

Business Insurance

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Lloyd's covers growing losses of PCW-managed syndicates

LONDON—Lloyd's of London is covering an additional 44.6 million pounds (\$83.6 million) of liabilities owed by syndicates formerly managed by PCW Underwriting Agencies Ltd.

A bond posted by Lloyd's covers the 1989 deficit incurred by Lioncover Insurance Co. Ltd., a reinsurer Lloyd's set up in 1987 to assume the syndicates' liabilities. Lioncover will draw down on the bond when necessary, said Lloyd's Chief Executive Alan Lord.

Continued on next page

Budget bust may hurt employers

Benefit cost hikes foreseen

By JERRY GEISEL

WASHINGTON—The rejection Friday of a budget deficit pact by the House of Representatives could lead to a new package that will increase employers' benefit costs even more than the discarded package.

In response to a national outcry, the House last week defeated 254-179 a five-year, \$500 billion deficit reduction pact that had been assembled by White House and congressional negotiators.

The derailed package included sharp reductions in expected Medicare payments to hospitals and physicians as well as substantial boosts in Medicare Part B deductibles, coinsurance and premium payments.

In addition, the pact would have hit employers with billions of dollars in higher FICA taxes, increases in premiums paid to the Pension Benefit Guaranty Corp. and higher excise taxes on pension

asset reversions.

The package also would have sharply raised fines on employers that violate Occupational Safety and Health Administration rules.

Life insurers were targeted for an increased tax obligation of \$8 billion over five years while property/casualty insurers' tax bite was to increase \$1 billion over the same period.

The deficit reduction pact was defeated in large part by liberal Democrats who thought it cut too deeply into entitlement programs, hurting retirees and the working class.

Benefit experts worry that House Democratic resistance to provisions like higher Medicare premiums and deductibles could lead legislators to find additional revenues that would prove even more damaging to employers.

"My feeling is that the House rejection of the deficit pact is bad news for employers. If Congress is going to alleviate the burden on

Medicare beneficiaries, there are two likely places to turn: higher FICA taxes on employers and more cuts in Medicare payments to hospitals and doctors," said Frank McArdle, a consultant in the Washington, D.C., office of Hewitt Associates. That would lead to "more provider cost shifting to employers," he said.

"One of the things left to work with is raising the payroll tax cap" on the Medicare portion of FICA, said Chip Kerby, a principal in the Washington, D.C., office of William M. Mercer Inc.

Last week Rep. Fortney Stark, D-Calif., was trying to drum up House support for a plan to pare back proposed increases in Medicare deductibles and premiums by raising the amount of wages subject to the Medicare portion of the FICA tax to \$150,000, nearly triple the current \$51,300. The defeated budget would have raised the cap to \$73,000.

Continued on page 103

Derailed benefit tax proposals

- Slash Medicare payments to hospitals and doctors
- Gradually double Medicare Part B deductible to \$150 and add new coinsurance requirements
- Nearly double monthly Medicare Part B premiums to about \$55 by 1995
- Increase amount of wages subject to Medicare portion of the FICA tax to \$73,000 from \$51,300
- Increase PBGC premiums
- Increase excise tax on pension asset reversions
- Allow, with certain restrictions, surplus pension asset transfers to fund retiree health benefits

BI/HOLLY SEGUINE

Bell Atlantic taps Prudential to set up managed care plan

By ADRIENNE C. LOCKE

ARLINGTON, Va.—Bell Atlantic Corp. is contracting with Prudential Insurance Co. of America to implement and administer a dozen preferred provider networks designed to hold down the Baby Bell's health care cost increases to the medical care inflation rate.

By 1992, the networks will serve about 47,000 of 55,000 Bell Atlantic unionized employees and dependents in five states and the District of Columbia covered by the company's self-insured indemnity plan.

Networks are scheduled to open April 1, 1991, in Baltimore, Washington, D.C., and Pittsburgh. The networks will expand to other areas every three months.

Bell Atlantic union employees will not be required to use the networks, but the benefits of those who obtain care from outside providers will be sharply reduced.

Prudential has granted Bell Atlantic certain performance guarantees under the three-year contract, including that Bell Atlantic employees will receive quality care from network providers.

"What we would like to accomplish is to bring our rate of growth far closer to the medical care component of the Consumer Price Index than it has been in the past," said Donald S. Bezuyen, assistant vp of the managed care networks in Arlington.

"We don't have any dreams of reducing our health care expenses," he said.

Philadelphia-based Bell Atlantic's health care costs have increased by at least twice the rate of the CPI's medical care compo-

Continued on page 104

Justices mull juries' role in setting punitive awards

By STACY ADLER

WASHINGTON—Several U.S. Supreme Court justices during oral arguments over the constitutionality of punitive damages expressed concern that unbridled jury discretion in awarding exemplary damages violates defendants' constitutional rights of due process.

However, these same justices were skeptical of the argument that a corporation should not be held vicariously liable for punitive damages for the unsanctioned acts of its employees.

For example, Justices Sandra Day O'Connor and Antonin Scalia, who previously have expressed dissatisfaction with the current system of awarding punitive damages, seemed to pull back somewhat from this position during the oral arguments.

Only eight justices heard the oral arguments last week, because David Souter had not yet been sworn in to replace Justice William J. Brennan, who retired unexpectedly this summer.

Last year, in another case challenging the constitutionality of punitive damages, the court found that excessive punitive damage awards did not violate the 8th Amendment's prohibition against excessive fines.

However, Justices O'Connor and John Paul Stevens III wrote a strong dissent expressing concern about the current system of awarding punitive damages. And, four justices indicated that excessive punitive damage awards could run afoul of the 14th Amendment's due process clause (*BI*, July 3, 1989).

Therefore, in the case now before the Supreme Court, *Pacific Mutual Life Insurance Co. vs. Cleopatra Haslip*, the justices are being asked whether unbridled jury discretion to award punitive damages violates a defendant's right to due process under the 14th Amendment.

In addition, the case challenges whether corporations can be held vicariously liable for punitive damages for the unsanctioned acts of their employees.

The case also questions whether

judicial review of punitive damage awards is sufficient to ensure that defendants' constitutional rights are not violated.

The case stems from Pacific Mutual's cancellation of a municipality's group health policy after a company agent pocketed the premiums.

As a result of the agent's fraud, Cleopatra Haslip's health insurance was canceled shortly before she was hospitalized for kidney treatment.

The jury was instructed that if it found the insurer was liable, it could award punitive damages at its "discretion" in whatever amount it deemed appropriate to punish the wrongdoer and deter future wrongful behavior. Jurors were told to consider the "character and degree of wrong" of the defendant's actions and "the necessity of preventing similar wrongs."

The insurer was found legally liable for the fraudulent acts of its agent and was hit with \$1.1 million in compensatory and punitive

Continued on page 103

Specialty risks . . . Page 3

Directory of environmental risk management consultants . . . Page 39

PCW liabilities rise again

Continued from previous page

Lloyd's Finance Director John Gaynor attributes the 1989 deficit to continuing loss deterioration in U.S. casualty lines.

Last year, 30 million pounds (\$46.2 million at appropriate exchange rates) was taken from Lloyd's Central Fund to cover Lioncover's 1987 and 1988 reserve shortfall (BI, Sept. 11, 1989).

Along with 44 million pounds (\$70.8 million) provided under the original 1987 settlement (BI, April 13, 1987), Lloyd's contribution and pledged contributions total 118.6 million pounds (\$222.4 million at current exchange rates).

In addition, for the second consecutive year, Lioncover auditor Ernst & Young has qualified the company's books because of uncertainty over the PCW syndicates' reinsurance. Lioncover is reviewing the syndicates' reinsurance program and hopes to be able to answer reinsurers' questions about claims, Mr. Lord said.

Reviewing and compiling the syndicates' reinsurance contracts has been a huge and complex task involving contracts covering a total of 523 underwriting years, according to Mr. Gaynor.

Temple strikers back to work

PHILADELPHIA—Temple University professors still have no contract but are back at work after a faculty union voted 200-199 last week to obey a state court's back-to-work order.

However, "if we don't reach a settlement we'll strike again, whether the injunction is lifted or not," said Arthur Hochner, president of the faculty union.

To avoid having to cancel hundreds of classes for the semester, Temple sought an injunction ordering the 1,162 members of the Temple Assn. of University Professionals back to work. On a 372-62 vote, the union had earlier rejected a second contract offer by the university's administration that would require them to contribute \$260 a year toward the cost of their health insurance (BI, Sept. 17). The administration is asking non-union workers to make the same contribution.

The union, on strike since Sept. 4, also is seeking across-the-board salary increases as well as additional raises for long-time employees to bring their pay more in line with the pay offered to new employees.

Gulf loses captive decision

PHILADELPHIA—Gulf Oil Corp. cannot take tax deductions paid to its Bermuda captive insurer Insko Ltd. because there was no true transfer of risk, the 3rd U.S. Circuit Court of Appeals has ruled.

The ruling affirms a 1987 U.S. Tax Court decision disallowing about \$21 million in tax deductions taken in 1974 and 1975 by Gulf, now a unit of Chevron Corp., for premiums paid to Insko (BI, Nov. 30, 1987).

The 3rd Circuit noted that Insko began as an undercapitalized subsidiary and that Gulf executed agreements to protect its primary insurers, principally units of American International Group Inc., if Insko failed to meet its obligations as a reinsurer of the primary insurers.

"It is thus difficult to see that Gulf truly transferred the risk to Insko during the years in question," the court ruled last month.

"The decision is no surprise. A parent company guarantee is going to be fatal to deductibility of premiums," said John Sarchio, a partner at Chadbourne & Parke in New York.

While 2% of Insko's premiums in the years at issue were generated by non-Gulf business, the appeals court said it did not have to reach a decision on whether unrelated business written by a captive affects the tax deductibility of a parent company's premium contributions.

"It is clear to us that, because of the guarantee to the primary insurers, Gulf and Insko did not truly transfer the risk nor was there a de facto risk distribution to third parties, elements crucial to the allowance of a premium deduction," the appeals court said.

Chevron General Tax Counsel John J. Ross said the company probably won't appeal but may litigate the same issue for later tax years.

Fed insurance ruling stands

WASHINGTON—A Federal Reserve Board ruling allowing two state-chartered units of a bank holding company to sell insurance will be allowed to stand after the U.S. Supreme Court last week refused to hear an appeal by several insurance trade groups.

The 2nd U.S. Circuit Court of Appeals last year upheld the Fed ruling involving two Indiana banks owned by Merchants National Corp. of Indianapolis (BI, April 3, 1989). The court upheld the Fed's contention that it had no jurisdiction in the case because Indiana allowed the sales by state-chartered banks.

The trade groups argued unsuccessfully that federal laws barring insurance sales by banks should apply because bank holding companies are federally regulated.

"Free standing" state-chartered banks "can do what they want," contends Robert Rusbult, assistant vp-government affairs for the Independent Insurance Agents of America in Washington, D.C. "But once they are part of that federally regulated (holding company)... they should be subject to federal laws."

He concedes that it is "very rare" for a federal regulatory decision to be overturned.

Updates continued on page 104

Errors & omissions

• The "Employee Benefits Resource Guide" published by the International Foundation of Employee Benefit Plans costs \$13, not \$25 as reported in the Sept. 24 Info column.

• In sending Manville Corp. and an insurer of a former Manville unit to U.S. court to settle their decade-long insurance coverage dispute, the Canadian Supreme Court upheld a Court of Appeal decision. The Court of Appeal had overturned a Quebec Superior Court judgment. The underlying decisions were incorrectly reported in the Sept. 24 issue.

• Humana Inc. will continue regular health care coverage for six months and pay 75% of the premiums for employees called up from the military reserves for active duty. A story in the Sept. 10 issue misstated the percentage of the premium paid by the company.

Prop. 103-type initiative before voters in Arizona

By JOANNE WOJCIK

PHOENIX—Battle lines are being drawn in yet another ballot initiative in the Wild West over skyrocketing auto insurance costs, with broad implications for commercial insurance buyers.

A host of organizations have sprung up in Arizona to either support or oppose three separate initiatives targeting insurance costs that will appear on the Nov. 6 ballot.

One initiative, Proposition 201, resembles California's Proposition 103 in that it requires insurers to roll back auto insurance rates to

20% below Nov. 1, 1989, levels.

However, Proposition 201 goes a step further than Proposition 103 by establishing a prior approval system for all lines of property/casualty and life/health insurance underwritten in Arizona. Proposition 103, which addresses neither life nor health coverage, excludes some property/casualty lines.

While Proposition 201 would not make the insurance commissioner an elected official as Proposition 103 did, it would give consumers a voice in pricing by creating a rate adequacy division to represent consumers at rate hearings.

Two other propositions on the

November ballot would pave the way for no-fault auto insurance in Arizona.

Proposition 105 is a constitutional amendment that would amend the Arizona Constitution's ban on limiting a person's right to sue and to collect damages.

Proposition 203 would institute a "consumer choice" plan, which essentially is a basic no-fault insurance program. It would reduce auto liability premiums 20% if policyholders gave up their right to sue in most accident cases.

Enactment of Proposition 203 is contingent upon passage of Proposition 105.
Continued on page 98

Shareholder opposition expected

AmBase OKs new Home bid

By JUDY GREENWALD

NEW YORK—AmBase Corp.'s decision to sell its Home Insurance Co. subsidiary to an investment group that includes a large Swedish insurer is likely to trigger opposition from shareholders angered by AmBase's plummeting stock price.

One major AmBase shareholder already says he will oppose the sale.

However, the sale of The Home to a new, financially strong owner could benefit the insurer by eliminating the uncertainty that has surrounded the financial strength of its ownership, analysts say.

The AmBase board last week approved a definitive agreement to sell The Home to TVH Acquisition Corp. in a transaction valued at about \$970 million.

TVH is a holding company owned by an investor group including Trygg-Hansa Holding AB of Stockholm, Sweden's second-largest insurer and owner of Hansa Insurance Co. Ltd. of Stockholm and Hansa Reinsurance Co. of America in Tarrytown, N.Y.

The other investors in TVH are Vik Brothers International USA Inc., a European family investment group; securities broker Donaldson, Lufkin & Jenrette of New York; and International Insurance

Advisors Inc., an investment fund that specializes in property/casualty insurance. International Insurance Advisors is composed of seven partners, including Centre Reinsurance (Barbados) Ltd.

In August, Vik Brothers—without Trygg-Hansa participation—made a bid for The Home valued at \$905 million (BI, Aug. 20).

Trygg-Hansa and Vik Brothers each own one-third of TVH, with the remaining third divided between DLJ and International Insurance Advisors.

The transaction, which is subject to regulatory and shareholder approval, is expected to take at least

Continued on page 105

Defendants to appeal award to Dupont Plaza plaintiffs

By LAURA MAZZUCA

SAN JUAN, Puerto Rico—Two defendants plan to appeal a \$5 million Dupont Plaza hotel fire litigation, arguing the jury did not understand the line of successors to the now-defunct firm that manufactured a room divider that fueled the blaze, a defense attorney says.

However, the defendants may never have to pay the awards if a judge determines that funds from a \$200 million trust established by former defendants in the litigation

that have settled with the fire victims are sufficient compensation.

After more than a year of trial and a week of deliberations, the jury found liable Aircraftics, the jury found liable Aircraftics Manufacturing Co., which is no longer in business; Airwall Inc., which is no longer in business; ACW Airwall Inc., which is no longer in business, and its former parent company, Hufcor Inc. of Janesville, Wis.; and White Consolidated Industries Inc. of Cleveland.

Airwall manufactured an air-wall, or divider wall, in the hotel's ballroom, and the other four de-

fendants have subsequently owned the company's product line since it went out of business.

The five defendants have a total of \$52 million of insurance to respond to the award, said plaintiffs steering committee chairman Wendall Gauthier of Gauthier, Murphy, Sherman, Chehardy & Ellis in Metairie, La.

The jury granted 10 of the 12 plaintiffs in the case awards totaling \$5 million. Individual awards ranged from \$1,000 to a plaintiff injured in the fire to approximately \$1.9 million to the family

Continued on page 96

Inside

Specialty risk reports

Directors and officers liability	75
Financial guarantees	78
Accountants professional liability	82
Earthquake coverage	84

✓ We hope the U.S. Supreme Court establishes clear standards for juries and judges to follow when awarding punitive damages, this week's editorial says. **PAGE 8**

✓ Bankers blanket bonds account for one-third of banks' insurance budgets, a recent survey shows. **PAGE 86**

✓ The Bush administration is bullish on managed care, a government official tells a meeting of the American Assn. of Preferred Provider Organizations. Coverage begins on **PAGE 87**

✓ Experts view the pros and cons to using an alternative dispute resolution process in the adjudication of contested workers compensation claims. **PAGE 96**

✓ Employers who fire workers because they have the

virus that causes AIDS can be sued successfully for wrongful termination, an attorney warns. **PAGE 97**

Departments

Ask a risk manager	58
Classifieds	100
Comings & goings: industry	102
Global briefs	94
Insurance services guide	101
International	93
Legal briefs	58
Letters	8
Markets	97
Opinions	8
Perspectives	57
Reader reply service	86
Tickers	105

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Environmental liabilities

Compliance duties add to risk managers' load

By DOUGLAS McLEOD

NEW YORK—Some risk managers are taking over responsibility for corporate compliance with environmental statutes, but such moves are still far from widespread.

In fact, there seem to be as many ways for corporations to manage compliance and other environment-related duties as there are corporations themselves.

While some have put risk managers in charge of the task, others have formed separate compliance units, assigned re-

sponsibility to their legal or engineering departments or formed committees with representatives from several areas to oversee environmental issues.

And whether more risk managers in the future will assume responsibility for compliance with federal, state and local laws is a subject of disagreement among corporate environmental officials and environmental consultants.

Some say the risk management department is a natural for handling environmental matters. But others worry the task requires technical expertise,

time and other resources that many risk managers would be unable to provide.

"Risk managers are probably in the best position to become involved in environmental affairs on a broad scale," contends Jaswant Singh, senior vp in Los Angeles with Clayton Environmental Consultants Inc., a Marsh & McLennan Cos. Inc. unit based in Novi, Mich.

"I have been coming in contact with a lot more risk managers lately, and I see a very definite change in the last three or four years," Mr. Singh observed. "There's a fair amount of evidence that

risk managers are getting more involved."

Despite this change, it is still "not that common" for environmental compliance issues to be in risk managers' hands, he said.

Mr. Singh said he dealt with risk managers in about 10% of his consulting jobs four years ago. Now, the figure is closer to 25%.

Risk managers tend to have wider environmental responsibilities at service companies and financial institutions

Continued on next page

EIL market flush with tank cover but little demand

By DEBORAH SHALOWITZ

After several years of a constricted market, buyers of environmental impairment liability insurance for underground and above-ground petroleum storage tanks now have numerous coverage options.

More than 10 commercial insurers and at least one purchasing group now offer the coverage.

And the limited coverage available from several other insurers and at least one risk retention group would, when combined with coverage from state underground storage tank trust funds, satisfy federal financial responsibility standards (see story, page 14).

However, the 22 state trust funds that provide EIL coverage are siphoning off business from insurers, despite the fact that for the most part they do not provide coverage for defense costs (see story, page 18). And demand for the policies has waned since federal compliance deadlines were extended for many owners and operators.

Many insurers offering insurance for underground storage tanks also offer the coverage for above-ground storage tanks, which are not subject to any financial responsibility requirements.

One of the largest providers

of both types of coverage is Federated Mutual Insurance Co. of Owatonna, Minn.

Federated offers a claims-made site-specific policy with limits of up to \$1 million per claim/\$2 million aggregate. Defense costs are outside the limits.

The minimum premium for petroleum marketers is \$5,000 per year. For non-marketers with tanks, the minimum premium is \$1,000.

The former second-largest U.S. market for underground storage tank liability coverage, The Petroleum Marketers Mutual Insurance Co. A Risk Retention Group, was liquidated earlier this year after it failed to raise enough capital from policyholders (BI, April 16).

Many former Petromark policyholders now are buying EIL coverage from a facility of 20 Lloyd's of London syndicates, according to Max Clay, president of The Planning Corp., of Reston, Va., which was Petromark's underwriting manager. The Planning Corp. is the exclusive broker for the new Lloyd's facility.

Policy limits of \$1 million per claim/\$2 million aggregate can be written on a primary or excess basis, attaching excess of \$1 million per claim/\$2 million aggregate. Defense costs are outside the limits.

Continued on page 12



Kurt Mitchell

Environmental risk advisers in hot demand

By LINDA J. COLLINS

Business is booming for environmental risk management consultants as a growing number of businesses seek advice about regulations and their environmental liabilities to the public and employees.

"Our business has grown 40% per year for the last five years," said Lynne M. Miller, president of Environmental Strategies Corp. of Vienna, Va.

"We'll probably see a demand for even more truly qualified environmental risk management consultants" in the future, said Robert Peterson, systems manager/marketing for Applied Occupational Health Systems of Concord, N.H.

"We have seen a growing concern among risk managers as to the environmental exposures that they face—more of a proactive than a reactive stance,"

noted David M. Rosenberg, executive vp of Consulting Services Inc. in Exton, Pa.

Mr. Rosenberg adds that long-range costs for companies trying to reduce environmental exposures now will be lower than those for companies that wait until problems surface.

Consultants, however, warn that their business boom is creating opportunities for unqualified individuals to hang out a consultant's shingle. Many are calling for tougher accreditation or job performance standards (see story, page 22).

One consultant observed that until recently many risk managers limited their concern with environmental liability exposures to risk transfer or risk financing.

"We're only beginning to see risk managers become more active in the environmental liability area," said

Wayne Tusa, vp of Dynamac Corp.'s Environmental Risk Management Division in Fort Lee, N.J.

Historically, most requests for Dynamac's risk management consulting services have come from engineering or environmental health and safety managers within corporations, Mr. Tusa explained.

But that "is beginning to change," because environmental liability is "much larger than it used to be, and criminal fines to top managers are a real issue now," Mr. Tusa said.

"The biggest need is comprehensive planning. Risk managers are looking at the big picture now so that companies can prioritize their resources, but this is still pretty new from an environmental standpoint," he said.

"We are seeing a clear increase in our clients' *Continued on page 21*

Compliance duties

Continued from previous page
than at manufacturing concerns, where complex operations require technical expertise, Mr. Singh said.

"Many times the risk manager has the implied responsibility (for environmental issues) but does not have the staff or budget to carry out those responsibilities," he added.

Risk managers have become more aware of environmental issues generally in the last five years, according to Robert M. Kube, senior vp with Risk Science International Inc., a unit of brokerage Frank B. Hall & Co. Inc. in Washington, D.C.

Mr. Kube predicted that risk managers will become increasingly involved in conducting risk analyses, making risk financing decisions and monitoring compliance with laws and regulations.

For example, a high priority now is responding to federal financial responsibility requirements for underground petroleum storage tanks, he noted.

Mr. Kube said risk managers also are concerned with assessing the risks involved in property acquisitions to guard against the possibility that their companies may also acquire waste cleanup liabilities under the federal Comprehensive Environmental Response, Compensation and Liability Act, better known as the Superfund law.

However, he added that risk managers typically do not manage compliance. More often, legal or engineering departments shoulder this responsibility.

Compliance has become extremely complex and managing it requires a lot of time, expertise and training, Mr. Kube explained.

"With everything else a risk manager has to do today, I can't

see that they would be the ones to be responsible for that," Mr. Kube said, noting that assuming compliance duties would instantly double the workload of the average risk manager.

"I have not seen too many insur-

Mr. Wenger stressed that large manufacturers are better off handling compliance at a plant, rather than corporate level.

"It's very difficult for someone sitting in New York City to be the front line person dealing with nuts

'With everything else a risk manager has to do today, I can't see that they would be the ones to be responsible for that,' Mr. Kube says, noting that assuming compliance duties would instantly double the workload of the average risk manager.

ance risk managers that are handling that," agreed Robert M. Wenger, senior vp with ENVIRON Corp., an environmental consultant based in Arlington, Va.

"It is really seen as a legal issue rather than a risk management issue," he said.

and bolts regulatory compliance issues at a plant in Michigan," he observed.

"I think (compliance management) is being done as a separate area outside of the risk management function," said Bradley Dillon, general counsel and director of

insurance for U.S. Ecology Inc., a waste site operator based in Louisville, Ky.

While involving risk managers in this area is not necessarily a bad idea, Mr. Dillon added that many risk managers may not be prepared to handle complex technical compliance and clean-up requirements set by the Superfund law and the Resource Conservation and Recovery Act.

Many companies instead look to people with various forms of technical expertise, including—when appropriate—engineers or individuals with regulatory experience, such as former federal or state environmental officials.

"It's such a big and time-intensive area that if you put it under the risk management function, the first thing that person is going to have to do is hire some one else to do the work," Mr. Dillon said.

Interviews with several corporate officials handling environment-related duties suggest that the methods for handling these functions are many and varied.

Cabot Corp., an energy and chemical company based in Waltham, Mass., reorganized earlier this year to consolidate corporate responsibility for safety, risk management and environmental issues.

Karen Inman, the company's risk manager, assumed the new title of director of safety, health and environmental affairs.

Ms. Inman, who reports to Cabot's president, now oversees officials in charge of property/casualty insurance, safety, industrial hygiene, security, environmental compliance and environmental legal affairs.

Cabot also formed a separate "remediation group" that is exclusively devoted to managing clean-up liabilities at closed sites.

"We basically went from a staff of two to a staff of 20 overnight," Ms. Inman said.

The company also has established a new board committee for safety, health and environmental affairs, to which Ms. Inman reports quarterly.

Previously, Cabot had maintained a risk management department and a regulatory affairs department, which also was responsible for compliance, industrial hygiene and worker and plant safety, she said.

However, the two departments' duties overlapped to the point where they frequently "bumped into" each other dealing with Cabot's operating units, Ms. Inman said. For example, operating managers sometimes received dual messages from risk management and regulatory affairs on the same issue, she noted.

While the officials reporting to Ms. Inman oversee Cabot's safety, health and environmental affairs, the reorganization has shifted more direct responsibility in these areas to the line managers in Cabot's various units, she said.

Ms. Inman concedes the need for technical expertise in dealing with issues like environmental compliance, but she disputes the idea that such an expert should be in charge of a corporation's compliance efforts.

Environmental issues at large corporations are so complex and their potential financial impact so great that management skill—and not just technical expertise—is the prime qualification, she said.

"I think it has evolved from a technical situation to a real business group within the corporation, and you need a good business manager," she said.

Ms. Inman also defended the role of risk managers in overseeing environmental affairs.

"Corporate risk managers have a unique perspective," she observed.

Continued on page 6



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Spotlight report

Compliance duties

Continued from page 4

"The relationships you build as a risk manager stand you in good stead in managing these environmental health and safety problems."

Ms. Inman added that her background has made it easier for her to communicate with senior management and Cabot's board than might be the case with a technician.

"I know what kinds of questions they are going to ask, what assurances they want," she said. "The technical people do not normally have that kind of management skill. Sometimes they do."

Richard C. Heydinger, risk management director for Hallmark Cards Inc. of Kansas City, Mo., said he now spends about half of his time dealing with environmental issues.

Environmental risk management

at Hallmark is divided into three sections: a risk control section, which has been responsible for compliance oversight since 1985; risk financing; and a newly formed environmental conservation section, which focuses on recycling efforts and other projects like conversion of Hallmark's printing operations to water-based ink from solvent-based ink.



Mr. Heydinger

Corporate risk control's duties include helping plant compliance managers keep track of federal environmental regulations, training compliance personnel for the plants and conducting compliance audits at the plants, he said.

However, plant managers are

held directly responsible for implementing environmental compliance procedures, Mr. Heydinger said.

"Our attitude about risk management is that each plant manager, department manager, division manager is the real risk manager," Mr. Heydinger stressed. "It's very much a working partnership. We have rules, but in the end it's line management's responsibility."

The risk management department at Stanley Works, a New Britain, Conn.-based manufacturer, used to be responsible for environmental affairs, safety and loss control.

However, a reorganization made environmental affairs a separate unit.

As a result, David Kuhnke has given up his duties as risk manager to become director of environmental affairs.

The former risk manager is now

responsible for setting environmental policy for Stanley units and he oversees compliance, environmental audit, environmental risk financing, waste minimization and recycling efforts.

Mr. Kuhnke said he always con-

"That's like saying your chairman or president can't do his job because he has to manage the entire corporation," Mr. Kuhnke observed. "You have to do it differently when you have a wider purview, but that doesn't mean you

Plant managers are held directly responsible for implementing compliance procedures, Mr. Heydinger says. 'Our attitude about risk management is that each plant manager, department manager, division manager is the real risk manager.'

sidered environmental issues as fitting naturally with his former responsibilities as risk manager and rejected the argument that risk managers already have enough responsibilities without taking on environmental compliance as well.

can't do it." Nevertheless, Stanley management felt environmental functions were so important that they should stand apart from risk management, he said.

One problem risk managers face in assuming environmental duties is that many corporations view them as such a high profile concern that assigning them to risk management would be tantamount to downplaying their importance, Mr. Kuhnke explained.

Risk managers at small and medium-sized companies where environmental affairs have not become a separate unit may increasingly take charge of those duties, he said.

Scott Lange moved nine months ago from Boeing Co.—which has an environmental compliance unit separate from its risk management department—to Seattle-based software producer Microsoft Corp., which does not.

In fact, Microsoft had devoted very little attention to environmental risks before his arrival, said Mr. Lange, the company's risk manager.

"It's not something that really dawns on people here. They're concerned with intellectual property," he said.

However, Mr. Lange has been confronted with an environmental problem: Microsoft has acquired several buildings adjacent to its corporate offices, one of which houses a tenant with an assigned lease in the business of testing biological materials.

Mr. Lange had to examine the lease to be sure, among other things, that it requires the tenant company to comply with federal, state and local environmental statutes.

"I didn't want to be in this position, but I've had to get out and see what permits they have on file with various environmental agencies" and determine whether the company is complying with the limitations of those permits, he explained.

Mr. Lange observed that risk management departments may not be the logical first choice to handle environmental compliance, since a company still may have environmental liabilities even if it is fully complying with government regulations.

Compliance "is not the end of the road as far as environmental risks go," Mr. Lange said.

Indeed, many risk managers view statutory environmental compliance standards as minimum standards that should be exceeded whenever possible.

However, Mr. Lange did not rule out a role in this function for risk managers.

"The nature of the organization is really going to dictate the extent to which a risk manager is involved," he said.

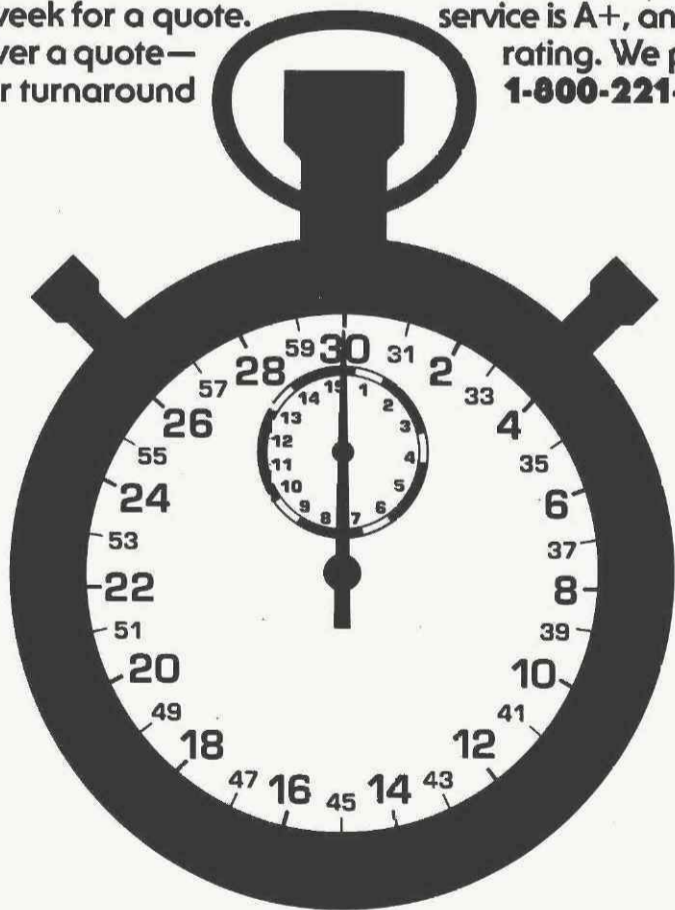
"Any professional risk manager—unless he has been hiding under a rock somewhere—is going to recognize that the environment is the issue of the 1980s and 1990s," Mr. Lange said.

"There is no political opposition to a clean environment," he observed.

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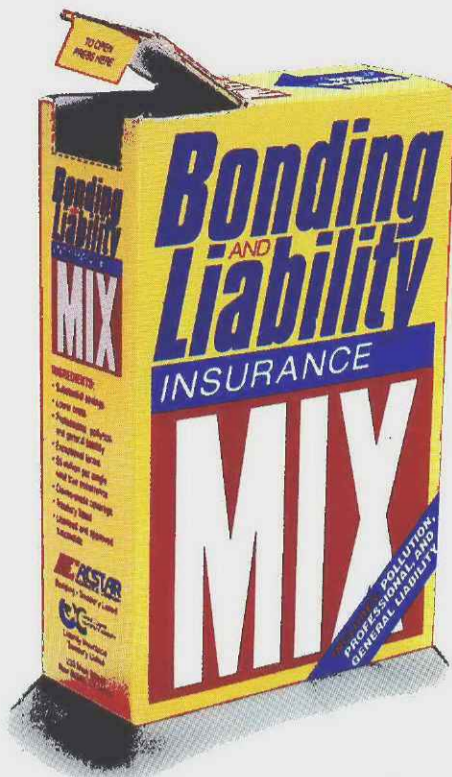
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Opinions

End punitive damage lottery

THE SUPREME COURT has the opportunity with one decision to restore reasonableness and predictability to a troubled U.S. tort system.

