

# Business Insurance

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## Chubb unit pays \$20 million in drought coverage claims

WARREN, N.J.—Federal Insurance Co. has incurred \$20 million in losses on 1,176 drought insurance policies it issued last summer in seven Midwestern states, according to parent company Chubb Corp.

The policies provided a total of \$43 million in coverage against crop losses caused by below-normal rainfall. The losses were incurred between June 1 and Aug. 31, the effective dates of the three-month policies.

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## Outhwaite told to pay claims to syndicate

By CAROLYN ALDRED

LONDON—Lloyd's of London underwriter Richard Outhwaite must pay claims stemming from an unlimited runoff reinsurance policy he wrote for a fellow Lloyd's underwriter, an arbitration umpire ruled last week.

Claims already filed by the Michael Cockell syndicate total about \$50 million, sources say, but arbitrators still must determine the exact amount of claims, plus interest, that Mr. Outhwaite owes Mr. Cockell.

The decision, which was anxiously awaited by the London insurance market, is the first arbitration decision returned in one of several disputes between Mr. Outhwaite and underwriters who ceded runoff reinsurance policies in 1981 and 1982 to syndicate 317/661, managed by R.H.M. Outhwaite (Underwriting Agencies) Ltd.

Although the decision sets no legal precedent, other arbitration tribunals likely will rule similarly, some observers predict.

Mr. Outhwaite currently is disputing at least nine other runoff reinsurance contracts, claiming inadequate disclosure of information by the ceding underwriters. Most of the claims for which the ceding underwriters are seeking coverage involve U.S. asbestos and pollution losses.

Five of the disputes already are scheduled for arbitration, said an Outhwaite agency spokesman.

The Cockell arbitration "was being regarded as a flagship arbitration and as an indication of the way other arbitrations

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## UTC litigation likely to shrink

By STACY ADLER

BOSTON—The nation's largest hazardous waste coverage dispute may shrink significantly in the next few weeks.

Hartford, Conn.-based United Technologies Corp. is considering dismissing without prejudice from a coverage suit more than 50 property insurers to allow the insurers to adjust the company's claims, according to United Technologies attorney Peter J. Kalis of Kirkpatrick & Lockhart in Pittsburgh.

By filing a dismissal without prejudice, United Technologies reserves the right to sue its property insurers again if the company believes the insurers do not adjust the claims properly.

United Technologies' property insurers earlier this year had sought to be dismissed from the suit on the grounds that the company had never properly notified them of a claim for coverage.

However, United Technologies has not admitted to failing to properly notify its property insurers of a claim, said Mr. Kalis.

The decision to dismiss its property insurers without prejudice could be a valuable lesson to other policyholders considering suing insurers to secure coverage, according to Stuart Cotton, an attorney with Mound, Cotton & Wollan in New York.

"It could cause policyholders to reconsider... maybe they should not go to court as a first step," said Mr. Cotton who

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**Employers overlook savings prenatal care can provide**  
**Page 3**



Photos: Glenn Huntley

California residents are being bombarded with ads backing or slamming the various insurance propositions.

## Ballot battle

### California vote could rattle other states

By GLENN HUNTLEY

LOS ANGELES—California voters on Nov. 8 may send earthshaking tremors throughout the insurance industry.

But, unlike a building-rattling earthquake, this temblor could vibrate outside state boundaries and rattle insurance companies—and eventually risk managers—across the country.

This upheaval could be triggered by the slate of five insurance-related reform initiatives, four of which, if approved, would force property/casualty insurers to reduce at least some rates.

And, while the polls released so far conflict, one independent survey of voters shows that the proposition most likely to fail is the insurer's own proposal, Proposition 104, which would establish no-fault auto insurance in California.

If the insurance industry loses the California battle, critics of insurers around the country will attempt to duplicate their victory in states across the nation, insurers and their opponents agree.

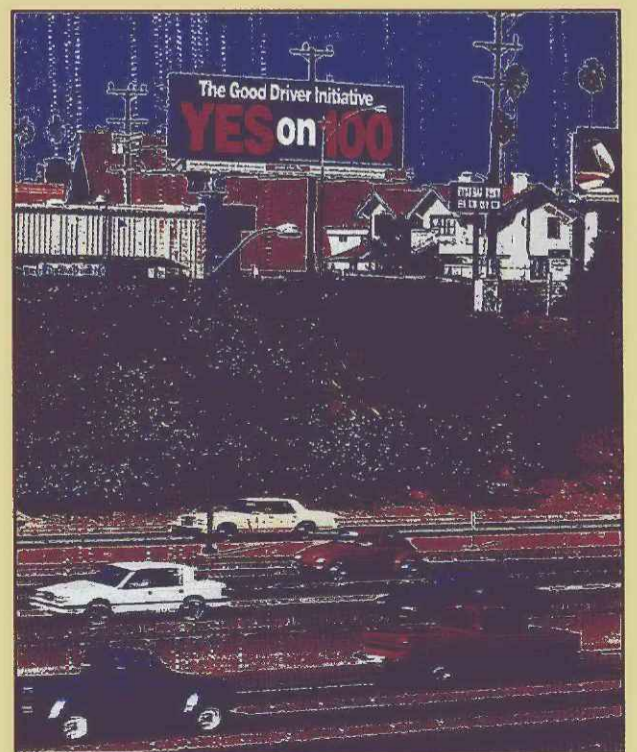
"The insurance industry is about to get the payback after years of greed and arrogance," said Harvey Rosenfield, chairman of the Voters Revolt to Cut Insurance Rates, which is sponsoring Proposition 103, the most radical of the reform proposals.

Unlike the other proposals, which are limited to auto insurance, Proposition 103 would force a rollback in rates for all types of property/casualty insurance (see story, page 40).

Californians are tired of paying some of the country's highest auto insurance rates while insurance companies rack up huge profits, Mr. Rosenfield contends. They also are angry that insurers are spending more than \$40 million, a record amount for a California election, to sell their own proposals to the voters, he added.

"Proposition 104 is in the toilet, thus their Trojan horse strategy has failed," Mr. Rosenfield said.

However, insurers note that approval of the more radical Proposition 103 could cause the insolvency of some



insurers. And the state Insurance Department agrees (see story, page 40).

Proponents of Proposition 103, however, say the threat of insurer insolvency if their proposal is approved is overstated. Instead, the insurance industry is concerned that popular insurance reforms could "spread like wildfire" if

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# Update

## Drought coverage losses climb

Continued from previous page

Federal also spent about \$11 million on about 7,000 goodwill payments to farmers who submitted applications for the coverage on time but were rejected when the insurer reached its capacity limits on the program.

Federal received more than 8,800 applications for coverage with limits totaling about \$350 million. Chubb estimates that Federal would have incurred about \$55 million in losses if it had accepted all of the applications.

Chubb took a \$20 million pretax charge in the second quarter because of the drought insurance and said it anticipates taking another \$10 million pretax charge in the third quarter.

Chubb faces fraud litigation at federal and state levels as well as regulatory action over its attempts to return premiums and a cash payment equal to those premiums to farmers whose applications were rejected (BI, Oct. 17; Aug. 8; July 25; July 18).

## Tobacco firms agree to labels

SAN FRANCISCO—Twenty-five tobacco product manufacturers have agreed to place health warnings on their non-cigarette products in California to settle a lawsuit brought by state Attorney General John K. Van de Kamp.

About half of the manufacturers indicated during settlement negotiations that they also would place health risk warnings on the non-cigarette products they sell in other states, a spokesman for Mr. Van de Kamp said.

Prior to the settlement, announced Oct. 19, major grocery store chains had threatened to pull from their shelves any tobacco products that lacked the warnings (BI, Oct. 10).

The non-cigarette products that now will carry health risk warnings include cigars, pipe tobacco and chewing tobacco. Federal law already requires that cigarette packages carry these warnings.

Proposition 65, an anti-toxins initiative that took effect in February, requires businesses whose products present a risk of cancer or birth defects to warn employees and the public. Penalties for failure to comply can include fines up to \$2,500 per day of violation.

Any group or individual can notify local and state prosecutors of their intent to bring legal action against alleged violators. In this instance, Mr. Van de Kamp decided to prosecute the case in the state's name.

## OSHA toughens asbestos limit

WASHINGTON—The U.S. Occupational Safety & Health Administration has toughened its short-term asbestos fiber exposure limit for workplaces.

Under the new limit, which became effective Oct. 14, workers on average can be exposed to one fiber of asbestos per cubic centimeter of air over a 30-minute period. Under the previous rule, workers on average could be exposed to 0.2 fibers of asbestos per cubic centimeter of air during an eight-hour day.

Employers must meet both the new and the old standards.

OSHA estimates that the new short-term exposure limit will save 118 lives in cases when workers are exposed to asbestos over 45 years and 79 lives in cases when workers are exposed to asbestos over 20 years.

OSHA estimates the cost to employers—primarily construction and manufacturing firms—at between \$2 million and \$29 million.

## Bhopal case in highest court

NEW DELHI, India—The legal battle over the authority of Indian courts to impose an interim damage award against Union Carbide Corp. to compensate victims of the December 1984 Bhopal poison gas leak heads into the Indian Supreme Court, India's highest court, next week.

The court on Nov. 1 is scheduled to consider appeals by attorneys for Union Carbide and the Indian government over the complex legal maneuverings that have resulted in two courts imposing judgments against Union Carbide and the removal of the judge that had been presiding over the litigation.

High Court Judge S.K. Seth of the Indian state of Madhya Pradesh last week replaced the judge hearing the case, stating that the company had cause to be concerned that it might not receive a fair trial, said a Union Carbide spokesman.

Judge Seth ruled that District Judge Mahadev Wamman Deo did not have the authority to order Union Carbide last December to pay \$271.1 million in interim compensation to victims before considering evidence in the case and establishing liability for the disaster (BI, Dec. 21, 1987).

However, Judge Seth last April ruled it was not necessary to hold a trial to determine damages because there was enough evidence establishing Union Carbide's liability. He ordered the company to pay about \$190 million in compensation to victims, for the 2,000 victims killed and the hundreds of thousands of victims injured (BI, April 11).

Judge Seth's April ruling left open the possibility that the lower court also could hold the company liable for damages to livestock and the Indian government.

District Judge S. Singh has been named to replace Judge Deo, the Union Carbide spokesman said.

## Crashes reinsured in London

LONDON—London aviation underwriters likely will pay a large portion of hull and liability claims stemming from four separate air crashes in the past 10 days that left nearly 200 people dead.

A Uganda Airlines Corp. Boeing 707 crashed last Monday while landing at Fiumicino Airport near Rome, killing 30 people and injuring 22. Uganda Airlines has \$5 million of hull insurance and liability insurance of up to \$150 million, sources say.

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# Benefit managers await Section 89, COBRA relief

By JERRY GEISEL and DEBORAH SHALOWITZ

WASHINGTON—Employers late last week were still hoping Congress would give them some 11th-hour relief from the dreaded Section 89 compliance rules and COBRA's massive tax penalties.

Those Section 89 and COBRA changes, along with other provisions affecting employee benefit plans, are included in technical corrections legislation that House-Senate conferees were trying to hammer out late last week before the end of the congressional session.

Other benefit provisions tied to the technical corrections legislation include a temporary six-fold increase in the federal excise tax on pension reversions and a retroactive extension of the tax-favored status of employer-provided educational assistance benefits.

If the conferees can agree on a compromise technical corrections bill—mainly designed to fix drafting glitches in the massive Tax Reform Act of 1986—the measure still would have to go to both the House and Senate for final approval. The House and Senate previously passed different versions of the technical corrections legislation.

The most important employee benefit provisions in the legislation would provide much needed relief from the awesome administrative burden of Section 89's non-discrimination rules for welfare plans, which are scheduled to go into effect on Jan. 1.

The technical corrections bills previously passed by the House and Senate contain similar Section 89 changes, including clarifying that the non-discrimina-

tion tests must only be run once a year on a date of an employer's choosing. Some experts have interpreted Section 89 rules to mean that companies would have to run the non-discrimination tests daily—an all but impossible administrative burden.

The Senate bill, though, includes some Section 89 changes—strongly supported by employers—not found in the House bill.

The Senate bill, for example, would allow companies to treat facilities that are at least 35 miles apart as separate geographic units, and, thus, as separate lines of business. An employer could then run the non-discrimination tests on each separate unit's welfare plans.

This provision is important to companies with many different units that offer welfare plans with widely different values because of varying competitive pressures in different lines of business.

Without testing by line of business, a company could fail the non-discrimination tests because not enough non-highly compensated employees would be eligible for its most generous health care plan.

This provision, which is not opposed by the Treasury Department, is expected to be accepted by House conferees, benefit lobbyists say.

The Senate bill also would give employers with multiple but similarly valued health care plans more flexibility to aggregate their plans as one plan when running the non-discrimination tests; the House bill is somewhat more restrictive.

If conferees cannot reach an agreement on a technical corrections bill and the Section 89 changes die,

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## BI to list benefits consultants

Business Insurance will publish its annual directory of employee benefit consultants in the Dec. 19 issue, which also will contain a spotlight report predicting trends in the employee benefit market in 1989.

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 Christine Woolsey, Editorial Assistant, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611; or call 312-649-5460.

The deadline for returning completed questionnaires to Business Insurance is Nov. 7.

## Day-care firm sued over loss of cover

By MICHAEL BRADFORD

KANSAS CITY, Mo.—A national day-care center operator is facing two class-action lawsuits by shareholders charging that the company deliberately hid the fact that its general liability insurance had been canceled.

Both suits allege that Kansas City-based La Petite Academy Inc. waited from late July until Sept. 19 to announce that its coverage had been canceled because of rising claims to present a favorable financial picture of the company.

One of the suits charges that La Petite Chairman Robert F. Brozman and President Jack L. Brozman, Robert Brozman's son, made about \$3.2 million by selling their shares in the company while distorting its finances.

That suit seeks to award plaintiffs with "disgorgement of any profits obtained by the Brozman defendants as a result of their sales of stocks" between March 18, when the company's annual report was distributed, and Sept. 19.

Both suits seek undetermined compensatory damages for losses suffered by shareholders after La Petite's stock price tumbled on the news that its liability insurance had been canceled. The stock's price fell \$3.875 per share to \$13.25 immediately after the Sept. 19 announcement, according to court papers.

La Petite stock was selling at about \$9 a share on the over-the-counter market last week.

La Petite, which operates 650 centers that provide care for 70,000

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## Inside

Both employers and health maintenance organizations will benefit from the amendments to the HMO Act approved by Congress, says this week's editorial. **PAGE 8**

New Jersey's commercial insurance regulatory system could be revamped if the Legislature adopts 20 bills recommended by the insurance commissioner. **PAGE 19**

Compensation payments to families of victims of the Piper Alpha oil platform explosion could exceed \$174.5 million. **PAGE 22**

The first step to mitigating vapor cloud explosions is recognizing the hazard exists, Michael F. Burke of Allendale Mutual Insurance Co. and Larry J. Moore of Factory Mutual Research Corp. report in Perspectives. **PAGE 27**

In Perspectives, Frank L. Sena of CIGNA Corp., says that long-term care coverage is a vital option in employee benefit plans. **PAGE 29**

School districts in Texas are scrambling to settle around \$6 million in unpaid claims resulting from the collapse of a self-insured health care plan. **PAGE 42**

The deadline for nominating candidates for the 1989 Business Insurance Risk Manager of the Year Award is

quickly approaching. **PAGE 43**

The liquidators of Mentor Insurance Ltd. have won permission to include new evidence in their lawsuit against Mentor's parent and other defendants. **PAGE 46**

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# Prenatal care overlooked for cost savings potential

By GLENN HUNTLEY

Employers—socked by soaring group health care costs in 1987 and 1988 and expecting continuing increases next year—are overlooking an opportunity to potentially save hundreds of thousands of dollars by offering prenatal care benefits, some consultants and employers say.

The cost of caring for an infant born with medical difficulties that could have been prevented if the mother had received proper prenatal care has soared in the last few years to \$500,000 or more, according to consultants and benefits managers.

However, programs to aggressively track the progress of pregnant employees are "still fairly rare," said Linda Ruth, benefits consultant with Hewitt Associates in Lincolnshire, Ill.

"It's amazing how many women smoke and drink during pregnancy and don't get prenatal care until the seventh or eighth month. It's just astounding," said Virginia Cirica, vp-client service for Huntington Beach, Calif.-based utilization review firm Cost Care Inc.

In addition to saving money on perinatal costs, prenatal care programs also send a positive message to employees that cannot be measured in dollars, Ms. Cirica said.

"It says, 'We care about you,'" she said. Education about prenatal activities and their possible impact on the newborn are crucial, said Irene McKirgan, director of health promotion programs at the March of Dimes headquarters in White Plains, N.Y.

The relatively few employers that have attempted to control these costs have turned to a variety of methods, including offering employees prenatal education pro-

grams established by the March of Dimes, which are free to employers; working with utilization review firms; developing their own programs; or covering employees' costs for these programs under group health plans.

In addition, consultant Towers, Perrin, Forster & Crosby Inc. of New York has developed a prenatal education program that not only stresses good health practices during pregnancy but also encourages expectant mothers to be more critical of the prenatal care provided by physicians (see story, page 45).

But, the number of employers attempting to reduce the high costs associated with problem pregnancies by implementing prenatal care programs is small.

Only "a disappointingly small number" of companies offer paid prenatal education programs, according to a survey of major employers conducted by the Health Research Institute in Walnut Creek, Calif.

The 1986 survey found that only 3.9% of 622 surveyed employers offered on-site programs and that 8.2% more reimbursed pregnant employees that completed off-site prenatal programs, according to William Hembree, the institute's director.

Analysis of a 1988 survey is pending, but Mr. Hembree says he does not expect the percentage of surveyed companies offering prenatal care programs to increase significantly.

Mr. Hembree called the general lack of more progressive prenatal programs "an opportunity lost."

"We've been yelling about this for a long time. There's not a better time to prevent poor-outcome births" than before conception or while the fetus is young, he said.

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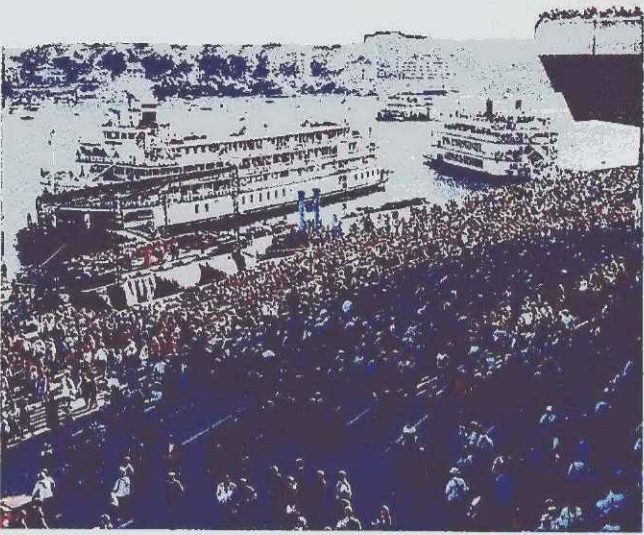


Photo: Bruce Crippen

The Society of CPCU's meeting was held in Cincinnati, just prior to the city's "Tall Stacks" riverboat festival.

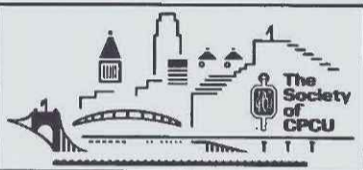
# Reinsurers face 'dark clouds,' exec contends

By MARK A. HOFMANN

CINCINNATI—The importance of U.S. reinsurance companies is declining compared with the importance of the rest of the property/casualty insurance industry, one reinsurance executive concedes.

"The reinsurance industry is becoming a smaller part of the property/casualty industry in the United States," said Bard E. Bunaes, chairman and chief executive officer of New York-based Constitution Reinsurance Corp.

"We have dark clouds hanging over the reinsurance business," observed Mr. Bunaes, who moderated a panel discussion on the state of the reinsurance market at the 44th annual meeting of the Society of Chartered Property & Casualty Underwriters,



held Oct. 9-12 in Cincinnati. One of the darker clouds cited by reinsurance executives on the panel was the long-tail nature of reinsurance exposures.

Reinsurers still do not know how much they ultimately will pay for the damages wrought by Hurricane Alicia in 1983, let alone how much they will pay for the damages caused by the freak storm with hurricane-force winds that struck Great Britain a year ago, the July explosion of the Piper Alpha oil drilling platform in the North Sea and Hurricane Gilbert, which devastated Jamaican and Mexican resort areas last month, noted Ralph F. Bailey, chairman of Lloyd's of London underwriting agency R.F. Bailey Ltd.

The reinsurance market is "fragile," he said. He noted that while the reinsurance industry's combined ratio from 1967 to 1976 was better than that of the primary property/casualty insurance industry about half the time, the reinsurance industry's combined ratio was worse than the primary insurers' every year between 1977 and 1986.

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# Tracking branch office pricing may curb competition: Panel

By MARK A. HOFMANN

CHICAGO—Insurers' increased reliance on computerized management information systems to monitor branch office pricing decisions may prevent the property/casualty insurance market from softening much further, according to insurance company and brokerage executives.

Even if insurers do not make the fullest use of those systems, the impact of the Tax Reform Act of 1986 and low interest rates probably will squash further temptation to slash prices, they say.

But, while competition may be slowing in the primary market, the reinsurance market will remain competitive because supply is outstripping demand.

These predictions were among those made during a market overview seminar sponsored by the Chicago office of Alexander & Alexander Inc., the brokerage unit of New York-based Alex-

ander & Alexander Services Inc.

The mood of the panelists was one of cautious optimism rather than apprehension, as was the case at last year's inaugural market overview seminar, which took place only days after the Oct. 19, 1987, stock market crash (BI, Nov. 9, 1987).

While price competition—especially for attractive property risks—remains "pretty intense," a combination of factors should moderate the market by the end of next year, said Gerald L. Maatman, president of national property/casualty insurance companies of Long Grove, Ill.-based Kemper Group.

For example, the use of MIS should help brake the slide into a soft market, Mr. Maatman said. The automated tracking systems allow insurers' home offices to detect and correct pricing problems earlier than they could during the last market cycle.

Mr. Maatman believes the use of MIS also will help narrow the gap between

home office and branch office market pricing perspectives.

Kemper is tracking branch office practices "very carefully," he noted.

Robert Murphy, a senior vp with Alexander & Alexander Inc. in New York, agreed that MIS is an effective deterrent to unjustified price cuts.

During the last cycle, home office personnel relied on anecdotal information, which may not have been correct, Mr. Murphy noted. But with MIS, information is both relatively timely and considerably more accurate than word of mouth.

However, Mr. Murphy stressed that MIS is not perfect. For example, one vulnerability of the system is miscoded information, particularly on new business, or deliberate understatement of exposures on a risk, allowing business to be priced at an unrealistic level.

Another problem is psychological: Good underwriters want and need to

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# Utilization review touted by employers

By ALISON KITTRELL

Utilization review programs have little negative effect on employee morale and are an important element of employers' health care cost containment programs, according to a recent survey of large employers.

"As many a seasoned benefits manager knows, one of the biggest roadblocks to initiating a UR program is its perceived negative impact on employee relations. But does this perception square with actual survey results? No," say the authors of "The Health Poll," a survey of large employers with utilization review programs.

Sixty percent of the survey respondents said there had been no change in the level of employee satisfaction with their company's health care plan as a result of utilization review implementation, and 12% more said their employees actually were more satisfied after UR was implemented.

Only 25% said their employees were less satisfied with the health care plan after UR implementation.

The remaining 3% of respondents were not

sure how UR programs affected employee morale.

And, an overwhelming 81% of the respondents said that their UR program has helped to make employees more responsible consumers of health care.

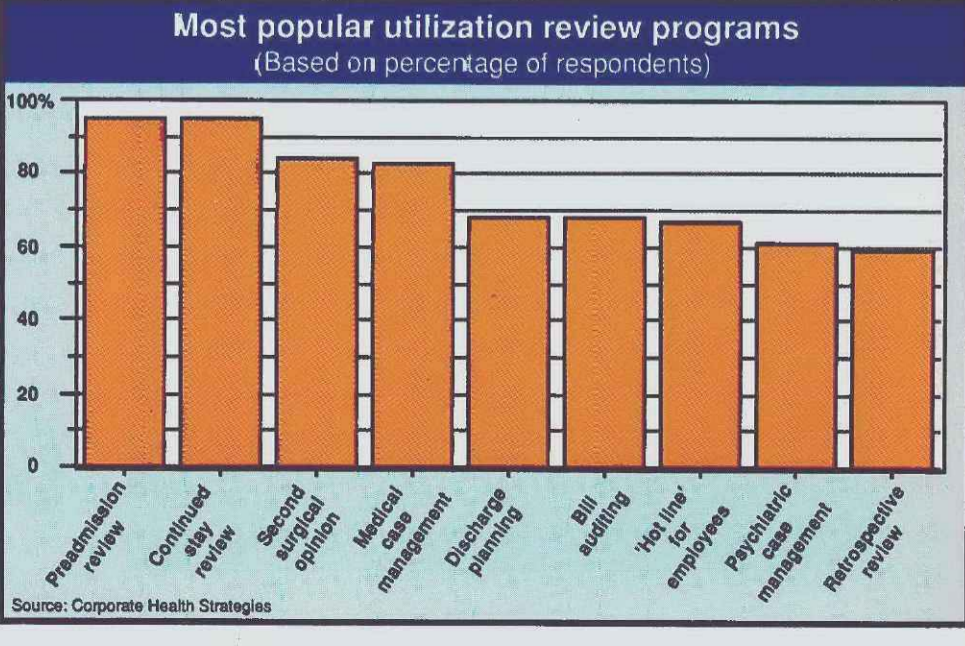
The survey polled benefit managers at 100 corporations that employed an average of 17,500 workers. Schulman, Ronca & Bucvalas, a New York-based opinion research firm conducted the survey for Corporate Health Strategies Inc., a Westport, Conn.-based health care consulting firm and provider of utilization review services.

Employee confusion over the utilization review process—often cited by employers as a potential problem in starting up a program—is not significant, according to respondents.

Sixty-one percent of the respondents said that employee confusion about the UR program when it was introduced was only a "minor" problem, and 19% more said it was not a problem at all.

Only 18% of the respondents characterized

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## Outhwaite

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are likely to go," said Mark Connolly, a partner in the London law firm of Richards Butler & Co., which represents about 400 underwriting members of the Outhwaite syndicate who are facing massive losses from the runoff reinsurance policies.

"In theory, it is a private judgment and has no precedent value or effect on other cases. But in practice, (the) judgment will be extremely hard to ignore," said Lloyd's underwriter Robert Hiscox, who also is disputing runoff reinsurance claims with Mr. Outhwaite. Mr. Hiscox's claims are due to go into arbitration next May, he said.

As a result of the decision, members of the Outhwaite syndicate in 1982, whose account is still open, could face greater losses. And, those losses could mount if other tribunals rule similarly.

The decision also could throw a wrench into Mr. Outhwaite's recent progress in renegotiating runoff reinsurance contracts with underwriters that ceded business to syndicate 317/661, sources say.

The dispute between syndicate 347/573, managed by V.H. Cockell & Partners, and syndicate 317/661 was resolved by Lord Wilberforce, a retired senior British judge and law lord who acted as the umpire in the syndicates' arbitration.

According to a statement issued by the Outhwaite agency last week, Lord Wilberforce declared that "the Outhwaite syndicate is not entitled to avoid the contract."

The contract, written in August 1931 and transferred into syndicate 317/661's 1982 underwriting year under a reinsurance-to-close arrangement, covers syndicate 347's liabilities exceeding an attachment point of \$12 million for underwriting years prior to April 1970. Mr. Cockell paid a premium of \$1.35 million for the unlimited

**Lord Wilberforce declared that 'the Outhwaite syndicate is not entitled to avoid the contract.'**

runoff policy.

"Those (underwriters) with claims against Mr. Outhwaite will be encouraged by the award," said an attorney with the London-based law firm of Herbert Smith, which represents several syndicates in disputes with Mr. Outhwaite, including the Cockell syndicate.

"There are similarities between all the cases," the spokesman added.

The Outhwaite agency is "assessing the impact of the decision upon other claims currently being defended by the Outhwaite syndicate," said Outhwaite Chief Exec-

utive Edward Bloxham in a statement.

In addition, Outhwaite's attorneys are studying Lord Wilberforce's 19-page decision to consider "further the syndicate's position in relation to the Cockell syndicate," Mr. Bloxham said.

Attorneys for the Outhwaite and Cockell syndicates refused to disclose details of Lord Wilberforce's decision, which is not available publicly. However, copies of the decision likely will be sent to syndicate members soon, said an Outhwaite spokesman.

Meanwhile, members of Mr. Outhwaite's open 1982 underwriting year now "face an awful prospect," according to Mr. Connolly of Richards Butler.

Although reserves for the Cockell claim were established in the syndicate's 1982 account last year, the runoff contract is "open-ended and adjustment to the reserves may be required for future years," Mr. Bloxham warned in a statement

last week.

Reserves set aside by the Outhwaite agency last year to meet outstanding liabilities for the 1982 underwriting year total 263.3 million pounds (\$459.5 million at current exchange rate). While the agency has reinsurance arrangements such as time-and-distance policies and other assets to meet most of the required reserves, 85.4 million pounds (\$149 million) must be met by the 1,614 members of the syndicate in 1982.

Mr. Outhwaite has called on members to pay 20.5 million pounds (\$35.8 million) toward the loss this year and has warned members to expect future cash calls at regular intervals until well into the 1990s (BI, Aug. 29).

Richards Butler was commissioned by a committee representing about 400 Outhwaite members to advise on the members' position and what action they should take, said Mr. Connolly.

The law firm will advise these members of what position to take as soon as it has reviewed the arbitration decision details, he said.

"We were waiting for the results of the underlying arbitration, which, if successful, would have reduced the members' losses," he noted.

Meanwhile, standstill agreements between the Outhwaite agency and members' agencies, which protect members' rights to file litigation against the agency, likely will be extended beyond Dec. 31, 1988, according to sources.

Under English law, there is a six-year statute of limitations for one party to a contract to file suit against another party to a contract.

Without the extension, members would be forced to file lawsuits against their members' agencies or the Outhwaite agency before Jan. 1 to preserve their right to sue, Mr. Connolly explained.

The arbitration decision also could thwart Mr. Outhwaite's progress in renegotiating contracts with ceding underwriters, or at least encourage cedants to drive a much harder bargain, some sources say.

"Ceding syndicates will now think carefully before reaching any compromise with Mr. Outhwaite," said one underwriter.

In the last 14 months, Mr. Outhwaite has renegotiated runoff reinsurance policies with at least four underwriters:

- In August 1987, Mr. Outhwaite reached a settlement with syndicate 219, managed by Edwards & Payne (Underwriting Agencies) Ltd., under which he would pay claims in deferred payments in return for an additional unspecified premium payment (BI, Sept. 14, 1987).

- In April 1988, Mr. Outhwaite reached a settlement with syndicate 448/620, managed by Wellington Underwriting Agencies Ltd., under which underwriter David Beaumont agreed to reassume future liabilities for a lump-sum payment of \$49.3 million. At the time, there were more than \$40 million in reported losses (BI, April 25).

- Mr. Outhwaite recently reached two settlements involving a total of \$10 million in runoff reinsurance claims.

In a settlement similar to the one reached with syndicate 448/620, Mr. Outhwaite reached an agreement with syndicate 406, also managed by Wellington, under which underwriter Seamus Cowley agreed to reassume future liabilities and Mr. Outhwaite agreed to pay reported losses.

Under the other settlement, with syndicate 28, managed by Murray Lawrence & Partners, underwriter J.J.S. Birrell agreed to raise the attachment point at which Mr. Outhwaite will be responsible for claims in return for a lump-sum payment (BI, Oct. 17). ■

# Mistakes can't be erased, but they can be covered.

Everyone makes mistakes. But who says your clients have to pay a king's ransom for them? In the suit-happy '80s, more and more businesses and service organizations have become especially vulnerable to suits caused by their actual or alleged errors and omissions.

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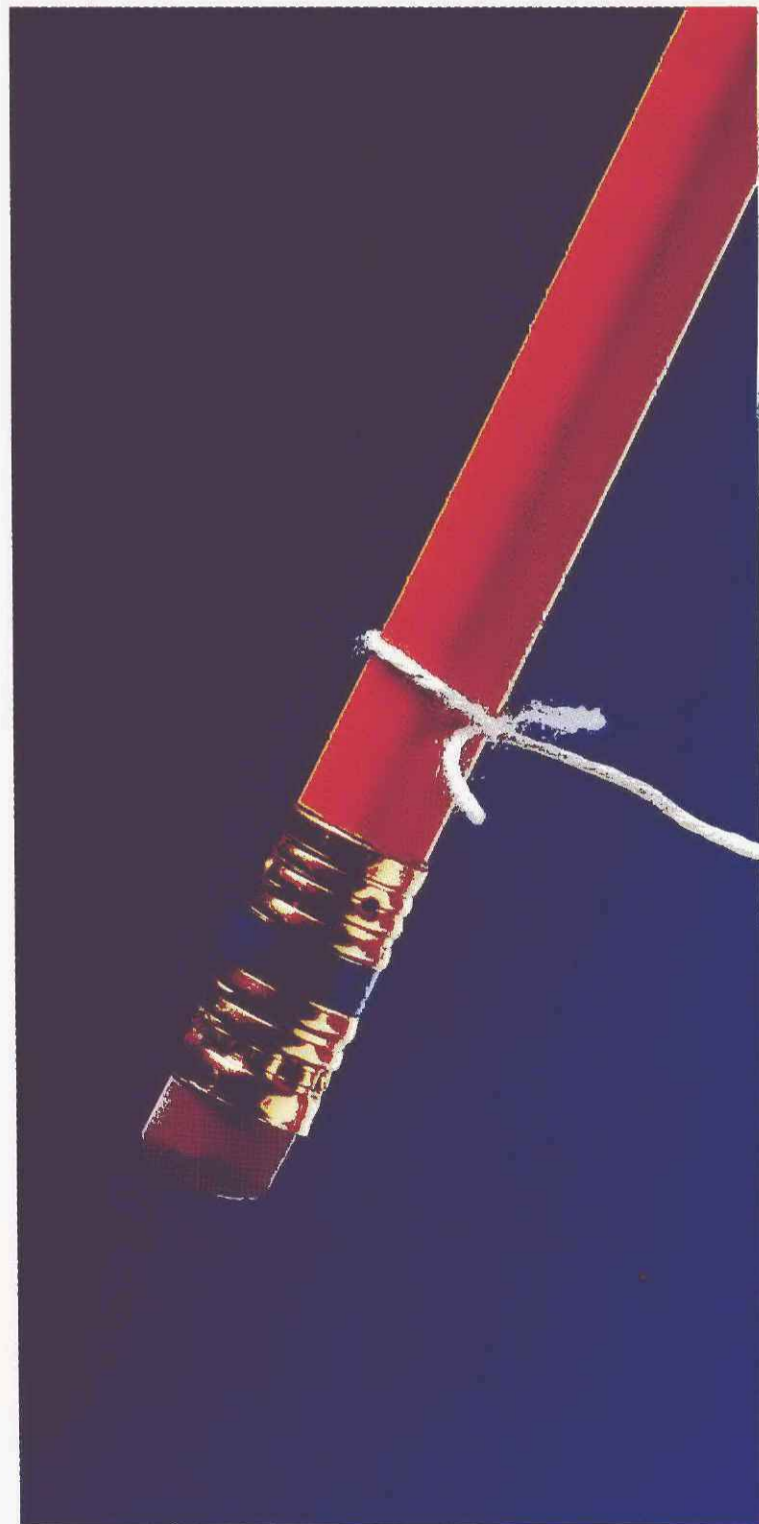
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# Newsweek makes early retirement offer

By GLENN HUNTLEY

About 10% of the employees at Newsweek magazine are contemplating early retirement offers.

The early retirement option was made available to 103 employees of the New York-based, weekly magazine owned by The Washington Post Co., a spokeswoman for the company said.

The early retirement offer represents part of management's effort to find "smarter and leaner ways to operate" in the competitive magazine industry, she said.

The offers were made to employees who had at least 25 years of service or were at least 55 years old with 10 years or more of service.

Under the offer, the employees are eligible for improved benefits under the company's defined bene-

## Benefit beat

fit plan that would exceed the amounts they would have received had they remained with the company until age 65, the spokeswoman said.

In addition, the company will continue regular health insurance benefits for early retirees until they reach age 65.

However, details of the offers could not be released since the offers varied with each eligible employee, the spokeswoman said.

The employees have until Nov. 4 to accept or reject the early retirement offers, she said.

About 60% of the workers offered the option of early retirement were members of the magazine's

circulation, advertising and administrative staffs, while the remainder were editorial employees, the spokeswoman said.

While some positions may be left vacant following early retirements, others may be filled through new hires or promotions. "Any position deemed necessary will be filled," she said.

## Utilization review

A utilization review program offered by units of CNA Financial Corp. of Chicago has reduced the insurer's total medical costs by an average of 6%, according to a university study.

The study, conducted by the University of Michigan's Department of Health Services Management and Policy, examined 223 groups of CNA-insured group accounts from 1984 through 1986.

The study concluded that groups using utilization review had inpatient hospital expenditures that were 8.3% lower than groups without UR, while overall medical costs for groups with UR were 6% lower.

"We were not surprised by the research findings because we have known all along that health care costs could be reduced through utilization review," said Ruth Garry, senior manager of CNA's Group Benefits Service.

Compared with the groups that were not subject to utilization review, groups with utilization review reported 13% fewer hospital

admissions and 11% fewer inpatient care days per 1,000 eligible people annually.

On an annualized per-employee basis, inpatient expenditures were reduced \$85.60 per employee through utilization review. When the cost of the UR programs were added, the savings-to-costs ratio of the UR programs still stood at 6.8-to-1, according to the study.

Additional research by CNA found that application of both utilization review and case management programs can reduce group health costs by 13% per person, the company said.

The case management research included 20,000 episodes of managed care for more than 85,000 policyholders from April 1986 to March 1987.

The managed care study found there were 30% fewer hospital admissions per 1,000 covered lives for CNA managed care accounts compared to unmanaged accounts. In addition, managed care patients reported 20% fewer surgeries than individuals who were not part of a managed care program.

The university study provided "hard evidence" that the company's managed care programs can cut costs of group health insurance clients, she said.

The study groups varied in size from fewer than 200 eligible people to more than 30,000 eligible people and were located across the country. The study compared cost and utilization experience of groups with and without hospital utilization review.

CNA's managed care programs include utilization review, case management and a preferred provider organization.

The utilization review programs offer preadmission review, managed second surgical opinion and large claims identification components.

Preadmission review screens all elective and emergency admissions for medical necessity, appropriateness of inpatient facility and length of stay.

Managed second surgical opinions also screen elective surgeries for medical necessity, determine the need for additional opinions and provide board-certified physicians to render the additional opinion.

The large claim feature identifies potentially expensive cases and provides an early opportunity to manage expenditures.

The case management program is an extension of the large claim identification process. Case management coordinators identify alternative means of care in cost-effective settings and determine which setting best fits the particular patient.

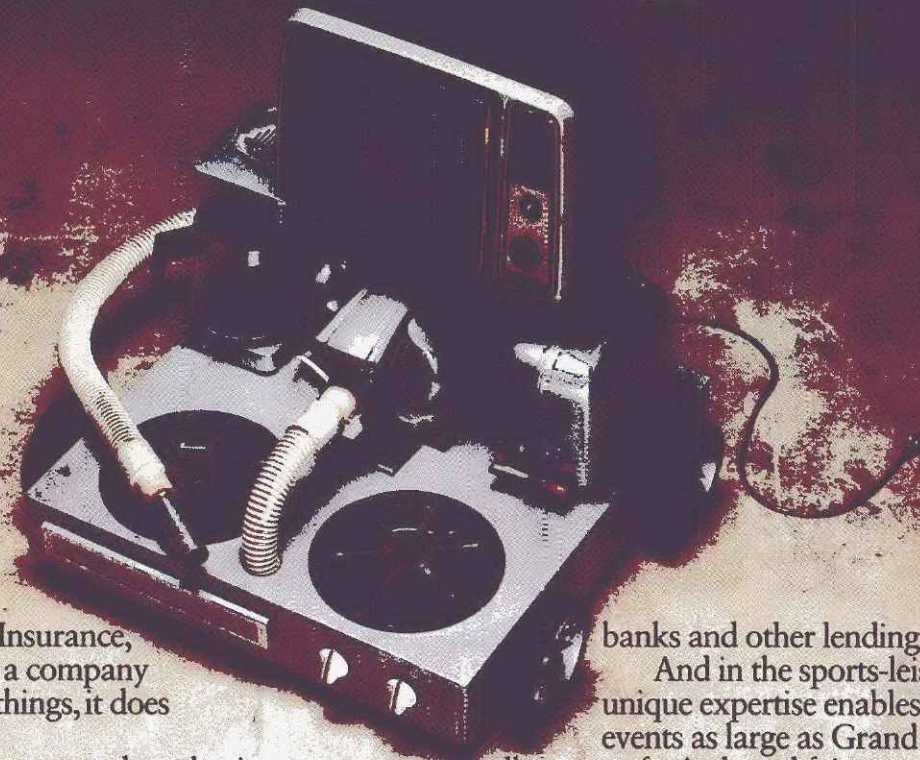
Although the volume of cases chosen for case management may be as low as 2% to 8%, the potential savings from any case can be significant, CNA says.

CNA Managed Care offers a PPO network that covers 40 major metropolitan areas in the country. Health care providers are selected according to the quality and range of services offered, cost controls, hospital accreditations and medical staff credentials.

The CNA Managed Care program is administered through Continental Assurance Co., a CNA unit.

