries, Mr. Lang said.

When Kohler acquired subsidiaries in France and Spain in 1986, four different insurers provided property or liability coverage to the units. Since then, coverage for each of the units has been consolidated with one insurer.

In the future, Mr. Lang said he plans to explore further streamlining, perhaps ultimately having one insurer write all coverage for both subsidiaries.

In addition, the risk manager for the Midwest manufacturer said his company's plans to have one person manage similar plants in the United Kingdom, The Netherlands and Germany, may set the stage for consolidating the plants' insurance programs.

However, he is skeptical that the new rules will immediately break down well-entrenched rules requiring that local insurers write certain types of coverage.

American Standard is open to improving its insurance program and coverage, but it would still want to keep local company executives, insurers and brokers involved, Mr. Rinaldi said.

For example, the company would consider reducing costs by buying a single policy for all E.C. risks from an insurer in the E.C. country with the lowest tariffs and other costs, he said. However, American Standard would have to consider in advance how local management and insurance partners in each nation would respond to such a move, he said.

The relaxed trade rules for E.C. non-life insurance will mean that U.S. global insurers will face challenges from foreign insurers, Motorola's Mr. Wojdula predicted.

The E.C. directive should increase competition, which is likely to change the way the U.S.-based multinationals buy insurance, American Standard's Mr. Rinaldi agreed.

In addition, several risk managers say they expect that the new rules will trigger market consolidation as small insurers combine to better compete.

"There will be fewer players but bigger players," said Motorola's Mr. Wojdula.

"The next five years will see a lot of U.S. companies and European companies getting a better understanding of their markets and how to operate in them," he said.

The global programs sponsored by U.S.-based insurers will no longer be an isolated market and will face challenges from foreign insurers, especially in Europe, he predicted. ■


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Spotlight report

U.S. insurers eye East Europe skeptically

By JOANNE WOJCIK

Unlike some European companies, U.S. property/casualty insurers are moving slowly into Eastern Europe, mostly by following existing policyholders as they set up shop in newly liberalized markets, observers say.

Except in what had been East Germany, few—if any—U.S. insurers are seeking indigenous business in Eastern Europe as the region emerges from more than 40 years of communism.

U.S. insurers are entering Eastern Europe indirectly. They are providing reinsurance to state-owned insurers; underwriting the portions of insurance programs unavailable in the local market, like difference-in-conditions coverage; or using state-owned insurers as fronts, observers say.

"Insurers may be trying to assist their joint-venture clients in Eastern Europe, but they won't go in and underwrite indigenous business," said Jonathan M. Chettle, managing director-international for broker Sedgwick James Inc. in New York.

Unlike Allianz A.G. Holdings of Germany, which recently purchased 51% of the East German state insurer, U.S. insurers "are not looking for indigenous (Eastern European) business," said Douglas N. Smith, vp and manager of the international department at Johnson & Higgins in New York.

Gaining market share through either networks or joint ventures will be difficult for U.S. insurers lacking a presence in the region, he added.

"I don't see many U.S. insurers making aggressive moves" in Eastern Europe, said Joseph H. Albert, president of risk management consultant J.H. Albert International Insurance Advisors in Needham, Mass.

In fact, Mr. Albert's clients "haven't gone into Eastern Europe to any degree" themselves.

"Theoretically, Eastern Europe offers a lot of potential," but "these countries have a different philosophy of insurance," said Tom Briggin, a Wyatt Co. consultant in San Francisco.

Western businesses view insurance as a way to protect assets. But for Eastern Europeans it is just one more tax the government has imposed, he explained. "Insurance is not high on their list of priorities."

"We have almost a stampede not to go into Eastern Europe," said Dennis Orio, assistant vp in the international department of Warren, N.J.-based Chubb Corp.

Chubb is not committing major resources in the former Eastern bloc because "there is very little money to be made in Eastern Europe these days," contends Mr. Orio.

"There are a number of other places where we can spend our time more valuably," agreed Don Mergen, vp and manager of Chubb's international department.

Mexico, for example, is liberalizing its requirements for foreign ownership of domestic insurers. It is "much more interesting to us," said Mr. Orio. "Over 4,000 U.S. companies are doing business there, and it's right next door."

"There's no money in Eastern Europe," concurred Ken Zeigler, president-international operations at Continental Insurance Co. in Cranbury, N.J.

However, to prepare for a potential move into that region, Continental is maintaining contacts with foreign marine insurers, he added.

Before diving head first into an untested market, CIGNA Corp. is assessing the needs of clients with Eastern European operations, said Senior Vp Stewart H. Steffey.

"We don't believe in investing heavily in government insurance companies," which currently "is the only way to get into these countries," he said. "Bringing the underwriting mechanism to the country is more advantageous."

Philadelphia-based CIGNA, however, is considering another tactic: It plans to enter the Eastern European market by training personnel for state-owned insurers.

"Training is incredibly important," said Mr. Steffey.

As part of its two-year strategy to enter the Eastern European and Soviet markets, CIGNA has appointed Finley Middleton as vp of Eastern European strategy development.

Mr. Middleton, based in Vienna, Austria, already is working with clients that have operations in Yugoslavia and Poland, Mr. Steffey said.

Before Long Grove, Ill.-based Kemper Corp. begins seeking indigenous business in Eastern Europe, it "will develop the capability to follow clients expanding" to that part of the globe, according to Ted Hoeh, senior vp of Kemper International Corp.

"Some of our U.S. and European multinational client base are going to invest in Eastern Europe," he said. "We expect to follow their business," said Mr. Hoeh.

Officials at Travelers Corp. are planning an exploratory expedition to Eastern Europe within the next 45 days, according to Jim Webb, division vp-property/casualty based in Hartford, Conn.

Travelers, which already has a presence in the region through its insurance network partners, is unlikely to seek to underwrite indigenous business, he said.

Instead, Travelers plans to work with existing state-run insurance companies in the Eastern European countries where it already has clients, usually by asking them to act as fronting companies, Mr. Webb explained.

Like the insurers with whom they place business, brokers are treading slowly into Eastern Europe.

New York-based Alexander & Alexander Services Inc. has opened a branch in what was East Germany, but like a department store window-shopper, it is "just looking" at the rest of Eastern Europe, according to Ron Forrest, senior vp and managing director of global business development.

"We tend to follow our clients using our reinsurance contacts with state-owned insurers to do joint venture deals," but "we certainly aren't rushing at this stage," he said.

Marsh & McLennan Cos. Inc., by contrast, has opened a Vienna office for clients in Eastern Europe, according to Lawrence L. Drake, managing director in New York.

In addition, M&M already has offices in Berlin and Leipzig, in the former East Germany.

And about four months ago, M&M's London affiliate, C.T. Bowring & Co. Ltd., sent a "high-level delegation" to the region to explore possible expansion. "As our clients' interests develop in these countries, M&M will follow," he said. ■

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Insurers see poor returns in East Europe

By DON LEWIS KIRK

BONN, Germany—Property/casualty insurers that have moved into Eastern Europe are finding the going rough, though they still believe the region holds opportunities for new business.

Insurers say returns from their Eastern European operations are anemic, citing low premiums, the sluggish pace of economic reforms and lack of local trained personnel as the reasons.

In short, insurance markets in the former Iron Curtain countries have a long way to go to catch up with the West.

In 1988, insurance premiums in Eastern Europe totaled $39.2 billion. The average premium per capita was about $100 compared with $820 in the E.C. countries and $1,750 in the United States. Of that amount, 51% was non-life and 49% life, a proportion similar to Western Europe. However, certain lines, particularly commercial insurance lines, are relatively undeveloped and some products are not available at all.

Munich-based Allianz A.G. Holdings led the race to the East in June by acquiring a 51% stake in East German insurer Staatliche Versicherungs der DDR. But the move has had its drawbacks.

"Premiums don't even remotely cover cost and the company faces $2 billion in losses," says an Allianz spokeswoman.

By year-end, Allianz plans to renegotiate low premium rates with policyholders. "The age of mini-tariffs is over," Ms. Roehreke says. "The state withdrew from its role as ultimate risk-bearer. These are new conditions. It's a matter of judging the risk realistically and setting new tariffs."

Other insurers face the same problem. The low buying power of Eastern bloc countries makes it difficult for insurers to raise rates, even for bad risks.

"It's a situation which can't continue," says a spokesman for Munich Reinsurance Co., the world's largest reinsurer.

In August, Cologne-based Colonia Versicherung AG bought some 40% of Deutsche Versicherungs und Ruckversicherungs AG (DARAG), the state monopoly reinsurer in East Germany.

According to Herbert Wiebe, Colonia AG executive, DARAG has had to address the problem of "unwanted" risk quickly. "1989 premium income was 200 million marks ($118 million) and we expect DARAG to reduce its portfolio by 70% and jettison bad risk," he says.

More than 100 foreign insurance companies have applied for and gotten permission to write business in what used to be East Germany.

Property insurers that have set up operations there have special concerns.

They complain of a grave lack of personnel to investigate and settle claims. "Our first priority is to train new people," says Mr. Wiebe. "Either our people go there or East Germans are brought here to learn by doing."

The lack of investigative personnel leads to other problems. "You know there's a perfect way to renovate a house in East Germany. Start a fire and let the insurer do the rest," Mr. Wiebe quipped.

Paris-based Assurances Generales de France has concentrated on Poland, planning a joint venture with the Solidarity labor union, which it hopes to use as a distribution network.

Two other Paris-based insurers are poised to begin operations in Eastern Europe. Groupe des Assurances Nationales is setting up operations in Hungary and Union des Assurances de Paris has opened a bureau in Berlin. UAP also has a cooperation agreement with Versicherungs der Osterreichischen Bundeslander in Vienna, a large Austrian insurer, which in turn has access to the Czechoslovakian and Hungarian markets.

Bertrand Legendre, the UAP director for Eastern Europe, noted that the Eastern European market is very different from country to country. "In many cases, we want to do something, we're not sure just what. We're interested in Eastern Europe, but we don't believe things will go very fast. It's a very selective market."

According to Mr. Legendre, property insurers are affected by these countries' economic framework as they undergo radical change from a planned to market economy.

Insurance law reforms have already begun in Hungary and Poland. A more liberal insurance law in Czechoslovakia will come into force in 1991; the Soviet Union's supervisory law is currently being drafted; and reforms are under way in Bulgaria and Romania. Also, former East Germany has adopted the West German insurance supervisory laws.

Mr. Legendre admits the great potential often talked about in Eastern Europe is just words. "It was the same thing in Brazil or China. Everyone said there was great potential. But it doesn't mean anything, if there is no real basis to work. A lot of people just don't understand what a centralized planned economy is or does and what it takes to transform it. . . .There is no concept of enterprise, risk, profit, contracts or even money."

According to Benito Pagnanelli, international director of Trieste, Italy-based Assicurazioni Generali S.p.A., a number of changes in the local Eastern European economies have to be made before an insurer can operate according to market economy principles.

"Foremost among them are denationalization and demonopolization of existing insurance companies and the gradual opening up of borders," he said. Also needed are supervisory laws to ensure the stability of the insurance sector, he said.

Finally, the "creation of a capital market is indispensable for the optimal fulfillment of financial intermediation," Mr. Pagnanelli said.

So far, Generali has been active only in Hungary, where it set up AB Generali Budapest in cooperation with Allami Biztosito.

Generali also plans to expand into Czechoslovakia and to set up a contact office in Moscow, says Mr. Pagnanelli.

"We have two options. We can sell insurance through affiliated companies or set up our own companies. At the moment, the first option is best," he says.

The only problem is the necessary legislation has not yet been approved by the Soviets, he says.

Mr. Pagnanelli predicts insurance law changes in Poland, Bulgaria, Romania and Czechoslovakia, possibly by year-end.

In the meantime, Generali's strategy is to set up contact offices—which it has already done in the Soviet Union—and await legal reform.

Generali has also set up an affiliation with Warta, a Polish state insurer.

In Poland, private and cooperative property is on an equal footing with the state, the foreign economic monopoly has been lifted and foreign trade has been largely liberalized. ■

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Global risk management programs

Consistency seen as critical factor

By CAROLYN ALDRED

AMSTERDAM, The Netherlands —Consistency of loss prevention and risk management standards worldwide is crucial for an effective international risk management program, contend two European-based risk managers.

"The main critical success factor in a global risk management program is consistency worldwide," said Pierre Sonigo, risk and insurance director for Paris-based industrial products manufacturer Saint Gobain.

"Our overseas operations, which are spread in more than 50 countries, have a right to expect the same level of service that is available to the operation located in the home territory," said Brian Pountney, group insurance and risk manager for British brewing and leisure conglomerate Bass P.L.C.

Both risk managers were speaking at the Second Arkwright International Risk Management Symposium, held last month in Amsterdam and sponsored by Waltham, Mass.-based Arkwright Mutual Insurance Co.

The two risk managers outlined how they each have put together an international risk management program for their respective corporations.

Mr. Sonigo joined Saint Gobain in early 1988 to establish a coordinated risk management program for the company's worldwide operations.

By 1989, Saint Gobain comprised 113 consolidated companies worldwide with a total of 88,000 employees. Group net sales totaled more than 65 billion French francs ($1.13 billion at appropriate exchange rates), while net profits totaled 4.3 billion francs ($744 million).

"We operate over 300 production facilities, mainly located in the European Community, Scandinavia, and North and South America," said Mr. Sonigo.

The company is organized into eight business divisions, four of which are related to glass production and four related to piping, building materials, industrial ceramics and paper and wood.

Before Mr. Sonigo's arrival and "since its creation over 300 years ago, the group never had a risk manager and apparently had been doing fine," Mr. Sonigo said.

However, "the situation I found —particularly in Europe—when I arrived was rather sad for a group this size. Just imagine: over 70 fire (property) insurance policies in France alone; several important losses with one over $30 million just three months into my arrival; continuously increasing premiums to adjust for these losses; no organized loss prevention programs; and almost no international coordination of risk management—a word which had not yet penetrated the SG jargon with the exception of the U.S.," Mr. Sonigo said.

As a result, Mr. Sonigo set two primary goals:

- To change the company culture with regard to risk management by introducing a "common methodology of risk assessment and risk financing."
- To develop the highly protected risk concept on a global scale as "a support of this methodology" and adapt the HPR concept to other types of risks.

"Our mission is to develop the group risk management policy worldwide and to implement it through a network of correspondents in each division," Mr. Sonigo explained.

However, because of the management structure of Saint Gobain, "we cannot impose anything; we have to convince, sell our concepts and show the benefits of our approach to unit managers who still continue to control their expense budgets," he added.

Saint Gobain needed a global risk management program because it "is a truly global organization with regard to its management and financial reporting, flow of products, production plans, etc.," said Mr. Sonigo.

Also, "technically, our processes are used in all countries in a similar way and plants are very similar, whether they are in Brazil, Texas, Italy or France," he noted.

"Therefore, exposures are generally identical and a major loss could happen anywhere. Wouldn't you feel bad about it if you only concentrated your efforts to your own country?" he asked other international risk managers attending the symposium.

In setting out to establish a global risk management program, Mr. Sonigo identified consistency worldwide as the "main critical success factor."

"It is vital that loss control be done on a consistent basis worldwide. Otherwise, it is not possible to simply understand the exposures which exist and treat them adequately," he said.

As a result, "we have decided to develop Saint Gobain loss prevention standards. These standards clearly specify that Factory Mutual data sheets should be used whenever applicable in lieu of any other insurance company specifications. A few applications of our own, more geared to our very specific manufacturing processes, have also been included " Mr. Sonigo explained, referring to property standards set by the Factory Mutual System, of which Arkwright is a member.

"We decided to impose Factory Mutual standards to all our operations in the world since we strongly believe they are the most efficient, based on years of research and loss experience. We did not want to impose standards issued by French insurers to all countries where we have our operations since it did not really make sense and letting each country use its own standards would have added too many discrepancies and potential conflicts," he added.

"Insurance services, on the other side of the coin, also demand consistency. It is necessary to have a network of service providers to satisfy the local insurance requirements of an organization," said Mr. Sonigo.

Almost as important as consistency is communication, said Mr. Sonigo, pointing out that "excel-

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lent communication is the key to a successful program."

Within a corporation, "especially in a decentralized structure, a risk manager has to build a network of persons at all levels who understand his objectives and are able to assist and support him in his job. Nothing beats face-to-face meetings and, therefore, this entails being on the road most of the time. But, believe me, it is worth the effort," Mr. Sonigo pointed out.

Training and education also is an important facet of a good risk management program, especially in areas of the world where the concept of risk management is less ingrained, he said.

"Contrary to major U.S. corporations, where the principles of risk management have generally been established for many years, the major challenge ahead for a risk manager in European countries is training and education," according to Mr. Sonigo.

"What we are trying to do is to change the corporate culture with regard to industrial risks. This means to change the habits, the behavior, the procedures and even the mind structure of corporate managers, plant engineers, project supervisors, lawyers and financial managers," he explained.

Recognizing different customs and cultures throughout an international operation also is important in putting together a global risk management program, noted Bass's Mr. Pountney.

"We very quickly learned that one of the essential features of any risk assessment program was the ability to understand and be at ease with local customs, laws, practices, language, idioms and culture, and we realized that we could not realistically provide this type of resource in-house without considerable cost," said Mr. Pountney.

For example, "we had become slightly complacent, particularly with our overseas risks, in that because the language of Bass was English, we assumed that local territory management would be comfortable, even in crisis situations, to use English," he noted.

Bass' risk management philosophy has had to change and develop considerably in 10 years as Bass "moved, like so many other U.K. and European organizations, from a domestic entity to one with global activity," said Mr. Pountney.

"Prior to the mid-1970s, Bass was a U.K. brewer with some involvement in hotels in the U.K. and in Europe. The risk management strategies were basic and geared along with most U.K. and European organizations to the maxim of 'insure what could be insured and retain the remainder,' " he said.

The company was, however, "becoming increasingly aware of the threat of growing consumer awareness as well as increasing pressure by legislators in, for example, the British Health and Safety at Work Act," which sets workplace safety standards in Britain, he noted.

"Bass began then to question whether our approach to risk assessment and risk funding was equal to the changes and whether the inherent risk in our everyday operations was correctly documented," said Mr. Pountney.

For example, "during the mid-1970s we suffered a serious fire during the final building works of a new brewery and packaging plant, the outcome of which was to significantly delay the start-up of a strategically important facility and, as a consequence, delay planned and announced closure of several small brewery and packaging centers," he pointed out.

Meanwhile, the "1970s were an interesting and testing time. The less than flexible attitude on the part of some insurers as regards underwriting of homogenous fire and perils exposure took Bass down the captive insurance route," Mr. Pountney recalled.

Before this, the risk management staff had little incentive to visit sites. But, "almost unknowingly, a real need had been created for risk assessment to protect the captive's exposure," he said.

As Bass entered the 1980s, opportunities to expand its interests in the leisure industry arose and acquisition of the Coral Leisure Group made Bass involved in bingo halls, holiday centers in the U.K. and Mediterranean countries, additional hotels, betting shops, liquor stores and dog tracks, said Mr. Pountney, noting that the group also expanded its beer and soft drink activities.

In the mid- to late 1980s Bass moved heavily into the international arena with the acquisition of "a package holiday company, which included a fleet of some 10 aircraft. (And) the development of (casinos) in the U.S. and the acquisition of the Holiday Inn brand were major factors in the globalization of Bass," he noted.

"New exposures to risk were being delivered to the risk management door almost on a daily basis. There was a growing need to pose the question: 'Were our risk assessment programs and our involvement in loss prevention and risk management equal to the demands of a growing organization or were we still the insurance department?' Our approach had to change from the reactive to the pro-active," said Mr. Pountney.

"The 1980s generally, and particularly involvement in the U.S., brought a sharp focus to the demands of risk awareness and risk assessment. Progressively over the latter half of the 1980s we developed fairly sophisticated risk assessment questionnaires aimed at providing exposure information on a consistent worldwide basis," he explained.

"We saw a real need for loss prevention programs which, in addition to focusing on the buildings, plant and human assets, considered working practices such as the provision and use of protective eyewear and ear defenders in noise hazard areas," he noted.

Also "it was becoming increasingly clear that for the captive to continue successfully, resources had to be provided to carry out risk assessments and audits for those risks underwritten by the captive," Mr. Pountney added.

"Over the years we have tried to lift our performance level to match the demands of the organization. We have tried to adopt a pro-active approach through risk surveys," he said.

"The organization grew laterally as well as vertically and it was essential that our risk management thinking respond in the same way. Our overseas operations, which are spread in more than 50 countries, have a right to expect the same level of service that is available to the operation located in the home territory," he said.

"We need to have a consistent approach in the evaluation of our exposures in order to prioritize the increasing pro-active drive in our risk management approach. To test our effectiveness, we needed to introduce such procedures and practices that would allow us to audit our risk assessment programs both from our internal contribution as well as services provided by third parties," said Mr. Pountney.

As a result, "the 1980s saw us take an increasing and essential involvement in risk assessment and this has led to" a philosophy of taking what risks we could and insuring the remainder, rather than the old philosophy of insuring what Bass could and retaining the remainder of the risk, he said. ■

Uniform E.C. safety standards may aid loss control programs

By CAROLYN ALDRED

AMSTERDAM, The Netherlands—Proposed harmonization of fire protection and safety standards throughout Europe may make it easier for European risk managers to adopt consistent loss prevention techniques in their European operations.

However, the standards—still to be established by the European Community—may differ from accepted North American standards, which could cause conflicts for multinational corporations that have adopted Factory Mutual System or U.S. National Fire Protection Agency standards, according to a loss prevention engineer.

With the creation of a single trading market in the European Community scheduled for completion in 1992, the European Commission is attempting to harmonize technical standards throughout its 12 member states, said Jack Woods, director of engineering and underwriting at Factory Mutual International in London.

Mr. Woods spoke last month to risk managers of multinational companies at a risk management symposium organized in Amsterdam by Waltham, Mass.-based Arkwright Mutual Insurance Co., a member of the Factory Mutual System.

"On the technical scene there are many changes taking place in Europe with the long-term objective of harmonization of standards," Mr. Woods said.

"Some 200 European normalization (standardization) committees have been assigned to address many thousands of standards," he said.

"From a risk management standpoint, an area of interest is the change taking place in fire protection standards," Mr. Woods said.

These standards could change the design and use of sprinkler systems, fire detectors and fire suppressants across Europe, he noted.

North American fire protection standards already are fairly uniform, with many of the Factory Mutual standards accepted by the NFPA, but the global situation is less clear, said Mr. Woods.

Some 25 years ago, multinational companies and their global property insurers "saw a wide range of local standards" worldwide and "saw a lot of poor quality local equipment," he said. However, in recent years there has been "a desire by policyholders for standardization and consistency in standards, and to some extent there has been a change," he noted.

There also has been "greater worldwide attention to loss prevention and more concern about life, safety, property damage and the environment," he added.

Now there is a "broader range of quality equipment and testing facilities and stronger legislation affecting standards" worldwide, he said.

Most Western countries have their own technical standard authorities. However, there also are standards organizations that have a wider sphere of influence, noted Mr. Woods.

For example, on the European level, the Comite Europeen de Normalisation (CEN or the European Committee for Standardization) was established about 25 years ago by the French, German and British standards institutes. In addition, the Comite Europeen des Assurances was formed by Europe's leading insurers.

However, most internationally recognized fire protection standards tend to be those set by the International Standards Organization; the NFPA; Factory Mutual; the Loss Prevention Council in the United Kingdom; and the Fire Offices Committee, which is the technical standards unit of the Assn. of British Insurers, said Mr. Woods.

Whatever uniform standards eventually are adopted in Europe, it is important that they should be flexible and be adaptable to change as industrial techniques continue to develop, he stressed.

One area of potential conflict between current European standards and North American standards is the use of sprinklers, he said.

Europeans tend to use a conventional sprinkler head, which involves spraying 50% of the water released onto the ceiling to wet and cool the roof, he said. However, the sprinkler heads commonly used in the United States spray 90% of the water away from the ceiling, he noted.

"FM moved away from conventional heads to spray sprinklers when tests showed that the spray sprinkler was more effective," he explained.

However, "proposed European standards do not allow spray heads in certain situations, such as where there are combustible ceilings, which could cause conflicts" between U.S. and European fire safety practices, said Mr. Woods.

"Because we saw the conflict looming, a full-scale test program was begun at FM's fire facility in July" to compare the two types of sprinkler heads in different situations, said Mr. Woods.

The results of all the tests still are being processed and FM hopes to "share the test results" with the European standards committees later this year, he added. ■

Engineer warns of more mechanical losses

By CAROLYN ALDRED

AMSTERDAM, The Netherlands—Losses from mechanical and electrical equipment failures likely will increase in Europe as companies try to cope with the pressures of rapid political and socioeconomic change, an engineering expert warns.

In North America, mechanical and electrical equipment failures can cause "enormous losses to property and subsequent production interruption to industry," Klaus Ullman, vp-engineering for Arkwright Mutual Insurance Co., said at the Second Arkwright International Risk Management Symposium in Amsterdam last month.

"Our global experience, to date, indicates similar trends. I also believe, with the rapid political and socioeconomic changes taking place in Europe, it is reasonable to assume that production pressures and profitability of operations will increase failure probability," he warned.

"This is based on our general industrial experience, observing production demand cycles," said Mr. Ullman.

Arkwright's loss statistics for equipment failures for 1984 through 1989 comprise 9,003 losses totalling $618 million. Of these losses, 45% resulted from mechanical breakdown, 29% from electrical breakdown and 26% were attributed to pressure equipment failures.

Over the same period, the company's loss statistics indicate 8,800 fire losses totaling $1.5 billion.

However, he says, the statistics are deceptive because a "large percentage of fire losses to industrial plants originate through failures of components or equipment which act as an ignition source." For example, 1,200 of the fire losses had electrical breakdowns as the source of ignition and 180 originated through mechanical failure of components, he noted.

Including that second category, the five-year total for losses from mechanical or electrical failures was almost $1.1 billion, said Mr. Ullman.

Huge losses often stemmed from a chain of events begun by one small failure, he noted.

For example, in one case the failure of a rotor in a steam turbine operated by an electric utility caused a portion of the rotor to be thrown out of the turbine casing.

The projectile from the turbine caused arcing when it penetrated a transformer.

The arcing then caused a fire that threatened surrounding structures and equipment, Mr. Ullman explained.

The total loss in that case exceeded $29 million, excluding business interruption losses.

In another example, a voltage regulator failure at a northern Ontario steel plant resulted in mechanical stresses to the rotating part of an 18,000-horsepower motor. The ensuing failure shut down the primary breakdown mill of a major steel plant.

"This proved to influence not only the plant in Canada itself, but major users of its flat rolled product in the appliance and automobile manufacturing industry," said Mr. Ullman.

In a third case, the failure of a raker arm at a paper mill resulted in the shutdown of pulping operations and an 80% reduction in output for 28 days, he said.

Although the equipment damage totalled just $12,000, the business interruption loss amounted to $8 million, according to Mr. Ullman.

Preliminary investigation revealed the cause of the raker arm failure was a broken positioning pin, which had a value of $39.

"During previous maintenance inspections, the pin had not been withdrawn and examined, despite clear instructions for this procedure" by the component's manufacturer and plant management, said Mr. Ullman. He added that further investigation by Factory Mutual Insurance Co. "indicated that the plant's maintenance procedures did not provide for proper verification of specific procedures and the positioning pin examination was simply overlooked."

In all these cases, the chain of events leading to the loss was failure or misuse "of a relatively small or perceived non-vital component," Mr. Ullman pointed out.

"It is difficult to recognize that insignificant breakdowns of equipment or small components often lead to substantial losses. The insurance industry, due to business considerations, does not keep track of all failures of equipment and in many instances this results in non-recognition of failure root causes to major components," Mr. Ullman said.

However, "understanding these conditions is critical, as there is a clear correlation between mitigating or lessening the failure rate of small components and the frequency of dramatic losses," he added.

Property insurers sometimes can identify weak spots more easily than individual operators because of their broader experience and extensive loss records, he noted.

"In my opinion, the optimum condition for best loss control is cooperation between owner/operator and insurer.

Statistics clearly indicate that the most effective minimization or mitigation of unscheduled outages occurs when the owner/operator, the original equipment manufacturer and the technical insurer share information and engage in active transfer of information and technology," said Mr. Ullman.

Regular inspection and good maintenance programs will save time and money in the long run, he said. ■

Business interruption risk is growing

By CAROLYN ALDRED

AMSTERDAM, The Netherlands—Business interruption losses are a growing threat to multinational companies as products and services become more and more interdependent, warns a U.S. property insurer.

And the creation of a single European market will increase business interruption risks for many companies operating in Europe, said Thomas Kaiser, senior vp and area manager for Waltham, Mass.-based Arkwright Mutual Insurance Co.

More and larger business interruption risks are the result of a global shift from an industrial to a service economy, an ever-increasing concentration of assets held multinational companies and continued mergers among them, he explained.

"Last year there were 2,599 cross-border mergers and acquisition transactions in Europe alone, with $127.3 billion invested," Mr. Kaiser said at the Second Arkwright International Risk Management Symposium in Amsterdam last month.

"Mergers and acquisitions have put organizations into new businesses overnight—businesses with exposures they don't necessarily understand," he said.

"At the same time, consolidations, just-in-time manufacturing techniques, and internal sourcing are creating new and layered exposures with more interdependencies," he added.

"What once was a relatively small exposure under new manufacturing and distribution concepts can increase substantially," Mr. Kaiser warned.

The economic union of Europe will bring united, larger distribution facilities and factories with greater interdependency exposures, he predicted. "This will happen simply to service a changing and more open market," Mr. Kaiser added.

"Companies will also be involved in more joint ventures and will (obtain) needed supplies from others in an effort to control costs. This automatically increases contingent business interruption exposures," he explained.

Hidden costs that arise out of a property loss—such as business and service interruption—often can be huge compared with the loss itself, according to Mr. Kaiser.

Identifying those costs, however, isn't easy. And the process is made even more complex by political and social changes as well as technological progress that can render last year's model or process obsolete, he said.

And as products and services grow increasingly interdependent, one company's property loss can affect a whole string of unrelated companies, which may be located in other countries and be engaged in other industry sectors.

For example, direct and indirect customers of a company that has incurred the property loss may find themselves unable to obtain the materials necessary to make their own products.

This happened to customers of Shell Oil Co. after its Narco, La., ethylene facility exploded in May 1988, Mr. Kaiser said. Eight other major ethylene facilities had been lost earlier. And the Shell explosion was followed by the March 1989 explosion of an ethylene oxide plant owned by BASF A.G. in Antwerp, Belgium, and the October 1989 explosion and fire at Phillips Petroleum Co.'s Texas plant, Mr. Kaiser noted.

Shell was forced to reduce to 40% its contractual allocations of its remaining ethylene production to its customers, he said.

"The effect of this between the manufacturers and their customers is easy to see. But it becomes more obscure when you look at the customer's customer. . .a step not always taken by risk managers," he added. "What happened to the customers of those manufacturers who need ethylene to make their products?"

This series of losses increased the cost of supplies for many companies worldwide and eventually pushed up the price of finished goods. "Many of the downstream losses were—and are not—insured, and many companies never suspected they could face a loss," he said.

"Do you know where all the parts and components in your products are built? Do you know where all the services necessary for your operation come from? Do you have a contingency plan to assure your company's survival?" Mr. Kaiser asked the risk managers attending the symposium.

"Several years ago, one of our loss prevention consultants discovered that a single component required in every computer terminal manufactured and assembled by a major high-tech company was supplied by a single supplier from a single location," Mr. Kaiser noted.

"The consultant recommended finding a duplicate supplier or talking to the supplier about building another factory," he said, a suggestion the supplier eventually heeded.

Another hidden business interruption risk, sometimes overlooked, is "public confidence and reputation, one of the most difficult exposures to ameliorate. You can rebuild the factory, maybe find alternative suppliers, but if your reputation suffers, good luck getting back your customers," said Mr. Kaiser.

"The recent benzene problem faced by Perrier provides a lesson for us all. Because of a human error—not changing the filter in the purification system—small amounts of benzene remained in the filtration system. A total recall of Perrier water was ordered starting in North America and spreading to Europe," he noted.

"To quote one published comment at the time: One minute you are on top of the world and the next minute you are kissing 160 million bottles of water away from 105 different countries," said Mr. Kaiser.

Reports "indicate the cost of this mistake to be over 800 million French francs ($157.8 million at current exchange rates). More significant is the fact that, to date, sales in North America are only 60% of what they were prior to the incident," he added.

Risk managers must take time—and, if necessary, employ help—in assessing hidden exposures.

"Once you know what potential problem situations are lurking beneath the surface, you're in a better position to understand them and work them out before they tear your company stem to stem," Mr. Kaiser said. ■

Global property/casualty insurer directory

American Excess Insurance Assn.

77 Hartland St., Suite 400, East Hartford, Conn. 06108; 203-528-2105; fax: 203-282-9393

	1989	1988
Int'l premiums....	**$11,500,000**	$14,400,000
U.S. owned.....	**45%**	40%
Non-U.S. owned	**55%**	60%
Offices..........	**0**	0
Employees.......	**0**	0
Foreign countries.	**6**	6
Combined ratio...	**NA**	NA

Year international operations began: 1986.

Specialties: Commercial liability lines in excess of $25 million.

Participating companies: The Aetna Casualty & Surety Co., American Home Assurance Co., Insurance Co. of North America, Continental Casualty Co., Continental Insurance Co., Federal Insurance Co., General Star National Insurance Co., The Home Insurance Co., Maryland Casualty Co., NAC Reinsurance Corp., Royal Insurance Co. of America, The Travelers Indemnity Co., United States Fire Insurance Co., Zurich-American Insurance Group.

Principal officers: H. Donald Hanson, president; Clinton Greene, vp; Norma Colgan, secretary/treasurer.

U.S. contact: Mike St. Pierre, underwriting manager, 203-528-2155.

American International Underwriters

70 Pine St., New York, N.Y. 10270; 212-770-7000; fax: 212-770-7821

	1989	1988
Int'l premiums....	**$2.89 billion**	$2.86 billion
U.S. owned.....	**100%**	100%
Offices: Claims...	**121**	121
Underwriting...	**255**	255
Employees.......	**9,247**	9,264
U.S.............	**825**	815
Non-U.S........	**8,422**	8,449
Foreign countries.	**72**	72
Owned offices....	**67**	67
Combined ratio...	**95.2%**	94.3%

Year international operations began: 1919.

Parent: American International Group Inc.

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

Subsidiaries and affiliates: Located in American Samoa, Argentina, Aruba, Australia, Austria, Belgium, Bermuda, Bolivia, Brazil, Canada, Chile, China, Colombia, Cyprus, Denmark, Dominican Republic, Ecuador, Egypt, Finland, France, Germany, Greece, Guam, Guatemala, Honduras, Hong Kong, Hungary, Indonesia, Ireland, Italy, Ivory Coast, Jamaica, Japan, Kenya, Korea, Liberia, Macau, Malaysia, Malta, Mexico, the Netherlands, New Zealand, Nigeria, Northern Marianas, Norway, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Portugal, Puerto Rico, Rumania Saudi Arabia, Singapore, Spain, Sweden, Switzerland, Taiwan, Thailand, Trinidad, Turkey, Uganda, United Kingdom, United States, Uruguay, U.S.S.R., Venezuela, Yugoslavia and Zimbabwe.

Principal officers: Houghton Freeman, chairman; James E. Smith, president.

U.S. contact: Sandra Davis, assistant vp/director-planning & research, 212-770-6138.

Chubb Group of Insurance Cos.

15 Moutain View Road, Warren, N.J. 07060; 201-580-2000; fax: 201-580-3606

	1989	1988
Int'l premiums....	**$438,371,000**	$429,215,000
U.S. owned.....	**15%**	15%
Non-U.S. owned	**85%**	85%
Offices: Claims...	**38**	38
Underwriting...	**38**	38
Employees.......	**998**	951
U.S.............	**95**	91
Non-U.S........	**903**	860
Foreign countries.	**104**	104
Owned offices....	**17**	16
Combined ratio...	**98%**	93%

Year international operations began: 1902.

Parent: Chubb Corp.

Specialties: Multinational package policies, directors and officers liability, fidelity, kidnap and ransom, film productions, exporters' packages, excess liability, personal insurance for expatriate employees of multinationals.

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

Subsidiaries: Federal Insurance Co., New York (branches in United Kingdom, Denmark, Netherlands, Germany, Puerto Rico, Hong Kong, Taiwan, Japan and Singapore); Chubb Insurance Co. of Europe, Belgium (branches in Denmark, Netherlands, France, Italy, Spain, Ireland and United Kingdom); La Federal Compania de Seguros S.A., Colombia; Chubb Insurance Co. of Canada, Canada; Chubb Insurance Co. of Australia, Australia.

Affiliates: ARGOS Companhia de Seguros, Brazil; La Federacion Compania de Seguros C.A., Venezuela; Bolivar Compania de Seguros del Ecuador S.A., Ecuador; PFA Skade-Agentur A/S, Denmark.

Principal officers: Robert T. Van Gieson, managing director-overseas zone; Robert M. Lynyak, managing director-foreign underwriting; Lawrence Grant, European zone manager; Ernest A. Handelmann, Pacific rim zone manager; Donald E. Mergen, international department manager.

U.S. contact: Dennis J. Orio, marketing manager, 201-580-3608.

CIGNA Corp.-International Property & Casualty Operations

1600 Arch St., 14 JFK, Philadelphia, Pa. 19103; 215-523-5300; fax: 215-523-6041

	1989	1988
Int'l premiums....	**$2 billion**	$1.9 billion
U.S. owned.....	**11.3%**	11.7%
Non-U.S. owned	**88.7%**	88.3%
Offices: Claims...	**194**	194
Underwriting...	**200**	200
Employees.......	**4,499**	4,425
Non-U.S........	**4,499**	4,425
Foreign countries.	**126**	126
Owned offices....	**72**	73
Combined ratio...	**112.3%**	108.5%

Year international operations began: 1792.

Parent: CIGNA Corp.

Specialties: Commercial risks, construction, energy, boiler and machinery, worldwide casualty, marine and large risks.

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

Subsidiaries: International facilities in 68 countries.

Affiliates: Bahamas, Barbados, Cayman Islands, Indonesia, Jamaica, Kenya, Nigeria, Peru, St. Lucia, St. Vincent, Turkey, Turks & Caicos Islands, British Virgin Islands.

Principal officers: H.E. Hanway, president-CIGNA Worldwide Inc.;

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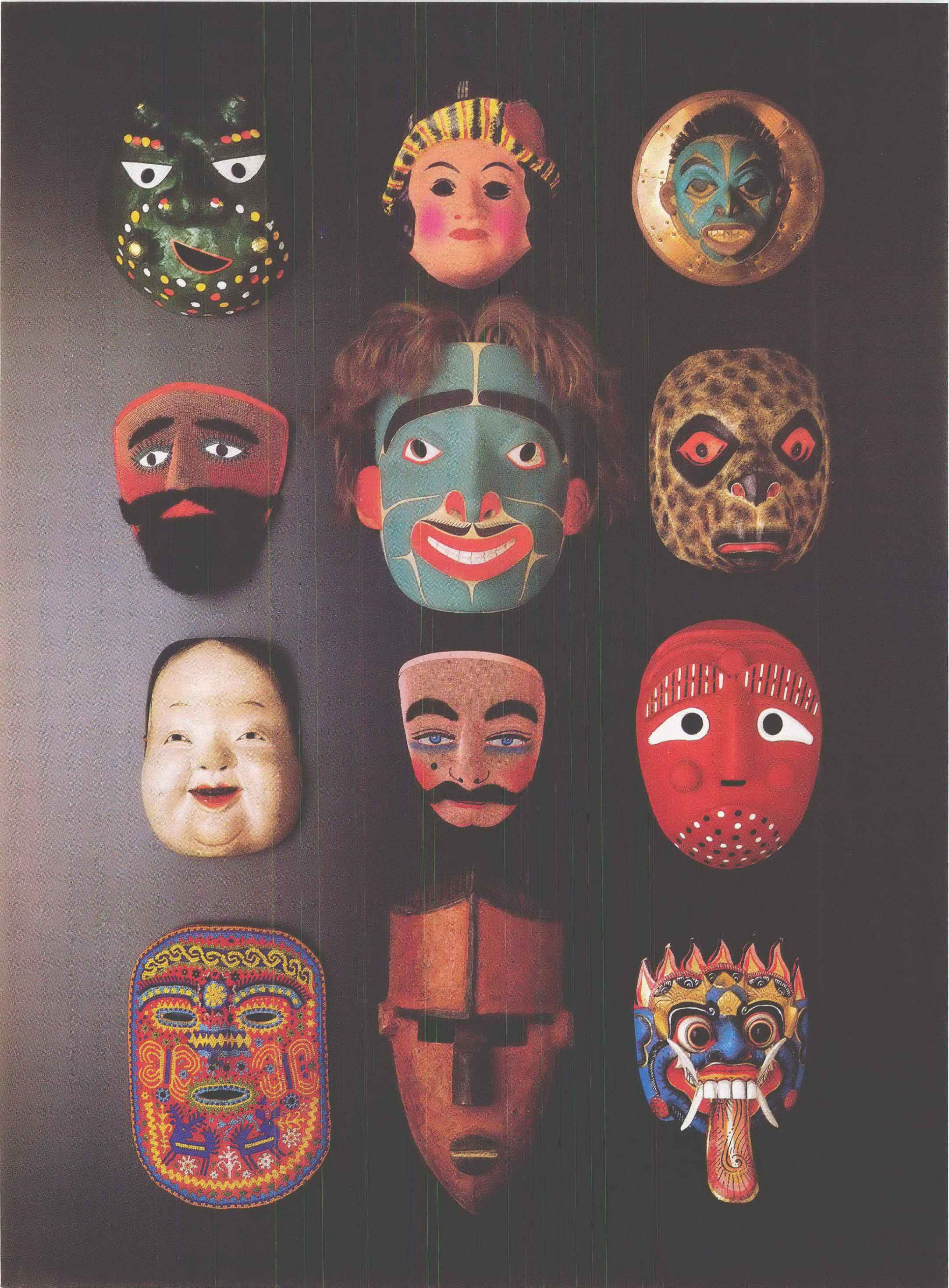

One company that claims to have a truly global insurance network isn't masquerading.

AI GLOBAL doesn't have to pretend to be global. It's what we are in 130 countries and jurisdictions around the world.

AIG established AI GLOBAL recognizing that businesses are becoming more global all the time: French companies starting new ventures in Japan, Asian firms in Europe, American companies exploring new worlds overseas, German multinationals coming to the U.S. All of which requires a balanced perspective from your insurer. A view we are particularly capable of since we are as large overseas as we are in the U.S. AIG has a unique base of knowledge and experience in overseas markets and cultures developed over 70 years. And expert claims and service capabilities wherever we operate.

Wherever your multinational company is located, AI GLOBAL gives you true single source access to AIG's unmatched resources and worldwide network to assure uniform coverage for your corporate risks. Through a nearby office that's part of a single, integrated worldwide management unit.

Wherever and however you expand around the world, you can't outgrow AI GLOBAL. And because we're staffed largely by local people, we're able to understand your needs in any language.

For more information, write AI GLOBAL, Dept. A, 70 Pine St., NY, NY 10270.

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Continued from previous page
Stewart H. Steffey, senior vp-field management; Arthur H. Liebelt, senior vp-underwriting.
U.S. contact: Lawrence C.M. Nield, vp-marketing-CIGNA Worldwide Inc., 215-523-6026.

Continental Corp.
180 Maiden Lane, New York, N.Y. 10038; 212-440-3000

	1989	1988
Int'l premiums	**$630,000,000**	$542,000,000
U.S. owned	**4.2%**	4.2%
Non-U.S. owned	**95.8%**	95.8%
Offices: Claims	**28**	30
Underwriting	**28**	30
Employees	**1,873**	1,883
U.S.	**147**	158
Non-U.S.	**1,726**	1,725
Foreign countries	**106**	106
Owned offices	**28**	30
Combined ratio	**NA**	NA

Year international operations began: 1964.
Specialties: Property, casualty, ocean and inland marine, multinational and indigenous commercial and personal lines, bonds, personal accident.
Services: Provides international loss control services and worldwide loss statistics in support of international programs.
Affiliates: Comercial Aseguradora Suizo Americana S.A., Guatemala.
Subsidiaries: Continental Pacific Insurance Co., Australia; Inter-Continental Seguradora S.A., Brazil; The Continental Insurance Co. of Canada and The Dominion Insurance Corp., Canada; The Continental Insurance Co. (Europe) Ltd., Belgium, Denmark, France, Italy, Netherlands, United Kingdom and Germany; Lombard General Insurance Co. Ltd., Hong Kong; Lombard Insurance Co., Singapore; Lombard Continental Insurance P.L.C. and Continental Insurance Co. (U.K.) Ltd., United Kingdom.
Principal officers: John P. Mascotta, chairman/chief executive officer; William E. Thiele, president/chief operating officer; Kenneth B. Zeigler, president/chief executive officer-marine & international group; Wayne H. Fisher, president-special operations group; Bill Ward, president-Continental Insurance Co. of Canada.
U.S. contact: Thomas J. Prendergast, president, 609-395-2604.