The court last week heard oral arguments in a case that asks the court to rule on two important issues: whether the unbridled discretion of juries to award excessive or arbitrary punitive damages violates the due process protection afforded by the 14th Amendment and whether punitive damages against an employer are appropriate in cases of vicarious liability (see story, page 1).

We hope the court directly addresses these issues in its decision on the case, which involves punitive damages against an insurance company whose agent embezzled group health premiums.

And, in addressing these issues, we hope a majority of the court establishes clear standards for juries and judges to follow in the awarding of punitive damages.

We hope the court does not merely throw the issues back to the states, which to this point have done little to control the evolution of punitive damages into a lottery system. There is no fairness or reasonableness in a system that permits punitive damage awards to bear no relation to the compensatory damages suffered.

Neither plaintiffs nor defendants are treated fairly under the current system in which neither side knows what to expect from a jury.

Judges and juries need clear and unequivocal standards to follow in awarding punitive damages.

We are not advocating the abolition of punitive damages by any means. As was pointed out by Justice Antonin Scalia, punitive damages have been used in the United States for 200 years.

But, in the last 20 years, multimillion-dollar punitive damage awards far out of proportion to the compensatory damages suffered have been



awarded, resulting in the desperate need for guidance from the court on what is excessive and arbitrary in the awarding of punitive damages.

The mere threat of a huge punitive damage award out of proportion to the compensatory damages suffered has served to drive up the cost of settlements beyond what otherwise would be deemed appropriate.

In addition, the issue of vicarious liability—holding an employer responsible for the acts of its employees—deserves the court's attention. If the purpose of punitive damages is to punish and deter wrongful conduct, these goals are not met when punitive damages are awarded against a corporation that did not condone an employee's misconduct and could not have prevented the employee's misconduct.

Letters

AIA clarifies guaranty fund reform proposal

To the editor: It was encouraging to read your Sept. 24 editorial, "Don't Rule Out Federal Role," and the Oct. 1 letter to the editor, "AIA Position on Guaranty Funds Questioned," from the Risk & Insurance Management Society Inc.

When AIA testified before the House Oversight and Investigations Subcommittee on Sept. 14, one of our objectives was to involve the entire property/casualty industry in the analysis of regulation for solvency.

Everyone connected with the insurance industry knows that existing regulation for solvency can be improved.

The BI editorial has helped to stimulate discussion on how to fashion those improvements and the RIMS letter raises some valid questions about excluding commercial coverages from the state guaranty funds, one of the options the AIA is considering to strengthen solvency regulation.

In particular, RIMS believes that the \$300,000 maximum per claim does not provide much of a "safety net" for commercial policyholders with multimillion-dollar claims.

In order to properly assess this option, it is important to understand how the

guaranty fund maximum cap applies to each claim. Generally, the cap does not apply to workers compensation claims, which have unlimited coverage. Also, there is no guaranty fund cap on the number of claims that can be brought. Thus, for coverages such as asbestos, Agent Orange and DES (diethylstilbestrol), there have been thousands of claims filed against the 50 state guaranty funds that, in the aggregate, may result in payments of hundreds of millions of dollars.

So, there is no mistaking that the amount of potential guaranty fund exposure from a single policy—though limited to \$300,000 per claim—may be enormous. It is also essential to the process of improving solvency regulation to understand that no one—neither regulators, professional rating organizations nor risk managers—will be able to identify all troubled insurers early enough to avoid problems.

The challenge is to involve as many in-

terested parties as possible in the early identification of troubled insurers to prevent insolvencies if possible and, if not, to ameliorate damages.

Finally, RIMS has correctly pointed out that it would be inequitable to exclude commercial coverages from the guaranty funds and to continue to charge commercial policyholders with a portion of the guaranty fund assessment. We wholeheartedly agree that if commercial coverages were excluded from guaranty fund coverage, there could be no surcharge on commercial policyholders.

I hope that this helps to clear up some of the questions about guaranty fund coverages addressed in AIA's testimony. We look forward to others coming forward to assist in the process of improving current regulation for solvency.

Robert E. Vagley
President
American Insurance Assn.
Washington, D.C.

Both plaintiffs' and defense bar at fault

To the editor: The Walter Buce/Ralph Nader letters have provided interesting reading (BI, Sept. 17, Aug. 27, Aug. 13). Point-counterpoint is always fun, but unfortunately, the subject matter of their letters is not fun. It is as funny as any crippling disease would be funny.

Those who know me know I am an outspoken critic of both the plaintiff and defense bar, for many members (not all!) exploit a runaway system at the ultimate expense of society. When defense attorneys drag their feet toward ultimate settlement, this offends me. When plaintiffs' attorneys file suit as a first notice that

some problem exists, this also offends me.

The words "vigorously defend" and "vigorously pursue" should offend both plaintiffs and defendants, for, in the legal profession, "vigorously" means very expensively. What offends me the most, though, is disproportionate distribution of ultimate proceeds—meaning how much the plaintiffs' lawyers get—without regard to how little or how much effort was expended—fixed contingency plus expenses!

By the way, the "plus expenses" part I
Continued on page 90

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SUBSTANCE ABUSE IN THE WORKPLACE — THE WHITE COLLAR VIEW

Part three of an ongoing series of conversations between Argonaut Insurance Company, our clients and their brokers, dealing with issues important to their business. The intent is to keep the lines of communication open. We invite your participation.

THE PARTICIPANTS: **MICHAEL DUNLOP**, VP Risk Management for Countrywide Mortgage Bank, one of the nation's largest. **ELISE KAPLAN**, Personnel Manager for Countrywide. **DON SCHAEFER**, with Frank B. Hall Corporation, Countrywide's broker. **STEVE LA SHIER**, Senior VP Safety Management, Argonaut Insurance Company. **LARRY EVANS**, Manager of Safety Management, Argonaut Insurance Company.

MODERATOR We've been talking about substance abuse among employees and how we can help supervisors and managers become more aware and helping. But who is monitoring the supervisors and managers? How big a problem is substance abuse at the higher management levels?

SL: Well, that is one of the issues that must be dealt with. One of the legal problems that a company will get into is not being prepared to do with your senior staff what you do with your other employees. I have listened to people at other companies argue about whether or not to institute a substance abuse program and I can tell you why the company is reluctant. Because the problem is at the top. If you look at the statistics to see who's abusing prescription drugs and alcohol and cocaine, these are not poor people. You've got a problem at high levels in corporate America. Some of them are simply reluctant to admit the problem exists. Others are part of the problem.

MODERATOR How do you deal with that?

SL: You have to deal with your management the same way you deal with your other employees. Your senior executives have to be as clean as everyone else. If you want your program to be totally successful, the first one through the drug screening laboratory should be your CEO, followed by the president and every senior executive. You set a standard by setting an example.

MODERATOR Is there a high degree of reluctance for senior management to go through the screening?

SL: Just a month ago I was invited by a president of a company to speak on substance abuse to his senior staff. At the dinner the night before, a couple of the members were very curious as to what level of alcohol I recommended they use as the limit. They were interested not because they wanted to know what the point was, they wanted to know if they were going to get caught by their own program. I could see it in the way they talked to me. That's a real issue you have to be prepared to deal with.

MODERATOR Do you see any trends in the way companies are handling the problem?

SL: There are several companies now with programs that specify if you have a drink at lunch, you're gone for the afternoon.

LE: Where you find a problem is when you're not consistent with your policies. If you terminate an employee for drinking on the job and don't do the same thing to the executive who's had four martinis at lunch, that employee will be the first one to run to an attorney.

SL: When you set up the substance abuse program and specify alcohol in your program, you had better specify unauthorized use of alcohol. If you don't, and your Christmas party serves alcohol, it is totally against your policy and everybody in your corporation is then subject to your requirements, from CEO on down. That's why I don't recommend that companies go with a hard line. I don't think you need the hard line if you set the policy up correctly. But if you want to land in court, have two separate policies: One for employees and another for management. That will get you in court faster than anything.

MODERATOR Are there good resources of information about substance abuse?

MD: The insurance trades have a lot in them about substance abuse. And then I can access the Director of Health who has stacks of information relevant to our operation. No, we don't have a problem gathering information.

DS: It's easy for brokers and managers and people related to insurance and health to get information. That same information, though, is not nearly as available to top management.

SL: Once in a while Fortune or Business Week will do an article on it. Last April the Wall Street Journal

If you want to land in court, have one policy for employees and another for senior management.

had a story on the front page about a lawsuit that came about as a result of a positive test.

DS: But these seem to be pretty much isolated articles, whereas within the health and insurance business there is a lot of information. But I don't believe top management grasps the magnitude of the problem. It hasn't reached them to the same degree it has middle management.

SL: Well, the need for testing is still not widely accepted in our society. The really frightening statistic that isn't widely known is that although the United States comprises 6% of the world's population, we consume 60% of the illicit drugs sold in the world. That's horrifying. Yet corporate America, and our own government, still refuse to accept that we have a problem.

MODERATOR Why is that?

SL: People don't want to accept it's happening in their homes, in their plants, in their offices.

MODERATOR Is cost a concern in deciding whether or not to institute a substance abuse program?

EK: No matter what it costs, it will save you money in the long run.

DS: The issue almost all companies have is the cost of instituting programs. And the problem that you

have when you propose a program is being able to come up with the kinds of numbers to show that it's really a savings, not a cost. That it's an investment rather than an expense.

EK: I think that's true in all of these programs we're talking about.

DS: And it doesn't matter what company. Anybody responsible for the bottom line of a company has to say, "What's it going to cost me to do this?" And, "What are the savings?" And the numbers are not easily available to support a bottom line statement. "This is what you're going to save."

MODERATOR Why is it so hard to find the documented data, the surveys, the information to back you up?

MD: It's hard to identify the numbers. It's even hard to identify how many substance abuse related claims we have, because all the claims are coded and they don't want to tell you because of legal reasons.

SL: We have the numbers on a national scale. The direct health care cost to this nation due to substance abuse last year was 17 billion dollars. Those are documented personal health claims, not workers' comp. 17 billion dollars off the bottom lines of U.S. corporations.

MODERATOR Compared to what?

SL: The comp market in this country last year was around 50 billion dollars in premiums paid.

MODERATOR Is there a fear among corporations that if they institute a drug screening or testing program they won't be able to attract applicants?

SL: Companies that have screening programs

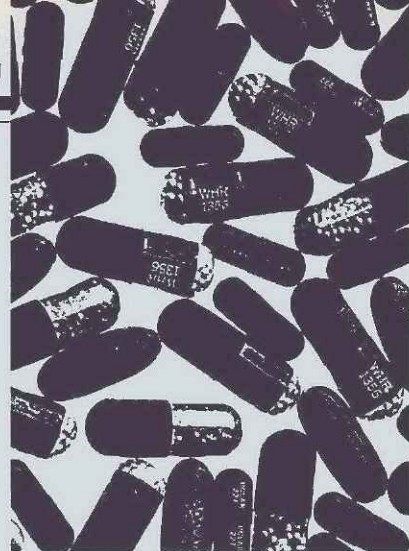
usually have a sign in the lobby that says "We do pre-employment drug screening." All those companies say that a certain number of applicants walk in, look at the sign, and turn around and walk out. That's the good part. The frightening part is that those people will go and get hired by someone who doesn't do screening.

MODERATOR What does it cost an employer to do drug screening?

SL: The average cost runs from \$60-\$90. You must go through the initial screening, and then you must go through GC mass spectrometry to confirm every positive test, or you will end up in court. So this corporation, with roughly 1,000 employees, is looking at \$60,000-\$90,000. Now you'll be on the low end because you're not out in the remote areas and you have easier access to screening. If you're talking \$60,000 or \$90,000, and one stress claim costs you \$27,000, it's not hard to see how quickly drug screening pays for itself.

MODERATOR Are there figures to show how much other companies have saved by instituting screening programs?

SL: AT&T is a good example. For every dollar they invested in their EAP, they're now getting an average of \$4.50 back. I wish I could make that kind of money on the stock market.



MODERATOR If the return on investment is so great, why aren't more corporations implementing programs?

SL: Because for the most part, corporate America doesn't have this information. They read one article in the Wall Street Journal about a drug testing lawsuit. That's because that company did not confirm that test with GC mass spectrometry. An example: I have a bad shoulder. I take Advil and play golf every weekend. I would test positive for marijuana for days after I took it because Advil shows up like marijuana. But GC mass spectrometry would show that I took 400 milligrams of Advil on Sunday. If you don't go the next step and confirm the preliminary test, you'll end up in court.

MODERATOR As a broker, don't you have case histories that would show what other companies have done? What happened in Company A after the EAP program was put in, in Company B after a drug testing program was put in, et cetera? It seems that would be pretty powerful evidence.

DS: It would be, but it's difficult to find the numbers. It would also be very costly to compile it, and once you compiled it, what are you selling? As an insurance broker, we sell our services for insurance and placing insurance. From a practical standpoint, as a broker, there's no sale from providing somebody with that kind of information. The source I feel is most appropriate, and Argonaut obviously agrees, is the insurance carrier. They can provide that information to both clients and brokers. One of the benefits to doing that is to help sell Argonaut.

SL: I think one of the things corporate America does is when they hear about drug abuse, they see it as a national problem. They don't personalize it to their own company. I had a steel contractor that would not enforce a proper double tie-off rule. They killed a guy once a year for ten years. Then they had a double fatality. The owner's godson and his nephew. Now they have a rule. That was three years ago and they haven't lost a single man. Until it hits home, we are reluctant to act.

MODERATOR Are you basically optimistic about the future?

SL: Since I started my national speaking campaign last year, I have been encouraged by the positive response. I've talked to a lot of presidents of companies, CEOs, top management people. They are starting to realize there is something they can do about it. But we have to educate them that education programs and testing programs are not a legal taboo. Corporate America is either going to have to get with it or the government is going to try to legislate morality, which we all know you can't do.

We'd like to hear what you have to say about substance abuse in the workplace, and about our discussions on topics that concern your business. Send your comments to Mike Crall, President, Argonaut Insurance Company, 250 Middlefield Road, Menlo Park, CA 94025.

For a copy of the complete discussion on substance abuse in a white collar environment, please write to Argonaut Insurance Company at the address above.

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A N E W T E A M

Storage tanks

Continued from page 3

The minimum policy premium is \$2,500 and the minimum deductible is \$25,000.

Agricultural Excess & Surplus Insurance Co., a subsidiary of Great American Insurance Co. in Cincinnati, also offers EIL insurance for underground and above ground storage tanks.

Limits of the claims-made policy are \$1 million per claim/\$2 million aggregate on a primary basis and \$5 million per claim/\$10 million aggregate on an excess basis, said Richard Koscielak, senior vp and general manager. The policy excludes on-site cleanups.

Defense costs are outside the policy limits, but are capped at \$100,000.

The minimum policy premium is \$3,500 and the minimum deductible is \$5,000.

Front Royal Insurance Co. of

McLean, Va., offers EIL coverage for owners and operators of underground and above-ground storage tanks in 23 states. Policy limits are \$1 million per claim/\$2 million aggregate. Defense costs are outside the limits but are capped at \$100,000 per claim/\$200,000 aggregate.

The minimum premium for petroleum marketers with up to five tanks per site is \$2,800 to \$5,400, depending on factors like the age of the tanks. Discounts are offered to marketers with multiple locations. The minimum policy premium is \$2,500 for non-marketers. The standard minimum deductible is \$25,000.

American International Group Inc., one of the largest markets for broad EIL coverage, also offers coverage for underground storage tanks through National Union Fire Insurance Co. of Pittsburgh, Pa.

The policy, which by the end of this year will be written by Com-

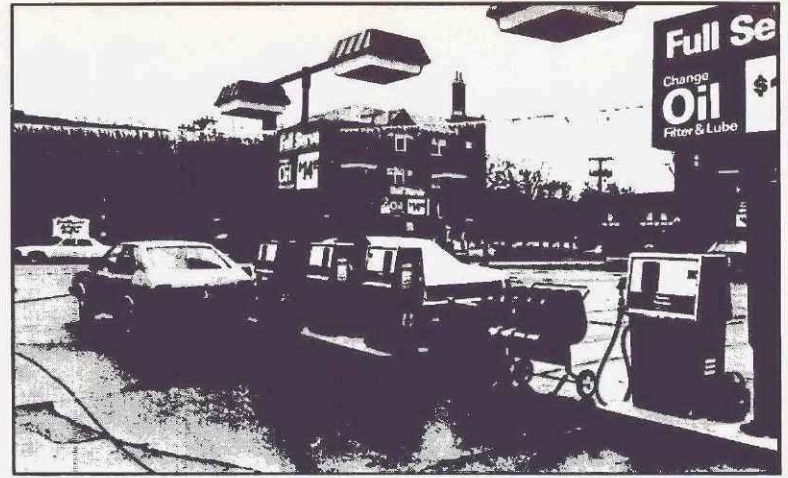
merce & Industry Inc., offers limits of \$5 million per claim/\$5 million aggregate. Defense costs are outside the limits.

The minimum premium is \$10,000 and the minimum deductible is \$10,000.

AIG also offers three special programs for underground storage tank liability insurance. One, available in Florida only, is designed to operate in conjunction with the state financial assurance trust fund.

A second program, called Enviroguard and operated by brokerage Sedgwick James of Pennsylvania, is geared to owners and operators of 25 or fewer underground storage tanks. Policy limits are \$5 million per claim/\$5 million aggregate. Defense costs are outside the limits. The minimum premium is \$2,000 and the minimum deductible is \$10,000.

AIG also offers a program open to all brokers geared to owners and



Petroleum marketers with fewer than 13 underground tanks at multiple sites have until Oct. 26, 1991, to comply with the EPA rules.

operators of 25 or more underground storage tanks. Under this program the limits are the same but the minimum premium is

\$25,000 and the minimum deductible is \$10,000.

Another market for UST coverage is Oilmen's Insurance Plan. The Bermuda captive reinsures pollution policies written by Fireman's Fund Insurance Co. of Novato, Calif.

Policies are now restricted to underground storage tanks, but soon will be amended to also cover above-ground petroleum tanks, said Peter Gerkin, senior vp of Oilmen's.

Limits are \$1 million per claim/\$2 million aggregate. Defense costs are outside the limits.

The minimum premium is \$3,500, but it varies widely depending on the number, age and standard of the tanks, Mr. Gerkin said. The minimum deductible is \$25,000.

Now available in only 10 states, the coverage is expected to be offered in all states except Massachusetts by the end of the year. Fireman's Fund is not approved in Massachusetts.

A new entry into the EIL market for underground storage tanks is surplus lines insurer General Star Indemnity Co. of Stamford, Conn.

Limits for the claims-made policy are \$1 million per claim/\$2 million aggregate. Defense costs are outside the limits but are capped at \$250,000. Defense costs above that amount erode the policy limits.

The minimum premium is \$3,500 and the minimum deductible ranges from \$10,000 to \$50,000.

Another new writer of EIL coverage for underground storage tanks is Shand, Morahan & Co.

However, its policy is not available for petroleum marketers, manufacturers or processors, said Charles North, assistant vp and manager of special risk underwriting for the Evanston, Ill.-based underwriting manager. The policy is designed for municipalities, school districts, public agencies and small firms like hospitals, car rental agencies and country clubs, he said.

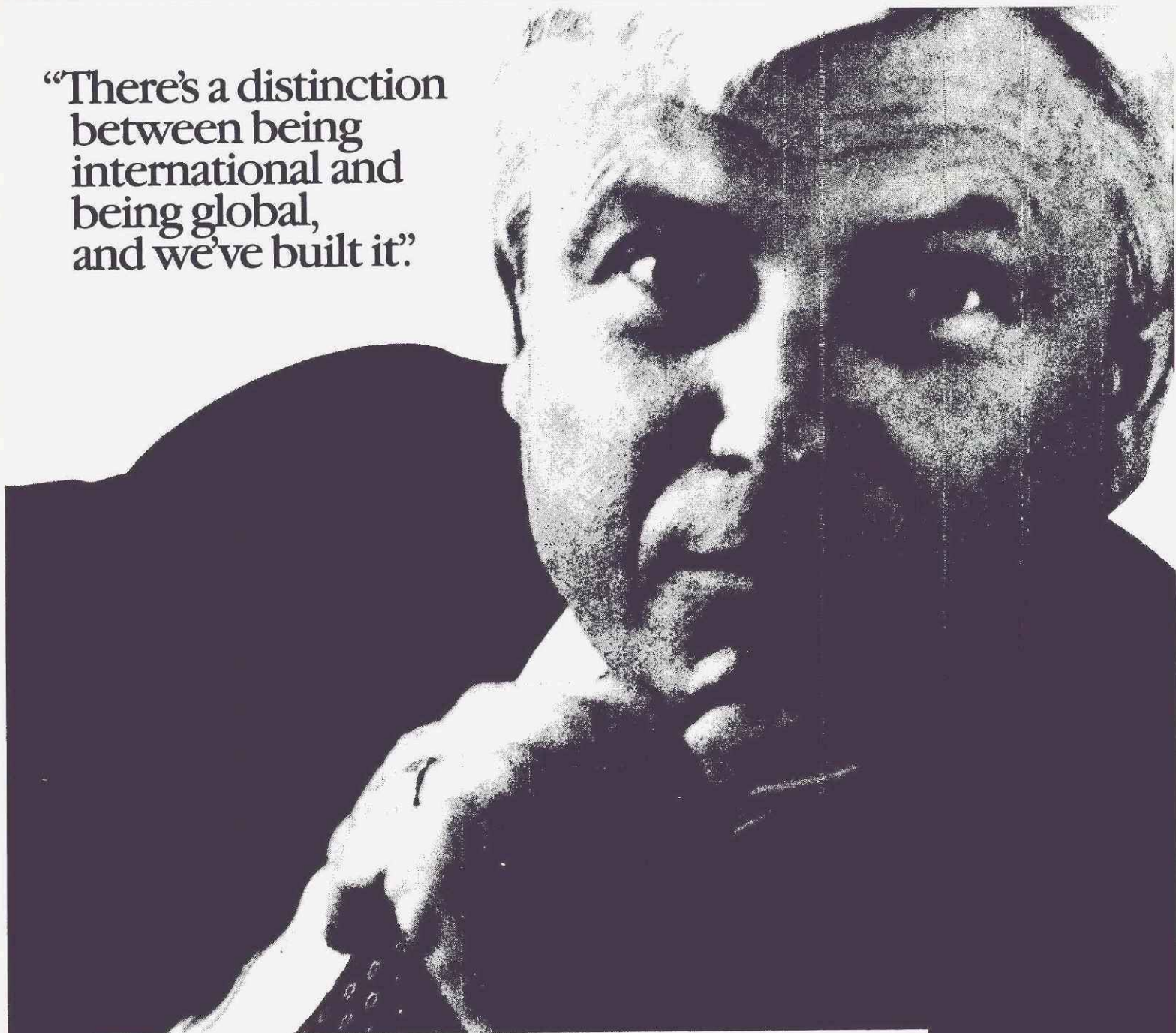
The claims-made policy offers limits of \$500,000 per claim/\$1 million aggregate. Defense costs are outside the limits but are capped at \$100,000 per claim/\$200,000 aggregate.

The minimum premium is \$3,500, although small policyholders can purchase a group master policy with individual limits. The minimum deductible is \$5,000.

CIGNA Corp. also has entered the market with a new claims-made EIL policy for above-ground and underground storage tanks that has limits of \$1 million per claim/\$2 million aggregate. Defense costs are outside the limits but are capped at \$500,000.

The minimum premium is \$1,000 per tank and the minimum deductible is \$1,000. The coverage is available in 31 states; six additional states will be added each month, except for California, New Jersey and Florida, said a spokesman for Philadelphia-based CIGNA.

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Continued on page 14

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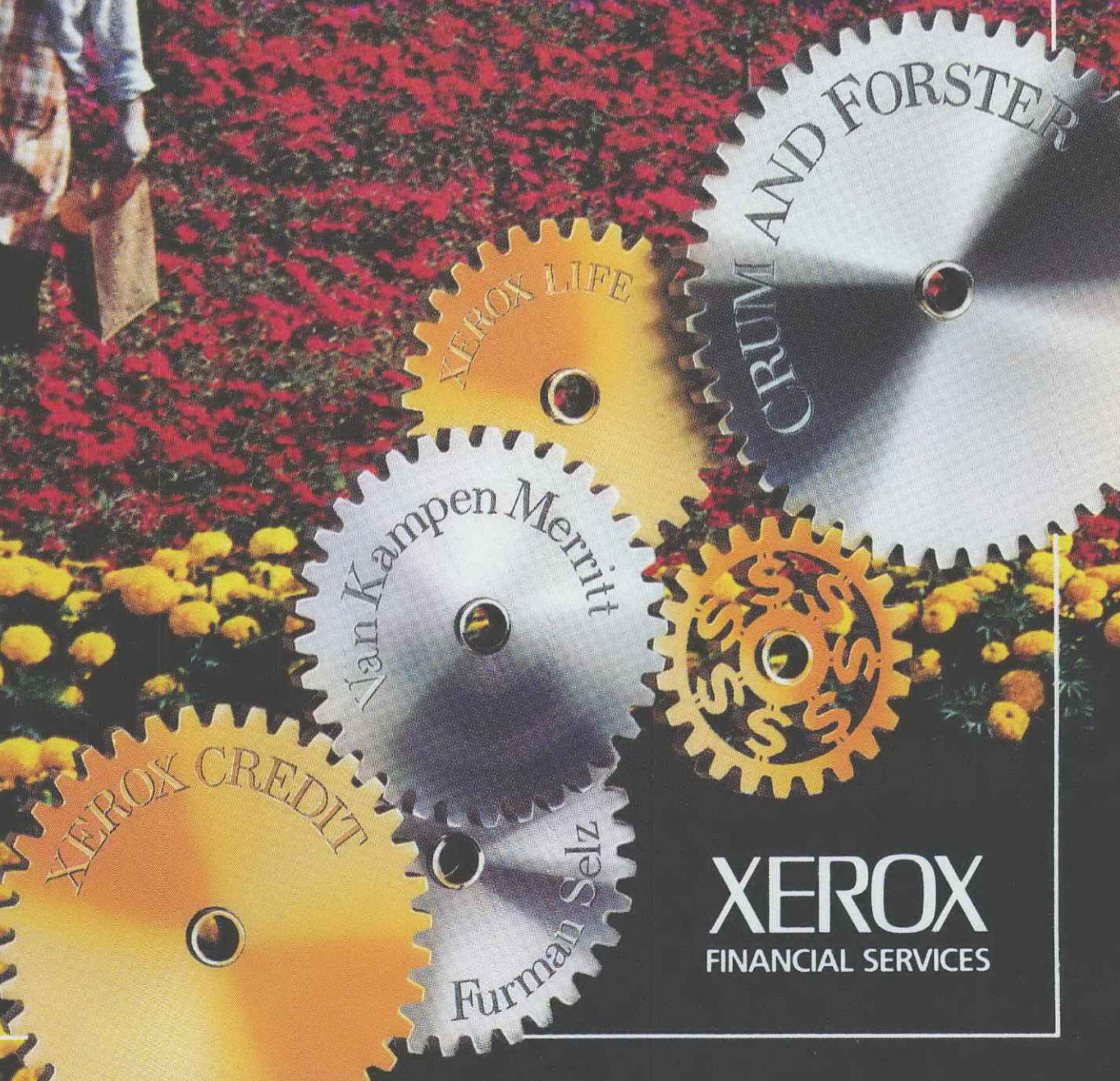
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Storage tanks

Continued from page 12

Environmental Impairment Purchasing Group Inc., a four-year-old purchasing group in Hillsboro, Wis., also offers the coverage.

Limits of the claims-made policy are \$1 million per claim/\$2 million aggregate, written by Presidential Fire & Casualty Co. of Gretna, La. Defense costs are outside the limits.

The minimum premium for a single location with new tanks is \$1,500.

The minimum deductible is \$5,000. Also, there is an annual \$350 membership fee.

Owners and operators of underground and above-ground storage tanks sometimes can look to their general liability insurers for EIL coverage.

Chubb Corp., for instance, offers an EIL policy for underground storage tanks "to service existing or prospective Chubb accounts," according to Peter Thompson, who is an underwriting manager with the Warren, N.J.-based insurance company.

The policy offers limits of up to \$1 million per claim/\$2 million ag-

EPA requires storage tank EIL coverage

Owners and operators of fewer than 100 underground petroleum storage tanks still have a lot of time to shop around for environmental impairment liability insurance.

But those with 100 or more tanks must have complied—by at least a year ago—with U.S. Environmental Protection Agency's financial responsibility requirements or face heavy fines.

EPA regulations require all tank owners to carry EIL insurance or some other mechanisms to assure financial responsibility for damage caused by the tanks (*BI*, Oct. 31, 1988).

Those rules require owners of underground petroleum tanks with monthly throughputs exceeding 10,000 gallons or those used in petroleum production, refining or marketing to secure coverage with limits of \$1 million per claim. Owners of smaller tanks or those not used in production, refining or marketing must maintain EIL limits of \$500,000 per claim/\$1 million aggregate.

In addition, owners and operators of 100 or fewer tanks must buy at least \$1 million in aggregate limits, while owners and operators of more than 100 tanks must purchase \$2 million in aggregate limits.

An EIL underground storage tank policy must cover third-party damages and the costs of on-site cleanups in the event of a leak. Defense costs cannot be included in policy limits.

Several risk financing alternatives are allowed. These include satisfying a net worth test, a corporate guarantee, a surety bond, a letter of credit, a fully funded trust fund or a state trust fund.

Although those with 100 or more underground storage tanks already must comply with the EPA requirements, the deadline for owners and operators of between 13 and 99 tanks at multiple sites is April 26, 1991. The compliance deadline for owners and operators of fewer than 13 tanks at multiple sites or those with fewer than 100 tanks at one site is Oct. 26, 1991. Also, the deadline for UST owners that are non-marketers with less than \$20 million in net worth or are local governments is Oct. 26, 1991.

—By Deborah Shalowitz

gregate.

Defense costs are outside the limits but capped at \$500,000 with a per claim policy limit of \$500,000 and \$1 million with a per claim policy limit of \$1 million.

The minimum policy premium is \$4,000 and the minimum deductible is \$10,000.

Owners and operators of underground storage tanks in Texas will be able to turn to a new Fort Worth-based risk retention group for EIL insurance.

Tank Owners Insurance Co. of Texas, A Risk Retention Group, will offer limits of \$1 million per claim/\$2 million aggregate.

Defense costs under this policy are outside the limits but are capped at \$250,000.

Capitalization requirements are \$300 per tank. The minimum deductible is \$2,500. The insurance covers third-party liability only.

The policy, designed to wrap around the state's trust fund, will

be available sometime in the next six months, according to Jess Alonso, director of marketing.

Mr. Alonso said the risk retention group has enough capital so far to insure 10,000 tanks.

Although markets for EIL cover-

Ron Austin, vp of General Star Management Co. Once compliance deadlines were extended, though, "the incentive to purchase (was) lost."

This shows "how difficult it can be to key an insurance program

'Most companies saw a real opportunity given the financial requirements being imposed by the EPA,' says Ron Austin of General Star Management. But when compliance deadlines were extended, 'the incentive to purchase (was) lost.'

age for underground storage tanks are numerous, underwriters say buyers for this type of insurance are not.

"Most companies saw a real opportunity given the financial responsibility requirements being imposed by the EPA," explained

to a changing regulatory environment," he said.

"When the EPA deadlines were extended, demand really dropped off," commented Michael Sommer, director of underwriting for Front Royal Insurance Co.

"Once the extension came, the

demand has dropped off significantly," agreed AESIC's Mr. Kosciak.

However, "if everyone waits until the last minute to get (insurance), prices will get a lot higher," warned Ed Hardy, president of Environmental Impairment Purchasing Group.

State trust funds are another drain on insurers' premium volume for this line of coverage.

"It looks as if most operators will satisfy the (EPA) regulations through the use of state funds instead of buying insurance," commented The Planning Corp.'s Mr. Clay.

"I believe the funds are going to, at least for a period of years, be the big writers," he said.

Wherever state trust funds allow owners and operators to fulfill the EPA financial responsibility requirements, General Star basically "is not a market," said Mr. Austin. ■

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Insurers offer niche pollution products

By DEBORAH SHALOWITZ

Only two insurers are writing broad environmental impairment liability coverage, but they and some other insurers are offering more kinds of specialized pollution insurance than before.

As in prior years, New York-based insurers American International Group Inc. and Reliance Group Holdings Inc. are the two major markets.

Environmental Protection Insurance Co., a risk retention group in Chicago that was the third major market, stopped writing late last year (BI, Jan. 15).

Policyholder-owned insurers X.L. Insurance Co. Ltd. and A.C.E. Insurance Co. Ltd. of Bermuda offer high-layer excess coverage

for sudden and accidental pollution incidents.

And, several insurers are offering specialized coverages, like pollution liability insurance for contractors and professional liability insurance for environmental consultants and engineers.

Aside from the addition of a few new niche products, the market for broad EIL coverage has changed little since 1989, agreed brokers and consultants.

"The demand (for pollution coverage) is there, but the market hasn't responded," said Lynne Miller, president of Environmental Strategies Corp., a risk management consulting firm in Vienna, Va.

For the most part, the pollution liability coverage that is available

is "too limited," said Robert Wenger, senior vp of ENVIRON Corp., an environmental risk management consulting firm in Arlington, Va. Sophisticated buyers "are not really thinking they're going to get much out of the coverage," he explained.