*Benefit beat keeps insurance and employee benefit managers informed on what other companies are doing and of current developments in the employee benefit field. We'd like to know if you've made any changes to your employee benefit plan. Write Glenn Huntley, Associate Editor, Business Insurance, 6404 Wilshire Blvd., Los Angeles, Calif. 90048; 213-651-3710.*

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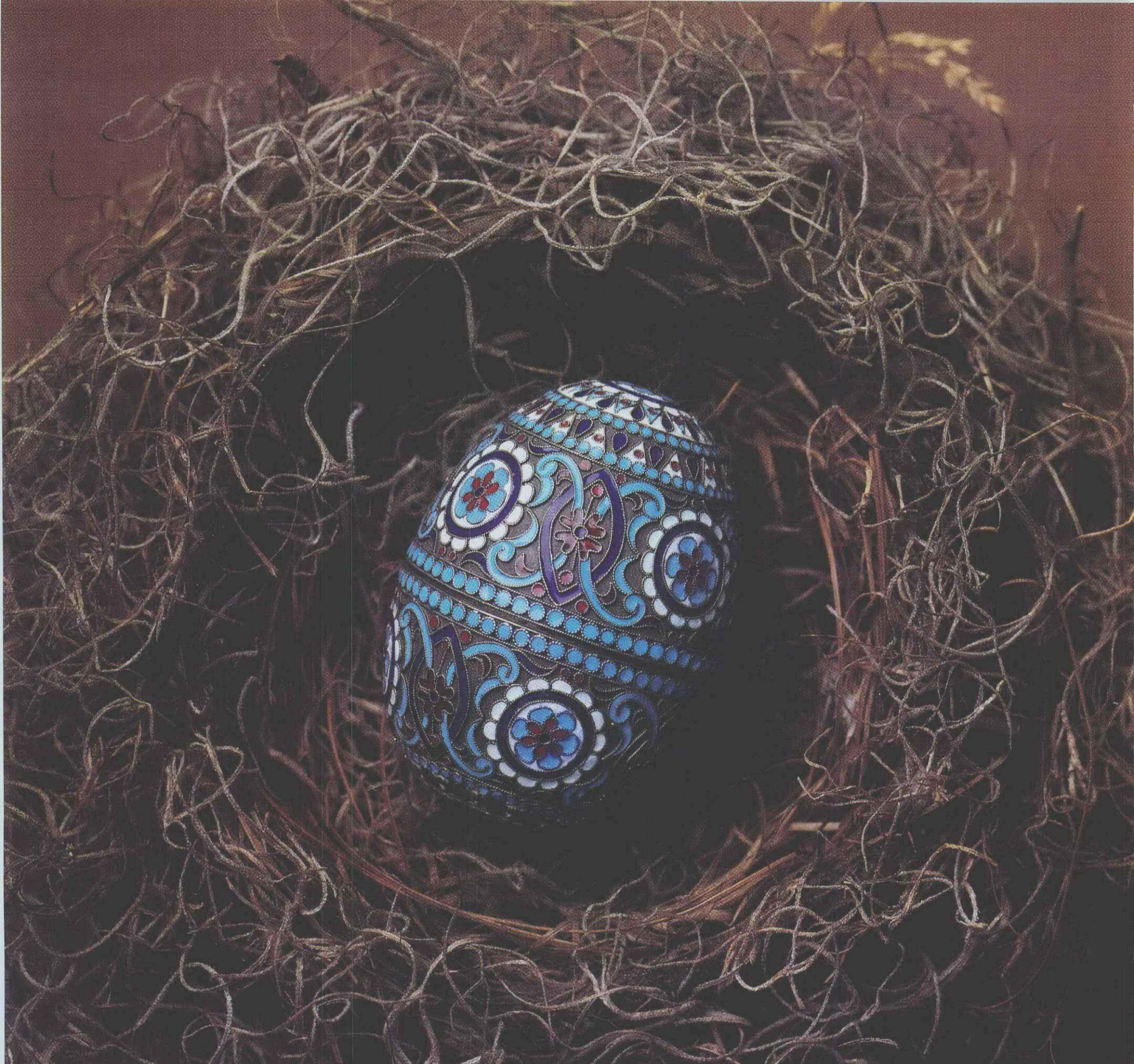
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# HMO Act changes overdue

**B**OTH EMPLOYERS and health maintenance organizations will benefit from the amendments to the HMO Act of 1973 approved by Congress earlier this month (*BI*, Oct. 17).

The amendments will give employers more flexibility when contracting with federally qualified HMOs, while the new law will allow federally qualified HMOs to compete more effectively in the torrid HMO marketplace.

In fact, allowing federally qualified HMOs to compete more effectively also will be a boon to employers, because increasing these HMOs' competitive status could help ensure that more HMOs will remain in business.

Perhaps the biggest boon to employers stemming from the legislation will be that federally qualified HMOs will be able to establish rates based on individual employers' past and projected claims experience, a method known as experience rating.

Currently, federally qualified HMOs must use community rating, under which rates are based on the experience of the entire community served by the HMO, or community rating by class, under which an HMO can develop separate rates for a certain class of the community, such as age and gender groups.

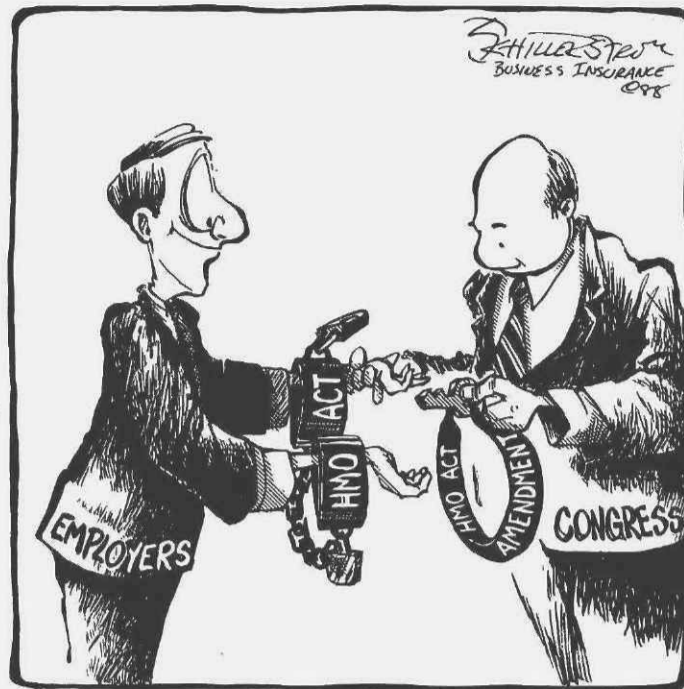
Employers for years have assailed the community rating mandate, pointing out that they should not be penalized through higher rates if their own employees' claims experience is much better than that of the entire community.

While federally qualified HMOs are still free to community rate, it's likely they will set rates according to each employer's own experience—if the employer is large enough to warrant experience rating—to keep up with non-federally qualified HMOs that can already use experience rating.

Employers also will benefit from the modification of the so-called equal contribution rule.

Under the equal contribution rule, an employer's contribution toward the premium charged by a federally qualified HMO must be as great as the largest contribution made to the largest non-HMO plan offered by an employer, such as a self-funded indemnity plan.

Employers complain that this requirement has wiped out some of the cost advantages of HMOs, since employers are required to contribute a certain dollar amount toward HMO premiums even if the employees who select HMO coverage are younger and healthier than the employees in the indemnity plan.



nity plan.

Under the new law, employers would only be required to make non-discriminatory contributions to the HMO. For instance, an employer could contribute the same percentage of premium to an HMO as it contributes to the indemnity plan. That way, if the HMO charges a lower premium than the indemnity plan, the employer would reap a benefit.

Lastly, the amendments will finally end—albeit belatedly—the current “dual-choice” rule. That rule, which will now expire on Oct. 1, 1995, requires employers with more than 25 employees to offer a federally qualified HMO if properly approached by the HMO.

While this rule was good public policy in 1973, when the original HMO Act was approved and when the HMO industry was fledgling, this requirement no longer is needed in an HMO market glutted with competitors and in an environment where benefit managers are conscious of the cost-saving advantages of managed care plans like HMOs.

We're disappointed that employers will have to operate under this outdated burden for another seven years.

But, despite that disappointment, we applaud Congress, the HMO industry and benefit lobbyists for agreeing on a package of amendments that will help both HMOs and the clients they serve.

## Letters

### Carefully consider reversion policy

To the editor: In your recent editorial, “Save Asset Reversions” (*BI*, Sept. 26), you wondered whether “Sen. Metzbaum has forgotten. . . .” Assuredly, he has not—but perhaps you have forgotten your own articles and their ominous tidings concerning the federal Pension Benefit Guaranty Corp. and its burgeoning deficit.

Why should taxpayers shoulder the potential burden whenever these employers wish to raid their employees' retirement plans? They remove the alleged excess

and leave employees with paper assets which, in many instances, a decline in the stock market can affect adversely. There being no longer any margin in the fund(s) for such a contingency, the depreciation results in underfunding that the employer declines to address/compensate for.

Then, after its ill-gotten gains have been exhausted, management can take a company into Chapter 11 without having funded/made up the plan's deficit, and guess who gets the tab!

Perhaps what is needed is a limitation on withdrawals—a reasonable, maximum percentage of excess pension fund assets that leaves a cushion for contingencies—with such withdrawals to be regulated and approved by the federal government, whose PBGC deserves consideration. If the House and Senate pass the 60% excise tax mentioned, those monies should be earmarked specifically for the PBGC to help reduce its deficit and/or pick up the slack for the potential additional liabilities being created in the process.

**Warren W. Besch**  
The Rhulen Agency  
Monticello, N.Y.

### California is not most litigious state

To the editor: The letter from Dean Young, “No Fault Won't Dent Insurance Costs” (*BI*, Oct. 10), is informative until the last paragraph. Mr. Young, why do you disparage the citizens of California? The majority of us are nothing more than transplanted Easterners or Midwesterners. We are also falsely accused of being “sue happy.”

The true way to determine whether Californians are too litigious is to take the number of tort lawsuits filed per capita and one will find that California ranks eighth in the nation, behind such stalwart states as Massachusetts (No. 1), New York and Illinois.

Ironically, if one reviews many of California's decisions, which have raised the eyebrows and hackle of insurers, one will ascertain that the outcome has been based on precedent decisions in such states as New York, Pennsylvania, etc.

**Hermann-Paul Schlander**  
Trinity MGA Insurance Services Inc.  
Palm Desert, Calif.

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# Coverage suit

Continued from page 1  
represents American Home Assurance Co. of New York; Birmingham Fire Insurance Co. of New York; Lexington Insurance Co. of Boston and Royal Insurance Co. of America of Aurora, Ill., in the United Technologies litigation.

"There aren't enough attempts to do things out of court," Mr. Kalis said.

United Technologies and the property insurers are negotiating the exact terms of the order to dismiss the property insurers without prejudice from the massive coverage battle, Mr. Cotton said.

"We anticipate that compromises will be worked out and that the case will be discontinued against first-party insurers," he said.

However, Mr. Kalis noted that it was too soon to tell if the necessary compromises would be reached.

United Technologies and six subsidiaries late last year filed suit against more than 50 first-party property insurers and more than 200 third-party liability insurers for the cost to clean up 138 polluted sites nationwide (BI, Feb. 1).

Among the insurers that wrote primary property insurance coverage for United Technologies between 1972 and 1987 are American Home Assurance Co. of New York; Insurance Co. of North America of Philadelphia; Travelers Indemnity Co. of Hartford, Conn.; dozens of Lloyd's of London syndicates and London market insurers; and Industrial Risk Insurers, a Hartford, Conn.-based pool of more than 40 property insurers.

In its suit filed Dec. 24, 1987, in Massachusetts Superior Court, United Technologies contends that "defendant property insurers have failed and/or refused to reimburse and compensate UTC plaintiffs for the physical loss and damage to the UTC plaintiffs' leased or owned property as required pursuant to the terms of their respective policies."

However, the property insurers say they were never given a chance to refuse these claims because they were not properly notified of them.

In their motion to be dismissed from the case, the property insurers say the lawsuit was the first they heard of United Technologies' claim that it is covered for pollution on 40 sites that it owns or leases.

United Technologies "did not even begin, let alone complete, the pre-suit process required by the first-party policies," according to the property insurers' brief.

Specifically, the insurers say United Technologies failed to identify any sums due for the contaminated sites, did not allow insurers to investigate the sites, did not permit insurers to examine or adjust claims for the sites and did not seek non-judicial appraisal of United Technologies' claim for coverage.

In addition, the property insurers say United Technologies has failed to provide proof of loss as required by the policies.

"The UTC plaintiffs have not identified the basic components of a proof: the sums for which the first-party insurers are purportedly responsible and the details of the events causing the alleged physical damage," according to the property insurers.

In addition, the property insurers asked to be dismissed on the basis of public policy.

"Indeed, if sophisticated, fully informed insureds like the UTC plaintiffs are permitted to ignore these (pre-suit) requirements altogether, then litigation becomes the first rule—not the exception—for property policies," the property insurers claim in their brief.

However, in deciding to dismiss the property insurers without prejudice, United Technologies has not admitted that it failed to give

**'The UTC plaintiffs have not identified the basic components of a proof: the sums for which the first-party insurers are purportedly responsible and the details of the events causing the alleged physical damage,' the property insurers' suit says.**

proper claims notification.

Furthermore, even if United Technologies had failed to meet all the necessary policy conditions, the company says the property insurers have failed to prove that such a breach prejudiced their ability to adjust the claim.

"Massachusetts law requires the

property insurers to demonstrate that they have been prejudiced as a result of the plaintiffs' alleged non-compliance with certain policy provisions," said a United Technologies brief. "The property insurers have offered no evidence they have been prejudiced."

Therefore, by agreeing to dismiss

the property insurers without prejudice United Technologies is not admitting any wrongdoing, but rather simply seeking a means to get its claims adjusted as quickly as possible, explained United Technologies attorney Mr. Kalis. "Adjustment is the relief we are seeking," he said.

"After sitting on our claims for the better part of a year, the insurers finally said they would begin adjusting the claim," Mr. Kalis said, referring to statements made by the property insurers' attorney during oral arguments.

During oral arguments the counsel for the property insurers stated: "If Mr. Kalis will dismiss the lawsuit against us, we'll commence the

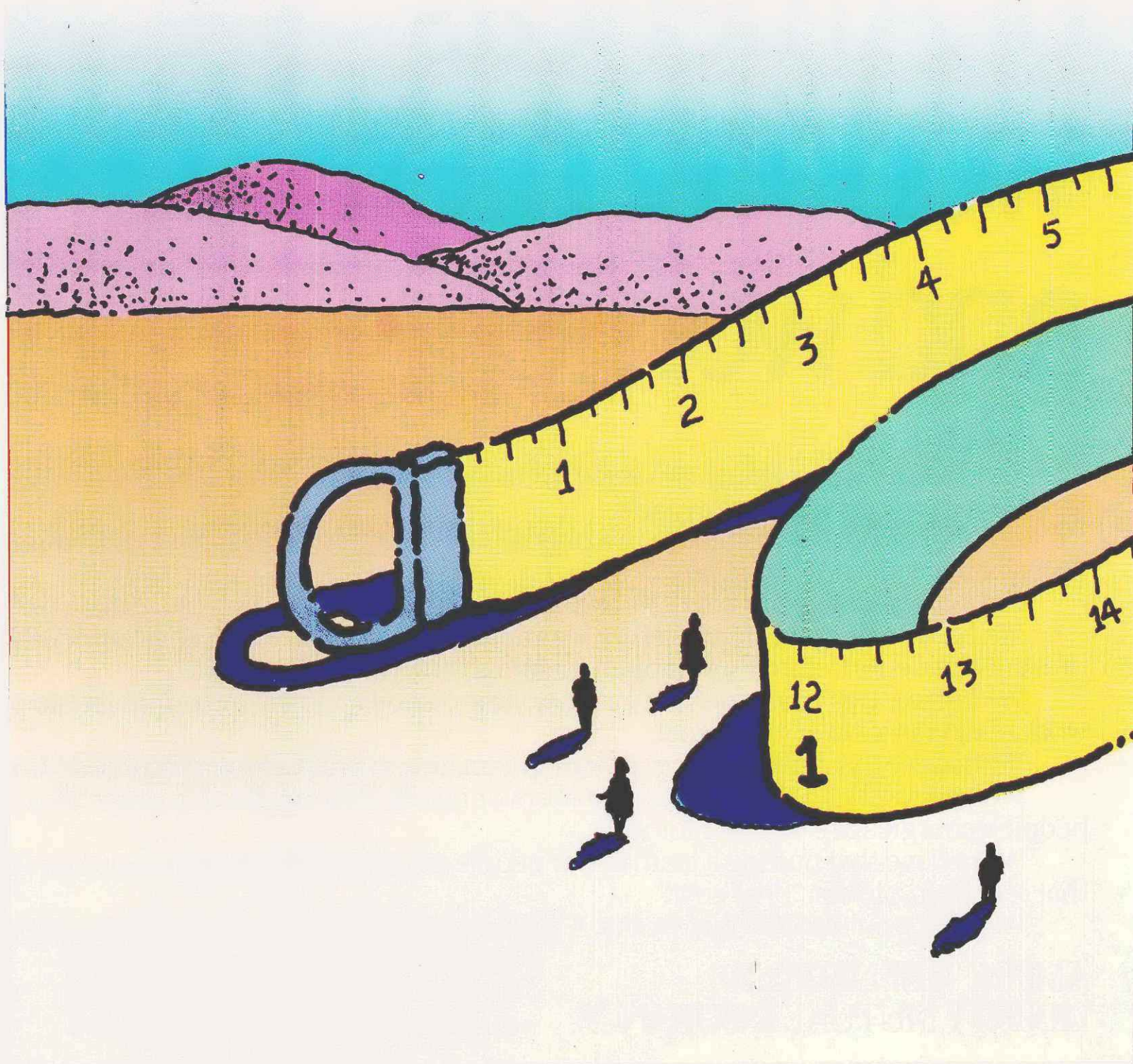
adjustment process."

At least one other company has sued both its property and liability insurers in an attempt to obtain coverage for hazardous waste cleanups.

Pittsburgh-based Westinghouse Electric Corp. is suing more than 140 of its property and liability insurers for the cost to clean up 80 polluted sites nationwide and for indemnity for thousands of personal injury claims (BI, June 15).

In September 1987, Westinghouse's property insurers also asked to be dismissed from the case because they say they also were not given proper notice of the claim (BI, Sept. 28, 1987). That motion is still pending. ■

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## Market curbs

Continued from page 3  
feel competitive and may resent the use of MIS, Mr. Murphy said.

Despite those potential problems, MIS is here to stay, and it gives the home office a way to hold the line on pricing if it has the commitment to do so, Mr. Murphy said. With MIS, "they can do it if they want to."

The Tax Reform Act of 1986 also "will begin to bring sanity back into the marketplace," because many insurers will find themselves hit with tax liabilities they never had to pay before, Mr. Maatman said.

Using Kemper's own experience

as an example of how painful the new tax law can be, Mr. Maatman pointed out that the insurer paid between \$10 million and \$12 million in estimated taxes for the second and third quarters of 1988, while the year before the tax act took effect Kemper legally paid no federal income tax.

Insurers also are garnering a smaller return on their investments under the new tax law, Mr. Maatman pointed out.

Insurers should think twice about how far they cut rates, because unlike the early 1980s—when double-digit interest rates allowed insurers to underwrite at a loss because they could cash in on the investment markets—there is

**Tax reform also 'will begin to bring sanity back into the market,' says Gerald Maatman of Kemper Group.**

no sign that investment markets will become significantly more attractive, he said.

However, continued competition seems likely in the London market, according to Nigel W.P. Carter, director of the North American casualty division of Alexander Howden Ltd., a unit of A&A.

A weakening dollar resulted in more capacity for the London market at the same time that the demand for coverage by some industries—such as shipping—that traditionally have depended on that market has dropped, he said.

During the next year or so, competition could force rates to an unprofitable level in London, Mr. Carter warned. That would reduce capacity and encourage some underwriters to withdraw from the marketplace altogether, he said. Rates could stabilize in the London market by 1990, he said.

And, although primary U.S. insurers may be able to hold the line on pricing until the market turns around in a year or so, reinsurers

are likely to face heated competition for the next few years, said George H. Roberts, president of Reliance Reinsurance Management Inc., a subsidiary of Reliance Insurance Co., both in Philadelphia.

Mr. Roberts predicted that competition among reinsurers will increase during the next three to five years. Because primary insurers are maintaining fairly large retentions, there will be less demand for reinsurance, and with supply outstripping demand, prices will fall, Mr. Roberts predicted.

Both A&A's Mr. Murphy and Reliance's Mr. Roberts cited the existence of alternative markets, such as the Bermuda-based policyholder-owned insurance companies A.C.E. Insurance Co. Ltd. and X.L. Insurance Co. Ltd., as having a significant impact on competition in the marketplace.

Because such entities have taken premium dollars from the traditional marketplace, thus reducing demand for reinsurance, reinsurers are more willing to compete for business, Mr. Roberts said.

But A.C.E. and X.L. are "here to stay," Mr. Murphy said, dubbing them "megamarkets" owned by sophisticated shareholders who have sunk a lot of capital into their captives.

Specialty facilities, such as those formed by some municipalities during the previous hard market, also are likely to remain intact if they are well-managed and well-capitalized, he said.

Both types of captives have taken a portion of the insurance market away from the standard insurers, making them compete for what remains, he said.

But the period of competition will be followed by one of stability caused in large part by enhanced professionalism, Mr. Roberts said.

For example, reinsurers are conducting regular underwriting audits, which they did not do during previous market cycles, he said. They also are conducting claims audits of customers and subjecting pricing to actuarial analysis.

In addition to stabilizing the market, enhanced professionalism will slow the incidence of reinsurer insolvency, he predicted.

Meanwhile, for reinsurance intermediaries in the next few years, competitive pressures resulting from the increasing influence in the marketplace of direct writers of reinsurance will lead to more mergers, Mr. Roberts said.

Mr. Murphy also predicted market competition will spur increased merger activity among independent agencies and insurance brokers.

The market share of independent agents is shrinking while that of direct writers and national brokers is growing, he said. Given those dynamics, "mergers are inevitable," Mr. Murphy said.

But Mr. Murphy does not regard as inevitable the repeal of the McCarran-Ferguson Act, which grants insurers limited immunity from federal antitrust laws and gives states primary regulatory authority of the insurance industry.

"Outright repeal is highly unlikely," Mr. Murphy said, noting that talk of changing the law during the past congressional session remained just that—talk.

Mr. Murphy also said that a federal intervention into insurer insolvencies was also unlikely. Federal action would come only if an insolvency could not be covered by existing state guaranty funds, he said.

However, Kemper's Mr. Maatman predicted that some sort of federal insolvency legislation is likely within the next five years.

Kemper currently pays about \$500,000 per month to guaranty funds, he said. The amount of money involved—in 1986 alone, insurers paid about \$500 million to cover insolvencies—and the strain

Continued on next page

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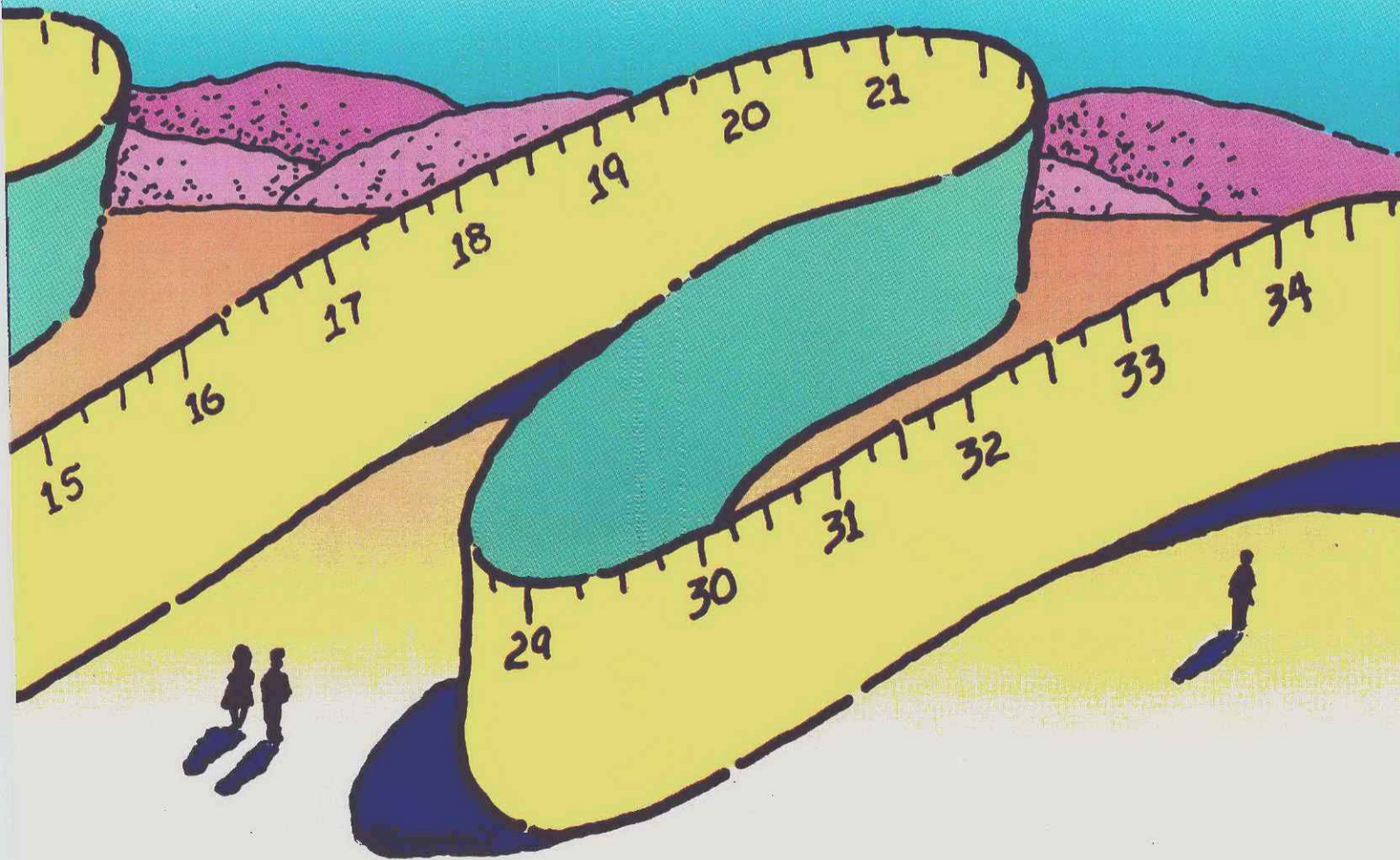
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# Market curbs

Continued from previous page  
that assessments to cover future insolvencies would put on insurers could lead to federal action. Such a move would subject insurers to dual regulation, he said.

A quick hardening of the market also could lead to federal action, because small business associations would begin lobbying for congressional intervention, Mr. Maatman said.

And, repeal of the McCarran-Ferguson Act would be among Congress' probable responses, he said. But that action would lead to unintended effects such as the loss of the right to set rates and design forms collectively.

For companies the size of Kemper, the restrictions "would not be a fatal blow," he said. But without the right to engage in collective rate-making, many small and medium-sized insurers would have to close their doors, he said.

For risk managers, the biggest change would be the lack of common forms, he said.

Mr. Maatman called on his audience of insurance buyers to work through the Risk & Insurance Management Society Inc. to protect the insurance industry's right to use common forms.

In a related matter, Mr. Maatman predicted that the Insurance Services Office Inc. would be among the first defendants to be discharged from the attorneys general's antitrust suit (BI, March 28).

Mr. Maatman, who is vice chairman of the ISO board, called the charge in the suits that some U.S. insurers and reinsurers, Lloyd's of London underwriters, London reinsurers, ISO and the Reinsurance Assn. of America colluded in causing the affordability and availability crisis of the mid-1980s "groundless."

Jeff T. Smith, deputy managing vp of A&A Inc.'s Chicago office, moderated the discussion. ■

# La Petite

Continued from page 2  
children in 23 states, had \$1 million in liability coverage written by American International Group Inc. in New York.

AIG said it canceled the coverage in late July because of excessive claims activity, though the day-care company contends that the insurer gave no reason for the cancellation (BI, Oct. 10).

La Petite has since set up a self-insurance program to fund its general liability exposures.

Jack Brozman last week refused to comment on the lawsuit or the company's directors and officers liability insurance. The day-care company had not filed responses to the complaints late last week.

One of the suits, filed in late September in U.S. District Court in Philadelphia on behalf of the Florence Katz Trust, seeks to represent all purchasers of La Petite stock from the time the coverage

**'Self-insurance is viewed as a high-risk route in the day-care industry because of child-abuse allegations and other sensitive liability issues that can arise,' states the suit filed by the Florence Katz trust, which owns 1,600 shares of La Petite.**

was canceled in late July until Sept. 19, according to plaintiff's attorney Ann Miller of the Haverford, Pa., firm of Greenfield & Chimicles.

Ms. Miller said the Florence Katz Trust purchased 1,600 shares of La Petite stock 10 days before the company announced its coverage had been canceled.

"La Petite knew well before the announcement that its insurance had been canceled," said Ms. Miller, adding that the company already had devised a self-insurance program.

The fact that coverage in the

commercial market had been terminated and a self-insurance plan was being instituted "is pertinent information for investors," Ms. Miller remarked. "That is a very important item for day-care centers."

The suit filed on behalf of the trust states: "Self-insurance is viewed as a high-risk route in the day-care industry because of child-abuse allegations and other sensitive liability issues that can arise."

The lawsuit further states that La Petite's stock was trading at artificially high prices prior to the announcement that its coverage had been canceled, "principally due to the prevailing belief in the marketplace that La Petite had adequate insurance coverage from an independent insurance company, that its insurance coverage was not in jeopardy or especially vulnerable to cancellation... and that it would not self-insure against general liability risks."

The second shareholder suit, filed Oct. 7 in U.S. District Court in Kansas City, Mo., names La Petite as a defendant along with the Brozmans and Paul J. Vadovicky, the company's controller.

The suit was filed on behalf of a class of shareholders led by Michael Giunta, a New York resident who bought 200 shares of La Petite stock at \$16.75 per share in March.

Like the suit filed in Philadelphia, the class-action complaint filed in Kansas City alleges that La Petite deliberately failed to disclose the fact that its general liability insurance coverage had been canceled.

In addition, the suit charges that La Petite's management painted a rosy picture of the company's finances even after it was aware that its liability insurance had been canceled and that it would have to increase reserves as part of its self-insurance program.

"Notwithstanding the loss of its general liability insurance coverage in late July 1988, the parade of positive announcements continued," the suit states.

The suit points out that premiums for La Petite's general liability insurance were calculated on a loss-sensitive basis.

However, "La Petite seriously and materially understated" the amount it needed to reserve for future premium assessments, the lawsuit says.

"Defendants knew or should have known that because of the increase in insurance liability claims against it, the company could expect corresponding increases in its general liability insurance premiums and, indeed, that the company was at risk of having its general liability insurance policy canceled," the suit maintains.

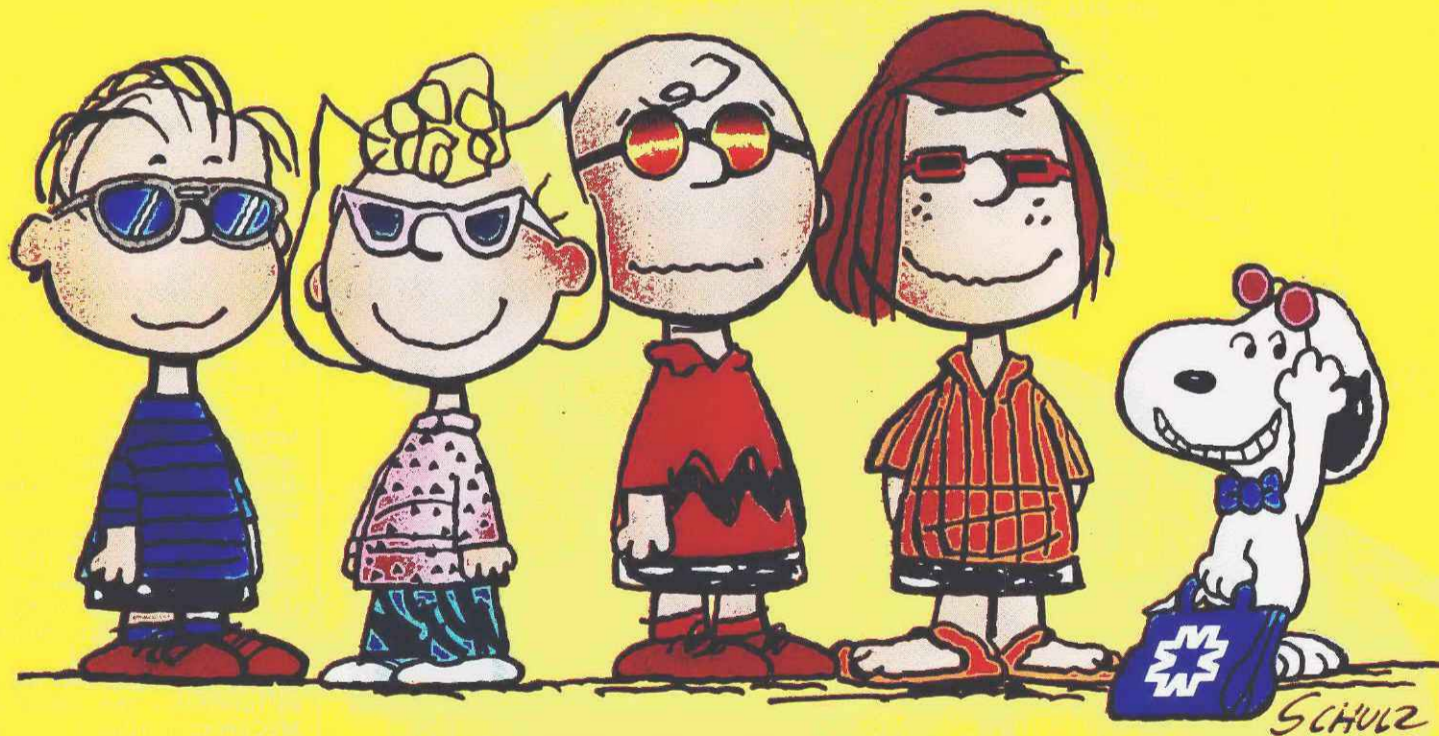
By refusing to reserve for premium increases, La Petite was able to report continuing gains in quarterly revenues, income and earnings per share, while the stock price stayed at artificially high levels, according to the suit.

The Brozmans sold thousands of their shares in the company when the stock price ranged from \$16 to \$17.25 per share.

The transactions netted the Brozmans about \$3.2 million, the suit states.

The suit further notes that the defendants "sold their stock when the market price was high, inflated by their failure to disclose the future problems for La Petite because of its inadequate reserves." ■

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# Reinsurers

Continued from page 3

But, like other panelists, Mr. Bailey did not see the industry falling into a spiral of vicious price competition.

Roger D. Espe, president and chief executive officer of reinsurance broker Sullivan Payne Co. in Philadelphia, said he thinks that the lessons of the last market cycle will be remembered and serve as a damper on price competition.

Although reinsurance rates and premium volume will continue to drop during the next several years, some ceding companies will resist the temptation to shop solely on the basis of price, Mr. Espe predicted.

Because of the surge in uncollectible reinsurance, some buyers will value stability over price and will be willing to pay more for coverage they feel is more likely to be there when they need it instead of opting for lower-priced coverage from less established players, he said.

However, James F. Dowd, president and chief executive officer of Skandia America Group in New York and chairman of the Reinsurance Assn. of America, offered a word of caution, explaining that he was personally disappointed that major catastrophes like the Piper Alpha explosion had not already resulted in greater restraint among reinsurers engaging in competition.

A return to traditional frequency patterns of natural catastrophes like hurricanes, which have been relatively rare during the past few years, will put further strain on reinsurers, he noted.

Mr. Dowd predicted that the U.S. reinsurance industry's combined ratio will probably be 105% or 106% next year while premium volume will decline by another 10% to 15%. He added that he does not believe the market will turn until 1990 at the earliest.

(In the first half of 1987, the U.S. reinsurance industry posted a 101.9% combined ratio, while premium volume declined 4.7%, according to an RAA survey.)

Thomas S. Case, senior vp of Employers Reinsurance Corp. in Overland Park, Kan., said that the wild market cycles and the increasing complexity of the insurance business as a whole has already put a severe stain on the relationship of trust that marked earlier dealings between reinsurers and ceding companies.

"The reinsurer/insurer relationship has reached an all-time low," he said.

But, despite a certain degree of suspicion on the part of ceding companies, seasoned reinsurers and reinsurance brokers can take advantage of the changes in the market by viewing them as opportunities, Mr. Case said.

Even though the reinsurance market is softening, the more experienced and established reinsurers are not fueling fires of unreasonable competition, he said. In addition, despite the market softening, the reinsurance arena has not been invaded by a horde of new players, he added.

Another factor that could temper competition is the unknown impact of the Tax Reform Act of 1986, which will sharply increase insurers' and reinsurers' federal income tax liability.

"The tax bills are real, and it's going to affect the way we do business," said Skandia America's Mr. Dowd.

"We will be paying a significantly higher amount of taxes," he continued. At the same time, reinsurers and reinsurance intermediaries face increased expenses, he said.

The rational response to the tax law changes and the increased cost of doing business should be to raise prices so that the reinsurance industry's return is comparable to that of other industries, Mr. Dowd

**'The tax bills are real, and it's going to affect the way we do business,' says James Dowd, president and CEO of Skandia America and chairman of the Reinsurance Assn. of America. 'We will be paying a significantly higher amount of taxes.'**

said. Reinsurance brokers, too, are feeling a crunch, Mr. Espe of Sullivan Payne said.

Reinsurance brokers must deal with a market in which their clients are increasing retentions,

which translates into reduced commissions for intermediaries, he noted.

The reinsurance brokerage industry is about to enter a period of increased merger activity, he continued. Medium-sized brokerages

may merge to survive, while some larger brokerages will actively seek to acquire medium-sized brokerages to enhance their market position.

He added, though, that small, specialized niche market players would always have a place in the reinsurance brokerage market.

The panelists agreed that the elimination of trade barriers among the 12 nations of the European Community in 1992 will probably lead to a series of mergers and consolidations among insurers in Europe.

Mr. Bunaes said that no major new European insurer had been

formed in at least a decade and that the lack of growth opportunities at home might send European underwriters to the United States to seek new business.

Turning to another subject, Mr. Dowd expressed concern over the insurance industry's commitment to tort reform.

"I think we've lost the momentum," he said. He pointed out that as insurers' financial results improved during the mid-1980s, they shifted their focus away from tort reform efforts even though plaintiffs' attorneys redoubled their efforts to block changes in state tort laws.

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STATUTORY SURPLUS <small>(000 Omitted)</small>	COMBINED RATIO
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1984 - \$16,739	1984 - 97.0
1985 - \$37,037	1985 - 99.7
1986 - \$53,063	1986 - 84.1
1987 - \$57,243	1987 - 84.2
*1988 - \$64,951	*1988 - 93.9
<div style="display: flex; justify-content: space-between; border-top: 1px solid black; border-bottom: 1px solid black;"> <div style="text-align: center;"> <p style="font-weight: bold; margin: 0;">ASSETS</p> <p style="font-size: 0.8em; margin: 0;"><small>(000 Omitted)</small></p> </div> <div style="text-align: center;"> <p style="font-weight: bold; margin: 0;">LOSS RESERVES</p> <p style="font-size: 0.8em; margin: 0;"><small>(000 Omitted)</small></p> </div> </div>	
1983 - \$ 35,156	1983 - \$ 4,985
1984 - \$ 43,719	1984 - \$ 9,150
1985 - \$105,993	1985 - \$22,784
1986 - \$159,568	1986 - \$46,243
1987 - \$163,859	1987 - \$59,712
*1988 - \$173,861	*1988 - \$63,544
<div style="display: flex; justify-content: space-between; border-top: 1px solid black; border-bottom: 1px solid black;"> <div style="text-align: center;"> <p style="font-size: 0.8em; margin: 0;"><small>*Six months results ended June 30, 1988</small></p> </div> <div style="text-align: center;"> <p style="font-size: 0.8em; margin: 0;"><small>5 YEAR COMBINED RATIO: 89.8 (1983-1987)</small></p> </div> </div>	

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# Federal catastrophe plan needed: Nutter

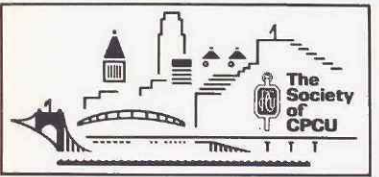
By MARK A. HOFMANN

CINCINNATI—Increased public/private partnerships may be needed to help the property/casualty insurance industry cope with a huge catastrophe like an earthquake, says the president of a major insurer trade association.

In fact, such a partnership might mean the difference between quick recovery or long-term economic dislocation in the event of a major earthquake, Franklin W. Nutter, president of the Alliance of American Insurers in Schaumburg, Ill., told the 44th annual meeting of the Society of Chartered Property & Casualty Underwriters in Cincinnati earlier this month.

However, a prominent insurer executive later cautioned against too much participation by the federal government in the insurance business.

Addressing a panel discussion on "Catastrophe Insurance: What the Future Holds," Mr. Nutter pointed out that a major earthquake could



bankrupt the U.S. property/casualty insurance industry.

"We would have problems meeting our obligations" if a devastating quake hit a heavily populated area, he said.

The San Francisco Earthquake of 1906, which seismologists estimate measured about 8.3 on the Richter scale, caused only \$400 million worth of damage—in 1987 dollars—to buildings from so-called shake damage, which is defined as damage stemming from actual earth movement, Mr. Nutter said. However, the quake caused nearly \$5.6 billion in fire damage, he added.

A quake of a similar magnitude that hit San Francisco today would cost insurers \$4.3 billion in shake damage and perhaps as much as \$15 billion in fire damage, depending on weather conditions, Mr. Nutter said.

In addition, insurers could expect to pay out billions of dollars in workers compensation claims and bodily injury liability claims, Mr. Nutter said.

Staggering as the losses from a San Francisco quake could be, the figures could be even more devastating if a quake affected a larger area. Mr. Nutter said that an earthquake stretching along California's San Andreas Fault or the New Madrid Fault in the Mississippi River Valley—the site of the worst series of earthquakes in U.S. history during the winter of 1811-1812—would affect several major metropolitan areas and could ultimately cost insurers \$50 billion.

About \$10 billion would be attributable to shake damage. That could be handled by existing insurance and reinsurance arrangements, Mr. Nutter said. But the other \$40 billion in insured losses—including fire, workers compensation, business interruption, general liability and other types of claims—would disrupt not only the insurance industry, but the entire U.S. economy, he said.

Because insurers are not allowed to prefund losses, the U.S. property/casualty industry's total surplus of about \$110 billion would be severely drained to pay these losses,

**'If the insurance industry were to cash in stocks and bonds to pay for (catastrophic) losses from surplus, economists tell us the bond market would simply collapse,' says Franklin W. Nutter, president of the Alliance of American Insurers.**

he said. And, some insurers simply would not survive, no matter how strong their surpluses: "We could expect a significant number of insolvencies," Mr. Nutter said.

"We could expect that businesses, home and automobile owners, renters, hospitals and nursing homes, and professionals—to name but a few examples—would be dramatically affected by the limited availability of insurance," he said.

And, "if the insurance industry were to cash in stocks and bonds to pay for these losses from surplus, economists tell us the bond market would simply collapse," Mr. Nutter said.

Municipal governments' ability to raise funds through bond issues would then be severely restricted, he said.

The international reinsurance market, already struggling with a

number of significant losses such as last May's Piper Alpha oil rig disaster, also would be "crippled," he explained.

To avoid these problems following a major earthquake, Mr. Nutter advocated a "safety valve mechanism and a prefunded reserve that would permit the industry to promptly and efficiently handle the flood of claims" that would follow a major earthquake.

As an example of such a "safety valve," Mr. Nutter pointed to the Earthquake Project, a consortium of insurance industry associations and companies that has been operating under the umbrella of the Boston-based National Committee on Property Insurance since last year.

The Earthquake Project has proposed a federal program to provide both primary earthquake coverage

and excess-of-loss reinsurance (BI, Oct. 12, 1987; June 15, 1987).

Under the proposal, a federally chartered corporation would establish a fund to insure shake damage to one- to four-family dwellings. The amount of coverage available would be equal to the limits of the individuals' homeowners or renters policy, up to a maximum of \$500,000, Mr. Nutter said. There would be a minimum deductible of 10% in high earthquake hazard areas and deductibles of 2% to 5% in other areas.

Coverage would be required by law on all dwellings with loans backed by or insured with the federal government or provided through a lending institution insured by the Federal Deposit Insurance Corp. or Federal Savings

*Continued on next page*



Continued from previous page  
& Loan Insurance Corp., Mr. Nutter said.

Mr. Nutter said such a system would be self-sufficient. All premiums less a fee paid to insurers and agents for administrative expenses would go into the fund. The funds would be invested in tax-free, interest-bearing federal obligations.

Mr. Nutter said the same federally chartered corporation would set up a second fund to write excess-of-loss reinsurance covering exposures not insured under the primary insurance program.

The reinsurance program would cover fire, farm owners multiperil, ocean marine, inland marine, workers compensation and several other lines of coverage, Mr. Nutter explained.

Both the primary and excess programs would come into play only if an earthquake or volcanic disaster caused insured damages of more than 8% of the primary insurance

industry's net written premium, or roughly \$10 billion, said Mr. Nutter. Each company seeking to participate in the recovery would have to face losses equal to 8% of its net written premium.

Each fund would have the authority to borrow from the U.S.

Treasury if premiums collected before a quake are not sufficient to pay claims. The debt would be repaid with future premiums.