Engineering Insurance Co. Ltd.
Marine Engineers' Memorial Building, Fourth Floor, 58-59 Fenchurch, St., London EC3M 4AA England; 44-71-481-4825; fax: 44-71-488-4539

	1989	1988
Int'l premiums	**NA**	NA
Offices: Claims	**2**	NA
Underwriting	**2**	NA
Employees	**50**	NA
Foreign countries	**NA**	NA
Owned offices	**2**	NA
Combined ratio	**NA**	NA

Year international operations began: 1990.
Parent: Engineering Insurance Group.
Specialties: Boiler and machinery, erection all-risk.
Services: Provides international captive programs, international loss control services, worldwide retrospectively-rated programs and worldwide loss statistics in support of international programs.
Principal officers: William Zindel, chairman; Gordon Kreh, president; Alan McCormick, finance director; A.D. Thomas and John Sproha, vps; Deborah Colantuoni and Christopher Steggles, assistant vps.

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How to use directory

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

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

If provided by the insurer, financial and operational information for 1988 and 1989 is listed. Foreign gross premiums for property and casualty risks (and the percent generated by foreign operations of U.S. employers vs. foreign operations of non-U.S. employers) are given. Also provided are the number of foreign claims and underwriting offices, the number of foreign-based employees in U.S. and non-U.S. locations, the number of foreign countries represented and the number of countries in which the company owns offices (51% or more ownership). Combined ratios for foreign business are also noted.

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

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

Names and locations of affiliates and subsidiaries follow. Finally, names and titles of principal officers and a U.S.-based contact person are supplied.

To locate countries in which a company does business, refer to the geographic index following the directory. The index includes locations of branch offices, subsidiaries and affiliated companies.

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

If you represent a global property/casualty insurer and wish to be included in next year's directory, request a questionnaire by writing Sarah Polster, Editorial Assistant, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590; or by calling 312-280-3195.

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U.S. contact: John Sproha, 203-676-7900.

FM Insurance Co. Ltd./Factory Mutual International

Southside, 105 Victoria St., London, England SW1E 6QT; 71-828-7799; fax: 71-630-5335

	1989	1988
Int'l premiums....	**$48,093,000**	$38,988,000
Foreign........	**46.5%**	44%
Non-foreign....	**53.5%**	56%
Offices: Claims...	**3**	3
Underwriting...	**3**	3
Employees... ...	**420**	400
Non-U.S........	**420**	400
Foreign countries.	**43**	43
Owned offices ...	**2**	2
Combined ratio...	**99.8**	124.2

Year international operations began: 1963.

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

Specialties: Property damage.

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

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

Principal officers: S.D. Simpson, director; M.M. Edwards, director-administration/personnel; I.W. MacInnis, director-finance/company secretary; W.R. Simmons, director-marketing/corporate development; J.D. Sloan, director-engineering/underwriting; B.D. Watson, N. Ligtelijn, P. Bollmann and J.F. Woods, regional managers.

Gerling Insurance Group

Gereonshof, 5000 Cologne, Germany; 49-221-1441; fax: 49-221-144-3319

	1989	1988
Int'l premiums....	**$347.8million**	$341.2million
Offices...........	**49**	45
Employees.......	**9,200**	9,100
Foreign countries.	**21**	19
Owned offices. ..	**20**	18

Year international operations began: 1955.

Parent: Gerling-Konzern Versicherungs-Beteiligungs-Aktiengesellschaft.

Specialties: Industrial risks.

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

Subsidiaries and affiliates: Located in Germany, Austria, Belgium, France, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, Canada, United States, Brazil, Mexico, Australia, Malaysia and South Africa.

Principal officers: Hans Gerling, chairman-board of management, Gerling-Konzern Versicherungs-Beteiligungs-Aktienges; Rolf Gerling, Bernhard Fink, Frank Thomas, Paul-Robert Wagner, Anton Weiler and Richard Woltereck, members-board of management-Gerling-Konzern Versicherungs-Beteiligungs-Aktienges.

U.S. contact: Wolfgang Schlaeger, president-Gerling America Insurance Co., 18th Floor, 717 Fifth Ave., New York, N.Y. 10022; 212-752-8900; fax: 212-759-4910.

Hartford Fire International Ltd.

Hartford Plaza, Hartford, Conn. 06115; 203-547-5000; fax: 203-547-6590

	1989	1988
Int'l premiums....	**$1.23 billion**	$1.16 billion
Non-U.S. owned	**100%**	100%
Offices: Claims...	**16**	25
Underwriting. .	**16**	21
Employees.......	**1,723**	1,740
Non-U.S...... .	**1,723**	1,740
Foreign countries.	**42**	42
Owned offices....	**11**	11
Combined ratio...	**108.8%**	108.6%

Year international operations began: 1970.

Parent: ITT Corp.

Subsidiaries: London & Edinburgh, United Kingdom; Zwolsche Insurance Group, Netherlands; Hartford International Insurance Co. N.V., Belgium; Hartford Fire International, Germany; ITT Assurance, France.

Affiliates: Fencourt Re, Bermuda.

Principal officers: Larry Doyle, president; Rex Barberus, executive vp; Robert DeBoer and James Leber, senior vps; Paul Engstrom, senior vp/chief actuary; Kenneth Hemming, vp/controller.

U.S. contact: Larry Doyle, 203-547-4936.

Kemper International Corp.

Long Grove, Ill. 60049; 708-540-3767; fax: 708-540-4271

	1989	1988
Int'l premiums....	**$44,400,000**	$35,500,000
U.S. owned.....	**20%**	20%
Non-U.S. owned	**80%**	80%
Offices: Claims...	**16**	16
Underwriting...	**16**	16
Employees.......	**149**	130
U.S............	**25**	17
Non-U.S........	**124**	113
Foreign countries.	**77**	77
Owned offices....	**9**	9
Combined ratio...	**NA**	NA

Year international operations began: 1969.

Parent: Lumbermens Mutual Casualty Co.

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

Subsidiaries: Kemper Insurance Co. Ltd., Australia; Kemper S.A., Belgium (offices in United Kingdom, France, Germany and Netherlands); Kemper Management Co., Bermuda; Seven Continents Insurance Co. Ltd., Bermuda; Lumbermens Mutual Casualty Co., Japan; Kemper International Insurance Co. (Pte.) Ltd., Singapore.

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

Principal officers: J.S. Kemper III, chairman/president/chief executive officer; T.J. Hoeh, senior vp; A.J. Espinosa, M.R. Del Rosso, W.L. Halvorsen, R.L. Smialek, F.R. Snook and W.L. White, vps.

U.S. contact: Theodore J. Hoeh, senior vp.

Royal Insurance-U.S. Headquarters

9300 Arrowpoint Blvd., Charlotte, N.C. 28217; 704-522-2000; fax: 704-522-3200

	1989	1988
Int'l premiums....	**$4.3 billion**	$3.6 billion
Offices: Claims...	**NA**	NA
Underwriting...	**450**	450
Employees.......	**19,500**	17,000
Non-U.S.......	**19,500**	17,000
Foreign countries.	**76**	77
Owned offices....	**34**	34

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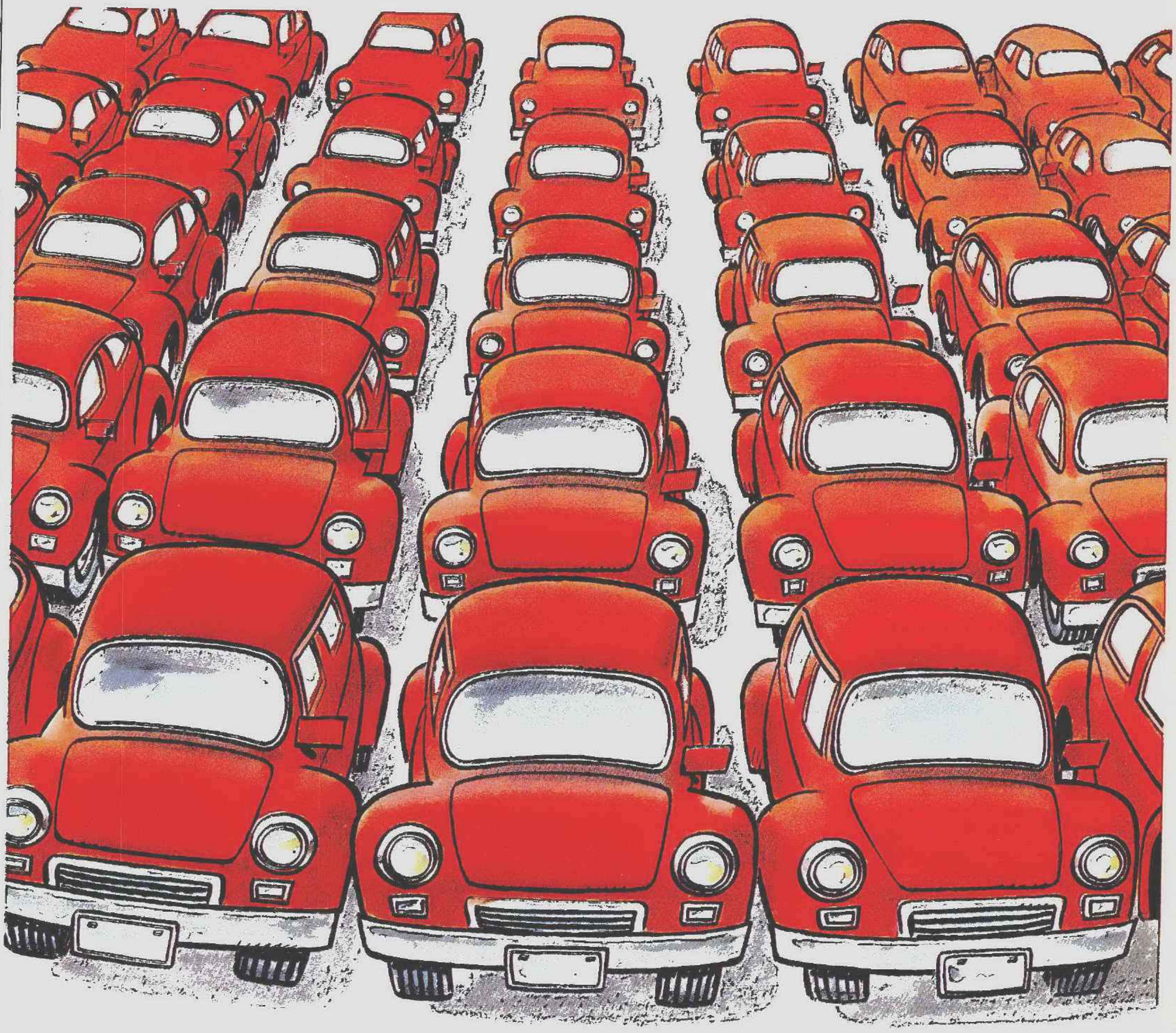

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Year international operations began: 1846.

Parent: Royal Insurance Holdings P.L.C.

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

Subsidiaries: Royal Insurance P.L.C., United States, Canada and Netherlands; Royal U.S.A., United States; Royal U.K., United Kingdom, Channel Islands and Isle of Man; Royal Canada, Canada; Royal International, United Kingdom, Australia, Belgium, Chile, Hong Kong, Kenya, Netherlands, New Zealand, Puerto Rico, Spain and Uruguay; Royal Life Holdings, United Kingdom, Canada, Ireland, Isle of Man, Netherlands and Spain; Royal Reinsurance, United Kingdom and United States.

Affiliates: Located in Germany, Bahamas, United Kingdom, Brazil, Venezuela, Ecuador, Colombia, Nigeria, South Africa, Indonesia, Trinidad & Tobago, Malaysia, Australia, Barbados, Uruguay and Zimbabwe.

Acquisition: Lloyd Italico, Italy.

Principal officers: Ian Rushton, group chief executive; William Buckley, chairman/chief executive officer-Royal U.S.A.; Robert Gunn, president/chief executive officer-Royal Canada; Peter Duerdan-managing director-Royal U.K.; David Perry-managing director-Royal International Insurance Holdings.

U.S. contact: Gary J. Orford, assistant vp-international, 212-553-3398.

Travelers International Operations

One Tower Square-7MS, Hartford, Conn. 06183-7040; 203-277-2395; fax: 203-277-6508

	1989	1988
Int'l premiums	NA	NA
Offices	NA	NA
Employees	61	56
Foreign countries	110	110
Owned offices	NA	NA
Combined ratio	NA	NA

Year international operations began: 1967.

Parent: Travelers Corp.

Specialties: Small and medium-sized multinationals.

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

Subsidiaries: La Metropole, Belgium.

Affiliates: Guardian Royal Exchange, United Kingdom; L'Union des Assurances de Paris, France; Riunione Adriatica di Sicurta SpA, Italy; Nippon Fire & Marine Insurance Co. Ltd., Japan.

Principal officers: Bruce S. MacMillian, president; James W. Webb, division vp-property/casualty; Michael G. Sandmann, division vp-employee benefits/pensions.

U.S. contact: Bruce S. MacMillian.

Winterthur Swiss Insurance Co.-International Division

Rudolfstrasse 1, P.O. Box 286, 8401 Winterthur, Switzerland; 42-52-85-1111; fax: 42-52-22-1629

	1989	1988
Int'l premiums	$2.4 billion	$2.1 billion
U.S. owned	25%	25%
Non-U.S. owned	75%	75%
Employees	10,463	9,796
U.S.	1,818	1,684
Non-U.S.	8,645	8,112
Foreign countries	50	50
Owned offices	15	15

Year international operations began: 1875.

Parent: Winterthur Swiss Insurance Co.

Specialties: Liability, property, life, health, motor, machinery and marine.

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

Subsidiaries and affiliates: Located in Australia, Belgium, Brazil, Denmark, Germany, France, United Kingdom, Hong Kong, Italy, Japan, Canada, Luxembourg, Netherlands, Austria, Portugal, Spain, Singapore, Taiwan, United States, Bahrain, Kenya, Malaysia, New Zealand, Saudi Arabia, South Africa, Finland, Norway, Sweden, Korea and Thailand.

Acquisitions: Hypobank, Switzerland; Churchill, United Kingdom; Transatlantische and Telcon, Germany.

Principal officers: Peter Spalti, chairman/chief executive officer-Winterthur Group; Willi Suter, managing director-international division.

U.S. contact: George Keller, vp-international department-Republic Group, 214-559-1222.

Zurich Insurance Group

Zurich Towers, 1400 American Lane, Schaumburg, Ill. 60196; 708-605-7000; fax: 708-605-6011

	1989	1988
Int'l premiums	$5.4 billion	$4.7 billion
Offices: Claims	600	600
Underwriting	530	530
Employees	33,000	28,100
U.S.	2,800	2,500
Non-U.S.	30,200	25,600
Foreign countries	80	80
Owned offices	46	46

Year international operations began: 1872.

Parent: Zurich Insurance Co.

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

Subsidiaries and affiliates: Located in Argentina, Australia, Austria, Bahrain, Belgium, Bermuda, Brazil, Canada, Denmark, France, Germany, Hong Kong, Indonesia, Ireland, Italy, Japan, Luxembourg, Malaysia, Mexico, Morocco, Netherlands, Norway, Philippines, Portugal, Singapore, Spain, Sweden, Switzerland, Taiwan, United Arab Emirates, United Kingdom and Venezuela.

Principal officers: Rolf F. Hueppi, president/chief operating officer-Zurich Insurance Co.; William H. Bolinder, president/chief executive officer-Zurich American Insurance Group; Thomas H. Hite, president-Zurich International-U.S.

U.S. contact: John Ormerod, vp, 708-605-6531; Vincent DeConti, vp, 708-605-6719; Clint Lutkins, vp, 212-635-9150. ■

Global property/casualty insurers by nation

America Samoa

American International Underwriters

Argentina

American International Underwriters
CIGNA Corp.
Zurich Insurance Group

Aruba

American International Underwriters

Australia

American International Underwriters
CIC Insurance Ltd. (Winterthur Swiss Insurance Co.)
Chubb Insurance Co. of Australia (Chubb Corp.)
CIGNA Corp.
Continental Pacific Insurance Co. (The Continental Corp.)
Gerling Insurance Group
Kemper Insurance Co. Ltd.
Royal Insurance U.S.A.
Winterthur Swiss Insurance Co.
Zurich Insurance Group

Austria

American International Underwriters
CIGNA Corp.
Gerling Insurance Group
Winterthur Swiss Insurance Co.
Zurich Insurance Group

Bahamas

CIGNA Corp.
Royal Insurance U.S.A.

Bahrain

Norwich Winterthur (Gulf) Ltd. (Winterthur Swiss Insurance Co.)
Zurich Insurance Group

Barbados

CIGNA Corp.
Royal Insurance U.S.A.

Belgium

American International Underwriters
Chubb Insurance Co. of Europe (Chubb Corp.)
CIGNA Corp.
The Continental Insurance Co. (Europe) Ltd. (The Continental Corp.)
Gerling Insurance Group
Hartford International Insurance Co. NV
Kemper S.A.
La Metropole (Travelers Corp.)
Royal Insurance U.S.A.
Winterthur Swiss Insurance Co.
Zurich Insurance Group

Bermuda

American International Underwriters
CIGNA Corp.
Fencourt Re (Hartford Fire International Ltd.)
Kemper Management Co.
Seven Continents Insurance Co. Ltd. (Kemper International Corp.)
Zurich Insurance Group

Bolivia

American International Underwriters

Brazil

American International Underwriters
ARGOS Companhia de Seguros (Chubb Corp.)
CIGNA Corp.
FM do Brasil Servicos de Prevencao de Perdas Ltda. (FM Insurance Co. Ltd.)
Gerling Insurance Group
Inter-Continental Seguradora S.A. (The Continental Corp.)
Itau-Winterthur Seguradora S.A. (Winterthur Swiss Insurance Co.)
Royal Insurance U.S.A.
Winterthur Swiss Insurance Co.
Zurich Insurance Group

British Virgin Islands

CIGNA Corp.

Canada

American International Underwriters
Chubb Insurance Co. of Canada (Chubb Corp.)
CIGNA Corp.
The Continental Insurance Co. of Canada (The Continental Corp.)
The Dominion Insurance Corp. (The Continental Corp.)
Gerling Insurance Group.
Royal Insurance U.S.A.
Winterthur Swiss Insurance Co.
Zurich Insurance Group

Cayman Islands

CIGNA Corp.

Channel Islands

Royal Insurance U.S.A.

Chile

American International Underwriters
CIGNA Corp.
Royal Insurance U.S.A.

China

American International Underwriters

Colombia

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

Cyprus

American International Underwriters
CIGNA Corp.

Denmark

American International Underwriters
CIGNA Corp.
The Continental Insurance Co. (Europe) Ltd. (The Continental Corp.)
PFA Skade-Agentur AS (Chubb Corp.)
Winterthur Swiss Insurance Co.
Zurich Insurance Group

Dominican Republic

American International Underwriters

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Continued from previous page

Saudi Arabia

American International Underwriters
CIGNA Corp.
Norwich Winterthur Insurance (Saudi Arabia) Ltd. (Winterthur Swiss Insurance Co.)

Singapore

American International Underwriters
CIGNA Corp.
Kemper International Insurance Co. (Pte.) Ltd.
Lombard Insurance Co. Ltd. (The Continental Corp.)
Norwich Winterthur Insurance (Far East) Pte. Ltd. (Winterthur Swiss Insurance Co.)
Winterthur Swiss Insurance Co.
Zurich Insurance Group

South Africa

Aegis Insurance Co. Ltd. (Winterthur Swiss Insurance Co.)
Gerling Insurace Group
Royal Insurance U.S.A.

South Korea

American International Underwriters
CIGNA Corp.

Spain

American International Underwriters
CIGNA Corp.
Gerling Insurance Group
Royal Insurance U.S.A.
Winterthur Swiss Insurance Co.
Zurich Insurance Group

Sweden

American International Underwriters
CIGNA Corp.
Gerling Insurance Group
Zurich Insurance Group

Switzerland

American International Underwriters
CIGNA Corp.
Gerling Insurance Group
Winterthur Swiss Insurance Co.
Zurich Insurance Group

Taiwan

American International Underwriters
CIGNA Corp.
Winterthur Swiss Insurance Co.
Zurich Insurance Group

Thailand

American International Underwriters
CIGNA Corp.

Trinidad & Tobago

American International Underwriters
CIGNA Corp.
Royal Insurance U.S.A.

Turkey

American International Underwriters
CIGNA Corp.

Turks & Caicos

CIGNA Corp.

Uganda

American International Underwriters

U.S.S.R.

American International Underwriters

United Arab Emirates

CIGNA Corp.
Zurich Insurance Group

United Kingdom

American International Underwriters
CIGNA Corp.
Continental Insurance (Europe) Ltd. (The Continental Corp.)
Continental Insurance (U.K.) Ltd. (The Continental Corp.)
Engineering Insurance Co. Ltd.
FM Insurance Co. Ltd.
Gerling Insurance Group
Guardian Royal Exchange (U.K.) (Travelers Corp.)
Kemper S.A.
Lombard Continental Insurance P.L.C. (The Continental Corp.)
London & Edinburgh Insurance Group (Hartford Fire International Ltd.)
Royal Insurance U.S.A.
Winterthur Swiss Insurance Co.
Zurich Insurance Group

United States

American Excess Insurance Assn.
American International Underwriters
CIGNA Corp.
Chubb Corp.
The Continental Corp.
Federal Insurance Co. (Chubb Corp.)
Gerling Insurance Group
Hartford Fire International Ltd.
Kemper International Corp.
Royal Insurance U.S.A.
Travelers International Operations
Winterthur Swiss Insurance Co.
Zurich Insurance Group

U.S. Virgin Islands

CIGNA Corp.

Uruguay

American International Underwriters
Royal Insurance U.S.A.

Venezuela

American International Underwriters
CIGNA Corp.
La Federacion Campania de Seguros C.A. (Chubb Corp.
Royal Insurance U.S.A.
Zurich Insurance Group

Yugoslavia

American International Underwriters

Zimbabwe

American International Underwriters
Royal Insurance U.S.A. ■

Benefit networks

Continued from page 3

Small high-tech and software companies account for new business for the John Hancock International Group Program, said Geraldine Pangaro, a field vp in Boston.

Andrew Haggert, senior vp and manager of international benefits at Johnson & Higgins in New York, agreed: "Computer companies are going overseas for the first time."

"It's worth investing in these little acorns if you want to get the mighty oaks later," Ms. Pangaro noted.

More frequent mergers, acquisitions and joint ventures also are forcing some employers to initiate network arrangements in new countries, said Anthony Gillam, vp and New York regional manager for Johnson & Higgins.

And non-U.S. multinationals afford further opportunities for benefit networks, observers say.

"Definitely, the trend is there for European multinationals to take an interest in establishing a pool," said H. Richard Souders, director and national practice leader of international services with Coopers & Lybrand's Actuarial, Benefits and Compensation Group in New York.

"For big parts of Europe, especially France and Germany, multinational companies now show some interest in pooling," agreed Michael Ehlers, a director at COMP through GPI, the multinational pooling unit of Gerling-Konzern Welt Service in Cologne, Germany.

European multinationals "really weren't aware of pooling," he explained. After making his pitch to European multinationals, the reaction always used to be, " 'That's interesting, but we don't really know what is going on overseas, we're independent and want to run our operations independently.' "

But "in the last two or three years, they are awakening to the advantages of pooling," Mr. Ehlers said.

"European multinationals have been really slow in getting into the act," particularly because they are much more decentralized than their U.S. counterparts, noted Michael Ponicall, a vp with TPF&C, a division of Towers, Perrin, Forster & Crosby Inc. in New York.

Elaine MacDonald, managing director of Aetna/Generali International Benefits Network in New York, said some French and Italian multinationals that are taking a more centralized approach to management may become interested in pooling.

Additional growth is expected to come from European subsidiaries of major Japanese companies, said Brigitte Bocque, operations manager at AREA Benefits Network in Brussels.

Although the multinational networks are not running out of potential clients, they are being forced to come up with new and flexible products and services to attract new and retain existing business.

"Cost is always a big item, but the networks are trying to provide more services to clients, and clients are asking for more services," said Gregory T. Glashan, a consulting actuary with Buck Consultants Inc. in Secaucus, N.J.

And service, though "harder to quantify and value," is "something you can count on even when (an employer's) experience is bad," he pointed out.

"We continue to see that we have to be very conscious of the status and quality of service that the networks offer in their local markets," noted Mr. Gillam of J&H. "It's one thing to set up a multinational pool; it's another thing to make sure you have good local services."

"All of the top-tier pools have improved their services," commented Burt Murdoch, a Wyatt Co. vp in Stamford, Conn.

Networks, he says, "know it is all very competitive and they've all sharpened their pencils as much as they can," but haven't really offered anything "truly new in the last 12 months."

Other consultants agree: "Because it's a mature market, there are very few bells and whistles they can add to multinational pooling," said Hewitt's Mr. LaSorte.

Life and health coverage abroad, particularly in Europe, has been characterized by various high, fixed tariffs. Multinational pooling was created as a method for employers to avoid high premiums from local insurers abroad by achieving experience rating and economies of scale.

Their ability to return to employers as a dividend a portion of the premium paid upfront under the costly "tariffs" has long been a major selling point for networks. But some observers suggest that seasoned multinationals are no longer primarily concerned with the dividend. Clients instead are demanding creative new cash-flow and investment arrangements, they say.

"What employers are really going for are the financial advantages of the networks, which doesn't necessarily mean the dividend," said Robert Bishop, president and chief executive officer of Godwins Overseas Inc., a consulting unit of Frank B. Hall & Co. Inc.

Wyatt's Mr. Murdoch agreed, "The networks understand that clients really want money management products, not just insurance."

Traditionally, pools were "designed to get away from high tariff rates and get surplus back when you had good experience in the tariff countries," explained A&A's Mr. Long. That emphasis has changed. One reason is a 6th U.S. Circuit Court of Appeals ruling involving Humana Inc. The 1989 decision, which affected property/casualty insurance purchased by Humana units, allows U.S. companies to deduct premiums they pay to captive insurers (*BI*, Aug. 7, 1989).

That ruling has cleared the way for multinationals to use captives as a tax-efficient means to insure employee benefits for overseas employees.

"I see pressure on the networks to cede a portion of a local reinsurance premium to a company's captive," Mr. Long said.

Some companies, for instance, request that 50% of the global premium be directed into a captive, where, through prudent investment, "they can earn a much higher yield than any dividend an insurance company could ever hope to pay them," he said. And companies should enjoy reduced risk charges as they assume more of the risk, adds Mr. Long.

Swiss Life Insurance & Pension Co. in Zurich is among the networks offering clients an opportunity to utilize their captives. Beginning in January, Swiss Life will market a "pure risk contract for group life, AD&D and medical," said Karl Muhlebach, senior executive vp. Pension risks are not included.

The Swiss Life Master Captive Treaty will let a multinational "effectively self-insure its subsidiaries' risks through its captive and. . .continue to benefit from administrative services provided by local insurers," Mr. Muhlebach said.

This arrangement would let companies take control of premium funds as they become available, he said. With traditional multinational pooling and experience rating, "the benefits of net costs are only enjoyed with the release of the international dividend some months following the year-end."

There are substantial restrictions. Eligibility is limited to multinationals with a captive in place and two local contracts with Swiss Life network partners in two different countries. Companies must also have at least 5,000 lives worldwide covered by the network, at least 1,000 of which must be insured by a Swiss Life affiliate.

Continued on next page

Benefit networks

Continued from previous page

If these conditions are met, "each of Swiss Life's partners will cede 100% of their local risk to Swiss Life in Zurich and we will cede 100% of that risk to the captive" after taking out a management charge, Mr. Muhlebach explained.

Most consultants urge caution for multinational companies considering use of a captive to reinsure employee benefits.

"It's an interesting concept, but you've got to be big. Otherwise the expenses may outweigh the advantages," Hewitt's Mr. LaSorte said.

Mr. Ponicall suggests companies need at least "$3 million to $4 million of risk premium to make it worthwhile."

Other consultants say interested multinationals should only use existing property/casualty captives to reinsure benefits coverages. Expenses may outweigh the advantages if a company tries creating a captive for this sole purpose, warned Mr. Souders of Coopers & Lybrand.

Multinational employers also are demanding the networks' cooperation and advice in global pension asset investments, experts say.

"There is an increasing realization on the part of large multinationals that they have accumulated a large amount of pension assets worldwide," explained Robert O'Connell, director and senior vp of the Group Management Division of American International Group Inc. in New York. Those assets are being managed by local managers that may not be well-versed in global investment opportunities, he said.

"The creation of international investment vehicles will be booming business" in the future, Mr. O'Connell predicted. AIG clients are becoming aware of tremendous pension liabilities and the fact that meeting those liabilities will require wise investment, he said.

"We see a potential explosion in the market from the pension side" and "we hope to put together a financial management service that will truly span the globe," he said.

Winterthur Swiss Insurance Co. for the first time will offer employers a global pension investment product, said James G. Long, a vp in New York. The WIN Global Fund will be offered to employers in November and is expected to be "fully operative" by January 1991, he said.

Winterthur is marketing the fund to multinationals looking to diversify by putting pension assets from various countries into a central investment fund, Mr. Long explained. It is billed as an alternative to using deferred annuity plans or other investment options in each country.

The WIN Global Fund is an open investment fund registered in Luxembourg under European Community guidelines and therefore is registered in all EC member nations by law, Mr. Long explained. Denominating the funds in European Currency Units, based on a basket of European currencies, "provides an additional degree of stability."

And, he said, accrued dividends and interest are accumulated tax-free in Luxembourg.

Other networks are making a concerted effort to provide more international benefit consulting services along with insurance and financial services products.

European-based networks in particular are preparing for increased competition and shrinking margins forecast from the elimination of trade barriers in 1992.

Swiss Life, for example, will begin offering an Advisory Services Network in 1991. Headquartered in Zurich, the network will function independently from Swiss Life's insurance operations, Mr. Muhlebach said. "Clients are free to place business with other networks; they are not required to use Swiss Life."

AREA Benefits Network Inc. in Nassau Point, N.Y., which Sept. 30 ceased its business affiliation with AREA in Brussels, will focus almost exclusively on consulting, according to Anne Petersen, president.

AREA in New York is no longer a multinational benefits network per se, Ms. Petersen explained. "We are a consultant and we will channel clients to (all of) the networks," including AREA in Brussels, she said.

She said her company will help U.S. clients coordinate pension benefits with the social security systems in Europe. AREA uses a computer program to forecast an individual employee's retirement benefits if he or she moves to another country.

AREA also will help U.S. employers set up special medical care arrangements in various countries. For example, Ms. Petersen said a number of managers recently sent to Hungary by a large U.S. corporation have access to a helicopter service that will transport the executives to Vienna, Austria, for medical care. ■

Health cost strategies not popular outside U.S.

By CHRISTINE WOOLSEY

Many non-U.S. multinationals are slow to adopt health care cost containment strategies even though health care prices are rising around the globe.

And while competition among networks operating in European Community countries may hold down premiums charged by multinational benefit networks, rising health costs will eventually filter through to employers, insurers say.

As an example of rising costs in Europe, one Swiss executive cites hospital costs in Switzerland, which have risen 213% from 1977 to 1989. In addition, costs for medication rose 126% and physician costs rose 141% over the same period, said Karl Muhlebach, senior executive vp with Swiss Life Insurance & Pension Co. in Zurich.

As a result, "for 1991, the insurance premium is expected to increase 9% to 14%," Mr. Muhlebach said.

"International benefit costs depend to a large extent on claim experience," noted Roger N. Balsiger, a senior consultant with Vita Life Insurance Co. Ltd. in Zurich, Switzerland.

Competition may reduce premiums for employees in E.C. nations, but "you still have to face the claims," he said, explaining that employers' costs are bound to rise eventually.

Many observers single out France as a nation in which health care costs are rising, but multinational employers are not yet feeling the pinch.

"In my opinion health care costs are rising and utilization is rising, but the market in France is just not" pricing insurance products properly in relation to the risk, said Elaine MacDonald, managing director of international marketing at Aetna/Generali International Benefits Network in New York.

Robert M. Pickrell, president of Insurope/The Multinational Benefits Assn. in New York, said "rates are rising and losses are getting worse" in France and Belgium.

Ms. MacDonald noted that health care costs also are rising sharply in Hong Kong and Malaysia. "We've started to see claims costs increasing there, but not necessarily rates," she said.

Anthony Gillam, vp and New

Continued on next page

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York regional manager for Johnson & Higgins, said that "medical insurers' loss ratios are deteriorating faster than rate adjustments, especially in the Far East, and experience is getting worse."

Increases in health care costs in the Far East may be a result of more sophisticated employees and higher wages, both of which lead to increased utilization, explained Gregory T. Glashan, a consulting actuary with Buck Consultants Inc. in Secaucus, N.J.

And, said Mr. Glashan, employer health care costs are increasing because "there is an element of naivete about what health care costs mean," especially in those countries that have nationalized health care programs.

"The people should be more aware of the costs" of health care, agreed Michael Ehlers, a director at COMP through GPI, the multinational pooling unit of Gerling-Konzern Welt Service in Cologne, Germany.

In Germany, for example, "they don't see the bills, so they have no idea of the costs," he said.

Robert M. Pickrell, president of Insurope/The Multinational Benefits Assn., said, "I wouldn't be surprised at all if the governments see the cost of health care to their social security systems as an increasing burden."

There is an element of naivete overseas about what health care costs mean, says Mr. Glashan.

As a result, most observers expect the cost burden for health benefits and pension benefits to shift from the public sector to the private sector.

"National health systems are taking the hit and are pushing things back to the private sector," said Michael Ponicall, a vp with Towers, Perrin, Forster & Crosby Inc. in New York.

A spokeswoman for International Business Machines Corp. in Armonk, N.Y., agreed that a major shift to the private sector will eventually increase health care costs for employers.

IBM, she said, is trying not to shift health care costs onto its employees and is instead trying to control costs by encouraging "preventive health care and wellness around the world."

Yet most non-U.S. multinational companies show little interest in the wave of cost controls that characterize U.S. employee benefits, insurers and consultants say.

The lack of enthusiasm may be due in part to the prevalence of nationalized health plans, experts say.

And, they point out, pension costs generally are higher than health care costs for non-U.S. multinationals, so they are less concerned with rising health care costs.

However, Ms. MacDonald said, some Malaysian multinationals are expressing interest in U.S.-type cost containment strategies.

"Our Aetna/Generali office (there) was expressing interest in using a preferred provider-type product," Ms. MacDonald said.

CIGNA Corp.'s International Financial Services unit, which in January 1991 will enter the multinational pooling business, plans to export some of its managed care programs.

"We'll be looking to build managed care on a country-by-country basis," said Virginia W. Hollis, assistant vp of multinational employee benefits.

Its first pooling projects will be aimed at the 20 countries in which the company now owns insurers, she said. CIGNA, which will initially offer only group health and life programs, plans eventually to enter the pension business, she said.

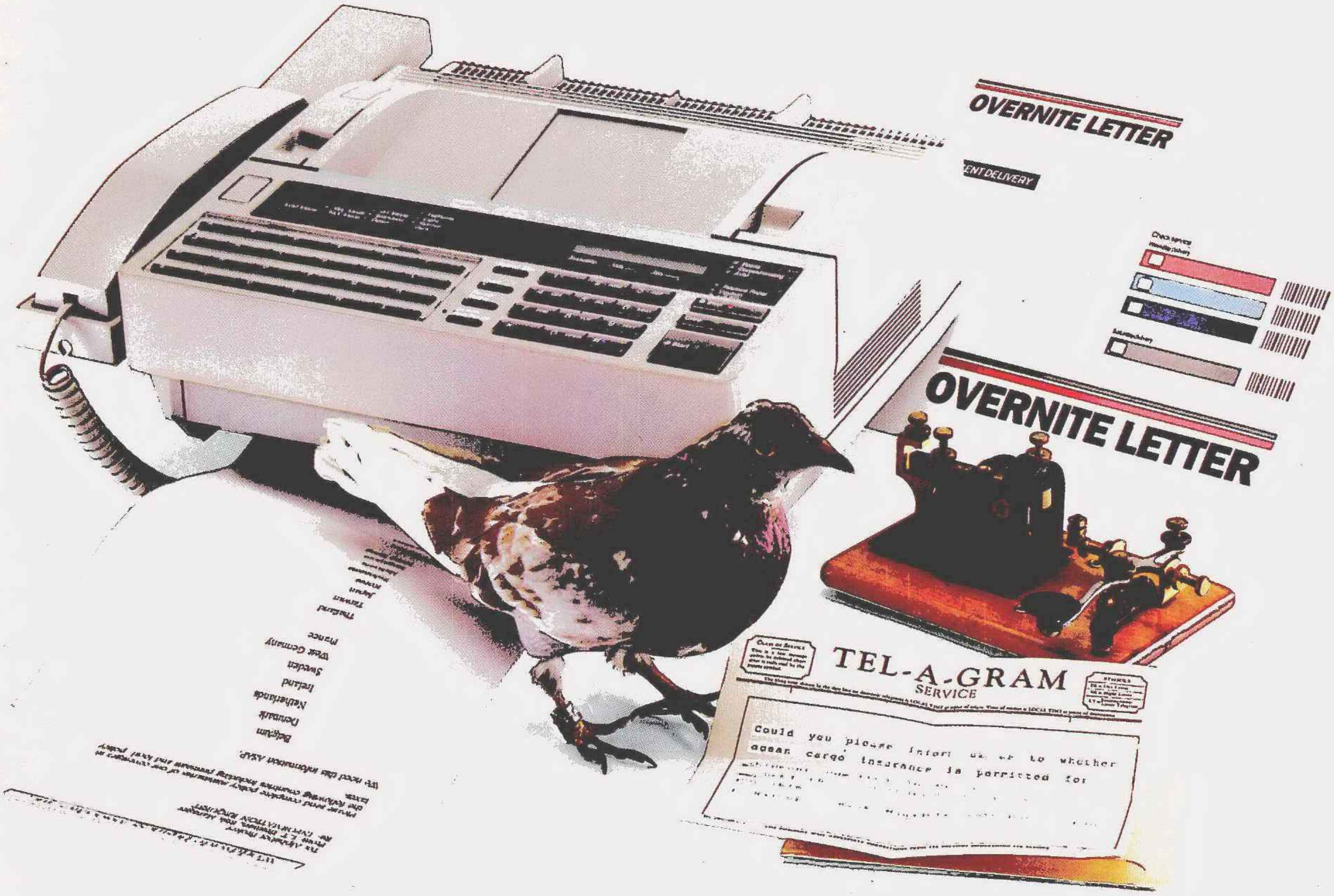
In addition to managed care arrangements, CIGNA plans to concentrate on management information, Ms. Hollis added.

"People are interested in getting more information from networks. In the U.K. there is a real interest in having the same claims information we have in the States," she said.

The company will attempt to provide multinationals with regional data like where injuries or substance abuse problems are most common.

She noted, however, that demand for this data may be higher in the United Kingdom than elsewhere because CIGNA is a well-known medical insurer there. ■

What's The Most Important Part Of A Global Insurance Program?



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Hazardous waste cleanup

Structured settlements help reduce the cost

By Robert Bell and John Machir

CURRENT ESTIMATES put the number of known contaminated or hazardous waste sites at 30,000 with associated cleanup costs running an average of $25 million per site. Of these sites, 1,218 are on the Environmental Protection Agency's national priorities list.

With $8.5 billion allocated by the Comprehensive Environmental Response, Compensation and Liability Act—better known as the Superfund law—to clean up these sites, clearly there is a need for alternative solutions to this enormous problem.

The EPA is the regulating body for the cleanup process and oversees distribution of Superfund assets, which were initially set at $1.6 billion by Congress in 1980 to clean up hazardous waste sites through Sept. 10, 1985.

In 1986, the fund was re-authorized at $8.6 billion until Oct. 17, 1991, when it will be re-authorized (*BI*, Oct. 8). This trust fund is financed by monies from fines and penalties from responsible parties, as well as taxes on oil and chemical feedstocks, manufacturers and importers of certain chemical substances and by general revenues.

Superfund imposes liability for cleaning up places where hazardous substances have been released into the environment. This legislation authorized the EPA to collect cleanup costs from potentially responsible parties and to settle claims.

Superfund requires cleanup of air, water and groundwater, and it covers new and old spills, either active or abandoned. It established two kinds of liability—criminal charges for failure to comply and civil liability in connection with the release of hazardous materials.

Responsible parties include both past and current owners of facilities, as well as persons who arranged for disposal or treatment, or arranged for transportation for disposal or treatment of hazardous substances, and transporters that accepted hazardous substances for transport.

These parties are liable for removal and cleanup costs, damages to natural resources, and the expense of conducting studies on the health effects of the hazardous substance plus interest. Liability is absolute, joint and several, and retroactive.

The only release from liability is if the potentially responsible party, or PRP, can establish release from cause by an act of God, war or omission of a third party. The liability for each site is limited to a general ceiling of $50 million, according to Internal Revenue Code Section 107(c)(1).

Litigation is complex and lengthy due to the number of parties involved in a claim and often is necessary to collect cleanup costs from PRPs. Couple this obstacle for collection with the number of companies that simply cannot pay, and the problem of securing cleanup funds becomes astronomical.

To help resolve this dilemma, the EPA commissioned a study to determine ways to motivate PRPs and their insurers to settle these claims quickly. This research concluded that "structured settlements demonstrated the highest potential as an incentive to promote PRP settlement with the EPA."

Structured settlements are individually tailored financial packages that provide a stream of payments to injured parties, as opposed to traditional one-time, lump-sum cash payments.

The use of this concept evolved abut 15 years ago as a settlement alternative in catastrophic injury cases. These claims often involved millions of dollars and required that the funds be available for medical costs and other expenses over the injured party's lifetime. The payments are funded by an annuity that the defendant purchases from a life insurer.

When structured settlements are applied to environmental claims, the annuity, which the PRP or its insurer purchases from a qualified life insurer is owned by the EPA. These annuity payments are deposited into the Superfund by the life insurance company.

The EPA tries to get PRPs to pay for cleanup costs and draws from Superfund assets as a last resort. Currently, more than 50% of cleanups currently under way are paid for by PRPs.

Periodic payments are especially suited to Superfund site settlements because of the high cost of cleanups, which can average in the tens of millions of dollars and may take decades to perform.

This concept may be applied to almost any environmental problem—large or small—including corrective action for the Resource Conservation and Recovery Act of 1976, which regulates generation, storage, treatment and transport of hazardous wastes.

An environmental structured settlement package usually consists of three parts:

- Immediate cash to cover the initial cost of the cleanup operation, such as building treatment facilities, tests and research.
- Ongoing payments, funded by one or more annuities over the life of the cleanup.
- Lump sums to cover the cost of inflation, cost overruns, future contingencies and unforeseen events.

Protection against inflation and cost overruns also makes this settlement method attractive to both parties. The settlement payment plan can be written to include periodic increases designed to offset the effects of inflation. Future lump-sum payments may be built into the settlement package and deposited in a contingency trust fund to compensate for cost overruns.

When the structured settlement concept is used for these cases, all concerned parties have an incentive to settle quickly. Since payment of cleanup costs plus fines and penalties often makes it financially impossible for the PRPs to meet their financial obligations, any repayment method which could reduce the ultimate cost of the settlement would be beneficial to the PRP, its insurer and the EPA, which would be guaranteed future payments.

One of the major reasons for using the settlement annuity concept to fund environmental claims is that it usually lowers the cost of settlement for PRPs. Annuities, as opposed to lump-sum cash settlements, reduce the cost because amounts needed to purchase the annuities are less than the present value of the estimated immediate and future cleanup. Often the reduced settlement cost is enticement enough to bring the PRPs and their insurers to the negotiating table.