"The difficulty remains of striking the fine balance between coming up with coverage that people want and coverage that people will pay for," Mr. Wenger said.

"The coverage that excites the marketplace is coverage that is hard for insurance companies to price," such as retroactive coverage, he said.

"Existing pollution is what's capturing the headlines," said consultant William Safran, assistant vp of Anistics Inc., a division of

Alexander & Alexander Services Inc. in New York. "I really don't think people are too interested in buying insurance for future pollution."

But, EIL insurers and some other pollution liability experts disagreed.

"More industries are beginning to realize that they, too, have an environmental risk," said William Kronenberg, president of Environmental Compliance Services Inc. in Downingtown, Pa., the exclusive managing general agent for pollution coverage for Reliance National Insurance Co. of New York. He said the number of "environmentally conscious firms"—such as golf courses and universities—that are exploring EIL coverage has increased (see story, page 28).

In addition, the demand from environmental consultants and cleanup contractors for pollution coverage has been "tremendous," he said.

To meet those needs, "there's rapid development of discrete EIL products," said Lawrence Drake, a managing director of Marsh & McLennan Cos. Inc. in New York.

There is "continuing easing up and competitiveness in some of these markets," like professional liability insurance for environmental specialists, noted Jack Adams, vp of Environmental Insurance Services Inc., an environmental risk management consultant in Birmingham, Ala.

Richard Koscielak, senior vp and general manager of Agricultural Excess & Surplus Insurance Co., a unit of Great American Insurance Co. of Cincinnati, sees a "lot of potential" in niche pollution products.

"More and more companies are going to be interested in buying pollution coverage as the awareness of their liabilities continues to grow," predicted John Amore, president of Commerce & Industry Inc., an AIG division that is now specializing in pollution insurance. "We've decided that environmental insurance is going to be an important issue for the 1990s, so we felt it would be better served in its own company," he said.

AIG is gradually switching its pollution coverage business from National Union Fire Insurance Co. of Pittsburgh, Pa., to Commerce & Industry.

AIG and Reliance are the only major markets for broad EIL coverage, and they write various other pollution coverages.

AIG offers broad pollution liability coverage on both a primary and an excess basis.

The claims-made policy is available with limits of \$20 million per claim/\$20 million aggregate and covers sudden and accidental incidents as well as gradual pollution.

Defense costs are covered either within or outside policy limits, at the policyholder's discretion. In either case, defense costs are capped at 25% of the aggregate limit.

The minimum deductible is \$50,000, and the minimum premium is \$17,500. Coverage is site-specific and environmental engineers must make an assessment before coverage is bound.

The AIG policy does not cover on-site cleanups; pollution occurring during waste transportation; pollution stemming from defective products, such as tanks; known prior acts; punitive damages; and underground storage tanks, which are insured under a separate policy (see story, page 3).

AIG also writes contractors pollution liability coverage on a claims-made basis. AIG offers \$10 million of primary limits per claim with a \$10 million aggregate.

Defense costs are covered either within or outside policy limits, at the policyholder's discretion.

Defense costs covered outside of policy limits are capped at 25% of the aggregate limit.

The minimum deductible is \$50,000, and the minimum premium is \$25,000.

Some completed operations coverage may be available for two years beyond the expiration of the policy.

AIG's newest pollution product—introduced last month—is contractors errors and omissions coverage on a claims-made basis. AIG writes \$2 million of limits on a primary basis with a \$2 million aggregate.

But, Mr. Amore said he expects those limits will increase by year—
Continued on next page

Tourister



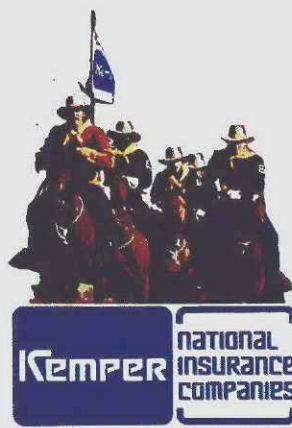
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EIL markets

Continued from page 16

- AESIC.

The Great American unit writes claims-made pollution liability coverage for petroleum suppliers, calling it a contingent liability policy.

AESIC writes \$1 million of limits per claim with a \$1 million aggregate on a primary basis.

There is a \$50,000 deductible and a \$25,000 minimum premium.

AESIC also is now offering claims-made product liability coverage that does not exclude pollution coverage. Typical buyers might be manufacturers of gasoline pumps, underground storage tanks and foundry equipment.

AESIC offers \$1 million of limits per claim with a \$2 million aggregate on a primary basis. There is a \$10,000 minimum deductible and a \$10,000 minimum premium.

- St. Paul Fire & Marine Insurance Co., of St. Paul, Minn.

The unit of The St. Paul Cos. Inc. offers claims-made coverage for above-ground pollution. The policy covers only sudden and accidental pollution incidents.

St. Paul writes \$1 million of limits per claim with a \$1 million aggregate.

Defense costs are covered within policy limits.

The policy covers incidents that happen entirely on or above the surface of the land, on the basement floor of any building and in any waterway or body of water.

To qualify for coverage, a pollution incident must: result from an accident; begin and end within 72 hours; occur on or after the policy's retroactive date; and result in environmental damage.

Damage to a policyholder's own property and claims stemming from pollution caused by infectious wastes, such as contaminated syringes are excluded.

The minimum premium is \$150 for

low-hazard risks; \$250 for moderate risks; and \$500 for high risks.

There is no deductible.

St. Paul prefers to write the policy in conjunction with general liability coverage, but the policy is available to any business that meets underwriting standards, said David Kaiser, a senior underwriting officer.

The two major excess markets are X.L. and A.C.E.

X.L. offers \$100 million of claims-made pollution coverage limits with a \$100 million aggregate excess of \$15 million. X.L. covers only sudden and accidental pollution incidents that the policyholder learns of within seven days and reports to the insurer within 40 days.

A.C.E. writes \$200 million of claims-made pollution coverage with a \$200 million aggregate excess of \$100 million. A.C.E. covers only sudden and accidental pollution incidents that the policyholder learns of within seven days and reports to the insurer within 20 days. ■

Insurers blast funding of state EIL agencies despite EPA approval

By DEBORAH SHALOWITZ

Many of the growing number of state funds that provide owners and operators of underground storage tanks with relatively inexpensive pollution coverage are inadequately financed, contend some commercial insurers and a consultant.

But, officials of state funds say UST owners and operators cannot find affordable commercial insurance to satisfy U.S. Environmental Protection Agency risk financing rules.

Numerous markets, though, are

writing this coverage (see story, page 3).

Some state funds also are designed to make loans to UST owners and operators to upgrade or replace their tanks, making their users better risks for the commercial market, fund officials say.

Under EPA rules, UST owners and operators generally must have between \$500,000 and \$2 million of pollution liability coverage for on-site cleanups and to respond to third-party claims resulting from spills (see story, page 14).

EPA-approved state funds qualify as appropriate risk financing mechanisms for UST owners and operators.

The EPA had approved 14 state financial assurance funds as of late last month. These states are Alabama, Georgia, Illinois, Iowa, Louisiana, Michigan, Minnesota, Mississippi, Montana, North Carolina, Ohio, Oklahoma, Utah and Vermont.

And, eight more states are refining their fund proposals to comply with recommended changes by the EPA. These eight states are Colorado, Connecticut, Delaware, Florida, Kansas, North Dakota, Texas and Tennessee.

In the meantime, though, tank owners and operators can use those funds to satisfy the EPA's financial responsibility regulations.

The funds generally are financed by one or more methods, including taxes imposed on gasoline distributors and fees imposed on tank owners and operators.

Many insurers that offer pollution coverage to tank owners and one tank pollution consultant question the wherewithal of state funds.

"For the most part, we find that there is generally underfunding of these funds," said James Blinn, a Chicago-based principal with Tillinghast, a division of Towers, Perrin, Forster & Crosby Inc.

"It's a pretty well-known secret" that anticipated claims against the funds will exceed fund revenues, he asserted, adding that the issue of third-party liability claims is still a looming unknown.

Many UST insurance experts calculate that 2% of all cleanups will give rise to third-party liability claims, but "there is concern that that number will increase" because of several factors, he said.

Because of the way the state funds are set up, "you've in effect guaranteed a source of money for third-party claims," he explained. This could "serve as an attraction for people to make claims."

Furthermore, there is little incentive for tank owners to fight third-party lawsuits because state funds do not cover defense costs for the most part, Mr. Blinn said.

The state funds "can't possibly survive," declared Richard Koscielak, senior vp and general manager of Agricultural Excess & Surplus Insurance Co., a subsidiary of Great American Insurance Co. of Cincinnati that writes UST pollution insurance.

Mr. Koscielak said the revenues the states generate to finance their funds are "incredibly" low compared with the premiums commercial insurers charge.

For example, Mr. Koscielak estimated that the state funds are collecting only about 10% of what commercial insurers charge to cover the same risk.

However, "there's no free lunch in this stuff. Somebody's going to

Continued on page 20

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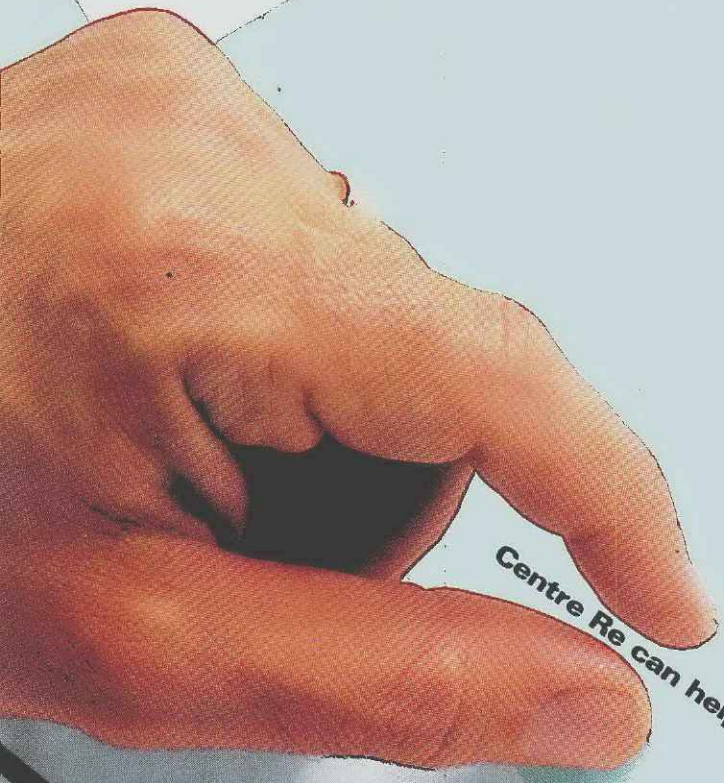
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State funds

Continued from page 18

pay someday," if not now, he said.

Furthermore, many state funds do not pay cleanup contractors directly and instead reimburse fund participants after cleanups are completed, he pointed out. So "cash flow could be a real problem" for small tank owners, Mr. Koscielak said.

And, noting that most state funds must first approve the contractors that will clean up polluted sites, he questioned whether state funds will be able to select qualified contractors. There is a "tremendous proliferation of fly-by-night contractors" he said.

Peter Gerkin, senior vp of the Bermuda-based Oilmen's Insurance Plan, a captive that reinsures pollution policies fronted by Fireman's Fund Insurance Co. of Novato, Calif., complained that a state fund is "a vehicle that's pretending" to be an insurer.

McLean, Va.-based Front Royal Insurance Co. refuses to write underground storage tank pollution coverage excess of state fund coverage, noted Michael Sommer, director of underwriting.

"That's probably a strong statement right there," he said.

Typical examples of state fund programs are those established by Mississippi, Vermont and Iowa.

The Mississippi Groundwater Protection Trust Fund, created by state law signed in May 1988 and approved by the EPA in September 1989, is one of the first state trust funds the agency approved.

The fund provides up to \$1 million of coverage per incident for on-site and off-site cleanups and other third-party liability claims if the spill is reported to the Mississippi Department of Environmental Quality between May 18, 1988, and June 30, 1992.

However, beginning July 1, 1992, Mississippi tank owners and oper-

ators must pay the first \$5,000 of the cost of any on-site cleanup and the first \$10,000 of the cost of any third-party liabilities.

Defense costs are not covered.

All tank owners and operators obtaining coverage from the fund must register with the state Department of Environmental Quality and must pay a \$40 annual fee for each tank in use in the state. This fee covers the administrative costs of the trust fund, according to John W. Harper, director of the program.

The fund itself is financed by a 0.2 cent per gallon tax on each gallon of motor fuel gasoline sold in the state by distributors that service tank owners and operators that obtain coverage from the fund.

As of Aug. 31, the trust fund's balance was \$5.1 million.

The fund has paid out \$1.7 million and has committed another \$897,000 to clean up 177 sites. Thirty-five sites have been completely cleaned.

If a tank owner or operator discovers a leak, it must submit a written notice to the state's Department of Environmental Quality. The state, which suggests qualified cleanup contractors to fund participants, must approve the contractor's remediation proposal before the cleanup can begin.

The contractor bills the tank owner for his work, then the fund reimburses the tank owner.

"I think (the trust fund) is doing the job it's supposed to do," Mr. Harper said. "For the next 20 to 30 years, we will get a lot of sites cleaned up, primarily by using the trust fund," he said.

Commercial insurance "costs entirely too much," he said.

Mr. Harper said that 99% of the underground petroleum tank owners and operators in the state are obtaining coverage from the fund.

If the fund becomes insolvent, all UST owners and operators will have 60 days to line up another method of

complying with the EPA's financial responsibility requirements.

The Vermont Petroleum Cleanup Fund—established by the state Legislature in April 1988, and approved by the EPA on March 5, 1990—operates similarly.

The fund provides \$1 million of coverage per spill for on-site and off-site cleanup costs and other third-party claims. On-site cleanup costs are subject to a \$10,000 deductible, but there is no deductible for third-party claims.

The fund is financed by a one-cent per gallon tax paid by gasoline distributors, which generates between \$3 million and \$3.5 million annually for the fund.

Owners and operators that obtain coverage from the fund must pay an annual fee of \$200 per tank. These fees generate \$750,000 annually for the fund.

The \$200 tank fee will not be collected after Oct. 1, 1994, and the fund program will end on March 31, 1996.

"The assumption is that by that time enough tank changeovers will have occurred that people will be able to buy insurance," explained Paul Vanhollebeke, fund coordinator, referring to the replacement of old tanks with new, more leak-resistant tanks.

The fund so far has agreed to pay \$1 million of cleanup costs, a portion of which has been paid.

The fund currently is financing the cleanup of 50 sites in the state.

And, there are six outstanding third-party liability claims against the fund that have not been settled or litigated.

As of Aug. 31, the fund had a balance of \$2.66 million, Mr. Vanhollebeke said.

In the event of a UST leak, a tank owner or operator must report it to the Vermont Department of Environmental Conservation. The department works with the tank owner and a contractor to develop a cleanup plan for the site.

In most cases, the tank owner or operator must pay all cleanup costs. The fund then reimburses the owner.

Ninety-five percent of all tank owners and operators in the state obtain coverage from the fund, Mr. Vanhollebeke said. "Obviously, it's the best economic situation for them," he said.

The fund also can make interest-free loans on principals of up to \$750,000 to small retail gasoline outlets to cover the cost of replacing and upgrading old tanks.

The cost of replacing one tank can be as high as \$40,000, according to Mr. Vanhollebeke.

If the trust fund becomes insolvent, the Legislature would have to pass a new law authorizing a new trust fund and new financing.

Mr. Vanhollebeke claimed "it's not going to happen," but he conceded that "the big question mark is still the third-party issue."

The Iowa Underground Storage Tank Program differs in some respects from the Mississippi and Vermont programs.

For example, the Iowa program is operated by a private consulting company, Sioux City, Iowa-based Williams & Co., not the state itself.

This way, the trust fund is "being handled as if an insurance company is handling the environmental program," explained Robb Hubbard, principal in charge of insurance and risk management services at Williams & Co. and the administrator of the underground storage tank program.

The program began on July 1, 1989, and was approved by the EPA on Feb. 2, 1990.

For petroleum marketers, the Iowa program provides up to \$1 million per incident/\$2 million aggregate of on-site cleanup cost and third-party liability coverage.

For non-marketers, the fund provides \$500,000 per incident/\$1 million aggregate of coverage.

There is a single deductible for ei-

Continued on next page



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Consulting

Continued from page 3
knowledge," said Robert M. Wenger, senior vp of Arlington, Va.-based Environ Corp.

"When we walk in today and see a company that is woefully ignorant of environmental issues, frankly that is a surprise," Mr. Wenger added.

But Jack Adams, vp of Environmental Insurance Services Inc. of Birmingham, Ala., said that when risk managers are asked to tackle environmental liability exposures, they are "being asked to double, triple or quadruple their knowledge."

"Businesses may face difficulties in finding risk managers who 'have a catholic approach to environmental issues,'" he added.

Many consultants say their biggest growth area has been environmental audits of commercial and personal real estate transactions.

Requests are coming from buyers, sellers, lessees, attorneys and lending institutions that provide financing for the transactions.

The cost of such audits can range from \$1,500 to \$25,000, but audits typically cost between \$5,000 and \$5,500, Mr. Adams said.

Businesses that buy and sell land "are so concerned with environmental liabilities that they and their lenders are requesting increasing levels of environmental assessments," said David I. Brandwein, principal of Environmental Risk Ltd. of Bloomfield, Conn.

"It is rare today for a client of any kind to buy a piece of property without an environmental assessment, particularly when financing is involved. We have seen an increase in that business from about 50 requests three years ago to probably over 700 this year," said Raymond B. Bogardus, vp of Roy F. Weston Inc. in West Chester, Pa.

"All parties in real estate transactions are trying to understand what they are buying or selling," agreed Environ's Mr. Wenger.

Sellers, for instance, can be at a disadvantage without independent calculations of their environ-

Today, seeing a firm 'woefully ignorant' of these issues is a surprise, says Robert M. Wenger.

mental liabilities. "They are in a far better position if they have done their own assessments, because they will know if they are in the ballpark," Mr. Wenger said.

Businesses and individuals seeking advice from consultants are "motivated not only by the bad

real estate deals they have seen, but also by legislation in a number of states, including California, that says a seller has a duty not to hide environmental problems," said Jack E. Cotter, principal of Environmental Engineering Consultants of South Laguna, Calif.

To reduce the financial uncertainty of environmental exposures in a real estate transaction, The Avendt Group Inc. offers an extended warranty, called the Cleanup Assurance Package, on the cost of cleaning up a contaminated site, said Ivan A. Cooper, regional vp in Charlotte, N.C.

Avendt develops a fixed-cost budget for a client for cleanup and regulatory compliance. Future consulting and cleanup costs that exceed the budget are covered by the warranty up to a predetermined amount.

The cost of the warranty typically ranges from 5% to 15% of the warranty's face amount.

And, if later contamination is attributable to another party, Avendt "would clean up the site and then maintain subrogation rights against the third party, as long as it was located within the required period of time," Mr. Cooper explained.

Designed to protect a seller from a purchaser's demand for an unlimited guarantee that existing contamination discovered later would be cleaned up, the program also protects the buyer by guaranteeing cleanup. That guarantee helps buyers secure loans, according to Mr. Cooper.

Buyers "have to convince their lending institution that the deal makes sense from a lender's point of view," Environ's Mr. Wenger said.

Buyers also need to know what environmental exposures they might inadvertently be assuming, consultants noted.

Continued on next page

State funds

Continued from previous page
ther cleanup or third-party liability ranging from \$5,000 to \$25,000, depending on the condition of the tanks.

The fund also covers up to \$250,000 of defense costs outside of coverage limits.

After a tank owner reports a leak to the trust fund, the fund hires a remediation contractor and pays the contractor for the cleanup work. Then the fund collects the deductible from the tank owner.

The trust fund is financed by:

- A tax on gasoline distributors equal to 0.85 cents per gallon of gasoline they sell in the state. The tax generates \$12 million annually.

- An annual fee of \$50 per tank on each tank larger than 1,100 gallons. Those fees generate \$800,000 annually.

- A per-tank coverage premium for tank owners and operators, instituted July 1, of \$150 for an upgraded tank and \$300 for a tank that has not been upgraded. Mr. Hubbard estimates these premiums will generate \$1.5 million by next July 1.

The fund has used a portion of the \$12 million gasoline tax to issue \$45 million of bonds that have an average interest cost of 6.92%, according to Mr. Hubbard.

The fund will use \$5 million of the \$12 million annually generated by the gasoline tax to pay bondholders.

The \$12 million will support a total of \$140 million in bonds, Mr. Hubbard noted.

The fund already has spent about \$3 million to clean up contaminated sites. There have not yet been any third-party liability claims against the fund.

The fund also provides coverage for some past incidents.

For releases reported between Jan. 1, 1985, and May 4, 1989, the trust fund will cover up to \$25,000 of the costs of cleaning up leaking tanks. For releases reported between May 5, 1989, and Oct. 26, 1990, it will pay 75% of the costs up to \$1 million.

About 2,200 releases have been reported so far, but that number is expected to rise to between 3,500 and 3,800 by the end of October, Mr. Hubbard said.

Mr. Hubbard estimated that at least 50% of underground storage tank owners and operators in Iowa are participating in the program.

The fund also has a loan program under which the fund will guarantee up to 90% of loans made by Iowa banks to owners or operators of one or two gasoline stations to upgrade their tanks, to cover their portion of remediation expenses or both.

The program's enabling legislation contains a year-end 1994 sunset clause.

By then, Iowa "will make a very attractive market to an insurance carrier," William & Co.'s Mr. Hubbard said. ■

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Beware bogus environmental advisers Consulting

By LINDA J. COLLINS

The environmental risk management consulting business boon is fostering the entrance of some consultants in this field that are not fully-qualified and who might leave clients open to future liabilities, some consultants say.

Because "a lot of consultants don't carry errors and omissions insurance, if they do a bogus survey, who is the client going to sue?" asked Robert Peterson, systems manager/marketing for Applied Occupational Health Systems of Concord, N.H.

"Also, their clients will have to pay twice in order to get the work done," he pointed out.

"It's important for people seeking these services to look at the backgrounds of the people actually doing the work—not just of the firm, but of the people performing the service," commented Lynne M. Miller, president of Environmental Strategies Corp., located in Vienna, Va.

"We have created a monster. The problem of environmental contamination is so large and there is such a need for people that there are a lot of unqualified people out there," agreed David M. Rosenberg, executive vp of Consulting Services Inc. in Exton, Pa.

"Some of the people doing this work are not up to the caliber that

they should be," Mr. Peterson said. "Because of this, we may see a lot more in the way of tougher regulations for qualification," Mr. Peterson said.

"We're frustrated because a lot of work we're qualified to do is given to less qualified people because there are not enough regulations in this area," Mr. Peterson added.

"There really is a mix out there of what you can get," agreed Jack E. Cotter, principal of Environmental Engineering Consultants of South Laguna, Calif.

"And, there's no really easy way for a buyer of services to guarantee that he will get qualified work. A move toward (accreditation) is a step in the right direction," Mr. Cotter said.

However, David I. Brandwein, principal of Environmental Risk Ltd. of Bloomfield, Conn., said: "I hear a number of professional organizations proposing regulations or certification programs, but I'm not convinced that we need another certification process."

Developing some form of state, national or regional standards for doing site audits or environmental assessments "might be a better approach," Mr. Brandwein suggested.

He stressed the importance of the various groups working on such standards talking to each other

rather than attempting to craft standards independently of each other.

The Assn. of Environmental Consulting Firms, which was formed this summer in Chicago, is one of the organizations working on standards (BI, Aug. 27).

"Our group was founded to encourage responsible practitioners of the trade. We have active committees looking at standards and guidelines for environmental risk

'There are a lot of unqualified people out there,' warns David Rosenberg of Consulting Services.

assessments for real estate," said AECF Executive Director Glen Keller.

The AECF is working on the real estate assessment standards in conjunction with the American Society for Test Methods. The ASTM is an organization of volunteers of professionals and interest groups that write guidelines, standards and test criteria for different industries, Mr. Keller said.

"When our guidelines are further along, I think it will be appropriate

to look at training and educational programs that qualify these individuals to the satisfaction of the industry. We want to somehow police ourselves," Mr. Keller commented.

The profession "needs more formalized, ongoing training programs and continuing education courses more than it needs certification standards for environmental risk management consulting, because most of the considerations are judgment calls," said Wayne Tusa, vp of the Fort Lee, N.J.-based Environmental Risk Management Division of Rockville, Md.-based Dynamac Corp.

"The conditions are so unique" in each project that the field really does not lend itself "to a narrowly defined set of protocol," he stressed.

"Certification requirements are better for the people in the environmental field who perform more precise activities, such as lab work and site testing," Mr. Tusa said.

Consulting Services' Mr. Rosenberg said that the "problems surrounding the environment are going to be with us a long time and there is a shortage of qualified people."

"There is a definite need for associations and standards to assist the consulting industry," he stressed. ■

Continued from previous page

Real estate deals are now structured carefully to factor in existing or potential environmental liabilities, said Weston's Mr. Bogardus.

Some sellers, for instance, set up an escrow account to fund future cleanups. Buyers, for their part, may elect not to purchase all of a seller's operations to avoid acquiring facilities likely to generate large environmental impairment liability losses.

"The language in these contracts is critical. We provide technical input and cost information" in these transactions, including estimates on correcting environmental exposures, Mr. Bogardus said.

Lenders also are a driving force behind these environmental risk assessments, Environmental Strategies Corp.'s Ms. Miller said.

"A lot of our work done in the U.S. is ultimately at the request of banks or lending institutions. We might not do the work directly for them," but it is done at their request, she said.

Financial institutions also may hire environmental risk management consultants when they are considering foreclosing on properties.

A federal court ruling last May could greatly expand lenders' liability for cleanups on property used to secure loans. The 11th U.S. Circuit Court of Appeals in Atlanta ruled that a lender with "the ca-

Continued on next page

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 capacity to influence the corporation's treatment of hazardous waste" could be held liable under the Comprehensive Environmental Response, Compensation and Liability Act, better known as the Superfund act (B, June 4).

"We will do some analysis on their potential environmental liabilities if they take the property back" to determine whether it is economically advantageous to foreclose, Averdi's Mr. Cooper explained.

A program that Environmental Insurance Services is putting together would provide environmental liability protection to lending institutions for properties already in their portfolios, according to Mr. Adams.

It hopes to begin offering the program—which will cost between about \$50,000 and \$500,000, depending on the size and type of property involved—early in 1991.

Another growing concern for property owners: radon emissions.

"Radon is in some cases a fairly easy fix in terms of constructing buildings. It's more manageable than asbestos was, but it shouldn't be ignored" in a property assessment, said EEC's Mr. Cotter.

Indoor air quality is another key issue for risk managers, consultants said.

"Radon and indoor air quality will be the issues of the 1990s," predicted Environmental Risk's Mr. Brandwein.

"We have several clients that

have come to us and asked us to analyze the indoor air of new facilities before they occupy them," said Weston's Mr. Bogardus.

Clients are "also asking how long buildings should sit before the glues, paints and solvents dissipate. They want to know when they have diminished enough to allow people to safely and comfortably occupy the building," Mr. Bogardus said.

"Frequently, in large office buildings, particularly converted ones, owners tend to get a lot of complaints about air quality. We are getting a lot of requests for environmental audits in this area," said Applied Occupational Health Systems' Mr. Peterson.

Mr. Peterson noted that employers also are hiring consultants to determine potential environmental exposures to their employees, particularly in light of the Occupational Safety and Health Administration's increasing focus on this area.

"We will see more executives being put in jail for serious OSHA violations," Mr. Peterson predicted.

Applied Occupational Health Systems offers training courses on OSHA compliance and hazard communication programs.

The cost of hazardous material courses ranges from \$125 to \$695, depending on course length.

OSHA compliance courses cost from \$60 to \$350.

And, asbestos management courses cost from \$30 to \$625.

For several other consulting firms, tracking and monitoring compliance with state and federal environmental regulations is a growth area.

"Regulatory compliance is the foundation upon which we have built our environmental risk assessments," said Al Picardi, a principal of Environmental Science & Assessment Services Inc. in Washington, D.C.

However, "facilities can get into (environmental liability) trouble even if they're in compliance with all regulations because regulations don't cover every exposure they might face," noted Mr. Picardi, who is located in Alexandria, Va.

Because of the "huge amounts of data that need to be captured, stored and analyzed" by a company so it can comply with these varying regulations, Weston has developed an information management system for clients.

The Hypercabinet "allows several files of vertical cabinets to be stored on one optical disc." Mr. Bogardus explained. "If a company has 50 facilities and is auditing those facilities quarterly, it can put all of the audit reports on a disc," he said.

Then, a company can call up a report and reprint it with a laser printer. "You eliminate hundreds of reports sitting on shelves," Mr. Bogardus said.

Weston sells and installs the system for less than \$50,000, typically. Training, which is optional, costs about \$2,500, he said. ■

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Superfund may remain as is: Lobbyists

By ADRIENNE C. LOCKE

WASHINGTON—Congress may simply re-authorize the Superfund law during the next congressional session, with no substantive changes, lobbyists predict.

Weary from a protracted battle this year to approve the Clean Air Act, Congress is not anxious to tackle another piece of environmental legislation, lobbyists say.

And, the Environmental Protection Agency may tell Congress it wants more time to assess the ef-

fectiveness of the law before seeking more changes.

As a result, Congress may give the law a one- to three-year extension when it comes up for re-authorization next year without considering any changes.

However, the pollution cleanup program has come under more criticism since it was last re-authorized in 1986. The program has been criticized for creating too much costly litigation and not accomplishing enough cleanups.

Insurers and their policyholders

that are increasingly being cited for Superfund liability contend that the wrong parties are being held liable for pollution.

Several bills to amend the law are pending in Congress, and one insurer—American International Group Inc.—is lobbying for radical change in Superfund.

Other insurers are still determining their strategy.

Perhaps the biggest obstacles to amending Superfund, however, are the politically influential environmental groups that oppose any

changes to the law.

“Superfund has become a Draconian system, with the EPA going after people who are marginally responsible for the pollution in these sites,” said Peter Lefkin, vp of federal affairs for Fireman’s Fund Insurance Co. in Washington, D.C.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980, better known as Superfund, and its 1986 amendments authorize the EPA to force the cleanup of hazardous and

toxic waste sites across the country, including approximately 1,200 of the most seriously polluted sites on the agency’s national priorities list.

In general, any business, including handlers and transporters, that was directly or indirectly involved with a business that produced a hazardous or toxic substance that was improperly disposed of—whether or not the business was aware of the improper handling—can be held liable for the cleanup.

The EPA generally has taken the tactic of notifying the potential responsible party or parties of the liability, at which time they can negotiate a settlement with the agency.

If a settlement cannot be made or there is a dispute over liability, the EPA pays for the cleanup and bills all of the potentially responsible parties involved for the cost, leaving them to battle out the liability among themselves.

Under Superfund’s joint and several provision, one party can be held liable for the entire cost of cleaning up a site.

This approach is dragging more companies into the litigation than ever before, building opposition to enforcement of the Superfund law.

Insurers of these potentially responsible parties, meanwhile, complain that they are being forced by many courts to cover pollution cleanup costs under old comprehensive general liability insurance policies that when written did not contemplate such coverage.

During a hearing last month discussing the possible effects of Superfund cleanup costs on the property/casualty insurance industry, the EPA said that “it had little involvement” in insurance coverage issues.

“Where we have participated in litigation involving insurance issues, we have proceeded judiciously and where it was necessary to do so to protect the interests of the United States. We expect that this will continue to be our approach,” said James M. Strock, assistant administrator for enforcement for the EPA.

Mr. Strock says the issue of insurance coverage is a private contract dispute that should be handled by the courts.

Insurers, however, say they must push for legislative changes in Superfund because they will not get any relief from the courts.

David Pratt, vp of federal affairs at the American Insurance Assn. in Washington, D.C., says that insurers’ liability for pollution cleanup costs has become a public policy issue, with judges ruling against insurers because they have “deep pockets.”

“We can win on a legal basis and lose out on public policy,” he said.

And, because “the state courts are divided on the issue,” no one is sure what a court’s finding is going to be, said Mr. Lefkin of Fireman’s Fund.