Mr. Nutter said it would take several years to establish such a program.

But such a time lag does not diminish the program's importance, he said.

"This program is essential. To do otherwise is to continue to play chicken with the inevitable earthquake," said Mr. Nutter.



Mr. Cox

**Overdevelopment of the coastal areas and changes in climate such as the so-called greenhouse effect, 'highlight the fact that the majority of issues. . . require the attention of government and the citizenry,' says Eugene Lecomte.**

However, another speaker at the session questioned the wisdom of insurers working too closely with the federal government.

John Cox, president of A.C.E. Insurance Ltd., the huge Bermuda-based, policyholder-owned liability insurance facility, warned that federal officials might attempt to control all aspects of such a program.

In addition, Mr. Cox cautioned that Earthquake Project proponents should heed the experience of the New York guaranty fund. Assets in the New York fund, the only pre-funded guaranty fund in the country, were usurped by the state Leg-

islature when the state needed general operating funds (BI, May 9).

However, J. Wesley Ooms, assistant vp with State Farm Fire & Casualty Co. in Bloomington, Ill., one of the companies participating in the Earthquake Project, described how the National Flood Insurance Program demonstrates that the federal government and private insurers can cooperate successfully.

Mr. Ooms called the flood insurance program, which was established because private insurers refused to cover flood risks, a "unique" arrangement, bolstered by the complementary strengths each

partner brings.

For example, one of the reasons the program works is that the federal government can require flood plain management as a prerequisite for coverage, which insurers cannot require, he explained.

At the same time, the U.S. insurance industry has been able to provide the government with professional marketing and claims service, Mr. Ooms said. "To be able to deliver a policy in 10 working days or less and to settle claims promptly are the hallmarks of service to policyholders, and we are meeting this objective," he said.

The program needs to expand, though, Mr. Ooms said, adding that a new program for less flood-prone areas than those currently covered is slated to begin Jan. 1.

"The policy will be easy to quote, will require a simple application, will contain built-in coverage amounts, and will have a discounted price. The industry-government partnership developed this program, and we should see a real improvement in policy count," he said.

Eugene L. Lecomte, president of the National Committee on Property Insurance, described another private-public partnership: state windstorm plans, which offer property insurance in coastal areas (BI, Aug. 20).

The problems associated with providing windstorm coverage will probably grow more complex during the next few years because more and more people are moving to coastal areas, Mr. Lecomte said.

Because many of these areas are in the Sun Belt, they attract a disproportionate number of retirees who may never have experienced a hurricane, said Mr. Lecomte.

Overdevelopment of the coastal areas and changes in climate such as the so-called greenhouse effect, "highlight the fact that the majority of issues. . . require the attention of government and the citizenry," Mr. Lecomte said.

"Let there be no question about the fact that the resolution of many of these issues rest with the governmental sector. Nevertheless, an informed insurance industry must aid in the shaping of those administrative policies and programs which would impact the ability of the insurance industry to deliver windstorm coverage," he said.

A.C.E.'s Mr. Cox did not deal directly with the question of private/public partnership in his remarks at the CPCU conference, but rather stressed the attractiveness of offshore facilities like A.C.E.

Unlike domestic insurers, Bermuda-based insurers do not face strict government regulation and are not bound by U.S. court decisions of the past, he pointed out.

And, he noted, facilities like A.C.E. and X.L. Insurance Co. Ltd. have low expense ratios and have had little trouble raising capital compared with domestic insurers.

Mr. Cox also questioned domestic property/casualty insurers' decision to cut rates substantially in light of the Tax Reform Act of 1986. He noted that every insurance company executive to whom he has spoken has said that the new tax will force premiums to rise.

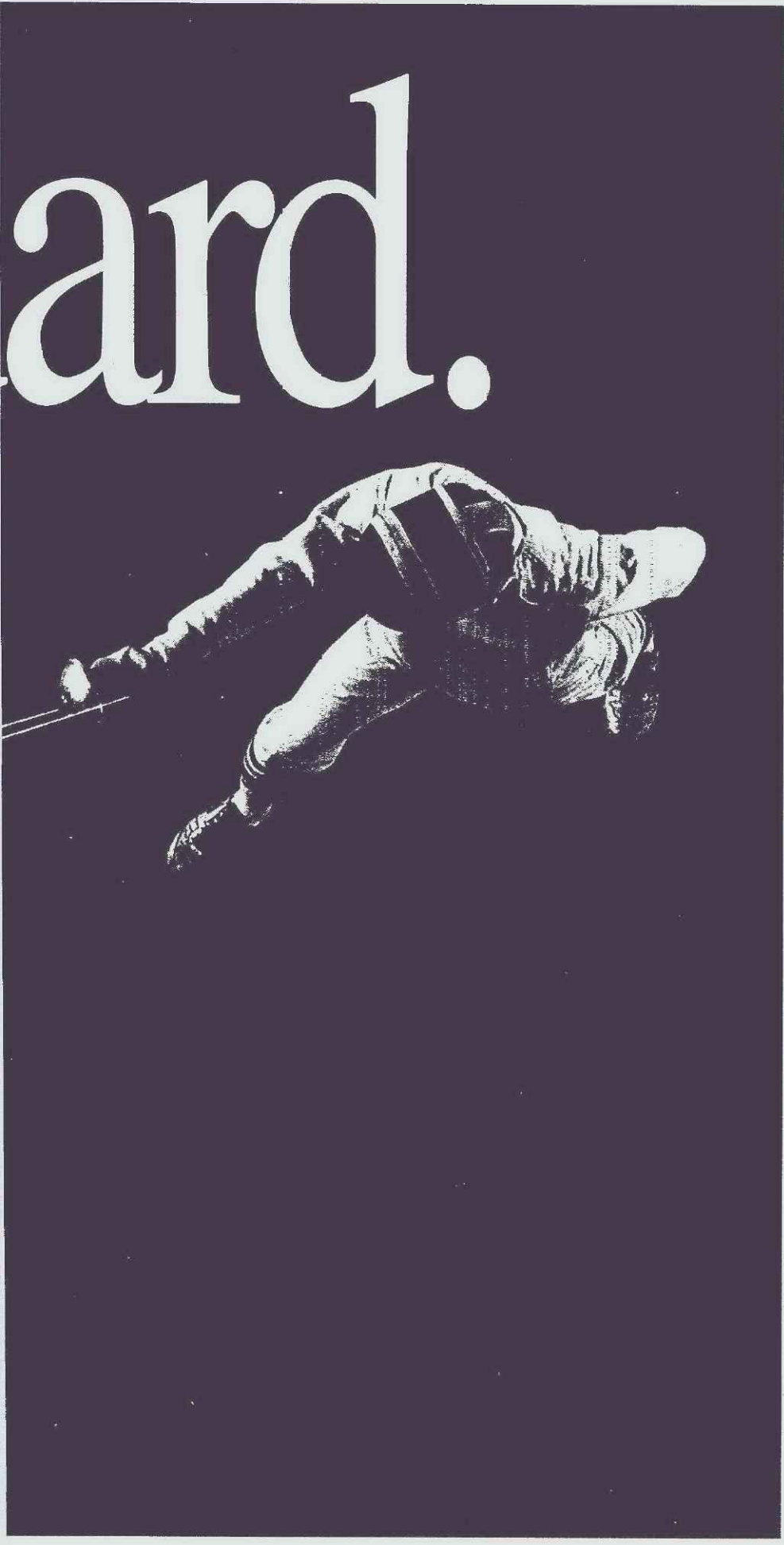
He also said that he really doesn't think most underwriters understand the liability exposures stemming from an earthquake.

"I don't think we're prepared at all," he said. "It'll be a 'whoops' situation," Mr. Cox said, in which a large portion of the industry's assets would be tangled in litigation.

Joseph P. Decaminada, executive vp of the Atlantic Mutual Cos. in Murray Hill, N.J., moderated the session.



Mr. Lecomte



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## Buyers must establish ties with vendors: Panel

By MARK A. HOFMANN

CINCINNATI—Risk managers who want to get the most from brokers, insurers and consultants should think of these relationships as partnerships, experts say.

However, like any other businessmen, risk managers must demand what they need from each of these partners, the experts add.

An emphasis on partnership as the key to successfully dealing with vendors was the underlying theme of a discussion on "Value-Added Performance—Getting the Best from Brokers, Underwriters and Consultants" at the 44th annual meeting of the Society of Chartered Property & Casualty Underwriters earlier this month in

Cincinnati.

Risk managers have to put together the best team of vendors possible, said Corbette S. Doyle, a senior vp with Corroon & Black Corp. in Nashville, Tenn., and moderator of the discussion.

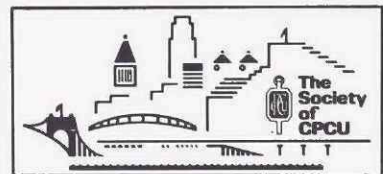
However, several of the panelists warned that fielding the best team possible does not come cheaply.

"Good service is not something nice to have, it is not an additive. In the end, it is a financial decision," said Charles J. Clarke, a senior vp with The Travelers Corp. in Hartford, Conn.

Risk managers must take the time to sell their company's managers on the value of "real quality service," he advised.

Given the softening commercial property/casualty insurance market, risk managers "should increase their demands for better service," Mr. Clarke said, though not at the expense of reasonably priced coverage.

To get the best service from underwriters, risk managers to take the time to know the people they are dealing with, said Mr. Clarke.



Donald J. Krutek, chairman and chief executive officer of Frank B. Hall & Co. of Illinois in Chicago, stressed many of Mr. Clarke's points from a broker's perspective.

"I think it's essential to form a partnership with your broker," Mr. Krutek said. And, to form a successful partnership, the risk manager "must know where he or she is going. There must be a strategic plan," he said.

According to Mr. Krutek, risk managers need to tell the broker:

- Their attitude toward loss control.
- Their company's internal decision-making process.
- Their attitude toward unbundling of services.
- Their attitude toward risk assumption.

In addition to this information, the risk manager should sit down with the team who will actually service the account, Mr. Krutek said.

But the process doesn't stop there, he added. "Your broker should do much more than place insurance," he said, spelling out what should comprise a broker's service plan.

The plan, he said, should:

- Include practical claims management and loss-control programs.
- Be specific and achievable.
- Have the support of top management.
- Be reviewed periodically.

Openness on both sides of the broker-risk manager relationship is a key to success, Mr. Krutek said. Openness in itself creates risk, but it remains critical to achieving superior value-added performance, he said.

Speaking for risk managers, panelist Patricia S. Benedick, risk manager for American Information Technologies Corp. in Chicago, stressed the importance of risk managers forming long-term relationships with their service providers.

"Stability and long-term relationships" are more important concerns than shopping the market for price, Ms. Benedick said.

Some risk managers have short-

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Continued from previous page memories, and appear to have forgotten the importance of building the relationship and sticking with it in a hard market, she said. Those who do remember the market contraction of a few years ago, have insisted on maintaining long-term ties, she said.

That commitment explains the success of alternative market facilities like Bermuda-based A.C.E. Insurance Ltd. that were formed during the hard market, she said.

Charles T. Tagman Jr., a vp and risk management consultant with the Tillighast division of Towers, Perrin, Forster & Crosby Inc. in Newton, Mass., offered what he called three fundamental rules for using outside consultants as a risk manager seeks to get value-added performance from these providers.

First, Mr. Tagman said, don't use a consultant unless you need one. Then, if a consultant is needed, make sure you choose the correct consultant. Finally, the risk manager must cooperate with the consultant to get the job done, he said.

The risk manager who needs a consultant should start with a list of six to eight possibilities, drawn from other risk managers, the annual risk management consultant directory in *Business Insurance* and other sources, Mr. Tagman said.

After contacting each candidate, pare the list down to two to four, he said, and schedule interviews. The risk manager should then evaluate the candidates face-to-face, he advised.

"This is a chemistry business," Mr. Tagman said. Insist on meeting with the people who will actually service the account, and then make the final decision, he said.

Risk managers should be careful of asking too much at the first meeting, Mr. Tagman said. Doing so feeds the consultant too much

information, which leads the consultant to feed the same information back to the client. This stifles creativity, Mr. Tagman said.

In addition, look for both experience and references when selecting a consultant, he said. Find out which people will actually be doing the work, who among them will be responsible for doing which particular task and who will be spending what percentage of their time on the project. Then, work out a fee agreement and a timetable, Mr. Tagman advised.

During the project, the risk manager needs to cooperate with the consultant, Mr. Tagman said. After all, the risk manager's company already has begun spending the

money and there's no point in making the process more difficult than necessary, he said.

The risk manager must monitor the progress of the project and demand periodic feedback from the consultant to get the most out of the arrangement, Mr. Tagman said.

Both consultants and clients believe in certain myths that should be ignored, he said.

The two chief myths of the consultant are everyone needs a consultant and consultants have a monopoly on brainpower, Mr. Tagman said. For their part, clients hold to the myths that anyone can be a consultant and consultants come cheap, he said.

After their formal presentations,

the panelists tackled the question of openness and teamwork.

Travelers' Mr. Clarke said that risk managers should demand from the underwriter that he or she be allowed to meet with the entire team servicing the account. Don't delegate the responsibility by, for example, having the company safety director meet with the insurer's engineering staff by himself.

Mr. Tagman said that the risk manager should not only meet with the entire team but take a "report card" along to evaluate performance.

Mr. Clarke also emphasized keeping the line of communication open.

"Most problems occur because of lack of communication between two people," he said.

Communicating also entails ethical behavior, the panelists agreed. "I will cancel an account if you lie to me," said Mr. Clarke.

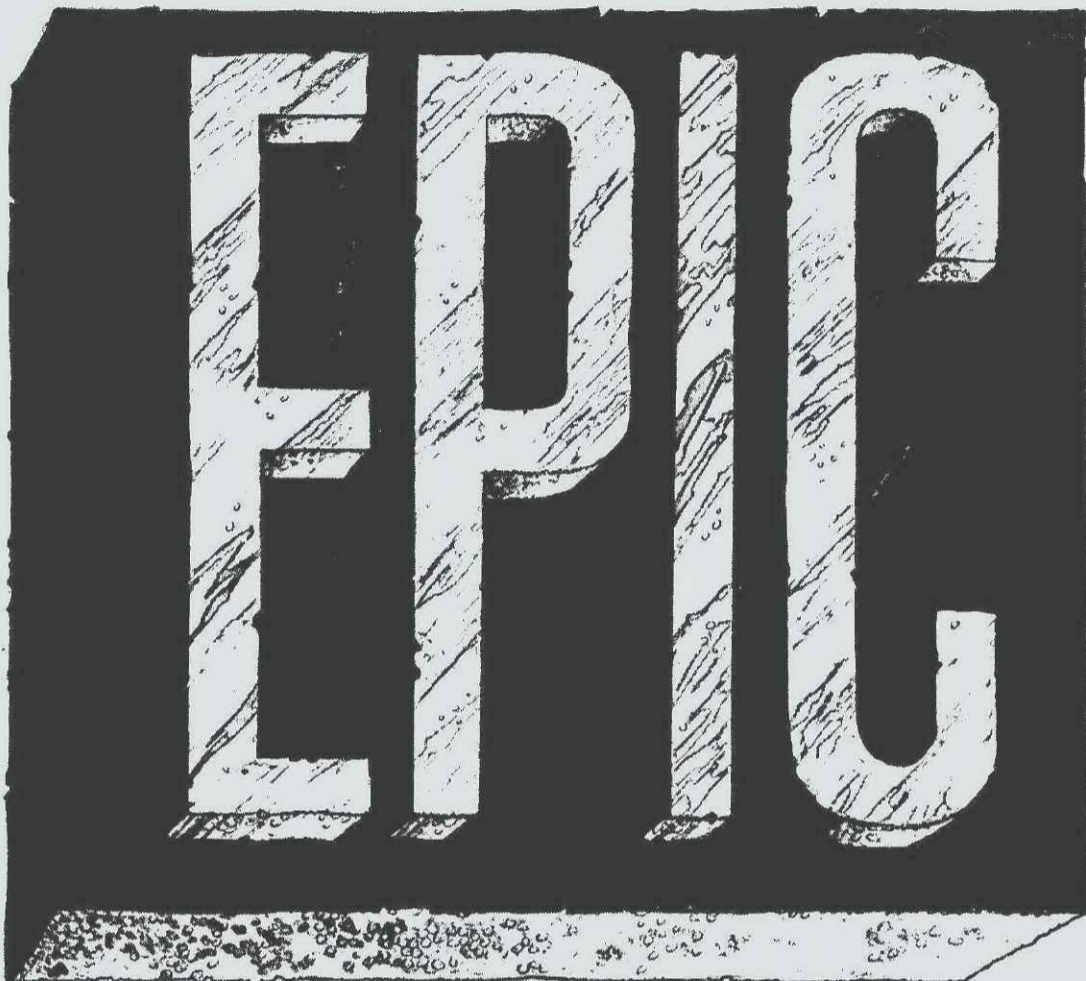
Mr. Tagman noted that unethical people tend to "disappear" from the insurance industry.

"This is a small community. I think the system has a way of correcting itself," he said.

And, Hall's Mr. Krutek posed a central question: "The whole country is asking: What is service?" he said.

"Service is living up to what you promised. You can't just have smiley faces," replied Mr. Clarke. ■

An



## 2,500 attend CPCU meeting

CINCINNATI—The 44th annual meeting of the Society of Chartered Property & Casualty Underwriters drew about 2,500 registrants, including many of the 1,216 newly designated society members.

While society members examined some of the critical issues facing the property/casualty insurance industry today, they also took time to listen to NBC News correspondent Douglas Kiker discuss the nature of leadership as well as participate in a 1950s-style dance that officially ended the meeting.

The society's meeting, held Oct. 9-12, took place against the backdrop of Cincinnati, which later in the week celebrated its bicentennial with a gathering of paddle-wheel riverboats called the "Tall Stacks."

The Society of CPCU also installed a new slate of officers at the meeting. The new officials include Gerald D. Stephens, founder and chief executive officer of RLI Corp. in Peoria, Ill., as president; Richard L. Katten, executive vp of the Ferd. Marks Insurance Agency, Ltd. in New Orleans, as president-elect; and Stephen J. Parris, an attorney with the Boston law firm of Morrison, Mahoney & Miller, as vp.

Next year's CPCU meeting will be held Oct. 15-18 in Anaheim, Calif. Further information can be obtained by contacting the Society of CPCU, Kahler Hall, 720 Providence Road, CB No. 9, Malvern, Pa. 19355-0709; 215-251-2728.

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# New ideas build leadership: Experts

By MARK A. HOFMANN

CINCINNATI—The foundation of successful leadership in the property/casualty insurance industry is unconventional thinking, insurance industry observers agree.

While such thinking need not necessarily reflect totally new thoughts, it should run contrary to the prevailing wisdom of the time, they say.

Those ideas permeated a panel discussion of "Leadership: What Are the Needs... How Do We Respond?" during the 44th annual meeting of the Society of Chartered Property & Casualty Underwriters held earlier this month in Cincinnati.

Panelist Robert J. Anker, president and chief executive officer of American States Insurance Cos. in Indianapolis, stressed the ability to communicate as one of three crucial aspects of effective industry leadership.

"We forget about the fundamental simplicity of our business," he said.

Insurance executives should attempt to strip their business of its mystery and talk about insurance

**'We forget about the fundamental simplicity of our business,' says Robert J. Anker of American States Insurance Cos. Executives should attempt to strip their business of its mystery and talk about insurance 'in words people understand.'**

Conr.-based W.R. Berkley Corp., is a surplus lines insurance company that specializes in difficult-to-place coverages such as product liability insurance.

Such a company should underwrite tightly, link its performance to long-term goals and emphasize effectiveness over efficiency, he said.

In other words, "do the right

things," Mr. Snead said.

At the same time, the company and its personnel should maintain enthusiasm for what they do, he added.

Gerald D. Stephens, president and chief executive officer of RLI Corp., a group of specialty insurers based in Peoria, Ill., stressed training and education as a critical part of achieving and maintaining indus-

try leadership.

All RLI employers are required to take courses offered by the Malvern, Pa.-based Insurance Institute of America said Mr. Stephens, who is also the new president of the Society of CPCU.

Mr. Stephens also stressed the importance of quality insurance underwriting.

There has to be "a conscious management strategy to maintain underwriting profitability," he said. As an example of the wisdom of this strategy.

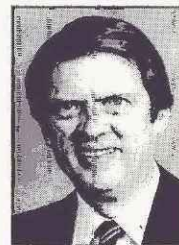
Mr. Stephens said that since its

founding more than 20 years ago, RLI has registered a combined ratio of worse than 100% only three times.

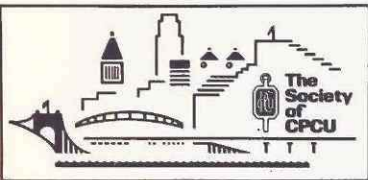
Mr. Stephens also said that one of the biggest mistakes an insurer can make is to react to a soft market cycle by forcing experienced underwriters into early retirement and by cutting back on training for the remaining personnel.

Underwriters are the most highly compensated employees at RLI because they are the employees responsible for the company's profits, he pointed out.

Panel moderator Bernard J. Daenzer, founder of the Key Largo, Fla.-based consulting firm Daenzer Associates, said curiosity is the one quality that marks success in the insurance industry.



Mr. Stephens



"in words people understand" before moving on to the third aspect of leadership, which he called "the will to do."

Mr. Anker said his company demonstrated that third quality in its approach to company/agency automation.

For example, American States decided to pursue interactive interface with its agents rather than batch interface, because interactive interface "clearly provided superior service to our customers," he said.

Under interactive interface, agents are directly connected to the insurer's computer, while with batch interface agents are connected to a network, which sends the data from the agents to the insurer's computer only at certain times.

Once the decision to go to interactive interface was made, the company was committed to realizing it.

The guiding idea was: "We can make anything we do better than we do now," Mr. Anker said.

Peter B. Lewis, chairman of Progressive Casualty Insurance Co. of Mayfield Village, Ohio, spelled out a multifaceted program for achieving industry leadership. Like Mr. Anker, Mr. Lewis stressed the importance of communication and of always putting the customer first.

Mr. Lewis said that leadership requires both a strategy and a willingness to stick with the strategy. A successful strategy requires hiring good people, having good information to rely on and "always raising the bar," or constantly setting higher goals personally and for the organization, he said.

Michael J. Snead, president of Admiral Insurance Co. in Cherry Hill, N.J., put forth a strategy for an insurer that is seeking to successfully find a niche in which to specialize.

Admiral, a unit of Greenwich,



Mr. Snead



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# New Jersey bills overhauls regulation

By COLLIN NASH

TRENTON, N.J.—There could be sweeping changes in New Jersey's commercial insurance regulatory system if the state Legislature adopts a package of 20 bills recommended by Insurance Commissioner Kenneth D. Merin.

The legislation represents "a complete overhaul" of the regulatory system and "is designed to protect the public from violent insurance market cycles and attract responsible, solvent insurers to the state," Mr. Merin said in a statement.

Mr. Merin stated that he is proposing the legislation in response to fears that current rate-cutting by commercial insurers could lead to an insurance crisis worse than

**'It is especially important that action be taken soon, because many experts are now predicting another crisis in the commercial insurance market in the early 1990s,' warned New Jersey Insurance Commissioner Kenneth D. Merin.**

the one that hit buyers in the mid-1980s.

"It is especially important that action be taken soon, because many experts are now predicting another crisis in the commercial insurance market in the early 1990s," Mr. Merin warned in a statement.

Bills included in the package fall into three general categories: those

dealing with insurer solvency; those establishing mechanisms to maintain insurance availability; and those dealing with the conduct of commercial insurers and their agents.

For example, Mr. Merin proposes:

- Doubling capital and surplus requirements for property/casualty licensing in the state.

- Establishing an entity that would insure underground tank owners whose tanks meet modern safety standards and can pass an annual inspection.

- Permitting captive insurance companies in New Jersey.

- Lifting restrictions on the types of underwriters to which professional risk managers paying premiums of at least \$1 million can give their business and removing guaranty fund protection for these risks.

- Establishing a flex-rating system, under which insurers may change their rates within defined margins without seeking prior Insurance Department approval.

Legislative sponsors for the package will be identified shortly, according to an Insurance Depart-

ment spokesman.

The New Jersey Legislature is in the midst of a two-year session that ends in January 1990, according to the spokesman.

In addition, Mr. Merin proposes a congressional resolution calling on Congress to investigate the creation of an "interstate compact" to assist the National Assn. of Insurance Commissioners in, among other things, developing uniform solvency code for insurers, risk retention groups and purchasing groups transacting business in more than one state; and establishing minimum guaranty fund standards for interstate risks.

Among the bills addressing the insurer solvency issue is one that would increase the minimum capital and surplus requirement for property/casualty insurers doing business in the state to \$6.25 million from the \$3 million in net assets the law currently requires.

Another proposal would reduce insurers' maximum allowable exposure on individual risks. Under current law, an insurer may retain up to 10% of its net assets on a single risk.

Noting that this limitation precludes the massive losses generated in long-tail liability lines, Mr. Merin proposes that the maximum single-risk exposure be reduced to 5% of net assets for liability lines.

Mr. Merin, though, concedes that this "5% rule may be too restrictive for some special risks and too high in other situations."

Therefore, the bill also would allow the Insurance Department to adjust the maximum single-risk exposure between 2.5% and 10%, "depending upon how much risk is safe for a particular line of coverage," according to Mr. Merin's statement.

Also pointing out that the 1987 collapse of Integrity Insurance Co. was triggered by uncollectible reinsurance—and noting that the reinsurance industry "is subject to almost no regulatory scrutiny"—Mr. Merin proposes legislation that would allow the Insurance Department to regulate the conditions under which authorized and admitted insurers are allowed credit for reinsurance either as an asset or as a deduction from liabilities.

A separate bill that provides for the licensing and regulation of reinsurance intermediaries doing business in New Jersey would allow the Insurance Department to establish qualifications for licensure and require written examinations.

Another bill would give the department the power to license and regulate managing general agents, including the authority to examine MGAs.

Another bill would change the way in which the Insurance Department determines whether a surplus lines insurer meets the state's minimum capital and surplus requirements.

Under current law, eligible surplus lines insurers must have twice the capital and twice the surplus required of licensed companies.

However, Mr. Merin observed that many surplus lines insurers that have applied to become eligible in the state have more than twice the surplus but not twice the capital required of licensed companies.

Mr. Merin proposes to amend current law so a surplus lines insurer with combined capital and surplus equal to at least twice the minimum required of licensed insurers would be eligible to write in the state.

Other proposed changes affecting surplus lines insurers include:

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Plans that work.

## New Jersey

Continued from previous page

- Extending the Insurance Department's review period of surplus lines policy forms to 30 days from 10.
  - Allowing the Insurance Department to examine eligible surplus lines insurers to protect against insolvency.
  - Allowing the department to assess an insurer for the 3% state surplus lines tax if the insurer accepts business from an unlicensed surplus lines agent who fails to pay the tax.
- The Insurance Department, noting that unlicensed surplus lines insurers should not enjoy an advantage over licensed companies, also proposes in this group of bills

**The department, noting that unlicensed surplus lines insurers should not enjoy an advantage over licensed companies, also proposes that all licensed insurers be allowed to write surplus lines business submitted through surplus lines brokers.**

that all licensed insurers be allowed to write surplus lines business submitted through surplus lines brokers.

The net effect of the law would be to increase the number of surplus lines insurers eligible to write business in the state.

New Jersey currently has 34 eligible surplus lines companies, many of which are subsidiaries of

insurers that are licensed in the state, according to Mr. Merin's statement.

Another bill addresses licensing standards. In cases where an insurer's financial condition is not judged hazardous enough to warrant revocation of its license, that bill would give the department "the power to suspend or limit the activities of (such) insurer until it

regains its financial health," the statement says.

Currently, the Insurance Department cannot lawfully limit an admitted insurer from writing new business in the state unless it proves in court that the insurer is insolvent.

Another group of bills dealing with insurer solvency addresses state guaranty fund law.

Mr. Merin's statement notes that the New Jersey Property-Liability Insurance Guaranty Assn., established in 1974 to cover admitted insurers, did not contemplate massive commercial insurer insolvencies and that "it is not appropriate for the association to pay... claims incurred by large corporations as a result of decisions made by professional risk managers."

Therefore, the Insurance Department is proposing a bill that would bar guaranty fund coverage for "large risks," defined as insurance buyers that employ a full-time risk manager and whose annual aggregate insurance premiums—excluding life, accident and health and workers comp premiums—total more than \$1 million.

Premiums paid by these corporations would be exempt from guaranty fund surcharges.

The bill also would bar guaranty fund coverage of any commercial liability policies written excess of underlying coverage or self-insured retentions of at least \$300,000.

In addition, the bill would extend guaranty fund coverage to include surety bonds written for public entities and excess workers compensation insurance, which are not currently covered by either the guaranty fund or the state Workers Compensation Security Fund.

The bill also would increase the current \$300,000 per occurrence limit on guaranty fund coverage under certain circumstances.

For example, the legislation provides that when the state requires a company to buy more than \$300,000 in liability limits to meet financial responsibility requirements, the guaranty fund will cover these higher limits up to \$1 million or the minimum statutory amount of coverage required, whichever is smaller.

The bill also would increase the \$300,000 limit up to \$1 million for public entities.

The Insurance Department also proposes that the guaranty fund create separate commercial and personal lines accounts so that only commercial lines policies will be surcharged for commercial lines claims.

A separate bill would amend the New Jersey Surplus Lines Insurance Guaranty Fund Act to incorporate the same changes proposed for the Property-Liability Guaranty Assn.

New Jersey is the only state in the nation with a guaranty fund for surplus lines insurance.

Also included in this package of legislation is a bill that would allow professional risk managers paying at least \$1 million in annual premiums to obtain coverage from any insurer worldwide rather than limiting placement to admitted insurers and "the relatively few surplus lines insurers deemed eligible by the commissioner," according to Mr. Merin's statement.

Risk managers of large New Jersey-based corporations "have requested that New Jersey law be changed to recognize that large risks need greater flexibility and that laws designed to protect smaller insureds often work to the disadvantage of larger insureds," the statement says.

A second group of bills deals with mechanisms for maintaining commercial insurance availability.

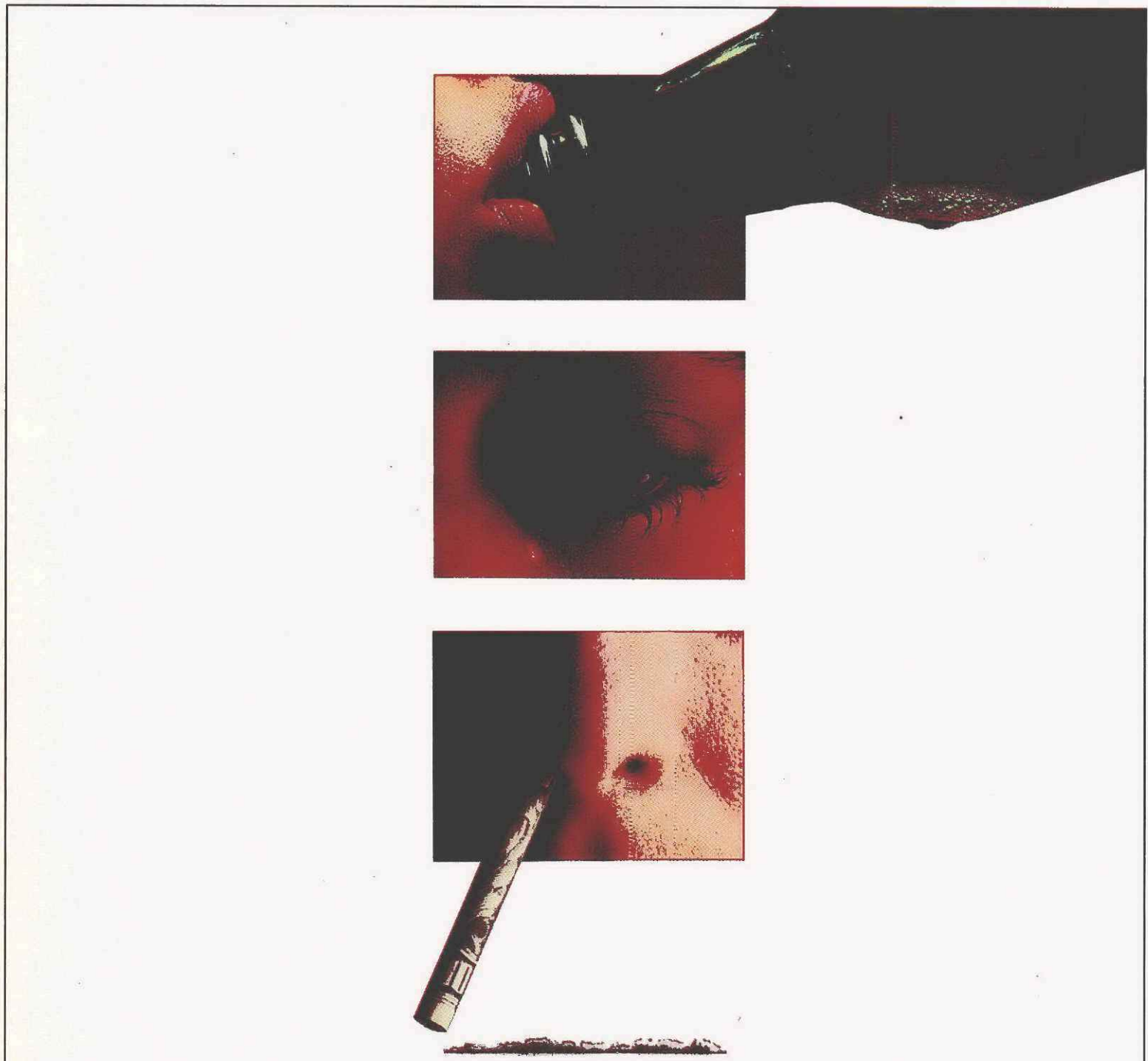
Noting that pollution from underground storage tanks is a serious environmental threat, the Insurance Department proposes to create an entity that would provide insurance to small underground storage tank owners who must meet federal financial responsibility requirements but are not large enough to qualify as self-insurers of the exposure.

The "New Jersey Underground Storage Tank Commission" would insure owners whose tanks meet modern safety standards and can pass an annual inspection.

Premiums would be based on claims experience, and tank owners would be surcharged to make up any shortfall in the program.

Other bills in this package would:

- Allow the formation of captive insurance companies in the state.

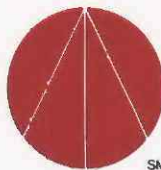


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Continued on next page

Continued from previous page

• Allow all local government entities to participate in self-insurance pools.

Current law allows participation by municipalities, counties and school districts.

• Allow parent companies to include their subsidiaries in their workers compensation self-insurance programs if the parent guarantees payment of claims against its subsidiary.

• Assessing policyholders a surcharge to fund deficits in the state's Commercial Auto Insurance Plan.

Currently, insurers are assessed to fund deficits, but they then build the additional costs into their rates.

A third group of bills addresses issues related to commercial insurer conduct, including amendments to the Commercial Insurance Deregulation Act of 1982 to allow the insurance commissioner to exercise greater authority over commercial insurance rates.

For example, the Insurance Department proposes giving the commissioner authority to periodically adjust the premium threshold for "special risks" according to marketplace conditions.

Under the Deregulation Act, any commercial risk for which an insurance buyer pays a premium exceeding \$10,000 is a special risk exempt from rate and policy form regulation.

However, dramatic jumps in insurance premiums during the hard market placed many small risks in this category.

Further, whereas the Deregulation Act defines only two classes of risks—special risk and regular risks, for which both forms and rates are regulated—the department proposes establishing a third classification called "judgment-rated risks." The rates for these risks would be deregulated but policy forms for these risks would remain regulated.

Judgment-rated risks are defined as those for which insufficient data exists for rating organizations to establish rates, or those commercial risks that generate at least \$25,000 in annual premiums.

Another bill in this package would establish a flex-rating system in New Jersey that would allow insurers to adjust rates within a defined percentage range without prior Insurance Department approval.

Rate changes outside these "flex bands" would be subject to a 90-day review period before becoming effective.

Other proposed bills in the package would:

• Extend the current policy form review period to 60 days from 30 days.

• Allow the Insurance Department to retain independent auditors at an insurer's expense to examine underwriting files to determine compliance with filed rates and rating plans.

• Require insurers to supply statistics such as financial loss, exposure and expenses to a New Jersey data base that could be accessed by the Insurance Department, underwriters and the public.

• Increase fines for willful violations of the insurance law to \$2,000-\$10,000 from \$25-\$500 and impose a \$500 fine for non-willful violations.

• Allow the Insurance Department to promulgate regulations concerning the type and amount of safety services that insurers must offer policyholders in high risk lines.

• Establish the conditions risk retention groups and purchasing groups must meet to operate in the state.

Among other things, risk retention groups would be required to meet the same capitalization requirements as property/casualty

**Another bill would establish a flex-rating system in New Jersey that would allow insurers to adjust rates within a defined percentage range without prior approval. Rate changes outside these 'flex bands' would be subject to a 90-day review.**

insurers and would be subject to Insurance Department examination.

Another bill would clarify state law on unfair and deceptive trade practices and would make the law enforceable against risk retention groups that operate in New Jersey but are domiciled in another state,

according to Mr. Merin's statement.

In addition to the bills Mr. Merin would like the New Jersey Legislature to pass, the package contains a "sense-of-the-Legislature" congressional resolution.

The Insurance Department is asking the U.S. Congress to con-

sider an "interstate compact" to strengthen the National Assn. of Insurance Commissioners' hand in:

• Developing a uniform solvency code establishing minimum capital and surplus requirements, net retention standards, solvency ratios, investment regulations and other related matters for insurers, including risk retention groups and purchasing groups transacting business in more than one state.

• Licensing alien reinsurers.

• The promulgation of minimum standards on the use of reinsurance by primary insurers.

• Establishing minimum guaranty fund standards for interstate risks.

• Establishing minimum stan-

dards for policy forms used by surplus lines insurers, and creating standards governing the conditions by which the surplus lines affiliates of domestic insurers may offer coverages that domestic insurers refuse to write.

• Maintaining a centralized data and information source for commercial insurance lines to assist the states in regulating this business.

• Undertaking a study to determine the effect of insurance written by alien insurers on the nation's trade balance.

"The proposal is regarded as an alternative to federal regulation of insurance," Mr. Merin's statement said.

A V I A T I O N   S A F E T Y   S E R I E S   N O .   I



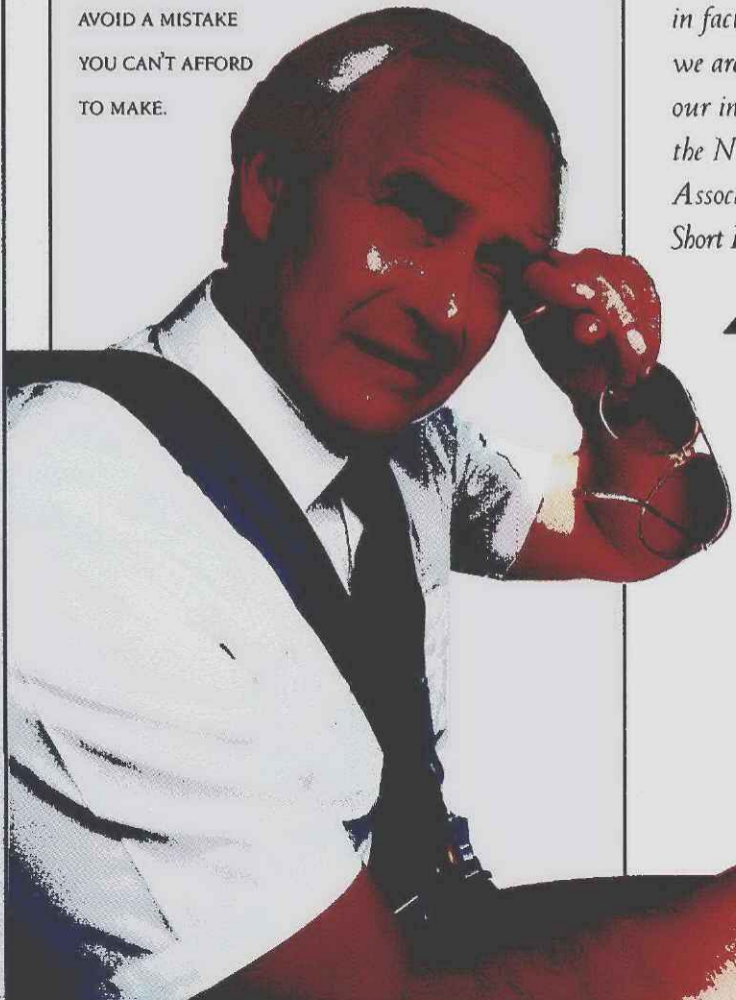
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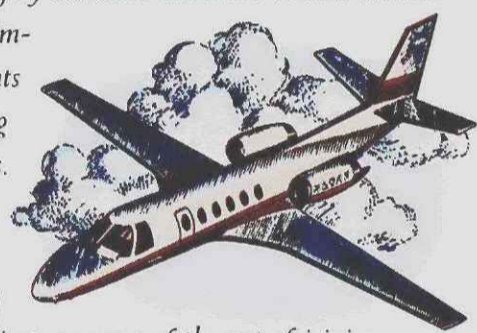
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**AAU** Raising Your Expectations

# Piper Alpha settlements offered to families

By CAROLYN ALDRED

## London

LONDON—Total compensation payments to families of the 167 victims who died in the Piper Alpha oil platform explosion could exceed 100 million pounds (\$174.5 million).

Rig owner Occidental Petroleum Corp. and lawyers representing the families have agreed to a framework for payments to relatives, an Occidental spokesman confirmed.

The amounts offered depend on several factors including the victim's age, salary and number of dependents, the spokesman said. The compensation framework applies to families of contract workers as well as Occidental employees on the rig at the time of the disaster, he added.

The size of the compensation offers range from less than 50,000 pounds (\$87,300) up to about 1 million pounds (\$1.74 million), with the average offer totaling about 600,000 pounds (\$1.04 million), sources say.

If families accept the offers, payments likely will be made before Christmas, the Occidental spokesman said.

### Sedgwick consolidates

London-based Sedgwick Group P.L.C. is consolidating its European employee benefits operations in preparation for the removal of trade barriers in European Community nations.

The move is part of a restructuring within the brokerage, combining its European Asian and Australian employee benefits, actuarial services and financial planning operations into a single company.

Creation of the new company, called Sedg-

wick Financial Services Group Ltd., "represents the first step toward the development of financial services as a core business for Sedgwick," the company announced last week.

Rob White-Cooper will serve as chairman of the merged company.

Sedgwick's employee benefits operations in Europe, currently located in nine countries, will be combined, "enabling Sedgwick to meet the ever-changing needs of clients and the likely challenges and opportunities which will face them in the run-up to 1992," when legislation removing internal trade barriers in the European Community comes into effect, the company said last week.

The new company, which will have 550 employees, is projected to have initial annual revenues of 25 million pounds (\$43.6 million), said Chief Executive David Strauss.

The company initially will concentrate on the European market for several reasons, said Mr. Strauss. These include:

- The creation of a single European market. The European Community consists of 12 countries with a total population of 320 million people, making it one of the largest and most affluent single markets in the world, together with the United States and Japan, he noted.

- The creation of more multinational companies in Europe. These companies will require more sophisticated financial products and benefits for their employees, particularly those employees who are likely to

move from country to country, said Mr. Strauss.

- The increasing trend for governments to cut back in state-provided social security benefits.

"We see this trend increasing (in Europe) and a greater provision by the private sector of death, health, medical and life benefits," said Mr. Strauss.