Annuities are preferred because the life insurance companies—responsible for making the periodic payments—are closely controlled by state regulators. They also have a low risk of insolvency and have an excellent history of meeting long-term obligations.

The EPA study found that the use of annuities in environmental cases has six distinct advantages:

- Reduction in settlement cost compared to a single lump-sum cash payment.
- A secure source of funds for cleanups.
- Assurance of the timely completion of the EPA's or PRP's planned responsible action.
- Potential for providing funds greater than estimated costs.
- Ability to serve as a no-cost coalescing factor between PRPs and the EPA.
- Promotion of the use of the EPA's settlement authority.

In simple terms, settlement annuities facilitate Superfund settlements without increasing the EPA's risk of future losses.

The following case history will help illustrate how flexible this settlement concept can be.

Numerous PRPs were engaged in lengthy negotiations with the EPA regarding the financial settlement for cleanup at a contaminated site. While the PRPs had formed a committee to coordinate the negotiations, they had no consistent method for pricing the future cleanup costs.

One PRP consulted a structured settlement specialist to help obtain an analysis of the present cost of future expected payments for the cleanup. A structured settlement is a very convenient way to make this analysis, because it can be used to price any arrangement of future payments very rapidly with real marketplace numbers.

The strategy of the PRP committee was to determine the costs to be incurred over the next 10- to 15-year period, and, by agreeing among themselves, assure the EPA that the amount determined by the analysis would take care of the expected future costs.

The EPA was satisfied that the PRPs could clean up the site in 15 years with the resources available to them. However, the EPA was not satisfied that there would be a perpetual fund to be held in trust against any future work needed at the site after the 15-year period was concluded.

The committee agreed to purchase an annuity contract to pay out several million dollars in 15 years to a trust established to care for the site after the basic responsibilities of the committee had been discharged. This annuity contract, which is owned by the EPA, was written by a major, A-plus-rated life insurer.

With this example, the structured settlement actually acted as a future lump-sum payment. The only difference was that the cost to purchase the annuity was much less than the amount needed to make the lump-sum payment to the trust. In addition, the EPA had the benefit of knowing that the future payment to the trust would be guaranteed by the life insurer.

Another advantage of structured settlements involves "buyouts."

Sometimes insurance policies contain pollution exclusions, which usually result in a coverage dispute over whether or not the PRP is covered for cleanup costs. Resolution of these disputes often involves years of litigation and can result in delayed cleanup.

In this case, the structured settlement specialist may suggest a policy buyout in which both parties agree to a reduced settlement amount and the insurer purchases an annuity to fund its obligation.

With this solution, the insurer avoids the risk of losing the entire policy amount and reduces its legal fees. The PRP is relieved of its financial obligation to pay the total cleanup cost in the event that it loses the case. The PRP's insurance carrier receives a full policy release and discharge of any future obligation. And, the EPA is guaranteed a stream of restitution payments.

Each settlement package is individually designed by neutral brokers who bring financial planning, insurance and negotiating skills to the settlement process. The presence of an objective third party often enhances communication and facilitates early settlement. All services provided by structured settlement specialists are at no cost to either the PRP or the EPA.

Even though the structured settlement concept has only recently been applied to environmental claims, its popularity will undoubtedly increase with the EPA's endorsement and the potential it offers for facilitating cleanup of hazardous sites. ■

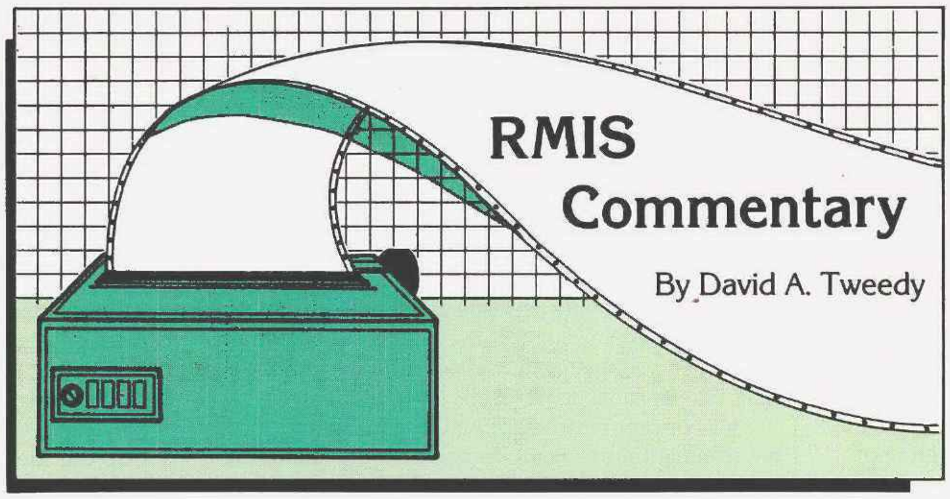
Robert Bell is head of the Northern California offices and John Machir is national marketing director of Ringler Associates, a structured settlement annuity brokerage. Mr. Bell is based in Walnut Creek, Calif., while Mr. Machir is located in Washington, D.C.

Mr. Bell

Mr. Machir

Does owner make a difference?

Base vendor selection on services, products



I WOULD LIKE TO DIGRESS from the usual topic of system design, selection and implementation to discuss recent occurrences within the risk management information system industry.

Recently, two of the larger risk management consulting firms in the United States have been involved in the sale or purchase of an RMIS vendor.

Tillinghast, a division of Towers, Perrin, Forster & Crosby Inc., has sold its Riskmaster/Quest software subsidiary (formerly called Softec Inc.) to Dorn Technology Group Inc. In addition, The Wyatt Co. has purchased David Corp., a former subsidiary of Nationwide Group.

What does this mean to the RMIS industry and to the user? Does this signal a change in the industry? More importantly, what does this mean to the current user or prospective buyer of RMIS services?

These were the questions raised in January 1989 when Anistics Inc. announced that it would discontinue its mainframe RMIS services (*BI*, Jan. 23, 1989). It is a useful question to raise on a regular basis, since system users have invested much time and money on a system and vendor that they expect will be around for the long haul.

First, does the recent buying and divestiture of RMIS vendors by Wyatt and Tillinghast signal a change? No. Other than the curiosity and coincidence of one major consulting organization deciding that owning an RMIS firm did not fit in its plans while another one came to exactly the opposite conclusion, I do not see this as a trend.

A better question would be: "What kind of vendor should a potential RMIS purchaser look for when considering various vendor options?" Regardless of the type of owner, the answer is: any vendor that is able to promise and deliver quality service and flexible, dependable products in a stable, long-term fashion.

One thing is clear since the last insurance crisis: the risk manager has become far more dependent on (and conversant with) his or her computer. *Business Insurance* had an excellent article in the July 23 issue, "Only the Computer Literate Need Apply," which showed the increasing sophistication of the risk management community in systems and computers. This means that the level of expectation of services and product flexibility has gone up, as well.

I have seen this in many consulting engagements. Clients are always searching for quality systems (flexibility, accuracy, ease of use analytical ability, etc.) that are also backed by superior service if problems should arise or there is a need for customization. That is also matched by the consumer's desire for increased integration of his risk management information systems into other areas like employee benefits, finance and accounting, human resources, and other existing management information systems within the organization.

So, in this light, any vendor that hopes to be competitive in the 1990s and beyond must have the consistent revenue flow necessary to promote research and development, as well as customer service which will differentiate him or her from competitors.

Having adequate income to fund the research and development and provide the superior customer service and products is, of course, the goal of any firm in this field. Such capital can be obtained in several ways: being acquired by a larger firm that will put up the investment money necessary to fund the research and development; promoting time-share support services (such as Corporate Systems or Risk Sciences Group); or selling a continuous service contract with the sale of a PC system for the microcomputer companies. Marketing only stand-alone systems with little or no continuing support requires either a tremendously large sales volume of these systems or charging a higher price (including a good profit margin) for the unit.

Size alone is not enough. We have seen that being part of a larger company does not guarantee longevity in the industry. The large brokers, such as Marsh & McLennan Cos. Inc. and Alexander & Alexander Services Inc., decided that offering risk management information systems was not a profitable venture and discontinued their operations. So did Weyerhaeuser Co. when it stopped offering its microcomputer-based workers compensation system.

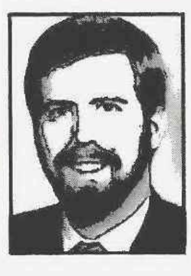
Being a small, low-overhead firm is not a guarantee for success either. Starting up your own PC vendor, although less expensive than creating a mainframe or a minicomputer-based operation, is nevertheless a high-risk venture today. The high customer expectations force a new vendor to be extremely innovative, provide excellent service, find a niche that no one else occupies or develop some other differentiator. Many do not last beyond two to three years. Those that do are relying on a good, flexible product backed by excellent service.

Where, then, does this leave the buyer or the current user of a system? First, consider the current owner of your RMIS vendor or the ones you are looking at. Does that owner have a clear interest in supporting the subsidiary in terms of research and development, providing superior customer service, establishing long-term relationships in system maintenance and enhancements? If the firm is independent, ask the same questions. What commitment to service and R&D does that independent vendor have?

Current clients of the vendor can certainly be an excellent sounding board. One good sign is if the vendor has a users group that is active and growing. That means that the vendor is interested in the criticisms and recommendations of its client base. It is even a better sign if some of the recommendations and criticisms are dealt with and implemented by that vendor.

The "type of owner" issue should be inconsequential. Whether the owner is an insurance company or broker, consulting firm, non-industry business or an independent entity, as long as it has this commitment to customer service and is ready and willing to adapt to the client's needs on a timely and accurate basis, the user should be reasonably well-assured of long-term stability and systems service. ■

David A. Tweedy is a senior consultant for Betterley Risk Consultants Inc. in Worcester, Mass. He is the editor of Betterley Risk Management Commentary and the author of RMIS Update, a yearly publication analyzing major risk management information systems and vendors. Mr. Tweedy's column on RMIS usually appears the third Monday of the month.



Autism not mental illness under policy: Court

Legal briefs

The 9th U.S. Circuit Court of Appeals held that autism was not a "mental illness" within the meaning of a group health care policy's cap on coverage for mental illness.

Benefit Trust Life Insurance Co. was the insurer and plan administrator of a group health and medical policy that covered Denial Kunin by virtue of his employment.

The policy limited medical benefits for "mental illness or nervous disorders" to $10,000 per calendar year.

In 1986, Mr. Kunin's son received treatment for autism for approximately 30 days in a special facility. Having incurred nearly $55,000 in medical bills, Mr. Kunin submitted a claim to Benefit Trust for the amount.

The insurer refused to pay in excess of the sum of $10,000 because it determined that autism was a mental illness.

Mr. Kunin sued the insurer in state court. However, Benefit Trust subsequently had the case removed to a federal court, asserting jurisdiction based on the Employee Retirement Income Security Act. The federal trial court then ruled for Mr. Kunin.

On appeal, the 9th U.S. Circuit Court of Appeals concluded that a plain reading of the Benefit Trust policy language indicated that "mental illness" was ambiguous, at least insofar as autism was concerned.

The appellate court noted that the group health policy contained no definition or explanation of the term "mental illness" and offered no illustration of the conditions that were included or excluded.

Thus, the 9th Circuit said that the failure of the policy to define its terms was fatal to Benefit Trust's attempt to limit coverage.

Kunin vs. Benefit Trust Life Insurance Co., 9th U.S. Circuit Court of Appeals, March 21, 1990 (BI/05/Nov.-$10). ■

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

Spotlight report

Offering benefits across borders

Benefit networks pool firms' claims

An international benefit network is a working arrangement among different insurance companies 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 all of the employers' foreign subsidiaries is pooled by the network, and good loss experience is rewarded with an "international dividend."

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

Whether a benefit is pooled through a network in a particular country depends in part on the quality of any state-sponsored benefit program and the coverage terms available from local insurance companies.

The structure of different networks can vary.

A network can be formed by one insurer with subsidiaries in many foreign countries; by two large life insurance companies, usually a co-operative arrangement between one U.S. insurer and an overseas partner; or by several independent foreign insurers.

One unusual pooling program lets a multinational client form its own network by using insurers of its choice.

Most networks' master coverage contracts include two agreements.

The first agreement is between the multinational company's local subsidiary and the local insurer that is a member of the pooling program. The local insurer charges a premium, plus a risk charge that covers losses that exceed the income from the master contract, catastrophic coverage and costs involved if the contract is canceled. The premium is usually paid by the local subsidiary.

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

The second agreement, between the network and the client's corporate headquarters, provides for pooling of experience under all local contracts. The total experience of all the subsidiaries is combined to determine if the parent corporation will receive what is known as an international dividend.

When determining the international dividend, the benefit 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.

By spreading the risks through pooling, a firm's unfavorable claims experience in one country may be offset by good experience in another.

> **A firm's 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 by one of three common methods:

- Stop-loss system: An employer's losses are fully underwritten by the network insurers in that experience year with no loss 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 in this case is reduced to covering catastrophic losses and cancellation of a master contract with a deficit.
- Loss-carryforward system with contingency fund: All losses and negative balances are treated as under a loss-carryforward system. However, to reduce the normal risk charge for loss-carryforward, a contingency fund is established and maintained with an annual allocation which future losses may offset. In years of unfavorable claims experience, the contingency fund is first drawn upon to cover losses and any negative balance remaining is carried forward.

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

Some consultants say use of the loss-carryforward system with contingency fund is less prevalent than it once was because of the low yields generated by the funds.

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

Benefit managers juggle overseas laws

By CHRISTINE WOOLSEY

Employee benefit managers at multinational corporations have their hands full when it comes to arranging group health and pension benefits for their workforces.

Multinational benefit managers agree that keeping up with the variations in each country's benefit and insurance requirements is no small feat. And they admit that financing and controlling the costs of benefits worldwide is a challenge.

Yet, say benefits executives at multinationals, understanding health care and pension regulations around the world is not as intimidating as it sounds. And, keeping one's fingers on the pulse of global benefits can be more of a pleasure than a pain, they say.

Lynn Daugherty, general manager of employee benefits for Armstrong World Industries Inc. in Lancaster, Pa., says he has "no gripes" about managing benefits for an international workforce.

It is an "interesting challenge coping with the diversity," he commented.

"In general, I don't consider this a big problem area for us," noted Loren Pierce, director of compensation and benefits for The Dow Chemical Co. in Midland, Mich.

"Most of the (benefit managers) I deal with are fairly seasoned," pointed out Michael Ponicall, a vp with benefit consultant TPF&C, a division of Towers, Perrin, Forster & Crosby Inc. in New York. "It's one of the most exciting careers to be in and it's challenging.

"For people new to international benefits, it's fairly frustrating not to be very well-versed at first and just to be a generalist. But after they get into it, they like it a lot," Mr. Ponicall added.

Most multinational benefit managers say it's impossible not to be a generalist when trying to keep abreast of insurance rules and regulations around the world. What makes matters worse, they say, is the rules keep changing.

"I'm glad I don't have to keep them all memorized—I never could," said Laura Strand, international compensation and benefits manager for Intel Corp. About a third of the Santa Clara, Calif.-based computer concern's 22,000 employees are outside the United States.

"Between our local human resource managers, corporate benefits executives here and consultants, we stay on top of" changes in the international benefits market, she said.

"Keeping up with legal changes, especially in pension and social security" can be difficult, Armstrong's Mr. Daugherty said. But "using a combination of local consultants and large, U.S.-based consultants eases the problem."

"We are fairly decentralized, but it is in my scope to keep up with the laws and changes overseas," said Kevin Flatley, vp of employee benefits at American Express Co. in New York. "I don't find it difficult to keep up with things I care about," he said, noting that he stays informed through reading and talking to other international experts.

Some global benefit managers say it is easier and sometimes less costly to provide health care benefits to non-U.S. workers, many of whom are participants in state-sponsored programs.

"I don't think it's more difficult to deliver (health) benefits overseas; it's easier," said Mr. Flatley. Programs abroad vary less because national labor agreements and government controls give employees a smaller range of choices, he said.

However, other multinational employers express some concern about costs and access to health care abroad.

"In terms of expatriates, our biggest issue is related to local medical care," noted Ms. Strand. Some countries "don't have the same facilities we have here." Because Intel does not operate in many poor countries, employees haven't had a problem finding adequate health care, she said.

Employees overseas are more concerned about pensions than medical issues, says Intel's Ms. Strand.

Dow operates in few underdeveloped countries, though "there are some countries where our folks judge the local care to be substandard," said Mr. Pierce. Upon their request, some employees are brought back to the United States for care.

Dealing with foreign doctors and hospitals can be difficult because they speak different languages and do not use standard claims forms, allows Ms. Strand. "It's not a crisis, just an inconvenience," she adds.

For many multinational employers, retirement benefits can present more of a problem.

One reason is that overseas employees are much more concerned about their pension programs than are U.S.-based workers.

"In general, employees overseas are more concerned about pensions than medical plan issues," Ms. Strand said. That concern may be because non-U.S. employees know the federal government will provide most of their medical care benefits, she said.

Continued on next page

Networks warily eye the unknown

Problems lurk in Eastern Europe

By CHRISTINE WOOLSEY

Welcome to the "Wild, Wild East."

That very well may be what benefit managers and multinational benefit networks find as they blaze a trail into the unknown territory of Eastern Europe.

While the Pacific Rim and the Far East still are growing economically, multinational insurers and consultants say Eastern Europe may be the final frontier for expanding multinational corporations. As a result, global benefit networks are beginning to establish contacts and joint ventures with existing property/casualty insurance companies based in Eastern Europe.

Although multinational corporations and benefit networks say they definitely are interested in expanding operations to Eastern Europe, many potential investors still are hovering at the borders, consultants and insurers say.

Eastern Europe has been driving at a tremendous pace toward democracy and free markets. Yet private-sector employee benefits will develop much more slowly, they predict.

For potential investors, the first concern will be deteriorated economies and archaic industries. And before insurers can legally provide employee benefits, ailing bureaucracies will have to be dismantled.

Benefit networks are "looking at that part of the world," said Elaine MacDonald, managing director of international marketing for the Aetna/Generali International Benefits Network in New York. "But the advice we're getting is: study the markets, get to know them, but don't commit any capital."

"You'll see manufacturers there before insurers," she predicted, noting also that companies will concentrate on property/casualty insurance needs before worrying about life/health insurance and pension benefits.

"Eastern Europe is very much a topic," said Roger N Balsiger, a senior consultant with Vita Life Insurance Co. Ltd. in Zurich, Switzerland. But, "the economy of these countries is generally in a desolate state" and "a lot has to be built up again."

Eastern European governments, the region's only employers, have also been the only providers of employee benefits. But it is "pretty safe to assume that most, if not all, of the social security systems are more or less bankrupt," Mr. Balsiger said

"Obviously, if Western companies or joint ventures will become active, they need corresponding insurance" to fund employee benefits "and we are prepared" to meet those needs, he said.

Most observers agree that new life/health insurance benefits will not be the first thing on the minds of multinationals or their workers. Instead, establishing more realistic pay levels will be a more immediate concern.

"The money is really going to increased wages now," said H. Richard Souders, director and national practice leader of international services for Coopers & Lybrand's Actuarial, Benefits & Compensation Consulting Group in New York. After that, managers will push for better housing, medical facilities and vacation time. Other benefits like life and disability insurance will come later, he

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Benefit problems

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Pension programs are often a greater focus of attention to employers as well.

"Medical is short-term and you can solve problems on a short-term basis," Mr. Pierce explained. "But retirement is a career thing and you have to be careful how you handle it."

Varying national laws make managing pensions much more difficult and time-consuming.

Because each country has its own tax and social security systems, it is almost impossible to transfer pension benefits—either government-sponsored or private benefits—from one country to another if an employee relocates, experts say.

This typically isn't a problem for employees who move to another country only once in a career.

Mr. Pierce said when private pension benefits are not portable, Dow enrolls the employee into the program of the country where he or she lives.

International Business Machines Corp., which sends employees abroad for only up to three years, avoids portability problems by maintaining the employees' retirement benefits in their home countries, a spokeswoman said.

Designing pension programs for employees transferring among several countries can be especially difficult, benefit managers say.

Dow Chemical's Mr. Pierce said the manufacturer's "biggest problem is dealing with retirement benefits for people moving from country to country."

It becomes increasingly frustrating when "you can't keep people in the home country program and you don't want to put them in the local country program because you know they're going to move to a third country," he explained.

For situations in which an employee's private pension benefits cannot be transferred to another country, Dow has created a separate fund, located in Switzerland, to provide pension benefits to third country nationals.

This "international pension program" also is used to finance the equivalent of social security benefits for employees who risk losing such benefits when they move from country to country, he said.

In addition to portability, employers sometimes have problems deciding which benefits to offer worldwide and only in certain nations.

For example, Ms. Strand explained that stock options and profit-sharing benefits are offered to Intel employees worldwide. But, she said, the company provides fitness and recreation facilities only for its non-U.S. employees because Intel must offer these benefits to compete in some foreign nations but not in the United States. ■

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predicted.

"I suspect personal (life) insurance or auto insurance would come first," said Gregory T. Glashan, a consulting actuary at Buck Consultants Inc. in Secaucus, N.J. "I haven't seen any demand for employee benefits."

In most of Eastern Europe, "there's only one game in town when it comes to insurance and that's the state," noted Jerry Long, senior vp and managing director of international consulting in Washington, D.C., for the Alexander Consulting Group Inc., an Alexander & Alexander Services Inc. unit.

"The concept of modern, sophisticated employee benefit programs is down the road," said Mr. Long.

Consultants and insurers predict that private employee benefits will first expand into what was East Germany, which was unified with West Germany earlier this month

"Throughout the rest of Eastern Europe there is no employee benefits or life insurance market yet," said Ms. MacDonald, noting that the Germans are ahead of the other East Europeans, who "don't even know about private property yet, let alone life and health insurance."

"One thing German companies will have to cope with when they hire East German employees" is demands for the same salary and benefits as workers in the West, Mr. Long noted.

Much of the burden to upgrade benefits "will be shifted to employers" rather than the state, Mr. Long predicted.

Multinational benefit networks say very few clients have approached them for information about the types of group health benefit arrangements available in Eastern Europe.

However, some multinational corporations are inquiring about programs for expatriate workers.

"Many of our clients have moved into Eastern Europe, but typically through mergers and acquisitions," noted Robert O'Connell, director and senior vp in the group management division of American International Group Inc. in New York. "The first thing we'll see to is insuring the expatriate segment going into Eastern Europe to work."

'There's only one game in town when it comes to insurance and that's the state,' says Jerry Long.

Mr. Souders of Coopers & Lybrand said clients are seeking advice on third-country national and expatriate packages.

But some multinational employers already are thinking about benefit issues in Eastern Europe for all workers.

"A couple of household Fortune 500 companies have rung us up (recently) inquiring about human resource issues in Hungary," noted Giles Archibald, a managing director at William M. Mercer Inc. in New York.

"They ask us what issues they have to take into consideration" when structuring benefit programs for employees there, said Mr. Archibald.

"We have many clients thinking about going into Eastern Europe, but they are still in the feasibility stage," noted Joe LaSorte, an international compensation and benefits consultant with Hewitt Associates in Lincolnshire, Ill. But, some "have gone in and are hiring local employees and are concerned about what they should pay them and what benefits to offer."

A dearth of information about benefit levels in Eastern Europe is now leaving many employers in the dark.

Mr. LaSorte said most discussions focus on social security systems and whether Eastern European governments will even allow private insurance. "There is very little talk about" supplementing state-administered benefits, he said.

A major problem facing a benefit manager for a multinational setting up operations in Eastern Europe is deciding which country to use as a comparative objective when establishing benefits and compensation levels for expatriates.

Should a multinational employee "keep in step with his home country plan or with the local plan? Most are keeping step with local" practices, Mr. Souders said.

The lack of a national standard will make it difficult for employers to establish supplemental employee benefit programs in Eastern Europe, noted Michael Ponicall, a vp with Towers, Perrin Forster & Crosby Inc. in New York.

If a multinational is interested in what type of program to set up, "we can't say what is a typical practice in Czechoslovakia," he commented.

Multinational employers will face other problems that could affect benefits as they set up operations in Eastern Europe, consultants and insurers say.

Case in point: the work ethic.

"In Eastern Europe we're looking at 70 years of communism and several generations that have had no incentive" to excel, warns Mr. Long.

The drive to succeed will not "come back overnight," Mr. Long said, suggesting that perhaps "some form of monetary incentives will have to be explored."

Absenteeism may also present problems, pointed out Mercer's Mr. Archibald. With rations and shortages still the rule in many countries, employees leave work to buy goods during the day when they can be found in government stores, he explained.

In addition, "there is a deep-rooted belief that the company owes (employees) the extra time, or long-distance telephone calls or Friday afternoons off in exchange for the difficult living conditions," pointed out John Por, a management consultant for Mercer in Toronto.

As a result, educating Eastern European employees about what is expected of them will be an issue multinationals will have to address, he said.

However, other observers disagree that Eastern European workers will pose a major productivity problem to multinationals.

"Saying Eastern Europeans work habits aren't as good as (Westerners) isn't valid," said Anne Petersen, president of AREA Benefits Network Inc. in New York. "They are just as industrious as we are if they are given the opportunity."

Eastern European currencies pose other problems, especially for consultants and insurers.

"There is a major problem getting real currency out of the countries," said Andrew Haggert, senior vp and manager of international benefits at Johnson & Higgins in New York. "Who wants the ruble? They may want the vodka," he quipped.

"People were used to the (benefits) provided by the state, but everyone used Monopoly money" to pay for them, noted Eric M. Janssen, director of Group Insurance International Network in Brussels. Now Eastern European employers and workers want the same benefit and compensation levels that they see in the West, "but they cannot pay for it." ■

United States has only health care system based on employer plans

By MICHAEL SCHACHNER

Unlike most other industrialized nations, the United States has the only health care system that primarily is based on employer-provided coverage, a recent study shows.

In contrast, citizens of most Western European countries, Japan, Canada and Australia receive basic health care services through government-sponsored programs, the study reports.

The Employee Benefits Research Institute, a non-profit research organization in Washington, recently completed "International Benefits: Part One-Health Care," a study profiling the health care systems of the United States and eight other industrialized nations.

The study specifically analyzed three facets of these national health care systems: the role of public vs. private insurance, including how much of the population is covered, eligibility for care and services covered; health care financing; and health care provider issues like payment, composition of the provider community, utilization and quality of care.

In addition to the U.S. system, the study examined the health care systems of Australia, Canada, France, Germany, Great Britain, Japan, The Netherlands and Sweden.

Among other things, the study found:

- Publicly financed health care plans are the leading source of health care coverage for citizens in most industrialized nations except the United States, where voluntary, employment-based private plans are predominant.
- Almost all health care in the surveyed countries is provided by private physicians and hospitals. Only Great Britain and Sweden have systems in which the majority of hospitals are government-owned and doctors are government employees, the study noted.
- The United States is the only country where health care providers have relative autonomy to set their own rates. In the other countries surveyed, health care service fees are set by the government or are negotiated by committees that represent both the government and providers.
- Utilization control has limited use in countries where most citizens have guaranteed access to health care. In fact, EBRI found that review of outpatient services is virtually non-existent in these countries. The United States, by contrast, has the most advanced utilization review system in the world.
- The United States spends more on health care as a percentage of its gross national product than any other country surveyed. However, between 1977 and 1987, Australia, Canada, France and Japan experienced higher real annual growth in national health care expenditures than the United States.

The following is a country-by-country roundup that highlights the EBRI study's findings:

United States

The U.S. system is the only one in which voluntary, employment-based health care plans are the primary source of health insurance for the bulk of the population, according to EBRI. In 1988, 66% of the U.S. population younger than age 65 received health care coverage through the workplace, while 12% of the non-elderly were covered by public health programs like Medicaid and CHAMPUS, and 10% of the non-elderly obtained coverage through some other source, such as individual health coverage. The remaining 12% of the non-elderly population was uninsured.

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In 1987, public health care programs for the non-elderly and elderly accounted for only 41% of national health expenditures in the United States, thus making it the least centralized health care system among the nations studied.

As a percent of GNP, health care expenditures in 1987 totaled 11.2%, or $2,051 per person. This was the highest of all countries studied, according to EBRI. Real growth in health care expenditures, excluding inflation, was 3.1% between 1977 and 1987, the study found.

Among the countries studied, the United States posted the lowest average inpatient length of stay in 1987—6.4 days—while in 1985 it had one of the highest numbers of hospital staff per occupied bed: 2.75.

Canada

Although Canada provides basic health care to all its citizens, many employers and individuals also purchase supplementary private coverage to enhance the care they receive, the EBRI study found.

Approximately 62% of all health care costs are paid for by the provincial governments and Canada's federal government picks up most of the rest, according to the study. These revenues, in turn, are largely generated by taxes on employers and employees. Cost sharing in certain provinces is required only on ancillary services such as dental care and prescription drugs, the study noted.

While nearly all health care practitioners in Canada are privately employed, many contract with the public health plans. Those who contract with the public plans generally are paid according to provincial expenditure caps, the study noted. Fee schedules for medical services are periodically renegotiated by provincial committees and medical associations.

In Quebec, Manitoba and Ontario, if physician expenditures have exceeded a predetermined cap, fee increases in subsequent years are reduced until payments over budget are recouped, EBRI said.

In Quebec, the government also sets a quarterly maximum payable to each general practitioner who contracts with the public health system. After a doctor reaches that limit, services are reimbursed at only 25% of the scheduled fee for the remainder of the period, the study found.

Canadian hospitals are funded by the provinces, which individually determine what portion of their annual budget can be allocated to health care services.

Health care expenditures totaled 8.8% of Canada's GNP in 1987, or $1,483 per person. Real growth in health care expenditures, excluding inflation, was 3.2% from 1977 to 1987, EBRI found.

EBRI found that the average inpatient length of stay was 11.4 days in 1984, the most recent figure available. And, according to 1982 figures, there were 2.13 hospital staff per occupied bed.

Japan

Japanese workers receive health care coverage from the government, although the program is funded entirely by employer contributions.

However, corporations that employ more than 700 people are permitted to opt out of the government health insurance plan as long as they establish an "independent health insurance society," which EBRI says is similar to self-insuring health care benefits.

All workers are eligible for coverage under Japan's Health Insurance Law. Citizens not eligible for the employer-based program—which is known as Health Insurance for Employees—are instead covered under an alternative program called National Health Insurance.

Employers and employees each pay a tax of between 4.15% and 4.65% of payroll to fund the HIE plan. The NHI plan is 50% funded by the federal government and the rest in the form of premiums paid by the beneficiaries. NHI premiums are based on income and range from none up to $2,543 per year.

Japan requires its citizens to pick up a sizeable portion of their medical costs, the study noted. Copayments range from 10% to 30% of the cost of services, which are set according to a uniform fee schedule established by the government. The monthly out-of-pocket maximum in Japan is $392 per person for a single medical condition, according to EBRI.

The HIE program, in which 52% of the Japanese population is enrolled, covers 90% of inpatient hospital charges for employees and 80% of inpatient hospital costs for dependents up to $392 per month, above which 100% of costs are covered. For outpatient services, the plan covers 90% of costs for employees and 70% of costs for dependents.

Japan's supplementary NHI plan pays 70% of inpatient hospital bills

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Health care study

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for citizens ineligible for the HIE program and 100% of inpatient costs for all citizens above age 65. Each day spent in a hospital also costs the NHI beneficiary $3. Like the plan for workers, the out-of-pocket maximum under the NHI plan is $392 per month. Benefits are the same for outpatient care, except a supplemental $6 monthly deductible is required.

Japanese hospitals by far posted the longest average inpatient length of stay—41 days in 1987—which EBRI suggested could in part be due to poor staffing, with 0.77 staff members per occupied bed in 1987.

Japan in 1987 spent 6.8% of its GNP on health care, or about $915 per person. Real growth in health care expenditures, excluding inflation was 4.6% from 1977 to 1987.

Australia

Under Australia's Medicare system, all citizens who seek care in a public hospital from a hospital-appointed physician are reimbursed in full by the government.

In addition, 85% of all outpatient medical services are reimbursed by the government, with an annual out-of-pocket maximum of $119. After this cap is met, the government pays 100% of outpatient costs. Australians are required to pay $16 per office visit, even after the cap is met. Citizens also must pay $9 for each prescription.

The Australian plan only reimburses 75% of costs if a citizen chooses to go to a private hospital or have a private physician provide treatment at a public hospital.

Many Australians purchase supplementary private insurance through "Registered Health Funds," which provide coverage for the portion of expenses not covered by the national Medicare plan. RHFs also provide supplemental coverage for ancillary services. However, RHFs cannot reimburse the policyholder for fees in excess of fee schedule used by the Medicare system.

Australian hospitals were the best-staffed, with 3.75 employees for every occupied bed in 1986. Average inpatient length of stay was 7.3 days in 1986, the second-lowest among the countries studied.

Health care expenditures totaled 7.1% of GNP in 1987, or $939 per person. Real growth of health care expenditures from 1977 to 1987, less inflation, was 3.3%, EBRI found.

Great Britain

The British health care system covers 100% of all health care services for all citizens, regardless of the type of service or employment status of the beneficiary.

Although private health insurance is rarely purchased, it is available, the study noted. Typically, such private coverage pays for special hospital accommodations and for privately provided, non-emergency services that under the public system would entail a long waiting period.

In Great Britain, the National Health Service operates through 190 "District Health Authorities" that administer and provide health care benefits by region, according to EBRI. The DHAs operate on a budget that is established by the National Health Service and reflects the characteristics of the population the DHA serves, according to EBRI.

The British government pays for about 85% of health care expenditures, while employer and employee contributions account for the remaining 15%, the study found.

The majority of hospitals in Great Britain are government-owned and private physicians are rare. British general practitioners receive compensation based on a government-determined fee schedule, although additional fees may be paid according to specific services rendered, the study reported.

Great Britain in 1987 spent 2.6% of its GNP on health care, or $758 per person, which ranked as the smallest percentage among the countries studied. Real growth in health care expenditures, excluding inflation, was 2% between 1977 and 1987.

EBRI found that length of stay in British hospitals averaged 10.7 days in 1985, the most recent figure available. And in 1987, there were 2.6 hospital staff per occupied bed.

Sweden

Like Great Britain, the Swedish health care program pays for almost all medical services, making private health insurance virtually non-existent, EBRI found.

The only fees Swedish citizens pay for health care services, the study noted, is a $10 daily fee for inpatient hospital stays and $10 per visit to an outpatient facility.

The Swedish health care system operates through 26 county councils. Like Great Britain's DHAs, county councils administer all health care services. However, the councils are responsible for financing about 65% of health care services within their area through a proportional income tax on their residents, the study said.

Employers pay a 10.1% payroll tax to round out the funding of the system.

In Sweden, all outpatient services are delivered in local, government-run clinics. These clinics are also responsible for making referrals to hospitals.

Swedish hospitals are government-owned and Swedish doctors' wages are set by the government. Hospitals operate on prospective budgets and, therefore, have no incentives to discharge patients quickly, EBRI found. As a result, inpatient Swedish hospital stays averaged 20.7 days in 1987, second only to Japan. There were 1.85 staff members per occupied bed in 1985, the study found.

Sweden spent 9% of its GNP on health care in 1987, or $1,233 per person, which ranked it second behind the United States. And, health care expenditures experienced real growth of 1.4% from 1977 to 1987, the lowest rate among all countries studied.

Germany

Public health insurance is automatically provided to all Germans earning less than $33,353 per year, which accounted for approximately 75% of the population of West Germany before its reunification with East Germany, the study said.

Germans of all income levels are free to participate in the statutory program; however, if they choose to opt out of the plan they can never re-enroll. Thus, only about 10% of the public opts to purchase private health care coverage; other higher-paid Germans pay to take part in the government program.

However, private insurance is readily available. Private plans typically provide coverage for comprehensive hospital care and specialist care.

Germany's public health care scheme pays nearly all health care charges. A small copayment is required for the first two weeks of hospitalization. In addition, beneficiaries are required to pay a $2 copayment on prescription drugs, eye glasses and dentures.

According to EBRI, Germany's system is composed of about 1,200 "sickness funds," which are managed by trustees who represent labor unions and employers. Each sickness fund negotiates payments with doctors and hospitals, according to a fee schedule jointly developed by the sickness funds and physician associations.

The German system is financed through a payroll tax on employees and employers of between 4% and 8%. In addition, retirees contribute 6.5% of their social security pension benefit as well as a percentage of any private pension benefits they receive.

Germany adjusts physician fees downward if utilization is higher

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than expected. In 1985, the German government negotiated caps on expenditures for physician services with the country's physician association, the study noted. If utilization threatens to push costs above the expenditure cap, reimbursement is automatically reduced. In 1987, health expenditures accounted for 8.1% of Germany's GNP, or $1,093 per person. Health expenditures experienced real growth of 2% from 1977 to 1987.

Germany's average length of stay in 1985 was 17 days in the hospital. There were 1.25 hospital staff per occupied bed in 1987, EBRI reported.

The Netherlands

In The Netherlands, all citizens earning less than $26,649 per year—about 62% of the population—are covered under the country's Compulsory Health Insurance Act.

Citizens who earn more than the limit are ineligible for the nationalized program and must rely on private health insurance for comprehensive health care coverage. Citizens of all income levels are covered by the government for catastrophic health care.

The basic public plan covers all hospital costs up to one year, as well as all outpatient services and all ancillary services. It is financed entirely through employer and employee payroll taxes as well as nominal monthly premiums.

Dutch employers pay a 4.95% payroll tax, while employees are required to pay a 3.15% income tax. Adults also pay a monthly premium of $8, while child dependents must pay $4 per month.

Dutch hospitals receive an annual budget from the government, while doctors are paid according to negotiated fee schedules.

The Netherlands in 1987 spent 8.5% of its GNP on health care, or $1,041 per person. Real growth in health care expenditures, excluding inflation, was 1.8% between 1977 and 1987.

The average inpatient length of stay in 1986 was 11.8 days, while the number of hospital staff per occupied bed was 1.96 in 1975.

France

The French health care system requires that citizens pay for 20% of most inpatient hospital costs, above which the government pays the remainder.

Outpatient care is reimbursed at 75% as long as the doctor agrees to use a standard fee schedule promulgated by the government. Dental care is also reimbursed at 75%, according to a fee schedule. Citizens pay as much as 60% of prescription drug costs.

The government and providers negotiate a schedule of conventional physician charges and hospital per diem rates. Although physicians are not forced to comply with the schedule, citizens seeking health care services will not be reimbursed above the scheduled rate.

Frequently, the portion of fees not reimbursed by the national plan is covered under employer-sponsored supplemental insurance plans.

Health care expenditures totaled 8.5% of France's GNP in 1987, or $1,105 per person. Health care expenditures in France experienced real growth of 5.4% from 1977 to 1987, the highest of all countries studied by EBRI.

The average inpatient length of stay was 10.2 days in 1986, according to EBRI. The number of staff per occupied bed was 1.37 in 1983.

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"International Benefits: Part One-Health Care" was contained in EBRI's monthly newsletter, "EBRI Issue Brief and Employee Benefit Notes." Individual copies of the study can be obtained for $25, or as part of an annual subscription. For a copy of the study, contact the Employee Benefits Research Institute, P.O. Box 4866, Hampden Station, Baltimore, Md. 21211; 301-338-6946. ■

Directory of multinational benefit networks

The Aetna/Generali International Benefits Network

One Liberty Plaza, 37th Floor, New York, New York 10006;
212-602-7630; fax: 212-587-9539

	1989	1988
Int'l premiums	$201,000,000	$185,000,000
U.S based	74%	80%
Non-U.S. based	26%	20%
Pension funds	$970,000,000	$950,000,000
Employees: U.S.	32	30
Non-U.S.	60	60
Lives covered	NA	NA
Master contracts	110	101
Foreign countries	45	45
Offices	8	8

Year formed: 1966.

Member companies: Assicurazioni Generali and Cia. Providencia Seguro de Retro, Argentina; The Prudential Assurance Co. Ltd., Australia; Generali-Allgemeine Lebensversicherung A.G., Austria; Generali Belgium S.A., Belgium; Aetna Life & Casualty, Bermuda; Aetna Canada, Canada; Aetna Chile Vida S.A., Chile; Cia. Granadina de Seguros, Colombia; Baltia Life Insurance Co., Denmark; La Nacional, Cia. de Seguros, Ecuador; Misr Insurance Co., Egypt; Generali France S.A., La Concorde and La Federation Continentale, France; Generali Lebensversicherung A.G., Germany; Generali Life A.E., Greece; Aseguradora General S.A., Guatemala; Assicurazioni Generali, Guernsey; East Asia Aetna Insurance Co. Ltd., Blue Cross (Asia-Pacific) Insurance Co. Ltd., Hong Kong; Irish Life Assurance Co., Ireland; Assicurazioni Generali S.p.A., Italy; Mitsui Mutual Life Insurance Co., Japan; Daehan Kyoyuk Insurance Co. Ltd., Korea; Le Foyer Cie. Luxembourgeoise d'Assurances, Luxembourg; Universal Life & General Insurance Co., Malaysia; Seguros America S.A., Mexico; De Nederlanden van 1870, The Netherlands; The Prudential Assurance Co. and Aetna Health Corp. Ltd., New Zealand; Forenede Liv A/S, Norway; Cia. Internacional de Seguros de Vida S.A., Panama; Cia. de Seguros ATLAS, Peru; Insular Life Assurance Co., Philippines; Tranqulidade Seguros E.P., Portugal; Insurance Corp. of Singapore, Singapore; Standard General Insurance Co., South Africa; Assicurazioni Generali, Spain; Skandia International Insurance Co., Sweden; Geneva Life Insurance Co., Switzerland; Aetna Life Insurance Co. of America (ALICA), Taiwan; Siam Life Insurance Co. Ltd., Thailand; Generali Sigorta, Turkey; Aetna Life Insurance Co. Ltd., United Kingdom; Aetna Life & Casualty, United States; Seguros Nuevo Mundo S.A., Venezuela.

Minimum requirements: One country for network participation; two countries and 100 lives for multinational pooling.

Business: 55% pensions, 25% life, 10% long-term disability, 7% medical, 3% accidental death.

International dividents: Stop-loss system, loss carryforward system and loss carryforward system with contingency fund.

Principal officers: Gianni Ban, senior vp-Generali; Elaine McDonald, managing director-Aetna.

Contact: Susan Kramer, marketing department, 212-602-7640.

AGRI Benefits Network

Postbus 91, B 3000, Leuven, Belgium; 321-624-3300;
fax: 321-624-3212

	1989	1988
Int'l premiums	NA	NA
Pension funds	NA	NA
Employees	NA	NA
Lives covered	NA	NA
Master contracts	NA	NA
Foreign countries	10	8
Offices	1	1

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Spotlight report

Continued from previous page

Year formed: 1987.

Member companies: Raiffeisen-Versicherungen, Austria; ABB, Belgium; Tapiola, Finland; Groupama-Soravie, France; R&V, Germany; Agrotiki, Greece; Interpolis, The Netherlands; La Luxembourgeoise, Luxembourg; Lansforsakringar Liv, Sweden; NFU Mutual, United Kingdom.

Minimum requirements: Lives must total 250 years, two countries.

International dividends: Stop-loss system, loss carryforward system, loss carryforward system with contingency fund.

Principal officers: Tom Meeus, coordinating officer.

American International Group Inc.-Group Management Division

80 Pine St., 13th Floor, New York, N.Y. 10005; 212-770-2242; fax: 212-785-0687

	1989	1988
Int'l premiums	**$107,100,000**	$87,800,000
U.S. owned	**81%**	83%
Non-U.S. owned	**19%**	17%
Pension funds	**$581,000,000**	$382,000,000
Employees	**442**	444
U.S.	**67**	68
Non-U.S.	**375**	376
Lives covered	**311,000**	270,000
Master contracts	**171**	162
Foreign countries	**137**	137
Offices	**84**	84

Year formed: 1953.

Member companies: Located in 94 countries.

Minimum requirements: Two countries and $100,000 premium volume.

Business: 54% medical, 42% life, 4% accidental death.

International dividends: Loss carryforward system and loss carryforward with contingency fund.

Principal officers: Ernest E. Stempel, vice chairman-American International Group Inc.; Robert J. O'Connell, director-group management division; Donald J. Kinloch, director-multinational accounts; Henry Csiang, director-pensions; Gregory A. Arms, deputy director-group management division; John Dunn, Leigh Herrara, Gorden Watson, Victor Allen and Jerry Hampton, worldwide regional managers.