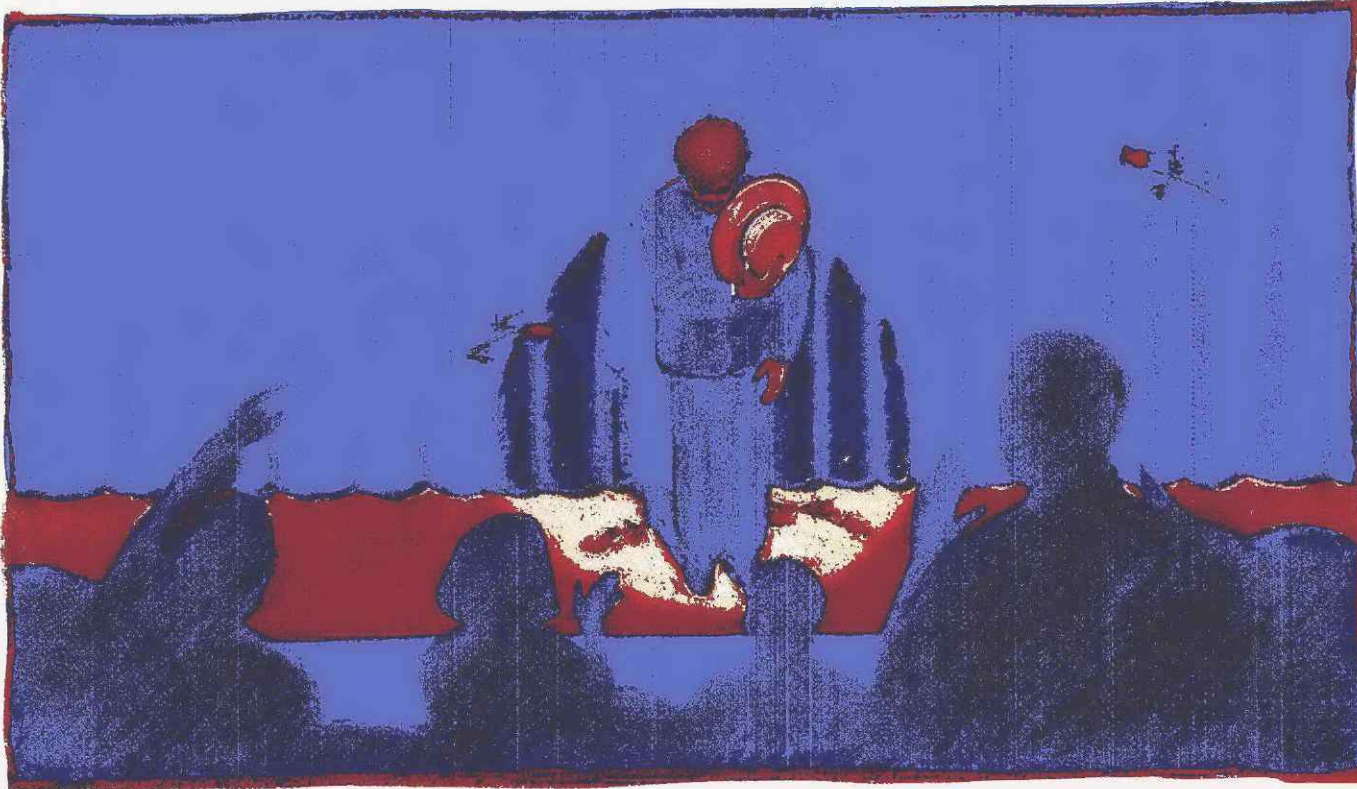
However, David Farmer, vp of federal affairs at the Alliance of American Insurers in Washington, D.C., pointed to court decisions not finding coverage for pollution cleanup costs under CGL policies as a “ray of hope.”

Nonetheless, few are optimistic that changes will be made in the law next year when it is due for re-authorization.

“There may not be much action on the law other than a short re-authorization,” said Mr. Pratt of the AIA.

“Right now, it looks as if Congress will only re-authorize Superfund for anywhere from one to three years before making any changes,” said Mr. Farmer of the Alliance.

Continued on page 26



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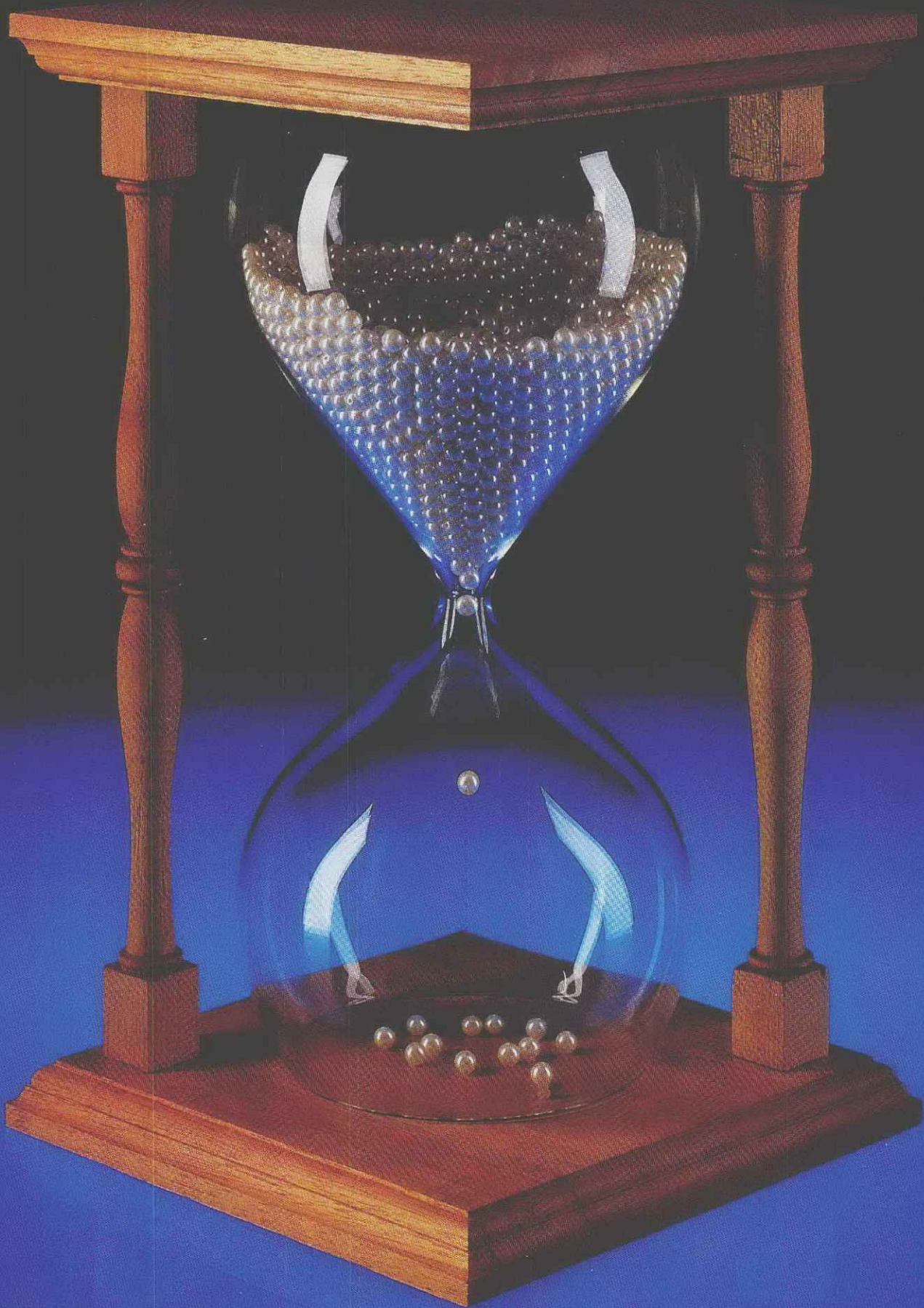
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Superfund

Continued from page 14

Both said that Congress is in no hurry to start a debate that could be as difficult as the battle over the Clean Air Act.

The EPA is "leaning toward a one- to three-year re-authorization without substantial changes" so the agency can have more time to review the effectiveness of the law, a spokeswoman said.

The agency hopes to make its official recommendations on the re-authorization of Superfund by the end of the year, she said.

Only one insurance group is lobbying now for drastic change in Superfund: AIG.

The insurer proposes that a new 2% premium tax be imposed on commercial insurance policies—and an equivalent assessment on self-insurers—to fund the cleanup of pollution resulting from past waste disposal (BI, March 6, 1989).

At least \$25 billion is needed in this decade to clean up the sites on the national priorities list, according to AIG estimates.

During the debate preceding the 1986 re-authorization, a coalition of insurer groups had recommended that the cleanup of hazardous waste dumped prior to the December 1980 enactment of Superfund be financed by a broad-based corporate tax (BI, April 15, 1985).

The industry coalition also had recommended eliminating joint and several liability for waste dumped after 1980 and establishing a mandatory apportionment system based on how much waste a company dumped at the site.

The insurance industry's suggestions were rejected.

Mr. Pratt says that the AIA learned from experience that Congress will not respond to a package of the changes the insurance industry wants in the Superfund law.

"When we did that, it was not very successful at all, and we've learned from that," Mr. Pratt said.

Instead, the AIA has been "soliciting other people's views on how the statute is functioning and if there is any room for improvement," he said. The AIA for the last year has talked with other insurer groups, business groups, environmental groups and members of Congress.

With this "coalition" building, the AIA will develop its political agenda for the re-authorization next year, Mr. Pratt says.

A simple re-authorization of Superfund is sure to be fought by businesses—especially lending institutions—that are being dragged into Superfund litigation.

"There is a lot of pressure building upon Congress that has not traditionally been there," observed Mr. Lefkin of Fireman's Fund.

The Superfund law was originally drafted to deal with the so-called large corporate polluters, but because so many sites are turning out to have multiple parties potentially responsible for the cleanup, the liability net is bringing in all sort of people, he said.

Many companies, including a host of smaller companies, are being hauled in as potential responsible parties, liable for the cleanup costs of a superfund site.

"XYZ Metal Co., with 40 employees, is finding itself a responsible party in a Superfund suit" because someone it paid to dispose of its hazardous or toxic waste dumped it improperly, he said.

In addition, financial institutions, which also face unexpected Superfund liabilities, are lobbying for amendments to the law.

Currently, there are three bills in Congress that address the lender liability issue:

• H.R. 4494, introduced by Rep. John J. LaFalce, D-N.Y., would amend Superfund to limit the liability of lending institutions that

acquire contaminated land through foreclosure and the liability of corporate fiduciaries administering estates or trusts.

The bill was introduced in April and was referred to the House Subcommittee on Transportation and Hazardous Materials, which has held one hearing on the legislation in August.

• S. 2827, introduced in June by Sen. Jake Garn, R-Utah, is similar to H.R. 4494.

It was referred to the Senate Banking, Housing and Urban Affairs Committee.

• H.R. 5764, introduced in the House this month by Rep. Joseph M. McDade, R-Pa., would amend the Small Business Act to exempt the Small Business Administration and those lenders that make SBA loans from Superfund liability for cleanup costs when these lenders or the agency acquire property through foreclosure.

While there is support for these

bills in Congress—particularly the LaFalce bill, which has 282 co-sponsors—no further action on the proposals is likely as the session nears closing, staffers say.

The major opposition to any perceived weakening of the Superfund statute are the environmental groups, which Mr. Farmer of the Alliance says wield "great political power" with Congress.

"Any change in the joint and several (liability provision) would be characterized as weak on polluters instead of establishing change in a system that was out of balance," he said. "Politicians don't want to be seen as soft on polluters."

Environmentalists contend that the strict joint and several liability provision is the heart of the Superfund law and view all the proposals to date that would change it as compromising the effectiveness of Superfund as a deterrent.

"Superfund has as its corner-

stone a very strong standard of liability that is a strong incentive for the proper disposal of hazardous wastes. The law has prevented hundreds of new Superfund sites," said William Roberts, legislative director at the Environmental Defense Fund in Washington, D.C.

All of the activities aimed at the managing, handling and disposing of hazardous and toxic wastes that are used today can be traced to fears over possible Superfund liability, he said.

"The law has had a profound effect on how business handles its hazardous wastes"—a concern that would not be there without Superfund, Mr. Roberts said.

However, Mr. Lefkin says that the hard line from environmental groups that "the polluter should pay" blinds them to other proposals that would fund the cleanup of the older, more disputed sites more efficiently without relaxing Superfund standards.

"Hopefully, the environmental groups will find it in their best interests to find a way to get the work done in a more timely fashion," Mr. Lefkin said.

But, Mr. Roberts fears that establishing a public fund for existing Superfund sites will only shift the argument from who dumped what to whether it was dumped before or after a particular date.

Mr. Roberts said that those who support the current Superfund law would like to see more money invested in cleanup efforts and less spent on litigation to determine who is responsible. But, he added, they are not willing to sacrifice the key elements of liability in the law to accomplish it.

Finding a way to reduce litigation and speed up the cleanup process without compromising the law "would be a step in the right direction, but my concern is that we haven't seen a proposal that would do that," he said. ■

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Liberal rulings extend cleanup liability

By STACY ADLER

Two recent federal appellate court decisions expanding liability for government-mandated hazardous waste cleanup costs indicate that judges are interpreting the federal Superfund law very liberally, according to attorneys.

If this trend continues, more and more companies will find themselves on the hook for pollution cleanup costs, they say.

It's possible even trustees of estates could be held liable for cleaning up polluted property in the estate, according to one attorney.

In May, the 11th U.S. Circuit Court of Appeals ruled that lenders with the "capacity to influence the corporation's treatment of hazardous waste" can be held liable for

cleanup costs assessed under the Comprehensive Environmental Response, Compensation & Liability—or Superfund—Act. This decision involved Fleet Factors Corp. of New York (*BI*, June 4).

Just three months later, the 1st U.S. Circuit Court of Appeals held that a parent that controls the activities of a subsidiary can be held liable for Superfund costs assessed against the subsidiary. This decision involved Kayser-Roth Corp. of Providence, R.I. (*BI*, Aug. 27).

Both decisions, according to attorneys, greatly expanded liability for cleanups: liability of lenders in the Fleet Factors case and of corporate parents in the Kayser-Roth case.

Taken together, the decisions indicate that courts are reading the statute broadly in an effort to find

responsible parties for pollution cleanups, they say.

"A liberal construction of CERCLA seems to be the paramount concern of these courts," said Ivar Azerias, a corporate attorney with Claussen, Miller, Gorman, Caffrey & Witous in Chicago.

"These judges refuse to be hindered by legal principles that would hinder the purpose of the statute," he added.

Finding responsible parties for cleanups is the Superfund statute's stated intent, Mr. Azerias explained. "Both the decisions attempt to promote the goals of the CERCLA statute."

Corporate attorney O. Kirby Colson III agreed: "There seems to be a willingness by federal judges to express aggressive theories."

However, he contends that

courts may be going further than necessary to satisfy the goals of CERCLA.

In the Fleet Factors ruling, for example, the 11th Circuit decided that the Superfund exemption for secured creditors would not apply where the lender was actively involved in managing a company that polluted.

That was not necessary based on the facts of the Fleet Factors case, namely that the lender practically ran the hazardous waste site, according to Mr. Colson.

"The court simply could have pinned liability by finding that the bank was an operator" of the waste site, he explained. Under CERCLA, waste site owners or operators are jointly and severally liable for cleanup costs.

Nonetheless, the court issued a

much broader ruling that would, in its own words, encourage banks to "monitor the hazardous waste treatment systems and policies of the debtors."

"The idea that bankers ought to be policemen for their debtors was not what Congress intended in enacting CERCLA," Mr. Colson said.

Similarly, the 1st Circuit in the Kayser Roth decision found that a parent corporation that has "active involvement in the activities of a subsidiary" can be held liable for cleanup costs assessed against its subsidiary.

The district court could have pinned liability on the basis that Kayser-Roth also was an operator of the waste site, according to Mr. Colson. It was not necessary for the court to state that Superfund "places no special importance upon the corporate structure," he added (*BI*, Nov. 20, 1989).

"Nothing suggests that Congress wanted to do away with basic corporate principles," he said, referring to the traditional legal separation placed between a parent company and its subsidiary.

Mr. Azerias said courts may be expanding liability for political reasons.

"Courts have seized the moral imperative and are running with it," he said. "This is a politically supercharged issue and the courts reflect political realities."

Environmental attorney David J. Freeman expressed concern that liability in this area would continue to expand.

"If courts continue to broadly expand liability, they will bring into the liability scheme many parties that shouldn't be there," said Mr. Freeman, who is with Holtzmann, Wise & Sheppard in New York.

Further expansion would "open a Pandora's box," with parties wrongfully brought into the liability scheme fighting back, he said.

This would result in "tremendous transactional costs and a bottleneck in cleanups," Mr. Freeman predicts.

"Once you extend liability beyond companies directly involved in pollution-related activities, the transactional costs bog down the system," Mr. Freeman explained. "Courts are ultimately going to have to back off in terms of expanding liability."

"Congress's intent when it passed CERCLA was to change the way companies do business in this country," he said. "But these recent court decisions are changing the way companies do business in ways that Congress never intended."

Lenders, for example, are growing reticent about making loans after the Fleet Factors decision expanded lender liability for pollution cleanups.

Legislation to limit lender liability is now pending in Congress, he said.

It remains unclear what other parties could be held liable in the future for pollution cleanups, according to attorneys.

Trustees and executors of wills are two possible targets, Mr. Azerias said. They could be held liable for pollution on property that is part of a trust or polluted land that is bestowed in an inheritance. Real estate brokers are another possibility.

Congress will have to address many of these issues, Mr. Azerias said.

But, Mr. Colson said courts are not likely to run amok extending liability.

"Only where a party has some involvement... will they be held liable," he said. "People will not be held liable for walking past a toxic waste dump." ■

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Low-risk firms seek out pollution cleanup cover

By STACY ADLER

Increased awareness of corporate liability for pollution cleanups is spurring many "low-risk" companies to seek out environmental impairment liability coverage, according to EIL consultants, brokers and insurers.

Traditionally, the major purchasers of EIL insurance have been Fortune 500 "smokestack" companies that were heavily involved in the use of chemicals or production of waste.

Today, however, many smaller companies whose business does not directly involve these exposures are recognizing the need for EIL

coverage.

"Environmental problems are reaching beyond the chemical and manufacturing industries," explained Mike Levin, a consultant with Towers, Perrin, Forster & Crosby Inc. in Simsbury, Conn.

"And, more problems are being classified as environmental," he said. For example, smoke from a fire is now being labeled as pollution.

"Together these factors are creating an expansion in the need for risk management and insurance to meet these needs," he said.

"More and more people are recognizing that they are exposed to liability for environmental harms

and would like to buy EIL insurance," agreed Dennis Connolly, senior vp of New York-based brokerage Johnson & Higgins.

Among the new purchasers of EIL coverage are country clubs, golf courses, banks, contractors, architects, farmers and trustees, according to industry observers.

And, many U.S.-based companies with operations overseas are attempting to secure EIL coverage for their overseas operations as the European Community considers laws that would expand liability for environmental cleanups (see related story, page 35).

"It is hard to identify any industry or activity that doesn't need EIL coverage," Mr. Connolly said.

"Today, the only companies that don't want EIL coverage are those who don't know they should want it," he quipped.

According to consultant Robert M. Wenger, much of the interest in EIL coverage is being generated by the financial industry.

"Businesses' awareness (of environmental liability) is being triggered by concerns raised by their financial institutions," said Mr. Wenger, a senior vp of ENVIRON Corp., an environmental risk management consultant in Arlington, Va.

Another factor triggering interest in EIL insurance is a host of recent court decisions holding that policyholders cannot recover pollution cleanup costs under their comprehensive general liability policies because they contain a pollution exclusion clause that bars coverage for gradual pollution, said Lynne Miller, president of Environmental Strategies Corp. in Vienna, Va. The inclusion of an "absolute pollution exclusion" in the newer commercial general liability policies also is a factor, she said.

"Risk managers realize they can't stand behind their CGL policies," Ms. Miller said. As a result, they want to purchase EIL coverage.

However, many risk managers have the erroneous perception that they cannot purchase EIL coverage, according to Ms. Miller.

"It is still surprising how many people think there isn't a market," she said.

However, there is an EIL insurance market (see story, page 15). And, some insurers are specializing in underwriting EIL insurance for specific industries.

For example, Front Royal Group of McLean, Va., has just completed an EIL program designed specifically for members of the National Club Assn., which represents some 1,000 country clubs, yacht clubs and city recreational clubs.

"We recognize that there are new buyers out there," said Mike Sommer, director of underwriting for Front Royal. "And, we will continue to look for opportunities to create new EIL products."

Front Royal, which was formed in late 1989 with capital and surplus of \$6 million, is admitted in Virginia and Arizona and is an approved surplus lines insurer in more than 20 other states.

Spring House, Pa.-based Environmental Compliance Services Inc., which underwrites for Reliance Group Holdings Inc., also offers a variety of special coverages, including a program designed specifically for contractors.

"There is an increased awareness of environmental problems and the need for EIL coverage," said ECS President William Kronenberg.

Continued on page 30

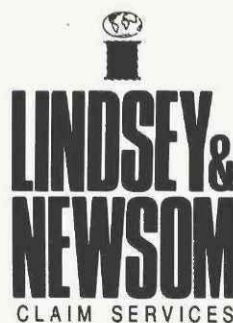
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Spotlight report

EIL buyers

Continued from page 28

In fact, 30% to 40% of ECS's growth last year can be attributed to an influx of new buyers into the EIL market, he said.

"We have seen a significant increase in the amount of non-traditional submissions," Mr. Kronenberg said. He predicted the firm's future growth would come "from an expanding awareness that every business has an environmental exposure."

One industry that typifies the "new buyer" of EIL insurance is the recreational club industry.

Members of this "low risk" industry did not consider purchasing EIL coverage five years ago, according to Legare Van Ness, director of marketing for the National Club Assn.

However, a recent survey of NCA members revealed that environmental liability was a top concern, he said. These clubs face environmental risks from underground petroleum tanks they own and from pesticides and cleaners they use, Mr. Van Ness explained.

In addition, the clubs are a visible "deep-pocket" target for environmental lawsuits, he said.

"We are not a smokestack industry, but we are perceived in the community as a wealthy organization," said Mr. Van Ness. "We believe we would be a target for litigation."

As a result, the NCA in June began offering its members an EIL program underwritten specifically for them by Front Royal.

Front Royal is offering three types of policies: coverage for underground petroleum storage tanks, coverage for off-site non-petroleum pollution damage and directors and officers coverage that fills in the gaps in current D&O policies.

Response has been "tremendous," according to Mr. Van Ness. He received 250 immediate inquiries after the program was announced.

Another "new buyer" of EIL coverage is golf courses.

Their pollution liability stems from the use of underground storage tanks and pesticides, explained Michael

Hughes, executive director of the National Golf Course Assn.

"We are just beginning to look at our insurance options," he said.

In the future, many more of these "new buyers" of EIL insurance are likely to emerge, according to industry experts.

"Just the way people routinely purchase title insurance, they will buy EIL coverage," Mr. Wenger of Environ Corp. predicted.

"The biggest areas of growth (for EIL insurers) will be from an expanding awareness that every business has an environmental exposure," said Mr. Kronenberg of ECS.

However, Mr. Levin of TPF&C says growth will depend on the experience of the initial non-traditional buyers of EIL coverage.

"If these new buyers experience losses it will lead to further expansion in the marketplace," he said. "If they don't experience losses, companies will return to self-insuring this liability."

Data on waste sites being compiled

By STACY ADLER

A data base that is the nation's first comprehensive collection of waste site information will be available to policyholders and insurers late this year, its developer says.

Included will be information about the nation's worst hazardous waste sites, including: estimated cost of cleanup, lists of potentially responsible parties, judgments involving the sites, lists of chemicals dumped and the years in which dumping occurred.

"Much of this information is available somewhere, but nowhere is the data brought together," explained Amy Bouska, a principal in Bermuda with the Tillinghast division of Towers, Perrin, Forster & Crosby.

The risk and insurance consulting firm first will compile information on sites included on the U.S. Environ-

mental Protection Agency's National Priority List, which lists the worst waste sites in the nation.

Sites on individual state priority lists may be included later.

Tillinghast hopes to develop analogies or mathematical formulas to roughly estimate cleanup costs for sites where environmental audits have not yet been done.

Information about potentially responsible parties, chemicals and the period in which pollution occurred will come from EPA files or court documents, explained Ms. Bouska.

"This is very time-consuming research," she said. "The development of the data bank is ongoing. It is never really completed," she added.

Although Tillinghast is funding the start-up costs of the project, it plans to charge clients for access to the data base once it is partially operational later this year.

The data base will be of use to both policyholders and insurers, according to Ms. Bouska.

Insurers could use it to identify policyholders and policy years in which they are at risk, while policyholders could use it to estimate cleanup costs, she explained.

Tillinghast would not disclose how much it will charge clients to tap into the data base.

Tillinghast was motivated to compile the data because the consultant has to approve insurer reserves for environmental liability, explained Jim Blinn, a principal in the firm's Chicago office.

"We felt the need for an outside source of information to be able to make valid estimates of these environmental liabilities," he said. "Our concern is that we are putting our errors and omissions coverage on the line."

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U.K. pollution coverage to shrink Insurers' fears prompt restrictions on coverage

By CAROLYN ALDRED

LONDON—Pollution insurance coverage will become more difficult to buy in the United Kingdom as British underwriters introduce exclusions into general liability policies, underwriters predict.

Fearful that Europe may follow the United States with stricter environmental legislation and enforcement, underwriters are seeking to ensure that they won't face massive bills for the cleanup of years of gradual pollution.

"The wording of general liability policies in the U.K. is being tightened on the recommendation of the

Assn. of British Insurers with a view to ensuring that the only pollution covered will be strictly sudden and accidental, the view being that gradual pollution should not be covered under general liability policies," said John Cowell, a risk management consultant based in Lavenham, England.

And while some insurers and reinsurers are prepared to write environmental impairment liability insurance in the United Kingdom, brokers and underwriters predict that capacity for EIL insurance in the United Kingdom will be very limited.

Until recently, many U.K. gen-

eral liability policies have not addressed the issue of coverage for pollution damage.

"The average U.K. liability policy is deaf, dumb and stupid on the subject of pollution. Most insurers never thought it was a problem as the laws we had on pollution were never enforced," said Brian Street, manager of production in London for American International Underwriters (U.K.) Ltd.

As a result, until recently there has been no need for corporations to buy separate EIL coverage, he pointed out.

"However, with meaningful law properly enforced with punitive

penalties, we will see a very dramatic change in the market," he predicted.

The British Parliament is debating proposed legislation to toughen environmental regulations, and many observers predict that national legislation and European Community legislation on environmental issues will become much stricter during the next few years.

"Things will change very rapidly. The new environmental bill will be enacted soon and all insurers will have to take some action within the next 12 months. Most policies will have some form of limitation, but it will depend on

individual companies what form it takes," said Tony Humphrey, commercial accident manager of Commercial Union P.L.C.

Depending on the risk, there is a wide divergence in the extent of coverage currently available, he said.

Risks with a high potential for pollution, such as chemical companies, can only obtain coverage for sudden and accidental events, "but the wording varies from insurer to insurer," Mr. Humphrey said.

"However, for other commercial and industrial risks, the market is divided. Insurers who are more dependent on reinsurance have put in sudden and accidental wording because reinsurers restricted coverage in their treaties about three years ago," he noted.

Major insurers that write all lines "have standard (general liability) policies with no exclusion, but each risk is written on its own merit with major risks having just sudden and accidental cover," Mr. Humphrey said. However, "there's a move to introduce some form of restriction into the basic wording because of reinsurers' demands and because of problems insurers foresee," he said.

Commercial Union currently has no standard pollution exclusion, "but we are thinking very seriously about including an exclusion in the basic policy," Mr. Humphrey said.

"We are not far off the day when all public liability policies will have a restriction for sudden and unintended pollution and any wider coverage will be available only through negotiation," said Phil Bell, liability insurance manager for Sun Alliance International Ltd. in London.

In the future, "companies wanting wider cover will have to demonstrate that their risk management is good and that they are complying with regulations. I think insurance companies will have to work more closely with environmental specialists. The whole situation is coming under the microscope," he said.

Like Commercial Union's policy, the Sun Alliance general liability policy is "silent on pollution, although we apply restrictions to individual risks and the use of restrictive wordings will increase," said Mr. Bell.

"I would have thought capacity (for pollution cover) as a whole will fall. The changing legal environment will mean insurers may find it harder and insurers also will bear in mind what has happened in the U.S.," he added.

The market is generally moving toward restricting coverage to sudden and accidental events, said Roy Marshall, senior underwriter for Swiss Re (U.K.) Ltd. "The gradual element is slowly disappearing, except where risks are not perceived to have a pollution exposure," he said.

"There is no standardization yet (in wording and cover offered), but that may be coming. We are probably going to see all coverage going to sudden and accidental only," predicted Mike Coulson, director of Sedgwick James (London) Ltd.

"The insurance industry is bothered by what has happened in the U.S. and concerned that it will be hit like U.S. insurers. There are fears because the environment is such a big political issue now in Europe," agreed Gordon Sanders, manager for research and development for Sedgwick James Europe Ltd.

Continued on next page

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U.K. pollution

Continued from previous page

Against a background of continuing confusion and diversity of coverage, the Assn. of British Insurers this summer sent a memorandum to all its members as well as associations representing risk managers, brokers and reinsurers with suggestions for tackling the problem.

The ABI recommends that insurers restrict pollution cover in general liability policies to sudden and accidental coverage, but says they could provide special endorsements to extend gradual pollution coverage on a selective basis (see story, page 34).

Until now, existing environmental legislation in the United Kingdom has not been rigorously enforced and corporations and their insurers have not been hit with significant pollution claims. As a result, pollution costs did not become

a major issue in the United Kingdom, underwriters note.

However, "the changing climate is putting fear into industry," explained Lee Whitton, national casualty manager for American International Underwriters (U.K.) Ltd.

"I am noticing a tremendous increasing awareness by risk managers (of pollution exposures). Pollution is coming to the top of their list. Companies are beginning to... (hire) consultants to do environmental audits," said AIU's Mr. Street.

"The law is changing. There's now a smattering of demand for EIL insurance," said Mr. Whitton, who noted that he gets "at least one inquiry a week" for EIL insurance.

As a result, AIU is planning to launch an EIL policy in Europe, said Mr. Street.

"We are going to see a total change in the environment. That's

why we're launching EIL cover. Ultimately, we will have a European enforcement agency guaranteeing a common level of enforcement in the E.C. and I expect there will be a lot more litigation and more severe penalties will be im-

dicted.

Initially AIU will offer EIL insurance in the United Kingdom, France and West Germany. The cover will be written on a similar basis to that written by other units of AIU's parent company, Ameri-

The 'social climate is right, the legal environment is right and (general liability) policies are becoming more restrictive. If demand for EIL insurance does not increase now, it never will,' says Roy Marshall, a Swiss Re underwriter.

posed" for polluters, said Mr. Street.

"A lot of liability underwriters in the U.K. will see what happened in the U.S. and will not touch EIL insurance. I reckon there will be a shortfall in capacity; we will be down to a small market," he pre-

can International Group Inc., in the United States, said Mr. Whitton.

Every site will be inspected prior to underwriting the policy, which restricts coverage to "accidental and unforeseen" pollution incidents, Mr. Whitton said. The insur-

ance only covers third-party claims and the policyholder must accept a deductible, he added.

Mr. Whitton expects the initial capacity will be an aggregate limit of up to \$10 million per policyholder.

Swiss Re also anticipates an upturn in demand for EIL insurance in the United Kingdom.

"Swiss Re began writing EIL insurance about 15 years ago, but the product was probably ahead of its time. We didn't transact a large volume of business," said Mr. Marshall of Swiss Re.

However, "because of the general moves to tighten (liability) wordings, we may see an increase in demand for gradual pollution insurance and the kind of cover that has to be accompanied by proper risk assessment and control," he forecast.

The "social climate is right, the legal environment is right and (general liability) policies are becoming more restrictive. If demand for EIL insurance does not increase now, it never will," Mr. Marshall noted.

However, there "has to be a change in perception as to how cover is available. Buyers will get upset because in the past they have had (the cover) as part of their general liability cover. In the future they will be hit with requirements for detailed information and will have to pay for (risk) assessments. It's going to come as a bit of a shock," he warned.

Swiss Re's London-based subsidiary Palatine Insurance Co. Ltd. last year launched a facility with broker Willis Wrightson Ltd. to provide up to 5 million pounds (\$9.4 million) of aggregate EIL insurance coverage to British chemical companies (BI, Dec. 25, 1989).

The coverage "is a pilot product. It's slowly moving as there's an increased awareness of the product. These things don't happen overnight," noted Mr. Marshall.

Currently, "there's a very limited market for EIL insurance," said Sedgwick's Mr. Coulson.

"I believe there will be EIL coverage available in the future, but only on a very selective and restricted basis. To date there has not been an enormous demand for it, but there will be a future need," he predicted.

Another emerging demand among British companies and multinationals with British subsidiaries is for the services of environmental risk consultants, said David France, managing director of Chester, England-based Environmental Strategies.

Environmental Strategies, which is a management consultant and environmental technical adviser, is an affiliate of Environmental Strategies Corp. Inc. of Vienna, Va. The U.K. operation was launched last year because of the "changing regulatory climate" in Europe, said Mr. France.

"We are seeing a growth in demand, particularly from large corporate citizens who want to continue to promote an image of being a good neighbor, particularly in pollution-intensive industries such as chemical and heavy engineering industries," he noted.

"British companies and subsidiaries in the U.K. are still able to obtain EIL insurance at this moment, but they are scrambling for cover because their sources of coverage are reducing. Policy wordings have been changing dramatically within the last year or so," said Mr. France.

"Companies are able to buy specific EIL policies—but for a price. As a result, companies are turning to other techniques to manage environmental risks, such as better assessing their liabilities and getting their house in order and self-funding any potential future losses through captives, etc.," he explained.

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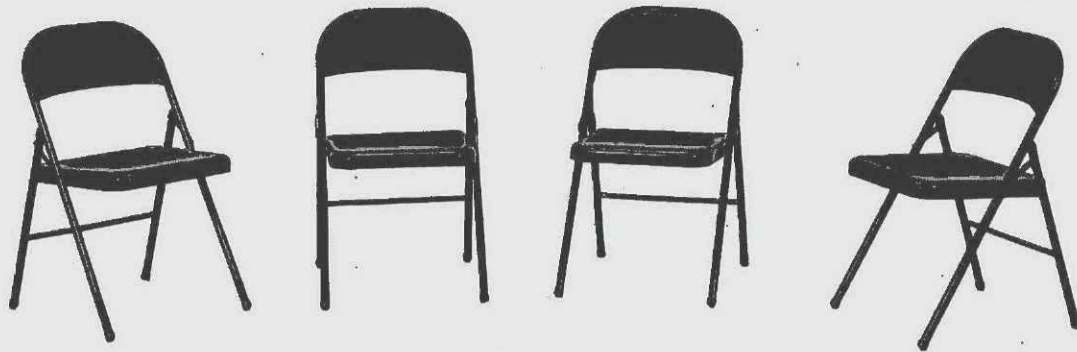
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U.K. insurers detail pollution cover limits

By CAROLYN ALDRED

LONDON—The Assn. of British Insurers is urging its members to restrict general liability policies to cover only "sudden, unintended and unexpected" pollution, reserving coverage for gradual pollution for a select few risks.