### Hurricane claims

General Accident Fire & Life Assurance Corp. P.L.C. of Perth, Scotland, last week announced a probable net loss of 30 million pounds (\$52.3 million) as a result of Hurricane Gilbert which devastated the Caribbean island of Jamaica last month (BI, Sept. 26).

The company, which has a subsidiary in Kingston, Jamaica, expects its gross loss to exceed 30 million pounds. It has catastrophe reinsurance excess of 30 million pounds.

Since General Accident's market share in Jamaica is about 10% to 12%, the likely total insured loss on the island will exceed 300 million pounds (\$523.5 million), said General Manager Jason Frangoulis.

Meanwhile, London-based insurer Royal Insurance P.L.C. will sustain a net loss of 10 million pounds (\$17.5 million) from Jamaican claims plus additional losses of 3 million to 5 million pounds (\$5.2 million to \$8.7 million) from claims in Mexico and Texas, which also were hit by the hurricane, said a

spokesman.

Royal's gross losses from Jamaican claims likely will reach 40 million pounds (\$69.8 million), he added.

### New London pool

A new London-based underwriting pool is offering financial guarantees on both a direct insurance and reinsurance basis, initially by guaranteeing British mortgage-backed securities.

The members of the pool include National Employers' Mutual General Insurance Assn. Ltd.; The International Insurance Co. of Hannover Ltd., a London-based subsidiary of Hannover Reinsurance Co. of West Germany; and Municipal General Insurance Ltd.

These companies have combined assets of more than 400 million pounds (\$698 million) and are supported by treaty reinsurance capacity placed with major international reinsurers, according to the pool's managing general agent, AMA Underwriting Agencies Ltd.

The London Financial Pool began underwriting mortgage pool indemnity insurance for U.K. mortgage backed securities in July. However, "the pool will be developing related covers in support of other structured financings in response to the increasing sophistication of inquiries emanating from capital markets investors, their advisers and borrowers," according to a statement from the company.

This is the first London underwriting pool formed to specialize in financial risk insur-

*Continued on next page*

# Protection . . .

Continued from previous page  
 ance or financial guarantees, according to Alastair Malcolm, managing director of AMA.

## Broker resignation

Ian Henderson this month resigned as chief executive of Windsor P.L.C. because of a change in the company's strategy.

Mr. Henderson joined Windsor in June 1987 "primarily to develop Windsor through acquisitions in the insurance broking industry." However, "while, Windsor will continue to look for acquisitions, greater emphasis will be placed on developing Windsor's existing business," said a company statement.

Mr. Henderson, whose duties will be assumed by Windsor Chairman Stanley Taylor, will remain a significant company shareholder.

## SBJ restructures

London broker Steel Burrill Jones Group P.L.C. is restructuring its operations into three separate subsidiaries as it prepares to further diversify from its marine insurance brokerage base.

George Boden, formerly deputy chairman of Stewart Wrightson Ltd., has been appointed chief executive, and Tony Keys, also a former director of Stewart Wrightson, has been appointed finance director. Both men joined SBJ in June following the company's purchase of Ansford Management Ltd. (BI, Aug. 29).

The three principal subsidiaries will be:

- Steel Burrill Jones Ltd., a Lloyd's of London brokerage, which will handle London and international market insurance and reinsurance.

- H. Stephenson Group Ltd., which will

handle commercial lines insurance and related group life and pension business.

- SBJ Financial Services (Holdings) Ltd., which is responsible for the company's employee benefits and personal financial planning business.

In the future, marine reinsurance brokerage business will be handled by Steel Burrill Jones Marine Reinsurance Ltd., and oil and gas insurance brokerage activities will be handled by Steel Burrill Jones Oil and Gas Ltd. Both companies will be subsidiaries of Steel Burrill Jones Ltd.

Derek Steel will remain group chairman and David Beresford Jones has been appointed deputy chairman of the parent company.

## Tax relief

U.K. insurance brokers may be able to obtain tax relief for money set aside to service future insurance claims, according to London accounting firm Neville Russell.

The Inland Revenue, on a case-by-case basis, has agreed to allow tax relief for claim servicing costs for several of Neville Russell's clients, said corporate tax partner David Ingmire.

Until now, brokers have paid the British corporation tax, currently 35%, on all money set aside for the cost of servicing future claims, said Mr. Ingmire.

But after more than four years of negotiation, Neville Russell has persuaded the Inland Revenue to treat the funds as current liabilities he explained.

Speaking at a London seminar organized by Neville Russell, Robin Oakes, a partner in the firm, said: "Many insurance brokers will now be able to make provisions without suffering tax penalties, and this will undoubtedly have a major impact on the market."

As no part of a broker's commission relates

specifically to claims servicing, it is difficult for brokers to compute their profits, especially if provisions have not been made in their accounts for claims servicing costs, Mr. Oakes explained.

When market rates for insurance and brokers' commissions plummet, there can be no guarantee that brokers will have the funds to meet the costs of servicing future claims, said Mr. Oakes, adding that the situation is worse for brokers that are not expanding or who has primarily long-tail business.

## Preparing for 1992

Many insurance companies are reappraising their strategies in anticipation of the removal of trade barriers among European Community nations, accounting firm Arthur Young & Co. in London states.

The Single European Act of 1987, which paved the way for the removal of trade barriers between European Community countries by 1992, and the Non-Life Freedom of Service Directive, which removes trade barriers for the writing of commercial property/casualty insurance, "have already triggered a wave of strategic repositioning in the (insurance) industry," says an Arthur Young publication that describes how to set up an insurance company in the United Kingdom.

For example, "several cross-border mergers and acquisitions have already taken place, and some non-insurance companies have entered the insurance arena either by acquisition or setting up their own insurance company," it notes.

In "Setting up an Insurance Company in the U.K.," Arthur Young points out that "Europe's insurance industry now finds itself on the threshold of a new era: The approach of 1992 heralds the creation of a truly free and open market among the 12 member states of the European Community."

As a result "there has never been a more attractive time to start an insurance business in Europe as a whole. In particular the realignment of companies combined with the prospect of a harmonized regulatory environment and the relatively underinsured state of some EC member countries creates an opportunity for both EC insurers and outside insurers to look at Europe as a market with many opportunities," the book says.

However, while outlining the legislative and financial framework for U.K. insurers, also warns that "uncertainties lie ahead."

For instance, in property/casualty insurance "there is evidence of re-emerging price competition and 1987 may come to mark the peak year of the current underwriting cycle," the accounting firm states.

## Comings & goings

**Peter Ellis** has been appointed director of underwriting management at Alexander Stenhouse U.K. Ltd.'s central insurance services division. Mr. Ellis previously was managing director of the Trinity Insurance Co. Ltd.

**Jerry Dowlen** has been appointed claims manager of CNA Reinsurance of London Ltd. Mr. Dowlen previously was departmental director of Lloyd's of London broker Winchester Bowring Ltd.

Marsh & McLennan Cos. Inc. Senior Vice President **Philip J. Brown Jr.** has been relocated to London as deputy chairman of Marsh & McLennan Bowring Ltd. following M&M's decision to base its international operations in London.

Lloyd's marine underwriter **Michael Maughan** has been appointed a non-executive director of R.H.M. Outhwaite (Underwriting Agencies) Ltd. Mr. Maughan is group marine underwriter for Sturge Holdings P.L.C.

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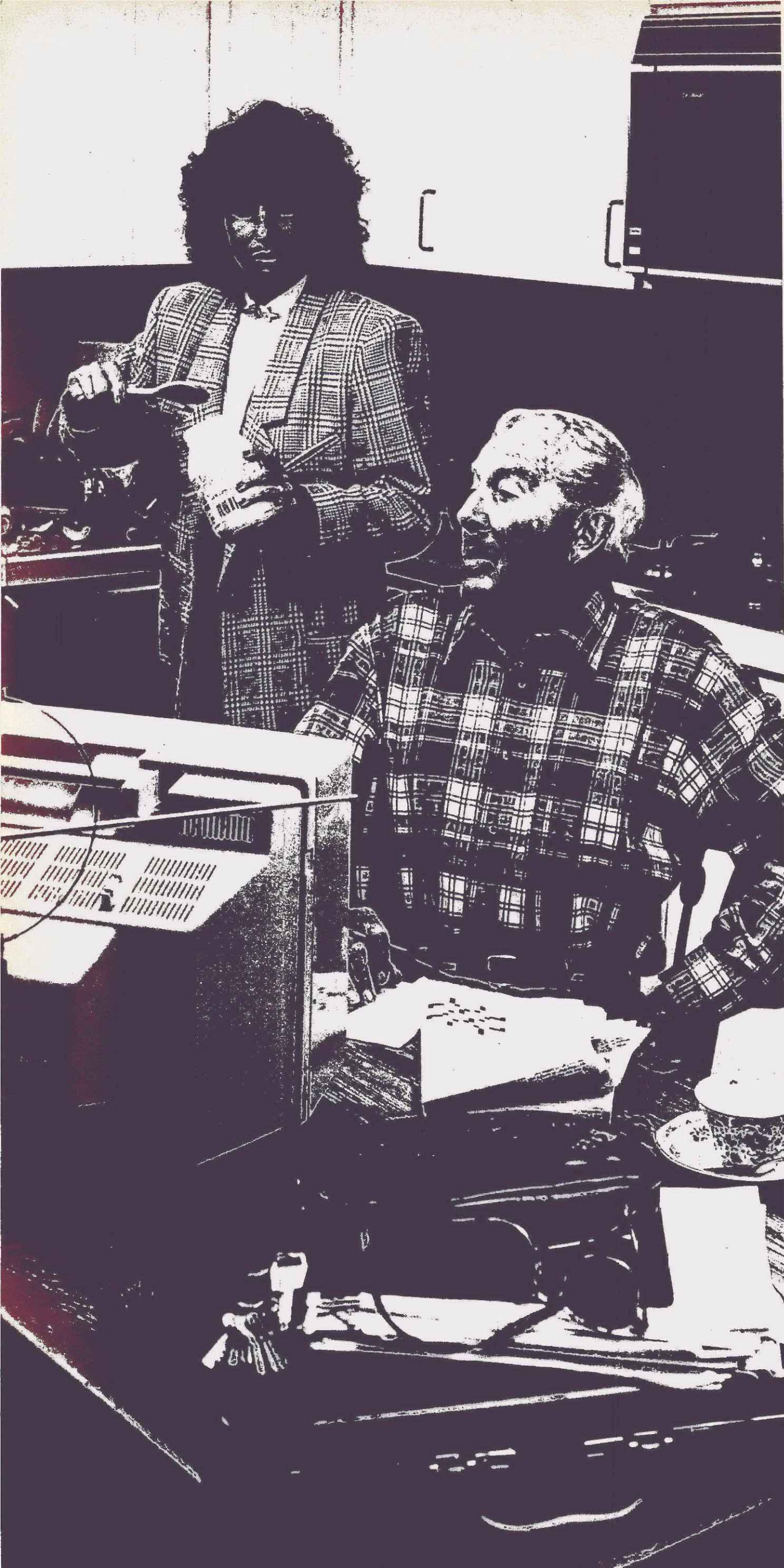
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# VOLATILE RISK

## Mitigation of vapor cloud explosions now possible

By Michael F. Burke  
and Larry J. Moore

**I**N THE PAST YEAR there have been several newsworthy explosion disasters in the chemical and petroleum industries: A propellant plant in Henderson, Nev., and a refinery in Louisiana (*BI*, May 9); a North Sea oil platform (*BI*, July 11), and the Hoechst Celanese Corp. plant explosion in Pampa, Texas (*BI*, April 18; Dec. 28, 1987). All involved multiple injuries or fatalities and major property loss. Lesser incidents occur without national attention and near misses are suspected to occur much more frequently.

Following the November 1987 Hoechst Celanese explosion, risk managers and underwriters have become familiar with a "new" loss phenomenon: vapor cloud explosions. While this phenomenon has been recognized by the chemical industry and fire protection engineers for several decades, only recently has this awareness prompted worldwide testing, research and development of prevention and mitigation guidelines.

A VCE may be simply defined as an explosion occurring outdoors that produces damaging overpressure development. It is initiated by the unplanned release of a flammable material from a storage tank, process vessel or pipe. Generally, for a VCE to occur, several features must be present.

First, the material released needs to be flammable and processed or held under suitable conditions of pressure and temperature. Examples of suitable materials are:

- Liquified gas under pressure, such as propane, butane and liquified natural gas.
- Ordinary flammable liquids at superheated temperatures and/or pressures, such as cyclohexane and naphtha.
- Non-liquified reactive flammable gas, such as ethylene and acetylene.

Second, a cloud of substantial size needs to form prior to ignition. Should ignition occur instantly with release of the material, a large flare fire may develop causing extensive localized damage. However, blast pressures causing widespread damage are not likely to occur.

Should the cloud be allowed to form over a period of time within a process area and subsequently ignite, blast pressures can approximate those developed from detonation of high explosives and result in extensive damage over a wide area. Such ignition delays of one to five minutes are documented.

Third, a sufficient amount of the cloud must be within the flammable range of the material to cause extensive overpressure. For any vapor or gas to ignite, it must have the correct fuel-to-air ratio. Below a certain ratio, the mixture is too lean and above a certain ratio it is too rich.

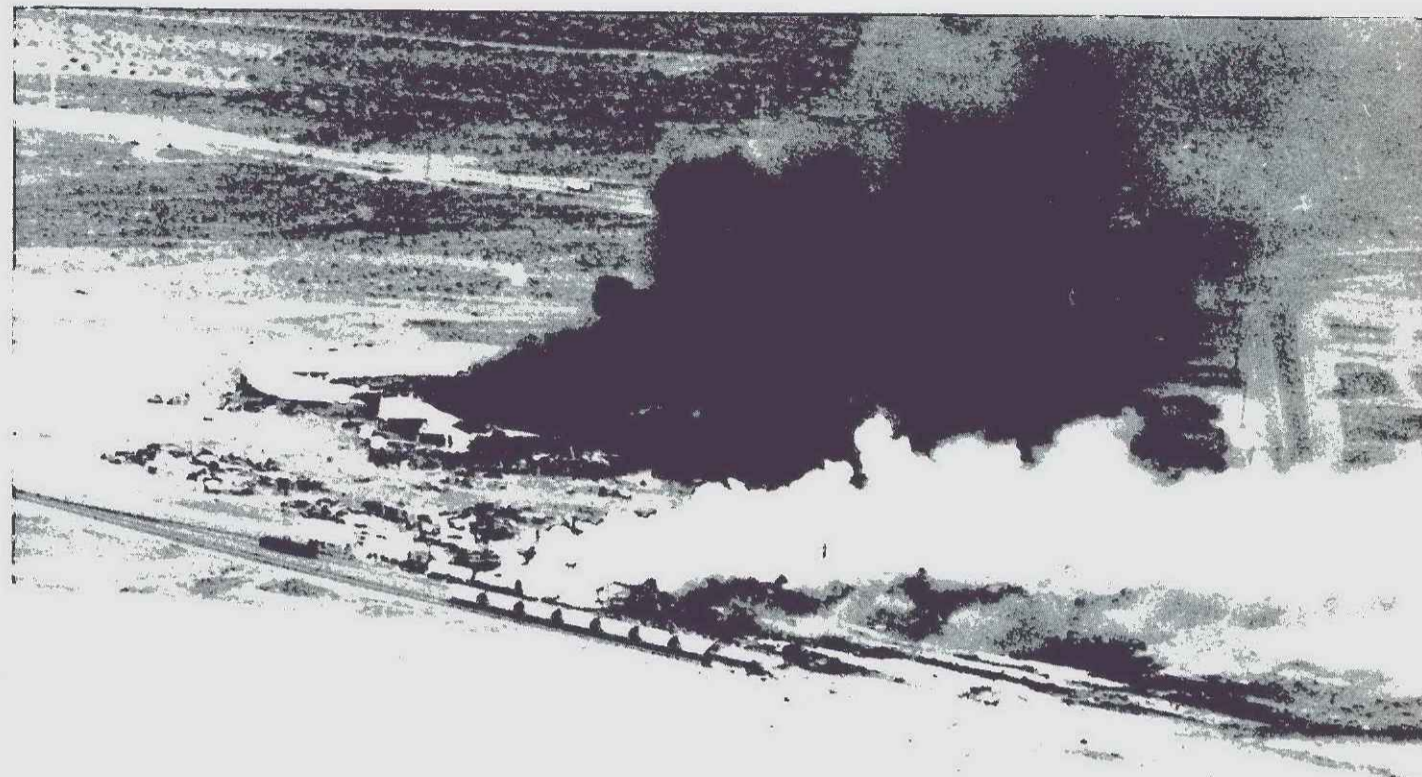


Photo: AP/Wide World

Smoke billows from a rocket fuel plant and a nearby marshmallow factory in Henderson, Nev., following an explosion in May.

The range between the lean and rich regions is called the explosive (flammable) range. A vapor cloud will generally have three regions: a rich region near the point of release; a lean region at the outer limits; and a region in-between that is within the flammable range.

The amount or percentage of the vapor cloud in each region will vary depending on many factors including: type and amount of material released; pressure at release; size of release opening; degree of outdoor "confinement" of the cloud; and wind, humidity and other environmental effects. It also will vary over time.

The percentage of the cloud within its flammable range available for ignition is called the explosion (combustion) efficiency, which relates to explosive yield. The greater the efficiency, the greater the potential for pressure development and property damage. VCE incidents with explosion efficiencies higher than 50% have been calculated; however, most recorded incidents have had efficiencies less than 10%.

A fourth condition needed for VCE explosion with pressure development is outdoor "confinement." Historically called unconfined vapor cloud explosions, the term "unconfined" is no longer widely used. Research testing and incident evaluation have demonstrated that some confinement is needed. Therefore, this type of explosion is more accurately called a "semi-" or "partially" confined VCE or "open air" VCE.

Full-scale testing and computer modeling have demonstrated that the greater the confinement, the greater the explosion efficiency and pressure development. In addition, the presence of obstacles in the center of an exploding cloud can increase gas

turbulence, which in turn can increase flame speed within the cloud and pressure development. Conversely, ignition of a flammable cloud in an open area—such as a field—with scant confinement or obstacles will generally not produce significant explosion pressures, although heat radiation from a fireball can cause widespread fire damage.

Most chemical plants feature extensive pipe racks, canopies, tanks, process columns, narrow roadways between buildings and multilevel process pads, all of which provide considerable obstacles and improve cloud confinement.

The conditions of a VCE are now fairly well understood and a number of calculation methods are available to convert the VCE scenario into a reasonable property damage assessment. Most calculation techniques include methods for determining amount of material released, cloud size and energy upon ignition. The energy of the material released is usually converted into TNT equivalency. For example, the energy released by one ton of exploding butane at 10% combustion efficiency is approximately equal to that released by one ton of TNT.

Once a TNT equivalency is determined, published military test data can be used to calculate and plot blast over pressure circles on a plan of the plant. For example, one ton of TNT can produce 5 pounds per square inch overpressure at 300 feet and 1 pound per square inch at 1,000 feet from the explosion epicenter.

Extensive guidelines on pressure resistance of certain structures and process equipment also have been published. From these guidelines, damage occurring from a VCE can be converted into property value loss.

Many of the calculations can be done using computer models, especially where several VCE scenarios might exist in a given plant.

At a large plant, a calculation using the above guidelines can produce loss potentials from a given VCE scenario in excess of \$100 million. The 1987 Hoechst Celanese incident has been estimated to exceed \$400 million in damages; and a 1974 explosion in Flixborough, England, exceeded \$100 million, as did a 1975 ethylene incident at a propylene plant in the Netherlands.

It should be noted, however, that a VCE may not always produce the largest potential incident at a facility. The explosion of the Piper Alpha oil platform, producing an estimated \$1 billion in damages, is thought to have been an indoor, confined gas explosion.

While it may seem that these events are purely the luck of the draw and that very little can be done to avoid or mitigate their effects, this is not really true. Much work is being done on vapor cloud prevention, mitigation and damage minimization. The Center for Chemical Process Safety of the American Institute of Chemical Engineers has prepared guidelines on vapor release mitigation. Allendale Mutual Insurance Co. and members of the Factory Mutual System have refined their sight evaluation techniques to help both in identifying main exposure areas and reducing the consequences of an accidental vapor release.

According to CCPS, there are four major interrelated strategies to VCE mitigation: inherent plan design, good engineering design, process safety management and emergency action. Allendale has charged FM to work

Continued on next page

# Pros and cons of coverage decisions

By The Insurance Institute of America

The following question and answer are drawn from the curriculum for the Associate in Risk Management designation awarded by the Insurance Institute of America. They represent the type of question asked—and the possible answers—in one of the three examinations for the A.R.M. designation.

This month's question and answer illustrates that any strategy a firm may follow in marketing its insurance coverages to underwriters has potential advantages and disadvantages. Therefore, as demonstrated in this one of several possible responses to a recent ARM 56 national examination question, any particular firm's decision about how best to seek insurance coverages requires a careful balancing of the likely advantages and disadvantages in each specific situation.

**Q:** Describe any two significant potential advantages and any two significant potential disadvantages of each of the following decisions that an organization may make with respect to selecting among insurers, their representatives and the coverages they offer:

- An organization decides to use just one insurance broker or agent—rather than several—to purchase its insurance.
- An organization decides to obtain as much of its property/casualty insurance as possible through manuscript policies rather than standard policies.
- An organization decides to obtain as much of its property/casualty insurance as possible from admitted insurers rather than from non-admitted

## A.R.M. exercises

insurers.

**A:** • Relying upon only one brokerage or agency, rather than several, can have a variety of potential advantages. One of these is greater leverage with that agent or broker and with the insurers it serves in securing more favorable policy provisions and/or more favorable settlements of specific claims.

Another potential advantage is the agent's or broker's greater familiarity with and commitment to fulfilling the policyholder's coverage and other risk management needs.

In contrast, one disadvantage may be reduced access to the greater variety of insurers, coverages and insurance-related products and services that a greater number of brokers or agents could provide. Another potential disadvantage may be the increased tendency of the broker or agent to take the policyholder's business for granted because it faces no ongoing competition from other insurance marketing representatives.

• One advantage of using manuscript insurance policies, rather than standard contracts, may be broader coverages, including more kinds of property, casualty, net income and life/health coverages against a broader range of perils. Furthermore, greater use of manuscript contracts may enhance an organization's ability to more closely tailor its coverages to its particular needs.

However, the increased likelihood of drafting

errors or oversights in designing a manuscript policy may be a disadvantage. Moreover, striving to use only manuscript contracts may limit an organization's access to insurers, because relatively few of them are willing to consider manuscript coverages, especially against certain perils.

• Seeking to use only admitted insurers rather than non-admitted ones may benefit an organization through greater ease of collecting on claims because the insurers and the policyholder are more likely to be within the same legal jurisdiction and the insurer is more likely to be effectively regulated, than if the insurer is not licensed in the policyholder's state. An additional advantage may be the policyholder's enhanced ability to determine the insurer's financial soundness, again because of more effective state regulation than is typically applied to non-admitted insurers.

Nevertheless, restricting insurers' purchases to admitted insurers may, first, increase an organization's insurance costs because of its reluctance to use often lower-priced coverages available from non-admitted insurers and, second, restrict the organization's ability to purchase types of coverage available only from non-admitted insurers.

The sample questions and answers used in this column are taken from the Associate in Risk Management designation curriculum of the IIA. For more information on the content of the A.R.M. program, write Dr. G.L. Head, Vp, Insurance Institute of America, P.O. Box 314, Malvern, Pa. 19355.

# Mitigating vapor cloud explosions

Continued from previous page  
closely with its policyholders on all new construction plans to assure that these guidelines are understood and followed wherever practical to achieve a high level of inherent safety in the overall design. For example, we might explore modifications so that chemicals of lesser hazard are substituted for those that are more hazardous. Pressures and temperatures might also be reduced through process changes. The hold up of flammable materials in high-value, central process areas might be minimized through vessel downsizing, a reduction in flow rates or by location of the hazardous process or bulk storage in a remote area. In some cases, the actual plant layout itself can be adjusted to space out process areas to assure that they are not inter-exposed.

Important buildings, such as control rooms and electrical rooms, can be designed to be blast resistant. Fire protection systems can incorporate features that will increase these structures' chances of remaining unimpaired by explosion pressures.

Obviously, all of this is desirable where plants are still in the design stage, but to a surprising extent, many minor modifications in existing facilities can still introduce a degree of inherent safety. This is particularly true when planned modifications are coordinated in advance through adequate property loss control consultation.

Good engineering design—both in new construction and, to a lesser extent, under retrofit of an existing plant—begins with a recognition that

a VCE can occur and that steps can be taken to prevent it. Once the potential is recognized and understood, the engineering solutions become fairly obvious. For example, once a goal is established of limiting vapor release, the use of double-wall piping or increased vessel strength become straightforward solutions.

Similarly, containment of a dangerous process in a special structure becomes an option to be considered. Computerized process control systems, emergency relief systems and spill containment can all be considered as part of the overall

include an analysis of the avoidance or mitigation of VCEs. Maintenance of equipment is critical.

However, the human element aspects of vapor cloud mitigation are the most important. A well-designed and inherently safe plant can be quickly compromised by poor operator response or action. Therefore, careful operator selection and ongoing training on normal and abnormal conditions is important.

As we further explore the overall problem, we are finding that what had earlier seemed to be an unworkable situation—especially at plants that are

activations. Detectors can be arranged simply to sound an alarm, to expedite an emergency response or evacuation, or they can be interlocked to shut off importance equipment or pipeline valves. Cases have been documented where emergency response has safely dissipated flammable vapor clouds prior to ignition.

Strategies vary greatly, each with its strengths and weaknesses. Vapors may be dissipated or selectively channeled with water sprays or air blowers; they may be neutralized or smothered or diluted. Some plants have even chosen the route of deliberate ignition in the very early stage to avoid the results of larger clouds.

With the various characteristics of each of these systems, coupled with the unique nature of many plants, it is absolutely necessary that the precise strategy selected fit into the overall objective for explosion mitigation. Many of these systems are also quite costly and a thorough analysis of the potential exposure should be conducted to determine the most cost-effective approach.

In conclusion, much can be done both in the design stage and in currently operating plants. The most important steps are to recognize the hazard exists and to determine the overall VCE loss potential. Once this is done, a cost-effective strategy can be developed for mitigating the potential consequences of a VCE incident.

**While VCEs appear to be a fairly exotic loss exposure, much of the approach still goes back to the basics of safety management and the human element aspects of plant design and operation. Once the potential hazard and factors that affect a VCE have been established, the basic response is still based on people.**

good engineering design.

While VCEs, on first blush, seem to be a fairly exotic loss exposure, much of the approach still goes back to the basics of safety management and the human element aspects of plant design and operation. Once the potential hazard and the factors that will either increase or decrease a VCE have been established, the basic response is still based on people. During operation of the plant, standard operating procedures covering normal operations, start-up, shutdown, hazardous work procedures, process changes, abnormal operation procedures, etc., should all be reviewed to make sure that they

already in operation—can actually be greatly improved once the objective to do so has been established. Emergency devices are now available to help detect, dissipate or otherwise mitigate the consequences of a vapor cloud should other efforts fail to prevent a release. And, still better products are being developed.

After a thorough analysis of the process, detectors can be installed at key positions in the plant to give early warning of a release. There are many types of these detectors available, including gas detectors, laser beams and simple visual or odor detectors. Thus, a very customized application can be developed to limit false

Michael F. Burke is vp and chief engineer for Allendale Mutual Insurance Co. Larry J. Moore is manager-special hazards section of Factory Mutual Research Corp.

# The aging of America

By Frank L. Sena

**T**HE AGING OF AMERICA is reshaping our society. Increased life expectancy and the complexities that accompany that gift are injecting new responsibilities into traditional roles and restructuring our way of life.

As families experience an increase in the number of older members, younger adults and family members must assume responsibility for the health and well-being of their elders. As many of us are beginning to learn, caring for elderly parents can be a stressful, long-term commitment that takes its toll on many aspects of our daily lives. This includes financial security in general and performance in the workplace in particular.

Long-term care is one of the most talked about, essential and vital benefit responses to this emerging lifestyle. This new employee benefit comes of the desire of forward-looking employers to reduce the stress of caring for elderly dependents that can negatively affect employee productivity.

Since it is a product that, at best, answers the most personal needs of individuals and their families, it is best delivered as a group voluntary benefit, elected by an employee or retiree and paid for through payroll deduction. As a group benefit, LTC will yield greater economies of scale for consumers through large participation and spreading of risk.

Because LTC is so new, the insurance industry is still in the process of learning how it will behave in the marketplace. In the absence of good data on LTC coverage, insurers are trying to determine their potential financial exposure from the product. This is an industry issue and one with no easy solution. But, all insurers are either addressing or considering the issue, regardless of how they decide to design or price their products.

Information on employers' LTC objectives and how they plan to integrate this benefit into the corporate plan is critical to benefit providers as they decide how to structure benefit plan designs and how to build communication and enrollment strategies around these objectives.

The need to help retirees preserve their pension income is a corporate objective that attempts to meet retiree needs and control pension plan costs. By making LTC coverage available to retirees and their spouses, an employer can help to reduce the out-of-pocket costs that older Americans incur while they still have assets to protect.

The ultimate consequence of paying for long-term care expenses in the absence of LTC insurance is a reduction of assets to the point of poverty. In such situations, individuals are forced to resort to Medicaid and sign away pension

## LTC benefits reduce stress of elder care on employees

checks to health care providers.

Employers that are concerned about this want to make LTC insurance available, not only to retirees but to active plan participants as well, so that they can have the opportunity to purchase LTC insurance while they are still healthy. The critical target groups for this endeavor are employees approaching retirement and retirees who are into the early years of retirement.

Both the public and the private sectors have recognized the exposure of retiree health care. Insurers, consumers and government officials each expect some level of federal intervention in resolving the issue of long-term care.

What direction that participation will take is as yet unclear. There are questions being asked by government leaders, private industry and consumers alike: Does the federal government really want to get involved in providing long-term care for the entire population? Does the government have the financial obligation to do so? And, can costs be accurately projected and equitably financed?

In the absence of any employer or consumer tax incentives, the federal government cannot expect private industry to attract participants into voluntary enrollment plans. Likewise, state-mandated benefits would foster uncompetitive plan designs with little or no opportunity for innovation.

For these reasons, the insurance industry is taking the initiative in developing LTC products and services. Traditionally, this industry has been an innovator and prime mover in developing and marketing new insurance products. Yet, while the products we design can serve a majority of the population, there is still a need for the federal government to serve and protect that segment of the population that is uninsurable or at the poverty level.

A recent national survey indicates that employees believe their employer to be the most credible source of information about long-term health care. This supports the contention that a strong employer program of long-term care awareness is welcomed by employees. In many cases, it is quite easy to slip into such programs.

Some 75% of the largest employers in the country provide preretirement counseling for their employees. More importantly, some have plans to add LTC information to these sessions. And, portions of programs designed to encourage the rehiring and retraining of retirees can be set aside for discussions on LTC care.

In addition, established employee assistance programs can be used to help build employee awareness of LTC.

In particular, EAPs that discuss the stress of caring for elderly parents can serve as a forum for educating people on the nuances and ramifications of this care. This issue also can be discussed in existing programs on preretirement counseling or planning.

Most employees will deny the need of a possibly lengthy nursing home stay, or take comfort in the erroneous assumption that if they are in need the government will

take care of everything. As a result, among issues employers will want to address are what Medicare, Medicare supplement plans and Medicaid pay or do not pay, and whether employees have realistic perceptions about the need for a LTC product.

If an employer were to distribute LTC insurance enrollment materials having made little or no prior effort to raise employee awareness of the issues surrounding LTC, unacceptably low participation levels would follow.

It is far better to delay implementation until an effective awareness campaign is in place than to offer LTC coverage to a group of people who, for example, mistakenly believe that Medicare will cover long-term care expenses.

Many employers are becoming aware of new programs to help teach employees and retirees about LTC issues. Among these may be information and referral services, especially those that include an assessment of an individual's condition. Such services offer to the employer an easy way to step into long-term care. And, for a minimal investment, the employer may wish to contribute something to the cost of such a service.

Because family support is so important in long-term care, information and referral services should be made available not only to insured workers, but the worker's family as well.

Available through either a toll-free telephone number or a directory of available services, such services provide access to community-based and home care services that help family members continue important support mechanisms for themselves, their spouses and their older relatives. These services are often available at little or no cost to the family. In addition, a growing number of industry trade organizations have produced LTC guides at little or no cost to consumers.

For the employer who recognizes the value of LTC but is not quite ready to

implement an insured plan, an information and referral program that provides access to long-term care services may be well worth considering.

All of these programs will strengthen enrollment when a LTC program is introduced. Employers sensitive to these issues often are willing to work to define their populations and to carefully set the stage for employee interest. And, they will ensure that all potential participants are well informed of the key issues surrounding long-term health care.

In the long run, education programs will pay off handsomely in strong participation levels. This is critical to the success of an LTC program, as poor participation will ultimately affect plan experience and impact future rate adjustments.

Having carefully assessed corporate, employee and retiree needs, employers should consider the many creative and unique design approaches available in the benefits marketplace when issuing a request for proposals. While the RFP for long-term care should require such essential features as institutional-based care, home care and community-based care, additional plan flexibility will make a comparison of plan designs and rates a difficult task. It will however, ultimately benefit all interested parties.

A LTC program must meet the employer's corporate plan objectives and take into account the needs and perceptions of active employees and retirees. To minimize adverse selection, the spread of risk through an acceptable level of participation is essential.

Carefully thought-out employer objectives and good programs of employee education should precede the introduction of any LTC product into a benefits package. Good planning on the part of the employer helps employees define personal objectives and sets the stage for stable rates and good risks, which are key elements of a successful long-term care program.

A cooperative partnership between government and private industry can produce a legitimate answer to consumers' very legitimate long-term care needs. Once this task has been accomplished, it is the well-informed employer with clearly defined objectives that is most likely to effect a successful LTC program.

**Established employee assistance programs can be used to help build employee awareness of long-term care.**

**As a group benefit, LTC will yield greater economies of scale for consumers through spreading of risk.**

Frank L. Sena is director of employee marketing at CIGNA Corp. in Hartford, Conn.



# New program finances nursing home care

First-Penn Pacific Life Insurance Co. is offering a new way for individuals to finance nursing home care through an employer-sponsored life insurance plan.

The "Assured Care Option" provides nursing home financing through prepayment of the employer-sponsored universal life insurance policy's death benefit, according to Diane McMullin, the insurer's assistant vp of marketing. The option pays a monthly benefit—2% of the death benefit, to a maximum of \$3,000 per month—to policyholders confined to a nursing home more than six months, Ms. McMullin explained.

The monthly benefit is paid until the entire death benefit is exhausted, as long as the policyholder remains confined, she said.

According to Ms. McMullin, payroll-deducted nursing care plans usually elicit only about an 8% participation rate because they're limited to strictly nursing care, a service in which few younger employees are interested.

On the other hand, 40% to 60% of employees buy the universal life policy, she noted, and most will "elect the rider because it offers dual protection at a minimal cost."

Typically, the cost for the option is about 3% more than a life insurance policy without the convalescent care benefit, she said. For example, a 40-year-old, non-smoking male will pay an extra \$11.40 annually on a \$100,000 policy, she said.

The Assured Care Option is available to employees and their spouses under the age of 75. The minimum policy death benefit is \$20,000 with a maximum death benefit of \$300,000. The policy covers any medically necessary confinement to either a "skilled nursing care facility" or an "intermediate care facility."

Coverage is included for care of Alzheimer's disease patients. But coverage for mental disorders that are not organically caused are excluded, Ms. McMullin said.

Employees may continue membership in the plan upon retirement or when they leave the company.

Twenty-four states have approved the plan for sale and more approvals are expected in the near future, she said.

First Penn-Pacific is a unit of Lincoln National Corp., based in Fort Wayne, Ind.

For more information contact Diane McMullin, First Penn-Pacific Life Insurance Co., 2021 Midwest Road, Oak Brook, Ill. 60521; 800-621-6677.

## Legal expense cover

Physicians in California can now buy insurance coverage for legal expenses resulting from disciplinary proceedings.

Medefense Insurance Services of Los Angeles offers physicians up to \$100,000 in reimbursement coverage with premiums ranging from \$600 to \$1,500 per year, according to Stanley S. Landers, senior vp of Medefense.

The program is being underwritten by Lloyd's of London syndicates. Medefense is a correspondent for Lloyd's, meaning it has binding authority for a Lloyd's syndicate.

Mr. Landers said he believes the Medefense insurance program "will become a prerequisite for physicians in the future."

The program covers all disciplinary proceedings brought by health care entities with medical staffing. These include hospitals, clinics and health maintenance organizations.

Medefense provides coverage for proceedings instituted by the California Board of Medical Quality

## Products & services

Assurance, the California Medical Review or the state Department of Health and Human Services, Mr. Landers said.

The program, which has been endorsed by the California Medical Assn., also reimburses physicians for the fees of expert witnesses, deposition reporters and other associated legal expenses, Mr. Landers said.

A key feature of Medefense he noted, is that it enables physicians to use any attorney or law firm of their choice. This is different from many malpractice policies that require doctors to use legal counsel selected by the insurance company, Mr. Landers said.

Calling the typical malpractice insurance "lukewarm coverage," Mr. Landers said that Medefense filled the "hole" in malpractice policies. "There is no other company currently offering this (program)," he said.

The fact that the incidence of disciplinary proceedings appears to be mounting marks the timeliness of Medefense, making this coverage a necessary part of a physician's insurance program, Mr. Landers added.

The program is slated for nationwide expansion soon.

For more information contact Medefense Insurance Services at 1800 Ave. of the Stars, Suite 410,

Los Angeles, Calif. 90067; 213-277-2505.

## Back pain aid

Safeguard Technologies has introduced a way for employers to help employees reduce back pain and injuries while containing direct and indirect health care costs.

"The Back Saver Program can be used as a rehabilitative device as well as a preventative measure," said Terry Melley, Safeguard's sales administrator.

Packaged in a reusable container the program includes an Air Belt for low back support, an inflator/deflator bulb, and a durable chart illustrating individuals engaged in relaxing, stretching and strengthening movements.

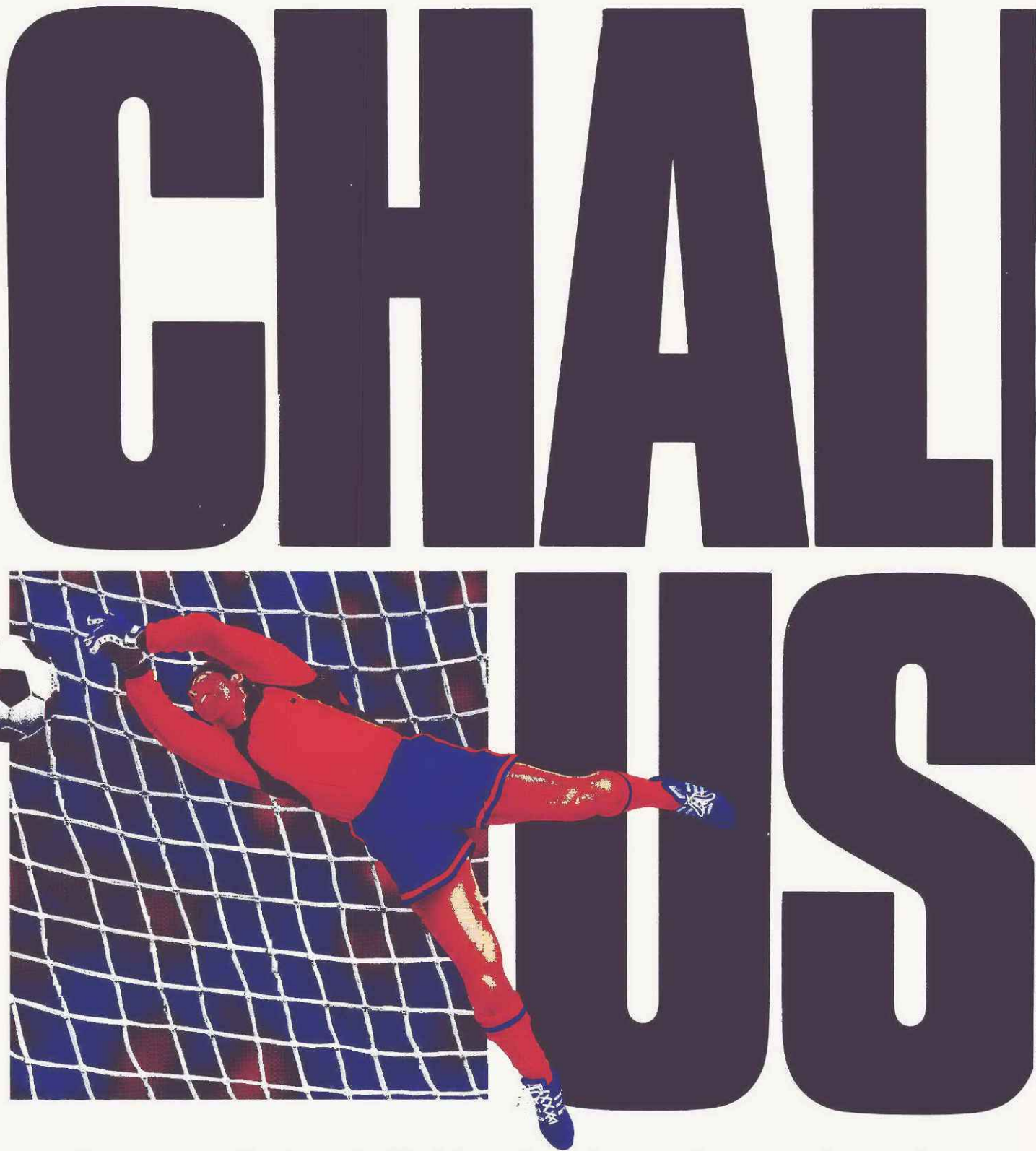
The system can be used by those

already suffering from back injury, to manage their discomfort and increase their flexibility, although it was developed and is intended to reduce the occurrence of back injuries, both in and away from the workplace, according to Mr. Melley.

Recent statistics indicate that \$30 billion is spent annually by industry on back problems, and that eight of 10 workers will incur back problems during their working careers, Mr. Melley noted.

In light of these statistics, many companies acquire the program with specific employees in mind, while others keep the system in their infirmary where employees can use them. Still others institute cooperative plans between themselves and interested employees,

*Continued on next page*



Responsiveness. You demand it. We deliver it. By combining performance and personal service better than anyone in the business. Innovative health care management; unique report-generating capabilities; claims that are settled quickly and accurately. It's the kind of service clients respond to.

Continued from previous page  
Mr. Melley said.

The Back Saver Program has an 80% to 86% success rate with muscular back maladies, which account for about 80% of all back injuries, Mr. Melley added.

The Air Belt—designed for use during work—is available in three models: A light model designed for office workers, a standard model suitable for loading dock and warehouse workers, and a heavy duty model for steel mill workers and others in heavy industry, Mr. Melley explained.

The light model costs \$65.45 complete; the standard model costs \$99.45 complete and the heavy duty model is available for \$112.95 plus \$3.75 for the chart. The system will do little for those ailing from slipped discs or other non-muscular back problems, he said.

For more information contact Terry Melley, Safeguard Technologies, Leesport, Pa. 19533; 215-926-5232.

## Carpal tunnel test

The NervePace Electroneurometer provides employers with a way to verify carpal tunnel syndrome in the workplace as well as screen potential employees.

The ailment, which develops primarily in the wrists, is prevalent "in the industrial community and stems from repetitive motion," explained Randall K. Stock, Advantage Health Systems' vp of sales and marketing.

Developed at the University of Iowa Medical Research Center, the instrument measures motor latencies of the median nerves at the wrist, Mr. Stock said, which would indicate the presence of carpal tunnel syndrome.

Carpal tunnel syndrome is the biggest cause of physical incapacity in the workplace next to back injuries, Mr. Stock said, noting that the average cost of surgery, including rehabilitation costs, is about \$30,000.