U.S. contact: Donald Kinloch, 212-770-2242.

AREA Benefits Network International Services

Ave. de Beaulieu 25, Box 7, B-1160 Brussels, Belgium; 322-672-2279; fax: 322-660-0356

	1989	1988
Int'l premiums	**NA**	NA
U.S. owned	**10%**	10%
Non-U.S. owned	**90%**	90%
Pension funds	**NA**	NA
Employees	**8**	8
U.S.	**3**	3
Non-U.S.	**5**	5
Lives covered	**42,000**	35,000
Master contracts	**72**	61
Foreign countries	**42**	42
Offices	**2**	2

Year formed: 1979.

Member companies: Plus Ultra, Argentina; Australian Eagle, Australia; Wiener Allianz Leben, Austria; Credit & Commerce Insurance Co., Bahrain, Kuwait, Oman, Qatar, United Arab Emirates; Royale Belge, Belgium; Grupo Bradesco Seguros, Brazil; London Life, Canada; Eagle Star, Cyprus. Ireland; Tryg Pension A/S, Denmark; Suomi-Salama (Pohjola Group), Finland; U.A.P., France; Allianz Leben, Germany; Interamerican Life, Greece; Eagle Star Insurance Co., Hong Kong, United Kingdom; Panin Putra, Indonesia; Allianz Pace, Italy; The Meiji, Japan; Al-Nisral-Arabi, Jordan; Societe Nationale d'Assurances, Lebanon; Pax Versicherungen, Liechtenstein; La Luxembourgeoise, Luxembourg; Eagle Star Malta, Malta; Eagle Star International Financial Services, Isle of Man; La Comercial de Chihuahua, Mexico; Amev Levensverzekering N.V., The Netherlands; African Alliance, Nigeria; Gjensidige Liv, Norway; Metropolitana, Panama; Ayala Life Assurance Inc., Philippines; Fidelidade Grupo Segurador S.A., Portugal; Insurance Corporation of Singapore, Singapore; Catalana Occidente, Spain; Pax Versicherungen, Switzerland; Turkiye Genel, Turkey; First Equicor, United States; Skandia International Insurance Corp., Sweden.

Minimum requirements: 100 lives and two countries; for multiemployer pool, 25 lives and one country, second country to join within three years, $10,000 premium volume.

Business: 50% pensions, 40% life, 5% short-term disability, 5% long-term disability.

International dividends: Stop-loss system, loss carryforward system, loss carryforward with contingency fund.

Principal officers: J.W. Broekhuizen chairman/general manager-AMEV Life; Hugo Clemeur, managing director/actuary-AREA Benefits Network.

U.S. contact: Alexander Douglas Inc., 617-695-9555.

CIGNA Corp.

900 Cottage Grove Road, Bloomfield, Conn. 06002; 203-726-4844; fax: 203-726-4644

	1989	1988
Int'l premiums	**NA**	NA
Employees	**NA**	NA

Continued on next page

How to use directory

The *Business Insurance* directory of international benefit networks lists networks that responded to a *BI* questionnaire.

Networks are listed as an editorial service; there is no charge for inclusion in the directory.

Listings begin with the network name and address.

If supplied by the network, financial and operational information for 1988 and 1989 is given.

Foreign gross premiums for medical, life, accidental death and short- and long-term disability insurance (and the percent generated by foreign operations of U.S. employers vs. foreign operations of non-U.S. employers); funds under management for foreign pension plans of international network clients; total network employees and those in U.S. locations; and number of foreign lives covered are listed. Also, the number of master contracts, the number of foreign countries represented and the number of foreign offices of the network are given. (*Business Insurance* defines "foreign" as business in any country other than that of the parent or headquarters group; statistics reflect only contracts which participate in pooling arrangements for which a signed application, master contract or similar formal written arrangement exists.)

Locations of branch offices, subsidiaries and affiliated companies of network participants are also given.

Provided also are the year the network was formed, names of insurers participating in the network and minimum requirements for employers' participation in the network. A percentage breakdown of business the network conducts in medical, life, accidental death, short- and long-term disability insurance and other benefits is given, as are methods in which the network handles worldwide losses in determining international dividends.

Names and titles of principal officers and the name of a U.S.-based contact person complete the listings.

Please refer to the geographic index following the directory to locate networks by country.

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

If you represent an international benefits network and wish to be included in next year's directory, write to Sarah Polster, Editorial Assistant, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590; or call 312-280-3195.

Continued from previous page

Year formed: In formation.

Member companies: Currently CIGNA units in 20 countries.

Minimum requirements: 50 employees in two countries, and more than $15,000 premium volume for small group pooling product; 250 employees in two countries and more than $75,000 premium volume for large group pooling product.

International dividends: Stop-loss system, loss carryforward system, loss carryforward system with contingency fund.

Principal officers: Ed Parry, senior vp-CIGNA International Financial Services; Virginia Hollis, assistant vp-multinational employee benefits; John Dobson, director-product management; Terence Boudreaux, director-marketing; Margy Trent, assistant director-operations.

U.S. contact: Terence Boudreaux.

COMP Through GPI

Gerling-Konzern Welt Service GmbH, Gereonshof, D-5000 Cologne 1, Germany; 221-144-3817; fax: 221-144-5818

	1989	1988
Int'l premiums	**$5.9 million**	$4.5 million
U.S. owned	**20%**	15%
Non-U.S. owned	**80%**	85%
Employees	**20**	20
U.S.	**5**	5
Non-U.S.	**15**	15
Lives covered	**13,200**	8,500
Master contracts	**14**	12
Foreign countries	**34**	31

Year formed: 1982.

Member companies: 34 insurers in 17 countries.

Minimum requirements: 250 lives in two countries for COMP (Company's Own Multinational Benefit/Insurer Pool); 10 lives per country in two countries for a CMP (Collective Multinational Pool).

Business: 31% pensions and endowments, 27% accidental death, 20% long-term disability, 19% life, 3% medical.

International dividends: Stop-loss system, loss carryforward system, loss carryforward system with contingency fund.

Principal officers: Bernhard Fink, managing director; Michael Ehlers, director-international employee benefits division; Peter Naumann, manager-international employee benefits division.

U.S. contact: Wolfgang Schlaeger, president-Gerling Global Offices Inc.; Oscar Rodriguez, assistant vp-Gerling Global Offices Inc.

GAIN (Group Assurance International Network)

24 Ave. des Arts, 24 Kunstlaan, 1040 Brussels, Belgium; 32-02-230-3385; fax: 32-02-230-3492

	1989	1988
Int'l premiums	**NA**	NA
Pension funds	**NA**	NA
Employees	**7**	5
U.S.	**2**	1
Non-U.S.	**5**	5
Foreign countries	**24**	22
Offices	**1**	1

Year formed: 1975.

Member companies: Legal & General Life of Australia Ltd., Australia; Colonia Versicherung A.G., Austria; Assubel-Vie S.A., Belgium; Brasil Companhia de Seguros Gerais, Brazil; Mutual Life of Canada, Canada; Tryg Forsikring A/S, Denmark; Assurances Generales de France, France; Colonia Lebensversicherung A.G., Germany; AGF Kosmos Vie SA, Greece; Irish Life Assurance P.L.C., Ireland; Societa Reale Mutua di Assicurazioni, Italy; Toho Mutual Life Insurance Co., Japan; First Life Insurance Co. Ltd., Korea; AEGON Verzekeringen, Netherlands; UNI Insurance, Norway; Sociedade Portuguesa de Seguros, Portugal; Momentum Life Assurers Ltd., South Africa; AGF Seguros, Spain; SPP Konsult ab, Sweden; Vaudoise Assurances, Switzerland; The First Life Insurance Co., Ltd., Taiwan; Legal & General Assurance Society Ltd., United Kingdom; The Principal Financial Group, United States; Fidelity Life Assurance of Zimbabwe (Private) Ltd., Zimbabwe.

Minimum requirements: 25 employees in two countries with at least 10 employees in each country.

International dividends: Stop-loss system, loss carryforward system, loss carryforward system with contingency fund.

Principal officers: Rene van der Smeede, chairman-executive committee; Eric M. Janssen, director; Jerry Bogart, actuary.

U.S. contact: Richard O'Brien, 708-916-2916.

Insurope/The Multinational Benefits Assn.

Boulevard Bischoffsheim 39, Box 18, B-1000, Brussels, Belgium; 322-217-8163

	1989	1988
Int'l premiums	**$145,000,000**	$130,000,000
U.S. based	**50%**	50%
Non-U.S. based	**50%**	50%
Pension funds	**$200 million**	$170 million
Employees	**16**	14
U.S.	**6**	6
Non-U.S.	**10**	9
Lives covered	**193,000**	175,000
Master contracts	**250**	230
Foreign countries	**38**	39
Offices	**3**	3

Year formed: 1966.

Member companies: Equitative del Plata, Argentina; National Mutual, Australia; Osterreichischen Bundeslander, Austria; Assurances Generales A.G., Belgium; Bradesco Seguros, Brazil; Great Eastern, Brunei and Singapore; Standard Life, Canada; Statsanstalten, Denmark; Ecuatoriano-Suiza, Ecuador; Pension Varma, Finland; A.G. de 1824 & Groupe des Assurances Nationales, France; Alte Leipziger, Germany; CIGNA Hellas, Greece; Jiwasraya, Indonesia; Standard Life, Ireland; Fondiaria, Italy; Jamaica Mutual, Jamaica; Nippon Dantai & Asahi Mutual, Japan; Dong-Ah, Korea; Baloise/Basler, Leichtenstein and Switzerland; Assurances Generales A.G., Luxembourg; Great Eastern, Malaysia; Seguros de Mexico, Mexico; Delta Lloyd, The Netherlands; National Mutual, New Zealand; Storebrand, Norway; Peruano-Suiza, Peru; Pan Philippine Life, Philippines; Tranquilidade, Portugal; SANLAM, South Africa; Espana, Spain; SPP, Sweden; CITC Life, Taiwan; Siam Commercial Life, Thailand; Guardian Life of the Caribbean, Trinidad & Tobago; Standard Life & BUPA, United Kingdom; Provident Life & Accident Insure Co. and Prudential Insurance Co. of America, United States; Pan American, Venezuela.

Minimum requirements: Insured employee benefit contracts in two countries for participation in multi-company pool; 200 units or 100 fully insured lives for single-company pools.

Business: 50% life, 30% pension, 10% survivors' benefits, 6% medical, 3% long-term disability, 1% accidental death.

International dividends: Stop-loss system and loss carryforward system.

Principal officers: Frank Smolar, network manager; Jim Wallace, network actuary; Hugh Gallagher, marketing/sales coordinator; Mary Mellor, customer service coordinator.

Contact: Robert Pickrell, president or Mike Stapleton, director-east/midwest, 203-854-9411; Rodney Hampton, director-west/southwest, 408-298-1486.

The John Hancock International GroupProgram

P.O. Box 111, Boston, Mass. 02117; 617-572-8677; fax: 617-572-8628 or 617-572-8633

	1989	1988
Int'l premiums	**NA**	NA
Pension funds	**NA**	NA
Employees	**NA**	NA
Lives covered	**NA**	NA
Master contracts	**NA**	NA
Foreign countries	**NA**	NA
Offices	**NA**	NA

Year formed: 1967.

Member companies: Sud America Compania de Seguros de Vida y Patrimoniales S.A., Argentina; Australian Mutual Provident Society, Australia; Victoria-Volksbanken Versicherungsaktiengesellchaft, Austria; AG Group, Belgium; Sul America Companhia Nacional de Seguros, Brazil; Maritime Life Assurance Co., Canada; Pan American Life Insurance Co., Guatemala, El Salvador, Honduras, Panama, Dominican

Continued on next page

Continued from previous page
Republic, Ecuador; Consorcio Nacional de Seguros S.A., Chile; Shin Kong Life Insurance Co. Ltd., Taiwan; Pan American de Colombia Compania de Seguros de Vida S.A., Colombia; PFA Pension, Denmark; Sampo Pensions Insurance Co. Ltd., Finland; AXA, France; Victoria Lebensversicherung AG, West Germany; Ethniki Hellenic General Insurance Co., Greece; National Mutual Insurance Co. Ltd., Hong Kong; P.T. Asuransi Pensiun Bumiputera John Hancock; Indonesia; Irish Life Assurance P.L.C., Ireland; Societa Assicuratrice Industriale, Italy; Dai-ichi Mutual Life Insurance Co., Japan; Samsung Life Insurance Co. Ltd., Korea; AG Group, Luxembourg; Universal Life & General Insurance Sdn. Bhd., Malaysia; Seguros Monterrey S.A., Mexico; Nationale-Nederlanden Levensverzekering Maatschappij N.V., The Netherlands; Australian Mutual Provident Society, New Zealand; Insular Life Assurance Co. Ltd., Philippines; Victoria Seguros, Portugal; Insurance Corp. of Singapore Ltd., Singapore; Sud America Compania de Seguros sobre la Vida, Spain; La Suisse Societe d'Assurances sur la Vie, Switzerland; Pictet & Cie, Switzerland; Muang Thai Life Assurance Co. Ltd., Thailand; Halk Sigorta T.A.S., Turkey; Prudential Assurance Co. Ltd., United Kingdom; Private Patients Plan, United Kingdom; John Hancock Mutual Life Insurance Co., United States; Seguros La Seguridad C.A., Venezuela; Old Mutual, Zimbabwe.

U.S. contact: Geraldine Pangaro, field vp.

Multinational Insurance Arrangement (MIA)

The Travelers Cos., International Department, 1 Tower Square, Hartford, Conn. 06183; 203-954-3784; fax: 203-277-6508

	1989	1988
Int'l premiums	NA	$24,600,000
U.S. owned	NA	57
Non-U.S. owned	NA	43%
Pension funds	NA	$413,290,000
Employees	25	25
U.S.	20	20
Non-U.S.	5	5
Lives covered	NA	124,000
Master contracts	NA	109
Foreign countries	NA	54
Offices	5	3

Year formed: 1970.

Member companies: Compania la Buenos Aires, Argentina; Guardian Assurance P.L.C., Australia; Interunfall-RAS Versicherungs A.G., Austria; Travelers Insurance Cos., Bahamas; Patriotique S.A. Compagnie d'Assurances, Belgium; Companhia Adriatica de Seguros, Brazil; L'Union des Assurances de Paris, Burkina Faso, Central African Republic, France, Gabon, Ivory Coast, Niger, Senegal, Togo; Compagnie Camerounaise d'Assurances, Cameroon; Crown Life Insurance Co., Canada; La Star Nationale Societe Tchadienne d'Assurances, Chad; La Chilena Consolidada S.A., Chile; Skandia de Colombia, Colombia; Tryg Forsikring, Denmark; Compania Nacional de Seguros C. por A., Dominican Republic; Munchener Lebensversicherung Aktiengesellschaft and NOVA Krankenversicherung A.G., Germany; Riunione Adriatica di Sicurta, Greece, Italy; Guardian Assurance P.L.C. and Union Insurance Society of Hong Kong Ltd., Hong Kong; Bumi Asih Jaya, Indonesia; Caledonian Insurance Co., Ireland; Nippon Life Insurance Co., Japan; Le Foyer S.A., Luxembourg; Great Eastern Life Assurance Co., Malaysia; Grupo Nacional Provincial, Mexico; Al Amane, Morocco; Nationale-Nederlanden Levensverzekering Maatschappij N.V., The Netherlands; Guardian Assurance P.L.C., New Zealand; Royal Exchange Assurance (Nigeria) Ltd., Nigeria; UNI Mutual Life Insurance Co., Norway; Compania Internacional de Seguros de Vida, Panama; El Sol Compania de Seguros Generales, Peru; Great Pacific Life Assurance Co., Philippines; Portugal Previdente Companhia de Seguros, Portugal; The Travelers Insurance Cos., Puerto Rico; Great Eastern Life Assurance Co., Singapore; Liberty Life Assn. of Africa Ltd., South Africa; Compania Adriatica de Seguros, Spain; VITA Life Insurance Co. Ltd., Switzerland; Cathay Life Insurance Co. Ltd., Taiwan; The South East Insurance Co. Ltd., Thailand; Dhamen Union d'Assurance et de Prevoyance, Tunisia; Sark Sigorta T.A.S., Turkey; Guardian Royal Exchange Assurance, United Kingdom; The Travelers Insurance Cos., United States and U.S. Virgin Islands; Adriatica Venezolana de Seguros C.A., Venezuela; Nova Life Insurance Co. Ltd., Finland; Orion Healthcare, United Kingdom.

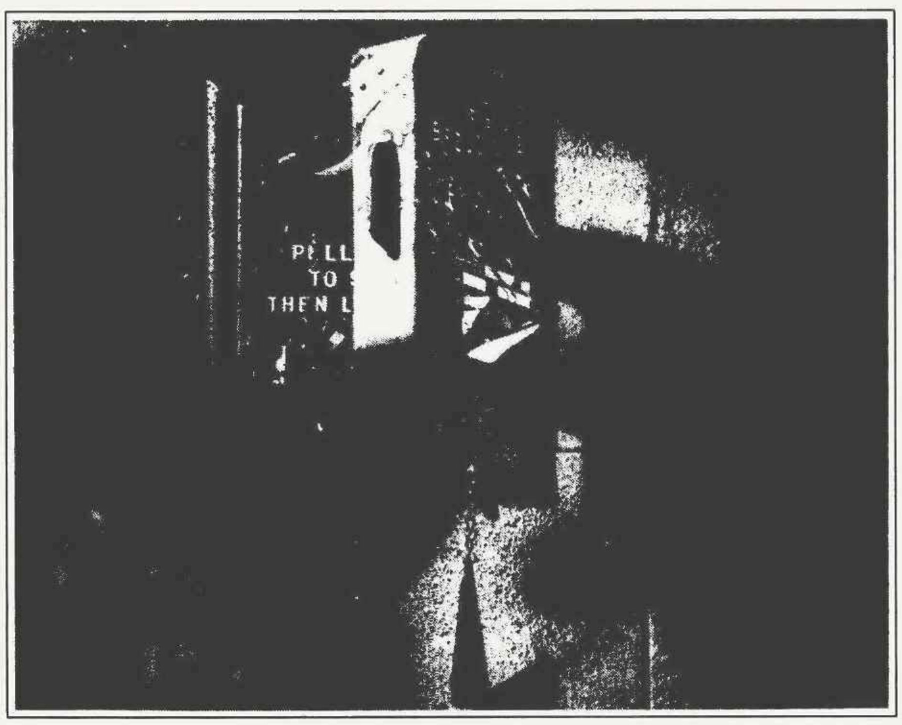
Minimum requirements: 100 employees in two countries.

Business: 67% pensions, 23% life, 6% medical, 4% short-term and long-term disability.

International dividends: Loss carryforward system, loss carryforward system with contingency fund.

Principal officers: Bruce MacMillan, vp; Mike Sandmann, second vp; Anne Van Biesebroeck, director.

U.S. contact: Mike Sandmann.



MARCH 29, 1994

Swiss Life

General Guisan-Quai 40, CH-8002 Zurich, Switzerland; 01-284-3797; fax: 01-202-1980

	1989	1988
Int'l premiums	$194,000,000	$170,800,000
U.S. owned	50%	40%
Non-U.S. owned	50%	60%
Pension funds	$306,000,000	$280,000,000
Employees	90	85
U.S.	10	9
Non-U.S.	80	76
Master contracts	552	496
Foreign countries	39	39
Offices	39	39

Year formed: 1960.

Member companies: Sud Atlantica, Argentina; Colonial Mutual, Australia; Wiener Stadtische, Austria; Zwitser Leven A.G. Suisses, Belgium; Iochpe Seguradora, Brazil; Canada Life, Canada; Renta Nacional, Chile; Seguros Bolivar, Colombia; PFA Pension and Statsanstalten, Denmark; Ilmarinen, Finland; Societe Suisse, France; Schweizerische Rentenanstalt, Germany; Laiki, Greece; Seguros de Occidente, Guatemala; Jardine Life, Hong Kong; Irish Life, Ireland; Swiss Life (Italia), Italy; Meiji Life, Japan; Korea Life, Korea; Swiss Life (Luxembourg), Luxembourg; Asia Life, Malaysia; La Comercial, Mexico; Zwitser Leven, The Netherlands; Colonial Mutual, New Zealand; Vital, Norway; Aseguradora Mundial de Panama, Panama; Lincoln Philippine Life, Philippines; Victoria, Imperio, Portugal; Asia Life, Singapore; Southern Life, South Africa; Swiss Life (Espana), Spain; Trygg-Hansa, Sweden; Swiss Life and Swiss Mobiliar, Switzerland; Kuo Hua Life, Taiwan; Bangkok Life, Thailand; Swiss Life, United Kingdom; Massachusetts Mutual Life Insurance Co., The Guardian and Swiss Life North American Services, United States; La Metropolitana, Venezuela.

Business: 58% pensions, 16% life, 10% long-term disability, 7% short-term disability, 7% medical, 2% accidental death.

International dividends: Stop-loss system, loss carryforward system.

Principal officers: F. Honegger, chairman-supervisory board; K. Rutz, president-executive board; W. Frauenfelder, member-executive board; K. Muehlebach, executive vp.

U.S. contact: Philipp A. Frei, president-Swiss Life North American Services Inc., 201-670-1515.

Winterthur Swiss Insurance Co.

Rudolfstrasse 1, 8401 Winterthur, Switzerland; 2 World Financial Center, 225 Liberty St., New York, N.Y. 10281; 212-416-5700; fax: 212-416-5885

	1989	1988
Int'l premiums	$112,000,000	$80,000,000
U.S. owned	38%	33%
Non-U.S. owned	62%	67%
Pension funds	$412,000,000	$290,000,000
Employees	43	40
U.S.	5	5
Non-U.S.	35	32
Lives covered	66,000	55,000
Master contracts	115	87
Foreign countries	21	20

Year formed: 1969.

Subsidiaries or branch offices: Located in Switzerland, Austria, Belgium, Canada, Denmark, France, Germany, The Netherlands, Italy, Liechtenstein, Luxembourg, Portugal, Spain and United Kingdom.

Continued on next page

Benefit networks listed geographically

American Samoa

AILIFE (American International Group)

Antigua

ALICO (American International Group)

Argentina

Assicurazioni Generali (Aetna/Generali International Benefits Network)
Compania la Buenos Aires (The Travelers Insurance Co.-MIA)
Equitativa del Plata (Insurope/MBA)
La Meridional (American International Group)
Plus Ultra (AREA Benefits Network)
Providencia, Cia. de Seguros de Retiro (Aetna/Generali International Benefits Network)
Sud America Compania de Seguros de Vida y Patrimoniales S.A. (John Hancock International Group Program)
Sud Atlantica (Swiss Life)

Aruba

ALICO (American International Group)

Australia

AAA ALICO (American International Group)
Amev Life (AREA Benefits Network)
Australian Eagle (AREA Benefits Network)
Australian Mutual Provident Society (John Hancock International Group Program)
CIGNA Life Australia Ltd. (CIGNA Corp.)
Colonial Mutual (Swiss Life)
Guardian Assurance P.L.C. (The Travelers Insurance Co.-MIA)
Legal & General Life of Australia Ltd. (GAIN)
National Mutual (Insurope/MBA)
The Prudential Assurance Co. Ltd. (Aetna/Generali International Benefits Network)

Austria

Colonia Versicherung A.G. (GAIN)
Generali-Allgemeine Lebensversicherung A.G. (Aetna/Generali International Benefits Network)
Internationale Unfall-und Schadenversicherung Aktiengesellschaft (The Travelers Insurance Co.-MIA)
National Union (American International Group)
Osterreichischen Bundeslander (Insurope/MBA)
RAS Osterreich, Adriatische Versicherung A.G. (The Travelers Insurance Co.-MIA)
Raiffeisen-Versicherungen (AGRI Benefits Network)
Victoria-Volksbanken-Versicherungs A.G. (John Hancock International Group Program)
Wiener Allianz Leben (AREA Benefits Network)
Wiener Stadtische (Swiss Life)
Winterthur Swiss Insurance Co.

Bahamas

ALICO (American International Group)
Colina Insurance Co. Ltd. (CIGNA Corp.)
The Travelers Insurance Co.

Bahrain

ALICO (American International Group)
CIGNA Corp.
Credit & Commerce Insurance Co. (AREA Benefits Network)

Bangladesh

ALICO (American International Group)

Belgium

ABB (AGRI Benefits Network)
A.G. Group (John Hancock International Group Program)
Assubel-Vie S.A. (GAIN)
Assurances Generales A.G. (Insurope/MBA)
Euravie (American International Group)
Generali Belgium S.A. (Aetna/Generali International Benefits Network)
Partiotique S.A. Compagnie d'Assurances (The Travelers Insurance Co.-MIA
Royale Belge (AREA Benefits Network)
Winterthur Swiss Insurance Co.
ZwitserLeven-A.G. Suisses (Swiss Life)

Belize

ALICO (American International Group)

Bermuda

ALICO (American International Group)
Aetna Life & Casualty (The Aetna/Generali International Benefit Network)

Bolivia

ALICO (American International Group)

Brazil

Bradesco Seguros (Insurope/MBA)
Brasil Companhia de Seguros

Continued on next page

Benefit networks

Continued from previous page

Joint ventures: With Norwich Union and Chiyoda.

Correspondent relationships: With American International Group Inc., CIGNA Corp., New Ireland Life, Seguros America, Agrotiki Life, Papiola.

Minimum requirements: 100 lives and two countries; less than 100 lives for small group pools.

Business: 54% pensions, 19% life, 12% long-term disability, 6% medical, 5% accidental death, 4% short-term disability.

International dividends: Stop-loss system. loss carryforward system, loss carryforward system with contingency fund.

Principal officers: Willi Suter and Kees van der Ploeg, senior vps-international; Thomas Erny, head-technical department; George Smith, manager.

U.S. contact: George Smith or Jim Long, 212-416-5700; Dave Gustafson, 312-704-6120. ■

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Gerais (GAIN)
CIGNA Seguradora S.A. (CIGNA Corp.)
Companhia Adriatica de Seguros (The Travelers Insurance Co.-MIA)
Generali do Brasil (Aetna/Generali International Benefits Network)
Grupo Bradesco Seguros (AREA Benefits Network)
Interamericana (American International Group)
Iochpe Seguradora (Swiss Life)
Sul America Companhia Nacional de Seguros (John Hancock International Group Program)

Brunei

Great Eastern (Insurope/MBA)

Burkina Faso

L'Union des Assurances de Paris (The Travelers Insurance Co.-MIA)

Cameroon

ALICO (American International Group)
Compagnie Camerounaise d'Assurances (The Travelers Insurance Co.-MIA)

Canada

ALICO (American International Group)
Aetna Canada (Aetna/Generali International Benefits Network)
Canada Life (Swiss Life)
Crown Life Insurance Co. (The Travelers Insurance Co.-MIA)
The Excelsior Life Insurance Co. (Aetna/Generali International Benefits Network)
London Life (AREA Benefits Network)
Maritime Life Assurance Co. (John Hancock International Group Program)
Mutual Life of Canada (GAIN)
Standard Life (Insurope/MBA)
Winterthur Swiss Insurance Co.

Cayman Islands

ALICO (American International Group)
Generali Guernsey (Aetna/Generali International Benefits Network)

Central African Republic

L'Union des Assurances de Paris (The Travelers Insurance Co.-MIA)

Chad

La Star Nationale Societe Tchadienne d'Assurances (The Travelers Insurance Co.-MIA)

Chile

Aetna Chile Vida S.A. (Aetna/Generali International Benefits Network)
CIGNA Chile (CIGNA Corp.)
Consorcio Nacional de Seguros (John Hancock International Group Program)
La Chilena Consolidada S.A. (The Travelers Insurance Co.-MIA)
La Interamericana (American International Group)
Renta Nacional (Swiss Life)

Colombia

CIGNA Seguros de Colombia S.A. (CIGNA Corp.)
Compania Granadina de Seguros (Aetna/Generali International Benefits Network)
Compania de Seguros de Vida S.A. (John Hancock International Group Program)
La Interamericana (American International Group)
Pan American de Colombia (John Hancock International Group Program)
Seguros Bolivar (Swiss Life)
Skandia de Colombia (The Travelers Insurance Co.-MIA)

Costa Rica

Instituto Nacional de Seguros de Costa Rica (American International Group)

Curacao

ALICO (American International Group)

Cyprus

ALICO (American International Group)
Eagle Star (AREA Benefits Network)

Czechoslovakia

Czechoslovaki State Insurance Co. (Aetna/Generali International Benefits Network)

Denmark

AHA (American International Group)
Baltica Life Insurance Co. (Aetna/Generali International Benefits Network)
PFA Pension (John Hancock International Group Program, Swiss Life)
Statsanstalten (Insurope/MBA, Swiss Life)
Tryg Forsikring A/S (GAIN)
Tryg Pension A/S (AREA Benefits Network)
Pensionsforsikringsselskab A/S (The Travelers Insurance Co.-MIA)
Winterthur Swiss Insurance Co.

Dominican Republic

ALICO (American International Group)
Compania Nacional de Seguros C. por A. (The Travelers Insurance Co.-MIA)
Pan American Life Insurance Co. (John Hancock International Group Program)

Ecuador

Ecuatoriano-Suiza (Insurope/MBA)
La Nacional Cia. de Seguros (Aetna/Generali International Benefits Network)
Equinoccial Seguros Rocafuerte (American International Group)
Pan American Life Insurance Co. (John Hancock International Group Program)

Egypt

Al Chark (American International Group)
Misr Insurance Co. (Aetna/Generali International Benefits Network)

El Salvador

Pan American Life Insurance Co. (John Hancock International Group Program)

Finland

Ilmarinen (Swiss Life)
Pension Varma (Insurope/MBA)
The Pohjola Group (American International Group)

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Sampo Pensions Insurance Co. Ltd. (John Hancock International Group Program)
Suomi-Salama-Pohjola Group (AREA Benefits Network).
Tapiola (AGRI Benefits Network, Winterthur Swiss Insurance Co.)

France

AXA (John Hancock International Group Program)
Assurances Generales de 1824 (Insurope/MBA)
Assurances Generales de France (GAIN)
Euravie (American International Group)
Generali France S.A. (Aetna/Generali International Benefits Network)
Groupama-Soravie (AGRI Benefits Network)
Groupe des Assurances Nationales (Insurope/MBA)
La Concorde (Aetna/Generali International Benefits Network)
La Federation Continentale (Aetna/Generali International Benefits Network)
L'Union des Assurances de Paris (AREA Benefits Network, Travelers Corp.-MIA)
Societe Suisse (Swiss Life)
Winterthur Swiss Insurance Co.

Gabon

L'Union des Assurances de Paris (Travelers Corp.-MIA)

Germany

Allianz Leben (AREA Benefits Network)
Alte Leipziger (Insurope/MBA)
Colonia Lebensversicherung A.G. (GAIN)
Generali Lebensversicherung A.G. (Aetna/Generali International Benefits Network)
Gerling-Konzern Welt Service
Munchener Lebensversicherung A.G. (Travelers Corp.-MIA)
National Union (American International Group)
NOVA Krankenversicherung A.G. (Travelers Corp.-MIA)
R&V Lebensversicherung (AGRI Benefits Network)
Schweizerische Rentenanstalt (Swiss Life)
Victoria Lebensversicherungs A.G. (John Hancock International Group Program)
Winterthur Swiss Insurance Co.
Zurich International

Gibraltar

ALICO (American International Group)

Greece

AGF Kosmos Vie S.A. (GAIN)
Agrotiki Life (AGRI Benefits Network, Winterthur Swiss Insurance Co.)
ALICO (American International Group)
CIGNA Hellas S.A. (CIGNA Worldwide International Life & Group, Insurope/MBA)
Ethniki Hellenic General Insurance Co. (John Hancock International Group Program)
Generali Life A.E. (Aetna/Generali International Benefits Network)
Interamerican Life (AREA Benefits Network)
Laiki (Swiss Life)
Ruinione Adriatica di Sicurta (Travelers Corp.-MIA)

Grenada

ALICO (American International Group)

Guam

AILIFE (American International Group)

Guatemala

Aseguradora General S.A. (Aetna/Generali International Benefits Network)
La Seguridad (American International Group)
Pan American Life Insurance Co. (John Hancock International Group Program)
Seguros Cruz Azul S.A. (CIGNA Worldwide International Life & Group)
Seguros de Occidente (Swiss Life)

Guernsey

Assicurazioni Generali (Aetna/Generali International Benefits Network)

Guyana

ALICO (American International Group)

Haiti

ALICO (American International Group)

CAH (American International Group)
INA International Insurance Co. Ltd. (CIGNA Worldwide International Life & Group)

Honduras

AIU (American International Group)
Pan American Life Insurance Co. (John Hancock International Group Program)

Hong Kong

AIA (American International Group)
Blue Cross (Asia Pacific) Insurance Ltd. (Aetna/Generali International Benefits Network)
CIGNA Worldwide Insurance Co.
Eagle Star Insurance Co. (AREA Benefits Network)
East Asia Aetna Insurance Co. Ltd. (Aetna/Generali International Benefits Network)
Guardian Assurance P.L.C. (Travelers Corp.-MIA)
Jardine Life (Swiss Life)
Manulife (Insurope/MBA)
National Mutual Insurance Co. Ltd. (John Hancock International Group Program)
Union Insurance Society of Hong

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Kong Ltd. (Travelers Corp.-MIA)

Hungary

AB-General Budapest (Aetna/Generali International Benefits Network)

Indonesia

AJIA (American International Group)
Bumi Asih Jaya (Travelers Corp.-MIA)
Jiwasraya (Insurope/MBA)
Panin Putra (AREA Benefits Network)
P.T. Asuransi Pensiun Bumiputera (John Hancock International Group Program)

Ireland

AIIC (American International Group)
Caledonian Insurance Co. (Travelers Corp.-MIA)
Eagle Star (AREA Benefits Network)
Irish Life Assurance Co. Ltd. (Aetna/Generali International Benefits Network, GAIN, John Hancock International Group Program, Swiss Life)
New Ireland Life (Winterthur Swiss Insurance Co.)
Standard Life (Insurope/MBA)

Isle of Man

Eagle Star International Financial Services (AREA Benefits Network)

Italy

Allianz Pace (AREA Benefits)
Assicurazioni Generali (Aetna/Generali International Benefits Network)
Euravie (American International Group)
Fondiaria (Insurope/MBA)
Riunione Adriatica di Sicurta (Travelers Corp.-MIA)
Societa Assicuratrice Industriale (John Hancock International Group Program)
Societa Reale Mutua di Assicurazioni (GAIN)
Swiss Life (Italia)
Winterthur Swiss Insurance Co.

Ivory Coast

ALICO (American International Group)
L'Union des Assurances de Paris (Travelers Corp.-MIA)

Jamaica

ALICO (American International Group)
Jamaica Mutual (Insurope/MBA)

Japan

ALICO (American International Group)
Asahi Mutual (Insurope/MBA)
Chiyoda (Winterthur Swiss Insurance Co.)
Dai-ichi Mutual Life Insurance Co. (John Hancock International Group Program)
INA Life Insurance Co. Ltd. (CIGNA Worldwide International Life & Group)
The Meiji Mutual Life Insurance Co. (AREA Benefits Network, Swiss Life)
Mitsui Mutual Life Insurance Co. (Aetna/Generali International Benefits Network)
Nippon Dantai (Insurope/MBA)
Nippon Life Insurance Co. (Travelers Corp.-MIA)
Toho Mutual Life Insurance Co. (GAIN)

Jordan

ALICO (American International Group)
Al-Nisral-Arabi (AREA Benefits Network)

Kenya

ALICO (American International Group)

Kuwait

ALICO (American International Group)
Credit & Commerce Insurance Co. (AREA Benefits Network)

Lebanon

ALICO (American International Group)
Societe Nationale D'Assurances (AREA Benefits Network)

Liberia

ALICO (American International Group)
CIGNA Worldwide Insurance Co.

Liechtenstein

Baloise/Basler (Insurope/MBA)
Pax Versicherungen (AREA Benefits Network)
Winterthur Swiss Insurance Co.

Luxembourg

A.G. Group (John Hancock International Group Program)
Assubel-Vie SA (GAIN)
Assurances Generales (Insurope/MBA)
La Luxembourgeoise (AREA Benefits Network, AGRI Benefits Network)
Le Foyer (Aetna/Generali International Benefits Network, Travelers Corp.-MIA)
Swiss Life (Luxembourg)
Winterthur Swiss Insurance Co.

Malaysia

AIA (American International Group)
Asia Life (Swiss Life)
Great Eastern Life Insurance Co. (Insurope/MBA, Travelers Corp.-MIA)
Universal Life & General Insurance Co. (Aetna/Generali International Benefits Network, John Hancock International Group Program)

Malta

Eagle Star Malta (AREA Benefits Network)
Montaldo's Insurance Services Ltd. (American International Group)

Mexico

Grupo Nacional Provincial (Travelers Corp.-MIA)
La Comercial (Swiss Life)
La Comercial de Chihuahua (AREA Benefits Network)
La Interamericana Independencia (American International Group)
Seguros America S.A. (Aetna/Generali International Benefits Network, Winterthur Swiss Insurance Co.)
Seguros de Mexico (Insurope/MBA)
Seguros Monterrey S.A. (John Hancock International Group Program)

Morocco

Al Amane (Travelers Corp.-MIA)

Netherlands

ALICO (American International Group)
Aegon Verzekeringen (GAIN)
Amev Levensverzekering N.V. (AREA Benefits Network)
Delta Lloyd (Insurope/MBA)
De Nederlanden van 1870 (Aetna/Generali International Benefits Network)
Interpolis (AGRI Benefits Network)
Nationale-Nederlanden Levensverzekering Maatschappij N.V. (Travelers

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Corp.-MIA, John Hancock International Group Program)
Winterthur Swiss Insurance Co.
ZwitserLeven (Swiss Life)

New Guinea

AHA (American International Group)

New Zealand

ALICO (American International Group)
Australian Mutual Provident Society (John Hancock International Group Program)
CIGNA Life Insurance New Zealand Ltd.
Colonial Mutual (Swiss Life)
Guardian Assurance P.L.C. (Prudential Assurance Co., Aetna/Generali International Benefits Network, Travelers Corp.-MIA)
National Mutual (Insurope/MBA)

Niger

L'Union des Assurances de Paris
Travelers Corp.-MIA)

Nigeria

ALICO Nigeria Ltd. (American International Group)
African Alliance (AREA Benefits Network)
Royal Exchange Assurance (Nigeria) Ltd. (Travelers Corp.-MIA)

Norway

ALICO (American International Group)
Forenede Liv A/S (Aetna/Generali International Benefits Network)
Gjensidige Liv (AREA Benefits Network, American International Group)
Storebrand (Insurope/MBA)
UNI Mutual Life Insurance Co. (GAIN, Travelers Corp.-MIA)

Vital (Swiss Life)

Oman

ALICO (American International Group)
Credit & Commerce Insurance Co. (AREA Benefits Network)

Panama

ALICO (American International Group)
Aseguradora Mundial de Panama (Swiss Life)
Cia. Internacional de Seguros de Vida S.A. (Aetna/Generali International Benefits Network)
Compania Internacional de Seguros de Vida (The Travelers Insurance Co.-MIA)
Metropolitana (AREA Benefits Network)
Pan American Life Insurance Co. (John Hancock International Group Program)

Paraguay

AHA (American International Group)

Peru

Cia. de Seguros ATLAS (Aetna/Generali International Benefits Network)
El Pacifico (American International Group)
El Sol, Compania de Seguros Generales (The Travelers Insurance Co.-MIA)
Peruano-Suiza (Insurope/MBA)

Philippines

Ayala Life Assurance Inc. (AREA Benefits Network)
Great Pacific Life Assurance Co. (The Travelers Insurance Co.-MIA)
Insular Life Assurance Co. Ltd. (Aetna/Generali International Benefits Network, John Hancock International Group Program)
Lincoln Philippine Life (Swiss Life)
Pan Philippine Life (Insurope/MBA)
Philippine-American Life Insurance Co. (American International Group)

Portugal

EURAVIE (American International Group)
Fidelidade Grupo Segurador S.A. (AREA Benefits Network)
Imperio (Swiss Life)
Portugal Previdente Companhia de Seguros (The Travelers Insurance Co.-MIA)
Sociedade Portuguesa de Seguros (GAIN)
Tranquilidade Seguros E.P. (Aetna/Generali International Benefits Network, Insurope/MBA)
Victoria Seguros (John Hancock International Group Program, Swiss Life)
Winterthur Swiss Insurance Co.

Puerto Rico

The Travelers Insurance Co.

Qatar

ALICO (American International Group)
Credit & Commerce Insurance Co. (AREA Benefits Network)

Saipan

AILife (American International Group)
Delamlife (American International Group)

St. Kitts

ALICO (American International Group)

St. Lucia

ALICO (American International Group)

St. Maarten

ALICO (American International Group)

St. Vincent

ALICO (American International Group)

Saudi Arabia

ALICO (American International Group)
CIGNA Corp.

Senegal

ALICO (American International Group)
L'Union des Assurances de Paris (The Travelers Insurance Co.-MIA)

Singapore

AIA (American International Group)
Asia Life (Swiss Life)
Great Eastern Life Assurance Co. (Insurope/MBA, The Travelers Insurance Co.-MIA)
Insurance Corp. of Singapore (Aetna/Generali International Benefits Network, AREA Benefits Network, John Hancock International Group Program)

South Africa

Liberty Life Assn. of Africa Ltd. (The Travelers Insurance Co.-MIA)
Momentum Life Assurers Ltd. (GAIN)
SANLAM (Insurope/MBA)
Southern Life (Swiss Life)
Standard General Insurance Co. (Aetna/Generali International Benefits Network)

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South Korea

ALICO (American International Group)
Daehan Kyoyuk Insurance Co. Ltd. (Aetna/Generali International Benefits Network)
Dong-Ah (Insurope/MBA)
First Life Insurance Co. Ltd. (GAIN)
Korea Life (Swiss Life)
Life Insurance Co. of North America-Korean Branch (CIGNA Corp.)
Samsung Life Insurance Co. Ltd. (John Hancock International Group Program)

Spain

AGF Seguros S.A. (GAIN)
Assicurazioni Generali (Aetna/Generali International Benefits Network)
ALICO (American International Group)
Catalana Occidente (AREA Benefits Network)
Compania Adriatica de Seguros (The Travelers Insurance Co.-MIA)
Espana (Insurope/MBA)
Sud America Compania d'Assurances sur la Vie (John Hancock International Group Program)
Swiss Life (Espana)
Winterthur Swiss Insurance Co.

Suriname

ALICO (American International Group)

Sweden

Forsakringsbolaget SPP (Insurope/MBA)
Lansforsakringar Liv (AGRI Benefits Network)
New Hampshire Insurance Co. (American International Group)
SPP Konsult ab (GAIN)
Skandia International Insurance Corp. (Aetna/Generali International Benefits Network, AREA Benefits Network, American International Group)
Trygg-Hansa Group (Swiss Life)

Switzerland

Baloise/Basler (Insurope/MBA)
Geneva Life Insurance Co. (Aetna/Generali International Benefits Network)
La Suisse, Societe d'Assurances sur la Vie (John Hancock International Group Program)
Pax Versicherungen (AREA Benefits Network)
Pictet & Cie (John Hancock International Group Program)
Swiss Life
Ticino Vita (American International Group)
Vaudoise Assurances (GAIN)
VITA Life Insurance Co. Ltd. (The Travelers Insurance Co.-MIA)
Winterthur Swiss Insurance Co.