When coverage for gradual pollution is written, the group suggests using ABI wording that requires the exposure to be "individually" and "selectively" underwritten and only for industries not considered high pollution risks.

However, reinsurers have expressed reservations about the wording for gradual pollution coverage, the ABI noted.

A memo recently sent to members and associations representing risk managers, brokers and reinsurers outlines the ABI's position on pollution coverage.

For several years, the group has been trying to find ways to "give the customer the widest cover possible without bankrupting the insurer," said Victor Rance, ABI's manager of general insurance and international affairs.

Existing general liability policy wordings, the ABI memo says, are unsatisfactory because they do not deal with gradual pollution.

"In particular, they do not address the problem of triggering claims into any particular period of insurance, and they may leave the market with potential liabilities which are difficult to quantify and may be spread over a number of periods of insurance," the memo said.

Many U.K. general liability policies do not mention gradual pollution (see story, page 35).

An ABI working party concluded that insurance companies have three options:

- Completely exclude pollution from general liability policies and set up a general market pool to provide the coverage.

However, "the working party does not detect any support in the U.K. market for either approach," the memo said.

- Restrict coverage to "sudden, unintended and unexpected" pollution incidents.

Many insurers would prefer to move to that standard "across the board. . . . However, insurers supporting this course may wish to be satisfied that their competitive position was not prejudiced through other markets retaining existing wordings," the memo said.

- Restrict cover to "sudden, unintended and unexpected" pollution incidents, but include an endorsement that would extend coverage for gradual pollution for selected, individually underwritten risks.

The ABI advocates the working party's third option and has drawn up possible wording of the endorsement, known as the Single Event Pollution Trigger Insurance Clause (SEPTIC).

Under the endorsement, "all pollution or contamination which arises out of one event shall be deemed to have occurred on the date that the insured first becomes aware of circumstances which have given or may give rise to such pollution or contamination."

The contract should specify an aggregate amount of liability and the endorsement should "not apply to any claim arising from pollution or contamination if, before the current period of insurance, the insured had become aware of circumstances which have given or may give rise to such pollution or contamination."

Therefore, the SEPTIC endorsement will "pick up all pollution

claims arising from one event, irrespective of the length of time over which the injury or damage occurs," says the insurance trade group. Damage to the policyholder's own property and preventative costs would be excluded, the memo said.

"Many of the gradual pollution situations would not be regarded as insurable even under the SEPTIC approach; for example, the clearing up of waste caused by the normal process of the business," the ABI pointed out.

The ABI working group, though, failed to garner widespread support among members for using the SEPTIC wording on a general basis, particularly among reinsurers. The trade group finally agreed that if all standard general

liability policies restricted coverage to "sudden, unintended and unexpected" pollution, then the SEPTIC wording would be acceptable as an endorsement.

ABI's goal, says Victor Rance: 'The widest cover. . . without bankrupting the insurer.'

Reinsurers, the ABI's memo noted, indicated they would consider supporting direct insurers on that basis.

Even though there is "limited"

reinsurer support for its proposal, the ABI said, members will have to negotiate individually.

"It is probable that members will be required to provide full information on their SEPTIC philosophy and to maintain policy profile details of business written on that basis," the ABI noted.

In addition, reinsurers say they are not prepared to offer protection for SEPTIC endorsements for many specified businesses. According to the ABI, those businesses are:

- Manufacture and/or storage of chemicals; agro-chemicals and petrochemicals.
- Cement manufacturers.
- Brick manufactures.
- Power stations.
- Waste disposal via land-fill,

incineration or by other means.

- Non-ferrous metal production.
- Pharmaceutical manufacturers.
- Fertilizer manufacturers.
- Paper manufacturers.
- Brewing.
- Dye works.
- Coal and other metal/ferrous mines including associated coal processes.
- Tanneries
- Laundries.
- Metal plating operations/activities.
- Farming.
- Fuel storage and/or distribution.
- Pollution control equipment in respect of products liability.
- Manufacture, storage and handling of asbestos.

HOW ARKWRIGHT MINIMIZE YOUR COST OF RISK.

Pollution crackdown in Europe

By CAROLYN ALDRED

EIL insurance increasingly scarce

Environmental impairment liability insurance is becoming an increasingly scarce commodity throughout Europe as nations begin to crack the whip on industrial polluters.

Coverage for pollution under general liability policies also is vanishing in several European countries, brokers and underwriters agree.

"There is no denying that the pollution issue, which a few short years ago manifested itself only in isolated chemical incidents, is now playing a disproportionately large role in influencing political and economic policies" in Europe, said Barry McConway, commercial insurances manager for the Euro-

pean division of Sun Alliance Insurance Overseas Ltd. in London.

"There is also a growing public pressure for stricter controls intensified by several well-publicized industrial accidents," such as the Chernobyl radioactive disaster in the Soviet Union and the November 1986 Sandoz A.G. spill in the Rhine River, observed Alexander & Alexander Europe P.L.C. in an internal memorandum the broker published earlier this year.

"Now that the need for special environmental impairment insurance is growing, a common approach is needed, instead of the great divergence of the various

markets that currently exists," said Mr. McConway.

"Italy, France and The Netherlands have started the ball rolling by establishing pools in an attempt to ensure uniform coverage, including gradual pollution, but as each pool provides different cover these developments do little to help create a Europe-wide solution," he said.

"The current number of different insurance wordings makes life difficult for the insurance manager of a multinational manufacturing corporation, especially when it comes to evaluating the insurance coverage available," he noted.

"Close cooperation between European insurers should lead to the creation of pan-European standardized wordings which would be acceptable, and of major benefit to both insurers and industry."

In addition to the variation in policy wording, there is a diversity of environmental legislation throughout Europe, according to A&A Europe. "There is no uniformity of legislation or approach at this time, even within the European Community," the brokerage said in its memo.

Addressing this situation, the E.C. Commission is drafting legislation in an effort to uniformly im-

pose strict liability for pollution among the European Community's 12 member states, according to A&A Europe.

The E.C. Commission already has proposed the introduction of strict liability for all companies in the community that produce waste and, in a separate directive, has proposed the establishment of a European Environmental Agency and a European Environmental Monitoring and Information Network to improve environmental protection and monitoring (BI, Nov. 27, 1989).

Nonetheless, the pollution liability risk in Europe is still confusing and a potential nightmare for risk managers with operations in several European countries, underwriters and brokers agree.

In West Germany, which most observers believe is the most environmentally conscious European country, many general liability policies still provide coverage for bodily injury resulting from sudden and accidental, as well as gradual pollution. However, coverage for property damage under these same policies will respond only if it results from sudden and accidental occurrences.

"German insurers require substantial underwriting data and often they accept coverage only if technical measures are taken in order to improve the risk situation," A&A Europe said in its memo.

"New coverage for any site is heavily scrutinized by the insurer, and the company has to complete a 10- to 12-page questionnaire. . . . If it handles dangerous substances, it would have to have a site inspection," agreed Wilhelm Zeller, a member of the board of Cologne Reinsurance Co. of Cologne, Germany.

The pollution coverage included in West German general liability forms is usually written on an occurrence form, said Mr. Zeller.

However, following West Germany's introduction in 1960 of strict liability for water contamination, insurers there have offered specific liability insurance policies to cover strict liability for water pollution, A&A Europe noted.

And, German insurers are anxiously awaiting the outcome of environmental legislation currently pending, Mr. Zeller said.

The bill would extend strict liability to air and soil pollution.

"The main provision of the bill is that it makes the operator of certain industrial installations liable for damages to property or injury, thus introducing strict liability in this field. If the damage originates from a disused installation, the operator at the time of the shutdown is liable," A&A Europe said.

The bill includes liability for damage resulting from sudden, accidental and deliberate events, as well as from continuous emission. And operators of installations with particularly large risks have to take out appropriate insurance under the bill.

"West Germany's manufacturing industry opposes the bill, but at the same time expects that insurers will come up with concepts of how cover can be provided, especially for smaller and medium-sized companies. German insurers are, however, not eager to provide such insurance alternatives, as they believe that these risks are uninsurable, at least with regard to compulsory insurance and continuous emission under normal operational circumstances," A&A Europe said.

"As the number of contaminated sites increases, insurers will be forced to assume a substantial financial burden for their clean-up.

Continued on next page

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ARKWRIGHT

Arkwright Mutual Insurance Company
Hobbs Group, Inc.

European EIL

Continued from previous page
 German insurers are currently confronted with more than 1,000 pollution claims" generally ranging from 1,000 deutsche marks (\$637.60) to 1 million deutsche marks (\$637,600), and in some cases 10 million deutsche marks (\$6.38 million)," the brokerage said.

Meanwhile, following the economic and political reunion of West and East Germany this year, West German insurers still are unwilling to offer pollution insurance coverage for operations in East Germany, noted Cologne Re's Mr. Zeller.

"The situation changes completely in East Germany because everyone knows of the terrible pollution there," he said.

In France, sudden and accidental pollution coverage is covered by most general liability policies in the French market, but usually on a claims-made basis.

"No specific premium surcharge is applied and no questions are usually asked by insurers except for very exposed cases, such as dump sites, waste treatment plants, chemical manufacturers and the like," according to A&A.

In addition to general liability coverage, coverage is available from Assurpol, a pollution insurance pool for French risks formed in January 1989 by a group of French reinsurers. Assurpol consists of 49 insurance companies and 14 reinsurers and offers pollution limits of up to 125 million francs (\$23.83 million) (BI, Oct. 30, 1989).

The pool offers sudden and accidental pollution coverage, as well as gradual pollution coverage.

"The coverage is site-related, and Assurpol only covers sites in France and its territories plus Monaco, but they are prepared to underwrite sites in other E.C. countries for multinational groups that cover their French exposures" with the French pool, ac-

ording to A&A.

For applicants that require limits of more than 5 million francs (\$953,300), specialist environmental engineers survey sites and conduct an extensive environmental audit, according to A&A.

"Although companies in France face stiff fines and possibly prison sentences for operating dangerous or polluting plants, violations have very rarely been tried in court because the number of inspectors is limited," noted A&A.

However, the French government is currently "attempting to improve enforcement," A&A added.

Earlier this summer, the French government proposed stiff new environmental legislation in its so-called "plan vert," or green plan.

Italy also is confronting a scarcity of pollution coverage with the creation of an industry-wide pool.

Coverage for pollution is excluded from standard general liability policies in Italy.

The Italian Insurers' Assn. manages a pollution pool, known as the "Pool Inquinamento," that provides sudden and accidental and gradual pollution cover on a claims-made basis with a 12-month reporting period after the policy year (BI, Oct. 30, 1989).

The pool, underwritten by 76 insurance companies, provides up to 40 billion lira (\$34.11 million) of EIL insurance limits to cover bodily injury, third-party property and third-party business interruption claims.

Applicants complete a questionnaire, which the pool passes to specialist surveyors who produce a technical report that the Pool's Underwriting Committee uses as a basis for assessing the risk, according to A&A.

An insurance pool also has been formed in the Netherlands to provide coverage for certain pollution risks.

Some individual insurers' general liability insurance policies offer oc-

currence-based coverage in the Netherlands for bodily injury and third-party property damage claims stemming from sudden and accidental pollution incidents, but exclude coverage for gradual pollution.

A reinsurance pool known as MAS offers sudden and accidental pollution coverage on an occurrence basis and gradual pollution coverage on a claims-made basis for risks situated in the Netherlands (BI, Oct. 30, 1989).

Clean-up costs are covered only if there is immediate danger to third parties.

The pool consists of some 80 Dutch insurance companies and provides 100% reinsurance to its member companies, which each underwrite pollution insurance in their own names, according to A&A Europe.

Environmental issues are becoming a major concern in the Netherlands.

"In May 1989, the Dutch government resigned over their controversial proposals to finance the most extensive environment program in Europe. It aimed to reduce water, air and soil pollution by 70% to 90% by 2010," A&A Europe reported in its memo.

"Manufacturers have until now taken little interest in insuring themselves against the environmental liability risk. However, this activity will change as people in the Netherlands become increasingly less tolerant about corporate behavior," the brokerage warned.

Like the Netherlands, Denmark also is one of Europe's more environmentally conscious nations.

The standard Danish general liability policy approved by the Danish Accident Insurers' Assn. requires the policyholder desiring coverage for pollution to purchase a special endorsement available for an additional premium of up to 100% of the premium charged for the entire general liability policy, A&A noted.

Coverage usually is restricted, though, to sudden and accidental events.

In Sweden, sudden and accidental pollution cover is provided by standard third-party liability insurance policies, usually on an occurrence basis.

Last year, an insurance consortium known as Miljo-Skade Konsortiet was formed to create a fund to indemnify third parties for pollution caused by insolvent or unknown polluters (BI, Oct. 30, 1989).

In Spain, sudden and accidental pollution coverage only is available through standard general liability policies on an occurrence or claims-made wording.

There are no Spanish insurance pools for pollution coverage, although some insurers are discussing the viability of such a pool, A&A Europe noted.

Similarly, sudden and accidental pollution coverage is provided under general liability policies in neighboring Portugal, although there is no pollution pool.

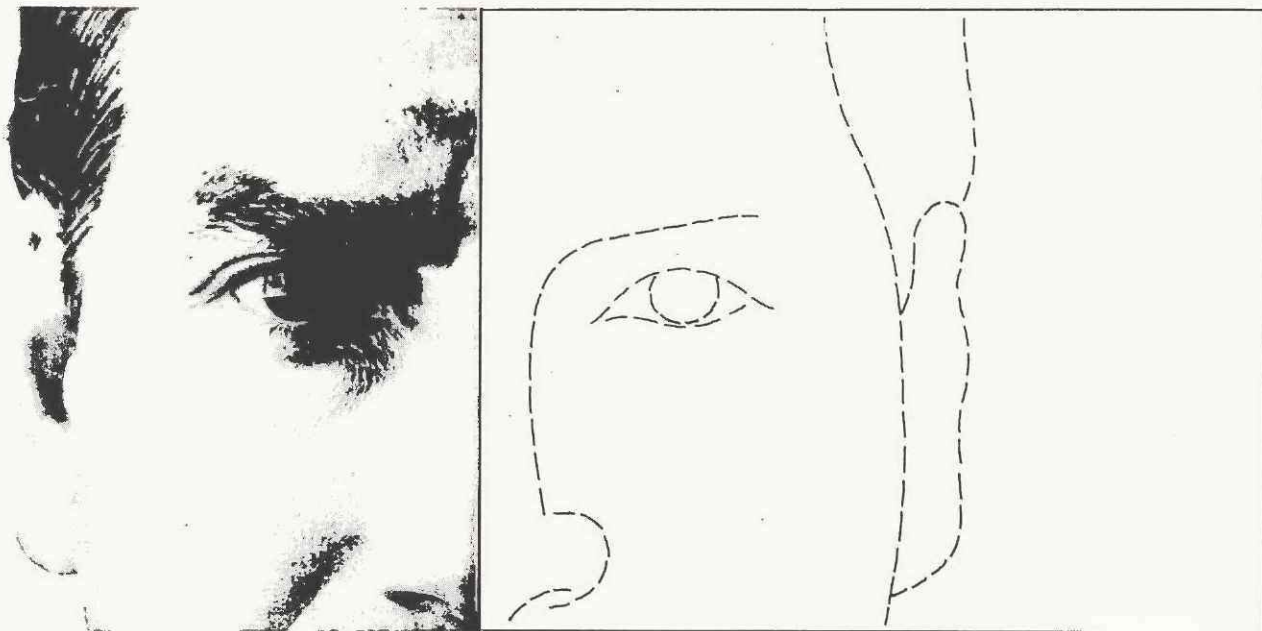
"Gradual pollution cover is not readily available" in either country on the Iberian peninsula, noted Sun Alliance's Mr. McConway, who added that demand in Spain and Portugal for such coverage is not great.

In Greece, the standard general liability policy wording usually excludes coverage for all forms of pollution, although sudden and accidental pollution coverage is provided by certain insurers on request, according to A&A.

"The market is quite strict and it is common to totally exclude pollution risks, although there are some exceptions," agreed Mr. McConway.

In the Republic of Ireland, sudden and accidental pollution coverage is provided in standard public liability and product liability policies, and the coverage usually is written on an occurrence basis.

Liability coverage for gradual pollution can be negotiated on a case-by-case basis, A&A Europe noted. ■



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Directory of environmental consultants

A

ACG Environmental Inc.

W6833 Industrial Blvd.,
LaCrosse, Wis. 54650;
608-781-2390;
fax: 608-781-2418

Year founded: 1986.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, public health risk assessment; occasional design and analysis of remediation plans, litigation support, regulatory and public policy analysis, risk management consulting.

Other services: Frequent consulting to insurers and public policy makers, general risk management consulting; occasional remediation activities.

Staff: 20 total; 12 professionals, including five principal consultants, seven consultants.

Clients: 20 corporate and institutional environmental risk management consulting clients; 25% with gross revenues less than \$10 million, 10% with \$10 million-\$25 million, 10% with \$25 million-\$100 million, 15% with \$100 million-\$1 billion, 40% with more than \$1 billion.

Specialties: Paper manufacturing, utilities, foundries, petroleum industry, financial institutions, real estate, government agencies.

Branch offices: Wauwatosa, Wis.

Compensation: By the project; by the hour: principal consultant, \$85-\$100; consultant, \$38-\$55.

1989 gross revenues: \$850,000 total, 90% from unbundled environmental risk management consulting services.

Principal officers: Timothy E. Kerska, president; Scott T. Swinghamer; executive vp; Thomas J. Noelke, vp.

AIG Consultants Inc.

72 Wall St., New York, N.Y.
10270; 212-770-3630; fax:
212-785-8287

Year founded: 1979.

Parent company: American International Group Inc.

Environmental risk management consulting services: Frequent environmental audits of real estate, risk management consulting; occasional operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans, litigation support; industrial hygiene services, safety consulting, compliance assistance consulting.

Other services: Frequent consulting to insurers and public policy makers, general risk management consulting; occasional remediation activities.

Staff: 180 total; 25 professionals, including 10 principal consultants, 15 consultants. Professional designations held by staff include one PE, four ARMs, five CPCUs, one attorney.

Clients: 31 total clients.
Branch offices: Atlanta, Boston, Chicago, Cleveland, Dallas, Los Angeles, Philadelphia, San Francisco.

Compensation: By the project.

1989 gross revenues: \$21 million total, 14% from unbundled environmental risk management consulting services.

Principal officers: Arnold Goldberg, president; Martin Myers, senior vp; Robert Blaunstein and Jack Leonard, vps; Jan Young, assistant vp.

Contact: Robert Blaunstein, 1200 19th St. N.W., Washington, D.C. 20036; 202-861-8683.

American

Re-Insurance Co.

555 College Road E.,
Princeton, N.J. 08543;
609-243-4200;
fax: 609-243-4257

Year founded: 1916.

Year founded: 1916.

Parent company: Aetna Casualty & Surety Co.

Environmental risk management consulting services: Frequent environmental technical and regulatory consulting services.

Other services: Frequent consulting to insurers and public policy makers.

Staff: Two professionals assigned to environmental risk management consulting, including one principal consultant, one consultant.

Specialties: Property and casualty insurers and insureds.

Compensation: By the project; on retainer; by the hour.

Principal officers: Ed Jobe, president; Paul Inderbitzin, executive vp; Ken LeStrange, senior vp; Ed Noonan and Mike Jones, senior vps.

Contact: Stuart Ferguson, 609-243-4332.

Anistics

220 E. 42nd St., New York, N.Y.
10017; 212-972-9600; fax:
212-972-9612

Year founded: 1970.

Parent company: Alexander & Alexander Inc.

Environmental risk management consulting services: Frequent risk management consulting; occasional public health risk assessment, regulatory and public policy analysis.

Other services: Frequent general risk management consulting; occasional consulting to insurers and public policy makers.

Staff: 71 total. Professional designations held by staff include 12 ARMs, two CPCUs, one FCAS, one FSA, one CFA, one Ph.D., seven MBAs.

Clients: 25 corporate and institu-

tional environmental risk management consulting clients; 5% with gross revenues less than \$10 million, 5% with \$10 million-\$25 million, 75% with \$25 million-\$100 million, 10% with \$100 million-\$1 billion, 5% with more than \$1 billion.

Specialties: Manufacturing, petroleum, public entities, financial institutions.

Branch offices: Atlanta; Dallas; New York; San Francisco; Toronto, Ontario; London; Sydney, Australia.

Compensation: By the project; on retainer; by the hour: principal consultant, \$200-\$300; consultant, \$100-200.

1989 gross revenues: 10% from unbundled environmental risk management consulting services.

Principal officers: Karen G. Foley, national director; Harry L. Shuford, director-financial consulting; Wayne E. Seel, director-sales/marketing; Bernard Fung, managing

director-Toronto office.

Applied Occupational Health Systems

29 River Road, Suite 18, P.O. Box 894, Concord, N.H. 03301;
603-228-3610; fax: 603-228-3871

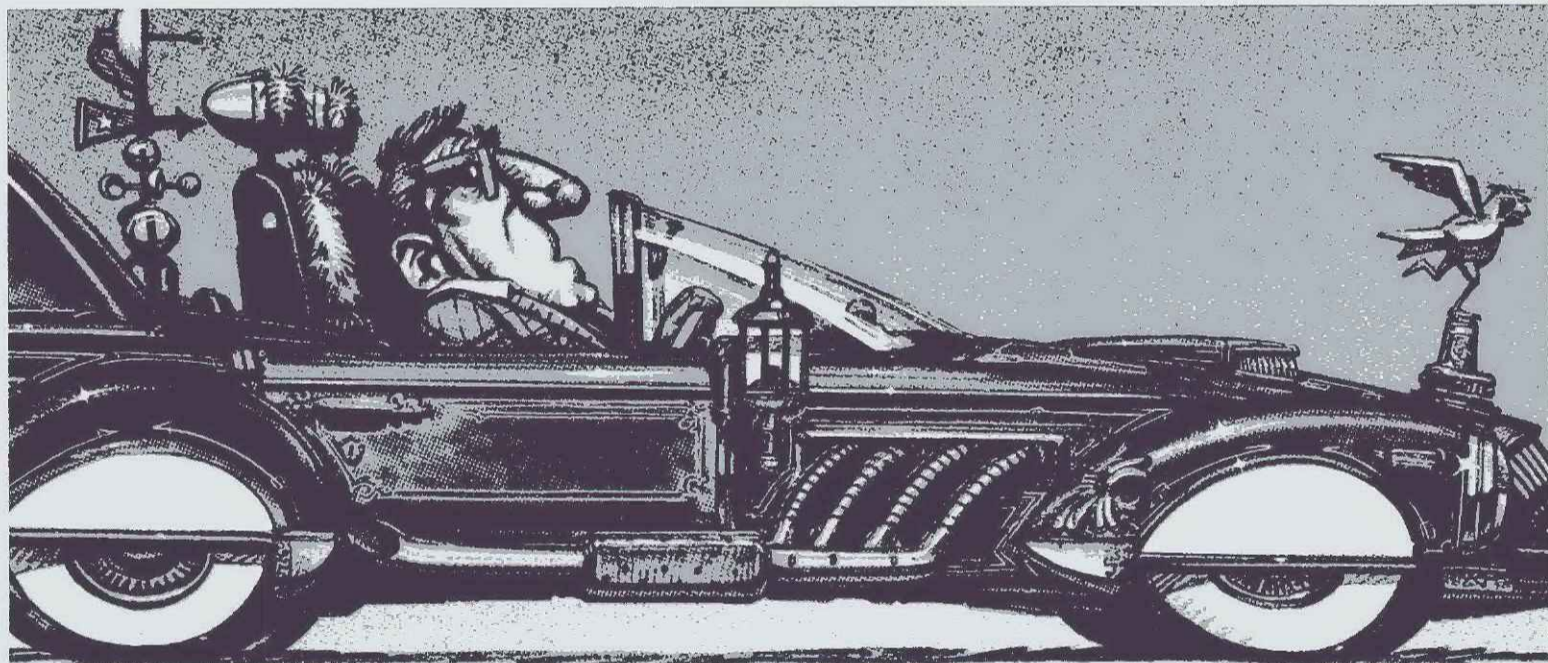
Year founded: 1978.

Environmental risk management consulting services: Frequent environmental audits of real estate, design and analysis of remediation plans, regulatory and public policy analysis; occasional operational audits of manufacturing plants, design of waste minimization plans, litigation support, public health risk assessment.

Other services: Occasional general risk management consulting; industrial hygiene consulting services, mock OSHA surveys, noise conserva-

Continued on next page

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813-969-0701

800-525-5590
National

Guide to using directory listings

The first annual directory of environmental risk management consultants lists companies that responded to a *Business Insurance* questionnaire.

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

However, to be listed consultants must offer services directly to employers on an unbundled basis; companies that offer environmental risk management consulting only in conjunction with other products and services are not included in this directory.

Directory listings begin with the name and address of the company, followed by the **year founded** and **parent company**, if any.

Detailed next are environmental risk management consulting **services** the company provides.

Information on **staff** follows, including total staff members, professional staff members assigned to environmental risk management consulting; number of principal consultants and consultants; and designations or professional memberships staff members hold. Information on the number of corporate and institutional employer clients in 1989 and a percentage breakdown of their revenues is listed under the **clients** heading.

If the company specializes in consulting to a particular type of business or industry, it is listed under the **specialties** heading.

Locations of **branch offices** providing environmental risk management consulting services follow.

When reported by the company, 1989 **gross revenues** are given.

Names and titles of **principal officers**, followed by the name of a **contact** for those wishing further information, complete the listings.

Although we make every effort to publish complete and accurate listings, *Business Insurance* is unable to verify information provided by the companies.

Following are the names of the full professional designations and organizations for those abbreviated under the staff heading:

AAEE is Diplomate, American Academy of Environmental Engineers; **ASHERA** is Asbestos Hazard Emergency Response Act certification; **AIIC** is Associate, Insurance Institute of Canada; **ARM** is Associate in Risk Management; **CAI** is Certified Asbestos Inspector; **CCM** is Certified Consulting Meteorologist; **CEG** is Certified Engineering Geologist; **CFA** is Certified Financial Analyst; **CGWP** is Certified Ground Water Professional; **CHCM** is Certified Hazardous Control Manager; **CHMM** is Certified Hazardous Materials Manager; **CHWM** is Certified Hazardous Waste Manager; **CIH** is Certified Industrial Hygienist; **CLRS** is Certified Loss Reserve Specialist; **CPCU** is Chartered Property & Casualty Underwriter; **CPG** is Certified Professional Geologist; **CPSS** is Certified Professional Soil Scientist; **CSE** is Certified Safety Executive; **CSP** is Certified Safety Professional; **FCAS** is Fellow, Casualty Actuarial Society; **FSA** is Fellow, Society of Actuaries; **MBA** is Master of Business Administration; **MD** is Medical Doctor; **PE** is Professional Engineer; **PH** is Professional Engineer, **Ph.D.** is Doctor of Philosophy; **RA** is Registered Architect; **REA** is Registered Environmental Auditor; **REPA** is Registered Environmental Property Assessor; **RG** is Registered Geologist; **RPES** is Registered Professional Environmental Scientist; **Sc.D.** is Doctor of Science.

Continued from previous page
tion programs, asbestos consulting services, indoor air quality, analytical laboratory services, professional training.

Staff: 45 total; 21 professionals, including five principal consultants, 16 consultants. Professional designations held by staff include one CIE.

Clients: 35 corporate and institutional environmental risk management consulting clients; 50% with gross revenues less than \$10 million, 20% with \$10 million-\$25 million, 20% with \$25 million-\$100 million, 5% with \$100 million-\$1 billion, 5% with more than \$1 billion.

Specialties: Regulatory compliance, asbestos project management and surveys, analytical services.

Branch office: Providence, R.I.

Compensation: By the project; on retainer; by the hour: principal consultant, \$60-\$90; consultant, \$45-\$60.

1989 gross revenues: \$1.5 million total, 10% from unbundled environmental risk management consulting services.

Principal officers: Scott E. Law-

son, president; Richard Kretovich, manager-asbestos services; Dennis Francoeur, manager-industrial hygiene services; Beverly Baer, laboratory director; Susan Dennis, director-finance.

Aqua-Tech Inc.

40 S. Park St., Port Washington, Wis. 53074; 414-234-5746; fax: 414-284-0243

Year founded: 1935

Environmental risk management consulting services: Frequent environmental audits of real estate, design and analysis of remediation plans, risk management consulting; occasional operational audits of manufacturing plants, design of waste minimization plans, regulatory and public policy analysis.

Other services: Frequent remediation activities, certified safety training; occasional consulting to insurers and public policy makers.

Staff: 70 total; 22 professionals, including three principal consultants, 19 consultants. Professional designations held by staff include three CPGs, one CHMM, one REA.

Clients: 20 corporate and institu-

tional environmental risk management consulting clients; 5% with gross revenues between \$10 million-\$25 million, 5% with \$25 million-\$100 million, 90% with more than \$1 billion.

Specialties: Construction, state government, dealers of retail petroleum products.

Branch office: Great, S.C.

Compensation: By the project; by the hour: principal consultant, \$50; consultant, \$50.

1989 gross revenues: \$7 million total, 20% from unbundled environmental risk management consulting services.

Principal officers: David Opitz, president; Charles Sorcup, executive vp; Jerry Weidman, chief financial officer; Tom Sorenson, sales manager; Mike Ryan, operations manager.

Contact: Mike Egan or Mike Koepke.

Aralie Inc.

8 William St., Pequannock, N.J. 07440; 201-694-7896; fax: 201-694-5307

Year founded: 1983

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, litigation support, risk management consulting, environmental risk assessment, regulatory compliance occasional design and analysis of remediation plans, design of waste minimization plans, public health risk assessment, regulatory and public policy analysis.

Other services: Frequent consulting to insurers and public policy makers, general risk management consulting, cata management, claims management.

Staff: Three total; two professionals, including one principal consultant, one consultant. Professional designations held by staff include one PE, one Ph.D.

Clients: 20% with gross revenues less than \$10 million, 20% with \$10 million-\$25 million, 20% with \$25 million-\$100 million, 20% with \$100 million-\$1 billion, 20% with more than \$1 billion.

Branch offices: Pequannock, N.J.; *Continued on next page*



Continued from previous page
Honesdale, Pa.; Westbury, N.Y.; Burlington, Vt.; Concord, N.H.; San Francisco.

Compensation: By the project; on retainer; by the hour: principal consultant, \$100-\$150; consultant, \$75-\$125.

1989 gross revenues: 100% from unbundled environmental risk management consulting services.

Principal officers: Charles P. Priesing, president/principal consultant; Clayton C. Cook and William Askins, vps/associate consultants.

Arctic Slope Consulting Group Inc.

6700 Arctic Spur Road, Anchorage, Alaska 99518; 907-349-5148; fax: 907-349-4213

Year founded: 1981.

Parent company: Arctic Slope Regional Corp.

Environmental risk management consulting services: Frequent environmental audits of real estate, design and analysis of remediation plans, litigation support, regulatory and public policy analysis,

risk management consulting, underground storage tank management, regulatory compliance, design of asbestos abatement plans; occasional operational audits of manufacturing plants, design of waste minimization plans, public health risk assessment.

Other services: Frequent consulting to insurers and public policy makers, general risk management consulting, civil engineering, architecture/design, environmental lobbying, applied science applications.

Staff: 209 total; 13 professionals, including one principal consultant, 19 consultants. Professional designations held by staff include 15 PEs, three CPGs, one ARM, one CGWP, one attorney, one REP, one Ph.D., one CIH.

Clients: 189 corporate and institutional environmental risk management consulting clients; 20% with gross revenues less than \$10 million, 70% with \$100 million-\$1 billion, 10% with more than \$1 billion.

Specialties: Government entities, financial institutions.

Branch offices: Barrow, Juneau and Fairbanks, Alaska; Seattle; Al-

buquerque, N.M.; Houston.

Compensation: By the project; on retainer; by the hour: principal consultant, \$105-\$150; consultant, \$50-\$105.

1989 gross revenues: \$14.6 million total, 10% from unbundled environmental risk management consulting services.

Principal officers: Leland A. Johnson, president; Gary R. Bock, vp-engineering; Gary McNeil, vp-surveying; Harley H. Hightower.

The Avendt Group Inc.

225 W. Washington, Chicago, Ill. 60606; 312-372-9500; fax: 312-845-5305

Year founded: 1986.

Parent company: The Colson Group Inc.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans; occasional design of waste minimization plans, litigation support public

health assessment.

Other services: Frequent consulting to insurers and public policy makers; occasional remediation activities.

Staff: 42 total; 30 professionals, including six principal consultants, 24 consultants. Professional designations held by staff include seven PEs, five CPGs, one CGWPs.

Clients: 50 total clients; 40% with gross revenues less than \$10 million, 20% with \$10 million-\$25 million, 12% with \$25 million-\$100 million, 12% with \$100 million-\$1 billion, 16% with more than \$1 billion.

Specialties: Manufacturing, petroleum, chemical, insurance, municipal waste water.

Branch offices: Annapolis, Md.; Flint, Mich.; Charlotte, N.C.; San Jose, Calif.; Newark, N.J.

Compensation: By the project; on retainer; by the hour: principal consultant, \$130; consultant, \$50-\$100.