In addition to pre-employment screening and verification, employers can use the hand-held, battery-powered instrument on an ongoing basis, Mr. Stock said. In doing so, they are able to control and manage problems as they develop, by rotating employees to tasks requiring less repetitive motion, for example.

The electroneurometer is designed to operate on a very low intensity stimulus for maximum safety and comfort, and gives results instantly.

The LCD digits show latency time in milliseconds.

With increasing awareness of keyboard operators' susceptibility to this type of injury, "response (to the instrument has) been overwhelming," Mr. Stock said.

The tester is \$29.95 and a box of 60 electrodes is available for \$50. Three electrodes are required per test.

For more information contact Randall K. Stock, Vp of Sales and

Marketing, Advantage Health Systems, 406 W. 34th St., Kansas City, Mo. 64111; 800-346-2139.

## Disability product

UNUM Life Insurance Co., a leading provider of group long-term disability insurance, is now offering a product that combines long- and short-term disability coverage.

Comprehensive Disability Protection is designed to alleviate the gap between the end of short-term disability compensation and the beginning of long term-payments, said Elizabeth Incze, UNUM's director of long-term disability products.

In the past, Ms. Incze explained, because companies had to "offer two disability plans in order to fully cover employees recovering from an accident or illness, several weeks would elapse after weekly short-term disability payments were exhausted before long-term

compensation would begin.

Consequently, CDP—which is targeted for small to mid-sized companies—was designed to simplify benefits administration by offering complete disability coverage in a single, integrated plan with one contract, one bill, one claims office to deal with and one claim to file, Ms. Incze said.

Additionally, CDP's flexibility allows employers to design their own benefits schedule in contrast to the previous "off the shelf" systems, she said.

Ms. Incze explained that it is customary for 90-180 days to elapse before long-term disability payments are made under traditional plans.

In contrast, CDP payments begin one to two weeks after disability occurs, creating the opportunity to rehabilitate claimants earlier, Ms. Incze said.

"Statistics have shown that the faster we expedite claims, the quicker patients will return to work," containing costs for employers, while resuming employees to their normal lifestyles in minimal time, Ms. Incze said.

For more information contact Elizabeth Incze, UNUM Life Insurance Co., 2211 Congress St., Portland, Maine 04122; 207-770-9092.

## Books/videos

The International Foundation of Employee Benefit Plans offers a variety of books on benefits. Books include such titles as "Utilization Review—A How-to-Guide" by Richard E. Johnson, "A Guide to Better Employee Benefits Forms," "Employee Benefit Plans: A Glossary of Terms," and "Multiemployer Benefit Plans—1987." The new releases range in price from \$20 to \$40 plus shipping. For ordering information, contact Publications Department, International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

SAFECO Insurance Cos. has introduced a new videotape highlighting the errors and omissions exposures agents face in selling commercial general liability policies. The video is the seventh in a series and addresses five areas of CGL coverage: aggregate limits, pollution exclusion, mobile equity, liquor liability and first named insured provisions. Other videotapes available include Legal Principles, Insurer Relations, Client Relations, Policy Coverages and Special Markets, Agency Management & Staff Development and Claims-Made Liability Policies. For more information, write SAFECO Corp. at SAFECO Plaza, Seattle, Wash. 98185; or call SAFECO Education at 206-545-5889 or E&O Professionals at 800-243-6836.

The American Institute for Property and Liability Underwriters has published two new economics texts to serve as the basis for CPCU 9, the economics course in the 10-part Chartered Property & Casualty Underwriter professional insurance designation program. "Choices and Constraints: Economic Decisionmaking" is available for \$16, while "Macroeconomics and the Financial System" costs \$28. Texts may be ordered from The American Institute, 720 Providence Road, Malvern, Pa. 19355-0770; 215-644-2100.

The "Insurance Buyers Handbook," published by the John Liner Organization, keeps buyers of property and casualty insurance up-to-date about changes in today's constantly changing market. The 126-page handbook is normally priced at \$39.50. However, it is available to John Liner Review subscribers at a discounted price of \$29.50. To order, call 617-423-0978 in Massachusetts, 800-682-5759 elsewhere.

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# Datebook

**OCT. 31. Reinsurance Practice** seminar in London, sponsored by Insurance & Reinsurance Research Group Ltd., 725 pound; (\$1,211) plus VAT. Caroline Atkinson, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487

**OCT. 31-NOV. 1. 18th Annual Employee Benefits Institute** in New York City, sponsored by the Practising Law Institute; \$425; \$45 for handbook only. Practising Law Institute, Dept. 8A-105, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700, extension 271.

**OCT. 31-NOV. 1. Property-Casualty Reinsurance Accounting** course in New York City, sponsored by Executive Enterprises Inc.; \$990; \$895 for each additional registrant from the same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880 within New York.

**OCT. 31-NOV. 1. Environmental Insurance Litigation Institute** in Chicago, sponsored by Executive Enterprises Inc.; \$990 \$895 for each additional registrant from the same organization. Also Dec. 12-13 in New York City. Executive Enterprises Inc. 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333 212-645-7880 within New York.

**OCT. 31-NOV. 2. Conference of Actuaries in Public Practice's 39th Annual Meeting** in San Francisco; \$495 for CAPP members; \$595 for non-members; \$75 for spouses/guests. Conference of Actuaries in Public Practice, 475 N. Martindale Road, Schaumburg, Ill. 60973.

**OCT. 31-NOV. 2. Intermediate Employee Benefits Management** course in Brookfield, Wis., sponsored by the International Foundation of Employee Benefit Plans; \$50. Registration Department, International Foundation of Employee Benefit Plans, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-8700.

**OCT. 31-NOV. 4. Annual Statistical/Data Quality Conference** in New York City, sponsored by the Insurance Services Office Inc.; \$390 for ISO members; \$500 for non-members. Sal Aurora, Manager-Statistical Division, Insurance Services Office Inc., 160 Water St., New York, N.Y. 10038; 212-487-5150.

**NOV. 1. CAOHC Approved Recertification Course in Occupational Hearing Conservation** in Milwaukee, sponsored by Impact Hearing Conservation Inc.; \$150. Also Dec. 1 in Kansas City, Mo. Impact Hearing Conservation Inc., 406 W. 34th St., Suite 400, Kansas City, Mo. 64111; 800-346-2133; 816-531-4548.

**NOV. 1. 17th Annual All-Industry Day and California Auto Insurance Reform Initiatives Seminar** in Irvine, Calif.; sponsored by the Orange Empire Chapter of The Society of Chartered Property & Casualty Underwriters; \$80. Lynne Niemeier, Operations Superintendent, State Farm-Fire Division, 3333 Hyland Ave., Costa Mesa, Calif. 92626.

**NOV. 2. Cash Balance Pension Plan Design** seminar in New York City, sponsored by Kwasha Lipton; \$100. Barbara Hubert, Kwasha Lipton, 2100 N. Central Road, Fort Lee, N.J. 07024-1400; 201-592-1300, extension 563.

**NOV. 2-4. CAOHC Approved Training Course in Hearing Conservation** in Milwaukee, sponsored by Impact Hearing Conservation Inc.; \$325. Impact Hearing Conservation Inc., 403 W. 34th St., Suite 400, Kansas City, Mo. 64111; 800-346-2139; 816-531-4848.

**NOV. 2-4. Public Risk Management Assn. Government Risk Management Seminar** in Washington, D.C.; \$350 for PRIMA members; \$235 for additional PRIMA member from same organization; \$400 for non-members; \$345 for additional non-member from same organization. Public Risk Management Assn., 1120 G. St. N.W., Suite 400, Washington, D.C. 20005; 202-623-4650.

**NOV. 3. Designing and Administering Pension Plans to Meet the New Regulatory Requirements** satellite conference nationwide, sponsored by the American Law Institute-American Bar Assn. Committee on Continuing Professional Education; \$135; \$200 for videotape of conference. For locations and registration information contact: Registrar, American Law Institute-American Bar Assn., 4025 Chestnut St., Philadelphia, Pa. 19104; 800-253-6397; 215-243-1661 within Pennsylvania.

**NOV. 3-4. Financial Analysis For Risk Management** seminar in Atlanta, sponsored by The College of Insurance; \$595 for College of Insurance sponsors and Insurance Services Office Inc. members; \$695 for non-sponsors and non-members of ISO. Also Dec. 8-9 in San Francisco. The College of Insurance, 1 Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111, extension 201.

**NOV. 3-4. Reinsurance Disputes and Arbitration** course in San Francisco, sponsored by The College of Insurance; \$595 for college sponsors; \$695 for non-sponsors; less \$100 for subsequent registrants from the same organization. The College of Insurance, 1 Insurance Plaza, 101 Murray St., New York, N.Y. 10007; 212-962-4111.

**NOV. 3-4. The Seventh Annual Symposium on Directors and Officers Liability** in New York City sponsored by The Wyatt Co.; \$650; \$225 for additional registrants from the same organization. Andrea Sullivan, The Wyatt Co., 312-704-2530.

**NOV. 4. FOJP Service Corp.'s Sixth Annual Conference on Medical Malpractice Insurance Issues** in New York City; \$215 for non-FOJP members. FOJP Service Corp., 130 E. 59th St., New York, N.Y. 10022; 212-891-0700.

**NOV. 5. How to Handle Workers Compensation Medical Bills and Liens** seminar in Universal City, Calif.; sponsored by The Workers Compensation Co.; \$225; 10% discount for two or more persons from the same organiza-

tion. Workers Compensation Institute, P.O. Box 11448, Glendale, Calif. 91206; 818-247-3224.

**NOV. 8-10. 1988 Casualty Actuarial Society Fall Meeting** in Montreal; \$250 for members of the American Academy of Actuaries; \$300 for non-members of the AAA. Kathy Spicer, Casualty Actuarial Society, 1 Penn Plaza, 250 W. 34th St., New York, N.Y. 10019; 212-563-1901.

**NOV. 9. Directors and Officers Liability** workshop in Boston, sponsored by the Society of Chartered Property & Casualty Underwriters; \$130 for Society of CPCU members; \$160 for non-members. Also Dec. 6 in Stamford, Conn. Mari Jennings, Professional Services Coordinator, Society of Chartered Property & Casualty Underwriters, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355; 215-251-2741.

**NOV. 9. Electronic Networks in Insurance** seminar in London, sponsored by Insurance & Reinsurance Research Group Ltd.; \$190 pounds (\$317) plus VAT. Caroline Atkinson, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

**NOV. 9. Controlling Your Workers' Compensation Costs** workshop in Chicago, sponsored by the Illinois State Chamber of Commerce Center for Business Management; \$100 for ISCC members, \$150 for non-members. Also Nov. 15 in Springfield, Ill. ISCC Center for Business Management, 20 N. Wacker Drive, Chicago, Ill. 60606-3083; 312-372-7373.

**NOV. 9-10. Managing Risk Communications** seminar in Baltimore, sponsored by E.I. du Pont de Nemours & Co.; \$925; \$795 each for two or more registrants from same company. Also Dec. 1-2 in Wilmington, Del.; Jan. 25-26 in New Orleans; Feb. 15-16 in Denver; March 30-31 in Houston; and April 26-27 in Philadelphia. Du Pont, Room X51430, P.O. Box 4500, Greenville, Del. 19807; 800-532-7233; 302-999-6982 within Delaware.

**NOV. 9-10. Illinois Captive Conference: The Domicile of Choice** in Chicago, sponsored by the Tillinghast division of Towers, Perrin, Forster & Crosby; \$50 for Basics of Captives seminar; \$550 for Illinois Captive Conference. Conference Director, Tillinghast/TPF&C, Financial Centre, Suite 500, 695 E. Main St., Stamford, Conn. 06901-2138; 203-326-5400

**NOV. 9-10. Current Tax Issues for Property-Casualty Insurance Companies** seminar in New York City, sponsored by Executive Enterprises Inc.; \$990; \$895 for each additional registrant from the same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880 within New York.

**NOV. 10. Expert Systems** seminar in London, sponsored by Insurance & Reinsurance Research Group Ltd.; \$190 pounds (\$317) plus VAT. Caroline Atkinson, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

**NOV. 10-11. Occupational Health Nursing Principles and Certification Review** course

in San Rafael, Calif., sponsored by Fireman's Fund Risk Management Services Inc.'s Occupational Health Consulting & Ergonomics division; \$295. Also Dec. 1-2 in Schaumburg, Ill.; Jan. 12-13 in Atlanta; Feb. 9-10 in Torrance, Calif.; Feb. 23-24 in Denver; March 9-10 in Cambridge, Mass.; and March 30-31 in Arlington, Va. Annette B. Haag, Director, Occupational Health Consulting, Fireman's Fund Risk Management Services Inc., P.O. Box 777, Novato, Calif. 94998-9002; 415-899-2423.

**NOV. 11-12. Non-profit Sector Risk & Insurance Forum** in Chicago, sponsored by the Non-profit Sector Risk & Insurance Task Force; \$70. Mari Crispin, University of Nebraska College of Law, 402-472-1258.

**NOV. 14-15. How to Design and Implement a Program in Risk Communications** seminar in Los Angeles, sponsored by the Center for Energy and Environmental Management; \$595. CEEM, P.O. Box 200, Fairfax Station, Va. 22039; 703-250-5900.

**NOV. 14-16. Environmental Regulation** course in Washington, D.C., sponsored by Executive Enterprises Inc.; \$995 for first registrant; \$895 for each additional registrant from the same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880 within New York.

**NOV. 14-17. Eighth Annual Construction Insurance Conference** in Dallas, sponsored by the International Risk Management Institute Inc.; \$630; \$235 for Nov. 14 only; \$498 for Nov. 15-17 only. International Risk Management Institute, 12222 Merit Drive, Suite 1660, Dallas, Texas 75251-2217; 214-960-7693.

**NOV. 14-18. Fundamentals of Industrial Hygiene Monitoring** course in Long Grove, Ill., sponsored by National Loss Control Service Corp.; \$500. National Loss Control Service Corp., K-3, Long Grove, Ill. 60049-0075.

**NOV. 14-18. Practical Risk Management** course in London, sponsored by the Insurance & Reinsurance Research Group Ltd.; 725 pounds (\$1,211). Joy Bambrough, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

**NOV. 15. The Second Annual International Reinsurance Forum: Reinsurance Security, Solvency and Insolvency** in Hamilton, Bermuda, co-sponsored by Hawksmere Ltd. and Coopers & Lybrand; \$600 for Bermuda residents; \$650 for non-Bermuda residents; 360 pounds (\$601) for U.K. residents. Hawksmere Ltd., 12-18 Grosvenor Gardens, London, England SW1W 0DH; 01-824-8257.

**NOV. 15. Professional Insurance Wholesalers Assn. of New York State's 10th Annual Convention** in New York City; \$125 for PIWA members; \$165 for non-members. Professional Insurance Wholesalers Assn. of New York State Inc., Old Route 9W, P.O. Box 997, Glenmont, N.Y. 12077-0997.

**NOV. 16-17. Quantitative Techniques for Risk Management** seminar in Marina Del Rey, Calif., sponsored by Tillinghast, a division of Towers, Perrin, Forster & Crosby; \$750. Conference Director, Tillinghast/TPF&C, 722 Post Road, Darien, Conn. 06820; 203-655-9791.

**NOV. 16-17. 3rd Annual Employers Council on Flexible Compensation Conference** in Boston; \$535 for ECFC members, \$585 for non-members. Sarah Fleming, Employers Council on Flexible Compensation, 927 15th St. N.W., Suite 1000, Washington, D.C. 20005; 202-659-4300.

**NOV. 16-18. Workshops for a New Age of Retirement Planning** in New York City, sponsored by Retirement Advisors; \$495. Retirement Advisors, 919 Third Ave., New York, N.Y. 10022; 212-421-2400.

**NOV. 16-18. Claims Management** course in Atlanta, sponsored by the Risk & Insurance Management Society Inc.; \$595 for RIMS members; \$695 for non-members. Risk & Insurance Management Society, 205 E. 42nd St., Suite 1504, New York, N.Y. 10017; 212-286-9292.

**NOV. 21-22. Advanced Safety Management** seminar in Herndon, Va., sponsored by Organizational Safety Services; \$285; \$260 each for three or more attendees from the same organization. OSS, 11831 Rothbury Drive, Richmond, Va. 23236; 804-794-0691.

**NOV. 21-22. Reinsurance Accounting Workshop** in London, sponsored by Insurance & Reinsurance Research Group Ltd.; \$380 pounds (\$635) plus VAT. Joy Bambrough, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

**NOV. 24. Strategic Planning in the Insurance Industry: Toward 1992** conference in London, sponsored by Insurance & Reinsurance Research Group Ltd.; \$190 pounds (\$317) plus VAT. Caroline Atkinson, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

**NOV. 30-DEC. 2. Understanding Property-Casualty Statutory Financial Statements** seminar in New York City, sponsored by Executive Enterprises Inc.; \$990; \$895 for each additional registrant from the same organization. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880 within New York.

**DEC. 1. Directors and Officers Liability** seminar in London, sponsored by Insurance & Reinsurance Research Group Ltd.; 190 pounds (\$317) plus VAT. Caroline Atkinson, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-

1487.  
**DEC. 1-3. Fundamentals of Bankruptcy Law** seminar in Scottsdale, Ariz., sponsored by the American Law Institute-American Bar Assn. Committee on Continuing Professional Education; \$400. Registrar, American Law Institute-American Bar Assn., 4025 Chestnut St., Philadelphia, Pa. 19104; 800-253-6397; 215-243-1661 within Pennsylvania.

**DEC. 5-7. Fundamentals of Insurance** course in Charlotte, N.C., sponsored by the Risk & Insurance Management Society Inc.; \$540 for RIMS members; \$640 for non-members. Risk & Insurance Management Society, 205 E. 42nd St., Suite 1504, New York, N.Y. 10017; 212-286-9292.

**DEC. 7. Investment Strategy for Lloyd's Syndicates** seminar in London, sponsored by Insurance & Reinsurance Research Group Ltd.; 190 pounds (\$317) plus VAT. Caroline Atkinson, Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

**DEC. 7-9. Techniques of Risk Management** course in Atlanta, sponsored by the Risk & Insurance Management Society Inc.; \$540 for RIMS members; \$640 for non-members. Risk & Insurance Management Society, 205 E. 42nd St., Suite 1504, New York, N.Y. 10017; 212-286-9292.

*The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. Please include the price, if any, of the meeting and information on registration for interested readers. Business Insurance reserves the right to select meetings of most interest to its readers and cannot guarantee that notices will be printed.*

### STATEMENT OF OWNERSHIP, MANAGEMENT AND CIRCULATION (Required by 39 U.S.C. 3685)

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7. Owner (if owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding 1 percent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a partnership or other unincorporated firm, its name and address, as well as that of each individual must be given: Crain Communications, Inc. 740 N. Rush Street, Chicago, IL 60611; Sidney R. Bernstein, G. R. Crain, R. E. Crain, 740 N. Rush St., Chicago, IL 60611; K. E. Crain, 1400 Woodbridge, Detroit, MI 48207.

8. Known bondholders, mortgagees and other security holders owning or holding 1 percent or more of total amount of bonds, mortgages or other securities. None.

9. For completion by nonprofit organization authorized to mail at special rates (Section 423.12, DMM only). The purpose, function, and nonprofit status of this organization and the exempt status for Federal income tax purposes (Check one).  
 Has not changed during the preceding 12 months  
 Has changed during preceding 12 months.  
(If changed, publisher must submit explanation of change with this statement)

10. Extent and nature of circulation	Average no. copies each issue during preceding 12 months	Actual number of copies of single issue published nearest to filing date
A. Total No. Copies Printed (Net Press Run)	54,249	53,150
B. Paid Circulation		
1. Sales through Dealers and Carriers, Street Vendors and Counter Sales	31	23
2. Mail Subscriptions	34,841	35,300
C. Total Paid Circulation (sum of 10B1 and 10B2)	34,872	35,323
D. Free Distribution by Mail, Carrier or other means:		
Samples, complimentary, and other free copies	17,295	16,813
E. Total Distribution (Sum of C and D)	52,167	52,136
F. Copies not distributed		
1. Office use, left over, unaccounted, spoiled after printing	2,071	1,004
2. Returns from news agents	11	10
G. Total (Sum of E, F1 and 2—should equal net press run shown in A)	54,249	53,150
11. I certify that the statements made by me above are correct and complete.		
Keith E. Crain Vice Chairman		

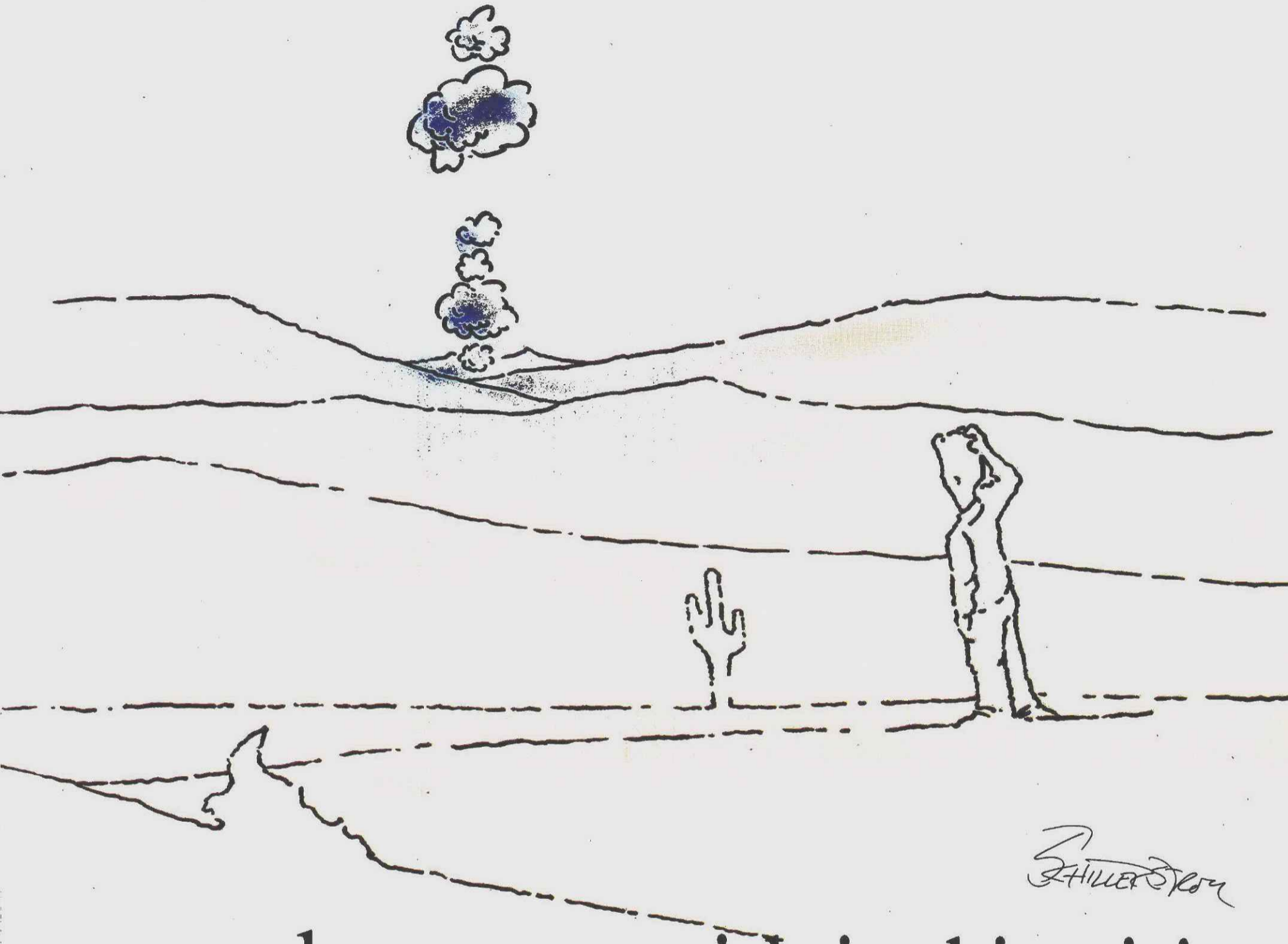


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# Celanese blast triggers Hopewell loss

By ROGER SCOTTON

HAMILTON, Bermuda—Hopewell International Insurance Ltd. reported a net underwriting loss of \$6.2 million for the year ended June 30, the first net loss in the facility's 16-year history.

Writing in Hopewell's 1988 annual report, the pool's manager, International Risk Management (Bermuda) Ltd., blamed the poor financial results on the devastating Nov. 14, 1987, vapor cloud explosion that destroyed a Hoechst Celanese Corp. chemical plant in Pampa, Texas (BI, April 19; Dec. 28, 1987).

The explosion produced a gross claim against Hopewell—which provides unlimited property reinsurance to its captive clients—of an estimated \$358.9 million.

The explosion, which International Risk Management says led to the largest onshore property loss in history, cost Hopewell \$7.9 million after reinsurance: a net loss of \$5.6 million and a general provision of \$2.26 million as protection against possible "delinquent reinsurers," according to the report.

International Risk Management points out, however, that the Hoechst Celanese claim demonstrates Hopewell's ability to absorb severe industrial property losses.

Hopewell itself maintained a total of \$130 million in treaty and facultative reinsurance protection on the chemical plant, which was insured through Hoechst Celanese's Bermuda-based captive, Elwood Insurance Ltd. Elwood is, in turn, a Hopewell member.

Under Hopewell's complex reinsurance system, any loss excess of \$130 million—the limits of the pool's \$25 million basic treaty, three excess treaties and facultative coverage—reverts to the basic treaty's roughly 100 professional and 37 captive reinsurers.

Hopewell retained 3% of the basic treaty for its own account, according to the company's 1987 financial statement.

Hopewell's report stresses that the \$105 million of reinsurance that Hopewell so far has collected on the Hoechst Celanese claim represents 100% of recoverables due to date.

"Nevertheless, in view of the period before final settlement of the Pampa loss, the directors felt it prudent to make a general provision for any delinquency of reinsurance recovery in this context of \$2.26 million, which appears as an exceptional item in the (Hopewell) statement of income and retained earnings," the report adds.

According to notes to its 1988 financial statement, Hopewell's incurred losses and losses recoverable from rein-

## Bermuda briefs

surers were \$386.9 million and \$380.4 million, respectively. These figures, according to the financial statement notes, include approximately \$359 million incurred and \$353 million recoverable from reinsurers related directly to the Hoechst Celanese claim.

Based on a review of Hopewell's reinsurers, International Risk Management believes that total outstanding loss reserves of \$8.5 million, net of recoverable reinsurance, will be adequate to cover the ultimate net cost of losses incurred to date.

Hopewell's earned premiums totaled \$128.1 million in 1988, down 1.4% from \$130 million in 1987.

Underwriting expenses totaled \$35.1 million, while general and administrative expenses totaled \$31,632,000.

After including other underwriting income and expenses, Hopewell, which is owned by 34 shareholder insurance companies, reported income—which includes earned premiums and commissions less reinsurance ceded—for the year of \$28.9 million.

Investment income remained at just over \$2 million, to produce a bottom-line, net loss of \$4.3 million for the 1988 fiscal year, compared with a \$3.2 million net gain in 1987.

Despite the Hoechst Celanese claim, Hopewell President Carl Pingel points to "bright spots" during the 12-month period that will serve the company well as it enters its 16th year of operation.

Mr. Pingel writes in the report that Hopewell's stability is reflected in the fact that the July 1 renewal of its reinsurance program was oversubscribed (BI, Sept. 19).

And, he says Hopewell's continuity "is underscored by the recent acquisition of a majority interest in the (International Risk Management) organization by Swiss Re," a development he describes as "very positive" for Hopewell.

Swiss Reinsurance Co. of Zurich, Switzerland, earlier this year acquired the management and consulting business of the Bermuda-based Reiss Organization, including International Risk Management (BI, March 14).

In addition, Swiss Re is a long-time lead reinsurer for the Hopewell pool.

## Winding up delayed

HAMILTON, Bermuda—Although Transcontinental Rein-

sureance Brokers Ltd. of Bermuda did not oppose its Supreme Court-ordered liquidation, a court hearing on the matter has been delayed due to an error in the public notice of the intermediary's liquidation.

The compulsory winding-up petition—which was filed last month by Transcontinental's insolvent parent company, River Plate Reinsurance Co. Ltd. (BI, Oct. 10)—was unopposed at a hearing held Oct. 11 by Supreme Court Judge Justice Hull.

The winding-up petition, begun after Transcontinental failed to meet River Plate liquidators' statutory demand for \$6.2 million, was not allowed to proceed for two weeks.

Despite a plea by the liquidators' attorney, John Mulligan Whyte, that the winding-up petition be dealt with quickly, Justice Hull ordered that, due to an error in the wording of a public legal notice announcing the petition, the notice should be re-advertised and the court hearing postponed until Oct. 25.

The legal notice said the petition was filed Sept. 28, when it should have read Sept. 8.

## Zurich International reports profit

HAMILTON, Bermuda—Bermuda-based captive manager Zurich International Ltd., a subsidiary of Swiss insurer Zurich Insurance Co., has announced an underwriting profit of \$648,522 for the year ended June 30, up sharply from a \$127,707 loss in 1987.

Gross premiums written declined 13% to \$34.2 million, while net premiums rose 78.9% to \$28.8 million from \$16.1 million previously, according to the company's 1988 annual report.

Zurich International's net profits rose to about \$3.2 million, a 16% rise over \$2.8 million in 1987.

Commenting on the results, Zurich International says in its report that favorable experience on the high excess business it terminated May 31, 1987, resulted in an underwriting profit of \$649,000. In addition, the company strengthened reserves by \$28.5 million in 1988.

According to the report, the 79% increase in net premiums was due to a substantial increase in Zurich International's long-term business, while its credit life business continued to show strong growth and steady profitability.

"The development of the company's financial risk management products (captive management) for the direct insurance market was continued and increased activity is anticipated in the current year," the report says.

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## Comings & goings: buyers

### Grace promotes Posner to corporate risk manager

**Jeffrey M. Posner**, 37, has been named assistant vp and director of corporate risk management at W.R. Grace & Co. in New York. In this position he oversees all risk management functions, including property/casualty insurance, loss control and claims administration. He replaces **Charles J. Salek**, who left the company, and reports to Vp Brian B. Burns. Mr. Posner, who joined Grace in 1982 as assistant claims manager, most recently was assistant director of corporate risk management. He holds a bachelor of arts degree in business administration from Fairleigh-Dickinson University in Rutherford, N.J. and holds the Associate in Risk Management designation.

**Dennis Kuhn**, 39, was promoted to corporate risk manager in the treasury department of Burroughs Wellcome Co. in Research Triangle Park, N.C. In this newly created position he oversees property/casualty insurance and risk management. He reports to Barbara Whispel, treasurer. Mr. Kuhn, who joined the pharmaceutical company in 1986, most recently served as corporate insurance and fleet manager. Previously, he was corporate risk manager at Picker International in Cleveland. Mr. Kuhn received a bachelor of science degree in risk and insurance management from Ohio State University in Columbus. He also holds the Chartered Property & Casualty Underwriter, Associate in Risk Management and Associate in Loss Control designations.



Mr. Kuhn

**Patrick M. Corozza** has been promoted to vp-personnel at American Re-Insurance Co. in New York. In this newly created position he oversees the company's personnel functions, including employee benefits, compensation and employee relations. He reports to Frank Lichtenberger, vp of American Re's administration division. Mr. Corozza joined American Re in 1985 as director-compensation and was promoted to assistant vp-personnel in 1986. Previously, he was manager of compensation for Alexander & Alexander Services Inc. Mr. Corozza holds a bachelor of science degree in psychology and a master of science degree in education from Fordham University in the Bronx, N.Y. He is a member of the American Compensation Assn.

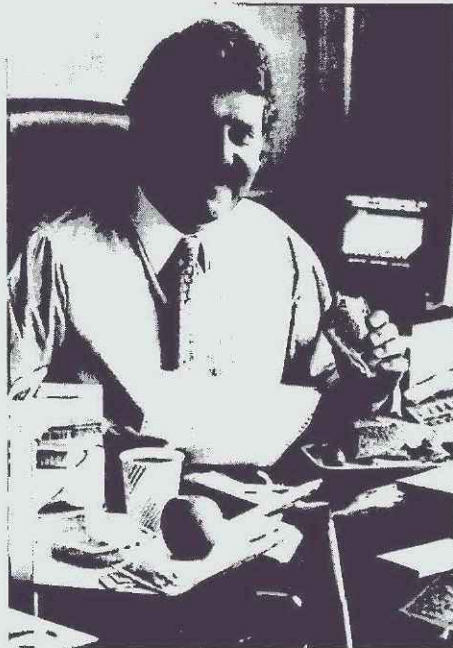


Mr. Corozza

**John A. Spies**, 31, has been named director of corporate services at Nicolet Instrument Corp. in Madison, Wis. In this newly created position he directs worldwide property/casualty, risk management and facilities management programs. He reports to Patrick Zumbusch, corporate treasurer. Prior to joining the high-tech electronics company, Mr. Spies was corporate risk manager at Data Card Corp. in Minneapolis. He received a bachelor of science degree from St. John's University in Collegeville, Minn. Mr. Spies holds the Chartered Property & Casualty Underwriter, Associate in Risk Management, Certified Safety Pro-

fessional and Associate in Loss Control Management designations. In addition, he is a member of the American Society of Safety Engineers and is a deputy member of the Risk & Insurance Management Society.

*We'd like to report on staff changes in your company's risk management, safety and employee benefits departments. Just drop a note to Paul Winston, Copy Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590, or call 312-649-5442. Please send a photograph, too.*



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# Bristol Re to begin writing in January

Bristol Reinsurance Ltd. was licensed earlier this month in Bermuda to write property, marine and aviation reinsurance through National Underwriters (Reinsurance) Ltd. beginning in January 1989.

Bristol Re—a wholly owned subsidiary of Niarchos Group, the well-known ship-owning concern—was formed with \$20 million in capital.

Bermuda-based National Underwriters has the exclusive worldwide authority to underwrite for the new reinsurer, said National Underwriters President and Chief Executive Officer James G. Parkinson.

In addition, National Underwriters will write a parallel account on new business for Bristol Re, Mr. Parkinson said.

Neither Bristol Reinsurance nor National Underwriters writes casualty business.

For more information, contact Mr. Parkinson at National Underwriters, Medical Hall, 18 Reid St., P.O. Box HM2092, Hamilton HMHX, Bermuda; 809-295-2169.

## Purchase planned

Southfield, Mich.-based Maccabees Mutual Life Insurance Co. is filing a plan with the Michigan Insurance Department under which

## Markets

it would convert to a stock insurance company and then be purchased by a U.S. unit of London-based Royal Insurance Holdings P.L.C.

Under the plan, Royal Financial Services Inc., a subsidiary of Royal Group Inc., which is the U.S.-based subsidiary of Royal Insurance Holdings, would purchase the new stock insurance company.

Royal already has provided Maccabees \$80 million in capital note funds to be added to its surplus.

Under the conversion plan, Royal would purchase all of the common stock of the new Maccabees Life Insurance Co. for \$110 million. Of these funds, \$100 million would be distributed to owners of policies in force as of July 13, 1988, upon completion of the conversion. The remaining \$10 million would be held in escrow and may be distributed to policyholders in the future.

The plan must be approved by at least two-thirds of Maccabees' voting policyholders.

"This is the first time a major American mutual life insurance company has been demutualized and has simultaneously been acquired by an international insur-

ance organization," said J.L. Pallone, chairman and president of Maccabees.

"The conversion assures us access to additional capital, expansion into new insurance markets and provides continued stability for policyholders, agents and employees," he said.

"We have been looking extensively for a way to broaden our participation in the U.S. life insurance market and we are very pleased to acquire a company with the quality and reputation of Maccabees," said Alan A. Horsford, group chief executive and director of Royal Insurance Holdings.

Maccabees will retain its headquarters in Southfield, Mich., and its present management. However, Royal plans to add more directors to the board, Mr. Pallone said.

For more information contact Kevin M. McCarthy at Royal Group Inc., 9300 Arrowpoint Blvd., Charlotte, N.C. 28217; 704-522-2061.

## Markel launches firm

Richmond, Va.-based Markel Service Inc. has launched an insurance and reinsurance brokerage for the health care industry.

The new company, Michael Maglaras & Co., also will provide insurance consulting services and help form captives and risk retention groups for health care customers.

Michael Maglaras has been appointed president of the new company. Prior to joining Markel, Mr. Maglaras was executive vp of Glenn, Nyhan & Associates, a San Francisco-based insurance brokering, consulting and management services firm.

"Hospitals, clinics and major health care associations are still reeling from the effects of the last professional liability insurance crisis," Mr. Maglaras said. "Our goal will be to provide these entities with brokerage and consulting services to help manage and indemnify their risks."

Michael Maglaras & Co. is lo-

cated at 300 Broad St., Ninth Floor, Stamford, Conn. 06904; 203-358-9665.

## Intracorp expands

Wayne, Pa.-based Intracorp has expanded its preferred provider network to Detroit, Chicago, and Milwaukee.

In Detroit, the company has contracted with 39 hospitals and 3,200 physicians.

In Chicago, the PPO has contracted with 37 hospitals and 2,900 physicians.

In Milwaukee Intracorp has contracted with 13 hospitals and 1,500 physicians.

Intracorp has just begun marketing the PPO to employers in the three cities.

Intracorp also has announced plans to expand to Southern Florida, Dallas and Houston during 1989.

The Intracorp PPO currently is available in Denver; Indianapolis; Philadelphia; Knoxville, Tenn.; and throughout California.

The Intracorp Preferred Care network includes more than 260 hospitals and 18,550 physicians.

For more information contact Don Wilson vp and director of PPO development at Intracorp 701 Lee Road, Chesterbrook Corporate Center, Wayne, Pa. 19087; 215-648-9458.

## Michigan PPO

The Preferred Provider Organization of Michigan is continuing with its statewide expansion by moving into western Michigan and opening an office in Grand Rapids.

Robert J. Brown has been named regional manager of the new office.

To date, PPOM has contracted with three hospitals and 20 physicians in western Michigan. Physician enrollment at the three new hospitals has just begun, Mr. Brown explained. He added that 150 physicians from these three hospitals are expected to join PPOM.

In addition, as the network expands in the next 18 months, an additional 300 physicians are expected to join the PPO in the western region.

Altogether, PPOM has 39 hospitals and more than 3,000 physicians in its provider network, which serves more than 160,000 enrollees throughout Michigan.

The new western regional office is located at Centennial Park, Charlevoix Building, Suite 101, 3040 Charlevoix Drive S.E., Grand Rapids, Mich. 49506; 616-956-7757.

## Arkwright expands

Waltham, Mass.-based Arkwright Mutual Insurance Co. is expanding its international operations by opening an office dedicated to servicing and soliciting international customers.

The Shelton, Conn., office will begin operating after Jan. 1, 1989.

Establishing this international region was a "natural extension of Arkwright's services," according to Ron Jones, executive vp-regional operations. "The Arkwright organization has always serviced its customers with worldwide risk management programs through Factory Mutual International. This recent move will serve to enhance our already effective support of these operations."

Arkwright based its decision to expand internationally on several factors, including the liberalization of European trade barriers in the 1990s, the increasing number of domestic companies being ac-

quired by foreign insurance organizations and the growing need among European risk managers for more sophisticated risk management programs.

Tom Kaiser, senior vp and eastern area manager, will be responsible for overseeing the development and operation of the new international region.

Wolfgang Friedel, formerly regional sales manager of the company's mid-Atlantic and tri-state region, has been named vp and international regional manager.

The new office will be located at One Corporate Drive, Suite 416, Shelton, Conn., 06484. No office phone number is available yet.

For more information contact Mr. Friedel at 203-661-3500.

## Mergers/acquisitions

**Principal Health Care Inc.** of Rockville, Md., has acquired the **Health Plan of Delaware Ltd.**, a statewide 7,000-member health maintenance organization.

Tyler, Texas-based insurance adjuster **Lindsey & Newsom** has acquired **Edward L. Russell & Associates Inc.** of Greensboro, N.C., **PAS/Smith Claim Management Co.** of Shreveport, La., and **Big State Adjustment Services Inc.** of Lake Charles, La.

**Whitehall Insurance Holdings Ltd.** of New York has signed a definitive agreement to acquire the **Lamar Life Insurance Co.** of Jackson, Miss. The cash price to be paid by Whitehall for the stock of Lamar Life will be approximately \$130 million. Lamar Life has assets of more than \$330 million and capital and surplus in excess of \$80 million. The sale is expected to be completed at the end of November.

Although Lamar Life Insurance will retain its name, it will expand from its base in the Southeast.

**Burns & Wilcox Ltd.**, a Southfield, Mich.-based brokerage, has merged with **Commercial Risks Inc.** of Dallas.

## New offices

**Near North Insurance Agency Inc.** has opened an office at 575 Madison Ave., Suite 1006, New York, N.Y. 10022; 212-605-0172.

**Delta Life & Annuity Co.** has opened a new office at 530 Oak Court, Suite 200, Memphis, Tenn. 38117; 901-683-1222.

**Rollins Burdick Hunter of Illinois Inc.** has opened a new office at 1717 N. Naper Blvd., Suite 205, Naperville, Ill. 60540; 312-355-3555.

**Paumanock Insurance Co. Ltd.** has changed its mailing address to P.O. Box HM 2450, Hamilton HM JX, Bermuda, and the company's offices are now located at Trenwith House, Church Street, Hamilton, Bermuda; 809-292-2404.

**General Reinsurance Corp.** has opened a new office on the 33rd floor of the Bank of Boston Building, 100 Federal St., Boston, Mass. 02110; 617-728-3800.

**United International Brokers**, the property/casualty unit spun off by the MBA Group of Braintree, Mass., last year, has opened an office at 10 E. 39th St., New York, N.Y. 10016; 212-689-1489.

**Primex Insurance Brokers Inc.** has opened an office at 333 Hegenberger Road, Suite 208, Oakland, Calif. 94621; 415-639-7402.

**Crum & Foster Commercial Insurance Co.** has relocated its Harlingen, Texas, office to 1315 E. Washington St., Harlingen, Texas 78550; 512-423-4673.

**Advanced Risk Management Techniques Inc.** has opened an office at 3731 Wilshire Blvd., Suite 770, Los Angeles, Calif. 90010; 213-480-7734.