Taiwan

Aetna Life Insurance Co. of America
CITC Life (Insurope/MBA)
Cathay Life Insurance Co. Ltd. (The Travelers Insurance Co.-MIA)
Connecticut General Life Insurance Co. (AREA Benefits Network)
The First Life Insurance Co. Ltd. (GAIN)
Kuo Hua Life (Swiss Life)
Nan Shan (American International Group)
Shin Kong Life Insurance Co. Ltd. (John Hancock International Group Program)

Thailand

AIA (American International Group)
Bangkok Life (Swiss Life)
Siam Life Insurance Co. Ltd (Aetna/Generali International Benefits Network)
Muang Thai Life Insurance Co. Ltd. (John Hancock International Group Program)
Siam Commercial Life (Insurope/MBA)
The South East Insurance Co. Ltd. (The Travelers Insurance Co.-MIA)

Togo

L'Union des Assurances de Paris (The Travelers Insurance Co.-MIA)

Trinidad & Tobago

ALGICO (American International Group)

Tunisia

Dhamen Union d'Assurance et de Prevoyance (The Travelers Insurance Co.-MIA)

Turkey

ALICO (American International Group Benefits Network)
CIGNA-SABANCI Sigorta Anonim (CIGNA Corp.)
Generali Sigorta (Aetna/Generali International Benefits Network)
Halk Sigorta T.A.S. (John Hancock International Group Program)
Sark Sigorta T.A.S. (The Travelers Insurance Co.-MIA)
Turkiye Genel (AREA Benefits Network)

Uganda

Uganda American Insurance Co. Ltd. (American International Group)

United Arab Emirates

ALICO (American International Group)
CIGNA Corp.
Credit & Commerce Insurance Co. (AREA Benefits Network)

United Kingdom

ALICO (American International Group)
Aetna Life Insurance Co. Ltd.
BUPA (Insurope/MBA)
Crusader Insurance P.L.C. (CIGNA Corp.)
Eagle Star Insurance Co. (AREA Benefits Network)
Guardian Royal Exchange Assurance (The Travelers Insurance Co.-MIA)
Legal & General Assurance Society Ltd. (GAIN)
NFU Mutual (AGRI Benefits Network)
Norwich Union (Winterthur Swiss Insurance Co.)
Private Patients Plan (John Hancock International Group Program)
Prudential Assurance Co. Ltd. (John Hancock International Group Program)
Standard Life (Insurope/MBA)
Swiss Life
Winterthur Swiss Insurance Co.

Uruguay

Montevideo (American International Group)

Venezuela

Adriatica Venezolana de Seguros C.A. (The Travelers Insurance Co.-MIA)
Casai AI Life of Puerto Rico (American International Group)
La Metropolitana (Swiss Life)
Pan American Life Insurance Co. (Insurope/MBA)
Seguros La Seguridad C.A. (John Hancock International Group Program)
Seguros Nuevo Mundo S.A. (Aetna/Generali International Benefits Network)
Seguros Venezuela (American International Group)

Zimbabwe

Fidelity Life Assurance of Zimbabwe (Private) Ltd. (GAIN)
Old Mutual Life Assurance Society (John Hancock International Group Program)
Unity Life (American International Group)

Risk managers told to pay attention to loss prevention

By JUDY GREENWALD

MONTREAL—Risk managers often focus too much attention on the risk financing aspects of their job and not enough on loss prevention, says an insurer.

"At least half of the functions of a risk manager should be dealing with loss prevention matters," said Brian Bullock, an account executive with Allendale Mutual Insurance Co. in Montreal.

Mr. Bullock spoke during a panel discussion on the importance of loss prevention programs at Rendez-Vous Montreal '90, the Canadian risk management conference hosted by the Quebec Chapter of the Risk & Insurance Management Society Inc. last month.

Rendez-vous
Montréal '90

Other panelists discussed enlisting top management support for placing loss prevention duties under the risk manager's supervision and the elements that must be taken into consideration to create a successful loss prevention program.

Risk managers sometimes claim their departments are too small, they have no formal loss prevention program or it is too costly to set up a corporatewide program, said Mr. Bullock.

But loss prevention should be an essential element of each risk manager's job, he said, noting that no large capital expenditure is necessary for such a program.

Without a corporatewide program, it is left up to local management to develop loss prevention solutions, Mr. Bullock said. However, the probability of these programs being uniformly implemented or effective is low, he said.

For example, under a locally managed program, it may be possible to take corrective action at one plant, but not at another, he said. Or, he added, safety devices may never be tampered with at some locations, although they may be at others.

Mr. Bullock said the development of a corporate loss prevention program should begin with a "written, formal document endorsed by senior management" that defines the program's objectives, procedures, responsibilities and accountabilities.

The program should ensure that loss prevention is the concern of all employees, said Mr. Bullock. "Why shouldn't loss prevention be on the minds of all employees, like quality control at manufacturing facilities?" he asked.

Ideally, a formal loss prevention program will complement a company's corporate philosophy and increase profits, Mr. Bullock said.

Because the objectives of a loss prevention program are identical for both small and large corporations, the major factor affecting the need for loss prevention will not be the size of the corporation so much as the type of business it is in, said Mr. Bullock.

For instance, the loss prevention program needed by a real estate organization may not be appropriate for a woodworking plant, he said.

As a result, the different types of risks faced by a company should be considered, Mr. Bullock said. Loss prevention procedures should be developed to address each of the four types of risk, including property risks, net income risks, liability risks and personnel risks, he said.

The risk manager should make use of all resources for gathering information to identify a company's exposures, including using his or her insurer and broker for loss history and loss trends information, Mr. Bullock said.

The next step in developing a corporate loss prevention program is performing a cost-benefit analysis, he said.

Factors that will influence the cost

Continued on next page

Loss prevention

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of developing such a program include the program's scope, the company's business, the number of locations and the varied needs of those locations, according to Mr. Bullock.

"Generally speaking, however, it is minimal," he said, noting that the risk manager can usually complete this task "within his or her normal functions."

On the benefit side of the equation, Mr. Bullock said a risk manager can expect a loss prevention program to:

- Reduce losses, thereby boosting a company's profits.
- Create a better and safer workplace for employees, which boosts employee morale.
- Provide a good "corporate citizen" image. "Everyone today is striving to have that good, corporate image," he commented.
- Lead to smaller losses, which in turn will lead to lower insurance premiums.
- Makes it easier to apply risk financing techniques.

For example, if the insurance market hardens and the firm has a higher deductible, having a good loss prevention program will keep losses within that retention to a minimum, he said.

In presenting the plan to top management, the risk manager should emphasize that any capital expenditures needed for such a program should be considered a necessary part of doing business, Mr. Bullock said.

He stressed, however, that the risk manager should recognize that there may be some obstacles within an organization to getting a formal loss prevention program properly established.

Picking up on this theme, another panelist said that risk managers should make sure to gain top management's support for keeping a loss prevention program within their area of responsibility.

"I think you lose quite a bit" if the program is not under the direct control of the risk manager and instead is relegated to some other corporate department, said Gary Carter, manager of insurance and risk management for Ivanhoe, a Westmount, Quebec-based real estate firm.

Mr. Carter said a risk manager could walk in and tell senior management that the company should have a loss prevention program, only to have them agree it's a good idea and then give responsibility for the program to the head of operations.

It isn't enough to simply say a loss prevention program is the risk manager's idea and should therefore be handled by that department, said Mr. Carter. Instead, the risk manager must put himself in the best position to oversee the program, he said, explaining that the risk manager should get management to see him or her as the logical choice to run the loss prevention program.

The first step necessary to accomplish this is to put together a risk management policy statement, he said. The second step is to gather all of a company's loss information, including losses that fall below deductibles or are paid out of operations, he said. The risk manager should be aware of all of these losses so that he knows what the company's total deductible should be and what should be insured, Mr. Carter explained.

For instance, a scratch on a company car may be ignored with the idea that the car will be traded in anyway, but the risk manager should be informed of such damage because it could lessen the car's trade-in value, he said.

These overlooked losses should be included as part of a risk manager responsibilities, said Mr. Carter. This responsibility should also include losses that are part of the deductible, those that are uninsurable and those that are "just plain forgotten," he said.

Meanwhile, Edi Mocchiutti, vp and manager-technical services for broker Johnson & Higgins in Montreal, discussed the specific elements that must be taken into consideration to create a successful loss prevention program.

The basic causes of losses within a corporation are inadequate capability, lack of knowledge, lack of skill, stress and improper motivation, according to Mr. Mocchiutti.

To prevent or minimize losses, the person in charge of loss prevention must:

- Identify all loss exposures.
- Evaluate the risk of each.
- Develop a plan to remove or reduce the exposure.
- Implement the plan.
- Evaluate and control any losses.

Identifying a firm's loss exposures is time-consuming but important, Mr. Mocchiutti said. Categories of loss exposures he said, include those involving natural disasters, general property, personnel, fleets, contamination, hazardous wastes and security losses, including theft and contractual losses.

Mr. Mocchiutti said it should also be recognized that for every serious accident there are 600 "near misses." These "near misses" should be followed up and investigated, because they give you basic data needed to change the potential risk exposures in your company, he said.

Characteristics of a successful loss prevention program, said Mr. Mocchiutti, include:

- Strong management concern.
- A full-time coordinator who reports to top management.
- Frequent use of safety promotions like newsletters.
- Accident reporting and investigation procedures.
- Training.
- Safety meetings.

Mr. Mocchiutti noted that many insurance companies will give a highly protected risk rating to companies that have an active loss prevention program. ■

Canadian conference draws 460

MONTREAL—More than 460 people attended Rendez-Vous Montreal '90, the Canadian risk management conference hosted by the Quebec chapter of the Risk & Insurance Management Society Inc. earlier this month. Among featured speakers were Cheri Hawkins, the president of RIMS and director of insurance at Weyerhaeuser Co. in Tacoma, Wash., who encouraged Canadian members to participate in RIMS.

"You are very much needed and wanted by RIMS," said Ms. Hawkins. "You have a lot to offer and, God knows, we need all the help we can get."

Other featured speakers at the meeting included Clifford Lincoln, a former minister of the environment in Quebec, who gave an impassioned speech on the need for environmental cleanup

On a much lighter note, attorneys from the Montreal law firm Lavery, O'Brien presented a mock trial on the issue of whether "Donald D. Composed" should be buried in "All's Well That Ends Well Cemetery." The cemetery was objecting to his burial on the grounds it violated the Environment Quality Act of Quebec. The mock trial—which the cemetery lost—was marked by shameless puns, including a witness on behalf of the cemetery named Mortis Rigor.

Next year's conference is scheduled for Sept. 22-25 at the Edmonton Hilton International. Its theme will be Risk Management Renaissance—Advancing the Art.

—By Judy Greenwald

Canada ready to tap global marketplace

By JUDY GREENWALD

MONTREAL—Canadian risk managers have a head start on their U.S. and European counterparts in preparing for the single European economy that 1992 will bring, says an insurer executive.

"In many ways you have always thought global, and probably think it is about time the rest of us Americans and Europeans catch up," said Thomas G. Kaiser, senior vp of Arkwright Mutual Insurance Co. in Waltham, Mass.

"You are unique, specially when you consider how few Canadian underwriters there are or Canadian brokers," Mr. Kaiser said last month at a session during Rendez-Vous Montreal '90, a conference sponsored by the Quebec Chapter of the Risk & Insurance Management Society Inc.

"In short, you already source globally from multinational and global suppliers of risk management services," he told Canadian risk managers.

Rendez-vous Montréal '90

"This is not true yet in Europe or the United States—and 1992, I believe, offers the possibility of true global risk management," Mr. Kaiser commented.

Mr. Kaiser said, "The changes going on in the insurance industry and the rapidly increasing effectiveness and sophistication of risk management worldwide offers the greatest opportunity for a redirected, customer-focused insurance industry than has ever been available before.

"Our collective job is to provide the leadership for this emerging new order worldwide," Mr. Kaiser said.

The opportunities in a single European market raise crucial strategic issues for all Canadian and U.S. companies, according to Mr. Kaiser.

But while Europe's economic and political power is at stake, some people fear 1992 will bring intense competition, "something we in the insurance industry know something about," Mr. Kaiser said.

"In fact, many say the insurance industry can't stand prosperity," Mr. Kaiser said. "The minute we make money, we shoot ourselves in the foot."

Mr. Kaiser said the European Community plans to implement more than 285 regulations to eliminate fiscal, technical and physical barriers. Of particular interest is the elimination of fiscal barriers.

A proposed single European currency—the ECU—will enable insurers to issue single policies throughout the European Community, he said (*BI*, Sept. 24). This is similar to what is now done in Canada and the United States, where policies already are issued under a common currency, said Mr. Kaiser.

"We also want to see common technical standards from a loss control point of view which will assist us as we help customers worldwide minimize their long-term cost of risk on a global basis," he said (see story, page 32).

Mr. Kaiser said also that he believes "the elimination of physical barriers will increase the emerging need for risk management services even more.

"Organizations will adopt more centralized distribution systems resulting in larger and more complex storage facilities.

"Manufacturing will adopt more—just in time—sourcing strategies and will manufacture from larger, centrally controlled facilities," said Mr. Kaiser.

"In short, more eggs will be in a single basket. Risk managers will have to do everything possible to prevent losses and have access to advanced risk control services. We do well when companies decide to manage risk and risk management is becoming more sophisticated worldwide."

Mr. Kaiser also predicted more mergers and acquisitions and "more global sourcing of capacity" by multinational companies.

"Expect more demand for global risk control services and global risk assessment," Mr. Kaiser predicted.

'Expect companies to look for global products to meet global needs,' says Mr. Kaiser.

"Expect the decline of brokers and insurance companies that can't provide service, those that traditionally only organized capacity or just provided capacity.

"Expect companies to look for global products to meet global needs. Companies will buy and source from whomever can best meet their needs, especially if the regulatory environment supports business."

In addition, Mr. Kaiser predicted that companies will form their own captive brokers to capture commissions now paid to non-owned brokers, expand their captive insurance companies and start their own insurance companies that will market services to others.

Also speaking at the session was Philip J. Brown Jr., London-based executive vp of Marsh & McLennan Inc., who said this renewal season would be an excellent time for companies to consolidate their insurance programs "if they have not already done so."

Unlike North American companies, European firms have not yet consolidated their coverages, he noted.

Mr. Brown said one way for multinationals to gain control of their programs and get the best out of the European marketplace is by using captives in locations such as Luxembourg and the United Kingdom.

An international broker, he said, can help with program design, implementation and continuity of service, he said, making what he called a "modest plug" for his business.

Mr. Brown also said it is important to choose a broker with strong offices throughout Europe.

Also speaking at the session was Francois Bourassa, an attorney with Banque Nationale du Canada in Montreal.

Denis A. Glaude, director of risk management for Montreal-based Dominion Textile Inc., moderated the session. ■

Ex-risk manager decries 'short-term' focus

By JUDY GREENWALD

MONTREAL—A risk manager who lost his job of 30 years after his company was acquired warns that the new owner's "short-term" risk management philosophy will ultimately hurt the company.

A company spokesman, however, defended the firm's approach.

J.A. Bridger, former risk manager at Canadian Packers Inc. of Toronto, was let go in September after the firm was acquired by Hilsdown Holdings P.L.C. of London.

The new owner, a food processor with about $4 billion in annual sales, has decentralized management, requiring each Canadian Packers location to arrange for insurance and any loss prevention services.

Rendez-vous Montréal '90

Mr. Bridger later told *Business Insurance* that Hilsdown has gone to great lengths to help him since his dismissal, with a generous severance package, financial and career counseling and the availability of office space and secretarial help to use in finding a new job. "I can't say how well they treated me."

Nevertheless, Mr. Bridger said he strongly disagrees with the risk management approach taken by the acquiring company.

He spoke about his experiences at a session at Rendez-Vous Montreal '90, a conference hosted by the Quebec Chapter of the Risk & Insurance Management Society Inc. earlier this month in Montreal.

Mr. Bridger, who worked for the meatpacker for 30 years and was its risk manager for 12 years, said the three-member corporate risk management department he led was eliminated during decentralization. Local divisions now have autonomy to buy their own coverage, he added.

"I think it's going to be a terrible mess to try to control that," said Mr. Bridger.

From a risk management perspective, Hilsdown's style is "kind of reinventing the wheel," said Mr. Bridger. "You really lose an element of control" without a central loss control expert who knows the company's people, its divisions and its philosophy, he said. "I find it very difficult to believe they're going to be successful long-term."

Hilsdown's philosophy, Mr. Bridger charged, is to rely on the purchase of insurance with low deductibles—with no risk management or internal loss control programs—"and let the broker do all the work."

Doing away with the internal risk management department will lead to a deterioration of loss experience, warned Mr. Bridger, who also serves as vp-business and industry liaison at New York-based RIMS.

Hilsdown's bottom-line philosophy also applies to its choice of insurers, he noted. Mr. Bridger said when he asked a company official what would happen if losses begin to mount and the market hardened, the response was: "There's always a company out there that'll shoot itself in the foot."

In the short-term, said Mr. Bridger, the official was right. But, he added, "I don't like the trend I see." It is not a sensible risk management approach, he said.

Mr. Bridger noted, however, that Hilsdown generates $400 million a year in net income, while Canadian Packers generated only $12 million. "Who's right and who's wrong?" he asked. "It's a tough decision."

A Hilsdown spokesman contacted after the responded that "we have changed the management style of the company." Canadian Packers has shifted away from centralized management by creating four autonomous business groups, the spokesman explained.

From a risk management point of view, the company will no longer have Mr. Bridger's expertise or that of his department, the spokesman acknowledged. But, he added, each business group will now be responsible for either developing expertise or going out and buying it.

"It will be managed and managed properly," said the spokesman, noting the same process is occurring in other areas of the company. Just because there is no longer a corporate risk management department "doesn't mean we stopped worrying about risk management," he said.

Also speaking at the session, which was moderated by Mr. Bridger, were Kathy Chan, director of finance and risk management for Bell Canada International Inc. in Ottawa, Ontario, and James A.F. Johnstone, manager-corporate risk/insurance for Northern Telecom Ltd. in Mississsauga, Ontario. ■

Uncertainty plagues D&O law in Canada

By JUDY GREENWALD

MONTREAL—Unlike the United States, where directors and officers liability law is well-developed, in Canada it remains a "moving target," says an attorney.

"D&O liability is something of a mystery to most of us who are involved, and particularly to most of us who buy the product," said John I.S. Nicholl, an attorney with the Ogilvy Renault law firm in Montreal.

U.S. lawyers can research D&O liability law in a textbook. But in Canada, the law changes so fast "it's a moving target," said Mr. Nicholl at the Rendez-Vous '90, a conference sponsored by the Quebec Chapter of the Risk & Insurance Management Society Inc. earlier this month.

Many Canadians believe D&O liability is a "figment of the broker's imagination," particularly when premiums are due, he said. "It's not so. There are big exposures out there."

Most directors and officers are familiar with their basic core duties, said Mr. Nicholl. But when you look further, "it gets less straightforward," particularly where fiduciary duties are involved, he said.

For instance, in a 1989 case, *Angus, et. al. vs. R. Angus Alberta Ltd., et. al.*, the Alberta Court of Appeals held that directors of a firm were personally liable to reimburse the company for funds they had used to repurchase company shares, despite acting in good faith and on the basis of outside legal advice.

"You can get into trouble" even if there is no personal dishonesty involved, warned Mr. Nicholl.

Discussing D&O liability in tort cases, Mr. Nicholl noted that in a 1983 case, *Berger vs. Willowdale A.M.C.*, the Ontario Court of Appeals held that the president of an automobile dealership was personally liable to an employee injured when she fell on an icy sidewalk outside the company showroom because he could see outside his window.

In that case, the court ruled that a company president has great power over his employees and must exercise it responsibly, particularly if he is in control of a situation he has the means to rectify, Mr. Nicholl said.

"You can never assume" that liability toward a third party does not exist, he said.

In a more recent case, *Ataya vs. Mutual of Omaha Insurance Co.*, the British Columbia Supreme Court in 1989 held that the principal shareholder of an insurance agency was liable for losses incurred by the family of a client who died after medical coverage was denied her under policies placed by the principal.

The insurers had denied the claim for medical expenses citing errors the principal shareholder had made, said Mr. Nicholl.

Directors and officers also can be held liable under Canada's income tax act, said Mr. Nicholl. Most Canadian directors are already aware that they could be held liable for unpaid taxes after an insolvency, he said.

However, Mr. Nicholl did note that there is a possibility of a good-faith defense by Canadian directors and officers, as well as a new defense being developed for directors no longer involved in running a company, he said.

"This kind of stuff was decided in the United States a long time ago," but in Canada, the concept is still being developed, Mr. Nicholl acknowledged.

Also speaking at the session was Valerie Manzo, assistant vp at Marsh & McLennan Ltd. in Montreal, who said some companies willingly purchase D&O liability coverage. Others, though, are "more or less forced into it" by outside directors and officers, she said.

Susan R. Meltzer, associate director of risk and insurance at Bell Canada of Toronto, moderated the session. ■

Reinsurer warns of climatic changes

By MARK A. HOFMANN

WASHINGTON—Storm clouds literally hang over the reinsurance industry as signs of climatic change multiply and the chances for major earthquake losses increase.

"The United Nations has declared the 1990s an international decade for natural disaster reduction. This is either 'too little, too late,' or 'just in time' depending on your point of view, because there is mounting evidence that catastrophe exposures have changed," said Jean F. Webb IV, senior vp-treaty property at Newark, N.J.-based Prudential Reinsurance Co.

As a result, prices for catastrophe reinsurance cover will increase and reinsurers will require more underwriting information, Mr. Webb said (*BI*, Sept. 24).

But he warned that even with stricter underwriting standards, a "mega-loss," like a major earthquake in the Los Angeles area, could have a "severe" impact on both the insurance industry and the economy as a whole.

Mr. Webb offered a list of climatic and demographic shifts that could have a major impact on catastrophe reinsurance during a session concerning "Reinsurance in This Decade: The Shape of the Things to Come" at the annual meeting of the Society of Chartered Property & Casualty Underwriters, held earlier this month in Washington, D.C.

Catastrophe exposures are being affected by an apparent trend toward global warming, Mr. Webb said.

The mean global temperature has increased by one-half degree centigrade (0.9 degrees Fahrenheit) during the past 100 years, he said.

While that may not seem significant, the increase must be taken in the context of climatic conditions during the ice age, when the mean global temperature was only five degrees centigrade (nine degrees Fahrenheit) colder than it is now, said Mr. Webb.

"The adjustment in temperatures has taken 10,000 years to achieve at an average increase of one-half degree centigrade per 1,000 years. Should we be concerned that the speed of increase seems now to be 10 times faster?" Mr. Webb asked.

"This warming trend is generally attributed to the greenhouse effect caused by increased concentrations of carbon dioxide, methane, ozone and chlorofluorocarbons in the atmosphere reflecting heat back to earth," he said.

An increase in the level of the oceans is yet another change with an impact on catastrophe exposures, according to Mr. Webb. He said that sea level has risen about 10 centimeters (3.94 inches) during the 20th century.

"If one assumes that the greenhouse gases will continue to accumulate at an increasing rate, the result will be a five-degree centigrade increase in temperature by the middle of the next century and a rise in sea level of about 4½ feet. If one assumes no increase in the rate of accumulation, one would predict a temperature increase of 1.8 degrees centigrade and a sea level rise of 12 inches," Mr. Webb said.

In addition, a study undertaken at Colorado State University in Fort Collins, Colo., demonstrates a "strong relationship between the monsoon rainfall in the West Africa Saheel region and the development of intense Atlantic hurricanes—there are more and stronger hurricanes in wet periods than in dry ones," Mr. Webb said.

He explained that the nearly two decades of drought that seared the Saheel ended in 1988, "and we have experienced Hurricanes Gilbert and Hugo." If the Colorado State thesis is correct, the Atlantic may be entering a period of more frequent and severe storms, he said.

"What will be the effects of warmer temperatures and higher sea levels? Warmer temperatures will mean more evaporation, more release of kinetic energy and stronger convection currents in the air, all of which play major roles in the development of tropical cyclones. Their frequency and intensity will grow as will the length of their seasons and the size of the areas affected," Mr. Webb predicted.

Mr. Webb said that although some progress has been made in the reduction of some of the greenhouse gases, the amount of carbon dioxide in the atmosphere seems likely to continue growing because of Third World industrialization.

While building dams and dikes might hold back rising seas, "these construction measures would require investment of many billions of dollars," he said.

Mr. Webb said that changing natural conditions will force insurers to rethink some basic underwriting practices.

Primary insurers operate on three assumptions when rating, he said:

- That there exists a very large number of homogeneous exposure units available to the insurer.
- That all units are independently exposed to loss.
- That past experience can provide a guide to the future and that general conditions—like climatic conditions—do not change.

"I have asserted that conditions have changed and will continue to change," Mr. Webb said. "It seems clear that, at least with regard to the climatic perils, units will be less and less independently exposed to loss.

"The annual fluctuations in experience will surely grow as a consequence of the ever-increasing size and frequency of natural disasters. The long-term trend of results will be downward if premiums continue to be based on past loss experience and thus lag behind current and future developments," Mr. Webb said.

Complicating the change in climatic conditions are demographic factors, Mr. Webb pointed out. The population of the United States has been migrating to coastal areas during the past half-century.

"A large portion of the migration has led to Southeastern states with heavy exposure to hurricane damage. Population within 50 miles of the coastal shoreline along the Gulf of Mexico nearly doubled between 1960 and 1985," he said.

"In the coastal regions, where demand for insurance has and will continue to increase because of population shifts, the risks of windstorm and storm surge may become so high, the anti-selection and the excessive loss frequency so great, that the outer bounds of insurability may be reached," said Mr. Webb.

If that occurs, the various windstorm plans that provide coverage to businesses and homeowners unable to buy insurance in the traditional marketplace will swell with

Continued on next page

Catastrophes

Continued from previous page

new policyholders, he said. Deteriorating experience will increase the assessments made on insurers to support those residual markets, he said.

"We must remember that the number of insurance dollars available is finite," Mr. Webb said. Insurers may decrease aggregate limits or they may withdraw entirely from catastrophe-prone areas, he predicted. They may also respond by buying more reinsurance.

"In order to pay for the larger expected losses, I expect pricing to increase for traditional catastrophe covers," Mr. Webb said.

"Perhaps the greatest change I see is the completeness of underwriting data supplied to the reinsurers. Most of us use premiums, earned or written, as the best available measure of catastrophic exposure," he explained. However, "in most of the world today, reinsurers are supplied with sums-insured information when asked to underwrite the earthquake peril. That day will come to the United States, not only concerning earthquake but also for the windstorm perils."

Reinsurers use premiums, either written or earned, to estimate the size of their exposure. However, premiums may fluctuate while the amount of underlying coverage remains the same. For example, the premium for a $125,000 house may vary from $250 to $300 according to market conditions, while the amount insured remains the same. With sums-insured underwriting, the reinsurer considers the actual amount of primary coverage written to determine its maximum exposure.

Mr. Webb said that a combination of the right information and realistic pricing might mean that climatic change would not "automatically be negative for reinsurers." He warned, however, that a major catastrophe would be another story.

He pointed to the projected damage from a Los Angeles earthquake measuring 7.5 on the Richter scale as an example of what might happen to insurers and the economy as a whole in the wake of a disaster.

"By all estimates, it would cause industry losses of $52.4 billion. That would be nearly 45% of the industry's aggregate surplus, leaving many companies insolvent and causing many residual economic and societal problems," he said.

But the loss would not hit all insurers equally, he said. About 90% of California's earthquake-related risks are written by about 80 insurers with aggregate capital and surplus of approximately $70 billion, he said, noting that insurer insolvencies would follow a serious quake in Los Angeles.

The dominoes would continue to fall, he said. "Reinsurance insolvencies would be inevitable. Their overall capacity constitutes only 18% of the industry's capacity, and reinsurers would probably be saddled with half of the losses from a major quake," Mr. Webb said.

Insurance availability could dry up even if a particular insurer had no exposure to the quake, he predicted.

"While solvent insurers would be able to pay claims, they might not be able to guarantee that people could renew insurance polices or buy new insurance. Without adequate access to insurance, operations such as hospitals, doctors and banks, just to name a few, would be forced to curtail or suspend their services, rather than risk a devastating uninsured loss," he said.

The securities market would be weakened by the sale of assets by insurance companies seeking cash to pay earthquake-related claims. Municipalities would be unable to sell bonds. Communications might be disrupted for a long time, while people would lose their jobs because of business interruption.

"I am attempting to paint a bad-case scenario, but by no means a worst-case scenario. Make no mistake, this kind of quake is foreseeable. The 1906 San Francisco quake reached 8.3 on the Richter, 80% more powerful than the quake I'm speculating about," he said.

The public and lawmakers must realize that such a disruption in the insurance industry would cripple the economy, he said, noting that insurance industry-backed legislation that would make the federal government the reinsurer of last resort in the event a catastrophic quake has been introduced in Congress (*BI*, April 9).

But another speaker at the session said it isn't likely that the legislation, H.R. 4480, will be approved anytime soon.

"Despite the drama of California's earthquake last fall and the recognized threat of another major earthquake in the next several years, we knew that prospects for passage in this Congress were very slim," said Jack H. Blaine, president of the Reinsurance Assn. of America in Washington, D.C., one of the insurance industry groups that are members of the Earthquake Project, which advocates the legislation.

"As you know, the insurance industry is not the most loved of our major national industries," Mr. Blaine said. "Because we are somewhat suspect in the view of some congressmen, they tend to look for ulterior motives, such as a bailout for the industry, which it is not."

A third scheduled speaker—William D. Warren, president and chief executive officer of Stamford, Conn.-based National Reinsurance Corp., was unable to participate because of a temporary illness. Peter R. Kensicki, professor of insurance at Eastern Kentucky University in Richmond, Ky., moderated the session. ■

Alternative markets permanent: Panel

By MARK A. HOFMANN

WASHINGTON—The alternative risk financing market—including risk retention groups—is here to stay, a panel of experts agrees.

But to assure success, a risk retention group must grow, said the president of a risk retention group that issued its first policy—as a group captive—more than a decade ago.

And risk retention groups are not for everyone warned Jaxon A. White, president of Vermont-domiciled MEDMARC Insurance Co. Risk Retention Group Inc., during a discussion of "Who Takes the Risk?" during the annual meeting of the Society of Chartered Property & Casualty Underwriters earlier this month in Washington, D.C.

Mr. White's risk retention group, which writes product liability and commercial general liability insurance for manufacturers of medical and diagnostic devices, issued its first policy in 1979—before the Risk Retention Act of 1981 was enacted and before liberalizing amendments were approved in 1986—as a group captive domiciled in Bermuda.

Mr. White said that there are currently 72 risk retention groups in existence, collectively representing about 35,000 members. While the average number of members per group is 500, Mr. White said that number is somewhat misleading because risk retention groups catering to professionals, like physicians, often have 600 or 700 members.

The average risk retention group has an annual premium volume of about $6 million, he said.

One of the chief reasons a risk manager considers using an alternative risk financing facility like a risk retention group is to escape the commercial property/casualty insurance underwriting cycle, said Mr. White. He noted that the violent price swings and sudden disappearance of coverage during the mid-1980s made the alternative market attractive to many risk managers.

However, risk retention groups have other advantages, he said.

Properly managed risk retention groups also can boast "informed underwriting," said Mr. White. "It's one of the hallmarks of the alternative market. We understand our industry," he said.

Using MEDMARC as an example, Mr. White said he can directly compare information from similar businesses like wheelchair manufacturers, when underwriting a policy, while a commercial insurer that does not specialize in medical supply manufacturers must compare the policyholder seeking coverage with disparate industries. "We have the luxury of understanding what they do on a day-to-day basis," he said.

Mr. White said the managers of well-run risk retention groups can also use their knowledge of particular industries to improve the risk profiles of members and to provide conscientious claims management services.

"It's essential" that a risk retention group build up its capital and surplus, Mr. White said. "It can't be any good if it always stays small."

Properly managed risk retention groups also boast 'informed underwriting,' says Mr. White.

In addition, "risk retention groups need an underwriting profit," said Mr. White, noting that the groups cannot rely on only investment profits if they are to survive for the long term.

But, said Mr. White, risk retention groups are not the answer to all risk managers' concerns. Large risks might be suspicious of giving information to a risk retention group that could be used by a competitor that is also a member, he said, adding that risk retention groups work best for small to medium-sized risks. For example, most of MEDMARC's members have annual sales of less than $10 million.

Another panelist said that one of the reasons risk managers are turning to alternative markets is a perception that they can't trust traditional insurers.

"There is a residue of resentment and mistrust out there," said Vincent D. Boylan, vp of The Mutual Insurance Agency Inc., a Washington, D.C.-based insurance agency that places business with some risk retention groups, including MEDMARC.

Speaking as a risk manager, Woodrow B. Anderson, director of insurance for KPMG Peat Marwick in Montvale, N.J., said there are four reasons why risk managers might consider going outside the traditional insurance market or retaining risk on their own:

- Limited coverage.
- Excessive cost.
- The source of the coverage is questionable.
- "Probably the most important thing: when the available cover does not meet the objectives of the firm's risk management program."

Mr. Anderson said that while the third consideration—questionable sources of coverage—has not attracted as much attention as some of the other factors, the increasing number of insurance company insolvencies will serve to focus more attention on insurers' financial soundness.

All of the panelists agreed that long-term relationships between insurers and policyholders are necessary.

"Stability is obviously the first and foremost consideration" when a business considers whether to join a group, he said. "An insured needs a relationship with their insurance company rather than a one-night stand."

James E. Kassel, senior vp of Hartford, Conn.-based Hartford Specialty Co., said that as a traditional insurer, his company values the long-term relationship.

Mr. Anderson also stressed the importance of a long-term relationship in risk transfer.

But Mr. Boylan said that commercial insurers will still write coverage for large risks that had previously purchased coverage from an alternative market.

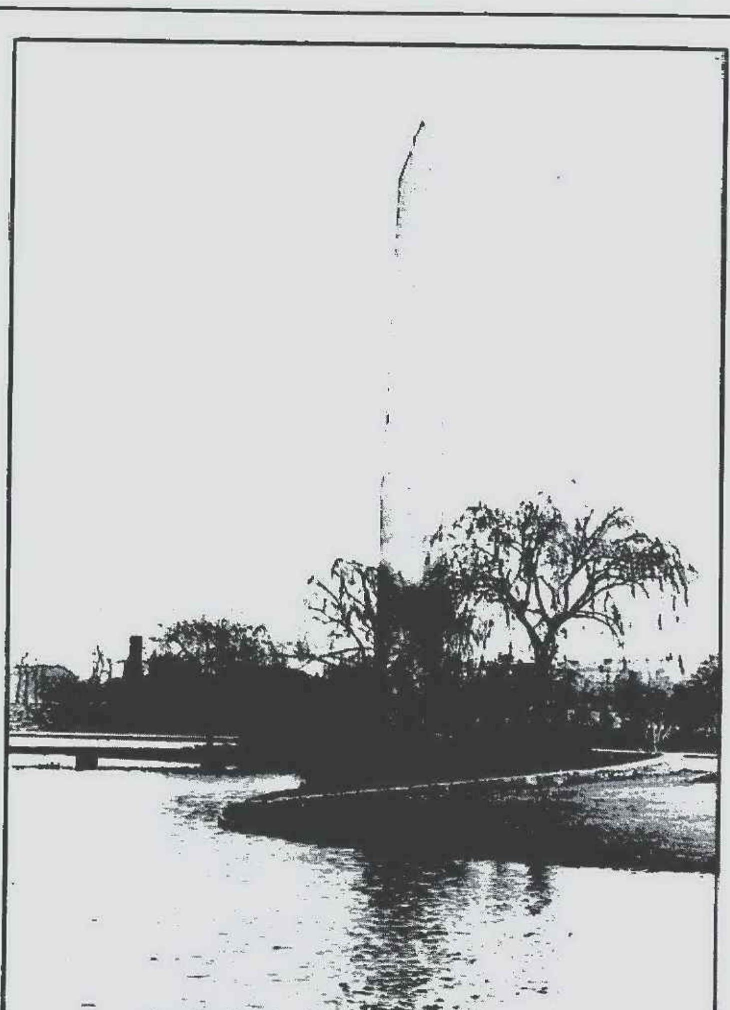
But panel moderator Cheri J. Hawkins, director of insurance for Tacoma, Wash.-based Weyerhaeuser Co. and president of the Risk & Insurance Management Society Inc., said that a risk manager who moves to the alternative risk financing facility is unlikely ever to return to the commercial insurance marketplace. "I think it's a one-way street," she said. ■

CPCU meeting views light, serious issues

By MARK A. HOFMANN

WASHINGTON—The Society of Chartered Property & Casualty Underwriters held its 46th annual meeting in a city torn by uncertainty as President Bush and congressional leaders wrestled to reach an accord on the federal budget.

The suspension of federal services imposed by the budget impasse temporarily closed many of the capital's sights the weekend before the conference began. And there were more than a few complaints about the budget standoff as the Society of CPCU conference began in earnest on Oct. 8.



Budget battle curbs sightseeing

Many sights in the nation's capital, like the Washington Monument, were closed at the start of the Society of CPCU's annual meeting earlier this month due to the federal budget standoff.

However, closed tourist attractions may have helped draw a few more spectators than might otherwise have attended the conference's first "Expo." Thirty-six exhibitors presented insurance-related products ranging from video surveillance to telemarketing services in the Empire Room of the Omni Shoreham Hotel, one of two hotels where sessions were held.

From the budget mess to intervention in insurance regulation, the federal government was the butt of several jokes during the meeting.

"If you like the way the government managed the savings and loans, you'll love workers comp" if it becomes involved with that system, said Richard L. Katten, the Society of CPCU president, in his opening address.

Mr. Katten, who is president of the Ferd. Marks Insurance Agency Ltd. in New Orleans, soon turned more serious. The "most important challenge" Society of CPCU members face is restoring public trust in the insurance industry, he said. And he warned that "the battle for public trust is a battle you'll fight on your own" in conversations with relatives and neighbors.

The apparent end of another battle, that between the Western democracies and the former Soviet bloc, formed much of the theme of the keynote address by retired Adm. William J. Crowe Jr., former chairman of the Joint Chiefs of Staff.

Adm. Crowe said that while he thinks Soviet President Mikhail Gorbachev—who last week won the Nobel Peace Prize—is sincere in his efforts to reform Soviet society, "cold hard realities" counsel caution in expecting too much.

A dearth of competent managers, a lack of entrepreneurial spirit and escalating ethnic tensions plague the Soviet Union, he said. "I think we should applaud Gorbachev's efforts," he said, but added quickly, "there is little we can do to make the average Russian forget 70 years of his history."

Adm. Crowe also counseled caution in Eastern Europe. In fact, the retired chairman said he finds the pace of change in the former Soviet bloc "a little frightening." Adm. Crowe warned that reforming those economies will take a considerable amount of time and noted that "we do not yet know what the replacement regimes will ultimately look like" (see stories, pages 24 and 28).

Mr. Paris

Mr. Harris

Mr. Overmeyer

Mr. Smith

When dealing with Eastern Europe, Adm. Crowe said Americans need to apply what a friend of his calls "the first rule of wing walking." The law, which dates from the days when barnstorming pilots would entrance audiences by walking across an airplane's wing while the machine was aloft, holds: "You don't let go of anything till you got hold of something else."

Turning to the current crisis in the Persian Gulf, Adm. Crowe predicted that "our difficulties with Iraq could be the harbinger of the future." There will be "no decent interval to celebrate the end of the Cold War," he said. The United States alone has the political, military and economic power to lead the free world despite its slip in relative economic power.

Economic powers like Japan and Germany lack military and diplomatic power. And the liberalizing Soviet Union, despite its military might, is economically bankrupt, he said.

"We have to keep our heads. We must keep Hussein in perspective," he said. The Iraqi leader is a brutal dictator, but he is no superman, said Adm. Crowe.

Attendance of about 4,000 made the Washington meeting the second largest ever for the society. Only last year's meeting in Anaheim, Calif., attended by about 4,500, was larger (*BI*, Oct. 30, 1989).

The number of students completing their CPCU designations this year was also the second-highest, trailing only last year. Some 1,834 students earned the professional designation during the 1989-90 academic year, compared with 2,054 in 1988-89. About 1,300 of the 1990 designees attended the Washington meeting.

New Society of CPCU officers assumed leadership positions on Oct. 13.

Stephen J. Paris, a managing partner in the Boston law firm Morrision, Mahoney & Miller, succeeded Mr. Katten as president. Jerrol L. Harris, senior vp of San Mateo, Calif.-based California Casualty & Life Co., succeeded Mr. Paris as president-elect. Edwin L. Overmeyer, president and chief executive officer of Berwanger Overmeyer Associates, a Columbus, Ohio-based insurance agency, became vp of the society, while Roger L. Smith, president of the Insurance Educational Assn. in San Francisco, began a three-year term as secretary/treasurer.

The 1991 meeting is scheduled for Oct. 20-23 in New Orleans.

For further information, contact the Society of Chartered Property & Casualty Underwriters, 720 Providence Road, CB No. 9, Malvern, Pa. 19355. ■

Industry's ethics reflect those of society: Insurer

By MARK A. HOFMANN

WASHINGTON—Any discussion of ethics and the insurance industry must include a discussion of the U.S. civil justice system, says an insurance company executive.

"It seems to me that in a very real sense, insurance is a method of interpreting the values and distributing the costs of the civil justice system," said Elliot F. Gerson, senior vp of Travelers Corp. of Hartford, Conn.

Mr. Gerson, who participated in an examination of ethics at the recent annual meeting of the Society of Chartered Property & Casualty Underwriters, noted that the civil justice system, "in turn, is a mirror of the ethical values of society as a whole."

"It is not the insurance companies that decide what injuries are to be compensated and for how much. These are decisions that society makes—through the courts and the legislative process. Because insurance contracts are based on past experience and the predictability of risks, the companies often find themselves playing catch-up when the courts and legislatures create new interpretations as to what injuries should be compensated, by whom and for how much," he said.

Mr. Gerson made his remarks during a discussion entitled "Must Social Change Bring Ethical Crisis?" at the Society of CPCU's annual meeting earlier this month in Washington, D.C. The society's new president, Stephen J. Paris, has chosen an emphasis on ethics as the centerpiece of his tenure (*BI*, Oct. 8).

"It is an appropriate ethical question to ask how insurance companies can live up to the letter of their promises out of their ethical commitment to their community of policyholders when the courts and the legislatures are rewriting these promises, subverting them, even ignoring them," Mr. Gerson said.

However, he refused to hold the insurance industry blameless.

The insurance industry "has made errors in judgment," he said. One of the larger errors insurers have made is a failure to pay adequate attention to customer service, he explained.

In fact, poor customer service "is the single greatest factor contributing to our industry's poor image," said Mr. Gerson. "People would not be so prone to believe the nonsense they hear if we provided better service to them, if they were treated with the utmost degree of fairness, respect, honesty, personal attention and simple old-fashioned courtesy. . .in short, ethically."

"The simple and sad fact is that the public doesn't believe us," he said.

He urged members of the insurance industry in the audience to improve service and heighten their sensitivity to their customers and to do a better job of educating citizens about the workings of insurance. If those goals are achieved, "we will slowly build back the trust and respect that is essential if we are to see a return to sensible rather than vindictive and demagogic regulations," Mr. Gerson predicted.

Dealing with the public is an area where "the axiom, 'good ethics is good business,' is compelling," Mr. Gerson said.

Another panelist stressed the role of trust in insurance.

"Trust must begin at the top, in the ivory halls of corporate America, where contracts are designed and later become available in the marketplace," said Harold C. Yancey, the Utah commissioner of insurance.

"These contracts are marketed by agents and general agents. These same contracts, with all their legalese, must be represented fairly with full disclosure so that consumers can have trust and confidence that they are getting what is represented to them and that the company will be available, years in the future, to stand behind the promises made," said Mr. Yancey.

"When anyone along this line breaks this chain of trust, the whole system breaks down and ultimately fails. Those who get involved in this chain who may have ulterior motives, get-rich-quick ideas or who are outright dishonest, should not be in the business of insurance," the commissioner said.

Mr. Yancey said that despite the assumption of ethical behavior in the insurance contract, "there are all kinds of opportunities for insurance company management (and) for agents and brokers to act unethically and to have a major adverse influence on bottom line results." He offered several examples of such unethical behavior in the form of rhetorical questions.

"What about setting inadequate rates? What about failure to control company expenses with the attendant threat of insolvency? What about giving underwriting authority to incompetent and greedy managing general agents? What about failure to disclose important information regarding a contract of insurance?" Mr. Yancey asked without offering any answers.

Some speakers noted, however, that ethics may be less a matter of right vs. wrong than it is of competing rights.

Fred J. England Jr., president of Hastings-Tapley Insurance Agency Inc. in Cambridge, Mass., and a former president of the Alexandria, Va.-based Independent Insurance Agents of America, used a recent example from Eastern Europe to illustrate that point.

Czechoslovakian President Vaclav Havel abhors violence, said Mr. England. Yet, upon taking office after the fall of the Communist regime, Mr. Havel confronted a serious ethical question involving foreign trade.