1989 gross revenues: 100% from unbundled environmental risk management consulting services.

Principal officers: Frank J. Burke, chairman; Ivan A. Cooper, vp; Tom Willis; Dominick DeRierzo; John Hess, controller.

B

BCM Engineers Inc.

1 Plymouth Meeting, Plymouth Meeting, Pa. 19462; 215-825-3800; fax: 215-828-3347

Year founded: Original company founded 1890.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans, public health risk assessment; occasional litigation support, regulatory and public policy analysis.

Other services: Frequent consulting to insurers and public policy makers, general risk management consulting; occasional remediation activities.

Staff: 1,000 total; 275 professionals, including 85 principal consultants, 190 consultants. Professional designations held by staff include 125 PEs, 10 CPGs, one CGWP, one attorney, six CIHs, three CSPs, two CHMMs, one CHCM.

Clients: 75 corporate and institutional environmental risk management consulting clients; 5% with gross revenues less than \$10 million, 10% with \$10 million-\$25 million, 50% with \$25 million-\$100 million, 15% with \$100 million-\$1 billion, 20% with more than \$1 billion.

Specialties: Chemical, petrochemical, manufacturing, building maintenance, real estate, hotel industry.

Branch offices: Mobile, Ala.; Los Angeles; Denver; Atlanta and Albany, Ga.; Miami; Chicago; Jackson, Miss.; Dallas; Pittsburgh; Burlington, N.J.; New York.

Compensation: By the project; on retainer; by the hour: principal consultant, \$90-\$150; consultant, \$65-\$80.

1989 gross revenues: \$75 million total, 11% from unbundled environmental risk management consulting services.

Principal officers: M.Z. Hanlon, president-BCM Engineers of Pennsylvania; H.E. Myers Jr., president-BCM Engineers of Alabama; J.J. Jablonski, president-BCM Corporate Services; R.L. Swavely, executive vp; D.B. Wright-senior vp.

Contact: Thomas J. Baker-senior vp.

Bechtel Environmental Inc.

50 Beale St., San Francisco, Calif. 94119-3965; 415-768-7709; fax: 415-768-4898

Year founded: 1981.

Parent company: Bechtel National Inc.

Environmental risk management consulting services: Frequent operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans, public health risk assessment, regulatory and public policy analysis; occasional environmental audits of real estate, litigation support, risk management consulting.

Other services: Frequent remediation activities, general risk management consulting; occasional consulting to insurers and public policy makers.

Staff: 1,800 total; 600 professionals. Professional designations held by staff include 1,110 PEs, 38 CPGs, one ARM, one CPCU, 60 CGWPs, 22 attorneys.

Clients: 50 corporate and institutional environmental risk management consulting clients; 95% with gross revenues less than \$10 million, 5% with \$10 million-\$25 million.

Specialties: Oil and gas, chemicals, mining and minerals, manufacturing, electronics, aerospace.

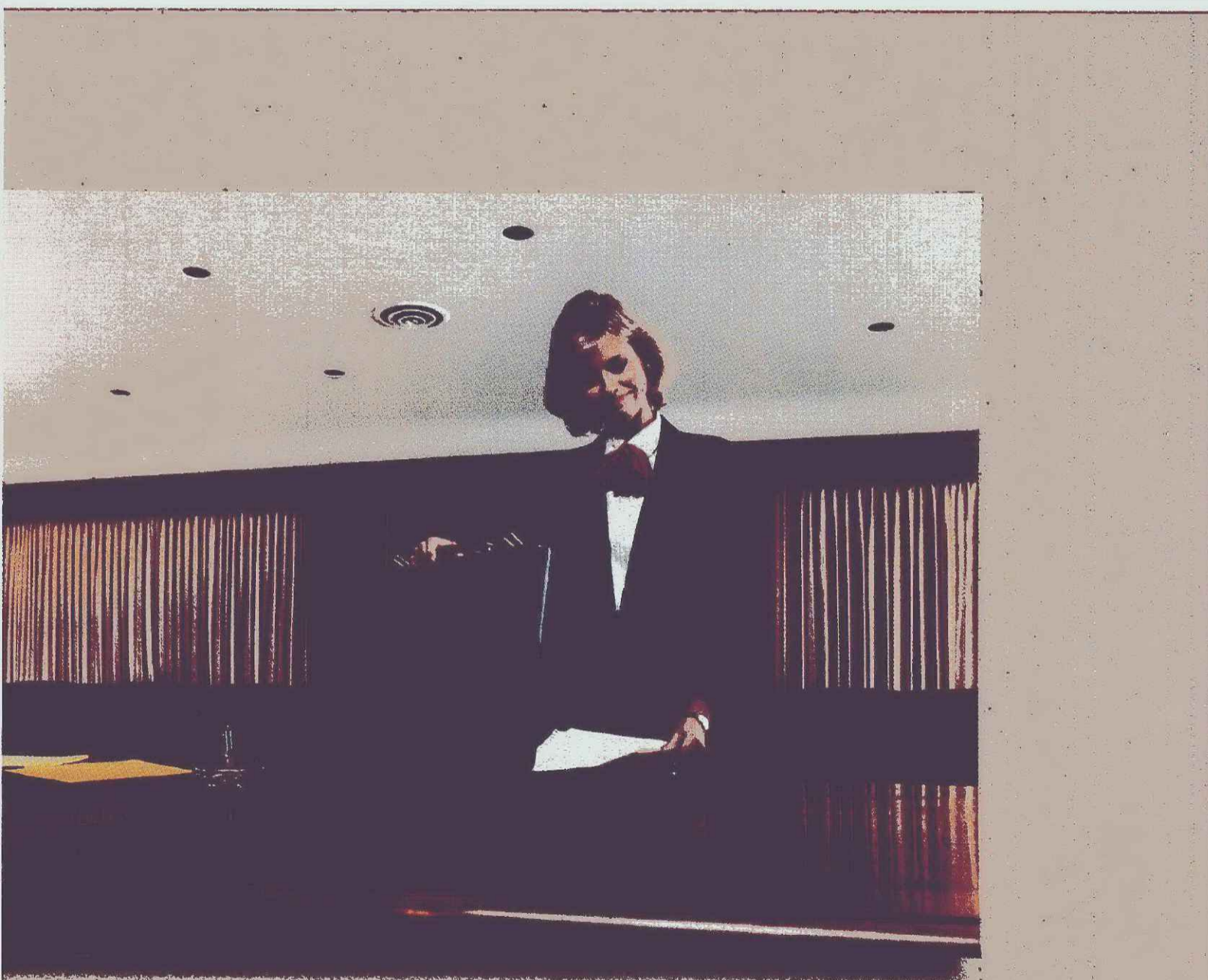
Branch offices: San Francisco; Los Angeles; Houston; Oak Ridge, Tenn.; Gaithersburg, Md.; Toronto; Taipei, China; Taiwan; Jakarta, Indonesia.

Compensation: By the project.
1989 gross revenues: \$130 million total, 30% from unbundled environmental risk management consulting services.

Principal officers: E.S. Keen, president; R. Strelow, J.W. Kluesner, C.A. Harper and R.A. Hughes, vps.

Contact: A.W. Metwally.

Continued on next page



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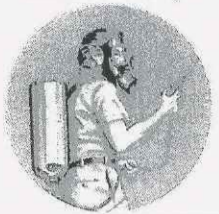
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Continued from previous page

R.L. Beekman & Co. Inc.

1523 Court St., P.O. Box 6203,
Saginaw, Mich. 48608;
517-791-4545; fax: 517-791-4714

Year founded: 1986.

Environmental risk management consulting services: Frequent litigation support, risk management consulting, insurance history data base construction.

Other services: Frequent general risk management consulting.

Staff: Five total; three professionals, including two principal consultants, one consultant. Professional designations held by staff include two ARMs, two CPCUs, two APAs, one CIPA, one AIAF.

Clients: Seven corporate and institutional environmental risk management consulting clients; 90% with gross revenues less than \$10 million, 10% with \$10 million-\$25 million.

Specialties: Government entities, construction and manufacturing.

Compensation: By the hour: prin-

cipal consultant, \$85-\$150; consultant, \$50-\$100.

1989 gross revenues: \$350,000 total, 10% from unbundled environmental risk management consulting services.

Contact: Richard L. Beekman, R. Scott Ecker, D. Timothy Underwood.

Bowser-Morner Inc.

4518 Taylorsville Road, P.O. Box 51, Dayton, Ohio 45401;
513-236-8805; fax: 513-233-2016

Year founded: 1911.

Environmental risk management consulting services: Frequent environmental audits of real estate, litigation support, underground tank closure reports, RCRA closure plans for lagoons and landfills, siting and designating waste disposal facilities; occasional operational audits of manufacturing plants, design and analysis of remediation plans, regulatory and public policy analysis.

Other services: Occasional remediation activities, consulting to insurers and public policy makers.

Staff: 210 total; including four principal consultants, 12 consultants. Professional designations held by staff include 11 PEs, one CPG.

Clients: 400 corporate and institutional environmental risk management consulting clients; 85% with gross revenues less than \$10 million, 11% with \$10 million-\$25 million, 3% with \$25 million-\$100 million, 1% with \$100 million-\$1 billion.

Specialties: Manufacturing, lending institutions, developers, waste disposal firms.

Branch offices: Toledo, Ohio; Lexington, Ky.

Compensation: By the project; by the hour: principal consultant, \$90; consultant, \$35.

1989 gross revenues: \$11 million total, 5% from unbundled environmental risk management consulting services.

Principal officers: Richard Hoppenjans, chief engineer/vp-Toledo office; Dayton office: David Cowherd, chief engineer/vp; Kenneth Taylor-senior vp-construction services; Steven Bowser-president.

Contact: Gerald H. Degler-vp/director-marketing.

C

C/P Utility Services Co.

119 Sanford St., Hampden, Mass.
06514; 203-248-8612; fax:
203-288-3570

Year founded: 1984.

Parent company: Consumers Water Co.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans, regulatory and public policy analysis; occasional litigation support, public health risk assessment.

Other services: Frequent remediation activities; occasional consulting to insurers and public policy makers.

Staff: Three professional staff members, all consultants. Professional designations held by staff include three PEs.

Clients: 20 corporate and institutional environmental risk management consulting clients; 90% with gross revenues less than \$10 million, 8% with \$10 million-\$25 million, 2% with \$25 million-\$100 million.

Branch office: Sutton, Mass.

Compensation: By the project; on retainer; by the hour: principal consultant, \$55-\$90; consultant, \$55-\$75.

1989 gross revenues: \$5.6 million total, 50% from unbundled environmental risk management consulting services.

Principal officers: Bradley Taylor, president; Theodore Lund, vp.

Contact: Michael Hopkins, manager-environmental engineering services.

C.T.I. Environmental Services Inc.

60 N. Westwood Ave., Toledo, Ohio 43607; 800-828-9096; fax: 419-536-8586

Year founded: 1990.

Continued on page 44

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Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, regulatory and public policy analysis; occasional litigation support, public health risk assessment.

Other services: Occasional remediation activities, consulting to insurers and public policy makers, general risk management consulting.

Staff: 10 total; eight professionals, including six principal consultants, two consultants. Professional designations held by staff include one PE, one CPG, one CGWP.

Clients: 38 corporate and institutional environmental risk management consulting clients; 85% with gross revenues less than \$10 million, 10% with \$10 million-\$25 million, 4% with \$25 million-\$100 million, 1% with \$100 million-\$1 billion.

Compensation: By the project.

1989 gross revenues: \$750,000 total, 70% from unbundled environmental risk management consulting services.

Principal officers: Michael V. Glaze, president; Robert Near, chief executive officer; P.D. Deo, vp.

Contact: Michael V. Glaze, 800-828-9096.

Capsule Environmental Engineering Inc.

1970 Oakcrest Ave., Suite 215, St. Paul, Minn. 55113; 612-636-2644; fax: 612-636-3106

Year founded: 1984.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans; occasional litigation support, public health risk assessment, regulatory and public policy analysis.

Other services: Frequent general risk management consulting, project administration, management of remediation activities; occasional remediation activities.

Staff: 24 total; 19 professionals, including four principal consultants, 15 consultants. Professional designations held by staff include two PEs.

Clients: 10 corporate and institutional environmental risk management consulting clients; 60% with gross revenues less than \$10 million, 10% with \$25 million-\$100 million, 10% with \$100 million-\$1 billion, 20% with more than \$1 billion.

Specialties: Manufacturing.

Compensation: By the project; by the hour: principal consultant, \$100-\$130; consultant, \$50-\$100.

1989 gross revenues: \$2.25 million total, 55% from unbundled environmental risk management consulting services.

Principal officers: James E. Nash, president; David J. Kelly, secretary; Richard M. Manthe, corporate executive vp; Dennis G. Willis, vp-process technologies; David R. Cushman, vp-technical services.

Contact: Richard M. Manthe.

Carlson Knight Kudrna Inc.

549 W. Randolph St., Chicago, Ill. 60606; 312-346-2140; fax: 312-346-6956

Year founded: 1988.

Environmental risk management consulting services: Frequent environmental audits of real estate, design and analysis of remediation plans, regulatory and public policy analysis; occasional operational audits of manufacturing plants, design of waste minimization plans, litigation support, public health risk assessment.

Other services: Frequent consulting to insurers and public policy makers.

Staff: 10 total. Professional designations held by staff include two PEs.

Clients: 55 total clients; 85% with gross revenues less than \$10 million, 5% with \$10 million-\$25 million, 10% with \$100 million-\$1 billion.

Compensation: By the project, on retainer, by the hour.

1989 gross revenues: \$450,000 total, 100% from unbundled environmental risk management consulting services.

Principal officers: Richard J. Carlson, president; Frank L. Kudrna, treasurer; Steven C. Mitchell, secretary.

Contact: Richard J. Carlson.

CENTEC Engineering

5020 Campus Drive, Newport Beach, Calif. 92660; 714-476-8922; fax: 714-752-2287

Year founded: 1989.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans; occasional design of waste minimization plans, litigation support, public health risk assessment, risk management consulting.

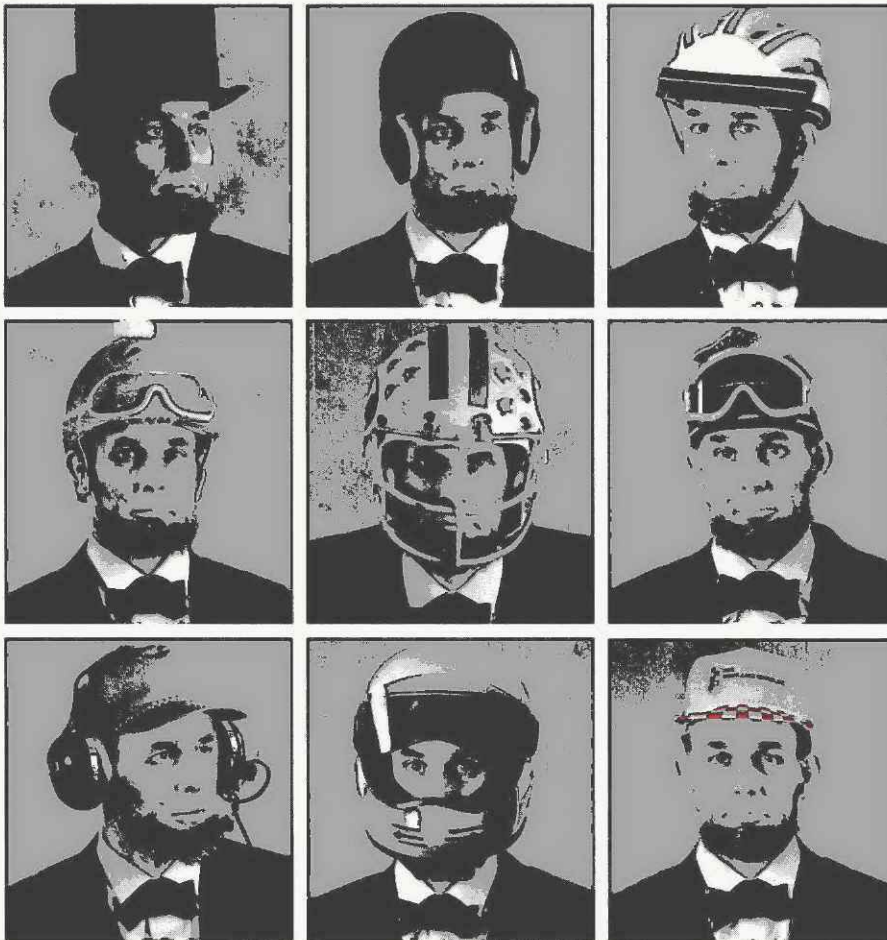
Other services: Frequent general risk management consulting.

Staff: 17 total; 11 professionals, including four principal consultants, seven consultants. Professional designations held by staff include one PE, one CPG, one REA.

Clients: 30 corporate and institu-

Continued on page 46

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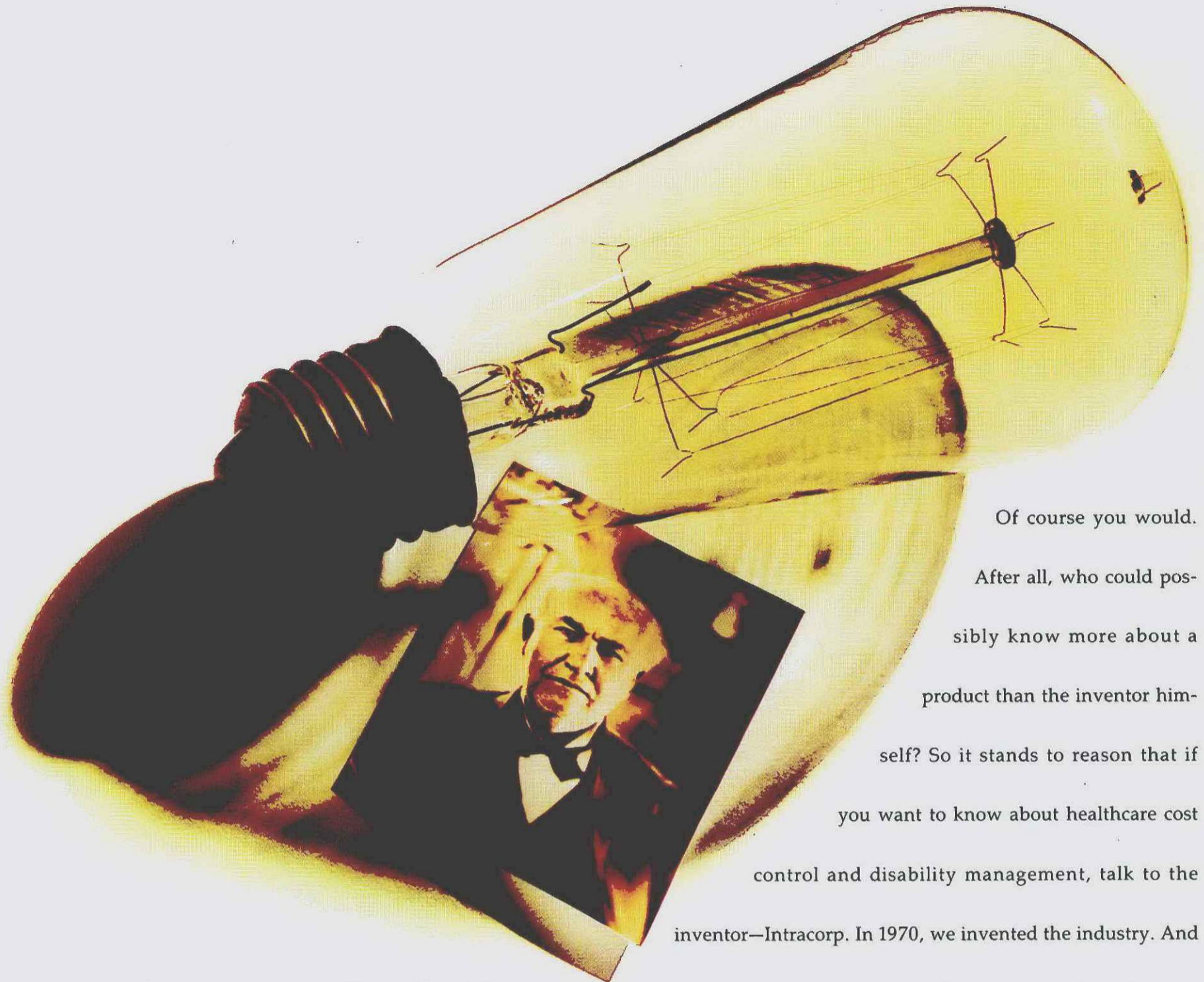


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Continued from page 44
tional environmental risk management consulting clients; 70% with gross revenues less than \$10 million, 20% with \$10 million-\$25 million, 10% with \$25 million-\$100 million.

Specialties: Developers.
Branch office: Newport Beach, Calif.

Compensation: By the project; on retainer; by the hour: principal consultant, \$100-\$200; consultant, \$45-\$100.

1989 gross revenues: \$225,000 total, 100% from unbundled environmental risk management consulting services.

Principal officers: Michael W. Bollinger, president; Steven N. Collins, vp.

Clayton Environmental Consultants Inc.

41650 Gardenbrook Road, Suite 155, Novi, Mich. 48050; 313-344-8550; fax: 313-344-0229

Year founded: 1954.
Parent company: Marsh & McLennan Inc.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans, litigation support, public health risk assessment, regulatory and public policy analysis; occasional risk management consulting.

Other services: Frequent consulting to insurers and public policy makers; occasional general risk management consulting, hazard identification, asbestos management, worker exposure monitoring, indoor air quality studies, underground tank management, hazardous materials management, air pollution monitoring and control.

Staff: 446 total; 241 professionals. Professional designations held by staff include 12 PEs, 18 CIHs.

Clients: 2,800 corporate and institutional environmental risk management consulting clients; 5% with gross revenues less than \$10 million, 5% with \$10 million-\$25 million, 20% with \$25 million-\$100 million, 40% with \$100 million-\$1 billion, 30% with more than \$1 billion.

Specialties: Property developers, lending institutions, real estate brokers, building owners, asset management firms.

Branch offices: Pleasanton and Cypress, Calif.; Kennesaw, Ga.; Wayne, Pa.; Edison, N.J.; Windsor and Willowdale, Ontario.

Compensation: By the project; by the hour.

1989 gross revenues: 70% from unbundled environmental risk management consulting services.

Principal officers: Robert G. Uhler, president; Jaswant Singh, senior vp; Bob Lieckfield, Kirit Vora, Charles Blake and Lisa Simkins, vps.

Contact: Doug Robbins, assistant vp-sales/marketing, P.O. Box 9019, Pleasanton, Calif. 94566; 415-426-2600.

Compu-Weather Inc.

P.O. Box 1122, Flushing, N.Y. 11354; 800-825-4445 or 718-961-4242; fax: 718-353-1294

Year founded: 1978.
Environmental risk management consulting services: Frequent litigation support, public health risk assessment, weather and climate studies and consulting, historical investigations.

Other services: Frequent consulting to insurers and public policy makers, general risk management consulting.

Staff: 30 total; 15 professionals. Professional designations held by staff include 19 American Meteorological Society members, one Commercial Weather Service Assn. members, 22 National Weather Assn. members.

Clients: 635 total clients; 25% with gross revenues less than \$10 million, 20% with \$10 million-\$25 million, 30% with \$25 million-\$100 million, 15% with \$100 million-\$1 billion, 10% with more than \$1 billion.

Specialties: Insurance, attorneys, engineering, government, entertainment.

Compensation: By the project; on retainer.

1989 gross revenues: 75% from unbundled environmental risk management consulting services.

Principal officers: Jeff Wimmer, president; Todd Gross, vp.

Consulting Services Inc. (CSI)

1 E. Uwchlar Ave., Suite 310, Exton, Pa. 19341; 215-269-5378; 800-858-0853-outside of Pa.; fax: 215-524-5354

Year founded: 1983.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, risk assessments for insurance purposes, health and safety management services; occasional design of waste minimization plans, public health risk assessment, regulatory and public policy analysis, risk management consulting, environmental claims management and compliance audits.

Other services: Frequent consulting to insurers and public policy makers, general risk management consulting.

Staff: 16 total; 10 professionals, including three principal consultants, seven consultants. Professional

designations held by staff include two CPGs, one ARM, one CPCU, two CGWPs, one attorney.

Clients: 125 total clients; 35% with gross revenues less than \$10 million, 30% with \$10 million-\$25 million, 30% with \$25 million-\$100 million, 5% with \$100 million-\$1 billion.

Specialties: Insurance.
Compensation: By the project, on retainer.

1989 gross revenues: \$3 million total.

Principal officers: William Kronenberg, president/chief executive officer; David M. Rosenberg, executive vp; Frank Filiero, chief financial officer; Mark Vuono, senior vp; Beth Muhler, senior consultant.

Contact: Beth Muhler, senior consultant.

Corporate Risk Management Inc.

350 E. Ogden Ave., Westmont, Il 60559; 708-920-0000; fax: 708-920-0157

Year founded: 1978.
Environmental risk manage-

ment consulting services: Frequent risk management consulting; occasional litigation support.

Other services: Frequent general risk management consulting.

Staff: Seven total; two professionals, including one principal consultant, one consultant. Professional designations held by staff include one ARM, one CPCU, one AAI.

Clients: Four corporate and institutional environmental risk management consulting clients.

Specialties: Asbestos abatement, roofing contractors.

Compensation: By the project; on retainer; by the hour: principal consultant, \$200; consultant, \$150.

1989 gross revenues: 20% of gross revenues generated by environmental risk management consulting.

Principal officers: Robert A. Wilson, president; Ronald S. Barclay, vp; Robert W. Wilson, risk consultant.

Contact: Robert A. Wilson.

Peter J. Crosa & Co.

4135 LaVista Road, Suite 610-316, Tucker, Ga. 30085-5003; 404-717-7644; fax: 404-270-1039

Year founded: 1987.
Environmental risk management consulting services: Frequent litigation support; occasional risk management consulting; claims management for hazardous materials spills, assessment and control of damages, claims settlement, causal investigation.

Staff: Three total; one professional, including one principal consultant. Professional designations held by staff include one IIA.

Clients: Four corporate and institutional environmental risk management consulting clients; 100% with gross revenues less than \$10 million.

Specialties: Solid waste, medical waste.

Compensation: By the hour: principal consultant, \$45.

1989 gross revenues: \$120,000 total; 50% generated by environmental risk management consulting.

Principal officers: Peter J. Crosa, president; M.D. Dunavant, vp; C.M. Zellars, secretary/treasurer.
Contact: Peter J. Crosa.

Continued on next page

It's Our View

Factory Mutual System

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Curtner Risk Management Inc.

1616 17th St., Suite 464, Denver, Colo. 80202; 303-628-5556

Year founded: 1983.**Environmental risk management consulting services:** Frequent risk management consulting, long-tail disaster planning; occasional litigation support.**Other services:** Frequent general risk management consulting.**Staff:** Two total; including one principal consultant. Professional designations held by staff include one ARM.**Clients:** Two corporate and institutional environmental risk management consulting clients; 50% with gross revenues between \$25 million-\$100 million, 50% exceeding \$1 billion.**Compensation:** By the hour: prin-

cipal consultant, \$35-\$105; consultant, \$50-\$65.

1989 gross revenues: 15% from unbundled environmental risk management consulting services.**Principal officers:** Walter R. Curtner, president.**Cygnat Associates**

687 Sequoia Valley Road, Mill Valley, Calif. 94941; 415-388-1049; fax: 415-383-9226

Year founded: 1990.**Environmental risk management consulting services:** Frequent risk management consulting, evaluation of alternative risk control mechanisms.**Staff:** Two total; both principal consultants. Professional designations held by staff include one ARM.**Specialties:** Environmental assessment and remediation contractors.**Principal officers:** Scott A. McKown, David R. Joliffe.
Contact: Scott McKown.**D****Dahl & Associates Inc.**

4390 McMenemy Road, St. Paul, Minn. 55127; 612-490-2905; fax: 612-490-3777

Year founded: 1982.**Environmental risk management consulting services:** Frequent environmental audits of real estate, design and analysis of remediation plans; occasional litigation support, regulatory and public policy analysis.**Other services:** Frequent remediation activities; occasional consulting to insurers and public policy makers, general risk management consulting.**Staff:** 47 total; 27 professionals, including five principal consultants, 22 consultants. Professional designations held by staff include two PEs.**Clients:** 190 corporate and institutional environmental risk manage-

ment consulting clients; 20% with gross revenues less than \$10 million, 20% with \$10 million-\$25 million, 40% with \$25 million-\$100 million, 20% with \$100 million-\$1 billion.

Branch offices: Phoenix, Ariz.; Davenport, Iowa.**Compensation:** By the hour: principal consultant, \$80-\$100; consultant, \$45-\$70.**1989 gross revenues:** \$2.8 million total, 85% from unbundled environmental risk management consulting services.**Principal officers:** Mark R. Dahl, president.**Contact:** Joel Strafelda or Dan Wiberg.**Dames & Moore**

911 Wilshire Blvd., Suite 700, Los Angeles, Calif. 90017; 213-683-1560; fax: 213-628-0015

Year founded: 1938.**Environmental risk management consulting services:** Frequent environmental audits of real estate, design and analysis of remediation plans; occasional operational

audits of manufacturing plants, design of waste minimization plans, litigation support, regulatory and public policy analysis, risk management consulting.

Other services: Frequent remediation activities; occasional consulting to insurers and public policy makers.**Staff:** 3,200 total. Professional designations held by staff include two ARMs, one CPCU.**Clients:** Approximately 3,500 corporate and institutional environmental risk management consulting clients; 20% with gross revenues less than \$10 million, 30% with \$10 million-\$25 million, 43% with \$25 million-\$100 million, 2% with \$100 million-\$1 billion, 5% with more than \$1 billion.**Specialties:** Petrochemical, municipal water and sewer districts.**Branch offices:** 78 offices worldwide.**Compensation:** By the project; on retainer; by the hour: principal consultant, \$400; consultant, \$65.**1989 gross revenues:** \$250,000 total, 40% from unbundled environmental risk management consulting services.**Principal officers:** George D. Leal, chief executive officer; Henry Klehn Jr., chief operating officer; Robert M. Perry, chief financial officer.**Contact:** Jon Cady, director-risk management.**Deloitte & Touche**

One State St., Hartford, Conn. 06103; 203-522-1300; fax: 203-278-5212

Environmental risk management consulting services: Frequent risk management consulting; occasional litigation support, regulatory and public policy analysis.**Other services:** Frequent general risk management consulting; occasional remediation activities, consulting to insurers and public policy makers.**Staff:** Four total; one principal consultant. Professional designations held by staff include one ARM, two CPCUs.**Clients:** Three corporate and institutional environmental risk management consulting clients; 100% with gross revenues less than \$10 million.**Specialties:** Manufacturing, testing, educational, entertainment.**Compensation:** By the project; on retainer; by the hour: principal consultant, \$250; consultant, \$100.**1989 gross revenues:** 20% of gross revenues generated by environmental risk management consulting.**Principal officers:** Mark J. Sobel, principal; Jan A. Lommele, principal.**Delta Environmental Consultants Inc.**

900 Long Lake Road, Suite 300, New Brighton, Minn. 55112; 612-636-0220

Year founded: 1986.**Environmental risk management consulting services:** Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, public health risk assessment; occasional design of waste minimization plans, litigation support, regulatory and public policy analysis.**Other services:** Frequent remediation activities, consulting to insurers and public policy makers; occasional general risk management consulting.**Staff:** 430 total; 10 professionals, including three principal consultants, seven consultants. Professional designations held by staff include 36 PEs, 25 CPGs, 20 CGWPs, two attorneys, five CIHs.**Clients:** 100 corporate and institutional environmental risk management consulting clients; 15% with gross revenues less than \$10 million, 30% with \$10 million-\$25 million, 20% with \$25 million-\$100 million, 20% with \$100 million-\$1 billion, 15% with more than \$1 billion.**Specialties:** Petroleum refining and marketing, insurance, pulp and paper manufacturing, banking, real-estate development.**Branch offices:** St. Paul, Minn.; Tampa, Fla.; Fort Collins, Colo.; Phoenix, Ariz.; Sacramento, Calif.; Charlotte, N.C.; Montvale, N.J.; Dallas, Texas; Detroit, Mich.; Salt Lake

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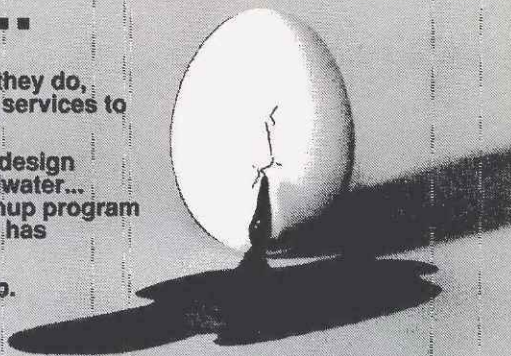
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ENVIRONMENTAL SERVICES SINCE 1975



Continued from previous page
City, Utah.

Compensation: By the project; by the hour: principal consultant, \$125; consultant, \$65.

1989 gross revenues: \$20 million total, 10% from unbundled environmental risk management consulting services.

Principal officers: Jerry R. Rick, president; Robert M. Karls, John Jungewin, Allen Rechuagel, Jim Prieur and Polly Fabrizio, vps; Phil Dieurel, vp/chief financial officer.

Contact: Robert Karls, 1801 Highway 8, Suite 114, St. Paul, Minn., 55112; 612-636-2427.

Dynamac Corp.

11140 Rockville Pike, Rockville, Md. 20852; 301-468-2580; fax: 301-468-2581

Year founded: 1970.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, public health risk

assessment, regulatory and public policy analysis; occasional design and analysis of remediation plans, design of waste minimization plans, litigation support, risk management consulting.