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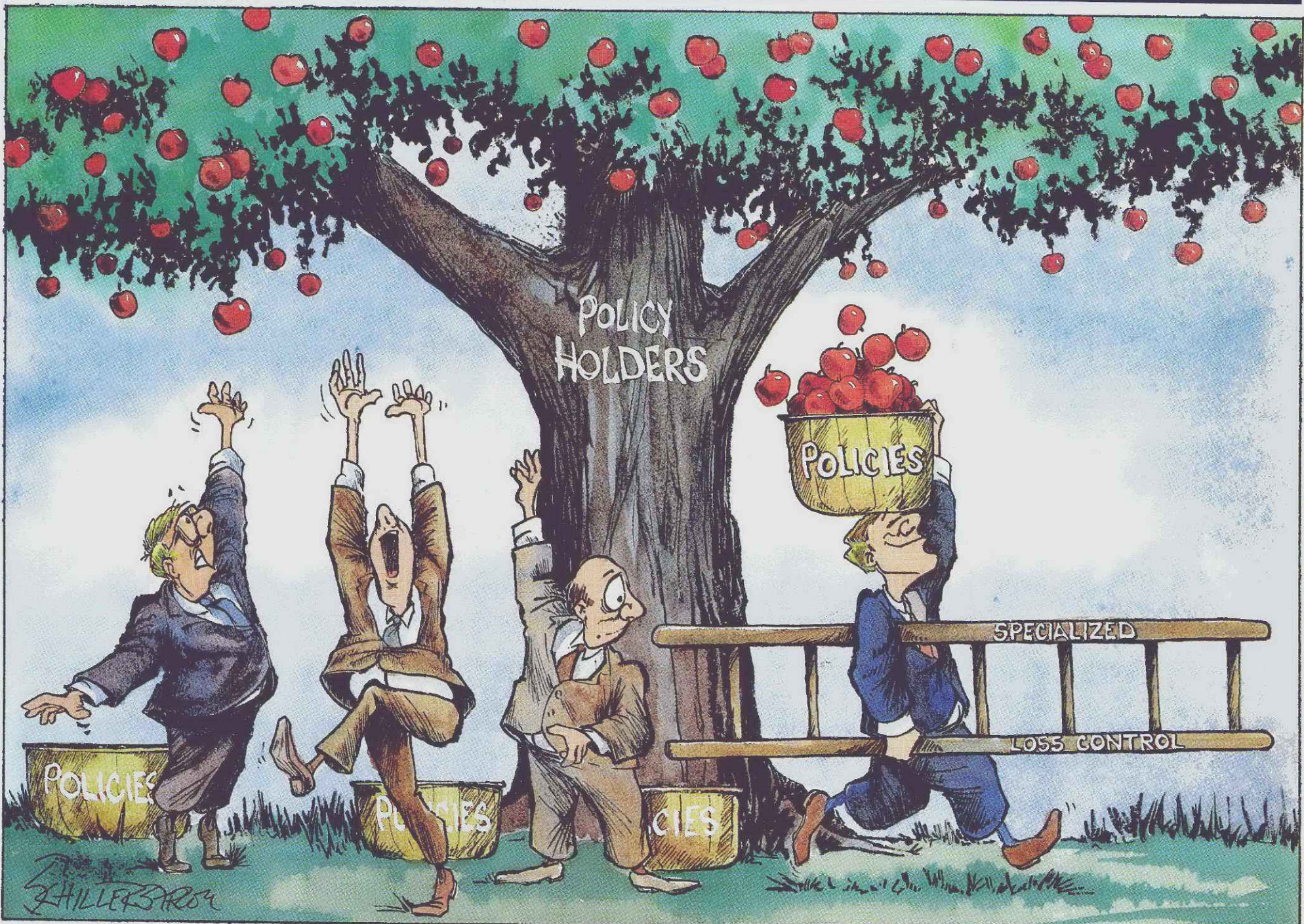
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# Insurer Topics

A special editorial section sent exclusively to insurers and reinsurers



## Creating a niche

### Insurers use specialized loss control services as marketing tool

By MARK A. HOFMANN

Insurers seeking ways to maintain or expand their market share during the soft market are putting increased emphasis on providing specialized loss control services to their policyholders.

Property/casualty insurers usually target such loss-control services to reduce claims costs for specific industries such as entertainment, property risks such as churches, or professional groups such as accountants.

However, some health insurers are finding that specialized loss control techniques also can be applied to group health insurance programs to reduce medical expenses and lost work days.

"From a large accounts perspective, it is indeed the case" that specialized loss control services are growing increasingly popular, said Everett P. Waite, second vp and director of account services for Travelers Corp. in Hartford, Conn.

The trend began picking up speed three or four years ago, but the expansion has become "almost logarithmic" during the past 24 months, he pointed out.

Several factors have driven insurers to hone their loss control efforts to serve individual policyholders rather than developing generic programs to serve all clients, among them a desire to dominate niche markets and increased competition not only from other insurers but from independent loss-control vendors as well.

In addition, many corporate risk managers, having gained sophistication by developing alternative risk-financing programs during the last hard market, are seeking specialized services from their insurers to meet their specific needs.

Specialization is "the way you've got to go. It's hard to be all things to all people, and to compete, you need to specialize," said Robert Driesch, technical services officer of risk management services for The St. Paul Cos. Inc. in St. Paul, Minn.

"I think the market is forcing us to specialize. As the world gets more complex, the ability of any one loss-control person (at an insurance company) to deal with

50 or 100 businesses becomes an impossible task," said Russell D. Mulder, vp-loss control for Zurich-American Insurance Cos. in Schaumburg, Ill.

There's "no question" that the last hard property/casualty insurance market has reinforced the need for specialty loss control, said Joe Boslet, manager of loss control and premium audit for Pennsylvania National Mutual Insurance Co. in Harrisburg, Pa.

While insurers can offer identical coverages for identical prices if they want to, "services are more difficult to duplicate," Mr. Mulder said. Specialized loss control is "a marketing tool" that allows insurers to choose and dominate market niches, he explained.

Ideas for specialized loss-control programs often come from branch offices seeking to further penetrate their markets, according to Mr. Mulder.

The branch offices are always asking: "How do we provide services that make us unique? How do we dominate the market?" Mr. Mulder said. The answer is

*Continued on next page*

## Special loss control

*Continued from previous page*  
often specialized loss control, he noted.

For example, Zurich-American currently is working on loss-control programs aimed at California dairy cooperatives and California funeral home operators, Mr. Mulder said. The idea for both programs, which are available to the insurer's current policyholders, came from branch offices, he said. Because the programs are still being worked out, Mr. Mulder said he could not put a price tag on their development.

"We are attempting to develop an expertise," he said. For example, loss-control personnel try to put themselves in the place of dairy farmers to learn what causes clients "sleepless nights," Mr. Mulder said.

Some of the major exposures facing the cooperatives are preventing milk contamination and assuring that cows will continue to be milked even if there is an accident that closes a milking shed. If cows are not milked, they dry up and the co-op loses income. Some cooperatives milk around the clock, Mr. Mulder pointed out.

Funeral directors also have unique exposures, but the first step in creating a loss-control program for them is making them aware of those exposures, Mr. Mulder said.

Funeral home owners need to use a checklist to see whether they can "avoid some exposures they don't need to have," he said.

These exposures include routine activities such as driving a hearse or organizing a funeral procession, Mr. Mulder said.

As part of the program, Zurich-American loss-control specialists work with the funeral home operators to minimize exposures by showing them the best—and safest ways—to organize the processions.

While most insurers provide specialized loss control services as part of a total insurance program, many are offering their loss control expertise on an unbundled basis.

And, several insurers have even established subsidiaries specifically to provide loss-control services.



Mr. Mulder

For example, while "specialized services may be on top of what a carrier provides," National Loss Control Service Corp. markets its services to clients regardless of whether they buy insurance from its parent, Long Grove, Ill.-based Kemper Group, said Tommy Thomas, manager of contract services for the safety services group.

Insurer loss control experts say that the demand for their specialized services has not slackened during the past few months even though the current property/casualty marketplace is softening.

In soft markets, many risk managers will downplay the importance of loss control and instead focus on getting the most coverage for the least money, Mr. Thomas said.

But when the market hardens, the demand for anything that will cut insurance costs soars, and loss control is one way to hold down costs, Mr. Thomas explained.

Like Mr. Thomas, Pennsylvania National Mutual's Mr. Boslet has not seen any drop in the demand for loss control services.

One reason for the continued demand may be that the current softening market is not expected to last as long as the soft market of the early 1980s did, speculated Mr. Boslet, who is spearheading an effort to form a loss control interest section within the Malvern, Pa.-based Society of Chartered Property & Casualty Underwriters (see story, page 36H).

Another reason for the continued demand in loss control services may be that a greater emphasis is being placed on all aspects of risk management, Mr. Boslet said.

"A lot of companies are taking on more risks and more self-insurance," said Andrew J. Myer Jr., Travelers' vp and director of engineering.

However, Mr. Boslet said that the unabated demand for loss control does not mean that all businesses want or need specialized services.

"We need to remember that 80% to 85% of our business is still basically simple operations" that do not need specialized loss control services, he said. The other 15%—the large enterprises—have special needs that insurers are in the best position to meet, Mr. Boslet said.

A policyholder's corporate culture also plays a role in fueling the need for specialized loss control services, according to

NATLSCO's Mr. Thomas.

Factors such as whether a company's decision-making process is centralized—with the home office calling all the shots—or decentralized—with the managers of individual divisions or facilities having considerable autonomy—can make a difference in the demand for specialized loss-control services, he said.

In a decentralized company, corporate subsidiaries that are trying to remain within budgets handed down by the home office may find it in their best interests to ask their insurer to design a loss-control program for them rather than to attempt to do it themselves. In some cases, the question is one of manpower and expertise. Corporate managers feel they "simply don't have the horses" to do the job, Mr. Thomas explained.

The demand for specialized loss control extends into the public sector as well.

Wausau Insurance Cos. of Wausau, Wis., have been providing such services to more than 70% of Wisconsin's school districts since the early 1980s, according to Terry Martin, manager of field safety services for the insurer's Wausau region, which includes the northern two-thirds of Wisconsin and Michigan's Upper Peninsula.

Mr. Martin said that although the loss-control techniques for schools—accident analysis, designing safety programs, examining workers compensation claims—resemble those of any other endeavor, the insurer has special programs for schools.

For example, for the past three years, technology instructors—also known as shop teachers—have been invited to a special one-day loss control program at the company's headquarters.

The program consists of "some hands-on, some sit-and-listen" sessions, Mr. Martin said. The teachers learn how to identify exposures as well as how to cope with emergencies, he said. In August, more than 130 teachers from 76 school districts attended.

"A lot of times, the service turns out to be education," he said.

Education is also the thrust of health insurance loss control programs such as Taking Care, a "wellness" program devised by the Center for Corporate Health Promotion in Reston, Va.

The center, which is a unit of Travelers,

markets the program to about 7,500 companies with a total of about 500,000 employees. The service costs approximately \$20 to \$25 per employee annually, depending on how many workers are enrolled.

As part of the program, employees receive a medical care guide called "Take Care of Yourself" and a monthly newsletter with healthy lifestyle tips.

Dr. Donald M. Vickery, the center's director and co-author of "Take Care of Yourself," said that growing evidence of the role lifestyle plays in disease—such as the various surgeon general's reports on smoking—has led to a desire to curb unhealthy habits.

At the same time, rising medical care costs have sent employers scrambling for new ways to keep their workers out of the doctor's office and on the job.

The employer concerns led to the creation of wellness programs, which are a form of specialized loss-control programs.

But not all life/health insurers have found such specialized loss-control programs to be as attractive a marketing tool as their property/casualty counterparts have.

Dr. Vickery pointed out that wellness programs have tended to be promoted by regional managed health care firms rather than insurance companies.

Although Travelers considers its program a success, spokesmen for two other major life/health insurers—Aetna Life Insurance Co. of Hartford, Conn., and John Hancock Mutual Life Insurance Co. of Boston—said their companies stopped marketing their wellness programs because of competition and lack of consumer enthusiasm.

In some cases, the life/health insurers have turned their own expertise inward. For example, Los Angeles-based Executive Life Insurance Co. decided that loss-control in the form of wellness programs should begin at home and established an on-site fitness and health center for its employees more than three years ago.

Michael R. Roberts, manager of the Health Promotion and Fitness Program, said that the center cost \$750,000. In addition to providing an exercise program, the center conducts programs in nutritional counseling, blood pressure screening, cholesterol screening and other forms of preventive medicine, he said.

# Churches seek sanctuary from losses

By MARK A. HOFMANN

MURRAY HILL, N.J.—Despite a long tradition as places of sanctuary, houses of God often present a tempting target to vandals.

That's why Atlantic Mutual Insurance Co. provides special loss control services to its house of worship policyholders.

More than one-third of all ecclesiastical property losses are crime-related, according to Alfred Shea, assistant vp-loss control for the Murray Hill, N.J.-based insurer.

"We're zeroing in on the security problem; we're trying to bring this to their attention," he said.

The emphasis on security is simply the most recent refinement on a specialized loss control program that dates back to the early 1970s when conferences of the United Methodist Church began insuring their properties with Atlantic Mutual.

The insurer, which offers a property/liability insurance package policy for churches and synagogues (BI, Sept. 12), currently insures at least 15,000 individual houses of worship, said Mr. Shea.

While more than half of the churches Atlantic Mutual currently insures are affiliated with the United Methodist Church, the insurer also provides coverage to other congregations as well.

For example, the program also covers Buddhist temples and Islamic mosques as well as Christian churches and Jewish synagogues, said a company spokeswoman.

As part of its loss control program, the insurer encourages boards of trustees and other church governing bodies to conduct their own safety inspections.

"We put together a self-inspection form," Mr. Shea said. "Any (insurer) loss control department would be stretched thin to visit every site."

The two-page form asks general property safety questions such as the location of boiler rooms and fire safety equipment. The list also contains questions about wiring, plumbing and cooking facilities.

"As an incentive to self-inspect, we have a fire extinguisher award program," Mr. Shea said. "We give them a fire extinguisher if they fill out the form."

However, the fire extinguisher program involves more than merely rewarding church officials for their diligence, an Atlantic Mutual spokesman stressed. The presence of the fire extinguisher also serves as a visible reminder of the possibility of a loss and the importance of taking proper loss control measures, he said.

The boards of trustees and other church officials tend to be extremely thorough in their safety reports, Mr. Shea said. "The churches are more critical of themselves than we might be," he said. And, when church officials find a problem, they generally waste no time in correcting it.

Although the churches are encouraged to carry out basic safety inspections, Atlantic Mutual loss control advisers are available for both on-site inspections and safety presentations to church groups, Mr. Shea stressed.

One aid the insurer provides is a specialized loss control handbook titled "Guarding the House of God."

The handbook, which Atlantic Mutual recently updated, reflects an examination of 12,747 insured property losses and 5,495 insured personal injury losses over the last five years. Among its findings are that fire, whether accidental or crime-related, is by far the greatest cause of property losses for religious institutions, accounting for about 66% of the claims dollars paid for property losses.

A paid-loss data study included in the handbook also shows that both fire- and crime-related losses at houses of worship appear to be increasing, with about one-third of the fire losses stemming from criminal acts.

In fact, the claims study showed that about 44% of all property loss dollars went to cover crime-related losses. In addition to arson, burglaries, theft and vandalism numbered among common crimes causing property losses, Mr. Shea said.

The loss control handbook makes several suggestions about security, including asking local law enforcement agencies to include church premises as a stop on their nightly patrols, securing valuables under lock and key, installing alarm systems, protecting stained glass windows with shatter-resistant plastic glazing and keeping the exterior of the church well-lit with floodlights to discourage intruders.

The guide also repeatedly stresses the importance of keeping church doors locked when activities are not scheduled—a suggestion that church officials often resist, Mr. Shea said.

"We tell them, 'Lock the door.' (But) how do you tell a church to lock the door?" he asked.

But persuading the church governing boards to take that final precaution requires a down-to-earth, dollars-and-cents approach, Mr. Shea said.

"You have to talk to them like this is a business." ■

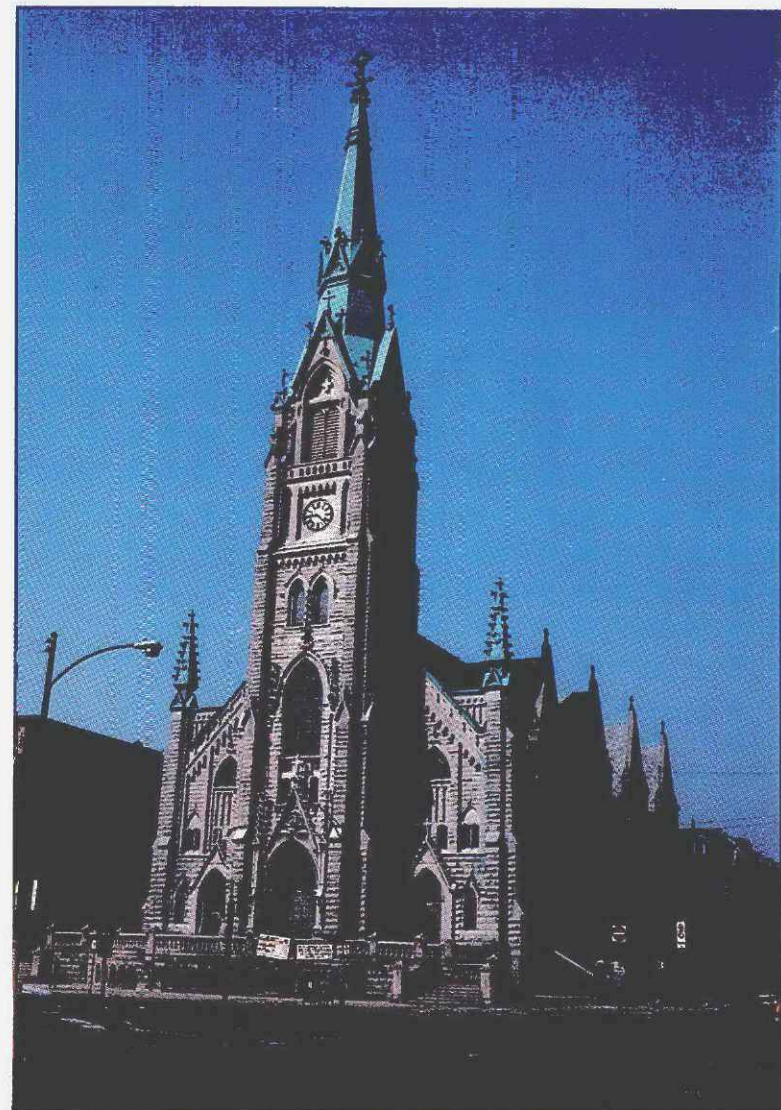


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Arson, burglaries and vandalism are among the common causes of property losses at churches of all denominations.

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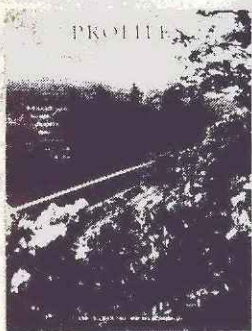
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# Film tragedy spotlights loss control

By MARK A. HOFMANN

LOS ANGELES—The deaths of Vic Morrow and two child actors during the 1982 filming of the movie "Twilight Zone" reminded Hollywood that "bad things happen in this business and only through risk management can you avoid them," says an insurance company official.

The tragedy focused attention on movie-making dangers and prompted entertainment insurers and loss control experts to put new emphasis on three measures that mark all successful loss control programs: cooperation, coordination and communication, said Clarence Costa, assistant vp-entertainment industry division for Fireman's Fund Insurance Cos. in Los Angeles.

While the Novato, Calif.-based insurer did not underwrite the liability insurance for "Twilight Zone," it did write cast and production coverage for the film (BI, Aug. 2, 1982).

The Sherman Oaks, Calif.-based Alliance of Motion Picture and Television Producers responded to the "Twilight Zone" tragedy by issuing 19 safety bulletins that touched on all three considerations, he noted.

The bulletins, which appeared between the beginning of 1983 and the end of 1986, spelled out guidelines for dealing with specific risks, ranging from helicopters and live ammunition on a set to handling animals and maintaining communication with stunt people.

The AMTPT bulletins serve as the basis of what Mr. Costa calls Fireman's Fund's "informal-formal" loss control approach to entertainment risks. The insurer has been involved with the motion picture industry for decades, he said, beginning with writing inland marine and property coverages in the days of silent films.

Since those days, exposures for the entertainment industry have grown increasingly sophisticated, Mr. Costa said. Yet programs must remain informal enough to meet the circumstances of any particular shoot or production, he said.

While large film production companies such as Columbia Pictures Industries Inc., a unit of The Coca-Cola Co., have their own risk management and loss control experts, some independent companies need the assistance of insurer personnel, Mr. Costa said.

The circumstances of motion picture production vary widely, as well. For example, shooting of the film "Freeway," which deals with the 1987 shootings on Los Angeles-area highways, required closing a section of freeway and creating a detour.

Production officials, insurer loss control specialists and local police had to decide, among other things, which stretch of highway could be closed with the least amount of disruption and loss, Mr. Costa said. The parties also had to work out who would be responsible for potential damages suffered by motorists who took the detour.

A spokeswoman for Fireman's Fund said so far shooting is going smoothly and she knows of no claims yet.

Loss prevention can be just as challenging for a Broadway show as for location shooting of an action film, Mr. Costa said, citing the current production of "Starlight Express" as an example.

The musical, which represents a child's dream, was in many ways a loss control officer's nightmare. Presented on a multilevel stage, the show involves constant motion: The actors wear roller skates. Because of the potential for injury

and loss, Fireman's Fund had loss control experts on the set from the moment the first nails were driven to construct the special stage, Mr. Costa said.

For "Starlight Express," Fireman's Fund's loss control personnel essentially acted as construction site superintendents, pointing out potentially hazardous situations, a spokeswoman said.

Mr. Costa added that the mere presence of loss control officers tends to make set workers a little more careful.

One entertainment nightmare that came true for insurer and promoter alike was The Who's 1979 Cincinnati concert, in which 11 people were crushed to death when the crowd waiting to enter the arena rushed the doors (BI, Dec.

10, 1979). The incident did "a tremendous amount to change" how rock concerts operate, Mr. Costa said.

Fireman's Fund, which provided general liability coverage for the concert's promoter, paid about \$800,000 in claims and \$200,000 in expenses.

The culprit held accountable for the carnage was festival seating, which meant that fans sat wherever they wanted on a first-come, first-served basis, Mr. Costa noted.

As a result of The Who concert tragedy, municipalities—which owned many of the major arenas and stadiums in which concerts took place—moved quickly to ban festival seating and to control security. The result has been a relatively accident-free environment.

For example, when Bruce Springsteen played in Chicago's Soldier Field in August 1985, the promoter and Fireman's Fund worked out a grid system of entering and seating for fans. Under this modified festival seating arrangement, fans who were assigned a place in a specified grid could enter and exit the stadium through only one gate. The resulting fan traffic control worked so well that "to our knowledge, no claims were ever filed," said Mr. Costa.

"On rock (concerts), we've kind of learned as we've gone along," said Mr. Costa.

The breadth of the types of risks covered by the insurer's entertainment division means that "it's almost the creation of an individual program for each risk," Mr. Costa

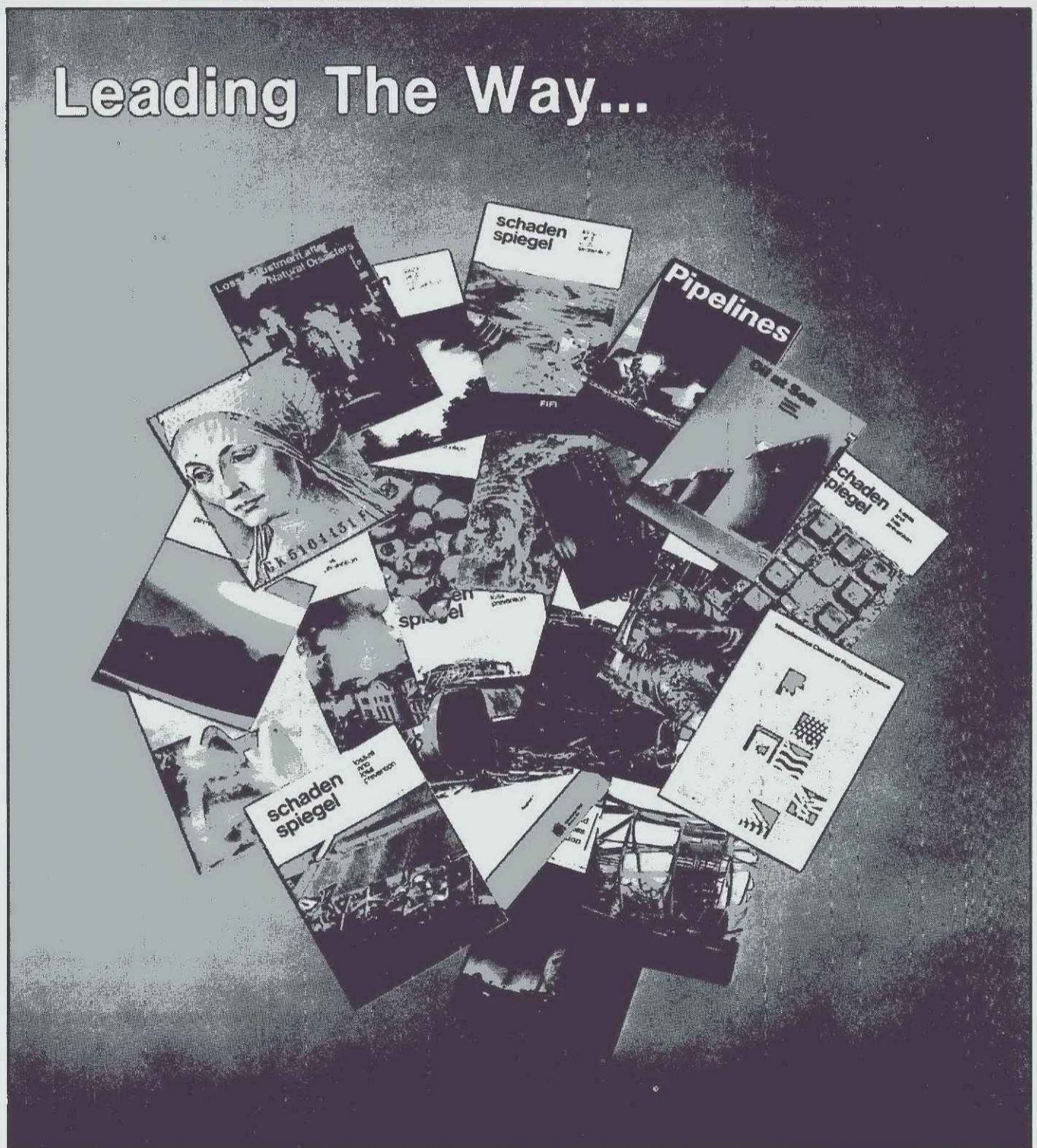
said. But common threads run through all of the programs.

The loss control personnel stress to the production company that they do not want to interfere in the creative process—they want to help assure that the final product is delivered without losses.

In most cases, producers cooperate with the loss control people, Mr. Costa said. "People are sincerely interested in having a movie made without a hitch."

At the same time, "our guys attempt to be conspicuous," Mr. Costa said. For example, the loss control officials make a point of wearing hard hats on the set. "Word gets around that there's a loss control guy on the set," he said, and that re-emphasizes the importance of safety. ■

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# Videos ease loss control education

By MARK A. HOFMANN

One of the most significant developments in loss control communication during the past few years has been the ever-increasing availability of video technology.

"Video is an extremely powerful tool," said Andrew Myer, vp-engineering and loss control for Hartford, Conn.-based Travelers Corp. Actual activities at a client's facilities can be taped and then examined to pinpoint problem areas, particularly in ergonomics, Mr. Myer said.

"It's so much better than a still photograph," said Tommy Thomas, manager of contract services for the safety services group of the National Loss Control Service Corp., a wholly owned subsidiary

of Kemper Group in Long Grove, Ill.

Part of the attraction of the video is the ability of loss-control personnel to track the whole sequence of a potential loss scenario, such as handling heavy objects, Mr. Thomas said.

One reason videos have become popular loss control devices is the proliferation of videocassette recorders as training tools, Mr. Thomas said.

Today, almost every plant or manufacturing facility has a VCR on site, whereas in the past, not every plant had a 16-millimeter film projector in place to show standard safety awareness films, he pointed out.

In addition, employees themselves are being more familiar with

the technology, according to Allan Hopkinson, manager of the audiovisual department at Factory Mutual Engineering in Norwood, Mass.

During the past three to five years, a video network has sprung up, said Mr. Hopkinson. People have VCRs at home and they're familiar with how videocassettes work, he said.

In addition to being easy to present, videos can be tailored to the needs of a target audience and thus have a greater impact than a generic training film can, Mr. Hop-



Mr. Hopkinson

kinson said.

NATLSCO's Mr. Thomas agreed, noting that supervisors respond more favorably to an ergonomics tape shot in their plant than they would to a lecture or a non-specific presentation.

"If you bring something off the shop floor, you can relate to them (supervisors) better," he said.

However, shooting a customized on-site video does not always sit well with policyholders, warns Russell D. Mulder, vp-loss control for the Zurich-American Insurance Cos. in Schaumburg, Ill.

Some companies worry that the videos will enable their competitors to catch a glimpse of their facilities or processes, while others are concerned that the camera might pick up something that would have an

adverse effect on relations between management and labor.

However, a video does not have to be totally tailored to meet a client's needs, Mr. Mulder pointed out. In some cases a customized safety video using an outside location can be just as effective as one shot on the customer's premises, he said.

For example, Zurich-American adapted a generic driver safety film for one of its policyholders after it noticed an increase in accidents involving company vehicles.

The policyholder wanted a company-specific, yet short and hard-hitting program that emphasized safer driving habits and common road hazards.

The insurer's loss-control department prepared the 20-minute video by drafting a company specific script to accompany segments of a generic driving safety film. "We didn't do any videotaping," Mr. Mulder said.

The film was directed toward salespeople after the insurer's loss control specialists discovered that they were the principal drivers of the company's vehicles.

The project, the first presentations of which were made last month, cost the client between \$10,000 and \$12,000, Mr. Mulder said.

But costs can vary widely. For example, Crum & Forster Underwriting Managers (Ill.), a Chicago-based unit of Morristown, N.J.-based Crum & Forster Inc., spent more than five times the price of a generic safety video to produce a customized film showing accountants how to avoid a specific errors and omissions exposure (see story, page 36G).

Technical services alone for that 70-minute video cost more than \$40,000, said Dennis Bissett, the CFMC (Ill.) assistant vp responsible for the film.

In a somewhat ironic twist, video technology has even been used to control losses stemming from the use of video display terminals.

Robert Driesch, technical services officer, risk management services for The St. Paul Cos. Inc. in St. Paul, Minn., said that his company began working on the problems associated with VDTs in the mid-1980s, when it, like many of its clients, was investing heavily in automation and replacing typewriters with VDTs.

"We thought if this is an issue for us, it has to be an issue for our clients, too," said Mr. Driesch.

He said that St. Paul put together a video two years ago to accompany its written materials describing how to minimize VDT-related worker discomfort. The tape, provided at no charge to policyholders, shows risk managers how ergonomics and proper furniture can reduce VDT-related complaints.

But even video advocates such as Mr. Driesch caution that the technology is not the be-all and end-all in communication. "If you just show people a video, you risk being in the entertainment business," he said.

Loss control officers must remember that video is a teaching tool, said Mr. Hopkinson of Factory Mutual Engineering. By turning attention over to the video, the teacher surrenders some control of the classroom to the teaching tool.

"We're familiar with television as an entertainment medium," Mr. Hopkinson said. Because of this, people have certain "entertainment expectations" no matter what appears on the screen. This is not necessarily bad if the moderator can keep the audience's expectation on learning as well as being amused, he said.

"When you bring visuals to the party, they improve retention" and make video "an integral part of a training effort," he said. ■

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# Loss control video for CPAs makes the numbers add up

By MARK A. HOFMANN

CHICAGO—A video program can effectively translate what once was strictly an engineering concept—loss control—into a theme accountants can use, one underwriting manager has found.

"I don't think the concept of loss control has been extended to professional groups and associations," said Gary Ferguson, a vp with Chicago-based Crum & Forster Managers Corp. (Ill.), a unit of Morristown, N.J.-based Crum & Forster Inc.

However, "consistent, detailed loss control programs are very effective" regardless of the target audience, he added.

The idea to develop a loss control video for certified public accountants evolved from a mid-1987 meeting of CFMC (Ill.) personnel and representatives of the New York-based American Institute of Certified Public Accountants.

Although CFMC (Ill.) underwrites 21 types of coverage, its chief product remains professional liability insurance, which accounted for 53% of the underwriting manager's 1987 premium volume (BI, Aug. 8).

After discussing the possibility of conducting lectures spelling out the pitfalls facing accountants, the conferees later decided to illustrate accounting risks via a video recording of a mock trial.

The video format was chosen because, in addition to being easy to present, videos can be tailored to the needs of a target audience and thus have a greater impact than a generic training film (see story, page 36F).

The CPA loss control video seeks to show that while there is no "cut-and-dried approach" to avoiding lawsuits, keeping detailed records can play a critical role in defending against charges of professional malpractice, said CFMC (Ill.) Assistant Vp Dennis L. Bissett, who spearheaded the project.

CFMC (Ill.) hired outside scriptwriters to put together the story about a dispute between an accounting firm and a client, a nursing home chain. The writers worked with lawyers, accountants, Mr. Bissett and other CFMC (Ill.) employees to assure that the dialogue would be credible.

Professional actors from the Chicago area took the roles of judge, plaintiff and defendant. An actor also narrated the film. Practicing professional malpractice attorneys portrayed the lawyers.

Most of the video was shot in a practice courtroom at the Loyola University Law School in Chicago, while other portions were filmed at CFMC (Ill.)'s offices in Chicago.

The primary aim of the film is not to entertain, a la Perry Mason, but to educate, Mr. Bissett pointed out. To accomplish this goal, the video jury renders no verdict, and to encourage discussion by viewers, the courtroom action stops at several points during the 70-minute tape.

In addition, a panel discussion at the end of the video, featuring Mr. Bissett and legal and accounting experts, spurs discussion.

While declining to reveal exactly how much the video cost to make, Mr. Bissett gave "somewhat less than \$100,000" as a ballpark figure. About half of that went for "purely technical aspects" such as the tape, editing and the like. For example, what appears on the video is only a fraction of the footage actually shot, he said. The initial tape ran about four hours.

But the expense was worth it,

Mr. Ferguson and Mr. Bissett agreed.

After seeing the film in late 1987, officials of the accountants institute endorsed its use. CPAs now can fulfill some of their continuing professional education requirements by viewing the video and completing work in an accompanying booklet, said Mr. Ferguson.

The success of the first accounting loss control video has prompted CFMC (Ill.) to consider a second program, this one targeting tax-related claims. Tax-related claims, which account for 34% of all accounting E&O claims CFMC (Ill.) handles, may prove to be an even larger exposure in the

future as accountants grapple with the effects of the Tax Reform Act of 1986, Mr. Bissett explained.

CFMC (Ill.) also is developing loss control programs aimed at other professionals, including attorneys, real estate agents and insurance agents, Mr. Ferguson said. Although existing programs rely solely on brochures and other printed matter, loss control videos for these professional groups are not out of the question, he said.

Part of the beauty of using video to present a loss control message is its adaptability, Mr. Ferguson said. Once the film is complete, "you can reach a large audience consistently," he said. ■

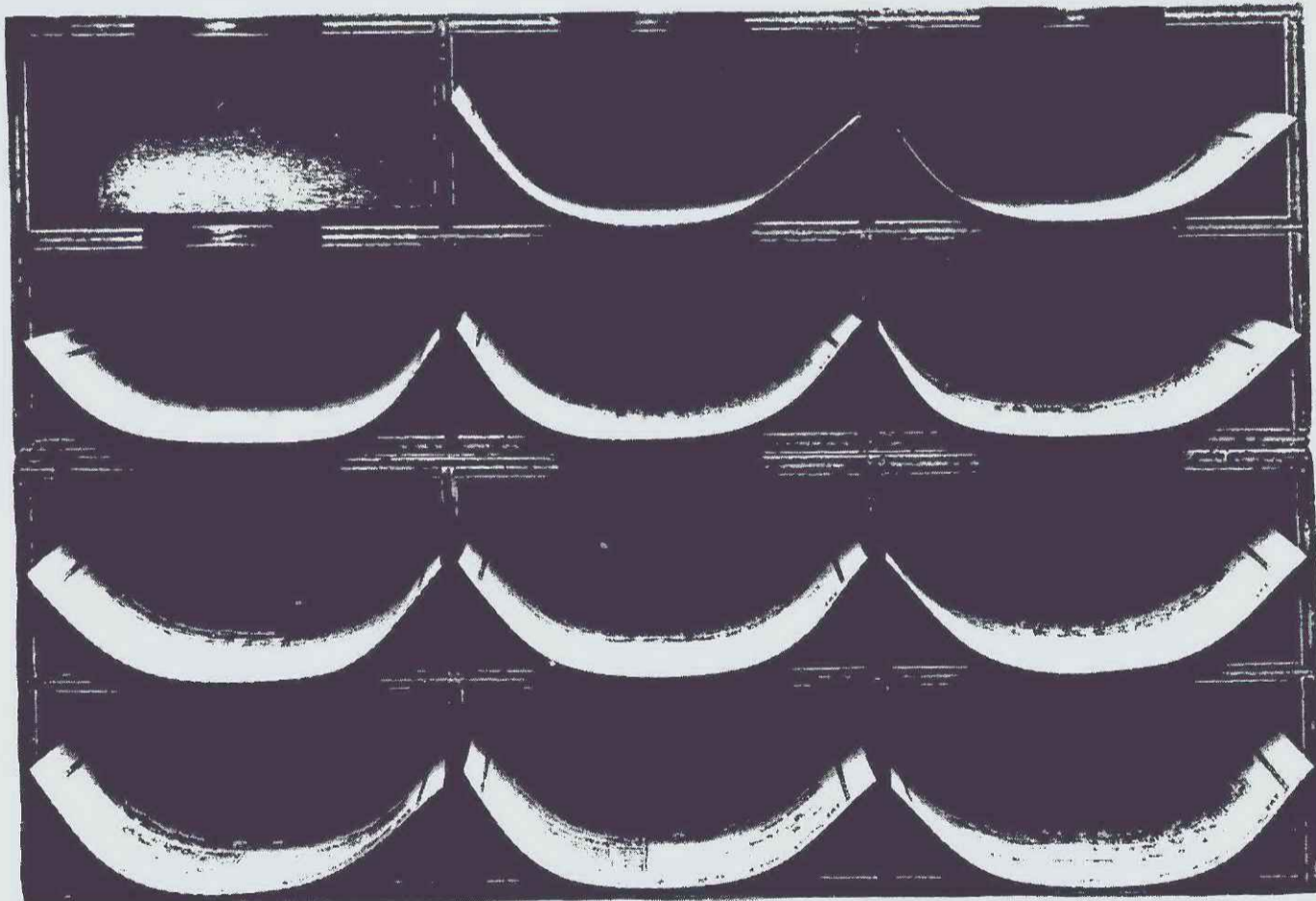


Photo courtesy of Crum & Forster Managers Corp. (Ill.)

Defense counsel cross-examines the plaintiff in a video of a mock trial of an accountant's errors and omissions case.

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# Loss control expert seeks CPCU niche

HARRISBURG, Pa.—As businesses become more technically complex, the demand for loss control services will increase, placing more demand on loss control practitioners, an insurance company official says.

In an effort to better prepare loss control professionals for the challenges of the future, Joe Boslet, manager of loss control and premium audit for Harrisburg-based Pennsylvania National Mutual Insurance Co., is working to create a loss control interest section within the Society of Chartered Property & Casualty Underwriters.

A spokeswoman for the Society of CPCU explained that an interest section provides society members with a forum to discuss subjects of mutual concern. The

society established the section system in 1981 and currently offers seven sections: underwriting; claims; risk management; reinsurance; excess, surplus and specialty lines; international reinsurance; and agency administration.

Each section develops a seminar for the society's annual meeting, the spokeswoman said, adding that about 5,000 CPCUs belong to one or more sections. In addition, sections offer their members periodic educational newsletters.

Mr. Boslet began his effort in mid-1987 by mailing out about 1,100 questionnaires to CPCU members to measure interest in forming a loss control group within the Society of CPCU. The idea met with "an extremely favorable response," he said.

**'I think loss control is going to maintain a fairly high level of importance' says Joe Boslet.**

As a result, an ad hoc committee met shortly before the Society of CPCU annual meeting in Cincinnati earlier this month to discuss forming a pilot loss-control interest section.

The society's board of directors will consider forming a pilot section at its mid-year meeting next March in Chicago, a society spokeswoman said. If the pilot section

is well-received, the loss control section would formally begin in about a year, she said.

Mr. Boslet said the interest section is designed to achieve five goals:

- Promoting a clear understanding of the loss-control discipline and helping foster positive attitudes toward its practice.
- Finding improved techniques and methodology to better utilize loss control services to the benefit of our own organizations and the insurance industry in general.
- Keeping Society of CPCU members updated and informed on changes in the loss control field and determining the possible impact of those changes on insurance company operations.
- Providing a liaison between

the Society of CPCU and professional safety, loss control and risk management organizations like the Risk & Insurance Management Society, the American Society of Safety Engineers and the National Safety Council.

• Enhancing and expanding the scope of awareness, knowledge and skill development in members' professional performance.

Mr. Boslet said that the property/casualty insurance market traditionally has dictated how much interest corporations have in loss control. Tight insurance markets have tended to create a heightened demand for loss control services as risk managers scramble for ways to cut losses, he said. But in soft markets, loss control has played a more minor role.

But the popularity of loss control services isn't following historic patterns in the current softening market. "I think loss control is going to maintain a fairly high level of importance in company operations," Mr. Boslet said, adding that one of the reasons for creating an interest section within the Society of CPCU framework is to keep the discipline's profile high.

This represents a break with the past, Mr. Boslet said. Loss control personnel have tended to become so involved in the technical aspects of their jobs that they have neglected to promote their discipline, he said. But the advent of new technologies like robotics, as well as industry's increased dependence upon automated manufacturing systems, means that loss control personnel will have to be both more visible and more proficient, Mr. Boslet said.

The formation of a special section demonstrates that loss control experts "are trying to take a very positive approach" to the challenges of the future, Mr. Boslet said.

—By Mark A. Hofmann

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# California

Continued from page 1

approved in California, Mr. Rosenfield said.

"Our viewpoint is there are a lot of chips on the table," conceded Ronald Howarth, an assistant vp of the National Assn. of Independent Insurers in Des Plaines, Ill., which is among the industry trade groups supporting Proposition 104.

"We're really concerned that we'll be back fighting this battle again and again" in other states, he said.

In fact, consumer groups in several states already are looking at California as a possible model for change in their states.

"We have several other states waiting in the wings. We would obviously want to win the first contest" in California, said J. Robert Hunter, president of the National Insurance Consumer Organization in Alexandria, Va.

Mr. Hunter has appeared in California in support of Proposition 100, an insurance initiative backed by the California Trial Lawyers Assn. and a coalition of banking organizations, consumer groups and others.

Proposition 100—which is not considered as severe as Proposition 103—would require that auto insurance rates for "good drivers" be rolled back 20% from Jan. 1, 1988, levels.

**'We're going to kill them' when election results are tallied, Mr. Hunter said, referring to the insurers.**

Polls indicating "great, immense unrest" among insurance consumers in California show "we're going to kill them" when election results are tallied next month, Mr. Hunter said, referring to the insurers.

Mr. Rosenfield said his group, Voters Revolt to Cut Insurance Rates, which is backing Proposition 103, has been contacted by "people in dozens of states" about the California insurance initiatives, but thus far no other movement has begun.

Popular actions in "bellweather states" such as California, New York and Florida have "a tendency to roll" to other states, said Marjorie Berte, chairwoman of Citizens for No Fault, part of the insurance industry's campaign effort.

"If something like Proposition 103 happens here, it could have huge significance," Ms. Berte said.

Regardless of which initiative finishes first on Nov. 8, the issue appears headed for court. Representatives of all the initiatives say they are anticipating a court battle to settle the matter of which provisions will become law if conflicting propositions are approved by voters.

Under state law, the initiative receiving the highest number of "yes" votes becomes the controlling measure when provisions conflict. But other provisions, if they are not covered by the controlling measure, may be implemented as well.

For instance, it would be left up to the courts on how Proposition 103, which calls for rollbacks of all property/casualty insurance rates, would mesh with Proposition 100, which calls for auto insurance rate rollbacks for only good drivers.

"You can use a Ouija board to figure it out," said Browne Greene, a Los Angeles attorney and backer of Proposition 100.

"It's regrettable that it's all come down to this," Mr. Greene said.

Insurers had an opportunity to resolve the issue last winter when negotiations were progressing on a

flexible rating system for commercial and personal lines that each side seemed to agree on, he said (BI, Jan. 18).