Czechoslovakia depends heavily on arms sales to earn foreign currency. Under the previous regime, much of the arms trade was with terrorists. But to simply ban the export of weapons would have thrown tens of thousands of Czechoslovakians out of work, said Mr. England. So, in an attempt to balance his nation's need to generate foreign currency with a desire to act ethically, Mr. Havel announced that his country would henceforth sell arms only to democracies, said Mr. England.

Travelers' Mr. Gerson cited an example closer to home when asked about the ethics of an insurer's withdrawal from certain states or certain lines of business.

Pulling out of a state always involves "an agonizing decision." He said that Travelers has withdrawn at least partially from 10 states during the past year. But Mr. Gerson added that Travelers, like other insurers, has "multiple obligations."

If there is no profit or reasonable hope for a profit in a given state or in a given line of coverage, it is not ethical to force consumers and agents in other states to subsidize continued operations within the unprofitable state, said Mr. Gerson.

John D. Long, professor emeritus of business at Indiana University in Bloomington, and author of "Ethics, Morality and Insurance,"—a well-known text published in 1971 on ethical questions involved in insurance—opened the discussion with a brief history of the conflict between ethical absolutism and ethical relativism.

"Although ethics is a complex subject, its central question is simple: How ought human beings behave? A troublesome aspect of this question is whether or not the answer changes from one time to another, from one person or group to another, or from one circumstance to another. Was the answer the same in the Garden of Eden as it is in this room today?" Mr. Long said.

Norman A. Baglini, president and chief executive officer of the Malvern, Pa.-based American Institute for Property & Liability Underwriters and the Insurance Institute of America, moderated the session. ■

Market outlook

Continued from page 1

insurance industry executives. About 600 industry leaders and their spouses—1,197 total—took over the posh West Virginia resort again this year.

Although many registrants said attendance at this year's meeting seemed smaller, it actually was an increase of seven registrants from last year, according to organizers.

After early morning business breakfasts followed by speeches and panel discussions, daytime activities at the NACSA/NACSE meeting revolve around golfing on one of The Greenbrier's three spectacular courses or tennis matches on perfectly groomed clay courts. Evenings are filled with receptions, dinners and dancing for executives and their spouses—with men in black tie every evening except Sunday.

Mostly sunny, warm weather and dramatic autumn colors in the surrounding woods, where leaves had already changed to flaming reds and oranges, set the stage for a happier gathering than the cooler, more rainy conditions of recent years.

Yet, "the meeting was more serious in its tone than any other time I've been there," observed Michael K. White, deputy chairman of broker Alexander & Alexander Services Inc. in New York, a 10-year veteran of the meeting.

Most insurance company executives are "very concerned about what's happening," he said.

"The Greenbrier was a very reserved meeting this year," said Richard M. Page, chairman of broker Sedgwick James Ltd. in New York. "Everybody is under earnings pressure—agents and brokers, too. You could sense that. These are difficult times in the industry."

"There seems to be a great deal of uncertainty about the future course of the industry, particularly given economic and market conditions," he added.

In interviews during and following the meeting, executives agreed that price cutting continues and that property/casualty insurance prices need to be increased in 1991.

Hopes in the industry earlier this year that the marketplace had hit bottom were dashed over the summer when prices began slipping again, anywhere from 5% to 20%, many brokers report.

Lawrence L. Drake, a managing director of Marsh & McLennan Cos. Inc. in New York, dispelled rumors that M&M had reached the conclusion that the fall in pricing had bottomed out.

"It may have bottomed out on large account property/casualty business, but 75% of the cost of that business is based on losses," he observed.

And, pricing in the marine/energy market has turned up after large losses, Mr. Drake said.

However, the cost of "excess liability for complex accounts is down 15% to 20%," Mr. Drake reported, calling it the "most competitive" segment of the insurance market.

Mr. White of A&A noted that while "we saw a leveling of rates" in June and July, by August and September the market was softening again "all over the ballpark."

Pricing was down 15% to 20%, Mr. White said, excluding the troubled workers compensation line and some specialty lines.

Mr. Page said that after prices seemed to be stabilizing in the first quarter, they were reduced again in the second and third quarters by 5% to 10%.

"I do hear other people saying it isn't happening in workers compensation, environmental lines and directors and officers liability insurance and other, so-called difficult classes," according to Mr. Page.

Insurance company executives confirmed that the market continues to be soft.

The market now is "not in a free fall like a year ago, but it is not firming up for any particular lines of business," said Robert J. Vairo, president and chief executive officer of Crum & Forster Inc. in Basking Ridge, N.J.

Gerald L. Maatman, president of the Kemper Group's national insurance companies in Long Grove, Ill., admits that pricing has not yet hit bottom in broad property/casualty classes of business.

But, he says, "the amount of price cutting in our classes is slowly easing." Price decreases are now 5% to 10%, compared with 10% to 30% a year ago, he said.

"Our objective this year was 5% to 10% price increases, exclusive of workers compensation," he noted, "and we've been successful in 20% of the cases."

Kemper, with about $3 billion in premiums this year, does not write excess casualty or high-hazard business, he noted.

Several brokers remarked that they didn't hear insurance company executives talking about their price monitoring systems this year or "floor prices" for business, suggesting insurers knew they were losing the battle.

However, Crum & Forster's Mr. Vairo observed that insurance company executives were not talking about their "floor prices" because "company executives are loath to talk about pricing in any context," fearful of allegations of antitrust violations.

Speaking for Crum & Forster, Mr. Vairo said, "We still have a walkaway price and if we can't get it, we won't write the business."

As a result, the insurer is losing some business, he said, with premiums down 3% to 4%, excluding the sale of Crum & Forster's personal lines business.

Insurance company leaders for the most part seem more optimistic than the brokers that prices will be increased in 1991.

"We're forecasting a price turn in the first quarter to the second quarter in 1991," said William Bolinder, president and chief executive officer of Zurich-American Insurance Group of Schaumburg, Ill.

Mr. Vairo of Crum & Forster maintains that "there will be an adjustment next year" in pricing. "But," he added, the change will be "nothing like we need."

Insurers' costs for legal and medical services "are going up twice" the rate of the Consumer Price Index, claim costs are increasing, insurers owe more in taxes and reinsurance costs are going up, Mr. Vairo observed. Still, insurance premiums overall are going up only 4% this year, he said.

"Legal expenses are out of sight," Mr. Vairo emphasized. "The cost of defending a policyholder today is significantly higher than five years ago."

Coupled with deteriorating underwriting results, "in the second half there will be no opportunity to take any capital gains," Mr. Vairo said, referring to the decreasing value of insurers' investments.

For the total property/casualty industry, 2% of its 8.8% return on equity at mid-year was generated by capital gains, reports the Insurance Information Institute.

"It defies explanation that anyone says there may not be an adjustment in '91," Mr. Vairo said.

N. David Thompson, president of North American Reinsurance Co. in New York, agreed that deteriorating financial markets could increase insurers' pricing.

"This could be the year that the industry does not have capital gains that the return on equity has depended upon," he said.

Lower capital gains and worsening underwriting results created by the "cumulative weight of poor underwriting in its fourth year will

Continued on next page

Market outlook

Continued from previous page

increase the pressure for change," Mr. Thompson said, putting the odds at 50-50 that the market will tighten during 1991.

"The forces for raising premiums are balanced against the forces against raising premiums," he said.

"But there will not be a sudden shooting upward because of the substantial capital in the business," according to Mr. Thompson.

"The industry also will be afraid of rapid price increases, as well it should be," he said, referring to consumer backlash to the hard market of the mid-1980s.

Like others, Mr. Thompson stressed that any increased pricing in 1991 will not be seen in companies' profits for another year.

Insurance brokers are, for the most part, much less optimistic about a change in pricing next year.

M&M's Mr. Drake predicted, "It will be as soft next year as this year."

Property insurance pricing is not expected to change for the next six to 12 months, he said, forecasting "some reductions, some renewals as is and a few going up."

Mr. Drake also noted that Europeans increasingly are interested in underwriting U.S. property insurance, which could lead to more capacity for that business.

M&M has seen one U.S. account written by a European insurance company at a "substantial cost reduction," Mr. Drake said.

"It looks an awful lot like 1983," said Mr. Drake, referring to the year before the last soft market turned in late 1984. "The industry is faced with a really tough year and some will get close to negative cash flow. The adjustment is going to be difficult."

Sedgwick James is not budgeting for an increase in pricing next year, Mr. Page said.

"We're budgeting as if this is the market," according to Mr. Page. "If it takes an upturn, we'll be surprised."

Mr. Page maintains that the "universal consensus is that any upturn is a year to two years away."

Among the most pessimistic is Arthur J. Gallagher & Co.'s Mr. Gallagher. "All our budgeting is being done on the assumption that it will be a soft market for the next three years," he commented.

Some brokers expect to see a change in the market in 1991, but they aren't budgeting for it.

A&A is predicting it may be the third quarter of 1991 before inexpensive pricing patterns change.

"It's beginning to look a little bit like last time," Mr. White said, referring to the soft market of the early 1980s.

"Until their cash flow is negative," insurers won't raise prices, Mr. White said.

"Some companies out there are still in pretty good shape," he noted.

In order for insurance industry pricing to increase, "a substantial number of companies have to get into a pretty severe cash-flow situation and return on equity has to get to the low single digits," according to Mr. White.

While the industry may be close to this picture at year-end, he said, "it takes a quarter or two after the results are in to develop a plan and put it in place and communicate it to the field."

As a result, A&A is not budgeting for a pricing change in 1991.

Some brokers, like Robert S. Seltzer, president of Cohen-Seltzer Inc. in Philadelphia, refuse to speculate any more on a market change.

One-and-a-half years ago, Mr. Seltzer said, he was expecting the market to change in the second quarter of 1990.

"Here we are in the third quarter, and everything has happened" Mr. Seltzer said, referring to Hurricane Hugo, the San Francisco earthquake and other large losses. Yet, the market hasn't changed.

"Where is the money coming from" for the insurance industry to continue to underwrite at low rates? he asked, answering: "There always seems to be another guy with a checkbook."

Mr. Bell of Frank B. Hall expressed concern that the longer the soft market continues, "the worse it will be, and that's the scary part. No one wants an over-reaction. And no one wants any more insolvencies."

But Mr. Bell also is not optimistic the market will change next year.

Some insurance industry executives agreed with the brokers.

"The market has not hardened at all," said Michael A. Goldberg, vp at Berkshire Hathaway Inc. in Omaha, Neb. "Everybody is unhappy about it and I don't get the impression that there is a great deal of optimism that it will change shortly."

Mr. Goldberg said he has heard more people "beginning to agree more and more" with the prediction of Berkshire Hathaway Chairman Warren Buffett that the market won't change until 1993.

Mr. Goldberg stressed that the market is simply reflecting fundamentals: There is too much capacity chasing premium dollars. "It's macro-economics of the property/casualty industry at work," he said.

At mid-year, the property/casualty insurance industry reported $136.8 billion in capital and surplus, a 2.1% increase from year-end 1989, according to A.M. Best Co. With net written premiums of $107.6 billion at midyear, the premium-to-surplus ratio was 1.56-to-1, which Best's concludes is "abundant" capacity.

Some executives, however, question the accuracy of reported surplus figures, challenging whether insurers have adequately reserved for uncollectible reinsurance, losses and loss adjustment expenses and whether bonds are appropriately valued.

"The problem is the dichotomy between the apparent surplus that is out there and the real surplus," commented James F. Dowd, president of Skandia America Group in New York during a roundtable discussion at the meeting.

The apparent surplus "probably should be rather seriously depleted by loss reserve deficiencies and maybe even more tellingly by loss reserves adjustment expenses," he said.

"The real deterioration is more than the apparent one," added Caleb Fowler, president of CIGNA Corp.'s Property/Casualty Cos. in Philadelphia.

"Look at the fundamentals of the business. Look at the historical loss trends and compare those with reported results and there is an increasing disparity between the two, and the gap has increased over the past two or three years," he said.

"That would lead you to question whether there has been a real change in loss trends," he said, adding it would be difficult "to determine how that has happened."

Robert M. DeMichele, president of The Reinsurance Corp. of New York and chairman of the Reinsurance Assn. of America, agrees that most executives he talked to "don't see a turn until late '91, early '92."

"The rating environment is probably as bad as—if not worse than—1984," he said, referring to the last year of the mid-1980s soft market.

"But balance sheets look better now," he said, because insurers have enjoyed capital gains.

He disagrees with North American Re's Mr. Thompson on the effect of declining capital markets: Only about 15% of industry assets are invested in common stock and bonds are only up from the 8% range to the 9% range, he said.

Furthermore, underwriting results in the fourth quarter of '90 could be better than '89 if no catastrophes strike, he pointed out.

Kemper's Mr. Maatman expects 1991 and 1992 "will be very tough years."

"It's a tough world out there and it won't get much easier in the next 12 months unless the Mideast crisis or the economic situation causes the cycle to turn around," he said.

Reinsurers are no more optimistic about their own business than they were at the Rendez-Vous de Septembre, their annual gathering in Monte Carlo (*BI*, Sept. 24).

Mr. DeMichele noted that "losses for reinsurers are going up." In addition, reinsurers' catastrophe reinsurance is going to cost more when it is renewed in London, he said, and those increased costs "probably won't be recouped dollar for dollar from our clients."

"The reinsurance market isn't going to get any better," agreed Jerome Karter, president of SCOR Reinsurance Co. in New York. ■

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Issue of October 22

Business Insurance

Industry execs focus on reform

Solvency, work comp top panelists' agenda

By KATHRYN J. McINTYRE

WHITE SULPHUR SPRINGS, W.Va.—Improving solvency regulation and building coalitions to reform costly workers compensation systems should be high on the insurance industry's agenda, say several of its leaders.

Six prominent executives returned again and again to these issues during a roundtable discussion at the annual meetings of the National Assn. of Casualty & Surety Agents and the National Assn. of Casualty & Surety Executives earlier this month.

Banks entering the insurance business and problems with personal auto coverage also were addressed.

A discussion of improving solvency regulation immediately turned to the lack of uniform regulation among states and a possible federal government role.

NACSA advocates regulatory standards that can apply across the country, "even in states that don't have proper regulation now," said Albert R. Counselman, president and chief executive officer of Riggs, Counselman, Michaels & Downes Inc., a Baltimore agency.

"We do need self-regulation, a set of standards that can be used throughout the country," agreed William E. Buckley, chairman and chief executive officer of the Royal Insurance Group in Charlotte, N.C.

"There is a problem with regard to the resolve to" shut down financially weak insurance companies, observed Caleb Fowler, president of Philadelphia-based CIGNA Corp.'s property/casualty companies.

"The process is not consistent to keep a company out of the marketplace that is believed to be heading toward insolvency," he said.

Savings and loan failures around the country have been "provocative" in the discussion of insurance regulation, Mr. Fowler added.

"The S&L situation will have the effect of increasing the degree of federal scrutiny" of the insurance industry "and the emergence of some further type of regulatory control," Mr. Fowler predicted.

But, he noted, "this administration is not likely to step in and assume additional financial responsibilities for the performance of the insurance industry.

Rather, they will insist on greater safeguards," like a model bill for solvency or perhaps some recognition of a dual system of state and federal regulation, he said.

James F. Dowd, president of Skandia America Group in New York, observed: "The federal government is probably not going to do it any better." But he said he suspects the federal government will assume a regulatory role in the next five years "probably with respect to solvency—federally mandated solvency requirements or an FDIC-like bailout mechanism to do away with the squabbles between state guaranty funds."

However, Mr. Dowd warned: "Even if there were an entire federal regulatory framework developed, you'd have a difficult time disassembling the existing state framework. Therefore, we'd end up with the worst of both worlds: a dual system of regulation."

Mr. Buckley agreed.

"One of the greatest concerns that we have to have over state vs. federal regulation is that if you start separating responsibility between solvency and market conduct, it will be the most untenable situation we could possibly face. If the federal government were responsible for solvency and the states for market conduct, then they would work in conflict with one another," he said.

State regulators would try to drive prices down to keep consumers happy while the federal government would be concerned about adequate pricing, he explained.

Nonetheless, Mr. Buckley said: "We do need to be part of the bargaining process. We have to stop circling the wagons and become part of a progressive approach to regulation of this business."

Mr. Fowler agreed: "There will be further pressure placed upon our business to regulate ourselves better, or someone else will do it for us. If we sort of muddle along as in the past, others will do it, and the controls we are likely to face will not be very palatable to us."

Mr. Counselman noted that consumers are growing more concerned about the solvency of their insurers.

"From a customer perspective, I see some minuscule change going on that is significant. Five years ago, the large commercial insured probably didn't think very much about the solvency issue. I see, in 1990, some commercial insureds—a minority—now concerned about the solvency issue and actually verbalizing that concern and asking for information prior to accepting a given proposal."

Mr. Counselman speculated that several recent large insurer failures and insolvency concerns at other financial institutions had heightened their awareness.

But Mr. Fowler disagreed: "I wish I could say I've seen a noticeable change in buying behavior because of concerns about solvency. I haven't seen that. I'd love for that to occur.

"I still know of many situations in which our producers have advised clients about which company is the most secure to protect themselves from future E&O situations and the client has still bought the cheaper price."

Mr. Fowler suggested that "as long as we have guaranty funds that don't penalize, that's the kind of buying behavior we will get."

As a result, he advocated that guaranty funds not cover large commercial insurance buyers.

"Those buyers have the sophistication and knowledge to buy knowledgeably. I see no reason why they should not take into consideration the financial security of the company they are dealing with," Mr. Fowler said.

Personal lines and smaller commercial insurance buyers need some kind of safety net, Mr. Fowler agreed.

'The S&L situation will have the effect of increasing the degree of federal scrutiny. . .and the emergence of some further type of regulatory control.'
— Caleb Fowler
CIGNA Corp.

Harry A. Koch, president and treasurer of The Harry A. Koch Co. in Omaha, Neb., complained that agents and brokers lack timely information on insurer solvency.

"We're at a tremendous disadvantage," he said, asking, "How does an agent advise on the solvency of your company?"

Mr. Dowd agreed that "the timeliness of the information is not there." However, he said, more companies are rating the financial strength of insurers and that competition among them will result in more timely information.

Already, A.M. Best Co. is "issuing interim reports that give you a better view," Mr. Dowd noted.

Rating agencies aside, Mr. Dowd suggested that "the agency force itself is the best single antenna to financial health."

The only problem is there is no "mechanism" where an agent with a concern can go to seek further investigation of the insurer to confirm suspicions or seek regulatory action," Mr. Dowd observed.

"If you've seen a particular company doing things that you know are out of line in terms of pricing, you should be able to bring it to the attention of some sort of mechanism. Unfortunately, today that mechanism is missing," he said.

The National Assn. of Insurance Commissioners could create such a group, Mr. Dowd said.

Mr. Koch agreed that "street talk is probably our best barometer of measuring the condition of a company, but that's not too good to be relying on all the time."

Of equal concern to the panelists is the rising cost of the workers comp system.

At midyear, workers comp coverage had the highest loss ratio of any property/casualty line: 118%. And residual market costs in some states are making insurers question whether to continue underwriting the coverage.

"It is a political situation like personal lines auto: The rate-making mechanism has not stayed abreast of it," Mr. Buckley said.

Mr. Buckley blamed increasing litigation of workers comp claims for driving up costs in system that was based on no-fault.

In addition, Mr. Buckley said, health care cost controls applied to group health and federal health care programs cannot be applied to workers comp classes "because of the way it's administered."

Medical advances, he noted, are allowing people with disabilities to live longer, normal lives, which results in increasing costs.

Mr. Fowler suggested that "we can improve the workers compensation situation."

First, he said: "We should address the structural deterioration. The degree of attorney representation has increased dramatically in the last two to three years. There has to be preservation of the existing system or reform to be sure we consider this a no-fault system."

Mr. Fowler also said he is "a little more optimistic about the use of cost containment devices that we have seen in employee benefits" in workers comp.

"We know that on the employee benefit side we have been able to slow down the rate of increase of medical expense," he said.

Mr. Fowler noted that CIGNA offers what it calls a 24-hour program, which is coordinated marketing of workers comp and employee benefits.

"A number of our larger clients have found that to be very helpful in keeping down comp costs. We are able to avoid duplicate payments and to bring about a degree of coordination that has not previously existed."

CIGNA also is field testing its managed health care facilities for treating workers comp patients.

"We will try to feed workers compensation cases to (CIGNA health maintenance organizations and preferred provider organizations) because we know we can manage them down to lower levels of expense."

Using managed care for workers comp patients "does require different behavior by employers and employees," Mr. Fowler said.

Lastly, he said, "workers comp needs to have a way to more clearly distinguish between the good and bad risk.

"People who are in pools or some other kind of involuntary mechanism because they are viewed as poor risks should bear the cost of that. In far too many states, there are really no economic incentives for the employer to try to be a more safety-conscious employer. That has contributed to the deterioration of the line as well."

Mr. Buckley responded that smaller employers find it more difficult to try to integrate workers comp and group health benefits.

Instead, he said: "We have to address workers compensation as part of overall health care provision in this country. It's going to take a coalition of medical providers, labor, business and insurers to address the issue in its entirety."

Mr. Counselman observed: "We can't solve the problems by ourselves. We have to involve employee groups, union groups as well as employers."

Mr. Fowler agreed: "Our role should be to foster an understanding of the competitive impact of workers compensation and to serve as a nurturing force in that. We ought to make sure that business comes to that realization and takes action that could solve the problem."

Mr. Buckley suggested that "the ability to drive a coalition together will be easier in workers compensation than in auto. It is not an insurance industry problem solely. It is a problem of manufacturing, health care providers and insurance and service industries. Those groups are realizing that the cost of medical care provision has to be addressed in its entirety.

"Unfortunately, we have not done so well in trying to bring those groups together with respect to the automobile reparation system, although some progress is being made. How to bring the bar into it is another question."

Mr. Buckley stressed that coalitions have to be formed because "if insurers are seen to be the leadership, we will be looked upon as solving the problems in our own self-interest."

Mr. Fowler suggested that "the kind of coalitions we spoke of can be formed very readily and increasingly so—when we take the time to educate and to deal with our customers to make them more familiar with our business."

Mr. Counselman noted that although NACSA's members are principally large commercial property/casualty insurance and employee benefit brokers, "more and more we hear from our membership that the chief executive or financial officer that is buying commercial insurance wants to know if we are going to solve their personal auto problems."

NACSA is endorsing Project New Start, Mr. Counselman reported, referring to the consumer group that advocates a system of voluntary no-fault auto insurance (*BI*, Oct. 8).

"Maybe because the initiative is from outside the industry, it will have a better chance," he said.

Commenting on efforts of banks to enter the insurance business, Mr. Fowler observed that "given the fragility of our banking system right now, I don't think that federal regulators are going to rush with enthusiasm to extend non-banking authorities."

Nonetheless, he predicted that "banks probably will enter and be part of our business" because of perceptions that allowing banks to sell insurance would introduce more competition to the market, which in turn would drive down insurance costs.

William P. Wallace, deputy chief executive officer of Wallace, Welch & Willingham Inc., a St. Petersburg, Fla. agency, commented: "The public has the image that we have no competition. We have to get that through to the press and the public. It doesn't take any genius to see that there is competition."

"Under that definition, we have 27 state AGs that are not geniuses then," said Mr. Fowler, referring to the attorneys general who are pressing an antitrust suit against insurers. His quip drew one of the few outbreaks of audience laughter during the otherwise somber morning discussion.

"The amount of naivete present is staggering," Mr. Fowler continued. "There are large, influential groups of consumers—intelligent, well-educated people—who don't understand our business."

Mr. Fowler said that "commercial insurance buyers are very quick to grasp the underlying economics that drive this business."

Mr. Dowd said that "the industry has a difficult time having a very focused leadership on some of these major issues that affect all of us. It is explainable because we are such a large and diverse industry."

However, he also suggested that the antitrust cases, which Mr. Fowler had referred to obliquely, have had a "negative, chilling effect on what would ordinarily be the industry's leadership's desirability to stand up and take a risk and try to be more coalescent." ■

'Even if there were an entire federal regulatory framework developed, you'd have a difficult time disassembling the existing state framework.'
— James F. Dowd
Skandia America Group

'We do need self-regulation, a set of standards that can be used throughout the country.'
— William E. Buckley
Royal Insurance Group

Broker challenges industry to improve recruiting effort

WHITE SULPHUR SPRINGS, W.Va.—Insurance executives must "out-recruit our competition" to attract qualified people to the business, advises Timothy N. Thoelecke, president of The Great Lakes Agency in Chicago.

Delivering his last speech as president of the National Assn. of Casualty & Surety Agents at the group's annual meeting earlier this month, Mr. Thoelecke asked: "Where are all those qualified individuals we need to fill the empty slots to help the insurance business be recognized by the public as a respected profession?"

Mr. Thoelecke

The industry, Mr. Thoelecke suggested, is caught in a Catch-22. Its poor public image deters people from entering the business, "and without good men and women how can we expect to put forth a good image?" he asked.

"Perhaps some of our recruiting problems come from within the industry itself rather than from the public's perception of us. Maybe it's a business of oxymorons," he said, questioning such phrases as "Honest broker. Loyal insured. Intelligent underwriter. Or, loyal underwriter. Honest insured. Intelligent broker."

Mr. Thoelecke maintained that there "isn't a problem with salary or lack of challenge" in the insurance industry.

But, he noted, only 72 universities offer degrees in insurance, compared with 433 offering accounting degrees and 333 offering finance degrees.

"Could this be a reason more college business students are not looking at insurance as a career? Or is 'image' the key?" he asked.

To attract hard workers, decision makers and "innovative people with integrity and common sense," insurance executives must "get out there and preach the gospel," Mr. Thoelecke urged.

"Let's tell them who we are and what we do, what we stand for and what we won't stand for," he urged. "Let's not apologize for our existence. Let's tell them the good things about insurance. Why it is indispensable—how it doesn't pollute or cause cancer—how it rebuilds burned down factories, blown-down cities and broken-down bodies."

To out-recruit the competition, Mr. Thoelecke said, insurers have to "convince the most qualified people to want to be one of us by persuading them to consider insurance as a financial career."

To make the business grow, "we need good underwriters. We need good marketers. We need good executives and good producers," he said. "Let's preach the gospel—to our friends, to our relatives, to our enemies.

"And, while we're at it, let's practice what we preach," he concluded.

William T. Huntley III, senior vp of Pritchard & Jerden Inc. of Atlanta, succeeds Mr. Thoelecke as president of NACSA.

—*By Kathryn J. McIntyre*

Industry executives face host of pressing concerns

By KATHRYN J. McINTYRE

WHITE SULPHUR SPRINGS, W.Va.—Property/casualty insurance industry executives worry as much—and sometimes more—about legislative, regulatory and general economic issues confronting their business as they do about when the industry's pricing cycle will change.

The industry is confronted with legislative issues involving reform of workers compensation, private passenger automobile insurance and "who is going to regulate the business of insurance," says William Bolinder, president and chief executive officer of Zurich-American Insurance Group in Schaumburg, Ill.

William E. Thiele, president of Continental Corp. in New York, says that "the competition doesn't bother me as much as the regulatory and political pressure. We are under attack."

Furthermore, the effects of a recession on the insurance industry concern many executives, as does the falling prices of their companies' stocks.

The increasing cost of workers compensation and regulation for solvency were major topics of discussion during a roundtable of industry executives held during the annual meetings of the National Assn. of Casualty & Surety Agents and the National Assn. of Casualty & Surety Executives (see story, page 81).

And NACSA President Wilson H. Taylor, chairman and chief executive officer of CIGNA Corp., devoted his president's remarks to advocating improved regulation of the insurance industry for solvency, perhaps through a self-regulatory body authorized by the federal government (see story, page 84).

These issues were discussed not only in public forums but also in private conversations.

Mr. Thiele characterizes state regulations that require an insurer to write, for example, personal lines automobile insurance in the state in order to write other lines of business, as "capital imprisonment."

As New Jersey tries to solve its personal auto insurance problems, Continental is being forced to pick up 40,000 personal auto insurance policyholders in the state while the company writes only 120,000 such policies nationwide, he pointed out.

Mr. Thiele is concerned that state laws locking up insurers' capital into certain lines of business will spread around the country.

Insurance companies must have the "freedom to move capital" in order to manage their business, he said.

Many insurance industry executives, meanwhile, are concluding that a federal role in the regulation of insurers for solvency is required.

"Most of us are moderate Republicans and we can't bring ourselves to think that Uncle Sam can do it best," commented Gerald L. Maatman, president of the Long Grove, Ill.-based Kemper Group's national insurance companies.

But, confronted with the fallout from major insurance company insolvencies, insurance company executives have "come to the basic conclusion that we ought to look at some other way to regulate the business" than the current state regulation of insurance, he said.

"So self-regulation under federal authorization is the compromise that appeals to executives," Mr. Maatman explained.

The response of attendees to Mr. Taylor's remarks confirmed Mr. Maatman's assessment.

Reflecting on Mr. Taylor's speech, Jerome Karter, president of SCOR Reinsurance Co. in New York, said, "I commend him on his remarks.

"We are not an industry in trouble, but there are perceptions of trouble. We have to get the perception issues behind us. We need to make decisions we can live with on regulation that we might have been avoiding for years," he said.

Mr. Bolinder of Zurich-American commented that "if most of us had our druthers, we would rather improve state regulation. If you bring in the federal government, you end up with both trying to regulate the business of insurance," he said, predicting that insurers would be confronted with more costly demands for data.

However, insurance leaders increasingly are "saying we need to explore what the federal government can bring to it, and self-regulation is an interesting concept," he said.

NACSA/NACSE CONFERENCE
The Greenbrier

Continental's Mr. Thiele expressed concern. "While federal standards are tempting, if that is lifted from the states, they would run amok with regulations like mandatory rollbacks in rates and capital imprisonment," he says.

NACSA endorsed Mr. Taylor's remarks in a policy statement issued at the meeting.

"NACSA acknowledges that a federally chartered entity such as a self-regulatory organization could enhance the solvency regulation of companies by state regulators," the statement said.

"State regulation should continue to handle the bulk of regulation," the NACSA statement added.

With newspapers and television news broadcasts during the week filled with reports on the federal budget crisis, the state of the general economy also weighed on executives' minds.

"The general consensus is we are in a recession now and eventually it will be labeled as such," said N. David Thompson, president of North American Reinsurance Co. in New York.

"Agents are saying they've already seen a recession," reported Mr. Bolinder of Zurich-American.

For the most part, insurance industry executives expect a recession to hurt their business.

"The old bromide is that property/casualty insurers do better in a recession than in an expansion, but I don't think the comparisons to the old days work anymore. I don't think we'll do better in a recession than other industries," Mr. Bolinder said.

"Audit returns will be the wave for '91," said J. Patrick Gallagher, president of Arthur J. Gallagher & Co. in Rolling Meadows, Ill.

"That means the premium base that insurers fought hard to maintain could erode," he said.

Mr. Maatman of Kemper agreed. "Lower payrolls mean lower premiums for workers comp and the moral hazard will be up," he said.

Robert J. Vairo, president and chief executive officer of Crum & Forster Inc. in Basking Ridge, N.J., commented that not only will workers compensation premiums be reduced in a recession but also that "malingering in terms of claimants" will increase. Injured workers who see security in receiving workers compensation benefits compared with returning to a job they might lose tend to stay on disability longer in recessions.

While acknowledging that return of premiums occurs in a recession, Richard M. Page, chairman of Sedgwick James Ltd. in New York, had a more positive outlook: "A recession in some way helps the insurance industry because companies can't do without insurance. Companies without a large amount of capital can't afford not to insure and can't afford to self-insure."

The dramatic drop in value of insurance industry stocks also concerned executives—corporately and personally.

"People were talking about stock prices on the golf course," reported Mr. Gallagher.

Some agreed that the fall in stock prices contributed to a more serious atmosphere at the meeting this year.

"It's hard to be up when your stock price is going down," quipped Mr. Page.

"Insurance company stocks have been battered. Everybody is poorer," Mr. Thiele observed.

"Investors are suspicious of our balance sheets and the ability to extract dividends. That weighs heavily on us," he explained.

Among other popular topics of conversation during the meeting was the increasing amount of European investment in the U.S. insurance business.

Since the 1989 acquisition of Maryland Casualty Co. by Zurich Insurance Co. of Switzerland, two more large acquisitions of U.S. insurers by European interests have been announced: the sale of Fireman's Fund Insurance Co. to Allianz A.G. Holding of Germany (*BI*, Aug. 6) and the sale of The Home Insurance Co. to investors including a major Swedish insurer (*BI*, Oct. 8). Both sales are pending.

"There is a unanimity of feeling that Europeans will play a more active role here," observed Donald R. Bell, chairman and chief executive officer of Frank B. Hall & Co. Inc. in New York.

Not only is the United States part of many companies' strategic plans, but U.S. companies also are bargains right now with depressed stock prices and the weak U.S. dollar, he noted.

The insurance industry "may go through a prolonged consolidation as the airlines" did, said Mr. Thiele, referring to companies being forced to survive thin profit margins with "a widening gap between the winners and losers."

Among agents and brokers, however, mergers and acquisitions were not a popular topic.

"Most of us are out of the acquisition business," said Mr. Page of Sedgwick James. "We've bought all we want to buy."

Few agents want to sell, either, he noted, because "in this market they can't get the true value of their agency."

One item not discussed—to the dismay of Mr. Karter of SCOR Re—was the development of the alternative risk financing market.

"The insurance industry should endorse the retention of risk" by policyholders, he suggested. "The more they retain, the more balanced the relationship can be between buyer and carrier."

As usual, a few executives questioned the value of spending as many as six days at The Greenbrier for the NACSA/NACSE meeting, contending they can easily meet their counterparts in New York.

However, more executives appear to agree with Lawrence L. Drake, a managing director of Marsh & McLennan Cos. Inc. in New York, who said, "The setting provides a better opportunity to discuss items of mutual interest with insurers without time pressures."

And, Mr. Gallagher added: "I keep learning what an intensely people business this is. It's who you know. And who you know helps when you are having problems during the year to work them out for everyone's benefit." ■

Industry must satisfy its clients: Panel

By KATHRYN J. McINTYRE

WHITE SULPHUR SPRINGS, W.Va.—Other industries and businesses "are dancing circles around you when it comes to quality customer service and customer satisfaction," a consultant warns insurance executives.

"A customer is satisfied when his perceptions meet or exceed his expectations," suggested David B. Mullen, president of CCC Information Services Inc. in Chicago.

"The public's expectations with respect to insurance are not being satisfied," he observed.

Mr. Mullen participated in a panel discussion on "Building Market Share through Service Quality" at the joint annual meetings of the National Assn. of Casualty & Surety Agents and the National Assn. of Casualty & Surety Executives earlier this month.

"The single biggest problem this industry has is communication, both talking and listening," said Mr. Mullen, whose company provides vehicle information and claims management services to insurers and customer satisfaction surveying for service industries.

"There is an unequivocal need to establish a greater dialogue with your customer," he said.

Mr. Mullen suggested that the nature of insurance "runs counter to good customer service." Only a portion of policyholders have a claim and then the opportunity to interact with the insurer, he said.

His company's research shows that people with claims are more satisfied with their insurance than people without claims, he noted.

Panelist Robert S. Seltzer, president of broker Cohen-Seltzer Inc. in Philadelphia, noted that "the insurance industry deals in promises. We sell promises, and we are called on from time to time to deliver."

Guidelines on "quality assurance" help ensure that his agency delivers on its promises.

At the beginning of the year, customers are given a four-page checklist of the services the agency will deliver. The checklist also is used by the servicing account executive throughout the year and as an evaluation form at the end of the year.

A custom service checklist covers those clients that require more than standard service, Mr. Seltzer noted.

And, Cohen-Seltzer occasionally surveys its clients using a one-page self-mailing form it developed.

"The key is to respond to the criticisms and thank the client for sending it in," Mr. Seltzer said "You do yourself more harm than good" if suggestions are not answered.

Panelist Richard E. Marrs, senior vp for property/casualty claims at Travelers Corp. in Hartford, Conn.,

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described Travelers' five-step process for achieving customer satisfaction:

- Employees must hear top management say that customer satisfaction is a high priority.

Travelers Chairman Edward Budd delivered that message to corporate officers in person and to all other employees through an audiovisual presentation.

- Top management must back up spoken commitment to customer services with clear actions.

A Travelers executive vp in charge of customer service required each business unit to spell out service that would be improved. For example, the claims department developed new performance standards and increased its staff by 40% to achieve its goals at a cost of $100 million annually.

- Find out what causes customers to be satisfied.

Travelers representatives meet with focus groups of independent agents and personal and commercial lines customers. In addition, Travelers has roundtable discussions with agents from advisory councils, conducts written surveys of a broader selection of agents and meets "face to face with representatives of large accounts that purchase customized claim service," Mr. Marrs said.

And, "we closely scrutinize complaints about our service and use the information to find out what people expect of us," he said.

- Employees must clearly understand what makes customers satisfied and must be given the tools to make it happen.

Travelers shares the results of its research with employees, and "we work with them to learn how to do it better. From the entry level to management, we have formal training in customer satisfaction," Mr. Marrs said.

Travelers also has established a corporate quality council of high-level representatives of each business unit.

- Success in achieving customer satisfaction must be measured and rewarded.

For example, a customized plan for the largest customers identifies specific aspects of claims service that need improvement, spells out the action to be taken and provides for annual scores on achievement.

In addition, Travelers uses the services of outside surveying organizations to measure its performance against competitors.

And, Travelers ties compensation, including bonuses, in part to customer satisfaction and makes formal service awards to employees, Mr. Marrs said. These awards include cash and a desk or wall plaque.

"It would be nice to be able to tell you that we have achieved the level of perfect customer satisfaction we are seeking. Clearly, we have not. But it is equally clear we have made excellent progress," Mr. Marrs said.

Peggy H. Haney, vp-consumer affairs at American Express Co. in New York, described how the company ensures quality.

American Express uses:

- A comprehensive quality tracking system.
- Customer satisfaction market research.
- On-site reviews with management regarding every phase of the business environment and marketing strategy, "using a consultative approach, not inspection."
- Broad-based employee education and involvement.
- Consistent communications about quality.
- Strong commitment by senior management to continuous quality improvement through "managing for quality."

In addition, American Express recently has "reaffirmed three major beliefs about quality," Ms. Haney said. "First, quality is the competitive edge. It is the way we can differentiate our product in a highly competitive global marketplace.

"Two, quality in the service industry, while similar to manufacturing, has special challenges. Our ability to be a successful and customer-driven service business hinges on our ability to find, motivate, reward and keep people who are the best.

"Third, managing for quality improvement requires aligning all the managerial systems of the company to focus on the customer."

In response to a question on how cost reductions to cover Travelers adding $650 million to real estate and mortgage loan reserves will affect claims handling, Mr. Marrs said,

Mr. Mullen

Mr. Seltzer

Mr. Marrs

Ms. Haney

"Travelers will not make any changes that will result in diminution of those services."

Asked whether consultants can help an agency create quality control, Mr. Seltzer answered that the best way to develop a quality control program is to "take off your agency hat and put on a client hat. Say to yourself, 'If I were on the other side of the table, what would I want the agency to do for me?' "

Ms. Haney noted that American Express uses "lots of consultants," but she has learned that the most effective way to improve service quality is to look at the way the company is managed.

"That is the hardest thing to change—how you are day to day."

Mr. Mullen recommended that companies interested in improving service create a "key-account program" because "20% of your customers account for 80% of your income." The program should set standards for how frequently customers should be contacted.

"You want to be talking to them at least quarterly," and should have an agenda for the discussion, like Mr. Seltzer's checklist, he said.

Mr. Mullen also suggested that agencies go "back to basics," such as measuring the quality of their telephone system.

Noting that his company receives thousands of phone calls a day, CCC asked the telephone company how many busy signals CCC was giving customers. The answer: About 150 a month.

CCC increased its phone lines to 66 from 44 and reduced the number of busy signals to four out of 60,000 calls in a month.

In addition, every telephone call is answered in six seconds or less. And, to determine whether callers are reaching the person they want, CCC counts how many calls are returned to the switchboard, he said.

Asked for advice on how to deal with distressed customers, Ms. Haney suggested the fundamentals are to exhibit "competence, accuracy and promptness."

In addition, she said, the distressed customer should be made to feel that the company cares, understands and has a "willingness to be there and listen."

Finally, someone dealing with a distressed customer always should ask: "What is it that you want from me?" Ms. Haney said.

"It may not be what you think they want—like a lot more money. It may be they want an apology, understanding, or half of what you were willing to give them," she said.

Preceding the panel discussion, Marriott Corp. Vp Roger J. Dow told the group that to obtain customer satisfaction, "You can't break the trust of your customer."

He suggested that insurance executives could take a clue from Marriott Chairman J.W. Marriott Jr. He regularly meets with customers to ask them "what Marriott doesn't do" that they would like. ■

Taylor calls for federal solvency panel

By KATHRYN J. McINTYRE

WHITE SULPHUR SPRINGS, W.Va.—Financial standards for insurance companies developed by a federally authorized self-regulatory board and implemented by existing state agencies could improve the regulation of the insurance industry, suggests Wilson Taylor, chairman and chief executive officer of CIGNA Corp.

Supporting such an approach, rather than defending the McCarran-Ferguson Act, presents the insurance industry with "opportunities to address important issues," Mr. Taylor says.

"McCarran provides no special benefit to this industry. It serves as a point of attack for others that adversely affects a broad range of other, more important issues," Mr. Taylor said before the joint meeting of the National Assn. of Casualty & Surety Executives and the National Assn. of Casualty & Surety Agents. Mr. Taylor is outgoing president of NACSE.

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The McCarran-Ferguson Act grants limited antitrust immunity to the insurance industry and leaves the regulation of insurance to the states.

Noting that American Insurance Assn. President Robert Vagley had suggested a self-regulatory organization as one option in recent congressional testimony (*BI*, Sept. 24), Mr. Taylor elaborated on the idea.

"A Federal Insurance Solvency Board would resemble the very successful Securities Investor Protection Corp.," he suggested.

"The FISB could address the regulation of insurer solvency, avoid additional levels of regulation and, at the same time, create a positive framework for federal actions to address" other changes Mr. Taylor advocates in the regulation of insurance.

These changes include "the need to remove impediments to the free flow of capital," he said, citing "unwarranted rate rollbacks and other measures with lock-in provisions" on insurer capital.

"This combination not only prevents an insurer from earning a reasonable rate of return but also prevents the company from voluntarily leaving an unprofitable market," he said. "Clearly such restriction could have lasting, adverse effects on insurer solvency."

In addition, Mr. Taylor called for removing "commercial and excess coverages from guaranty fund protection."

He maintained that doing so "would reinforce the pre-eminence of solvency regulation and introduce a more practical and market-based evaluation of the financial condition of insurers."

"Today, there is growing concern that guaranty funds may be serving as a disincentive for close scrutiny of insurance company financial stability, particularly by sophisticated commercial customers who have the ability to evaluate the financial strength of their insurers," he said.

Mr. Taylor

The FISB, Mr. Taylor continued, could "develop standards of financial responsibility and regulation and establish means of securing better information and prompt early intervention to deal with troubled firms."

Members of the FISB could include representatives of the industry, the public and regulators, he said. And, the FISB could work with the National Assn. of Insurance Commissioners to "establish financial standards and to gather data."

The standards, he said, "would be applied by the state agencies already responsible for solvency issues."

"The present state regulatory process indeed does have deficiencies," Mr. Taylor said. "There are delays in identifying troubled companies; regulatory resources aren't always focused on companies most needing attention; and sharp inconsistencies between concern about solvency and rate regulation often produce inappropriate emphasis on politically sensitive rate issues."

While commending the NAIC for its efforts to establish new regulatory standards for states, Mr. Taylor said: "I don't believe this will go far enough.

"Adverse legislative, regulatory and judicial developments affecting our industry will continue to increase the risk of future insolvencies," he said. "Rate rollbacks and arbitrary limits on return on equity help create the very problems that solvency rules were designed to avoid."

Mr. Taylor emphasized that "I firmly believe the insurance industry is not the next S&L crisis waiting to happen," but added, "there is ample evidence to suggest a need to improve the basic solvency regulations that govern our business."

"While only one-half of 1% of all insurance companies have failed over the last five years, the number of insolvencies and their relative size has increased, putting increasing strain on state guaranty associations and the companies that support them," he said.

Guaranty fund assessments on insurers in 1989 totaled $825 million, he pointed out. The ultimate cost of the Mission Insurance Co. insolvency could be $2 billion, he added.