Other services: Frequent general risk management consulting; occasional consulting to insurers and public policy makers.

Staff: 400 total; 300 professionals. Professional designations held by staff include 15 PEs, 10 CPGs, five ARMs, two attorneys, one CIH, 30 AIs.

Clients: 100 corporate and institutional environmental risk management consulting clients; 5% with gross revenues less than \$10 million, 5% with \$10 million-\$25 million, 30% with \$25 million-\$100 million, 30% with \$100 million-\$1 billion, 30% with more than \$1 billion.

Branch offices: Fort Lee, N.J.; Westlake Village, Santa Clara and Sacramento, Calif.; Research Triangle Park, N.C.; Arlington, Va.; Ada, Okla.; Atlanta, Ga.; Philadelphia, Pa.

Compensation: By the hour: \$50-\$150.

1989 gross revenues: \$40 million total, 90% from unbundled environmental risk management consulting services.

Principal officers: Diana MacArthur and Steve Laycock, chief executive officers; Paul Goldstein, president; John Lyons, risk manager; Larry White, marketing director.

Contact: Wayne Tusa, vp-environmental risk management division; 2 Executive Drive, Fort Lee, N.J. 07024; 201-944-1177.

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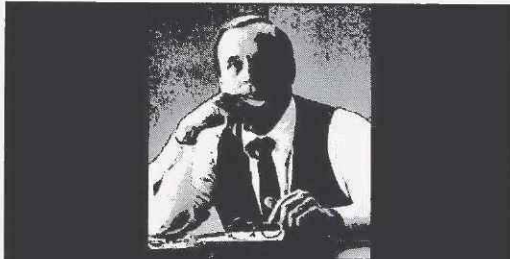
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So, we're under no pressure to force one solution to meet every health care benefit plan need. To the contrary.

We review providers based on your needs. We negotiate services based on your needs. And we manage the health care network relationship over time.

In short, we work as partners with you to help make each dollar you spend on health care work harder.

To make sure that the health services you offer your employees are utilized properly, we provide the services of our recent acquisition: Cost Care, Inc., one of the country's premier utilization review firms. Their review process always involves a physician and this



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ensures appropriate care for the patient and greater assurance to you that the care offered to your employees is delivered in the most cost-efficient way.

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If you can manage the price of health care...if you can control utilization more effectively, then you can control costs.

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John Hancock
Financial Services

E

EA Engineering, Science & Technology
11019 McCormick Road, Hunt Valley, Md. 21031; 301-584-7000; fax: 301-771-1625

Year founded: 1973.

Environmental risk management consulting services: Frequent environmental audits of real estate, design and analysis of remediation plans, litigation support, public health risk assessment, regulatory and public policy analysis, environmental planning and impact analysis, regulatory compliance, waste management, natural resources damage assessment, water resources engineering, laboratory services; occasional operational audits of manufacturing plants, design of waste minimization plans.

Other services: Frequent remediation activities, consulting to insurers and public policy makers; indoor air quality, system engineering.

Staff: 700 total; 125 professionals, including 30 principal consultants, 95 consultants. Professional designations held by staff include 55 PEs, 16 CPGs, one attorney, one CIH, one PH, three CHMMs, two AAEEs, six Certified Fisheries Scientists, one Certified Ecologist, one Certified Forester, two REAs.

Clients: 300 total clients.

Branch offices: Redmond, Wash.; Napa, Lafayette and Newport Beach, Calif.; Lincoln, Neb.; Deerfield, Ill.; Newburgh, N.Y.; Walpole, Mass.; Berkeley Heights, N.J.; Sparks and Baltimore, Md.; Alexandria, Va.; Charlotte, N.C.; Smyrna, Ga. Carrollton, Texas.

Compensation: By the project; by the hour.

1989 gross revenues: \$39.3 million total, 75% from unbundled environmental risk management consulting services.

Principal officers: Loren D. Jensen, president/chief executive officer; Stephen J. Hammalian, executive vp/chief operating officer; Joseph A. Spadaro, executive vp/chief financial officer; F. Pierce Linaweaver, executive vp-technical programs/quality control; James T. Gift, senior vp-Eastern division.

ENPRO Services Inc.

12 Mulliken Way, Newburyport, Mass. 01950; 508-465-1595; fax: 508-465-2050

Year founded: 1983.

Environmental risk management consulting services: Frequent environmental audits of real

Continued on page 50

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C&I



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Spotlight report*Continued from page 48*

estate, design and analysis of remediation plans; occasional operational audits of manufacturing plants, litigation support, regulatory and public policy analysis.

Other services: Frequent remediation activities; occasional consulting to insurers and public policy makers.

Staff: 50 total; one professional who is a principal consultant. Professional designations held by staff include one REPA.

Clients: 50 corporate and institutional environmental risk management consulting clients; 90% with gross revenues less than \$10 million, 10% with \$10 million-\$25 million.

Compensation: By the project; by the hour: principal consultant, \$70-\$80.

1989 gross revenues: \$7.5 million total, 10% from unbundled environmental risk management consulting services.

Principal officers: Bruce A. Irving Jr., president; Jere K. Allen and John R. Davey, vps; Alan Richardson, treasurer; David Cowie, general manager.

Contact: Jere K. Allen.

Eastern Consulting Group Inc.

922 Elm St., Manchester, N.H.
03105; 603-622-8767; fax:
603-623-3927

Year founded: 1983.

Environmental risk management consulting services: Frequent litigation support, risk management consulting.

Other services: Frequent general risk management consulting.

Staff: One staff member who is a principal consultant holding a CPCU designation.

Clients: 20 corporate and institutional environmental risk management consulting clients; 90% with gross revenues less than \$10 million, 5% with \$10 million-\$25 million, 5% with \$25 million-\$100 million.

Specialties: Law firms and financial institutions.

Compensation: By the project; by the hour: principal consultant, \$100.

1989 gross revenues: \$170,000 total, 20% from unbundled environmental risk management consulting services.

Principal officers: John F. Dudziak, president.

Eastern Environmental Engineering Services Inc.

P.O. Box 649, Oldwick, N.J. 08858;
908-439-3497; fax: 908-439-2765

Year founded: 1989.

Environmental risk management consulting services: Frequent risk management consulting; occasional environmental audits of real estate, operational audits of manufacturing plants, design of waste minimization plans; computerized risk assessment.

Other services: Frequent consulting to insurers and public policy makers.

Staff: Three total; all professionals, including one principal consultant, two consultants. Professional designations held by staff include one PE.

Specialties: Insurance, chemical, petroleum.

Compensation: By the project; on retainer; by the hour: principal consultant, \$150; consultant, \$80-\$120.

1989 gross revenues: 100% from unbundled environmental risk management consulting services.

Principal officers: Gregory A. Brown, president.

Ecology & Environment Inc.

Buffalo Corporate Center, 368
Pleasantview Drive, Lancaster,
N.Y. 14086; 716-684-8060; fax:
716-684-0844

Year founded: 1970.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans, public health risk assessment, hazard and risk analysis of handling of toxic wastes; occasional litigation support, regulatory and public policy analysis, risk management consulting.

Other services: Frequent reme-

diation activities, environmental impact assessment, analytical laboratory services, environmental field monitoring, air and groundwater pollution control, environmental engineering, remedial investigation and feasibility studies; occasional consulting to insurers and public policy makers.

Staff: 1,200 total; 1,000 professionals. Professional designations held by staff include 37 PEs, six attorneys, six CIHs, 21 CHMMs.

Branch offices: Albany, N.Y.; Philadelphia; Arlington, Va.; Tallahassee, Hollywood and Pensacola, Fla.; Cleveland; Cincinnati; Detroit; Chicago; Kansas City and St. Louis, Mo.; Oak Ridge, Tenn.; Baton Rouge, La.; Dallas; Houston; Denver; Albuquerque, N.M.; Los Angeles, Fresno and San Francisco, Calif.; Idaho Falls, Idaho; Seattle; Anchorage, Alaska.

Compensation: By the project; on retainer.

1989 gross revenues: \$66.3 million total; 2% from unbundled environmental risk management consulting services.

Principal officers: Gerhard J. Neumaier, president; Frank B. Silvestro, executive vp-operations; Gerald A. Strobel, executive vp-technical services; Ronald L. Frank, executive vp/treasurer/secretary; Eugene R. Mruk, senior vp-sales/marketing.

EnecoTech Inc.

1580 Lincoln Ave., Suite 1000,
Denver, Colo. 80203;
303-861-2200; fax: 303-861-2201

Year founded: 1984.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans, litigation support, public health risk assessment, regulatory and public policy analysis, risk management consulting.

Other services: Frequent remediation activities, consulting to insurers and public policy makers, general risk management consulting,

regulatory compliance.

Staff: 150 total; 120 professionals, including 40 principal consultants, 80 consultants. Professional designations held by staff include 20 PEs, approximately 45 CPGs, approximately CGWPs, two attorneys.

Clients: Approximately 120 corporate and institutional environmental risk management consulting clients; 30% with gross revenues less than \$10 million, 10% with \$10 million-\$25 million, 10% with \$25 million-\$100 million, 20% with \$100 million-\$1 billion, 30% with more than \$1 billion.

Specialties: Petrochemical manufacturing, refining, underground storage tanks, property management, financial institutions.

Branch offices: Minneapolis; Detroit; San Diego; Little Rock, Ark.; Austin, Texas.

Compensation: By the project; on retainer; by the hour: principal consultant, \$73; consultant, \$55.

1989 gross revenues: \$5.2 million total, 60% from unbundled environmental risk management consulting services.

Principal officers: John S. Stevenson, president; Barry L. Stewart, secretary/treasurer; James A. Kuenning, vp; Joseph F. Mednick, senior hydrologist; Daniel J. McClellan, senior manager-Austin, Texas.

Contact: Daniel J. McClellan, 701 Brazos, Suite 500, Austin, Texas 78701; 512-320-9026.

EnviroMed Services Inc.

25 Science Park, New Haven,
Conn. 06492; 800-727-5580; fax:
203-786-5579

Year founded: 1985.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, litigation support, public health risk assessment, regulatory and public policy analysis, risk management consulting; occasional design and analysis of remediation plans, design of waste minimization

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In any event.

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plans, litigation support, public health risk assessment, regulatory and public policy analysis, risk management consulting.

Other services: Frequent consulting to insurers and public policy makers, general risk management consulting.

Staff: 55 total; three professionals. Professional designations held by staff include two PEs, one CPG, one CGWP, one CIH, two MDs.

Clients: 500 total clients; 50% with gross revenues less than \$10 million, 25% with \$10 million-\$25 million, 15% with \$25 million-\$100 million, 5% with \$100 million-\$1 billion, 5% with more than \$1 billion.

Compensation: By the project; on retainer.

1989 gross revenues: \$5 million total; 10% from unbundled environmental risk management consulting services.

Principal officers: Lawrence J. Cannon, president; Ronald T. Suski, vp; Frank T. Russo, director-engineering/marketing.

Contact: Tim Murphy, regional marketing director.

ENVIRON Corp.

4350 N. Fairfax Drive, Arlington, Va. 22206; 703-516-2300; fax: 703-516-2345

Year founded: 1982.

Parent company: Applied Bioscience International Inc.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, litigation support, public health risk assessment, regulatory and public policy analysis; occasional design of waste minimization plans, risk management consulting.

Other services: Frequent remediation activities, consulting to insurers and public policy makers, general risk management consulting.

Staff: 265 total; 170 professionals, including 17 principal consultants, 153 consultants. Professional designations held by staff include nine PEs, four CPGs, one attorney.

Clients: More than 300 clients;

10% with gross revenues less than \$10 million, 10% with \$10 million-\$25 million, 25% with \$25 million-\$100 million, 50% with \$100 million-\$1 billion, 5% with more than \$1 billion.

Branch offices: Princeton, N.J.; Emeryville and Irvine, Calif.

Compensation: By the project; on retainer; by the hour: principal consultant, \$190-\$230; consultant, \$60-\$70.

1989 gross revenues: \$26.42 million total, 90% from unbundled environmental risk management consulting services.

Principal officers: Grover C. Wrenn, chief executive officer; Joseph H. Highland, president; Robert M. Wenger, Robert H. Harris, and Joseph V. Rodricks, senior vps.

Contact: Robert M. Wenger.

Environmental Audit Inc.

P.O. Box 322, Lionville, Pa. 19353; 215-458-1122; fax: 215-458-1134

Year founded: 1987.

Environmental risk management consulting services: Fre-

quent environmental information services, government environmental reports; occasional environmental audits of real estate.

Staff: 21 total; three professionals, all principal consultants. Professional designations held by staff include three attorneys.

Clients: 300 total clients.

Specialties: Real estate assessments.

Compensation: By the project; by the hour.

1989 gross revenues: \$500,000 total, 5% from unbundled environmental risk management consulting services.

Principal officers: James C. McDonald, president.

Contact: James C. Mauch, director-marketing.

Environmental Consultants Inc.

P.O. Box 2104, 1916 N. 12th St., Toledo, Ohio 43603; 419-241-7127; fax: 419-321-6257

Year founded: 1984.

Environmental risk management consulting services: Frequent environmental audits of real estate; occasional operational audits of manufacturing plants, design and analysis of remediation plans, litigation support, public health risk assessment; asbestos abatement consulting; specification writing; and project monitoring.

Other services: Frequent consulting to insurers and public policy makers, general risk management consulting.

Staff: 35 total; 12 professionals, including 12 consultants. Professional designations held by staff include two PEs, eight hydro-geologists, one CE, one CIH.

Clients: 100 corporate and institutional environmental risk management consulting clients; 80% with gross revenues less than \$10 million, 20% with \$10 million-\$25 million.

Compensation: By the hour: principal consultant, \$100; consultant, \$60.

1989 gross revenues: \$3 million total, 100% from unbundled environmental risk management consulting services.

Principal officers: William F. Boyle, president; Michael P. Boyle, vp; Patrick W. Boyle, secretary.

Contact: David L. Richardson.

Environmental Engineering Consultants (EEC)

P.O. Box 9697, South Laguna, Calif. 92677-0697; 714-499-0015; fax: 714-495-5642

Year founded: 1987.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, corporate environmental compliance programs, environmental training, review of remediation plans and implementation; occasional design of waste minimization plans, litigation support, public health risk assessment, regulatory and public policy analysis, risk management and prevention plans.

Staff: Five total; four professionals, including three principal consultants, one consultant. Professional designations held by staff include two PEs, one CEG, two REAs, two CAIs.

Clients: Five corporate and institutional environmental risk management consulting clients; 20% with gross revenues between \$25 million-\$100 million, 40% with \$100 million-\$1 billion, 40% with more than \$1 billion.

Compensation: By the project.

1989 gross revenues: \$600,000 total, 100% from unbundled environmental risk management consulting services.

Principal officers: Jack E. Cotter, principal.

Environmental Inspection Services Inc.

P.O. Box 207, Buffalo, N.Y. 14216; 716-875-1625; fax: 716-833-0512

Year founded: 1989.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, litigation support, public health risk assessment, risk management consulting; occasional design and analysis of remediation plans, design of waste minimization plans, regulatory and public policy analysis.

Other services: Frequent general risk management consulting; occasional consulting to insurers and public policy makers.

Staff: Four total; all professionals, including one principal consultant, three consultants. Professional designations held by staff include one CPG, one attorney.

Clients: Two total clients; 100% with gross revenues less than \$10 million.

Specialties: Asbestos.

Compensation: By the hour.

1989 gross revenues: Less than \$100,000 total, 100% from unbundled environmental risk management consulting services.

Principal officers: Mark Cotter, president; James P. Cotter, vp.

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Continued from previous page **Environmental Insurance Services Inc.**

31 Inverness Center, Suite 280, Birmingham, Ala. 35242; 205-969-1700; 800-825-3986; fax: 205-991-2588

Year founded: 1989.

Environmental risk management consulting services: Frequent regulatory and public policy analysis, risk management consulting; occasional litigation support.

Other services: Frequent general risk management consulting; occasional consulting to insurers and public policy makers.

Staff: Nine total; three professionals, including two principal consultants, one consultant. Professional designations held by staff include CHWM, RPES, MBA.

Clients: 80 total clients; 20% with gross revenues less than \$10 million, 30% with \$10 million-\$25 million, 50% with \$25 million-\$100 million.

Specialties: Environmental consultants, laboratories, waste haulers, large scale generators.

Compensation: By the project; by the hour.

1989 gross revenues: \$1.25 million total, 25% from unbundled environmental risk management consulting services.

Principal officers: Don Pate, president; Jack Adams, vp.

Contact: Jack Adams.

Environmental Risk Ltd.

120 Mountain Ave., Bloomfield, Conn. 06002; 203-242-9933; fax: 203-243-9055

Year founded: 1985.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans, public health risk assessment, regulatory and public policy analysis, permit applications, environmental impact statements, regulatory compliance, wastewater treatment system design and aquatic toxicity studies; occasional litigation support, risk management consulting.

Other services: Frequent remediation activities, consulting to insurers and public policy makers; occasional general risk management consulting.

Staff: 46 total; 31 professionals, including four principal consultants, 27 consultants. Professional designations held by staff include four PEs, one attorney, two CCM.

Clients: 250 corporate and institutional environmental risk management consulting clients; 30% with gross revenues less than \$10 million, 30% with \$10 million-\$25 million, 30% with \$25 million-\$100 million, 5% with \$100 million-\$1 billion, 5% with more than \$1 billion.

Specialties: General manufacturing, electroplating, chemical, aerospace, electronics, landfills, industrial waste treatment and disposal, financial institutions, law firms, insurance companies.

Branch offices: Clifton, N.J.

Compensation: By the project; on retainer; by the hour: principal consultant, \$150; consultant, \$50.

1989 gross revenues: More than \$4 million total, 75% from unbundled environmental risk management consulting.

Principal officers: Richard S. Atkins, David I. Brandwein, Gordon T. Brookman, Mitchell M. Wurmbrand.

Contact: David I. Brandwein.

Environmental & Safety Management Consultants Inc.

843 N. Cleveland-Masillon Road, Suite 9, Akron, Ohio 44313; 216-666-8700

Year founded: 1987.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans; occasional litigation support, public health risk assessment, regulatory and public policy analysis.

Other services: Frequent remediation activities; occasional consulting to insurers and public policy makers.

Staff: 10 total; four professionals, including two principal consultants, two consultants. Professional designations held by staff include one PE, one CPG.

Clients: 50% with gross revenues less than \$10 million, 20% with \$10 million-\$25 million, 20% with \$25 million-\$100 million, 8% with \$100 million-\$1 billion, 2% with more than \$1 billion.

Specialties: Banking industry.

Compensation: By the project; on retainer; by the hour.

1989 gross revenues: 60% from unbundled environmental risk management.

Principal officers: Greg Bobonik, president; John Braswell, vp.

Contact: Greg Bobonik.

Environmental & Safety Services Inc.

P.O. Box 7305, Department 141, Kansas City, Mo. 64153; 816-459-4100; fax: 816-459-4130

Year founded: 1989.

Parent company: Farmland In-

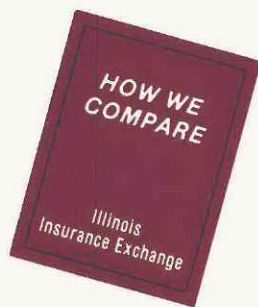
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FACT:

1989 FINANCIAL HIGHLIGHTS

Admitted Assets	\$482,269,738
Policyholders' Surplus	111,786,062
Gross Written Premium	204,777,463
NWP/PHS	1.43
GWP/PHS	1.83
Combined Ratio	99.82

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dustries Inc.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans; occasional design of waste minimization plans, litigation support, regulatory and public policy analysis, risk management consulting.

Other services: Frequent remediation activities, consulting to insurers and public policy makers, general risk management consulting, training.

Staff: 33 total; 22 professionals, including four principal consultants, 18 consultants. Professional designations held by staff include one PE, two attorneys, Ph.D.

Clients: 450 total clients.

Specialties: Manufacturing, chemical, agribusiness.

Compensation: By the project; on retainer; by the hour: principal consultant, \$65-\$120; consultant, \$50-\$65.

1989 gross revenues: \$409,703 total, 100% from unbundled environmental risk management consulting services.

Principal officers: G.C. Matthiesen, director/chairman; H.D. Cleberg, director; Joseph A. Crites, director/president/general manager; George Richter and Lewis Linville, directors.

Contact: Joseph A. Crites.

Environmental Science & Assessment Services Inc.

1155 Connecticut Ave. N.W., Suite 400, Washington, D.C. 20036; 202-467-8515; fax: 202-429-0977

Year founded: 1987.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, litigation support, public health risk assessment, regulatory and public policy analysis, risk management consulting; occasional design and analysis of remediation plans; wet land delineations, merger and acquisition environmental audits, land reclamation and property value enhancement projects.

Other services: Frequent consulting to insurers and public policy makers; occasional remediation activities, general risk management consulting.

Staff: Seven total; six professionals, including two principal consultants, four consultants. Professional designations held by staff include two PEs, one CGWP, one REA, two CHMs, one AGU, one NWWA, one GWSE.

Specialties: Underground storage tank management services.

Compensation: By the project; on retainer; by the hour: principal consultant, \$100-\$125; consultant, \$80.

1989 gross revenues: 90% from environmental risk management consulting services.

Principal officers: Alfred P. Picardi, president; Ross D. Pickford, Thomas W. Egan, secretary/treasurer.

Alfred P. Picardi.

Science &

cia.

Southeast region; Michael Murray, secretary; Wendell Barton, treasurer.

Environmental Strategies Corp.

8521 Leesburg Pike, Suite 650, Vienna, Va. 22182; 703-821-3700; fax: 703-821-3734

Year founded: 1986.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, public health risk assessment; occasional design of waste minimization plans, litigation support, regulatory and public policy analysis, risk management consulting; regulatory compliance audits, international regulatory analysis.

Other services: Frequent technical support on environmental claims; occasional remediation activities, consulting to insurers and public policy makers, general risk management

consulting; environmental awareness seminars.

Staff: 108 total; five principal consultants, 70 consultants. Professional designations held by staff include 21 PEs, 14 CPGs, 24 CGWPs, one attorney, three CIHs, five CHMMs, 25 AHERAs.

Clients: 175 total clients; 2% with gross revenues less than \$10 million, 28% with \$10 million-\$25 million, 35% with \$25 million-\$100 million, 20% with \$100 million-\$1 billion, 15% with more than \$1 billion.

Branch offices: San Jose, Calif.; Pittsburgh; Boxborough, Mass.; London and Chester, England.

Compensation: By the project; by the hour.

1989 gross revenues: 85% from unbundled environmental risk management consulting services.

Principal officers: Lynne M. Miller, president; Michael J. Murphy, chairman; Douglas E. Gladstone and Richard E. Freudinberger, senior vps; Robert J. Mason, vp-operations; James P. Bulman, vp-technical.

Contact: Lynne M. Miller.

Environmental Technologies International Inc.

P.O. Box 3379, Honolulu, Hawaii 96842; 808-547-3600; fax: 808-547-3033

Year founded: 1989.

Environmental risk management consulting services: Frequent environmental audits of real estate, regulatory and public policy analysis, industrial hygiene and safety, pollution monitoring and analysis; occasional operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans, public health risk assessment.

Other services: Occasional remediation activities, consulting to insurers and public policy makers, general risk management consulting, emergency response and contingency planning.

Staff: 30 total; 20 professionals, including five principal consultants, 15 consultants. Professional designa-

tions held by staff include one CPG, one attorney.

Clients: One corporate and institutional environmental risk management consulting client.

Branch offices: Houston.

Compensation: By the hour: principal consultant, \$115; consultant, \$60.

1989 gross revenues: \$1 million total, 50% from unbundled management consulting services.

Principal officers: Richard F. Hall, president; Sylvia A. Edgerton, manager-Honolulu office; Ralph H. Moltzau, Alvaro J. Parra, David W. Tunison, program supervisors.

Contact: Alvaro J. Parra.

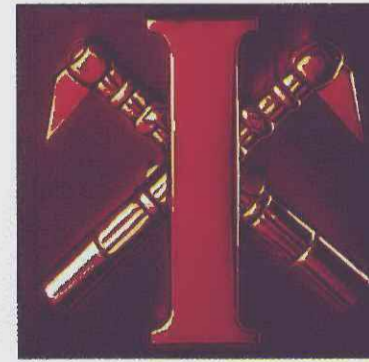
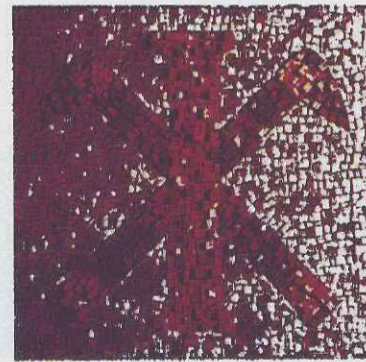
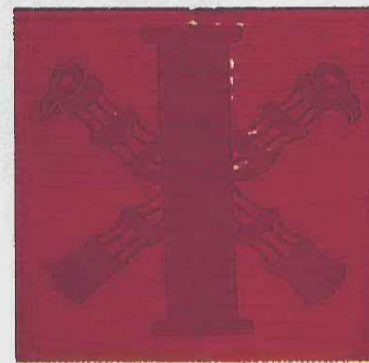
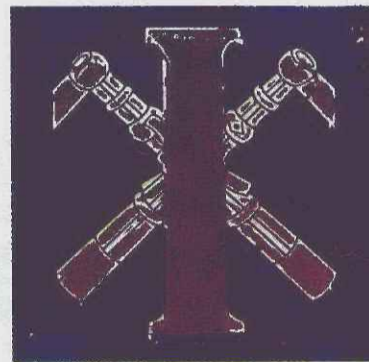
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Continued on page 60



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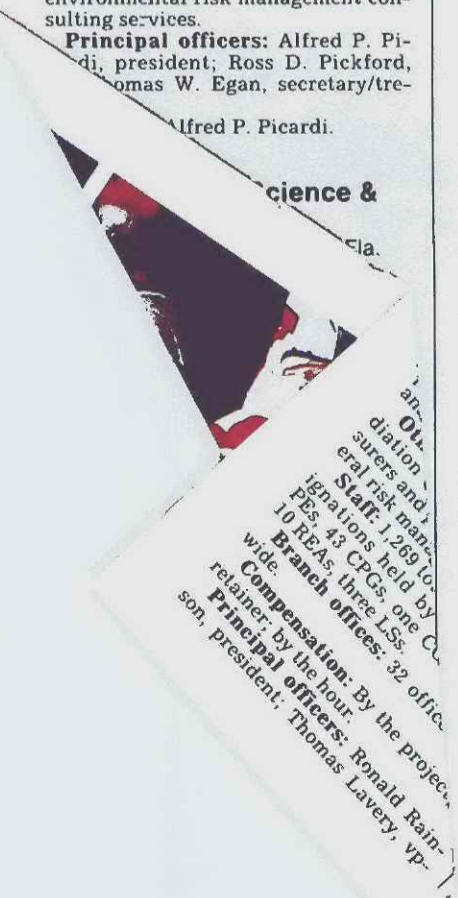


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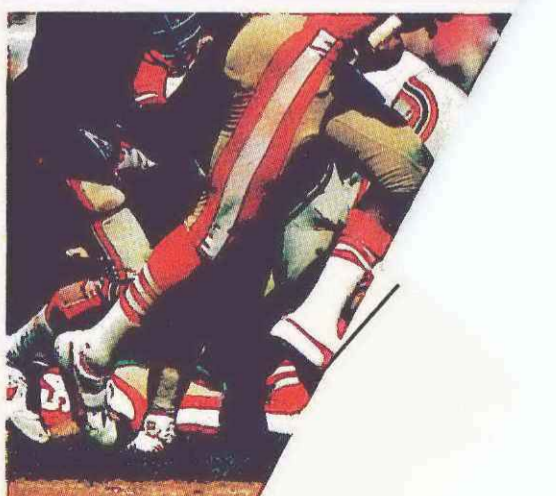
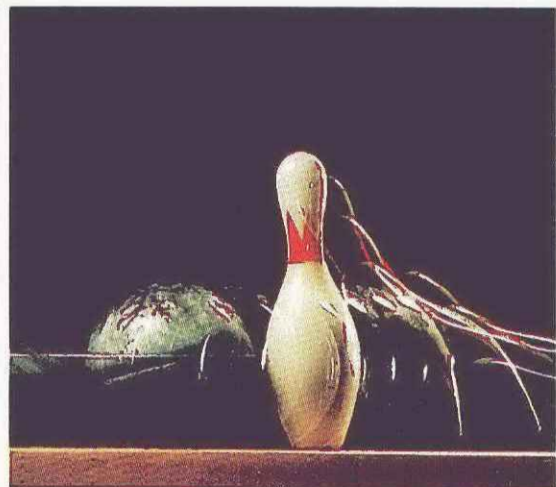
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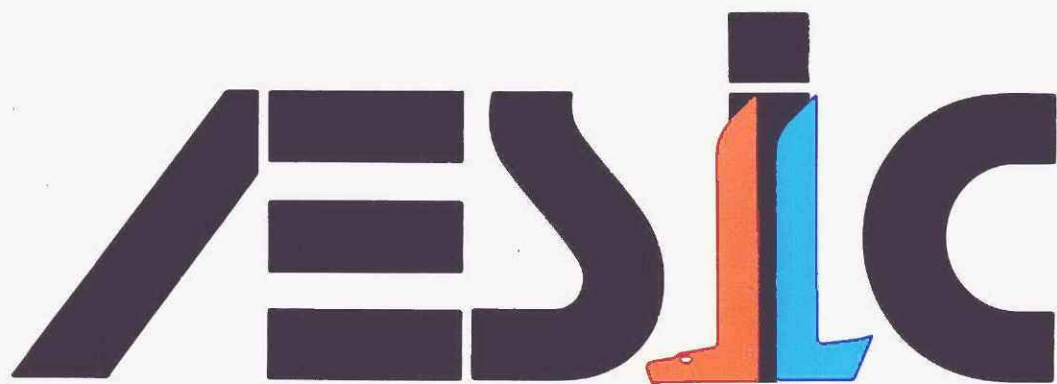
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Assessing foreign D&O risks

By Thomas J. Drag and Brian Smith

AS A RESULT of the increasing number of directors and officers liability lawsuits that were brought in the United States during the 1980s, risk managers, brokers and corporate directors and officers have acquired a better appreciation of the need for protection against potential D&O liability.

But what exposures can exist for the corporate director or officer of a non-U.S. subsidiary and how can these exposures be handled?

A review of the standard U.S. D&O contract reveals three areas that may have an impact on a foreign subsidiary: the definition of a director and officer; the territorial scope of coverage; and the definition of a subsidiary.

Generally, the standard D&O policy does not provide a definition of a "director and/or officer." Rather, insurers typically rely on state law and/or a provision in a specific corporation's bylaws to determine what constitutes a director or officer entitled to coverage. For a foreign subsidiary, it is necessary to review and determine whether applicable foreign laws define director and/or officer. As is the case in the United States, a precise definition may not always be available.

For example, according to a text on directors and officers insurance published by the Insurance Institute of London, the Companies Act of 1985, in force in the United Kingdom, defines an "officer" as a director, manager or secretary. And, while it does not contain a definition of "director," it describes the role of director. It does not contain a definition of secretary. In the case of a manager, Lord Denning, writing for the Court of Appeal in *Registrar of Restrictive Trading Agreements vs. W.H. Smith & Son Ltd.*, provided one definition, stating that a "manager means a person who is managing the affairs of the company as a whole." However, no reference is made to other types of managers such as branch or divisional managers.

These examples are far from exhaustive, but they help to demonstrate the absence of clear legal definitions of a director and officer. Therefore, each policyholder, together with its counsel, should review each applicable foreign country's laws and its corporate subsidiary's bylaws to determine whether the terms "directors" and "officers" are adequately defined for the purposes of D&O coverage. In addition, measures should be identified to help ensure that the appropriate individuals within a subsidiary corporation are adequately covered by such D&O coverage.

Few standard D&O policies contain specific territorial limitations on coverage. Therefore, the standard policy appears to offer worldwide coverage, especially when information on foreign operations and subsidiaries is included in a D&O application.

Occasionally, however, an insurer might attempt to restrict coverage to lawsuits filed within the United States. Quotations and policies should always be reviewed, especially for coverage restrictions of this type and any other territorial provisions and endorsements.

Since many foreign countries require domestic majority ownership of locally based corporations, ownership by a U.S. corporation is frequently restricted. D&O policies, however, generally define a subsidiary to be a company in which the policyholder holds at least 50% of the stock. Some insurers are even more specific. For example, Aetna Life & Casualty Co.'s standard D&O policy currently requires more than 50% of the "outstanding securities representing the present right to vote for the election of directors." Other similar requirements of a D&O policy may result in a denial of coverage to 50/50 joint ventures and minority-owned subsidiaries. This result may occur even if the U.S. corporation has

Little guidance for multinationals in standard policy

contractual management control. Possible solutions to obtaining coverage for minority-owned subsidiaries include:

- Ask to have the U.S. D&O policy endorsed to provide either blanket or scheduled coverage.
- Obtain coverage for minority-owned subsidiaries where contractual management control exists.
- Or, purchase coverage for the local corporate organizations. Separate negotiation of sublimits, deductibles and other amendable terms and conditions may be involved.

Another possible alternative is to obtain a policy from Bermuda-based Corporate Officers & Directors Assurance Ltd., which includes an "Outside Positions" endorsement. This endorsement can provide blanket non-scheduled directors and officers coverage "...for any corporation, partnership, joint venture, eleemosynary

Few standard D&O policies contain specific territorial limitations. . . . Occasionally, however, an insurer might attempt to restrict coverage to lawsuits filed within the United States.