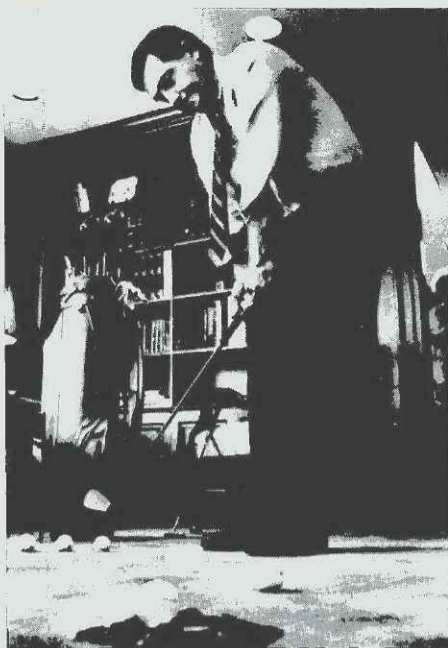
But the arrangement, which likely would have sailed through the state Legislature, fell apart when several major national insurers insisted on a no-fault plan, Mr. Greene said.

"Now they stand to lose big" if one of the propositions competing with the no-fault plan receives the most votes, Mr. Greene said. "I think the polls all show that."

That is because the no-fault initiative includes a non-severability clause that holds that provisions of Proposition 104 cannot be adopted unless all of its provisions are enacted.

John Crosby, manger of the campaign behind Proposition 104 and Proposition 106, which would cap attorneys' fees in all tort cases, says litigation will be inevitable following the election.

Continued on next page



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## Propositions

Continued from previous page  
 "That's not the way democracy should work, not in the courts," said Mr. Crosby, who is also senior vp of the NAI, during a recent symposium on the initiatives held in Los Angeles.

He predicts the state Legislature will be forced to clean up the mess created by competing but ratified propositions next year.

"Something ridiculous will come out in the next 30 days, mark my words," Mr. Crosby said.

The issue will boil down to a legal fight after the election, agreed state Assemblyman Richard Polanco, D-Los Angeles, sponsor of Proposition 101. That proposition, which would cut auto bodily injury insurance rates by 50%, has been financed largely by Coastal Insurance Co. of Van Nuys, Calif., which primarily writes auto insurance in California. "We're going to see a very difficult situation, unfortunately," Mr. Polanco said.

Although the final outcome likely will hinge on court tests after the election, the issues may not be as complicated as indicated by some, said Mr. Rosenfield, a supporter of Proposition 103.

For instance, he pointed to the non-severability clause in Proposition 104, which would block its implementation if another proposal captures more votes.

If Proposition 104 does not finish first, "it's down the tubes," Mr. Rosenfield said.

While most of the focus in the

**If Proposition 104 does not finish first, 'it's down the tubes,' says Harvey Rosenfield.**

election has been on the four major insurance reform measures, a fifth initiative to limit attorney contingency fees appears headed for approval.

Proposition 106, which also is backed by the insurance industry, would severely limit attorneys' fees in tort cases.

If it passes, as the polls indicate it will, then victims will have trouble getting top legal help for their cases, Mr. Greene said.

"I guarantee that," he said. Attorneys run expensive practices and cannot afford to take cases that may take five years or more to litigate unless they have some assurance they will be compensated, he said.

In addition, lower fees would inhibit the major cases, like asbestos claims, that are extremely costly to bring to court, Mr. Greene said.

"You are talking about a lot more than representation for individuals if Proposition 106 prevails," he said. But the insurance industry warns that the greatest threat is to continue the existing litigious system that has gripped California and driven up insurance costs. ■

# Polls do not clearly indicate which proposition is winning

By GLENN HUNTLEY

LOS ANGELES—A record campaign spending binge has not yet settled the issue of insurance reform in California, according to the most recent polls and campaign finance disclosure reports.

One independent poll indicates that Proposition 104—the insurer-backed, no-fault auto insurance proposal—is lagging behind competing propositions, even though insurers are expected to contribute more than \$40 million to their cause.

However, the insurers' own poll shows their initiative ahead, while a third poll by a major newspaper shows that most voters have not yet decided which propositions they will support.

The insurers, though, are far ahead in the financial derby: The insurers had raised \$35 million through Sept. 30, and observers say their budget could hit \$43 million by Election Day.

In comparison, supporters of Proposition 100, which is sponsored by trial lawyers, had raised \$9.6 million as of Sept. 30, and the consumer groups sponsoring Proposition 103, the most radical of the proposals on the ballot, had drawn just \$1.57 million, mostly from

**'No matter how much the (insurance) industry spends, they won't win,' says Harry Miller.**

small, individual contributions.

However, the insurance industry-sponsored, no-fault proposal is not drawing the support of voters, according to a survey released in late September by San Francisco-based pollster Mervin Field.

According to the Field poll, 31% of those surveyed said they would vote for Proposition 104, while 40% opposed the proposal and 29% were undecided. In comparison, 62% said they would vote for Proposition 103, the proposal that would roll back all property/casualty insurance rates, while only 16% were opposed to it and 22% were undecided.

In addition, 56% said they would vote for Proposition 100, the trial attorneys' proposal, while 17% opposed it and 27% were undecided.

And, 35% favored Proposition 101, a proposal by a state assemblyman that calls for a 50% reduction in auto bodily injury insurance rates. Thirty-two percent were opposed to Proposition 101, and 33% were undecided.

According to the no-fault campaign's own poll released at the same time as the Field poll, the no-fault proposal is leading.

Thirty-seven percent favored Proposition 104, according to the insurers' poll, while 33% were opposed and 30% were undecided. According to this poll, only 37% said they would support Proposition 103, while 32% said they oppose it and 31% were undecided.

The insurer poll revealed that 26% favored Proposition 100, with 41% opposed and 32% undecided. And, 28% supported Proposition 101, with 39% opposed and 33% undecided.

A third, independent poll conducted by pollster Steve Teichner for the San Francisco Examiner and also released in late September showed Proposition 103 ahead of the no-fault proposal by the narrowest of margins.

According to this poll, 25% favored Proposition 103, with 23% opposed and 52% undecided. Meanwhile, 24% favored the no-fault proposal, with 29% opposed and 47% undecided.

The Examiner poll indicated that Proposition 100 was supported by 22% of those surveyed, while 28% opposed it and 50% were undecided. And, 19% supported Proposition 101, with 32% opposed and 49% undecided.

Supporters of Proposition 104 predictably are questioning the results of the Field poll.

"No one has shown the kind of discrepancy that he showed," said Marjorie Berte, director of Citizens of No-Fault, a group formed to mobilize insurance agents and employees to support the no-fault proposal. "There's something definitely wrong there."

Ms. Berte likened polls to an electrocardiogram: They can fluctuate wildly, she said. In this case, the polls show Proposition 104 "creeping up" in support among voters, while Proposition 103 is declining, she pointed out.

And, in a prepared statement, Clinton Reilly, manager of the No-Fault Campaign, slammed the Field poll.

"Field has published poll results which are more than 40% different

than our internal polls and from the Teichner poll. Such a wide discrepancy cannot be explained by statistical margin of error. Over the years Field has been consistently wrong on ballot initiatives," Mr. Reilly said.

Boosters of Proposition 103 and Proposition 100 see the issue much differently: Proposition 104 does not have much chance of approval, much less of finishing ahead of the other reform measures.

"There's no polling that shows us other than ahead," said Harvey Rosenfield, chairman of Proposition 103's "Voter Revolt to Cut Insurance Rates" campaign.

Although the Santa Monica-based campaign had raised less than \$2 million through Sept. 30 and has bought almost no advertising, it continues to be favored by the voting public, he said.

"Thankfully, most of the people in California don't agree with anything they've seen" from the better-financed no-fault campaign, Mr. Rosenfield said.

Proposition 103 has received financial help primarily from citizens who have contributed small amounts, typically under \$100. It also has received loans of \$60,000 each from New York philanthropist Joshua Mailman and campaign adviser Bill Zimmerman.

About 70% of the money raised by the Proposition 100 campaign has come from contributions from attorneys or the political action committee set up the California Trial Lawyers Assn.

Observers for other campaigns say the lawyers may raise as much as \$15 million, an amount that would make it the second largest political campaign in state history, trailing only the insurance industry's Proposition 104 campaign.

The least publicized insurance-related initiative—Proposition 101, known popularly as the Polanco initiative—is a compromise measure. Its financial support comes almost exclusively from Coastal Insurance Co. of Van Nuys, Calif.

As of Sept. 30, the Proposition 101 campaign had raised \$3.87 million, with 96% of those contributions from Coastal Insurance.

And while Proposition 101 is ranked near the bottom in the polls, the surveys have not discouraged Harry O. Miller, chief executive officer of Coastal Insurance.

Proposition 101 has a better chance of gaining voter approval than the no-fault plan backed by most other insurers, he said.

"No matter how much the industry spends, they won't win. It will be a real lesson to them," Mr. Miller said.

People are likely to vote against Proposition 104 because they recognize the self-interest involved and are more likely to vote for an issue that features more direct savings to them, he said.

Focus groups interviewed by a consultant hired by the Proposition 101 campaign found that most voters—when informed about the specifics of each initiative—preferred Proposition 101 or 103, Mr. Miller said. But only half or fewer approved of the insurer-backed and trial lawyer-backed measures, he said.

"I have tremendous confidence in the sophistication of people in California. They have an ability to choose between initiatives," Mr. Miller said.

While debate continues over which poll may be more accurate, Ms. Berte notes that in the end, polls do not make a difference.

"The most important poll is on Nov. 8," she said. ■

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# Prop 104 supporters vary ads with regions

By GLENN HUNTLEY

LOS ANGELES—Backers of California's Proposition 104 have borrowed at least part of their strategy from the ages: divide and conquer.

Proponents of the insurance industry-backed initiative, which would establish a no-fault system of auto insurance in California, have designed certain ads to appeal to people in metropolitan areas and other ads to appeal to those in rural areas.

In the urban areas, Proposition 104 proponents attack opposing initiatives on broader issues, while in most other areas they allege that a vote for Proposition 100 or 103—which generally would require insurers to charge the same rates to drivers across California, no matter what city they live in—would entail a subsidy of big-city drivers.

Los Angeles-area residents are likely to hear Proposition 104 messages like: "Keep big banks and big government out of the insurance business," referring to the fact that some of the propositions would allow banks to sell insur-

Lawyers Assn., which supports Proposition 100.

Supporters of Proposition 101, which calls for a 50% reduction in auto bodily injury insurance rates, have budgeted about \$3 million for television, radio and billboard advertising to press its features in the closing weeks of the campaign.

Its billboards say: "Drive down insurance rates by 1/4. Yes on Prop. 101."

Although the Proposition 101 forces did not spend much on advertising earlier in the campaign, its four-week blitz before Election Day gives it enough time to build support, said Assemblyman Richard Polanco, D-Los Angeles, the measure's principal author.

*Continued on next page*



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The ads have 'a pocketbook message' that people can understand, says Mr. Carpenter.

ance and would impose increased government regulation of insurers' rates.

However, Proposition 104 television ads and yard signs outside of Los Angeles ask: "Why should we pay more so Los Angeles can pay less?"

That appeal is not made in the Los Angeles area, where motorists pay some of the highest auto insurance premiums in the country.

These "territorial rating" arguments have been the most effective approach taken by the insurer effort thus far, said Scott Carpenter, a manager of the Proposition 104 campaign.

The ads communicate "a pocketbook message" that people can easily understand, he said.

The backers of Proposition 104—who also are supporting Proposition 106, which would cap attorneys' fees in all tort cases—are spending heavily to get their message across (see story, page 38).

For instance, the campaign spent \$1.5 million on advertising on California television stations that broadcast last month's Summer Olympic Games, Mr. Carpenter said.

Other campaigns also have mounted significant, if less extensive, efforts to sway voters to their side.

Supporters of Proposition 100, which would mandate auto insurance rate rollbacks for "good drivers," are touting their initiative as the only way to cut rates and maintain access to the judicial system for most people.

They also have mounted a public campaign that has taken issue with the insurers' arguments and has promoted Proposition 100 as the "Good Driver" initiative.

"I think the public is going to see through this (the Proposition 104 advertising), even though they are spending \$43 million, an obscene amount of money," said Browne Greene, a partner with the Los Angeles law firm of Green, O'Reilly, Broillet, Paul, Simon, McMullen, Wheeler & Rosenberg and a past president of the California Trial

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The disaster occurred at a time when the small town was experiencing new growth. Population was increasing. New businesses were moving in. A town-sponsored industrial park was half full. Now, 190 people are out of work, perhaps permanently, and the consequential economic loss—greater than the actual destruction of the building and its contents—may approach \$50 million.

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# What the five propositions would do

LOS ANGELES—Voters in California will be able to cast ballots for any or all of the five insurance-related ballot propositions when they go to the polls Nov. 8.

Each proposition that gains a majority of the votes cast will become California law. However, if provisions in two or more propositions conflict, the proposition that wins the greatest number of votes will be controlling.

The initiatives are:

• **Proposition 100**, sponsored by the Los Angeles-based Insurance Consumers Action Network and largely backed by the California Trial Lawyers Assn.

Proposition 100—which, if approved, would be effective Jan. 1—would mandate that automobile insurance rates for “good drivers” be reduced by 20% from January 1988 rates. The reduction would apply to private passenger vehicles and trucks and motorcycles. It would not, however, apply to commercial auto risks.

A “good driver” is defined as a person who during the last three years has had no more than one moving violation and has had no at-fault accidents.

Proposition 100 also would require that state regulators approve rate changes exceeding 7.5% for most personal lines of property/casualty insurance and 15% for most commercial lines.

Proposition 100 also would abolish territorial rating for auto insurance and would allow state-regulated banks to enter the insurance business.

The proposal also would establish an Office of Insurance Advocate in the state Department of Justice to participate in insurance-related consumer protection proceedings, as well as a Senior Bureau of Investigations in the Department of Insurance to assist senior citizens with any aspect

of health care insurance.

The proposal would cost the state \$10 million to administer, according to the state Legislative Analyst's Office, which estimates the cost of various proposals for the state Legislature.

According to the proposition, administration costs would be paid from funds collected by the state from insurers. However, because the current balance in the fund is inadequate, fees and assessments charged to insurers would have to be increased.

• **Proposition 101**, sponsored by State

Assemblyman Richard Polanco, D-Los Angeles, and backed by Coastal Insurance Co. of Van Nuys, Calif.

Proposition 101, effective Nov. 9, would cut rates for personal and commercial auto bodily injury liability insurance by 50% from Oct. 31 levels. Future rate increases would be limited to percentage increases in the physician services component of the Consumer Price Index.

Except for cases involving death or severe injuries, Proposition 101 would cap payments for non-economic damages to 25% of economic losses. This provision would expire in December 1992.

The state Legislative Analyst's Office estimates that Proposition 101 would reduce premium tax revenues by \$50 million a year if no other changes are made.

• **Proposition 103**, sponsored by Santa Monica-based Access to Justice and endorsed by consumer advocate Ralph Nader.

Proposition 103 represents the most sweeping insurance reform measure on the California ballot. It would immediately roll back all property/casualty insurance rates—including commercial lines rates—to 20% less than the rates in effect on Nov. 8, 1987.

In addition, the proposition would mandate that good drivers receive a 20% discount on rates, effective Nov. 8, 1989.

Proposition 103 also would establish a prior approval system for all rate changes for all types of property/casualty insurance that would be implemented Nov. 8, 1989.

In addition, Proposition 103 would make the state insurance commissioner's post an elective position. The insurance commissioner currently is appointed by the governor.

Proposition 103 also would allow state-regulated banks to enter the insurance business.

The state Legislative Analyst's Office estimates that the proposition's regulatory requirements would increase state spending by \$10 million to \$15 million in the first year and by varying amounts in subsequent years. The added amount is to be paid by additional fees charged by the state to insurers.

In addition, the proposal would reduce state premium taxes by about \$125 million for the first three years, according to office estimations.

• **Proposition 104**, which is sponsored by the property/casualty insurance industry.

Proposition 104 would establish a no-fault system of auto insurance, under which bene-

fits for medical, lost wages and funeral expenses stemming from automobile accidents would be paid by insurers within 30 days, regardless of fault. However, victims have the right to bring legal action if seriously or permanently injured.

In addition, insurers would be prohibited from canceling policies or increasing rates due to a no-fault claim.

If the proposition is approved, commercial and personal auto insurance rates would be reduced 20% statewide in July 1989.

Proposition 104 also would limit attorneys' contingency fees in auto cases to 33% of awards up to \$50,000, 25% of the next \$50,000 in awards and 15% of all awards exceeding \$100,000.

Proposition 104 also would prohibit state-regulated banks from selling insurance.

The proposition would add about \$2.5 million to the state's administrative costs in the first year, according to the state Legislative Analyst's Office. The added cost would be paid by additional fees on the insurance industry.

Proposition 104 would reduce state premium taxes by an estimated \$25 million per year for two years, according to the state office.

• **Proposition 106**, which also is sponsored by insurance companies.

Proposition 106, the narrowest of the insurance-related measures, would restrict lawyers' contingency fees in all tort cases to 25% of the first \$50,000 of an award, 15% of the next \$50,000 and 10% above \$100,000.

In addition, courts may review the fee and reduce it below the stated limits if it decides the fee is not “reasonable and fair.”

Proposition 106 would not cost the state any money.

—By Glenn Huntley

**Proposition 103 would roll back all property/casualty insurance rates—including commercial lines rates—to 20% less than the rates in effect on Nov. 8, 1987.**

## Prop. 103 could bankrupt some insurers

LOS ANGELES—Approval of California's Proposition 103, which would force property/casualty insurers to roll back rates for all lines of insurance to 20% below the rates charged in November 1987, could bankrupt some insurers, opponents charge.

And, the California Department of Insurance agrees.

Analysis by the state Department of Insurance indicated that five of the state's 10 largest property/casualty insurers could be faced with insolvency under Prop-

osition 103 (BI, Sept. 26).

Within two years of Proposition 103's approval, as many as 35 insurers could become insolvent, according to the department. Forty other insurers' surpluses would be reduced to such a low level that they would be forced to curtail activities, the department says.

However, under a provision in Proposition 103, an insurer that can prove that it would be driven into insolvency by a rate rollback can be excluded from the rollback.

Last week, Mercury Insurance

Co. in Los Angeles, the state's seventh-largest auto insurer, filed the first request with the Insurance Department for rate relief if Proposition 103 is approved.

Mercury “would be brought to the brink of insolvency within a few months” if forced to roll back rates under Proposition 103, said Bruce Norman, vp of marketing at Mercury.

If Proposition 103 is passed and the company does not receive rate relief through the Insurance Department or the courts, Mercury would withdraw from the California auto insurance market, said Mr. Norman.

Opponents of Proposition 103 are using the department's analysis as a campaign tool, pointing out that approval of the proposition could constrict coverage availability in the state.

For instance, under Proposition 103, the California auto insurance market could resemble the financially troubled, state-run joint underwriting authority in New Jersey, said John Crosby, manager of the campaign supporting Proposition 104, a no-fault auto insurance proposal sponsored by the insurance industry.

Mr. Crosby calls the no-fault option “a simple solution” that has been proven in states like New

York and Florida.

No-fault auto insurance would remove 90% of the cases from the courts and spread the resulting savings to all policyholders, he said.

However, Harvey Rosenfield, chairman of the Voters Revolt to Cut Insurance Rates, which is sponsoring Proposition 103, disputes the contention that insurers will be constricted in doing business in California or will leave the state if Proposition 103 is approved.

Noting that the state represents 15% of the nation's property/casualty insurance market, he asked: “Who is going to leave the biggest market in the country? The answer is nobody.”

“They could threaten to leave the planet, but where would they go?” Mr. Rosenfield said.

He warned that the biggest danger faced by the insurance industry is if voters support Proposition 104, the no-fault proposal, and later do not receive the savings promised by insurers.

If that occurs, the industry will suffer a backlash that will exceed anything now on the ballot, Mr. Rosenfield said.

“The biggest threat to the insurance industry is the industry itself,” he said.

Some insurers also are critical of the industry's position in California.

Harry O. Miller, chief executive officer of Coastal Insurance Co. in Van Nuys, Calif., says insurers may not be able to deliver on their promises. No-fault, he contends, likely would result in higher rates for many motorists.

“We can live under no-fault, but when the people figure out that they have been duped, as they were under Proposition 51, we can't be responsible for what happens next,” Mr. Miller said.

Mr. Miller was referring to Proposition 51, also heavily supported by the insurance industry. The proposition, which was approved by California voters in June 1986 and eliminated the application of joint and several liability to non-economic damages, has not lowered insurance costs as promised, he said.

Coastal, which wrote \$25.7 million in auto liability insurance premiums last year, mostly in California, is the major contributor behind Proposition 101, sponsored by state Assemblyman Richard Polanco, D-Los Angeles. The proposal would reduce auto bodily injury insurance rates 50% and cap future rate increases.

—By Glenn Huntley

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### Advertising strategy

Continued from previous page

Proposition 103, which is supported by a consumer group that has raised little money, has leaned hard on free media attention to get its message across.

Backers of Proposition 103, which would roll back all property/casualty insurance rates in the state, have appealed to television stations around the state to provide free air time for its message—with some success. At least 29 TV stations reportedly had broadcast some messages about Proposition 103.

The free air time is required under the Federal Communication Commission's “Fairness Doctrine,” explained Harvey Rosenfield, chairman of the

“Voter Revolt” campaign that is supporting Proposition 103.

At first, stations were reluctant to provide free time, but a majority of the state's television stations have relented as the better financed campaigns by the insurers and trial lawyers have bought up even more ad time, he said.

Mr. Rosenfield said the huge budget and saturation advertising by the insurance industry has turned people toward alternative proposals, especially Proposition 103.

“If they had been a little more modest or a little more sensible, they could have won,” Mr. Rosenfield said.

Instead, the issue has largely become whether the insurance industry “can buy the votes,” Mr. Rosenfield said.

# Utilization review

*Continued from page 3*  
 employee confusion about UR as a "major" problem.

Even employers with unionized work forces report that UR programs do not have a serious negative effect on employee relations. Of the 43% of the survey respondents that said their health care plans were negotiated through a collective bargaining agreement, almost half—47%—said utilization review has had no effect on their company's relationship with its unions.

In addition, 18% said utilization review has had a positive effect on the company's relationship with its unions.

However, 33% described the effect of UR programs on employee morale as "somewhat negative."

The stringency of a utilization program is often cited as a major factor in employees' receptiveness to UR programs.

"It has often been said that the more stringent the rules for a UR program, the more likely the program is able to achieve results. But employers, ever sensitive to the impact on employee relations, have walked the degree-of-stringency line carefully," the survey authors note.

For example, 62% of the respondents described their UR programs as "about average" in terms of stringency, and 23% more described it as "less stringent than most."

Only 15% characterized their programs as "more stringent than most"

Respondents also indicated some concern about whether a utilization review program that is too stringent would result in employees being "undertreated" for some health problems.

Although 44% of the respondents said they were "not too concerned" about this occurring, 30% said they were "somewhat concerned" and 11% said they were "very concerned."

"These sentiments aside, the UR rules of the road will get tougher, say the benefits managers," the authors report.

A majority of survey respondents—53%—predict that utilization review policies in the next few years will become more stringent as

health care costs continue to rise. Among those respondents, 10% predict UR policies will become "much more stringent."

The Corporate Health Strategies survey also polled benefit managers on the role of utilization review in their company's overall health care cost management efforts.

Ninety-four percent of the respondents said that UR plays an important role, with half of those saying it plays a "very important" role and the other half saying it is "somewhat important."

Only 4% said UR was not important at all to their health care cost management.

On average, the respondents gave their utilization review programs a 6.11 ranking for cost-containment effectiveness on a scale of 1 to 10, with 1 being "extremely ineffective" and 10 being "extremely effective."

However in ranking their programs' effectiveness at improving quality of care on the same scale, the respondents gave their UR programs only a 5.42 ranking

The survey respondents report that their UR programs are more than paying for themselves in most cases: 76% said the savings attributable to the UR programs has been greater than the cost of the programs themselves, with 32% characterizing the savings as "much greater" than the cost of the programs.

"Only 10% reported that their UR savings 'just barely cover the cost' of the program," the survey authors said.

The most-common utilization review programs employed by the respondents were preadmission review and continued stay review, both of which are in place at 95% of the respondent companies.

Close behind are second surgical opinion programs, in place at 94% of the companies.

And, medical case management programs were used by 83% of the respondents.

Other utilization review programs reported by a majority of the respondents were discharge planning, 68%; bill auditing, 68%; telephone hot line for employees, 67%; psychiatric case management, 61%; and retrospective review, 59%.

And, "not surprisingly, a majority (55%) acknowledged that mental health and substance abuse utilization review were 'very

important elements in their company's existing UR program; 34% said they were 'somewhat' important," the authors noted.

"For 1989, the two UR programs the benefits managers said they most likely would add if they didn't already have them were medical case management and psychiatric case management," the survey authors added.

The survey also found that:

- Most of the utilization review programs at the respondents' companies are relatively new.

- Only 28% of the respondents said they have used UR for more than three years.

However, 22% said they had used UR for three years, 29% said they had used the programs for two years, and 21% said UR services had been in place at their company for one year or less.

- The most important factor employers consider when choosing a utilization review vendor is the amount of time necessary to resolve a case after an employee contacts the vendor.

On a scale of 1 to 10—with 10 being "absolutely critical" and 1 being "not important at all"—the respondents gave this consideration an average ranking of 9.17.

Other factors considered important in choosing a UR vendor were: confidence in the firm's medical criteria, ranked 8.86; the vendor's willingness to guarantee service, such as answering telephones within a certain amount of time, 8.81; the vendor's reporting capabilities, 8.73; and the clinical experience of nurses, 8.63.

Also important to respondents was the degree to which physicians are involved, ranked 7.79; evidence of a strong psychiatric review program, 7.72; a well-defined appeal process, 7.71; the number of nurses on the vendor's staff, 7.41; having a team of nurses dedicated to the employer's company, 7.29; and the vendor's willingness to guarantee savings, 7.05.

- The biggest problems respondents have with UR vendors involved data processing and reporting capabilities and the vendor's ability to provide meaningful cost savings reports. Both of these was cited as a problem area by 53% of the respondents.

The next most troublesome areas were "unclear or incorrect information given to employees by reviewers" and the "speed with which calls are handled," both cited as problems by 29% of the respondents.

- Only 10% of the benefit managers said they were "completely confident" in the validity of the cost savings reported by their UR vendors, though 51% said they were "somewhat confident." Twenty-seven percent said they were "not too confident" in the validity of the cost savings data.

- Forty-three percent of the respondents receive utilization review reports on a monthly basis, but 51% said monthly reports would be the ideal reporting basis.

Thirty-nine percent receive quarterly reports, and 37% said they prefer quarterly reporting.

Fifty-two percent of the respondents get UR data reports that have been customized to their company's needs. But, the same percentage said the data reports they receive contain "too much data and not enough analysis."

- Sixty-four percent of the respondents said they were satisfied with the use their company was making of its utilization review data, but of those respondents only 8% said they were "completely satisfied." Twenty-five percent of the respondents said they were "somewhat dissatisfied" and 6% said they were "very dissatisfied" their use of its UR data.

The survey also makes it clear that despite the success of utilization review programs in controlling health care costs, most employers feel the battle is far from over.

For example, 80% of the respondents agreed that based on their experience, "overutilization of health care services still remains a very big problem."

And, 81% agreed with the statement: "Thinking about the health care marketplace as a whole, we have yet to strike a good balance between cost control and quality."

*Copies of "The Health Poll" on utilization review are available free of charge from Stephanie Valeiko, Corporate Health Strategies Inc., 276 Post Road West, Westport, Conn. 06880.*

## The 2nd annual

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# Business Insurance

# Texas schools' health care plan collapses

By MICHAEL BRADFORD

AUSTIN, Texas—School districts in Texas are scrambling to settle around \$6 million in unpaid claims resulting from the collapse of a self-insurance plan that provided health care coverage for thousands of teachers and their families.

The plan, Educators Group Health Trust, covered around 18,400 teachers and their families when it filed for liquidation under Chapter 7 of the U.S. bankruptcy code in Austin last month. Established by the Austin-based Texas Assn. of Community Schools, the plan began offering coverage in 1983.

"For 4½ years, the self-insurance fund seemed to be serving its purpose," said Joe Seale, executive director of TACS. "Claims were being paid, and it seemed to be an effective operation."

When it filed for liquidation, the fund reported assets of \$300,000 and liabilities of \$8 million.

However, some of the unpaid claims have been settled, re-

ducing the outstanding liabilities to around \$6 million, according to Jerry Cunningham, chairman and chief executive officer of Austin-based Corporate Risk Counselors Inc., the plan's administrator.

There is no guaranty fund to cover the trust's liabilities, and Mr. Seale said the 209 school districts with teachers who participated in the trust are stuck with the remaining unpaid claims.

The districts expect to pay many of the claims within the next month, with "the vast majority being paid in the very near future," Mr. Seale said.

"They feel responsible to see that the claims are paid," Mr. Seale said of the school districts.

"When the claims are paid, we will try to recover that money through legal procedures."

Mr. Seale would not say what legal steps the association plans to take to recover the money spent to pay the claims.

Mr. Seale said the fund's problems began about a year ago when teachers started complaining that Corporate Risk

Counselors was paying claims slowly. Delays eventually stretched to around two months, he said.

Mr. Cunningham of Corporate Risk Counselors blamed the claims payment delays and the fund's collapse on the "sudden, dramatic and unprecedented rise of medical costs" in 1987.

He pointed out that the fund's \$3.5 million of reserves were consumed by claims payments between May and September of 1987.

In the meantime, membership was dwindling while medical costs were rising. During the 1986-87 school year, membership reached 22,000 but dipped to 18,400 the following year.

In an April meeting with actuaries, the association was told it would have to maintain 16,000 members in the plan to stay solvent, Mr. Seale recalled. However, by Sept. 1, only 8,200 members had signed up for coverage for the 1988-89 school year.

"When I asked our legal counsel what that meant, he said, 'It means Chapter 7,'" Mr. Seale said.

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#### Business Insurance Circulation Breakdown\* Commercial Consumers

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Vice-Presidents, General Managers and Other Administrative Personnel	3,657
Financial:	
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Secretaries, Treasurers, controllers and other Financial Personnel	4,454
Risk/Employer Benefits:	
Vice-presidents, directors, managers, and other related department personnel of insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employees/lab relations	10,994
Sub-total	24,719
Associations	477
Government, Unions and Educational Institutions	979
Commercial Consumers	
Sub-total	26,175
Insurance Agents and Brokers	10,557
Insurance Companies	7,380
Actuaries, Attorneys, Adjusters, Appraisers and Consultants	3,843
Others Allied to the Field	2,991
TOTAL	50,946
Source: Business/Occupational breakdown of qualified circulation, May 30, 1988 issue, as submitted to BPA for June 1988 BPA Publisher's Statement.	

# Risk Manager of the Year deadline is month away

The deadline for nominating outstanding risk managers for the 1989 *Business Insurance* Risk Manager of the Year Award is quickly approaching.

Completed nominations must be submitted by Nov. 23 according to the detailed instructions contained in a special nominating package available from the *Business Insurance* Chicago editorial office.

The 1989 Risk Manager of the Year and members of the Risk Management Honor Roll will be announced in the April 9, 1989, issue of *BI*, which will coincide with the 27th annual Risk & Insurance Management Society conference in Atlanta.

For the first time, administrators and executive directors of self-insurance funds and pools are eligible to be nominated for the Risk Manager of the Year Award. Prior, the award was limited to risk managers for corporations, financial institutions, individual government entities and tax-exempt and non-profit organizations.

Nominees for Risk Manager of the Year will be scored on 10 specific criteria by a panel of 10 independent judges (see related stories).

While only one candidate will be named Risk Manager of the Year, as many as five others could be named to the Risk Management Honor Roll, which was established in 1980 to recognize risk management achievements among different types of employment settings.

According to the rules of the competition, the highest-scoring candidate is selected by the judges as the Risk Manager of the Year. The remaining candidates are then separated by employment categories.

The employment categories are: corporations with sales exceeding \$300 million; corporations with sales less than \$300 million; government entities; tax-exempt or non-profit institutions; financial institutions. In addition, executive directors and administrators or self-insurance funds and pools this year are grouped in a new category.

The highest scoring candidate in each of the categories not represented by the Risk Manager of the Year is named to the Risk Management Honor Roll, subject to the judges' discretion.

A candidate need not spend full time handling risk management functions, but he or she must be a full-time employee of the organization for which he or she directs the risk management program.

A candidate can be nominated by anyone familiar with the candidate's work. For example, any employee or group of employees may nominate the organization's risk manager. A broker, insurer, consultant or some other service supplier can nominate a client. And, a risk manager can nominate a colleague.

In addition to the completed nominating forms outlining the candidate's accomplishments, each nomination must include a letter from the sponsor nominating the candidate and a letter of endorsement by an executive of the candidate's organization, who can be the candidate's superior or any higher officer. The letter must certify the accuracy of the information submitted in the nomination.

The 1988 Risk Manager of the Year was William L. Mather, administrator of risk management for The Gillette Co. in Boston (*BI*, April 18).

Members of the 1988 Risk Management Honor Roll were:

Risk managers of the year	
<b>William L. Mather</b> Administrator of risk management The Gillette Co.	1988
<b>Edith F. Lichota</b> Senior Vp Irving Trust Co.	1987
<b>Donald Nelson</b> Director of Risk Management ARA Services Inc.	1986
<b>Harold C. Lang</b> Director of Insurance and Risk Management Leaseway Transportation Corp.	1985
<b>Richard M. Inserra</b> Director of Insurance and Risk Management American Can Co.	1984
<b>John A. O'Connell</b> Executive Director and Risk Manager Holy Cross Shared Services Inc.	1983
<b>Edchart Russell</b> Risk and Insurance Manager Alcan Aluminium Ltd.	1982
<b>Duane E. Allen</b> Assistant Treasurer Hanna Mining Co.	1981
<b>Thomas V. Hallett</b> Risk Manager General Motors Corp.	1980
<b>Edward L. Erickson</b> Director of Insurance American Broadcasting Cos. Inc.	1979
<b>Howard T. Weber</b> Director of Insurance Minnesota Mining & Manufacturing Co.	1978

● Gregory L. Daniels, director of the Risk Management Division at The American National Red Cross in Washington, D.C., representing tax-exempt and non-profit institutions.

● Stephen A. Finley, risk manager for the city of Lakewood, Colo., representing government entities.

● Timothy G. Galarnyk, corporate safety engineer and risk manager at Lunda Construction Co. and Phoenix Steel Inc. in Black River Falls, Wis., representing corporations with less than \$300 million in annual sales.

● Edward G. Weiss, director of risk management and security at First of America Bank Corp. in Clawson, Mich., representing financial institutions.

To nominate a candidate, request a special nominating packet from: *Business Insurance*, 1989 Risk Manager of the Year Award, 740 N. Rush St., Chicago, Ill. 60611-2590; 312-649-5398.

Nominating statement information will be kept in the strictest confidence. Only the names of the Risk Manager of the Year and members of the Risk Management Honor Roll will be announced. ■

## 10 criteria for judging nominees

Ten criteria will be used to score the nominations submitted for the 1989 *Business Insurance* Risk Manager of the Year Award and Risk Management Honor Roll.

The 10 independent judges of the annual competition will score each candidate on a scale of one to 10 according to how well he or she:

- Established and implemented an effective risk management program within the organization.
- Tackled and solved one or more major problems for his or her organization.
- Innovatively applies the diverse tools of risk management and insurance.
- Creatively and effectively uses the insurance markets to structure an insurance program that serves the needs of the organization (specifically addressing the types of policies purchased and manuscripted policies, if any, developed).
- Established a workable intelligence system inside and outside the organization, culminating in a flow of information about events and activities that affect the organization's risk management and insurance. (How the risk manager secures information on risks from other departments and the use of risk management information systems are addressed in this criterion.)
- Skillfully performs the functions of management in the overall organization and within the risk management/insurance department. (The functions include planning, organizing, directing and controlling.)
- Achieves the most effective program at the optimum cost over the long term.
- Developed technical expertise in any or all of the broad categories included within risk management, leading to a better managerial grasp of the operations aspects of the job.
- Exhibits an attitude and performs activities fostering the advancement of the risk management profession (such as professional activities, speaking engagements, teaching and related activities).
- Develops in his or her career (as exhibited by job history, including current job description, education, honors and memberships).

# 10 to choose Risk Manager of the Year

Nominees for the 1989 *Business Insurance* Risk Manager of the Year award will be judged by 10 leaders in risk management and commercial property/casualty insurance.

The judges will score nominations describing risk managers' accomplishments on 10 criteria. The highest-scoring candidate will be named risk manager of the year, while as many as five other nominees may be named to the Risk Management Honor Roll at the judges' discretion.

The judges for the 1989 award, the 12th to be awarded by *Business Insurance*, are:

● Gary L. Countryman, president and chief executive officer of Liberty Mutual Insurance Co. in Boston. Mr. Countryman is serving as a Risk Manager of the Year judge for the first time. He represents the viewpoint of mutual insurance companies.

● Gregory L. Daniels, director of the Risk Management Division at the American National Red Cross in Washington, D.C. Mr. Daniels was a member of the 1988 Risk Management Honor Roll, representing non-profit institutions.

● Stephen A. Finley, risk manager for the city of Lakewood, Colo. Mr. Finley was a member of the 1988 Risk Management Honor Roll, representing government entities.

● Robert E. Gallagher, president of Arthur J. Gallagher & Co. in Rolling Meadows, Ill. Mr. Gallagher is serving for a

second year on the judges panel, representing national insurance brokers.

● Gerald A. Isom, president and chief executive officer of Transamerica Insurance Co. in Los Angeles. Mr. Isom is serving for a second year on the panel, representing stock insurance companies.

● William L. Mather, administrator of risk management for The Gillette Co. in Boston. Mr. Mather was the 1988 *Business Insurance* Risk Manager of the Year.

● H. Thorp Minister Jr., chairman of The McElroy-Minister Co. in Columbus, Ohio. Mr. Minister is serving as a judge for a second year, representing a regional insurance broker's perspective.



**Mr. Countryman**  
Liberty Mutual Insurance Co.

**Mr. Daniels**  
American National Red Cross

**Mr. Finley**  
City of Lakewood, Colo.

**Mr. Gallagher**  
Arthur J. Gallagher & Co.

**Mr. Isom**  
Transamerica Insurance Co.

**Mr. Mather**  
The Gillette Co.

**Mr. Minister**  
The McElroy-Minister Co.

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ance companies.

● William L. Mather, administrator of risk management for The Gillette Co. in Boston. Mr. Mather was the 1988 *Business Insurance* Risk Manager of the Year.

● H. Thorp Minister Jr., chairman of The McElroy-Minister Co. in Columbus, Ohio. Mr. Minister is serving as a judge for a second year, representing a regional insurance broker's perspective.

● William S. Mortimer, president of his own risk management consulting firm in Laguna Beach, Calif. Mr. Mortimer, a past national president of the Risk & Insurance Management Society Inc., is serving for the first time on the panel, representing the perspective of risk management consultants.

● Ellen Thrower, president of The College of Insurance in New York. Ms. Thrower, who holds a doctorate in insurance and risk management from Georgia State University, previously was professor of insurance and director of The Insurance Center at Drake University in Des Moines, Iowa. She is serving on the panel for the first time, representing the academic community.

● Edward G. Weiss, director of risk management and security for First of America Bank Corp. in Clawson, Mich. Mr. Weiss was a member of the 1988 Risk Management Honor Roll, representing financial institutions.

## Prenatal care

Continued from page 3

The costs for a premature birth can be "staggering," said Dr. Michael J. Martin, a project director for consultant William M. Mercer-Meidinger-Hansen Inc. in San Francisco.

"It's not uncommon to see a \$500,000 claim or more," Dr. Martin said.

The March of Dimes Birth Defects Foundation estimates that the cost of delivery and the subsequent hospitalization and physician care for a low birthweight baby can range from about \$16,000 to \$174,000, compared with about \$3,000 for a normal baby. And the worst case can raise costs to several hundred thousand dollars or even \$1 million in some instances.

The costs have risen faster in recent years because technological advances that have allowed physicians to keep premature infants and other infants born with medi-

cal problems alive longer.

Tragically, the infants often die even after heroic efforts to save their lives, Dr. Martin said.

But, in many cases, those medical problems could have been avoided if the mother received proper prenatal care and had been informed about the dangers that smoking, alcohol use and uncontrolled diabetes, among other things, pose to their unborn children, Dr. Martin stressed.

It is just that concern that has spurred "a lot of talk about prenatal care" among some employers, according to Kathryn E. Kelly, a consultant with Towers, Perrin, Forster & Crosby in Washington, D.C.

While few companies have instituted mandatory prenatal care for workers and their dependents, some employers are offering at least some informal health care instruction to stem problem births.

That trend tracks with the general trend toward more wellness

features in benefit programs, Ms. Ruth said. "The interest in wellness has increased by 50% in the last year."

Employers that offer prenatal care education benefits most often offer voluntary programs conducted a couple of times a year.

One of the programs that employers often use is the "Babies and You" program offered by the March of Dimes Birth Defects Foundation.

At least 160 companies and more than 6,000 employees have taken advantage of the March of Dimes program that is offered free of charge to employers according to the March of Dimes' Ms. McKirgan.

The March of Dimes provides a variety of educational programs through "Babies and You" that cover, among other topics, prenatal nutrition, the dangers of tobacco and drugs to the fetus, the effect of stress on pregnancy and pregnancy after age 35.

The March of Dimes will conduct the program for the employer, or the employer can obtain the group's education materials and conduct the program itself.

However, some employers that have offered the program only once or twice and have not experienced any immediate cost savings have dropped the program, Ms. McKirgan noted.

The March of Dimes discourages such short-term thinking, Ms. McKirgan said. "We don't have much impact if we do it that way," she said.

For example, Franklin Life Insurance Co. of Springfield, Ill., implemented a prenatal care education program in 1979 incorporating the March of Dimes' prenatal care program.

At any one time, about 4%, or about 48, of its 1,200 female employees are pregnant and represent about 30% of the company's short-term disability recipients. Like all Franklin employees with at least

two years of service, new mothers employed by the insurer are eligible to choose from among several short-term disability benefits. The level of those benefits increases after more than five years of employment.

Franklin Life offers the program twice annually, with sessions offered one day a week during a three-week period on company time. About 15 people normally attend the sessions.

While the Franklin Life program discourages bad health habits, such as smoking and drinking, it focuses more on good health practices, such as proper exercise and diet, according to LuAnn Duff, employee health nurse.

The results have reduced sick leave during pregnancy and reduced the length of pregnancy leaves, Mr. Duff said.

Since the education effort, maternity leave for Franklin Life employees has fallen to about six to eight weeks from eight to 10 weeks, she said.

And, since 1986, there have been only two premature births, neither of which could have been prevented by any means, she said.

Other employers are seeking help from their utilization review firms to gain control of pregnancy and perinatal care expenses, Dr. Martin said.

A UR program typically requires pregnant employees to report pregnancies once they are confirmed and provides advice for future care.

For example, Taco Bell Inc., an Irvine, Calif.-based subsidiary of Purchase, N.Y.-based PepsiCo Inc., implemented in January Maternicall, a maternity review plan offered by Cost Care.

The program is available at no cost to Taco Bell's 6,000 employees and their spouses under the company's self-insured health care plan, said Ron Watson, Taco Bell's benefits director.

Cost Care identifies potential problem pregnancies through telephone interviews with expectant mothers and then contacts treating physicians to consult about the risks, Ms. Cirica explained. Cost Care also acts as a confidential counseling or information service.

"Hopefully, we can keep the baby in the womb for as long as possible. That's the goal of the program," Ms. Cirica said. Delaying a premature birth by even a few days can make a tremendous difference in the amount of care the infant will require, she said.

The operator of 2,400 Mexican fast food outlets expects that the Maternicall program will be cost-effective over the long term, even though Taco Bell has not been hit with any extremely expensive cases yet, Mr. Watson said.