"These are preliminary thoughts that require deeper study," Mr. Taylor stressed, referring to the proposed FISB.

But, he urged the insurance industry to work with Rep. John Dingell, D-Mich., chairman of the House subcommittee that is investigating the insurance industry, to "fashion a system that strengthens insurer solvency without creating a further bureaucratic nightmare."

"Chairman Dingell is serious in his desire to generate legislative recommendations on the solvency issue," Mr. Taylor advised. "I believe that such recommendations ultimately have a good chance of becoming law."

Kenneth J. Duffy, chairman, president and chief executive officer of Commercial Union Insurance Cos., succeeds Mr. Taylor as president of NACSE. ■

7 brokers form European network

By CAROLYN ALDRED

LONDON—Seven mid-sized European brokers have formed a new international broker network to offer a pan-European service for their commercial clients.

The new network is called the World-Wide Insurance Group—dubbed WING by its members.

Its members are London-based Fenchurch Insurance Brokers Ltd.; Hamburg, Germany-based Wesselhoeft Ahlers & Schues; Paris-based SGAP Expansion S.A.; Milan, Italy-based Assiteca S.p.A.; Antwerp, Belgium-based Belgibo N.V.; Rotterdam, The Netherlands-based Schouten Insurance International b.v.; and Barcelona, Spain-based Cogesa Comercial Gestora S.A.

Among them, the brokers place about 300 million pounds ($594 million) in retail insurance premiums a year and generate about 30 million pounds ($59.4 million) in retail brokerage revenues, estimated Peter Bedford, chairman of Fenchurch Insurance Brokers Ltd., the retail brokerage arm of Fenchurch Holdings Ltd.

"The members of WING have agreed to work with each other in all areas of retail insurance broking to enhance the service offered to existing and potential clients in each country," the new organization announced in a statement.

"The activities of WING are not restricted to the territories of the member countries. WING has access to a worldwide group of correspondent brokers and the intention is to bring further brokers into the WING network in due course," the statement said.

"The approach of 1992 (the target date for a single European Community trading market) and the emergence of economies in Eastern Europe has created new business opportunities," said Jaap Schouten, coordinating chairman of WING.

"Our aim is to develop a strong unified service and, where necessary, specific Pan-European programs to meet the growing need amongst local and international clients for an integrated approach to risk management and insurance broking," Mr. Schouten said.

London-based Fenchurch Insurance Brokers is the largest member of WING. It is owned largely by management and employees following a buyout from previous owner Guiness Peat Group last year. The broker has regional offices in the United Kingdom in Birmingham, Hull, Sheffield, Leeds, Manchester and Billericay in Essex.

Paris-based SGAP brokers property/casualty and employee benefits coverages. It specializes in professional liability insurance.

Belgibo became an independent broker in 1976 and has expanded since then to become one of the six largest brokers in Belgium, according to WING. The broker specializes in marine and transport insurance but also places construction, leasing, machinery and all types of liability insurance.

WAS of Germany was established in 1814 and is one of Germany's oldest insurance brokers. It has a head office in Hamburg and offices in Dusseldorf, Frankfurt, Cologne and Munich. As a result of the unification of Germany, the broker has opened offices in Rostock and Dresden in what was East Germany and will also be setting up an office in Berlin to "service the growing needs of East German clients," WING says.

Assiteca of Italy is based in Milan but also has offices in Seregno, Verona, Udine, Venice, Genoa, Modena, Ancona, Rimini, Rome and Naples. Assiteca is one of the few Italian brokers to have been granted a Lloyd's of London correspondent status.

Schouten of The Netherlands has offices in Rotterdam and Dordrecht and has access to the insurance exchanges of Rotterdam and Amsterdam.

Cogesa of Spain has offices in Barcelona and Madrid and is the largest independent broker in Spain. Cogesa recently was appointed broker for construction of the new Olympic Stadium in Barcelona. ■

Study finds worry over privatizing U.K. credit insurer

By CAROLYN ALDRED

LONDON—British companies are concerned that they will be unable to find adequate credit insurance at affordable prices following government moves to privatize part of Britain's state-sponsored credit insurer, a survey found.

The government announced earlier this year that the Cardiff, Wales-based Insurance Services Group, which provides short-term export insurance, will be sold to the private sector (*BI*, Jan. 22).

Clients of the insurer worry that private firms will not adequately meet their demands, making it more difficult for them to compete overseas, according to a survey by Sedgwick James Ltd., the retail operation of London-based Sedgwick Group P.L.C.

Two-thirds of the companies surveyed said they believe that private credit insurers will be unable to meet all their needs for short-term credit coverage.

Nearly all the respondents—92%—fear that the British government will go further than most other governments in cutting state subsidies for credit insurance. Two-thirds of the companies said such moves would put them at a serious disadvantage when trying to compete with foreign firms.

Fifty-one percent of the companies said they do not mind what nationality the ISG's future shareholders are, while 36% would prefer the shareholders to be British and 13% would prefer European shareholders.

The companies were split over whether Britain's largest credit insurer—Trade Indemnity P.L.C.—would be an ideal purchaser for ISG, with 41% saying yes and 57% no.

Meanwhile, the companies also expressed concern about the future of London-based Project Group, the state agency that handles medium-term credit risks.

The government proposes to continue to operate the agency, but it plans to raise premiums and make policies more restrictive for higher-risk companies, according to Sedgwick James.

Although most—93%—of the companies surveyed agree that the government should continue to provide this insurance, 64% said higher premium rates and more restrictive underwriting will seriously affect their ability to win business in export markets.

"The Export Credit Guarantee Department has for many years been the cornerstone of British government arrangements to encourage exports. We believe that changes in its services are of prime importance for British industry," said Chris Price, chairman of Sedgwick James Credit. "We hope this survey will help to highlight the issues that need careful consideration before parliamentary approval."

The changing nature of the credit insurance marketplace also is highlighted by London credit insurance broker Berry Palmer & Lyle Ltd. in its new corporate brochure.

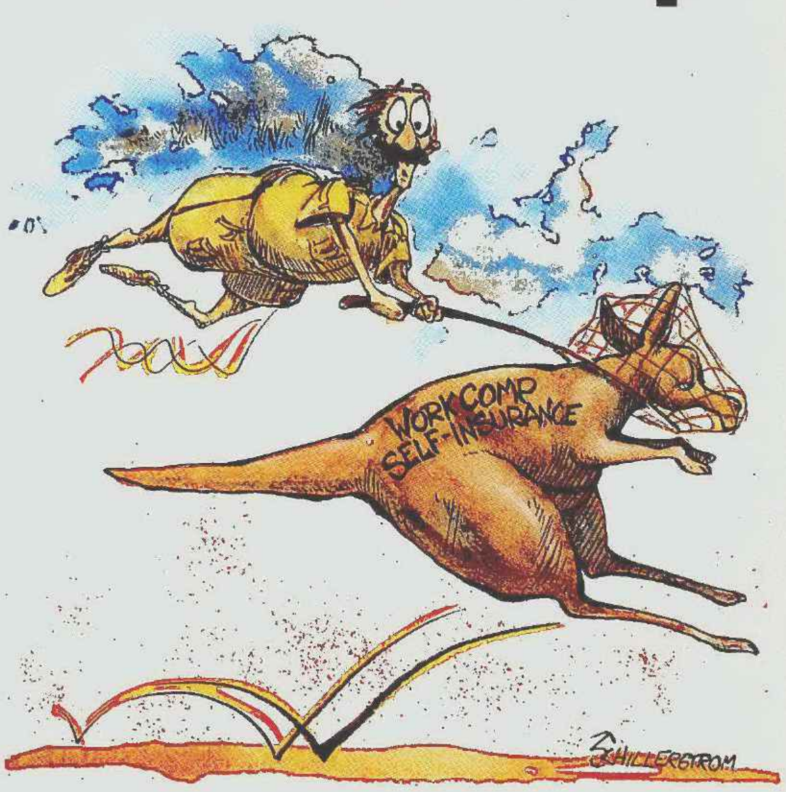
"Trade credit insurance is going through a period of profound change as it moves away from the assumption that export credit insurance is. . .best left to the public sector," the broker says.

"The narrow concept of each individual state supporting its exporters with government-backed insurance monopolies is being rapidly replaced by an international market of private, competitive and international insurers serving a worldwide customer base," according to the brochure.

"The new freer market environment will present policyholders with considerable opportunities; it will also present them with huge problems of choice, in terms of evaluating the enormous range of competitive policies on offer," it warns.

Australian work comp

Government reviews stall applications to self-insure



By KATE McILWAINE

BRISBANE, Australia—Employers in Australia increasingly want to self-insure their workers compensation programs, but officials are putting their applications on hold while they review regulations.

Employers in all Australian states, except Queensland, now have the option of self-insuring their workers comp benefits rather than participating in government plans, though the regulations governing reserve levels and the minimum number of employees needed to self-insure differ greatly.

Five of Australia's 10 most profitable companies self-insure their workers comp programs in at least one state, according to an annual survey by Australian magazine Business Review Weekly.

However, government reviews of self-insurance regulations now in progress in most states are preventing more companies from self-insuring, say representatives of self-insurance associations.

Generally, Australian states assess potential workers comp self-insurers according to criteria like a company's ability to administer claims, the financial stability of a company and its management style.

States generally allow only larger companies to self-insure. For instance, Victoria requires self-insured employers to have 1,000 employees and a minimum of $200 million Australian ($157.2 million U.S.) in assets.

And, most states require a self-insured employer to purchase a bank guarantee in an amount equal to the outstanding workers comp claims liability.

However, there still is concern that there are insufficient safeguards under Australian regulations for workers comp self-insurers to ensure that claims are paid if a self-insurer runs into financial difficulty, according to Michael F. Schiavo, an actuary who has worked for the WorkCare workers compensation plan run by the state of Victoria government and who is now assistant general manager of Swann Insurance (Australia) Pty. Ltd.

"Workers compensation liabilities can be substantial, even with the best loss protection programs. Self-insurance should be available only to organizations that are committed in the long term and have adequate financial resources to weather a catastrophic claim storm," Mr. Schiavo said.

"Actuarial valuations can be significantly off the mark with respect to individual employer liabilities, particularly for IBNR claims," he noted, referring to incurred-but-not-reported claims.

Mr. Schiavo cited the case of a textiles manufacturer that had once threatened to move its operations from one state to another so it could self-insure its workers comp program. Authorities have since placed the company in receivership.

All states should have regulations that ensure that a self-insurer's financial accountability is checked often and that money reserved to pay workers comp claims is not used for other purposes, Mr. Schiavo said.

"Self-insurance should exist, but it should be better managed and supervised," he said. Mr. Schiavo added that all states should study their self-insurance rules before more companies are allowed to self-insure their workers comp programs.

But David Blackett, a self-insurance adviser with the New South Wales government's insurance office in Sydney, argues that the while the state of Victoria is reviewing self-insurance rules, it is not approving new self-insurers for "political rather than logical reasons."

The government does not want big employers to leave the state-run workers comp insurance program, he said.

State workers comp regulators could not be reached for comment.

In New South Wales, Australia's most populous state, 56 companies —which employ one-third of the state's workforce—now self-insure their workers comp liabilities, according to Bryan Gething, chairman of the NSW Workers Compensation Self-Insurance Assn. and workers compensation manager for Sydney-based Unilever Australia Pty. Ltd., a unit of Unilever P.L.C. of London.

Though "people are waiting in the wings to become self-insured," the state government is "not giving out any more licenses until it gets its new policy in place," Mr. Gething said.

The association has had talks with state Industrial Relations

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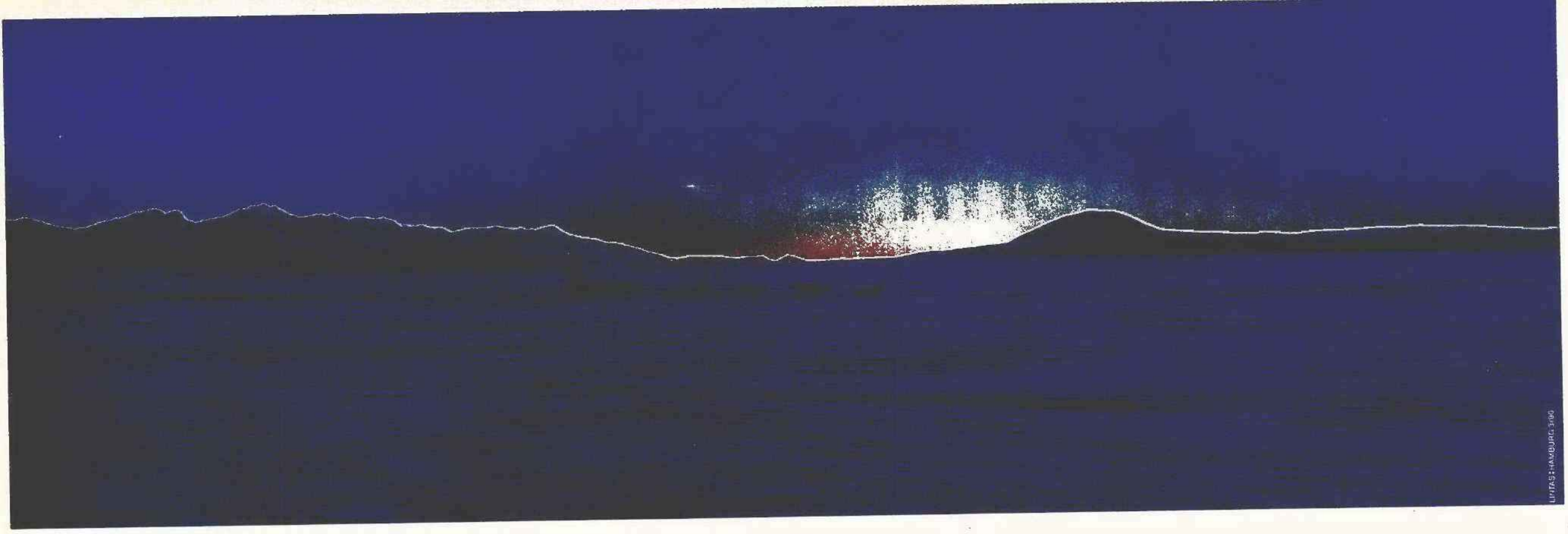

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Minister John Fahey, who is in charge of the review of New South Wales government's WorkCover workers compensation program.

The state is considering several changes, including requiring self-insurers to purchase at least $500,000 Australian ($393,000 U.S.) in reinsurance.

However, the government "should leave us alone," Mr. Gething said. "We have done things well for 64 years," said Mr. Gething, who will testify before a government subcommittee next month to support his association's contention that there should be no further government regulations on self-insurers.

"But we're not confident" that the association's view will prevail "because of the NEM collapse," he noted.

In April, London-based National Employers' Mutual General Insurance Assn. Ltd. announced it was not able to pay its workers comp obligations in Australia, and the company was ordered liquidated on May 1. Its outstanding liabilities in Australia are currently estimated at about $200 million Australian ($157.2 million U.S.) and could reach $500 million Australian ($393 million U.S.), according to Mr. Gething.

Mr. Gething noted that self-insurers may be forced to contribute $60 million to $80 million Australian ($47.2 million to $62.9 million U.S.) "over the next few years" to cover commercial insurers' unfunded workers comp liabilities in New South Wales. Self-insurers already have been asked to contribute $18.7 million Australian ($14.7 million U.S.) since 1987, when New South Wales took over the workers comp system from private insurers.

However, self-insurers believe they should have to contribute nothing.

In Victoria, where 12 companies have authority to self-insure their workers comp liabilities, other companies are hoping to self-insure, but their applications have not been approved by the state government, said Wayne Koochew, chairman of the Victorian Self-Insurers' Group.

"Compared with other states, self-insurers are pretty minor," he said, pointing out that self-insurers employ about 5% of the state's workforce.

Mr. Koochew said government requirements are already the most stringent in Victoria, where the WorkCare workers compensation program has unfunded liabilities of up to $3 billion Australian ($2.36 billion U.S.), which is a reduction from $4.18 billion Australian ($3.29 billion U.S.) last year.

For example, to self-insure, an employer must receive permission from trade unions. And, the Victorian Trade Hall Council has a policy of opposing self-insurance, he noted.

"The government needs to be protected if we go out of business. . .but there are less onerous ways of going about it" than denying applications to self-insure, he said.

In South Australia—where 95 employers, including 40 government agencies, self-insure their workers comp programs—the government's WorkCover Authority will review self-insurance licenses, though no formal notice has been given, said Arthur Hyde, chairman of the Employer-Managed Workers' Compensation Assn. and senior rehabilitation and compensation consultant at BHP Ltd.

Self-insurers employ about 40% of the workforce in South Australia.

The South Australian government is considering, among other measures, increasing the minimum number of workers that self-insurers must employ from the current 200.

Western Australia, where 23 self-insurers employ 7% of the workforce, has not granted a self-insurance license in about two years. Western Australia's Self-Insurers' Assn. has submitted draft regulations as part of the state government's review of workers compensation, said Kim Mettam, association chairman and Western Australia personnel manager for Melbourne-based ALCOA of Australia Ltd.

The government 'should leave us alone,' says Mr. Gething of Unilever Australia.

Companies seeking authority to self-insure are willing to wait, though there is no indication of when the government will begin considering applications.

Unlike other Australian states, private insurers—rather than a government-owned program—write workers compensation coverage for Western Australian employers that do not self-insure.

Self-insurers say the ability to control their own workers comp program, rather than participate in a government bureaucracy, is the major reason they self-insure.

"You know your own workforce," Mr. Gething said. "With the correct communications systems in place, you can get claims paid quickly and get the injured worker into rehabilitation. You don't have to wait to see if the insurer is going

Continued on next page

INTERNATIONAL

Self-insurers

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to approve the claim."

Mr. Hyde noted there are also cost advantages for big companies that self-insure. As the premiums charged by the South Australia government's workers comp program have risen, it has become cheaper for some employers to self-insure, he said. However, he added that the BHP has not calculated its savings.

"Our philosophy has been that the advantages of managing our own employees is the prime motivator. Cost savings is a secondary thing," he said.

Some observers are advocating a national workers comp system rather than the current state-run programs.

Mr. Schiavo noted that Australia is small enough—with a population of 16 million—to establish a national workers comp plan. Benefits and premiums could be adjusted to reflect the different costs of living around the nation, he noted.

However, self-insurers oppose a national system.

"We were all dead against it" when the New South Wales self-insurers' association discussed the proposal at its May meeting, Mr. Gething said.

Besides, "a national scheme has a snowflake's chance in hell of succeeding," he said. "Each state government jealously guards its own autonomy."

Victoria's Mr. Koochew said it is not possible to support a proposed national workers comp system unless self-insurers "know what's in it."

And, legal and political differences among Australian states could make establishing a national system difficult, Mr. Hyde said. ■

LONDON

Howden energy broker team defects to Leslie & Godwin

By CAROLYN ALDRED

LONDON—One of the London market's most well-known energy insurance brokerage teams is leaving Alexander Howden Insurance Ltd. to join rival broker Leslie & Godwin Ltd., spurring a flurry of defections.

Ian Waite, chairman of Alexander Howden Marine & Energy, is leaving Howden to join Leslie & Godwin for a remuneration package totaling more than 1 million pounds ($1.98 million), sources say.

Ten brokers in Mr. Waite's department already have left Howden to join L&G and another 14 have resigned, a Howden spokesman confirmed.

Meanwhile, Howden is recruiting replacement energy brokers from rival broker Sedgwick Group P.L.C.

Leslie & Godwin also is recruiting substantial numbers of brokers from other brokerage firms in the market, sources say.

Anthony Pinsent, Leslie & Godwin's chairman, confirmed that the company was expanding several of its departments but would not comment on specific recruitments.

The mass movement of brokers is causing some concern in the market, sources say.

Injury prevention

Courtaulds Textiles P.L.C., one of Britain's largest yarn spinning businesses, hopes to reduce workplace injuries and repetitive strain disorders through a nationwide training and awareness program.

A team of three specialist staff members has been trained in industrial engineering and ergonomics and is surveying the company's factories throughout the country to help identify and eliminate poor working practices that can lead to upper limb disorders.

In addition, about 130 industrial engineers and other staff employed by the company to raise productivity are being given "specialized training in workshops covering ergonomics and ULD prevention," the Manchester-based company said.

Since the program began earlier this year, more than 16,000 of the company's 29,000 employees have been "personally briefed by our health and safety staff on the risks, causes and actions to be taken," according to the company's in-house newspaper.

"Courtaulds Textiles is one of the first major companies in the U.K. to launch such a massive training awareness and (upper limb disorder) preventative program for employees at every level, including top-level management," the company says.

The campaign comes at a time of rising national concern and an increasing awareness throughout British industry of the problems that "can affect employees with largely routine, repetitive tasks," the company says.

"There are many spin-offs" to be gained from instituting such a program, said Roger S. Benson, a corporate industrial engineer at Courtaulds.

For example, "attendance rates should improve, individual productivity and performance should improve" and eventually the company's employers liability insurance premiums should fall, he noted.

Sturge expansion

Sturge Holdings P.L.C., Lloyd's of London's largest underwriting agency company, continues to expand rapidly.

Sturge announced this month that it has acquired the share capital of Holmes, Hayday (Underwriting Agencies) Ltd., the managing agency for Lloyd's non-marine syndicate 694.

The acquisition is valued at 1.5 million pounds ($2.9 million) and will be paid through a combination of Sturge shares, loan notes and 715,868 pounds ($1.4 million) in cash.

Both Holmes, Hayday and syndicate 694 "will retain their separate identity within the Sturge Group," Sturge announced.

Terry Hayday, chairman of Holmes, Hayday, will—with the approval of Lloyd's—join the board of Sturge Non-Marine Syndicate Management Ltd.

Syndicate 694 has about 675 members and a gross capacity of about 17.8 million pounds ($28.7 million at appropriate exchange rates) this year and "it is expected that the syndicate will continue to grow in size under the management of a Sturge Group agency," Sturge stated.

Meanwhile, Sturge has completed the acquisition of Donner Underwriting Holdings Ltd., one of Lloyd's largest independent members' agencies.

The cost of the acquisition "is expected to be on the order of 5 million pounds ($9.9 million) but the final figure will depend on the aggregate allocated capacity of DUA Names at Jan. 1, 1991," Sturge explained.

The acquisition will be satisfied in shares, loan notes and 4.2 million pounds ($8.3 million) in cash, the company said.

Broker acquisition

Willis Corroon P.L.C., the company formed by the merger of brokerages Willis Faber P.L.C. and Corroon & Black Corp., earlier this month acquired a 40% shareholding in S&C Correduria de Seguros S.A., a Spanish insurance broker, for 2.2 million pounds ($4.4 million).

S&C is based in Madrid and has offices in Bilbao, Seville, Santander and Barcelona, Spain. The company was established in 1984 and "is ranked among the Top 10 brokerage firms in Spain," Willis Corroon says.

Meanwhile, Willis Corroon has formed a new company to provide insurance services to companies involved in cargo, removal, haulage, freight forwarding and warehousing businesses.

Willis Wrightson Cargo Ltd., based in London, combines Willis Wrightson Freight Movement Ltd. and the U.K. marine cargo department of Willis Faber & Dumas Ltd.

Bob Martin is chairman of the new company and Brian Parncutt is managing director of operations and deputy chairman.

Risk manager tapped

CIGNA Insurance Co. of Europe S.A.-N.V. has appointed one of Britain's leading risk managers to help improve its services for large industrial companies.

Terry Sparkes has been appointed to the newly created position of director of risk management services "to help us identify and understand customer needs" better, said Tony Lancaster, U.K. senior vp of CIGNA Europe.

Mr. Sparkes has been risk and insurance manager for CMB Packaging Group and its predecessor, Metal Box Co. Ltd., since 1973.

In addition, he has served since 1974 as a council member and director of the Assn. of Insurance & Risk Managers in Industry & Commerce.

Within AIRMIC, Mr. Sparkes served as deputy chairman and chief executive from 1982 to 1983 and was chairman in 1984.

Mr. Sparkes also was a founder and director of CMB's Bermuda-based captive insurance company, Standfast Insurance Ltd.

Mr. Lancaster explained that "we created the position to focus more clearly on risk management and the risk management needs of large multinational customers, and our objective is to explore new ground."

In the new post, Mr. Sparkes will examine ways of providing a more comprehensive service for large commercial clients other than just the provision of traditional insurance cover, Mr. Lancaster explained.

Although CIGNA Europe is based in Brussels, Belgium, Mr. Sparkes will be based in Reading, England. ■

Solvency study

Continued from page 1

ence of management.

"That sort of analysis is entirely missing" in the Public Citizen report, Mr. Wish said. "Our opinion is better than their opinion. Ours is an informed opinion," he said.

"What is significant is what Public Citizen didn't ask: strength of reinsurance, efficiency of a company, management of assets," agreed Sean Mooney, senior vp and economist of the Insurance Information Institute of New York, an organization funded by the property/casualty insurance industry.

- Public Citizen did not attempt to get past the raw numbers and analyze whether its data really indicated failing financial health.

For example, decling surplus alone tells little about an insurer's overall health, Mr. O'Neill said.

"A change in surplus indicates a change. The fact there was a decrease or increase in surplus is not in itself evidence that there has been a fundamental change in the financial health of a company," he noted.

For example, an insurer may decrease surplus because it is withdrawing from a certain line of business, he explained.

- Certain solvency tests used by Public Citizen are meaningless without detailed analysis.

For example, swings in premium volume, one of the six Public Citizen solvency tests, actually may be a sign of insurer strength rather than weakness, rating analysts say.

"If premiums are coming down below what an insurer considers adequate. . .there is an expectation the insurer would curtail new business. That would indicate that a company is taking precisely the correct action to preserve its strength," Mr. O'Neill said.

- The report gives no weight to the financial strength of an insurer's corporate parent.

Hartford, for example, pointed out that it is backed by parent ITT Corp., which last year generated nearly $20 billion in sales.

"You have to look at financial flexibility," Mr. O'Neill said, noting that corporate parents have the ability to raise capital through sales of stock and debt.

Similarly, an insurer would not pass a Public Citizen test if non-investment grade, or junk bond, holdings exceeded 15% of its surplus.

But that insurer's investment portfolio might be more sound than an insurer with a low amount of junk bonds but a high percentage of assets tied up in non-performing real estate loans, Mr. O'Neill said.

In short, analysts say Public Citizen did not do enough work and analysis for its findings to be significant.

"The reality is that a financial profile of an insurance company is far too complex to be distilled down to a few quantitative ratios to come to a conclusion about the financial quality of an insurance company," Mr. O'Neill said.

Public Citizen President Joan Claybrook, who unveiled the report at a tumultuous Oct. 15 press conference at the National Press Club in Washington, D.C. (see story, page 92), cautioned that she was not suggesting that any of the companies was on the "brink" of insolvency.

In addition, Ms. Claybrook, who headed the National Highway Transportation Safety Administration during the Carter administration, said she was not advising consumers to cancel policies issued by any of the five insurers named in the report.

Instead, the report was intended to highlight troubling business practices so action could be taken before a crisis, explained report author Caroline Smith DeWaal, who noted she is an Aetna policyholder.

But, those words did not calm insurer executives who, normally slow to react to charges, wasted no time denouncing the report.

Indeed, even before the report was released, one insurer cited in the report—AIG—blasted the report as "ludicrous."

AIG Senior Vp and General Counsel Wayland M. Mead said in a letter to Mr. Nader that any statement suggesting that AIG is in some fashion financially vulnerable or impaired "would be defamatory and false. . . .Any such statement could only be the result of knowing falsification on your part or the result of reckless disregard by you of the truth or falsity of the statement."

"In my career, it is the most blatant case of irresponsible and false reporting I ever have seen," said Howard Smith, AIG senior vp and comptroller.

Other insurers also minced no words in denouncing the report.

For example, Robert Gruhl, senior vp, chief financial officer and treasurer at Liberty Mutual in Boston, which was not one of the

Continued on page 91

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D. Free Distribution by Mail, Carrier or other means: Samples, complimentary, and other free copies	17,170	15,934
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1985 : NO. 228

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NOTICE IS HEREBY GIVEN TO ALL CREDITORS OF MENTOR INSURANCE LIMITED THAT THE 5TH ANNUAL MEETING OF CREDITORS IS TO BE HELD AT THE HAMILTON PRINCESS HOTEL, HAMILTON, BERMUDA ON THE 1ST DAY OF NOVEMBER, 1990 AT 8:30 A.M. IN THE FORENOON AND THAT THE SAID MEETING SHALL (BY ORDER OF THE SUPREME COURT OF BERMUDA) ALSO STAND AS A MEETING OF CREDITORS TO DETERMINE WHETHER TO ACCEPT THE RESIGNATION OF MICHAEL J. ARNOLD AS A JOINT LIQUIDATOR OF MENTOR INSURANCE LIMITED AND TO ASCERTAIN THE WISHES OF THE CREDITORS WITH RESPECT TO THE VACANCY IN THE OFFICE OF A LIQUIDATOR.

DATED THE 10TH DAY OF OCTOBER, 1990

CHARLES W. KEMPE JR.
AND MICHAEL J. ARNOLD
JOINT LIQUIDATORS

IN THE
SUPREME COURT OF BERMUDA
CIVIL JURISDICTION
1985 : NO. 228

IN THE MATTER OF MENTOR INSURANCE LIMITED — in liquidation AND IN THE MATTER OF SECTIONS 33 AND 35 OF THE INSURANCE ACT 1978 AND IN THE MATTER OF THE COMPANIES ACT 1981

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Solvency study

Continued from page 89

insurers cited by the study, labeled it "amateur hour."

"This report, which is irresponsible and false, represents uninformed opinion about the strength of" major insurance companies, Mr. Gruhl said.

"The Hartford's management and board of directors are incensed at these preposterous accusations and outraged that such unqualified individuals would attempt and promote such an examination," said Donald R. Frahm, the Hartford, Conn.-based insurer's chairman, president and chief executive officer.

Hartford alleged late last week that Public Citizen "had made an egregious error" when it concluded that Hartford's 1988 surplus was 33% lower than its 1972 surplus in constant dollars.

Hartford maintains that its 1988 surplus was actually 6% higher than its 1972 surplus in constant dollars and thus should not have been listed as one of the companies that had failed four of Public Citizen's tests, Mr. Frahm said.

Hartford said its calculations had been confirmed by its independent auditor, Arthur Andersen & Co.

"Public Citizen, in fact, has flunked the test," Mr. Frahm said. "Not only are Public Citizen's tests inconclusive and without credibility, but the organization's researchers applied their own data incorrectly."

Public Citizen's Ms DeWaal, who wrote the report, could not be reached for comment late last week.

In addition, Mr. Frahm asserted earlier in the week that "these charges are not only highly irresponsible, they also are based on limited methodology and aimed only at furthering Public Citizen's own legislative agenda."

In its report, Public Citizen made several recommendations to reduce the threat of insurer insolvencies, including repealing the McCarran-Ferguson Act and enacting federal solvency standards for insurers (see story, page 92).

"Public Citizen has irresponsibly sounded a false alarm about USF&G and four of our peers. The report's conclusions are wrong. USF&G is financially strong. Let's put this consumer assessment of data in proper perspective and recognize the self-serving nature of the report," said Jack Moseley, chairman of Baltimore-based USF&G Corp.

"Their attack is irresponsible and misleading," said David Kocker, president of Aetna's commercial insurance division.

While insurers reported a flood of calls from policyholders and district offices, none was aware of any policy cancellations because of the Public Citizen report.

At the same time, the investment community did not appear to be giving much weight to the report, with stock prices of the four publicly traded companies cited in the report moving little last week.

"The report has been ignored by the market. I don't even think it will linger in people's minds," said Gloria Vogel, associate director at Bear Stearns & Co. of New York.

"I think the investment community and the insurance public will consider this report lightly and recognize it as a political and social document rather than based on statistical evidence," said Herbert Goodfriend, an analyst with Prudential-Bache Securities Inc. in New York.

Aetna stock closed at $31 per share on Wednesday, two days after the report was released, down only slightly from $31.75 on Oct. 12, the last trading day preceding the report's release. AIG stock closed at $62.25 on Wednesday, up from $58.88 on Oct. 12; and ITT stock closed at $41.13 on Wednesday, up from $40.75 on Oct. 12.

However, USF&G stock closed at $11.50 on Wednesday, down 15.6% from $13.63 on Oct. 12.

Liberty Mutual is a mutual rather than a stock insurer.

By comparison, the Standard & Poor's 500 Index closed at 298.76 on Wednesday, down 0.4% from 300.02 on Oct. 12.

However, Howard Greene, director of governmental affairs for the Risk & Insurance Management Society Inc. of New York, noted that the report could increase some risk managers' fears about insurer insolvencies.

"This type of report actually touches a raw nerve because everyone is scared that a national, household-name insurer will someday go under," said Mr. Greene, who noted he had not read the report.

The report found that the five companies each triggered four of the six long- and short-term solvency factors established by Public Citizen, potentially putting the companies at risk in a severe economic downturn. Public Citizen did not define what it mean by "severe economic downturn."

Those solvency factors and the companies that triggered them include:

• Declining surplus in 1988 compared with 1972, as measured in constant dollars. Aetna, Hartford and USF&G triggered this test.

• Surplus compared to losses. This standard shows whether a company's surplus was less than 50% of losses for three years or more between 1980 and 1988. AIG, Liberty Mutual and USF&G triggered this test.

• Wide swings in written premium from 1975 to 1988. The test identified companies whose premiums increased more than 30% in a given year, increased 20% to 30% in a given year or fell by 15% of more in a given year.

Companies whose premiums increased 30% or more or fell by 15% or more in two different years during the period or companies whose premiums increased more than 20% in four different years over the period studies were regarded as failing the test. Aetna, AIG, Hartford, Liberty Mutual and USF&G all triggered the test.

• Leverage ratios, which measures the amount of risk a company takes on compared with surplus.

Public Citizen based its analysis on leverage ratios published by Best, including net premiums written to surplus; "net leverage," which is the sum of the premium-to-surplus ratio and the ratio of net liabilities to surplus; "gross leverage," which is the sum of net leverage and "ceded reinsurance leverage," and measures the portion of an insurer's gross premiums and liabilities ceded to non-affiliated reinsurers and affiliated foreign reinsurers; the ratio of surplus aid to policyholder surplus, which measures the estimated decline in a company's surplus if reinsurance paid to non-affiliates were canceled; and the percentage change in net written premiums.

However, rather than relying on Best's data in analyzing these statistics—the report says that Best's analysis has "proven untrustworthy in the past"—Public Citizen compared each company's data with what was normal for the entire industry and the 20 surveyed companies in the past.

AIG, Aetna, Hartford and Liberty Mutual triggered this test.

• Liquidity, defined as the ability of a company to turn an asset into cash without suffering a considerable loss.

Public Citizen again based its analysis on Best data, including "quick liquidity," which measures quick assets—defined as cash, unaffiliated short-term investments, unaffiliated bonds maturing in one year, government bonds maturing in five years and 80% of unaffiliated common stocks—divided by net liabilities and ceded reinsurance balances payable; "current liquidity," which is the ratio of the sum of cash, unaffiliated invested assets and encumbrances on other properties to net liabilities and ceded reinsurance balances payable; agents' balances divided by surplus; premium balances divided by surplus; and "investment leverage," which measures the potential decline in surplus if there were a 20% decline in stock prices and a two-point rise in interest rates.

The report ranked the liquidity ratios based on where they fell in relation to either Best's normal range or the average of the group if the group average was more stringent than the Best's range.

AIG, Aetna, Hartford and Liberty Mutual triggered this test.

• Percent of surplus held in junk bonds. This solvency test is triggered if a company had more than 15% of surplus in junk bonds. USF&G triggered this test.

Insurers and analysts said Public Citizen's solvency tests are only a starting point—not conclusive in themselves—about a company's financial health.

"The tests are 'screens.' If they are triggered, you have to follow up and see why they triggered and whether it means anything," said the III's Mr. Mooney.

For example, insurers agreed with S&P's Mr. O'Neill that wide swings in premium volume can be interpreted as strength and an indicator of good business practices.

For example, AIG's Mr. Smith said that when the property/casualty insurance market hardened in the mid-1980s, AIG had the capacity to provide additional coverages.

"Our exposures didn't increase. Premiums increased because of rate increases. It was a sign of strength not weakness. It was something well understood by regulators and others in the industry," he said.

"We manage the premium volume based on market conditions. We don't let premium volume" seek a certain level, said Edwin Pickett, senior vp-finance at USF&G.

"Aetna's policy is to manage our business through the property/casualty cycle carefully, reducing our exposure (and premium volume) during the down cycle and expanding our exposure during the up cycle. One would expect to see premium swings in a company that is managing the cycles intelligently," said Aetna's Mr. Kocher.

"Premium volume growth is OK if the assets are there," said Best's Mr. Wish.

In addition, measurements of liquidity mean little without looking at a company's cash flow, insurers said.

"We had a $4.8 billion cash flow. We obviously don't have to liquidate any assets" to pay claims, said AIG's Mr. Smith.

At the same time, "liquidity measurements and judgments don't recognize the value and importance of reinsurance," said USF&G's Mr. Pickett.

Mr. Pickett also said Public Citizen's junk bond solvency test ignores the differences in quality in the non-investment-grade debt securities that insurers purchase.

"We believe the quality of our high-yield portfolio is better than the typical high-yield portfolio," Mr. Pickett said, noting that USF&G has strict standards concerning non-investment-grade securities.

At the same time, since USF&G typically holds onto high-yield securities until maturity, it is less effected by temporary losses in value due to market swings.

"There are important distinctions in the credit quality" of junk bonds. Mr. O'Neill said.

In addition to the five companies that Public Citizen said were at risk, the group analyzed 15 other large property/casualty insurers.

Two of these 15 companies—Allstate Insurance Co. and State Farm Mutual Automobile Insurance Co. —triggered none of the tests.

The 13 other insurers that triggered at least one of the tests are:

• CIGNA Corp., which triggered the change in surplus, surplus-to-losses and liquidity tests.

• Chubb Corp., which triggered the premium swing test.

• CNA Financial Corp., which triggered the premium swing and the liquidity test.

• Continental Corp., which triggered the change in surplus test.

• Crum & Forster Inc., which triggered the surplus-to-losses and the junk bond tests.

• Farmers Group Inc., which triggered the surplus-to-losses and the premium swing tests.

• Fireman's Fund Insurance Cos., which triggered the change in surplus, surplus-to-losses and premium swing tests.

• Kemper Group, which triggered the premium swing test.

• Lincoln National Corp., which triggered the premium swing test.

• Nationwide Mutual Insurance Co., which triggered the premium swing and the leverage test.

• The St. Paul Cos. Inc., which triggered the surplus-to-losses and leverage tests.

• The Travelers Corp., which triggered the decline in surplus, leverage and liquidity tests.

• United Services Automobile Assn., which triggered the premium swing test.

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Copies of "Insurance: The Next Industry in Crisis? A Report on the Financial Solvency of America's Top 20 Property and Casualty Insurers, 1969-1988," are available from Public Citizen's Congress Watch, Insurance Solvency Report, 215 Pennsylvania Ave. S.E., Washington, D.C. 20003; 202-546-4996. The cost is $50.

Report draws angry response at briefing

By JERRY GEISEL

WASHINGTON—The release of Public Citizen's report on insurer solvency last week began like a typical Washington press conference, with the findings presented before several dozen reporters. But the briefing quickly became a free-for-all.

While Public Citizen officials were briefing reporters, they were interrupted by executives of American International Group Inc.—one of the five insurers the consumer group said was financially vulnerable and potentially at risk in a severe economic downturn.

The AIG executives, Senior Vp and Comptroller Howard Smith and Senior Vp and General Counsel Wayland Mead, asked for a chance to respond to the charges.

Public Citizen President Joan Claybrook refused, noting that it was Public Citizen's press conference and that it had reserved the room in the National Press Club. In addition, the group had to leave the room 75 minutes after the press conference began, explained Public Citizen attorney and report author Caroline Smith DeWaal.

As the press conference concluded, AIG's Mr. Smith announced that he and Mr. Mead would be available for questions. A stream of reporters followed the two for an impromptu press conference in a hallway.

Just as television camera lights blazed on, a Press Club official told the AIG executives that press briefings were not allowed in the hallways and that the briefing would have to end.

AIG, which is a Press Club member, reacted quickly and on the spot rented a meeting room in the Press Club where Messrs. Smith and Mead, joined by Sean Mooney, a senior vp and economist with the Insurance Information Institute in New York, resumed the press briefing and denounced the report as "irresponsible."

Media coverage of the report varied widely. The New York Times did not cover it, while The Washington Post mentioned it in a one-paragraph item in its business section.

The Wall Street Journal covered the report in a 11-paragraph story, while the Hartford Courant devoted eight paragraphs in a story on the last page of its business section.

Two of the insurers cited in the report, Aetna Life & Casualty Co. and Hartford Insurance Group, are based in Hartford, Conn.

However, the Chicago Tribune printed a 21-paragraph story on the front page of its business section.

And "Cross Fire," an evening news show on the Cable News Network, devoted virtually its entire 30-minute program on Oct. 15 to the report, with appearances by Mr. Mooney and Ms. Claybrook.

Meanwhile, sparks continue to fly from the Public Citizen report. Marc Rosenberg, the III's vp-federal affairs in Washington, D.C., said if Public Citizen had waited only two more weeks until Halloween it could have released the report on a "far more appropriate date—Mischief Night."

In a two-page press release, Mr. Rosenberg charges that the report was not without its share of ironies.

For example, Public Citizen is concerned that insurers may lack sufficient funds to pay anticipated claims. Yet the organization also has repeatedly maintained that insurers are too profitable and hold too much in reserves, Mr. Rosenberg said.

In addition, according to Mr. Rosenberg, Public Citizen has trained local leaders of efforts to obtain mandatory, across-the-board premium reductions.

Public Citizen's Ms. DeWall said there was no contradiction.

"There are periods in the insurance cycle when companies are making too much money and there are periods when companies do not make enough money. High premiums are not the solution to the solvency of a company," she said in an interview.

What is needed, and what Public Citizen is working for, is "better management, better efficiency and better regulation" of insurers, she said.

Mr. Rosenberg also said that Public Citizen has complained that states do not have adequate resources to monitor solvency.

Public Citizen noted "most pointedly that some states do not have any actuaries on staff to help analyze corporate data," Mr. Rosenberg said.

Yet the group's own study, which it "says gives a more accurate picture than state regulatory reviews," was done by two attorneys and "not a single actuary or accountant is publicly associated with the new study," he contends.

Ms. DeWaal said one attorney—herself—did the research, adding that she has extensive background in insurance analysis.

Among other things, Ms. DeWaal—as chief legislative counsel at the Massachusetts Department of Insurance—drafted comprehensive credit insurance rate reform legislation that was passed in 1988.

She says the consumer group stands by the report, which has touched off a wave of criticism. "We wanted to highlight troubling business practices so they can be corrected before there is a crisis."

Group recommends repeal of McCarran, federal solvency rules

WASHINGTON—Federal solvency standards, the repeal of the McCarran-Ferguson Act and several other drastic changes are essential to averting a savings and loan-style solvency crisis among property/casualty insurers, contends the head of Public Citizen.

"The failure of just one insurance giant would overwhelm the state funds designed to protect policyholders. The result could be another taxpayer bailout on the model of the savings and loan industry," said Joan Claybrook, president of the consumer group.

"It's time for the federal government to step in before a real crisis takes place, stabilize the system and prevent major insolvencies," Ms. Claybrook adds.

Public Citizen's report—"Insurance: The Next Industry in Crisis?"—favors federal solvency standards (see story, page 1). States that want to retain regulatory authority would be required to adopt standards at least as tough as the federal standards and to provide regulators with sufficient resources to enforce those standards.

Insurers licensed in states that do not adopt the federal standards would have to be licensed by a federal regulator before doing business in other states.

Aside from regulating insurers in states that did not adequately regulate solvency, the federal insurance regulator could supervise offshore reinsurance companies not currently regulated by the states, the report says.

Such regulation could be carried out by the Federal Insurance Administration, Public Citizen says. The FIA, which currently administers two relatively small insurance programs providing flood and crime insurance and is a part of the Federal Emergency Management Agency, should be made an independent agency, the group says.

Public Citizen also recommended:

- Repealing the McCarran-Ferguson Act, which exempts insurers from most federal antitrust law and leaves primary insurance regulation to the states.