"We've been pretty fortunate," because the company's employees have had many pregnancies without major claims, he said.

But "just one or two cases can cost a great deal of money," Mr. Watson emphasized.

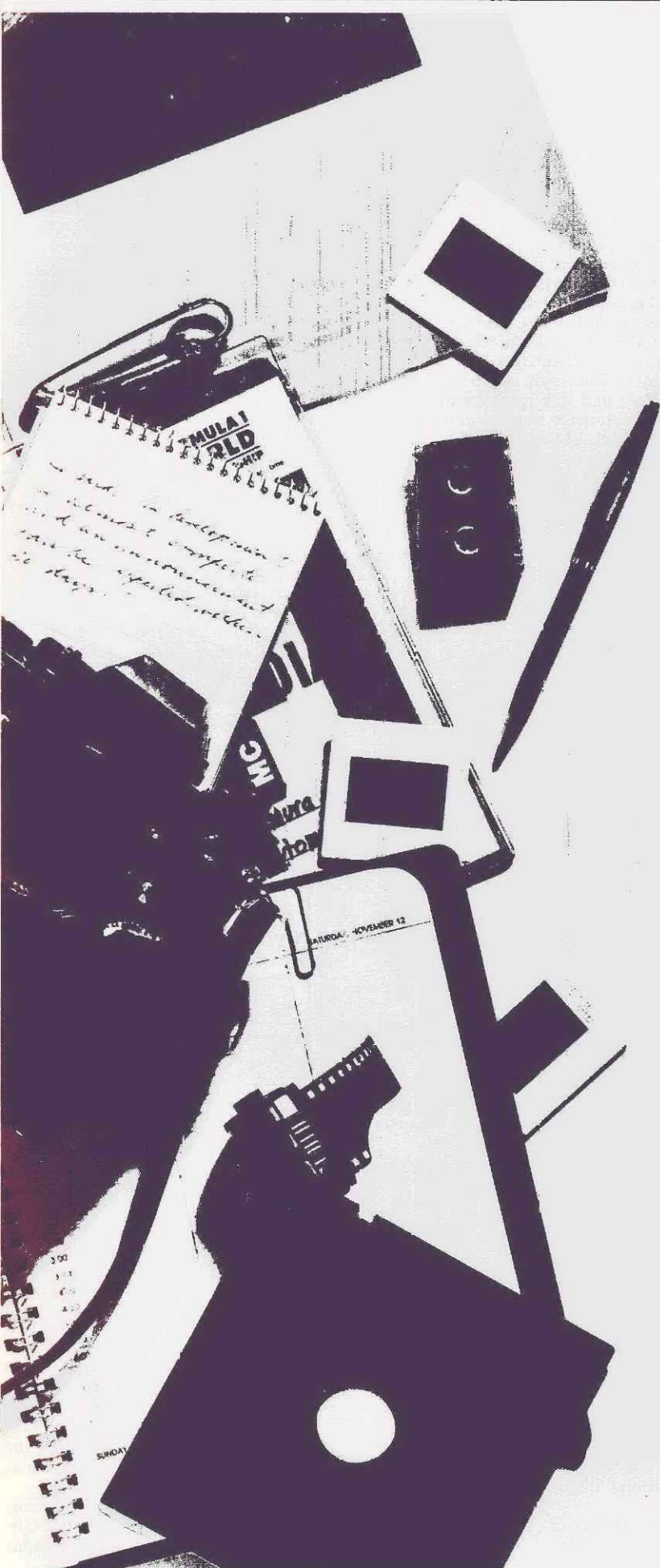
Taco Bell pays a per-capita fee to Cost Care that Mr. Watson would not reveal.

Meanwhile, Sunbeam Appliance Co. of Downers Grove, Ill., has developed its own prenatal care program from the ground up that has saved the company hundreds of thousands of dollars (BI, Dec. 14, 1987).

Sunbeam had a run of bad luck with claims for premature births in 1984 when it paid out nearly \$500,000 to support four infants born to employees at its Coughatta, La., plant.

The company responded with a program that requires all pregnant employees to attend a one-hour prenatal education class every other week on company time. Each pregnancy is carefully monitored for potential problems.

Sunbeam reports it has reduced  
Continued on next page



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Continued from previous page

the costs of the average maternity case by nearly 90% and has had just one premature birth since it implemented the program. And, the cost of that premature birth was not much greater than normal births.

But, whatever approach employers take in designing prenatal care programs, it should be implemented "economically," TPF&C's Ms. Kelly advised.

She explained that employers first should study their health claims history to determine whether a common cause of problem births can be identified. For instance, if many of the problem births are attributable to the mother drinking during her pregnancy, prenatal care education should focus on the dangers of drinking while pregnant.

In addition, employers should determine the most ef-

**'My advice to companies when they talk about prenatal care is that they do it, but do it economically,' says Kathryn E. Kelly of TPF&C.**

## Prenatal program teaches women good health habits

By GLENN HUNTLEY

A new prenatal care program encourages pregnant women to follow good health practices to help prevent medical problems during pregnancy and delivery without alienating prospective parents with messages about cost containment.

Through a video and a workbook format, the "Expect the Best" program, designed by TPF&C, the benefits consulting division of New York-based Towers, Perrin, Forster & Crosby Inc., stresses, for example, the importance of seeking prenatal care as soon as possible and maintaining an appropriate diet and a moderate exercise schedule. It also discourages unhealthy practices, such as smoking and drinking liquor.

It also guides expectant mothers on questions they should ask their physicians to help them assess the appropriateness of care they are receiving.

"The sooner a woman visits a doctor, the more likely she is to avoid birth defects" or delivering a low birthweight baby, said Suzanne Peck, a TPF&C consultant.

Mothers who smoke or drink alcohol during pregnancy often have low-birthweight babies, said Diane Kastiel, a TPF&C associate. "If those (low-birthweight babies) can be avoided, employers can save a lot of money," she said.

## College of Insurance plans off-campus program in '89

NEW YORK—The College of Insurance will offer various insurance-related courses across the country beginning next year.

"We are bringing our programs out to the centers of insurance" starting in 1989, said Amy Geffen, the college's vp of professional programs.

Courses in insurance, reinsurance, management and microcomputers will be offered in 16 cities nationwide, a move intended not only to attract new students but to save the students' employers money, Ms. Geffen explained in an interview.

The courses are non-credit seminars designed to meet the needs of industry professionals, she explained.

In addition, Ms. Geffen noted, the college continues to offer customized in-house education programs that will be available at companies across the country.

The New York-based college now is more financially able to step up its marketing efforts, and is "interested in meeting the needs of the insurance industry" outside of New York City, she said.

The need to make in-depth educational programs more widely available was pinpointed in a 1987 College of Insurance survey of industry professionals, as well as in formal discussions with members of the college's advisory board and informal talks with members of the business community, Ms.

fective way to communicate this information to employees, such as with audio/visual materials, brochures or lectures.

"My advice to companies when they talk about prenatal care is that they do it, but do it economically," Ms. Kelly said.

"Just throwing money at the maternity and prenatal issues will not solve the problem," she said.

At the other end of the spectrum, some employers are just reminding employees that the cost of prenatal care programs are covered under benefit plans.

The best effort by many employers may be to make sure employees know they are covered for prenatal care under their health care plans, said Ms. Kelly.

"What companies need to do is pay for prenatal care when the employees need it," she said. ■

**'The sooner a woman visits a doctor, the more likely she is to avoid birth defects' says Suzanne Peck.**

An 11-minute video, hosted by Phylicia Rashad, star of "The Cosby Show," and sports broadcaster Ahmad Rashad, outlines precautions prospective parents can take to minimize health risks to the mother and the fetus.

The workbook contains information on maternity issues, such as the typical length of hospital stay for a delivery, the role of midwives and when cesarean sections are generally needed.

Physicians sometimes perform cesarean sections because they do not want to wait through a long labor, rather than out of concern about the health of the mother or baby, Ms. Peck charged.

"We know there are a lot of unnecessary cesareans performed," she said. A cesarean section typically costs about \$3,000 and doubles the cost of normal delivery, she said.

The workbook also lists questions pregnant women should ask their health care providers, such as the typical medical procedures

used at the facility they will be using, including the use of fetal monitors; how fathers are allowed to participate during delivery and the role of midwives.

Healthy mothers also are encouraged to ask about birthing rooms, which often are available at hospitals or offsite hospital birthing facilities. Birthing rooms provide a more comfortable environment for births and usually are significantly less expensive than traditional hospital settings.

"A lot of employees, we found, didn't know what a birthing room is," Ms. Peck said.

Employers pay a one-time \$12,000 fee for use of the program regardless of the number of employees. There are additional charges for copies of the workbook and videotape. Depending on the amount of materials ordered, the total costs typically would run from \$13,000 to \$15,000.

But that investment can be quickly recovered if it helps prevent even a few cesarean sections or low-birthweight babies requiring additional medical attention.

TPF&C, which spent about two years developing the program, first made it available to its own employees less than a year ago and has not had enough experience with it yet to show documented results, Ms. Peck said.

TPF&C has sold the program to four employers. ■

Geffen said.

Cities in which the courses will be taught include: Boston; Chicago; Dallas; Honolulu; Kansas City, Mo.; Los Angeles; New Orleans; Philadelphia; Phoenix, Ariz.; Princeton, N.J.; San Francisco; San Diego; Scottsdale, Ariz.; Tampa, Fla.; and Washington, D.C., the college announced. One course will also be offered in Hamilton, Bermuda.

The courses will be taught by full-time and adjunct College of Insurance faculty, as well as by consultants from the insurance and business community.

Emphasizing that the new "off-campus" program does not represent a reduction of offerings in the New York area, Ms. Geffen said, "The college is still the center of (insurance education) activities."

For example, the college has more than doubled its reinsurance course offerings in the past two years, Ms. Geffen said.

Reinsurance systems, insurance/reinsurance taxation, reinsurance management, and reinsurance accounting and auditing are among the new courses being offered, both at the college and in the new programs.

For more information on the college's new program, contact Amy Geffen, vp of professional programs, at 212-962-4111.

—By Collin Nash

## Update

### Crashes reinsured in London

Continued from page 2

Uganda Airlines' primary insurance is placed with Assicurazioni Generali SpA of Trieste, Italy. Seventy percent of the reinsurance is placed in the London market through Lloyd's of London broker Willis Faber P.L.C.

An Indian Airlines Boeing 747 en route from Bombay crashed last Wednesday while trying to land in Ahmadabad, India, killing 130 people. The airline has \$10 million of hull insurance written by Bombay-based General Insurance Corp. of India. Maximum liability limits for domestic flights in India are 200,000 rupees (\$13,587) per person, or about \$1.8 million total in this case, said a spokesman for Willis Faber, which placed at least 50% of the reinsurance on the airline's coverage in the London market.

In another air disaster in India last Wednesday, 34 people died when a Fokker Friendship 27 owned by Vayudoot Airline Co. crashed in the Indian state of Assam. The plane, which was on a domestic flight, is insured by the General Insurance Co. of India and reinsured in London. Coverage limits were unavailable.

Finally, a Nigeria Airways Boeing 737 crash-landed at Port Harcourt, Nigeria, on Oct. 15. While passengers and crew sustained only minor injuries, the hull, which is insured for \$16 million by the National Insurance Corp. of Nigeria, is expected to be declared a total loss. The coverage is largely reinsured in the London market.

### AHC faces derivative suit

NEW HAVEN, Conn.—Two shareholders of a Connecticut health care service provider have filed a derivative lawsuit against the firm's top officers and directors charging that they improperly used company funds for their personal benefit.

The complaint was filed in U.S. District Court in New Haven Oct. 11 by Nicholas M. Mancini, a shareholder and director of Alternative Health Care Systems Inc. of Naugatuck, Conn., and Dr. John P. Moschello, a shareholder and AHC's consulting medical director.

Named as defendants in the suit are Nicholas DiCocco, AHC chairman; Pat H. Celli, AHC president; and Michael M. LeConey and Francis M. Donnarumme, AHC directors.

Alleging violations of the federal Racketeer Influenced and Corrupt Organizations law, the complaint charges that Mr. DiCocco, Mr. Celli and Mr. LeConey "engaged in looting, self-dealing and other fraudulent acts" against AHC and that the three defendants concealed the alleged wrongdoing from shareholders whose proxies were solicited for a May 1988 board of directors election.

The suit also alleges that the four defendants used corporate funds "for the personal benefit of a political official," according to a press release announcing the suit.

In an interview, Mr. Celli said a court hearing has been scheduled for tomorrow to discuss a possible settlement of the litigation.

"If we do not settle, we will vigorously defend the action," he said. There are "very few elements of truth in it," he added.

Funds alleged to have been used improperly amount to less than \$40,000, according to Mr. Celli. AHC—which serves 100,000 people with walk-in medical centers and a health maintenance organization—will report 1988 revenues of about \$32 million, he said.

AHC has a \$1 million directors and officers liability insurance policy, according to Mr. Celli, who could not name the insurer. The insurer has been notified of the derivative action but is not participating in settlement discussions, he said.

### Commission drafts AIDS rule

AUSTIN, Texas—The waiting period for AIDS victims filing job discrimination lawsuits in Texas will be shortened under a newly drafted rule by the Texas Human Rights Commission.

The new rule, drafted and submitted to the attorney general for his opinion, is expected to become effective in November, said Bill Hale, executive director of the Human Rights Commission.

The Human Rights Commission currently does not grant the legal notice that allows a job discrimination lawsuit to be filed until 180 days after a complaint is lodged with the commission.

Under the new rule, the commission must allow someone who has AIDS or tests positive for the HIV virus to file suit before the 180-day period has passed. "If it is requested, it has to be issued within five days," said Mr. Hale.

The new rule was part of a settlement reached earlier this month between the commission and the Texas Rural Legal Aid Society. The society had filed a class-action suit in Travis County Court in September in an effort to speed up the handling of employment discrimination cases filed by people with AIDS.

### Briefly noted

Three asbestos plaintiffs have asked a U.S. Bankruptcy Court judge in Reading, Pa., to reconsider his Sept. 22 decision not to allow them to force **Raymark Industries Inc.** into involuntary bankruptcy (*BI*, Sept. 26). . . California and Illinois last week approved the \$5.2 billion acquisition of **Farmers Group Inc.** by Batus Inc., the U.S. subsidiary of London-based B.A.T. Industries P.L.C. The California ruling follows a state court decision voiding Insurance Commissioner Roxani Gillespie's move to block the takeover (*BI*, Aug. 15). Arizona, Idaho and Washington already have approved the deal, while rulings by regulators in Texas, Kansas, Ohio and Oregon are pending. . . **Maxicare Health Plans Inc.** earlier this month made a \$12.5 million payment on its \$175 million revolving line of credit, said a company spokeswoman. And, the company made an interest payment of \$1.7 million on the loan. The \$14.2 million was generated from the sale of several Maxicare plans. . . The California Supreme Court has denied a petition to reconsider its decision in *Parvaneh Moradi-Shalal vs. Fireman's Fund Insurance Co.*, which reversed its precedential 1979 ruling in *Royal Globe Insurance Co. vs. Superior Court* (*BI*, Aug. 22). The **Royal Globe ruling** allowed third parties to sue defendants' insurers for bad faith.

## Congress

Continued from page 2

Employers will be left with a law that many experts say is simply unworkable.

But benefit consultants say the last thing that employers should do is ignore the law.

Instead, prudent employers should make a good-faith effort to comply with the law using their best judgment, advises Edward J. Davey, a principal with A. Foster Higgins & Co. Inc. in New York.

Such a good-faith effort will give companies more protection in the event that the Internal Revenue Service later audits their welfare plans, he said.

If Section 89 changes are not passed, it is possible that the Treasury Department could provide some guidance on compliance. The Treasury's Section 89 rule-making team has been largely inactive during the last several months.

Even if Section 89 changes are enacted as part of a technical corrections bill, employers still will have to comply with a terribly complicated law.

"The changes in the technical corrections bills are good first steps. But Section 89 would remain a terribly flawed law and further relief would be necessary" in the next session, said James Klein, deputy executive director of the Assn. of Private Pension & Welfare Plans in Washington.

Both the House and Senate bills contain virtually identical changes to the health care continuation penalty provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985. As a result, if a technical corrections bill can be passed, it is a virtual certainty that long-awaited COBRA changes will be in the legislation.

The COBRA changes include a \$100 a day excise tax per violation involving each COBRA beneficiary. In certain cases, penalties would be waived if a violation was inadvertent and quickly corrected.

The maximum annual COBRA penalty generally would be \$500,000, or 10% of an employer's prior year's health care costs, whichever is less. Currently, an employer can lose its entire tax deduction for health care costs over a

single COBRA violation.

Other benefit changes that the conferees still had to resolve late last week include:

- Raising the excise tax on pension reversions. The Senate bill calls for a 60% excise tax on reversions received from terminated overfunded plans between July 26, 1988, and May 1, 1989. On May 1, the tax would decrease to the 10% rate that now applies on most reversions. The House bill lacks a comparable provision.

- Educational assistance benefits. The Senate bill retroactively restores the tax-favored status of educational assistance benefits to Dec. 31 and continues the prior law's tax-free limit at \$5,250 per employee. The House bill slashes the maximum limit to \$1,500, but would continue the tax-favored status of educational assistance benefits to Dec. 31, 1990.

Section 127 of the Internal Revenue Code, which had allowed employers to provide tax-free educational assistance to employees, expired Dec. 31, 1987.

Benefit lobbyists say they are completely in the dark on how the conferees will reconcile the two bills' differences on educational assistance benefits.

Besides the employee benefits provisions, the technical corrections conference committee also is considering a provision of interest to corporate risk managers.

The Senate technical corrections bill contains an amendment sponsored by Sen. Howard Metzenbaum, D-Ohio, to terminate by Dec. 31, 1989, the portion of a treaty with Barbados that waives the excise taxes on insurance and reinsurance premiums paid to foreign insurers.

That amendment also would prevent any other excise tax treaties under negotiation—such as one with Bermuda under consideration by the Senate—from extending beyond Dec. 31, 1989, said Andre Maisonnier, president of the Reinsurance Assn. of America.

The Bermuda tax treaty, which has been recommended for passage by the Senate Foreign Relations Committee, would waive through Dec. 31, 1989, the excise tax on premiums paid to Bermuda insurers (BI, Sept. 5).

Currently, direct insurance premiums paid to foreign underwriters, except those exempted by a tax treaty, are subject to a 4% excise tax, while premiums ceded to a foreign reinsurer are subject to a 1% tax.

Mr. Maisonnier said last week that the full Senate probably would not vote on the Bermuda tax treaty before it adjourned. However, the tax treaty can go directly to the Senate floor next year without being reconsidered by the Foreign Relations Committee, he said.

Meanwhile, Congress earlier this month killed two bills of interest to insurers.

One bill would have allowed banks in only very limited circumstances to sell or underwrite insurance. The other would have eliminated the automatic payment of treble damages to a plaintiff winning a lawsuit brought under the Racketeer Influenced and Corrupt Organizations Act.

Three different versions of the banking bill were approved by various House and Senate committees with jurisdiction over the issue, but a compromise could not be reached about the differences between the bills.

"The jurisdictional logjam is almost 100% at fault" for the banking bill not passing, said Joel Wood, a federal affairs representative for the National Assn. of Professional Insurance Agents in Alexandria, Va.

Stephen W. Broadie, assistant vp and senior counsel in the Washington office of the Alliance of American Insurers, speculated that "there was never a large enough coalition of people that was pushing for the same thing."

Under one version of the bill, S. 1886, which was approved by the Senate, if a state allowed a state-chartered bank to underwrite or sell insurance that was acquired by a national bank holding company

not headquartered in the state, the national bank holding company would only be able to sell and write insurance in that state (BI, April 4).

Previously, national bank holding companies have acquired state-chartered banks allowed to write or sell insurance and used those affiliates to engage in insurance activities nationwide.

Under the House version of the legislation, H.R. 5094, as approved by the House Banking Committee (BI, Aug. 1), bank holding companies would have been prohibited from buying a state-chartered bank in their principal place of business and using it to sell insurance outside that state, though the banks would have been allowed to underwrite insurance if they already had been doing so.

The House Energy and Commerce Committee added some state-specific loopholes to the bill and then passed it (BI, Sept. 26).

The prospects for the bill next year are uncertain since Congress must act on another banking issue—the recapitalization of the Federal Savings & Loan Insurance Corp.—as a first priority, Mr. Wood and Mr. Broadie pointed out.

However, they both said that a financial deregulation bill could be attached to the FSLIC legislation.

Both House Speaker Jim Wright, D-Texas, and House Banking Committee Chairman Fernand J. St. Germain, D-R.I., have a "strong desire to see these issues resolved," commented Mr. Wood.

The other bill that died in earlier this month involved RICO.

Currently, a plaintiff can bring a civil suit against a defendant under RICO for offenses such as mail and wire fraud. If the plaintiff wins a RICO suit, the plaintiff automatically is entitled to treble damages.

Some of the types of claims filed under civil RICO have included bad-faith insurance claims and re-

fusal to pay claims, noted Mr. Broadie.

In addition, insurance company receivers acting on behalf of state insurance departments have filed civil RICO actions against individuals and companies accused of insurance fraud.

Supporters of RICO reform have argued that many of the civil suits being filed under RICO are veiled commercial litigation matters, not real racketeering offenses.

However, the National Assn. of Insurance Commissioners last month adopted a resolution opposing RICO reform, noting that "state insurance regulators have found the federal civil RICO statute one of the most effective enforcement tools to combat insurance fraud" (BI, Oct. 3).

The provision of automatic treble damages makes bringing the suits under RICO attractive, Mr. Broadie noted.

Furthermore, "the possibility of treble damages is a pretty big club in settlement negotiations," he said.

The bill that Congress killed earlier this month would have allowed actual damages to be awarded automatically to a plaintiff and would have established certain criteria that would have to be met for additional damages to be awarded.

The Senate Judiciary Committee in August passed a RICO bill, S. 1523, sponsored by Sen. Metzenbaum, but the bill did not make it to the Senate floor.

An identical bill, H.R. 4923, sponsored by Rep. Rick Boucher, D-Va., never got out of the House Criminal Justice Subcommittee because the subcommittee chairman, Rep. John Conyers Jr., D-Mich., was opposed to the bill.

An attempt was made to attach the RICO bill as an amendment to a drug bill being considered on the Senate floor, but that attempt failed.

# Liquidators permitted to use new evidence in ODECO suit

By ROGER SCOTTON

NEW ORLEANS—The liquidators of Mentor Insurance Ltd. have won permission to include new evidence in their 2½-year-old lawsuit against Ocean Drilling & Exploration Co.—Mentor's parent—and other defendants.

The new evidence supports the liquidators' allegations that ODECO and others attempted to cover up a deficiency in Mentor's loss reserves and produced false Mentor financial statements, the liquidators contend.

The new evidence includes a deposition obtained during a six-month discovery period, which ended Oct. 14.

That discovery period was ordered on April 15 by U.S. District Court Judge Marcel Livaudais in New Orleans as a stay to his ruling that the liquidators' lawsuit be dismissed from the U.S. court (BI, April 25). He ruled that the Supreme Court of Bermuda is the more appropriate forum for the suit.

According to new filings in the Louisiana court, Mentor liquidators Charles Kempe and Michael Arnold have secured a deposition from insurance actuary David Powell, who was hired during late 1981 by ODECO and Mentor Holding Corp., Mentor Insurance's immediate parent.

The new evidence filed with the court shows that in the spring of 1982 Mr. Powell "concluded that Mentor's required loss reserves were inadequate by an amount up to \$24 million. That meant that Mentor's year-end 1981 publicly reported net worth was overstated by approximately that amount, as was ODECO's 1981 year-end publicly reported financial result," the court papers say.

According to the liquidators, Mr. Powell issued these conclusions in a July 9, 1982, memo to Mentor Directors William Colson, Douglas Higley, Hugh Kelley and Odie Vaughan, all of whom are named as defendants in the liquidators' suit.

Mr. Powell also warned the directors that Mr. Higley, who at the time was Mentor's chairman, had proposed a stop-loss reinsurance arrangement with Pinnacle Reinsurance Ltd. that "would not qualify as a bona fide reinsurance transaction since it did not constitute an actual transfer of risk to the ostensible reinsurer and therefore could not result in a legitimate reduction of Mentor's reserves and the intended bal-

ance sheet relief," court papers say.

But, just three weeks after this warning, the first of three contracts was agreed to with Pinnacle, according to the court papers. The liquidators allege these contracts carried "secret side letters" indicating that there would be no payment to Mentor for 10 years and then only at a predetermined amount.

"As for Powell, he, like many bearers of unwelcome news, quickly found himself in corporate limbo, cut off from any further substantive work or information. . . This inactivity so frustrated him that he resigned in November 1982," the liquidators state.

"Before doing so, however, he wrote a personal and confidential memorandum to defendant Colson, at Colson's request, in which he articulated his concern with ODECO's insurance operations," the court papers say. "In it, he set forth in unmistakable terms: 'The monthly financials are produced by starting out at the bottom line and adjusting losses to make it come out. This is what caused Mentor's massive reserve deficiency to begin with.'"

The liquidators maintain that "in short, Mentor's books—and therefore ODECO's—had historically been 'cooked' and the 'Pinnacle scam' was intended to 'help cover up this problem.'"

The liquidators state in the court papers that the new evidence is "obviously critical" to ODECO's arguments that "the whole Pinnacle affair was Higley's doing, that (ODECO) never realized the accounting significance of the Pinnacle transactions and the more recent notion that the accounting treatment of the Pinnacle contracts was proper in the first place."

The defendants had opposed the motion to amend Judge Livaudais' April order to allow introduction of the evidence "largely because of the confusion and uncertainty it is bound to create upon transfer (of the case) to Bermuda."

However, the judge approved the motion and allowed the evidence.

Judge Livaudais' order dismissing the liquidators' suit from the New Orleans court became final Oct. 14. Mr. Kempe said last week that the joint liquidators would appeal the order of the 5th U.S. Circuit Court of Appeals.

Associate Editor Carolyn Aldred in London contributed to this report.

## Insurance services guide

### WORKERS' COMPENSATION RISK MANAGEMENT SYSTEM FOR SELF INSURED, TPA'S, ASSOCIATIONS AND CARRIERS

- PREPARES STATE REGULATORY REPORTS & FORMS
- TRACKS RESERVES
- HANDLES MULTIPLE EMPLOYERS
- PROCESSES CLAIM PAYMENTS & CHECKS
- CALCULATES BENEFIT AMOUNTS
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# TPA of America unit in liquidation

By DONNA DIBLASE

LOS ANGELES—TPA of America Inc.'s recently purchased insurance unit now is in liquidation under a court order obtained by the Wisconsin Insurance Department.

First Transcontinental Life Insurance Corp. of Milwaukee, which was purchased by TPA of America in late 1986, was placed in liquidation Oct. 17 because it failed to maintain adequate capital, said a spokesman for the Wisconsin Insurance Department. The state requires insurers to maintain capital and surplus of \$2 million.

While the department said First Transcontinental was financially impaired, it would not disclose its current capital and surplus.

TPA of America paid about \$4 million in cash and \$2.3 million in securities for the insurer, which formerly was a unit of Northwestern Mutual Life Insurance Co., also of Milwaukee (BI, Jan. 26, 1987).

The purchase was part of TPA of America's effort to expand its health care cost containment, preferred provider organization and other services to insured as well as self-insured employers.

TPA of America had attempted to sell the insurer earlier this year so it could concentrate on its service business.

As a result of the liquidation of First Transcontinental, another subsidiary, Management Employer Group Administrators Corp., will begin winding down its operations. MEGACO's only business was derived from an administrative services-only contract with First Transcontinental.

"We are disappointed that we were unable to effect a disposition of First Trans and MEGACO to avoid liquidation proceedings. How-

ever, we believe the arrangements for the liquidation and rehabilitation of First Trans will allow for an orderly wind-down of TPA of America's insurance operations," said Thomas E. Greene III, chief executive officer of TPA of America.

The TPA "will now concentrate on the administration of employee benefit plans, where it is a recognized industry leader," he added.

All claims against policies written by First Transcontinental that are incurred prior to Nov. 1 will be covered by the Wisconsin Insurance Security Fund, according to TPA of America. The Wisconsin Insurance Department is attempting to arrange for another insurer to assume First Transcontinental's policies.

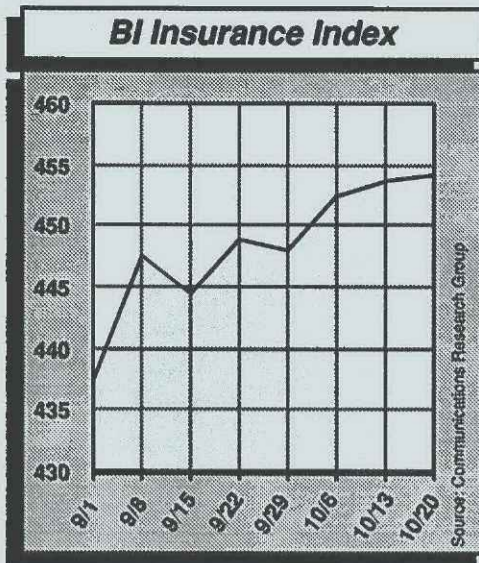
TPA of America is ranked by *Business Insurance* as the nation's fifth-largest claims administrator. It paid about \$650 million in claims for about 328 self-insurers in 1987 (BI, Jan. 25).

The TPA also has announced the sale of two subsidiaries, American Benefit Plan Administrators Inc., which it acquired in 1984, and Mass Insurance Consultants & Administrators Inc., which was acquired in late 1986.

And, TPA of America will proceed with its proposed bondholder debt restructuring with an exchange offer for \$23 million of its 10% convertible subordinated debentures.

For the year ended Dec. 31, 1987, TPA of America reported revenues of \$72.52 million, a pretax loss of \$15.28 million and a net loss of \$15.26 million. First Transcontinental and MEGACO contributed about \$40.65 million to the TPA's consolidated 1987 revenues, but also accounted for \$13.55 million of its pretax loss.

TPA of America reported net income of \$1.1 million for the first six months of 1988.



Insurance industry stocks continued to climb—albeit slightly—last week, as the *Business Insurance Index* rose 0.4 points to 454.8 on Oct. 20, from 454.4 on Oct. 13. Advancing issues were led by Berkshire Hathaway Inc., up 22.1%; Hilb, Rogal & Hamilton; up 8.3%; Provident Life & Accident Insurance Co., up 7.7%; ITT Corp. (Hartford Insurance Group), up 4.7%; and Tokio Marine & Fire Insurance Co., up 4.4%. Declining issues were led by Frank B. Hall & Co., up 10.5%; Avemco Corp., down 6%; Sears, Roebuck & Co. (Allstate), down 4.4%; Fremont General Corp., down 3.3%; and NAC Re Corp., down 3.2%. Issues showing the most activity during the period were: Sears, Roebuck & Co. (Allstate), 3.9 million shares traded; Farmers Group Inc., 2.5 million shares traded; ITT Corp., 1.8 million shares traded. The *Business Insurance* index gained a slight 0.1% for the period, performing well behind the leading market indicators: The Standard & Poor's 500 rose 2.8%; the New York Stock Exchange Composite climbed 2.4%; and the Dow Jones 30 Industrials average was up 2.2%.

## Info

● **"Buyer Beware, A No-nonsense Guide to Health Care Cost Containment"** is written by a board-certified internist and explores the questions of costs vs. quality, health care economics, as well as information on health maintenance organizations and preferred provider organizations. Copies are \$24.95 plus \$3.50 for shipping and are available from Buyer Beware!, P.O. Box 150721, Nashville, Tenn. 37215-0721; 615-790-1253.

● **"Effective Workers Compensation Loss Control Strategies"** are published in a recent issue of *Betterley Risk Management Commentary*. The publication includes 10 strategies for controlling and reducing workers compensation costs and a profile of the occupational litigant. Copies are available for \$25 each from Betterley Risk Consultants Inc., Department 588, 446 Main St. Worcester Plaza, Worcester, Mass. 01608; 508-754-1704.

● **"Controlling Benefit Costs with a Claim Audit"** is a Coopers & Lybrand publication focusing on how audits enable employers to monitor claims. Claims audits also can save employers money by identifying administrative errors, plan design inefficiencies and overutilization of medical services. For a free copy of the brochure write Joanne

Neary, Coopers & Lybrand, 1251 Ave. of the Americas, New York, N.Y. 10020; 313-446-7266.

● The Public Risk Management Assn. has published a collection of articles titled **"Managing Public Agency Risks: Creative Approaches."** The topics were drawn from PRIMA's 1988 conference and include self-insured workers compensation, risk management program evaluation, school playground risk management and right-to-know legislation. Copies are \$20 each for PRIMA members, \$30 for non-members, from PRIMA, 1120 G St. N.W., Suite 400, Washington, D.C. 20005; 202-626-4650.

● **"Managing Automated Activities"** has been published by the Insurance Institute of America to provide ideas for insurance professionals who want to use computers to improve work flow. The book is also the text for the third course in the IIA's Associate in Automation Management designation program. Copies are available for \$22, plus shipping and handling, and telephone orders may be charged to MasterCard or Visa. Contact the Insurance Institute of America, 720 Providence Road, Malvern, Pa. 19355-0770; 215-644-2100.

● The Self-Insurance Institute of America Inc. is offering its 1988-89 edition of its **"Who's Who in Self-Insurance"** directory. Eight categories of self-insurance services

that are provided by SIIA members are included. Free copies are available from the SIIA, P.O. Box 15466, Santa Ana, Calif. 92705; 714-261-2553.

● The Workers Compensation Research Institute has published a 26-page booklet titled, **"Asbestos Claims: The Decision to Use Workers Compensation and Tort."** Single copies are available free to WCRI members and for \$19 to non-members. Requests may be made to WCRI, 245 First St., Suite 1402, Cambridge, Mass. 02141; 617-494-1240.

● The Self Insurance Exchange Inc. offers a free brochure on its **Risk Management Referral Service**, which gives risk managers, chief executive officers, brokers and consultants information about experts in both property/casualty and group benefits areas. Copies are available from SIEIX, P.O. Box 8104, Newport Beach, Calif. 92658; 714-768-0334.

● *Have a new report, booklet or educational brochure you'd like to send to buyers of insurance? Business Insurance will describe material costing less than \$25 as an editorial service in the Info column. Simply send us a copy of the item to be offered and a short description of it, along with the cost and a mailing address. Address all contributions to Info, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590.*

## British Issues

Oct. 20 Companies	Price	P/E	Div. pence	Yield %	1 Week High—Low pence
Comml Union	347	9.9	25.3	7.4	352—347
Genl Accident	875	8.0	58.0	6.6	885—875
Gdn Royal Exch	188	10.1	13.1	7.0	189—188
Royal	394	8.1	30.0	7.6	397—393
Sun Alliance	1026	7.7	54.7	5.3	1026—1026

Brokers	Price	P/E	Div. pence	Yield %	1 Week High—Low pence
Bradstock	225	12.2	8.0	3.5	226—225
CE Heath	438	14.7	34.5	7.5	455—445
Hogg Robinson	155	13.1	8.0	5.2	155—155
Lloyd Thompson	212	14.1	8.0	4.4	213—212
PWS Holdings	143	20.4	6.0	3.6	143—143
Sedgwick Grp	234	19.5	16.0	6.8	234—232
Steel Bril Jones	225	20.1	13.3	5.9	225—224
Wilks Faber	247	13.8	16.0	6.5	247—242

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

## BI Industry Stock Report

OCTOBER 20, 1988

10/14/88 THRU 10/20/88

BROKERS	Price	Weekly % change	Year to Date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value	Price	Weekly % change	Year to Date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value		
				High	Low										High	Low								
Alexander & Alexander Svcs	NYSE	25.38	-2.4	43.0	28.13	17.75	529	1.00	3.9	18.1	3.71	6.84	11.25	-3.3	16.8	13.50	8.75	47	0.60	5.3	-1.2	16.24	0.69	
Baldwin & Lyons Inc.	OTC	17.00	0.0	41.7	18.00	12.00	0	0.20	1.2	6.7	18.31	0.93	56.75	-0.9	1.6	59.38	45.50	811	1.20	2.1	12.2	26.21	2.17	
Corroon & Black Corp.	NYSE	30.88	-0.8	9.3	34.75	28.00	61	1.06	3.5	4.6	5.43	5.69	11.38	3.5	-4.2	14.38	10.75	124	0.20	1.8	2.7	17.75	0.64	
Hall Frank Arthur J. & Co.	NYSE	16.75	-1.5	4.7	18.88	13.88	68	0.48	2.9	11.6	5.16	3.25	26.75	0.0	15.1	27.75	20.50	127	0.36	1.3	5.6	25.10	1.07	
Hilb, Rogal & Hamilton	NYSE	3.25	-10.5	12.8	5.50	2.88	49	0.00	0.0	11.5	0.00	N/A	31.00	-3.2	14.3	16.38	13.38	23	0.48	3.2	6.4	16.65	0.90	
Hilb, Rogal & Hamilton	OTC	13.00	8.3	33.3	13.00	9.75	127	0.00	0.0	11.6	0.00	N/A	15.00	-1.6	34.8	32.75	22.50	38	1.20	3.9	11.2	10.65	2.91	
Marsh & McLennan Cos. Inc.	NYSE	58.88	2.6	18.9	58.75	45.25	455	2.50	4.2	14.4	6.74	8.74	29.75	-0.8	13.3	32.00	25.25	0	0.00	0.0	11.2	29.60	1.01	
Poe & Assoc. Inc.	OTC	8.25	0.0	17.9	9.25	6.75	0	0.40	4.8	12.7	0.27	30.56	26.00	-1.0	26.8	27.50	20.75	303	0.72	2.8	8.1	26.50	0.98	
BROKERS AVERAGE			-0.5	22.7				2.6	11.3															
<b>CONGLOMERATES &amp; HOLDING COMPANIES</b>																								
Berkley W.R. Corp.	OTC	28.50	3.6	18.8	29.00	23.50	74	0.36	1.3	6.4	17.63	1.62	34.75	0.0	13.8	33.63	23.50	11	0.36	1.3	6.4	17.63	1.62	
Berkshire Hathaway Inc. DEL	OTC	4700.00	22.1	59.3	5000.00	2755.00	110	0.00	0.0	20.8	69.38	12.72	56.75	-0.9	1.6	59.38	45.50	811	1.20	2.1	12.2	26.21	2.17	
ITT (Hartford Group)	NYSE	53.25	1.7	18.3	53.38	43.25	1792	1.25	2.3	7.3	52.23	1.02	30.00	-3.2	69.0	31.25	18.50	315	0.00	0.0	15.3	19.92	1.51	
Sears Roebuck & Co. (Allstate)	NYSE	40.38	-4.4	20.1	42.50	32.25	3835	2.00	5.0	10.0	34.74	1.16	6.00	2.0	-31.4	9.50	4.50	23	0.44	7.3	28.6	9.37	0.64	
CONGLOMERATES AVERAGE			6.5	29.1				2.2	11.1															
<b>INSURERS/REINSURERS</b>																								
Aetna Life & Cas Co.	NYSE	51.75	1.5	14.4	52.50	39.50	542	2.76	5.3	8.0	53.56	0.97	34.75	0.0	13.8	33.63	23.50	11	0.36	1.3	6.4	17.63	1.62	
American General Corp.	NYSE	34.88	1.1	9.9	36.38	27.50	1142	1.40	4.0	9.4	28.04	1.24	56.75	-0.9	1.6	59.38	45.50	811	1.20	2.1	12.2	26.21	2.17	
Amer Heritage Life Inv	NYSE	26.25	-2.8	8.2	27.00	24.00	0	1.08	4.1	11.5	20.98	1.25	30.00	-3.2	69.0	31.25	18.50	315	0.00	0.0	15.3	19.92	1.51	
Amer Indly Fin'l Corp	OTC	10.00	0.0	11.1	12.00	8.25	12	0.56	5.6	38.5	15.26	0.66	6.00	2.0	-31.4	9.50	4.50	23	0.44	7.3	28.6	9.37	0.64	
American Int'l Group	NYSE	68.75	1.7	14.6	68.38	49.00	1314	0.40	0.6	10.7	33.56	2.05	34.75	0.0	13.8	33.63	23.50	11	0.36	1.3	6.4	17.63	1.62	
Aon Corp.	NYSE	28.25	2.2	23.5	28.50	21.88	211	1.28	4.5	9.6	15.13	1.87	30.00	-3.2	69.0	31.25	18.50	315	0.00	0.0	15.3	19.92	1.51	
Argonaut Group	OTC	45.25	0.6	52.1	49.00	29.50	175	0.00	0.0	6.3	29.19	1.55	26.00	-1.0	26.8	27.50	20.75	303	0.72	2.8	8.1	26.50	0.98	
AVEMCO Corp.	NYSE	23.50	-6.0	19.7	28.75	17.88	34	0.34	1.4	10.9	7.74	3.04	31.00	-3.2	69.0	31.25	18.50	315	0.00	0.0	15.3	19.92	1.51	
Belvedere Corp.	AMEX	4.63	-2.5	5.7	6.00	4.00	3	0.04	0.9	6.4	7.87	0.59	6.00	2.0	-31.4	9.50	4.50	23	0.44	7.3	28.6	9.37	0.64	
BMA Corp.	OTC	30.00	0.0	12.1	36.75	25.50	65	1.20	4.0	27.8	24.45	1.23	34.75	0.0	13.8	33.63	23.50	11	0.36	1.3	6.4	17.63	1.62	
Chubb Corp.	NYSE	58.13	1.1	4.0	63.38	51.25	363	2.16	3.7	6.7	46.13	1.26	30.00	-3.2	69.0	31.25	18.50	315	0.00	0.0	15.3	19.92	1.51	
CIGNA Corp.	NYSE	52.38	-1.2	19.4	55.38	42.75	516	2.96	5.7	8.5	49.19	1.06	26.00	-1.0	26.8	27.50	20.75	303	0.72	2.8	8.1	26.50	0.98	
CNA Fin'l Corp.	NYSE	63.50	0.8	14.1	66.13	51.00	173	0.00	0.0	9.4	46.40	1.37	31.00	-0.4	8.8	34.38	28.88	801	2.64	8.5	7.8	19.53	1.59	
Continental Corp.	NYSE	39.75	0.6	2.6	41.63	34.75	236	2.60	6.5	8.2	42.10	0.94	34.75	0.0	13.8	33.63	23.50	11	0.36	1.3	6.4	17.63	1.62	
Durham Corp.	OTC	35.75	2.1	69.3	36.75	21.50	36	0.92	2.6	33.7	26.00	1.38	28.50	-1.7	9.6	29.50	24.00	5	1.08	3.2	5.1	22.56	1.26	
Farmers Group Inc.	OTC	72.25	1.0	79.5	72.00	40.50	2505	1.44	2.0	17.2	22.02	3.28	30.00	-3.2	69.0	31.25	18.50	315	0.00	0.0	15.3	19.92	1.51	
Fireman's Fund Corp.	NYSE	32.00	-1.5	23.1	33.50	25.75	324	0.50	1.6	11.3	26.17	1.22	26.00	-1.0	26.8	27.50	20.75	303	0.72	2.8	8.1	26.50	0.98	
Forum Re Group	OTC	0.69	0.0	-24.2	1.19	0.63	0	0.00	0.0	-1.2	0.51	1.35	31.00	-0.4	8.8	34.38	28.88	801	2.64	8.5	7.8	19.53	1.59	
Fremont Gen Corp.	OTC	11.25	-3.3	16.8	13.50	8.75	47	0.60	5.3	-1.2	16.24	0.69	56.75	-0.9	1.6	59.38	45.50	811	1.20	2.1	12.2	26.21	2.17	
General Re Corp.	NYSE	56.75	-0.9	1.6	59.38	45.50	811	1.20	2.1	12.2	26.21	2.17	11.38	3.5	-4.2	14.38	1							



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