The 1945 law "aggravates the insurance cycles as it gives companies a pricing base which it can utilize at both ends of the pricing cycle.

If all companies were forced to set their prices based on internal factors, prices would vary throughout the cycle and the current highs and lows of the cycle would be minimized," the consumer group report said.

- Beefing up state and federal enforcement of anti-fraud laws.
- Establishing a mechanism for the formation of citizen insurance boards at the state and federal levels. These boards would serve as a "watchdog" over state and federal regulators, similar to citizen utility boards in many states that represent consumers during rate and regulatory hearing involving electric utilities.

"Funded and administered by citizens, such boards would represent consumers before these regulators and assure that consumer interests were institutionalized the same way the insurance industry's interests are currently represented," the report said.

- Boosting funding for state regulators. At least 25 cents of each "insurer tax dollar" should go toward industry oversight, the report says. However, the report does not explain whether this refers to premium taxes or all taxes paid by insurers.
- Requiring a federal insurance administrator to issue an annual report on the solvency of property/casualty insurers and the effectiveness of each state's regulation. ■

Best defends rating system, rebuts congressional report

By DOUGLAS McLEOD

OLDWICK, N.J.—A.M. Best Co., the target of congressional criticism over the effectiveness of its insurance company rating system, is defending its role in predicting and preventing insolvencies.

In a recent article in the monthly Best's Review, A.M. Best President and Chairman Arthur Snyder also questions some of the conclusions of a February report on insolvencies by the House Oversight and Investigations Subcommittee.

The report presented the results of the subcommittee's inquiry into state insurance regulation and traced the causes of the collapse of Mission Insurance Co., Transit Casualty Co., Integrity Insurance Co. and Anglo-American Insurance Co. of Louisiana.

Among other things, the subcommittee—headed by Rep. John D. Dingell, D-Mich.—warned of a similarity between insurance industry problems and the early stages of the savings and loan debacle (*BI*, Feb. 26).

Best's Mr. Snyder disputed this conclusion.

"We do not agree that the insurance industry may be on the brink of a financial crisis similar to that which has engulfed the savings and loan industry," Mr. Snyder wrote in the article.

Insurers produced a relatively conservative net written premium-to-surplus ratio of 1.6-to-1 in 1989, and loss reserves and policyholder surplus have grown at a faster pace than net premiums over the past five years, he noted.

"These (statistics) are hardly an indication of an industry that is on the verge of a financial crisis," he observed.

Mr. Snyder also defended the honesty and competence of most insurance company managers.

"Unfortunately, any industry this large and diverse will have its share of scoundrels. . . . However, it is unreasonable for the Dingell report to suggest that the insurance industry is 'plagued by pirates and dolts' and 'managed by reckless, greedy and incompetent individuals,'" he observed.

Discussing current regulatory requirements, Mr. Snyder cautioned that statutory financial statements, while "comprehensive and timely," "cannot be solely relied upon to provide a reliable opinion as to the current financial condition of an insurer."

"During our 90 years of evaluating the financial performance of insurance companies, we have learned that insolvency cannot be reliably predicted based solely on a quantitative analysis of a company's financial report," Mr. Snyder wrote.

Evaluators must obtain additional information, including details of the insurer's spread of risk, soundness of its reinsurance program, market value of its assets, adequacy of its loss reserves, competence of management and future business plans, he noted.

'There aren't any pats on the back for the job we do. . . .' says A.M. Best's Mr. Snyder.

The National Assn. of Insurance Commissioners has moved to tighten reporting standards by recommending—among other things—independent audits and actuarial certification of loss reserves.

Mr. Snyder, however, expressed doubts that such moves will solve the solvency problem.

"Independent statements by CPAs and actuaries attesting to the financial well-being of the Mission, Integrity, Transit Casualty, Ambassador (Insurance Co.) and others were filed shortly before they were declared insolvent," he observed.

Members of the House subcommittee also questioned Best's own performance in rating insurers that later became insolvent, and questioned whether brokers are justified in relying as heavily as they do on Best ratings of insurers.

Mr. Snyder conceded that "the regulators, the rating agencies, the CPAs and the actuaries" were deceived by fraudulent practices at Mission, Integrity, Transit Casualty and Anglo-American.

Mr. Snyder went on to defend Best's record of predicting and preventing insolvencies through its ratings.

In addition to spotting weakening insurers, he said the system has prevented insolvencies by forcing managements concerned about a potential rating downgrade to add money to surplus, revamp weak reinsurance programs, withdraw from unfamiliar lines of business and take other steps to strengthen their operations.

Mr. Snyder cited a report to the NAIC by Wisconsin regulators concluding that more capital has been added to the insurance industry because of insurer concerns about their Best ratings than because of state statutes and NAIC efforts combined.

"We get all kinds of criticism when we miss a (troubled) company, but there aren't any pats on the back for the job we do in preventing insolvencies," Mr. Snyder said in an interview.

Mr. Snyder's statement in Best's Review is unusual but not unprecedented: A similar piece appeared in April 1986 when Best revised its reporting procedures and rating system in response to growing concern over insolvencies (*BI*, March 17, 1986).

The criticism of Best during House subcommittee hearings was not the only reason for the most recent statement, according to Mr. Snyder, who said it was provoked by general concern about problems facing the insurance industry and their impact on solvency.

Until 1985, "we didn't spend a lot of time explaining to people how we rate insurance companies," Mr. Snyder said.

Now, however, "the insurance industry has developed a very high profile with the public, with politicians and with consumers," he said. ■

Budget bills

Continued from page 2

and physicians over the next five years.

Employers fear that these costs will be passed on to patients covered by employer-provided health plans.

• Pension asset reversions. The House bill would slap an employer terminating an overfunded pension plan with a 50% excise tax on the reversion—compared with the 40% excise tax proposed in the Senate bill—if the employer does not establish a replacement pension plan for the terminated plan. The current excise tax is 15%, regardless of whether an employer sets up a new pension program.

For employers establishing a new pension plan, the House bill would reduce the excise tax to 20%, while another 30% of the reversion would have to be shifted to the replacement plan. That is somewhat stiffer than the Senate bill, which would also boost the excise tax to 20% but would only require 20% of the surplus to be transferred to the replacement plan.

Both bills also include the same provisions that would allow employers—in limited situations—to transfer surplus pension plan assets on a tax-free basis to pay for health care expenditures of current retirees.

• The Senate bill would retroactively restore through the end of 1991 Section 127 of the Internal Revenue Code, which had allowed employers to provide up to $5,250 in educational assistance benefits to employees on a tax-free basis. The House bill lacks such a provision. Section 127 expired on Sept. 30.

Meanwhile, both bills would boost PBGC premiums both for employers with well-funded defined benefit plans and those with underfunded plans. Under the measures, the basic annual premium paid by employers with plans that are at least 100% funded would rise next year to $19 per plan participant, up from the current $16.

In addition, surcharges for employers with underfunded plans would increase substantially. Both bills would increase the surcharge formula to $9 for each $1,000 of unfunded benefits, up to a maximum surcharge of $53. The current surcharge is $6 per $1,000 of unfunded benefits per participant, up to a maximum surcharge of $34.

As a result, the maximum total annual PBGC premium for an employer with an unfunded plan would rise to $72 per participant from the current $50.

Employers fear that similar provisions in the two bills calling for cuts of about $30 billion in Medicare payments to hospitals will be passed on to patients covered by employer-provided health plans.

Meanwhile, the two measures contain similar provisions that would boost taxes for the nation's life insurers by $8 billion over five years by requiring insurers to amortize over 10 years certain policy acquisition costs. Currently, insurers can immediately deduct those costs.

And, the measures would require property/casualty insurers to reduce tax deductions taken for loss reserves by the amount they expect to receive through subrogation and salvage. Currently, income from subrogation and salvage is not recognized until it is received. This change would raise $1.1 billion over five years. ■

Update

Sequoia eyes Home options

NEW YORK—The investor group that made unsuccessful bids for both The Home Insurance Co. and its parent, AmBase Corp., may not be giving up despite AmBase's acceptance of a rival bid.

The unsuccessful investor group, led by Menlo Park, Calif.-based Sequoia Associates, said in a statement filed with the New Hampshire Insurance Department that it is now examining its options, which include soliciting proxies in opposition to the accepted bid. The group filed the statement in New Hampshire because The Home is domiciled in the state.

However, the investor group said in an Oct. 11 registration statement that while it filed the statement to expedite review by the Insurance Department, "there can be no assurance that the applicants will in fact make any such proposal or that any such proposal will be accepted."

The statement was filed by Sequoia Associates; New York-based investment firm White Mountain Partners, an affiliate of Hermitage Capital Corp. of Nashville, Tenn.; and New York-based investment firm Whitman Heffernan Rhein & Co. Inc.

Donald E. Franz Jr., president of Financial Securities Advisors, White Mountain's managing general partner, said: "We cannot be more precise at this time because we have not formulated our plan, in essence. There's no assurance we will formulate a plan at this time."

However, he added, "That situation could be resolved shortly."

Earlier this month, AmBase said it had accepted a proposal to sell The Home to an investor group that includes Swedish insurer Trygg-Hansa Holding AB in a transaction valued at $970 million (*BI*, Oct. 8). AmBase rejected a bid for an undisclosed amount for only The Home from the investor group led by Sequoia. The group earlier had proposed and then withdrew a bid for 50.1% of AmBase (*BI*, Aug. 27).

An AmBase spokesman would not comment on the registration statement, but he noted that the Trygg-Hansa acquisition is proceeding. No date has been set for a shareholder vote.

Blackout coverage pact

CHICAGO—A tentative $4 million settlement that electric utility Commonwealth Edison Co. has reached in a class-action lawsuit filed by Chicago customers hit by three separate power outages this summer would not be covered by the utility's liability insurance.

Although the settlement would limit payments to individuals to $190, Com Ed said it would fully reimburse businesses that can document their losses due to the blackouts.

Cook County Circuit Court Judge Robert Sklodowski on Oct. 16 preliminarily approved the settlement, under which about 63,000 Chicago customers who were without power during three outages in July, August and September would be reimbursed in cash or with credits on electric bills (*BI* Sept. 13; Aug. 6).

Under the agreement, Com Ed does not admit legal liability, a spokesman said. The utility says each outage was caused by a "personnel error."

Depending on the number of power outages customers or rental tenants were affected by and the number of hours they were without power, individual payouts would range from nothing to $190. Landlords that pay utilities for tenants and live in the building affected by the power outages would be reimbursed only for loss of power to their own units and to common areas.

Businesses claiming substantial loss of perishable goods during the blackouts may utilize an alternative long claim form that requires more extensive proof of damage, a Com Ed spokesman said. "There will be no limit on those payments, but they must be documented."

The spokesman could not estimate the amount of damages to businesses. The cost of settling those damages, which are not figured into the $4 million tentative settlement, also would not be covered by the utility's liability insurance, the spokesman said.

The utility will not reimburse customers for losses resulting from vandalism or looting during the blackouts.

Com Ed's liability insurance limits exceed $100 million, a portion of which is written by Lloyd's of London syndicates, according to Harlan Dellsy, Com Ed vp and general counsel.

Accounting rule progresses

NORWALK, Conn.—The Financial Accounting Standards Board is one step closer to publishing a final rule requiring employers to recognize retiree health care liabilities on their financial statements.

FASB voted last week to direct its staff to publish a final retiree health care standard. The standard, almost certain to be published by the end of the year, is likely to be similar to an exposure draft published in early 1989 and modified earlier this year (*BI*, July 2; Feb. 20, 1989). One more vote by the board is required to make the rule final.

Briefly noted

Three attorneys involved in an **alleged fraud network known as the "Alliance"** settled for undisclosed sums and agreed to help Fireman's Fund Insurance Co. and Allstate Insurance Co. in their litigation charging other attorneys with violations of the Racketeer Influenced & Corrupt Organizations act. The insurers contend the network bilked them out of more than $200 million (*BI*, April 2, 1990). . . .President Bush last week signed the so-called **Betts legislation** that preserves early retirement window plans while overturning a Supreme Court ruling that had made it easier for employers to discriminate on the basis of age in providing employee benefits. . . .Tropical storm Marco caused an estimated **$15 million of insured property damage** in several Southeastern states Oct. 11-13, reports the Property Claim Services division of the American Insurance Services Group. Marco, which caused high winds, tornadoes and flooding, struck portions of coastal Florida, Georgia, South Carolina and North Carolina. . . .The **National Council on Compensation Insurance** is moving its headquarters to Boca Raton, Fla., from New York. Most NCCI employees transferred to Boca Raton five years ago.

Aviation rates

Continued from page 1

last renewed in April 1989, sources say.

The German airline Lufthansa, meanwhile, renewed its coverage this fall with the same rate and terms as its previous policy because it had received a substantial mid-policy rate reduction in April, sources say.

Partly because of the introduction of 18-month airline policies in the spring of 1989, October-November has become a major renewal period for airlines. Several airlines with six months or so to run on an 18-month policy are expected to cancel and negotiate new coverage now to guard against higher rates next year.

"My belief is that most airlines will come in (to renew their policies) before the end of the year," said Alan Griffin, chairman and chief executive of Alexander Howden Aviation, a division of Alexander Howden Group.

Some airlines "may get 50% reductions or more and some may renew as before" depending on what level of reductions they received last time, said Tony Bolton, chairman of Bowring Aviation Ltd.

"The suicidal conditions continue," said another London broker.

"Accounts in the market coming off 18-month policies (with no midterm reductions) are receiving 50% to 60% reductions," said Mr. Griffin. Reductions are much smaller for accounts that renewed 12 months ago or had rates reduced midway through an 18-month policy, he added.

"Rates are still falling because of excess capacity," agreed Lloyd's of London aviation underwriter Rodney Morse. Mr. Morse, who underwrites for syndicate 97, managed by Wellington Underwriting Agencies Ltd., specializes in aviation product liability insurance and has reduced his book of airline business even further recently because of the declining rates for airlines (*BI*, Sept. 3).

Comments from U.S. aviation brokers differ, and seem to reflect a market in flux.

"The U.S. markets are tightening up. They are trying to stem the flow of rate reductions," said Craig Sutherland, a vp with Corroon & Black of New York Inc.

He added that this tightening is taking the form of higher prices rather than reduced capacity. "Capacity remains very plentiful, which is one of the reasons the U.S. markets' attempts to turn things around are not gaining as much momentum as they might," said Mr. Sutherland.

He added that U.S. aviation risks are paying the higher prices demanded by U.S. underwriters to preserve their relationships with these underwriters, while foreign risks are dropping U.S. markets for cheaper capacity elsewhere.

However, Gordon Cobleigh, executive vp with Frank B. Hall & Co. Inc. in New York, drew a less marked distinction between conditions in the U.S. and non-U.S. markets.

Mr. Cobleigh said there is a "general feeling" among underwriters in all markets that rates should rise, and he agreed that in specific cases the U.S. market may be tighter than those overseas.

He added that he has not found U.S. underwriters generally more restrictive than their European counterparts.

Some underwriters, though, are cutting down on airline business, brokers note.

"Capacity is reducing as many underwriters are not prepared to write at reduced rates," agreed Mr. Bolton, although he added that there still is excess capacity worldwide.

"We have seen a number of markets declining to participate because airlines are not prepared to pay their prices, particularly in the U.S. market," said Mr. Griffin.

As a result, for the first time for several years, it "has been harder to finish placements," he noted.

For example, brokers found it more difficult to complete programs for major U.S. airlines, though both managed to renew their coverage at lower rates, observers say.

Despite reduced capacity, policyholders can secure lower rates because the aviation insurance market has so much excess capacity worldwide, brokers point out.

However, several brokers feel the soft market is bottoming out and expect a market turn next renewal season.

Underwriters currently "are writing on the back of their 1990 reinsurance but they will face increased reinsurance rates for 1991," Mr. Bolton said.

Noting one sign that the market may be tightening, he said he was "not aware of any 18-month policies" written this renewal season.

"I think the market is turning, but it has not yet turned," he said. "I am certain it is turning. I am certain we won't be seeing 50% reductions on Jan. 1."

"The all-risk market is still offering reductions on the back of cheap reinsurance, which will continue to the end of this year. That's when the turn will start," predicted another London broker.

"There will be a sharp turn in January, and we will see substantial increases," he warned.

"Underwriters will only give 12-month policies now because they don't want to perpetuate cheap rates. Nobody knows what the reinsurance and excess-of-loss reinsurance market will be like at year-end. There is a substantial chance of reduced reinsurance capacity," he pointed out.

Mr. Griffin, however, did not foresee huge rate increases for airlines renewing in January.

"There will always be an excess of capacity in the aviation market because the product base is so small," he said, adding that the market must learn how to handle the excess capacity.

However, "airlines that expect huge reductions to continue will have problems," he predicted.

Meanwhile, underwriter Mr. Morse does not anticipate direct aviation rates rising until the spring of 1991 at the earliest.

A move in the London market to combine the aviation underwriting of major insurance companies could enforce greater underwriting discipline, brokers say.

The new consortium—the British Aviation Insurance Group—will start underwriting for Jan. 1 renewals, the group announced last week. It consists of the underwriting departments of: Aviation & General Insurance Co. Ltd.; British Aviation Insurance Co. Ltd.; Sun Alliance & London Insurance P.L.C.; Eagle Star Insurance Co. Ltd.; Commercial Union Assurance Co. P.L.C.; Royal Insurance P.L.C.; Guardian Royal Exchange Assurance P.L.C.; General Accident Fire & Life Assurance Corp. P.L.C.; and Norwich Union Fire Insurance Society Ltd.

Observers estimate that the consortium will represent about 25% of the total London aviation underwriting capacity.

The chairman of the new group will be Tony Brend, chief executive of CU; the managing director will be Peter Crawford, managing director of Aviation & General; and vice chairmen will be Ivor Storey, managing director of BAIC, and John Peters, director of Sun Alliance.

"The company expects to play a major role in all classes of aviation risks currently underwritten by its members and will commence underwriting risks incepting on and after Jan. 1, 1991, in their new Underwriting Room, which will be open for business at the end of October at the Institute of London Underwriters building," the group announced.

The establishment of such a large underwriting group will reassert London's position in the world aviation market and will reduce the expenses of the individual companies joining the consortium, one broker pointed out.

"It will have a big impact on the market and could reduce capacity," said another, adding that it will mean redundancies among aviation brokerage staff as well as underwriting staff.

"I believe it will be a good thing if London has a strong company that provides better services such as surveying and legal advice," said Mr. Bolton of Bowring.

However, at least one participant in the venture does not believe the formation of the group would have any impact on the glut of capacity in the market.

"The aviation market has been beset by an enormous capacity for a number of years and I don't believe the formation of this group will provide the answer (to the capacity problem). Capacity will not be reduced by the formation of the group," said a spokesman for Eagle Star.

"The consortium will maximize our usage of capacity and will bring together all our skills. For example, at the moment the claims effort of London companies is diffused," the spokesman noted. ■

Asbestos verdict

Continued from page 2

among other things, were violated.

However, plaintiffs' attorney Wayne Reaud of Reaud, Morgan & Quinn in Beaumont, Texas, says, "Every constitutional guarantee has been protected."

While conceding that no court has yet approved the procedures being used here, Mr. Reaud says the "asbestos crisis" demands that courts come up with novel solutions.

"This is a brilliant procedure that will be the future of all types of mass tort litigation," predicted Mr. Reaud.

On Oct. 12, after the $122 million in awards was announced, Celotex and its Carey Canada Inc. unit filed for protection under Chapter 11 of the U.S. Bankruptcy Act, citing asbestos liabilities as the primary reason.

The two former asbestos manufacturers say they face more than 140,000 asbestos personal injury suits and have depleted their insurance by paying out more than $587 million in settlements and defense costs in asbestos personal injury and property damage cases.

"The decision to file Chapter 11 was forced by an inability to continue to obtain insurance proceeds to fund the enormous costs associated with the massive asbestos related litigation pending against them," said Celotex Chairman Kenneth E. Hyatt.

It is also possible, though the company will not confirm it, that Celotex's decision was prompted by the huge potential liability from the consolidated action in Texas.

All three companies, originally part of the former Asbestos Claims Facility, were among the first producers to defect to litigate their coverage disputes (*BI*, March 14, 1988). Subsequently, a smaller claims handling facility dubbed the Center for Claims Resolution was formed, but none of these producers joined that facility.

Fibreboard also is litigating with some of its insurers as part of the coordinated asbestos coverage dispute in California Superior Court (*BI*, Sept. 12, 1988; Feb. 29, 1988).

Pittsburgh-Corning attorneys could not be reached to comment on their insurance.

During the first phase of the class-action suit before Judge Parker, a jury found the companies liable for, among other things, failing to warn workers about asbestos.

During this phase, the jury also determined that punitive damages should be eight times the compensatory damages.

Judge Parker later reduced the punitive damages to four times the compensatory damages.

The defendants' differing liabilities were not disclosed.

Punitive damages are generally insurable in Texas, but it is not certain that Texas law would govern disputes between these producers and their insurers.

The second and most recent phase of the trial involved a determination of the compensatory damages.

Cases were divided according to the type of disease a plaintiff claimed to have. Groups of seven to 20 similar cases were tried before different juries in July through October. Each jury issued a sealed verdict. At the end of the last trial, all of the verdicts were revealed and totaled $122 million in compensatory damages for about 160 plaintiffs.

By the end of the second phase, only Pittsburgh Corning, Fibreboard and Celotex had not settled.

Because prior settlements will substantially reduce the amount of the award, these defendants will be responsible for only a small fraction of the total, defense attorneys say.

However, prejudgment interest could also vastly increase the award, plaintiffs' attorneys note.

It is not known how Celotex's bankruptcy filing will affect the case.

Many other questions remain to be answered, including:

- Will the $122 million award be extrapolated to determine the amount of damages awarded all 2,300 plaintiffs? This will involve a determination of whether the 160 cases that were tried are sufficiently representative of the entire class.
- From which point should prejudgment interest begin to accrue? If plaintiffs successfully argue that prejudgment interest should begin to accrue from the 1970s or earlier, when they were exposed, compensatory awards could be quadrupled.
- Will the punitive damages multiplier be used against the entire $122 million award or to the amount due after previous settlements are subtracted.
- Will each plaintiff get an equal share of the award or something proportional to his health and age? And, how would this be determined?

Judge Parker is expected to address many of these issues at the Oct. 29 hearing.

Judge Parker, whose handling of this case broke new legal ground, is one of 10 federal judges who, in an Aug. 10 order, tried to create nationwide asbestos class-action lawsuits (*BI*, Aug. 20).

The proposal has been criticized by some who say it could cause further delays in payments to asbestos injury victims. Nevertheless, the judges are tentatively proceeding with their plan, under which asbestos litigants would go before one of three federal judges, each of whom would play a different role.

Judge Parker and a federal judge in Cleveland would oversee two massive class-action lawsuits. A federal judge in New York would oversee a class-action against defendants with limited financial resources.

Many observers say the results of the class-action case in Texas will foreshadow the future of asbestos litigation. Specifically, the success or failure of this consolidated proceeding may indicate the viability of nationwide asbestos class-action.

"Judge Parker's innovative approach shows that for those who look, solutions can be found to resolve the asbestos problem," said plaintiffs' attorney Paul Gillenwater of Gillenwater, Nichol & Ames in Knoxville, Tenn.

Class-action litigation "is the only viable solution," he says.

However, defense attorney Mr. Garrard says the Texas experiment "is evidence as to why a nationwide class-action cannot properly and fairly be used to make damage determinations."

The $122 million award to 160 plaintiffs breaks down to about $760,000 per plaintiff and that is "much higher" than average for individual cases," he said. ■

Airlines criticize war rates

By JOHN PARRY

GENEVA, Switzerland—Rising aviation war risk insurance rates in the Persian Gulf region unfairly penalize airlines already suffering from higher fuel costs and could lead to additional fare hikes, says the International Air Transport Assn.

Higher fuel and war risk insurance costs already have wiped out the higher fares that most airlines instituted earlier this month, according to Gunter Eser, director general of the IATA, which represents most of the world's major airlines.

If fuel and insurance costs keep rising, further air fare hikes may be inevitable, said Mr. Eser.

However, rates for all-risk aviation insurance continue to fall (see story, page 1).

An IATA delegation of airline executives and pilots, sent to the London market to press for lower war risk rates, came away "empty handed," said a spokesman for the airline organization.

Underwriters "were sympathetic but they didn't give any indication that they intend to move to cut the cost of war risk insurance," said the spokesman.

While IATA agrees that there should be higher war risk surcharges for flying to airports in nations like Jordan and Saudi Arabia, it doesn't see the need of extending the "danger zone" as far as Cyprus and Western Turkey, Mr. Eser said (*BI*, Aug. 13).

In response to airlines' complaints, insurers last week removed additional war risk rates levied on travel in Cyprus and Western Turkey.

Additional war rates still are being charged for most Middle East countries, such as Egypt, Syria, Yemen, Israel and Lebanon. In fact, underwriters last week increased rates for Israel, brokers say, though the amount of the increase was not available.

The IATA's Mr. Eser warned, "If fuel oil prices continue to escalate, the insurance market remains unfavorable and there is any significant slowdown in the world economy, many airlines will suffer serious losses."

Airlines are "very unhappy" about the additional war risk charges. Airlines traveling within the designated areas are paying more than $20 million a week in additional war risk premiums, he said.

The airlines will have to pass these increased costs on to passengers, Mr. Eser warned.

Brokers in London acknowledged that additional war risk rates have shot up since Iraq's Aug. 2 invasion of Kuwait.

"Some airlines are paying an extra $1 million a week or more for trips to the Gulf area. However, it is anticipated that these charges will decrease because the airlines have complained so much and because the crisis is continuing with no outbreak of war yet," said one London broker.

Aviation war risk underwriters already have been hit with one massive claim as a result of the Iraqi invasion of Kuwait, brokers and underwriters point out.

In September, aviation hull war risk underwriters agreed to pay $300 million for the loss of 15 Kuwait Airways Corp. aircraft confiscated by Iraq after its invasion (*BI*, Sept. 24).

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Associate Editor Carolyn Aldred in London contributed to this report.

Woes in real estate, stocks won't trigger hard market

By LEONARD M. WILSON

Special to Business Insurance

TWO TOPICS HAVE DRAWN our attention over the past few weeks as we contemplated the state of insurance brokerage. First, the completion of the merger between Corroon & Black Corp. and Willis Faber P.L.C. And second, the remorseless onward march of the soft market.

The Willis-Corroon deal demonstrated again that unfriendly combinations in the insurance brokerage are non-starters. The Aon Corp. offer was couched at the outset as contingent upon the acquiescence of Corroon's directors. Aon could have pursued its quest in the face of opposition, but winning might have entailed a Pyrrhic victory that alienated Corroon's staff.

Mr. Wilson

The shareholders of Corroon & Black benefited from a last-minute sweetening of the deal with Willis Faber in the form of a cash distribution. In addition, strength in British pound vs. the dollar proved an unanticipated ally. An appreciating pound boosted the value in dollars of the Willis shares that were distributed to Corroon's holders. Investors stand to benefit further, assuming the shares of the combined firm capitalize likely earnings at typical insurance brokerage appraisal over the next year or so.

Premium rates for commercial lines, in the meantime, are not providing much encouragement. Some observers feel that the descent in rates has pretty much abated. But there is still plenty of competition, judging from anecdotal evidence about the price strategies of specific insurance companies and the increasing appetite of the London market for U.S. risks.

We began to remind ourselves of the factors—commonly cited in 1987—that were supposed to contain the intensity of competition. Uncollected reinsurance, clients upset by extreme pricing volatility, better management information and the Tax Reform Act of 1986 all were expected to play a role in restraining competition. This is an imposing list of incentives for prudent pricing. Yet, they have not worked.

Insurers now face a new debacle in the form of the deteriorating quality of real estate assets. The pain here is not evenly spread out, but major insurers like Travelers Corp. have experienced a steep decline in share price as investors discount the potential damage. The real estate assets, for the most part, are on the life insurance side for the multi-line companies.

> **Returns on capital may reach the vanishing point if current pricing trends continue into the next year.**

Therefore, we posed a question to several knowledgeable contacts. Could real estate or first mortgage write-offs require that capital be diverted from property/casualty in order to buttress capital positions in life subsidiaries? Indeed, this might prove to be a catalyst for turning the commercial insurance market.

One viewpoint held that life and property/casualty insurance are distinct businesses. Capital in property/casualty units would not be materially diminished by asset write-offs on the life side. The travails of life subsidiaries would not turn the property/casualty markets. We think this position is plausible, but it is still early in the unfolding drama of insurance company real estate exposure.

A second opinion allowed that, sure, losses in real estate would be substantial. But there was still ample capital in the property/casualty industry to fuel continuing competition. No need to look beyond Fund American Cos. and The Home Insurance Co. Capital is still flowing to U.S. insurance markets. Both firms stand to derive new vigor from foreign acquirers.

The real estate problems of the insurance industry might be equated with a catastrophe like a hurricane or a moderate-sized earthquake. Billions of dollars—a lot of cash in the real world—but perhaps not big enough to put real fear into managements.

Along with sinking real estate, the stock market has taken a well-publicized nose dive. Industry surplus amounted to around $134 billion at the beginning of the year and common stock investments were in the area of $52 billion. The broader market averages have declined roughly 15% since the start of 1990. Applying this percentage to the industry common stock portfolio, we calculate a decline in surplus of approximately $7.5 billion from the fall in the equity market—effectively the impact of another sizable catastrophic loss.

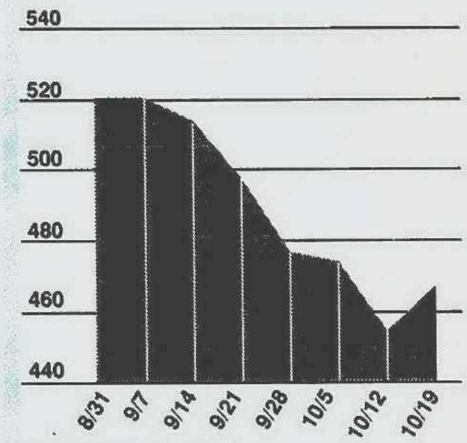
If bad real estate loans and a bear market won't turn rates, what will? Combined ratios are rising, and projections for underwriting losses are gloomy indeed. Returns on capital may reach the vanishing point if current pricing trends continue into the next year.

In a rational environment, the ability to forecast the magnitude of underwriting results should produce better rates long before the disaster stage is in view. Yet the idea is widespread that the industry must have its back to the wall before pricing improves.

This unpromising prospect seems to condemn the insurance brokers to at least another year of austerity and modest growth. Brokers are merely passengers on the underwriters' pricing roller coaster. We have always felt that the insurance brokers are better served by a market that permits underwriters to prosper. Not that insurance brokers can't manage their way to a year of earnings gains. But firm markets would release the substantial upside operating leverage that exists for the brokers. Wait until the year after, as the old baseball saw expresses it. ■

Leonard M. Wilson is a senior vp with Lazard Asset Management Inc. He is a member of the New York Society of Security Analysts.

BI Insurance Index



Base = 100 on Dec. 29, 1978
Source: Nordby International Inc.

Insurance industry stocks revived last week as the *Business Insurance* Index rose 11.5 points to 466.77 on Oct. 19, from 455.23 on Oct. 12. Advancing issues for the week were led by Phoenix Re Corp., up 35.0%; Seibels Bruce Group, up 23.5%; and Tokio Marine & Fire, up 21.1%. Declining issues for the week followed Poe & Associates, down 19.5%; AmBase Corp., down 18.7%; and NWNL Cos., down 17.2%. The most active issue was American General, 3.9 million shares traded. The *BI* Index was up 2.5% for the week; The Standard & Poor's 500 climbed 4.1%; the Dow Jones 30 Industrials were up 5.1%; and the New York Stock Exchange Composite rose 3.6%.

British Issues

Oct. 18 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence pence
Comml Union	461	21.0	28.7	6.2	473—461
Genl Accident	462	14.0	33.4	7.2	470—462
Gdn Royal Exch	183	16.0	15.3	8.4	189—183
Royal	385	20.6	34.0	8.8	399—385
Sun Alliance	293	10.5	16.7	5.7	309—293
Brokers					
Bradstock	203	14.1	10.0	4.9	204—203
CE Heath	387	11.4	34.5	8.9	393—387
Hogg Group	134	8.9	9.7	7.2	137—134
Lloyd Thompson	266	17.8	10.0	3.7	266—266
PWS Holdings	69	10.6	3.3	4.8	69—69
Sedgwick Grp	208	15.7	16.0	7.7	208—197
Steel Brrl Jones	224	13.4	14.7	6.6	230—224
Willis Corroon	209	15.2	16.0	7.7	209—191

Source: Philip Olsen, Insurance Industry Specialist London

BI Industry Stock Report

OCTOBER 15, 1990 THROUGH OCTOBER 19, 1990

BROKERS		Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
Alexander & Alexander	NYS	18.50	9.63	-41.27	34.00	16.13	241	1.00	5.41	17	9.18	2.02
Corroon & Black	NYS	32.50	0.00	-15.03	41.00	0.13	0	1.36	4.18	16	12.73	2.55
Gallagher Arthur J. & Co.	NYS	20.25	1.25	-18.18	25.88	19.75	44	0.60	2.96	16	5.33	3.80
Frank B. Hall	NYS	2.63	0.00	-12.50	4.25	2.50	89	0.00	0.00	-2	-2.80	-0.94
Hilb, Rogal & Hamilton	OTC	11.75	-2.08	-36.91	20.63	11.25	14	0.28	2.38	16	4.60	2.55
Marsh & McLennan	NYS	68.50	3.98	-12.18	89.75	59.75	541	2.60	3.80	16	10.56	6.49
Poe & Associates	OTC	8.25	-19.51	-37.74	13.00	8.25	25	0.40	4.85	10	1.93	4.27
BROKERS	AVERAGE		-1.0	-24.8					3.4	13		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W.R. Corp.	OTC	32.25	1.98	-22.52	46.50	28.50	246	0.44	1.36	7	25.06	1.29
Berkshire Hathaway Inc.	NYS	6100.00	6.36	-29.28	8900.00	5675.00	1	0.00	0.00	-20	2869.00	2.13
ITT (Hartford Group)	NYS	44.50	9.20	-25.68	61.38	40.25	2025	1.72	3.87	5	56.33	0.79
Sears (Allstate)	NYS	25.88	12.50	-33.23	41.88	22.00	3571	2.00	7.73	7	37.75	0.69
CONGLOMERATES	AVERAGE		7.5	-27.7					3.2	0		
INSURERS/REINSURERS												
Aetna Life & Casualty	NYS	32.63	2.76	-43.75	62.50	29.63	2804	2.76	8.46	5	58.11	0.56
Ambase Corp	NYS	0.81	-18.70	-93.56	15.13	0.63	201	0.00	0.00	0	29.08	0.03
American General	NYS	26.63	-8.97	-18.70	50.63	24.75	3882	3.20	12.02	6	34.68	0.77
American Heritage	NYS	19.63	-1.88	-31.14	24.63	19.63	3	1.00	5.10	10	22.60	0.87
American Indemnity/Fin'l	OTC	3.75	-11.76	-53.13	9.25	3.38	1	0.08	2.13	-1	17.38	0.22
American International	NYS	66.25	10.88	-21.50	89.63	57.00	2115	0.44	0.66	10	41.92	1.58
Aon Corp.	NYS	29.38	4.91	-30.68	43.25	26.75	251	1.52	5.17	8	19.62	1.50
Argonaut Group	OTC	54.00	1.89	-21.60	78.00	53.00	13	1.60	2.96	6	36.83	1.47
AVEMCO Corp	NYS	21.75	-2.79	-10.77	30.13	20.38	5	0.44	2.02	15	9.52	2.28
Baldwin & Lyons Inc.	OTC	18.25	-2.67	-15.12	24.00	18.25	0	0.28	1.53	6	20.80	0.88
Belvedere Corp	ASE	2.13	6.25	-61.36	5.63	1.75	274	0.04	1.88	-2	8.03	0.26
Chandler Insurance	OTC	5.00	-16.67	-57.45	13.25	4.75	70	0.00	0.00	3	9.53	0.52
Chubb Corp	NYS	38.00	6.29	-60.37	51.38	34.63	1380	1.32	3.47	8	55.49	0.68
CIGNA Corp	NYS	37.75	5.36	-37.34	66.75	33.25	914	3.04	8.05	11	66.64	0.57
CNA Financial Corp.	NYS	55.88	3.47	-44.13	108.75	52.25	147	0.00	0.00	9	54.87	1.02
Continental Corp	NYS	17.63	-7.24	-43.82	34.63	16.88	1207	2.60	14.75	13	41.36	0.43
Durham Corp	OTC	26.00	0.00	-15.45	34.75	23.00	12	0.92	3.54	12	26.32	0.99
Fund American Corp.	NYS	44.00	0.28	24.82	51.88	29.50	652	0.68	1.55	94	32.74	1.34
Fremont General Corp	OTC	11.13	3.49	-44.72	22.50	10.13	373	0.80	7.19	3	19.09	0.58
Frontier Insurance Group	NYS	19.00	0.00	2.70	33.00	14.13	16	0.00	0.00	8	7.29	2.61
General RE Corp	NYS	77.50	0.98	-13.89	96.25	69.00	1392	1.52	1.96	12	29.04	2.67
Hanover Insurance Co	OTC	22.25	-1.11	-27.05	32.25	21.75	142	0.44	1.98	7	32.03	0.69
Harleysville Group	OTC	14.75	1.72	-46.36	27.38	13.50	14	0.60	4.07	5	18.94	0.78
Hartford Steam Boiler	NYS	48.88	4.27	-9.91	62.13	43.50	120	1.80	3.58	13	18.94	2.58
Kansas City Life Ins.	OTC	30.00	-16.67	-16.38	36.50	31.50	21	1.12	3.73	8	39.22	0.76
Kemper Corp	NYS	21.75	15.23	-53.97	51.00	18.38	530	0.92	4.23	33	29.97	0.73
Lawrence Insurance Group	ASE	7.38	5.36	3.51	9.13	6.50	2	0.36	4.88	13	4.40	1.68
Liberty Corp.	NYS	42.88	1.48	0.88	50.25	35.00	9	0.92	2.15	10	31.82	1.35
Lincoln National	NYS	34.13	-3.19	-44.06	62.88	33.25	237	2.60	7.62	6	49.19	0.69
NAC Re Corp	OTC	28.50	5.56	-21.38	41.00	25.50	122	0.20	0.70	13	22.81	1.25
Navigators Group	OTC	25.50	-2.86	-7.27	33.75	25.50	35	0.00	0.00	9	15.22	1.68
Nobel Insurance LTD.	OTC	2.50	-4.76	25.00	3.75	1.50	13	0.00	0.00	-7	7.76	0.32
NWNL Companies	OTC	12.00	-17.24	-69.62	44.13	12.25	1058	1.32	11.00	2	37.50	0.32
Ohio Casualty Corp.	OTC	30.25	4.31	-36.65	52.50	26.75	346	2.32	7.67	9	33.30	0.91
Old Republic Int'l	NYS	19.75	-8.67	-22.93	28.00	20.38	52	0.76	3.85	5	30.70	0.64
Orion Capital Corp.	NYS	15.00	-1.64	-35.48	25.88	15.00	36	0.92	6.13	5	19.72	0.76
Phoenix RE Corp.	OTC	6.75	35.00	-48.08	15.50	5.00	34	0.20	2.96	-7	12.99	0.52
Protective Life Corp.	OTC	12.63	7.45	-11.40	15.38	10.25	55	0.76	6.02	7	14.54	0.87
Provident Life	OTC	13.50	0.00	-47.83	30.13	12.63	734	0.80	5.93	4	23.24	0.58
Re Capital Corp.	ASE	12.00	0.00	-17.24	15.25	11.50	0	0.00	0.00	10	14.43	0.83
RLI Insurance Corp.	NYS	10.38	5.06	16.90	14.75	7.25	10	0.44	4.24	6	12.42	0.84
St. Paul Companies	OTC	51.50	4.04	-14.17	63.50	47.00	1053	2.40	4.66	6	43.47	1.18
SAFECO Corp.	OTC	26.25	0.48	-33.96	42.38	25.25	1062	1.36	5.18	6	24.87	1.06
SCOR U.S. Corp.	NYS	8.50	-4.23	-40.35	14.50	8.50	28	0.20	2.35	12	10.61	0.80
Seibels Bruce Group	OTC	5.25	23.53	-51.72	11.75	4.25	50	0.80	15.24	-1	13.75	0.38
Selective Ins. Group	OTC	14.00	1.82	-26.80	20.25	13.75	26	1.04	7.43	5	15.72	0.89
Statesman Group Inc.	OTC	1.38	0.00	-50.00	3.31	1.25	26	0.04	2.91	2	4.19	0.33
Tokio Marine & Fire	OTC	50.88	21.13	-32.50	78.13	34.50	24	0.26	0.51	-	70.93	0.72
Torchmark Corp.	NYS	42.75	8.92	-25.33	58.75	38.00	268	1.40	3.27	10	13.23	3.23
Transamerica	NYS	25.13	0.50	-43.70	47.38	23.25	662	1.96	7.80	6	34.63	0.73
Traveler's Corp.	NYS	13.63	0.93	-63.05	42.00	12.75	2714	1.60	11.74	4	44.85	-
Trenwick Group Inc.	OTC	18.75	3.45	-23.08	26.88	16.25	81	0.48	2.56	8	16.91	1.11
United Fire & Casualty	OTC	29.75	0.85	-9.85	35.00	28.75	2	1.20	4.03	8	22.56	1.32
USF&G Corp.	NYS	12.13	-11.01	-59.07	31.38	11.13	3091	2.92	24.08	8	22.87	0.53
UNUM Corp.	NYS	38.25	12.09	-19.90	57.13	32.13	729	0.80	2.09	8	31.20	1.23
USLIFE Corp.	NYS	28.75	4.55	-36.46	47.00	26.00	115	1.48	5.15	7	54.34	0.53
Washington National	NYS	14.13	-3.42	-50.00	28.75	13.00	46	1.08	7.65	16	32.90	0.43
USLICO Corp.	NYS	17.13	13.22	-27.89	24.50	15.00	23	1.00	5.84	6	27.73	0.62
Zenith National Ins.	NYS	10.38	-4.60	-44.67	19.38	10.38	138	0.88	8.48	6	13.81	0.75
INSURERS/REINSURERS	AVERAGE		1.4	-31.8					5.0	8.8		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	OTC	12.25	13.95	-42.35	26.38	9.75	282	0.00	0.00	11	3.54	3.46
HMO America Inc.	OTC	5.25	20.00	-32.26	8.13	4.25	76	0.00	0.00	7	1.12	4.69
Pacificare Health Sys.	OTC	15.25	7.02	-41.35	29.13	12.00	52	0.00	0.00	11	6.35	2.40
Safeguard Health Enter.	OTC	4.88	2.63	-42.65	11.38	4.00	22	0.00	0.00	8	2.99	1.63
Sierra Health Services	ASE	6.63	3.92	-25.35	9.63	5.50	9	0.00	0.00	-18	0.62	10.69
United Healthcare Corp.	OTC	16.13	15.18	31.63	20.13	7.88	754	0.12	0.74	19	0.34	47.43
United Medical Corp.	ASE	7.00	1.82	16.67	11.38	6.00	8	0.20	2.86	10	5.70	1.23
U.S. Healthcare	OTC	18.38	11.36	28.95	22.25	9.63	0	0.36	1.96	21	3.07	5.99
HMOs	AVERAGE		9.5	-13.3					0.7	9		
ALL COMPANIES	AVERAGE		2.3	-28.3					4.2	8		

System design: Nordby International Inc.

Sometimes your greatest risk is standing still.

Change may be difficult. But doing nothing is far worse.

Which is why we, at the CIGNA Reinsurance Company, are taking an aggressive approach towards meeting our clients' needs.

You'll find there is a creativity and cooperation in the way we tackle difficult problems.

One that makes it easy for you to stay on top of an environment that's always changing.

Instead of making you conform to our way of doing business, we work with you to find the solutions that are best for your business.

From underwriting, claims management, and loss control, to investment counseling and financial planning.

Our specialists will begin reviews in all of these areas on just one day's notice. And they won't stop there. They will follow up with new ideas and recommendations for making your operation more effective and efficient.

For information, ask your broker to contact the CIGNA Reinsurance Company at One Franklin Plaza, Phila., PA 19102. And do it today.

Because we all know what happens to those who just sit there.

We get paid for results.[SM] CIGNA