(charitable) institution, non-profit organization, industry association or foundation. . . ."

National Union Fire Insurance Co. of Pittsburgh, Pa., with its Global Extension Endorsement, currently gives the policyholder the option of having National Union conduct the investigation, settlement and defense of covered D&O claims. With its worldwide insurance resources, the subsidiary of American International Group Inc. is able to identify experienced D&O counsel. The endorsement contains other features which should of course be reviewed by legal counsel.

Outside the United States, D&O contracts are generally written on a non-admitted basis. Although to date this does not seem to have caused any major problems, it might complicate the adjustment of a local claim in the future. While a possible solution of issuing locally fronted policies may be impractical, the risk manager should be aware of and review this situation. Given the increased international awareness of D&O liability and insurance, continuing changes in local laws and exposure of directors and officers, a review of the laws of each country in which a firm operates is appropriate.

Premium allocation is another issue to be examined. Traditionally within the United States premiums were allocated 90% to the Corporate Reimbursement section and 10% to the D&O section. The 10% to the D&O section was then typically divided among, and collected individually from, the insured directors and officers. This was done in order to prevent potentially improper use of corporate assets to purchase insurance offering coverage broader than that permitted by the corporate bylaws. This concern, although it has been largely resolved within certain jurisdictions in the United States by amendments to state law, may still be significant elsewhere.

The Insurance Institute of London's D&O publication seems to indicate that such a concern may exist in the United Kingdom and almost certainly exists in Australia. In discussing the subject of premium payment for the D&O section of

coverage, the publication states that in Australia, "...the premium should be paid by officers independently—the premium must never be paid by the company directly or indirectly. . ." Again, this illustrates the need to review applicable foreign laws with counsel to identify potential premium-payment and allocation issues.

Foreign laws regarding directors and officers liability are evolving and should be reviewed by an attorney to identify personal liability provisions and trends—number, type, severity of claims—of D&O-related litigation.

The evolving foreign litigation arena is illustrated by the March 22, 1989, decision of the U.K.'s Lord Justice Knox in *Re Produce Marketing Consortium Ltd.* (Chancery Division). Lord Justice Knox held that under Section 214 of the Insolvency Act of 1986, each respondent director should be held personally liable for 75,000 pounds (\$140,625 at current exchange rates) for wrongful trading, which consisted of continuing business operations after they knew or ought to have concluded that there was no reasonable prospect of the company avoiding liquidation.

Each foreign-based subsidiary's policy on employee business ethics and standard of conduct should also be reviewed. If such a policy does not exist, a policy should be established. The National Assn. of Corporate Directors' Model Statute, "Standard of Conduct for Directors," provides excellent insight and information in this area.

Counsel should also review and summarize the applicable law regarding D&O litigation, including class actions and/or derivative actions. Such questions as: "Is a contingency fee system permitted?" or, "Can plaintiffs' legal fees be awarded?" are important. The answers to these questions can help identify the type and extent of claims that might be anticipated, as well as the legal framework within which such claims are likely to be litigated.

Regardless of the ownership structure, a major incident involving a non-U.S. subsidiary can have repercussions for the U.S. parent. For example, a charge against earnings recognized by a U.S. parent due to fraudulent accounting practices in a non-U.S. subsidiary or a major foreign subsidiary's environmental disaster may subject the directors and officers of the U.S. parent to a lawsuit. This could possibly allege, among other things, mismanagement and non-disclosure of material financial information. This illustrates the need for strong management systems, a corporate code of ethics and standards of conduct for the U.S. corporation and its foreign-based and related organizations.

In summary, much of the past focus on D&O coverage has been on exposure and litigation in the United States. However, since D&O coverage can be worldwide, the policy and applicable foreign laws and corporate organizational documents must be reviewed in order to ensure the maximum scope of coverage. Sound risk management techniques are also essential in identifying and minimizing potential D&O exposures. Risk managers need to be aware of these issues relating to D&O coverage in the international arena. Then, clients, brokers and underwriters can work together to find viable solutions where appropriate. ■

Thomas J. Drag is senior vp and director of global account services, and Brian Smith is senior vp, financial products group, for Alexander & Alexander Services Inc. in New York.



Mr. Drag



Mr. Smith

ASK A RISK MANAGER

Pre-employment screens can save comp dollars

Q

We are evaluating the cost effectiveness of pre-employment physicals. Our inquiries have produced the general opinion that they are cost effective, but no studies appear to have been done showing the financial

pros and cons. Do such programs save money for an employer's workers compensation insurance or self-insurance program?

A

An interesting question, especially since it has long been recognized that workers compensation costs amount to a staggering sum for most employers. And, since it is now commonplace for organizations to take larger retentions as part

of an insured program or to totally self-insure workers compensation, any viable means of controlling this "cost of risk" should be explored. By "cost of risk" I am referring to the total dollars spent to manage workers compensation. The various components include actual benefits paid to claimants, medical expenses incurred and dollars spent on risk-control activities. The cost of pre-employment physicals would certainly be considered in the formula.

When beginning to evaluate the practicality of a pre-employment physical program, the employer should be careful to identify those occupations that would best benefit from medical screening. While not all positions qualify for the program, the list has certainly expanded in recent years. Employees subjected to continuous repetitive motion or extensive material handling duties are ideal candidates, as are individuals who are subjected to high noise levels, temperature extremes and, of course, chemicals. Pre-employment physical examinations have provided other benefits to the potential employer and employee by uncovering such ailments as high blood pressure and diabetes. These conditions, if undiagnosed, can result in serious health complications with life-threatening implications.

The next step in planning a pre-employment medical examination program is locating a reputable occupational health physician. The physician will assist in designing an examination format that is specific to the job requirement, cost-effective and efficient. To accomplish this objective, the physician must be knowledgeable of both the job requirements and the work environment. Each position description should specify the levels of fitness, strength and acuity of special senses required to perform the job. Knowledge of the work environment will identify any physical barriers that could inhibit an employee's ability to safely perform his or her work duties. At one time, back X-rays were considered the acceptable means of discovering potential back injury cases. No more! This practice is now considered outdated, having been replaced by a variety of flexibility tests that assist the physician in determining whether certain restrictions are necessary to prevent a lower back injury. Many times an occupational health physician can identify a "problem" back by simply observing an individual's posture while walking, standing, sitting and bending. A few hundred pre-employment physicals can cost less than a serious back injury case that involves permanent disability.

Many employers recognizing the high cost associated with repetitive motion injuries—commonly referred to as carpal tunnel syndrome—are subscribing to pre-employment screening programs as a means of saving thousands of dollars in potential workers compensation costs. Such screening techniques include nerve conduction testing and electromyography testing. While these procedures go beyond the "normal" placement examination, they have been used successfully to identify potential injury candidates.

However, as is the case with any pre-employment medical screening program, such tests must be conducted by qualified individuals who know how to interpret the results. Medical screening is equally important when employees are transferred or promoted into other jobs with physical demands. And, once employees have been placed in such positions, their health status should be re-evaluated on a periodic basis. Your occupational health physician can establish the criteria for you.

Now for the question of cost-effectiveness of pre-employment physicals: I am confident that the employers who actively participate in a screening program would say they are cost-effective. After

speaking with other risk managers on the subject, I find that the majority perceive their savings to be around 20%. Or, for every \$1 million of workers compensation dollars spent, \$200,000 is being saved. And if your organization participates in a large retention or self-insured program, these savings go directly to the bottom line.

In summary, I suggest you consider the following factors when deciding if a pre-employment medical screening program will benefit your organization:

- What occupations qualify for this screening?
- How many employees are involved?
- What are your expected workers compensation losses without the screening?
- What is the expected cost of the medical screening program?
- What are the anticipated savings?

Health care costs will continue to escalate in the coming decade. A properly administered pre-employment physical program can remove some of the risk factors associated with personnel recruitment by identifying the best-qualified individuals for specific occupations. ■

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

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



Ms. Werner

This month's column on risk management issues is written by Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C. William J. Miner, an actuary with The Wyatt Co. in Chicago, answers actuarial questions on benefits issues. And, Richard E. Sherman, a principal with Coopers & Lybrand in San Francisco, answers actuarial questions in the casualty field.

Ms. Werner's column appears on the second Monday of alternate months. Mr. Miner's and Mr. Sherman's columns appear alternately on the first Monday of each month.

Ms. Werner's next column will appear in December.

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

Cost of committing spouse not insured

Does a group health insurance policy cover legal expenses incurred in obtaining an involuntary commitment of a covered dependent? The Appellate Court of Illinois said that it did not.

Pioneer Screw & Nut Co. drafted and adopted a group health benefit plan that provided for medical coverage for qualified employees and their dependents.

Pioneer then entered into an agreement with Washington National Insurance Co. that provided that Washington National would reimburse Pioneer for payment of expenses covered under the Pioneer plan after it had satisfied its \$100,000 deductible.

The dependent wife of Pioneer's chairman experienced a mental illness that required hospitalization and treatment. She refused to agree to voluntary treatment. Her spouse instituted legal proceedings for her involuntary commitment and for the appointment of a guardian who would

Legal briefs

have authority to consent to medical treatment on her behalf. The attorneys fees and psychiatrist witness fees in connection with this litigation totaled \$132,254.50. Pioneer paid the chairman for these expenses and then sought reimbursement from Washington National.

Washington National refused to reimburse Pioneer for the legal fees. Pioneer sued and won in the trial court.

The appellate court, after reviewing the policy language, concluded that the phrase "expenses for medical care and treatment" in the Pioneer/Washington National agreement, in its plain and ordinary meaning, simply did not include or make reference to attorney fees.

Thus, the court said that the trial court was in error in awarding the legal fees to Pioneer. The trial court decision was

reversed and judgment was entered in favor of Washington National.

Pioneer Screw & Nut Co. vs. Washington National Insurance Co., Appellate Court of Illinois, Dec. 29, 1989 (BI/03/Aug.-\$10).

Unusual exertion test abandoned

The Supreme Court of Delaware abandoned the "unusual exertion" rule in workers compensation cases, saying it was unsound and inequitable.

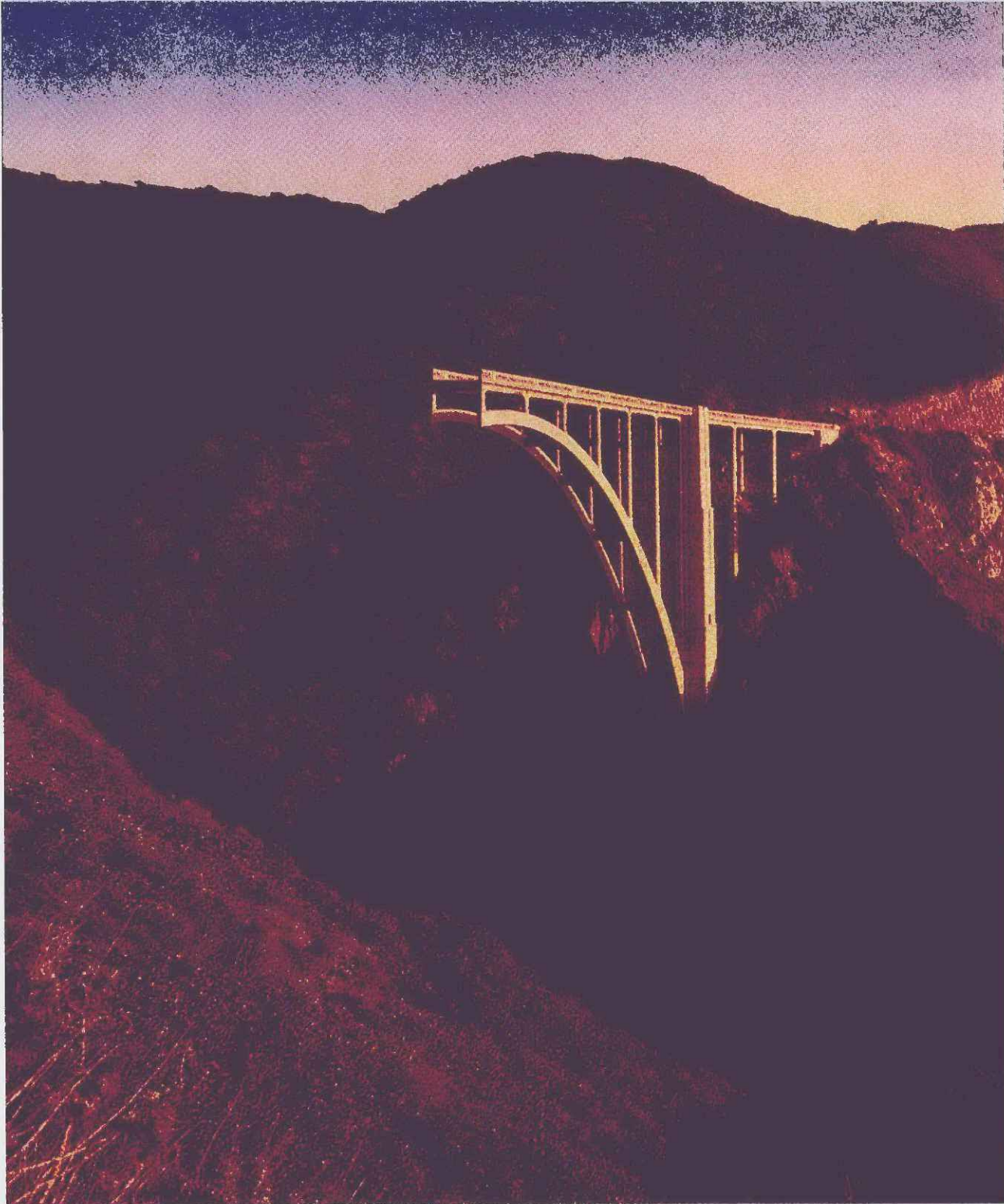
William Duvall was a roofer for most of his adult life. On May 16, 1985, while unloading an 80-pound bundle of shingles, Mr. Duvall experienced pain in his back. He consulted an orthopedic surgeon and was diagnosed with an acute lumbosacral sprain combined with spondylitis. Mr. Duval filed for but was denied workers comp benefits because the board found that he had a pre-existing back condition and that the injury was not a result of "unusual exertion." The trial court affirmed the

board's decision.

On appeal, Mr. Duvall argued that the "unusual exertion" test should be abandoned. The court agreed with Mr. Duvall, noting that the primary purposes of workers compensation are to assure prompt compensation of injured employees without regard to fault and to obviate the need for litigation. The court concluded that the unusual exertion rule, which required an employee with a pre-existing condition to prove that the injury arose out of unusual exertion, was both legally unsound and inequitable.

Duvall vs. Charles Conwell Roofing, Supreme Court of Delaware, Sept. 12, 1989 (BI/02/Aug.-\$10). ■

These abstracts were prepared by Cases Unlimited Inc. Copies of these decisions are available by sending a \$10 check payable to Cases Unlimited to Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. Please list the number for each opinion.



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Spotlight report*Continued from page 53*

of remediation plans; occasional design of waste minimization plans, litigation support, public health risk assessment, regulatory and public policy analysis.

Staff: 20 total; 17 professionals.

1989 gross revenues: 100% of gross revenues generated by environmental risk management consulting.

Principal officers: Michael Uziel, Zvia Uziel.

Exceltech Inc.

17062 Murphy Ave., Unit B, Irvine, Calif. 92714; 714-756-8666; fax: 714-756-5317

Year founded: 1982.

Parent company: Ensco Environmental Services Inc.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, public health risk assessment, regulatory and public policy analysis, underground storage tank compliance; occasional design of waste minimization plans, litigation support, risk management consulting.

Other services: Frequent remediation activities; operations, maintenance and construction of remediation equipment; occasional consulting to insurers and public policy makers, general risk management consulting.

Staff: 160 total; 80 professionals,

including three principal consultants, 77 consultants. Professional designations held by staff include six PEs, seven CPGs, 10 ARMs, 10 CGWPs, one attorney, 15 REAs.

Clients: 80 corporate and institutional environmental risk management consulting clients; 30% with gross revenues less than \$10 million, 35% with \$10 million-\$25 million, 20% with \$25 million-\$100 million, 10% with \$100 million-\$1 billion, 5% with more than \$1 billion.

Branch offices: Fremont, Calif.; Tempe, Ariz.

Compensation: By the project; on retainer; by the hour: principal consultant, \$90-\$150; consultant, \$35-\$90.

1989 gross revenues: \$20 million total, 50% from unbundled environ-

mental risk management consulting services.

Principal officers: Steve Anderson, president; Eric Kieselbach, vp-Southern California office; Fred Schafer, vp-Northern California office.

Contact: Eric Kieselbach.

F**The FPE Group**

3687 Mount Diablo Blvd., Lafayette, Calif. 94549; 415-283-8860; fax: 415-283-5727

Year founded: 1974.

Parent company: Sedgwick James.

Environmental risk management consulting services: Frequent litigation support, public health risk assessment, regulatory and public policy analysis; occasional environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans, risk management consulting; conventional safety and health management consulting, industrial hygiene, hazardous materials control consulting.

Other services: Frequent consulting to insurers and public policy makers, general risk management consulting.

Staff: 75 total; 43 professionals, including three principal consultants, 10 consultants. Professional designations held by staff include 14 PEs, one CPG, one ARM, two CPCUs, seven CIHs, two COHNS, two MPHs, three RNs, six CSPs, two Ph.D.s.

Clients: 200 total clients; 30% with gross revenues less than \$10 million, 30% with \$10 million-\$25 million, 25% with \$25 million-\$100 million, 10% with \$100 million-\$1 billion, 5% with more than \$1 billion.

Specialties: Property management, manufacturing, public entities, health care providers.

Branch offices: Naperville, Ill.; Torrance, Calif.; Plainsboro, N.J.

Compensation: By the project; on retainer; by the hour.

1989 gross revenues: \$5 million total.

Principal officers: Kenneth E. Berg, president; Robert A. Lapidus, Daniel D. Cox, Joseph H. Talbert and B.J. Walker, senior vps.

Contact: Jeff Jones, vp, 415-283-8860; Carol Robinson, 708-961-5585.

R.M. Fields & Co. Ltd.

Public Ledger Building, Philadelphia, Pa. 19106; 215-625-9639; fax: 215-625-9679

Year founded: 1982.

Environmental risk management consulting services: Frequent litigation support, insurance reconstruction and analysis, insurance archaeology, auditing historic insurance for pollution coverage; occasional risk management consulting.

Other services: Frequent general risk management consulting; occasional consulting to insurers and public policy makers.

Staff: Five total; all professionals, including three principal consultants, two consultants. Professional designations held by staff include one attorney.

Clients: 37 total clients; 10% with gross revenues of \$25 million-\$100 million, 40% with \$100 million-\$1 billion, 50% with more than \$1 billion.

Branch offices: Jersey, United Kingdom.

Compensation: By the hour: principal consultant, \$140-\$200; consultant, \$60-\$100.

1989 gross revenues: 90% from unbundled environmental risk management consulting services.

Principal officers: Randolph M. Fields, president; Henry Booth and David Jones, directors.

Contact: Randolph Fields, 44-534-53159; Henry Booth, 215-625-9639.

Flint Environmental Services Inc.

2440 S. Yukon, Tulsa, Okla. 74107; 918-583-4600; fax: 918-583-7326

Year founded: 1989.

Parent company: Flint Industries Inc.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, public health risk assessment, design of health, safety and decontamination plans; occasional design of waste minimization plans, litigation support, regulatory and public policy analysis.

Other services: Frequent remediation activities, general risk management consulting, sampling of air, water and solids; analytical testing; occasional consulting to insurers and public policy makers.

Staff: 33 total; eight professionals.


Continued on page 62



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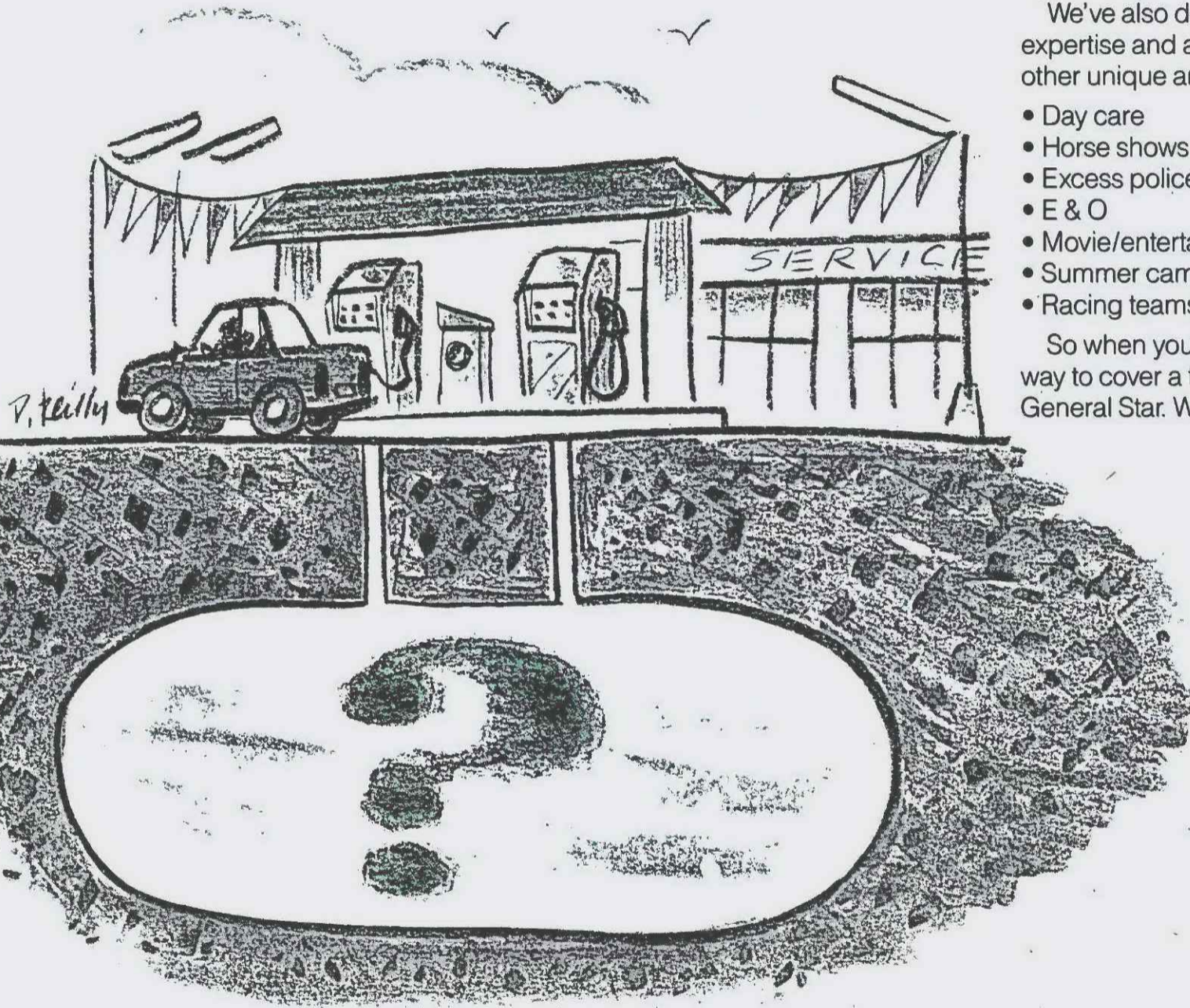
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Hartford (203) 297-4100

Spotlight report*Continued from page 60*

including four principal consultants, four consultants. Professional designations held by staff include two attorneys, one CIH.

Clients: 25 total; 15 corporate and institutional environmental risk management consulting clients; 30% with gross revenues less than \$10 million, 38% with \$10 million-\$25 million, 13% with \$25 million-\$100 million, 13% with \$100 million-\$1 billion, 6% with more than \$1 billion.

Specialties: Oil and gas, chemical firms, Superfund PRPs.

Branch offices: San Diego, Calif.; Little Rock, Ark.

Compensation: By the project; on retainer; by the hour: principal consultant, \$125; consultant, \$75.

1989 gross revenues: 20% from unbundled environmental risk management consulting services.

Principal officers: James Welsh, president; Arthur Rubenstein, vp-technical service; Mike Calloway, vp-field service; John Harkins, director-marketing; David Shea, vp-administration.

Contact: John Harkins.

Forcon International Corp.

1216 Oakfield Drive, Brandon, Fla. 33511; 813-684-7686; fax: 813-654-1481

Year founded: 1984.

Environmental risk management consulting services: Frequent litigation support, project monitoring, cost control; occasional environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, public health risk assessment.

Other services: Frequent consulting to insurers and public policy makers.

Staff: Professional designations held by staff include 15 PEs, one CPG, one attorney.

Clients: 10 total clients; 50% with \$25 million-\$100 million, 50% with \$100 million-\$1 billion.

Specialties: Insurance and legal professions.

Branch offices: Tampa, Fla.; Atlanta; Denver, Los Angeles, San

Francisco.

Compensation: On retainer; by the hour: principal consultant, \$85-\$145; consultant, \$75-\$130.

1989 gross revenues: 10% from unbundled environmental risk management consulting services.

Principal officers: Michael J. Sugar Jr. and Richard Tasker, chief executive officers; William VerEecke and James King, vps; Charles R. Stup, manager.

Contact: George Donald III and Michael J. Sugar Jr.

G**Gallagher Bassett Services Inc.**

2550 W. Golf Road, Rolling Meadows, Ill. 60008; 708-640-8555; fax: 708-640-6971

Year founded: 1962.

Parent company: Arthur J. Gallagher & Co.

Environmental risk management consulting services: Occasional operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans, public health risk assessment, regulatory and public policy analysis, risk management consulting.

Other services: Frequent general risk management consulting; occasional remediation activities, consulting to insurers and public policy makers.

Staff: 52 total. Professional designations held by staff include three PEs, four ARMs.

Clients: Six corporate and institutional environmental risk management consulting clients; 67% with \$25 million-\$100 million, 33% with more than \$1 billion.

Branch offices: Miami; St. Louis; Los Angeles; Spring Valley, N.Y.

Compensation: By the project.

1989 gross revenues: \$5.2 million total, 3% from unbundled environmental risk management consulting services.

Principal officers: John G. Campbell, chairman; Peter J. Durkalski, president; Richard McKenna, Richard Rothman and Fred Potenza, executive vps.

Contact: Fred Potenza.

Galson Technical Services Inc.

1099 Jay St., Rochester, N.Y. 14611; 716-235-2220;

Year founded: 1970.

Environmental risk management consulting services: Frequent environmental audits of real estate, public health risk assessment; occasional design and analysis of remediation plans, design of waste minimization plans, litigation support, regulatory and public policy analysis, risk management consulting; industrial hygiene services, regulatory compliance.

Other services: Occasional consulting to insurers and public policy makers, general risk management consulting.

Staff: 225 total; 130 professionals, including five principal consultants, 20 consultants. Professional designations held by staff include 18 PEs, 13 CIHs.

Clients: More than 2,500 corporate and institutional environmental risk management consulting clients; 75% with gross revenues less than \$10 million, 20% with \$10 million-\$25 million, 5% with \$25 million-\$100 million.

Branch offices: Syracuse and Hawthorne, N.Y.; Philadelphia; Raleigh, N.C.; Berkeley, Calif.

Compensation: By the project; on retainer; by the hour: principal consultant, \$140; consultant, \$55-\$110.

1989 gross revenues: \$10 million total.

Principal officers: Lee Davis, executive vp; Alan Galson, president; Gib Stine, corporate vp; Joe Ungan, vp-laboratory; Mark Durham, vp-industrial hygiene division.

Contact: Joseph R. Brown.

Gandee & Associates Inc.

4488 Mobile Drive, Columbus, Ohio 43220; 614-459-8338; fax: 614-442-2158

Year founded: 1979.

Environmental risk management consulting services: Frequent design and analysis of remediation plans, radon sampling of real estate, asbestos materials studies of real estate and manufacturing plants, design, administration and inspection of asbestos abatement; occasional environmental audits of real estate, litigation support, public health risk assessment, regulatory and public policy analysis.

Staff: 30 total; 16 professionals, including three principal consultants, 13 consultants. Professional designations held by staff include one PE, one RA, two MEs, 10 IAs.

Clients: 40 corporate and institutional environmental risk management consulting clients; 30% with gross revenues less than \$10 million, 60% with \$10 million-\$25 million, 10% with \$25 million-\$100 million.

Compensation: By the project; by the hour: principal consultant, \$95; consultant, \$62.

1989 gross revenues: \$2.3 million total, 100% from unbundled environmental risk management consulting services.

Principal officers: Kurt Varga, president; David B. Gandee, vp.

Contact: Tim Price, services analyst.

Geo-Environmental Consultants Inc.

104 John R. Thomas Dr., Exton, Pa. 19341; 215-594-0400; fax: 215-594-0401

Year founded: 1990.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans, litigation support; occasional public health risk assessment; evaluation of environmental claims; groundwater assess-

Continued on next page

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Continued from previous page
ment and cleanup, underground storage tank management.

Other services: Frequent remediation activities, general risk management consulting; occasional consulting to insurers and public policy makers.

Staff: 10 total; seven professionals, including three principal consultants, seven consultants. Professional designations held by staff include four PEs.

Clients: Five current clients.

Specialties: Manufacturing, chemical and petroleum, pulp and paper.

Branch offices: Potomac, Md.

Compensation: By the project.

Principal officers: Jahan Tavan-gar, president.

GeoResearch

3960 Gilman St., Long Beach, Calif. 90815; 213-597-3977; fax: 213-597-8459

Year founded: 1984.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans; occasional design of waste minimization plans, litigation support, public health risk assessment, risk management consulting.

Other services: Frequent remediation activities.

Staff: 60 total; 25 professionals. Professional designations held by staff include one PE, one CEG, five RGs, two REAs.

Clients: 230 total clients.

Branch offices: San Luis Obispo and Fresno, Calif.

Compensation: By the project; on retainer; by the hour: \$85-\$150.

1989 gross revenues: 90% from unbundled environmental risk management consulting services.

Principal officers: Michael M. Mooradian, president; Cheryl K. Mooradian, vp/secretary.

Contact: Cheryl K. Mooradian.

Geo/Resource

Consultants Inc.

401 M. St. S.W., Washington, D.C. 20024; 202-488-1487; fax: 202-488-7928

Year founded: 1978.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans, litigation support, regulatory and public policy analysis, federally mandated training programs; occasional public health risk assessment, risk management consulting.

Other services: Frequent remediation activities, consulting to insurers and public policy makers; occasional general risk management consulting.

Staff: 72 environmental consultants. Professional designations held by staff include four PEs, 10 CPGs, six CGWPs, one attorney.

Clients: 130 corporate and institutional environmental risk management consulting clients; 37% with gross revenues less than \$10 million, 25% with \$10 million-\$25 million, 25% with \$25 million-\$100 million, 10% with \$100 million-\$1 billion, 3% with more than \$1 billion.

Specialties: Hazardous and solid waste.

Compensation: By the project; on retainer.

1989 gross revenues: \$5.2 million total, 90% from unbundled environmental risk management consulting services.

Principal officers: Alvin Joe, president; Alan Tryhorn, senior vp; Denise Sines, principal/regional manager; Ken Karaba, regional manager; Greg Carbolido, principal/regional manager.

Contact: Denise Sines.

Geosystem

Consultants Inc.

18218 McDermott E., Suite G, Irvine, Calif. 92714; 714-553-8757; fax: 714-261-8550

Year founded: 1985.

Environmental risk management consulting services: Frequent environmental audits of real estate, design and analysis of remediation plans, litigation support, re-

medial investigations, feasibility studies; occasional operational audits of manufacturing plants, design of waste minimization plans, public health risk assessment, regulatory and public policy analysis, risk management consulting.

Other services: Frequent remediation activities; occasional consulting to insurers and public policy makers, general risk management consulting.

Staff: 25 total; 15 professionals, including two principal consultants. Professional designations held by staff include one PE, one CPG, three CGWPs.

Clients: More than 35 corporate and institutional environmental risk management consulting clients; 14% with gross revenues less than \$10 million, 20% with \$10 million-\$25 million, 30% with \$25 million-\$100 million, 30% with \$100 million-\$1 billion, 6% with more than \$1 billion.

Specialties: Chemical and petroleum manufacturers and distributors.

Branch offices: Santa Clara, Calif.

Continued on next page

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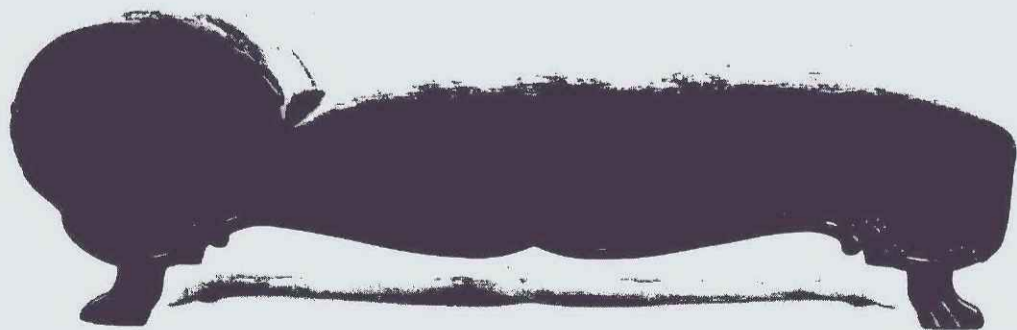
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**Business
Insurance**

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Continued from previous page

Compensation: By the project; by the hour.

1989 gross revenues: \$3 million total; 60% from unbundled environmental risk management consulting services.

Principal officers: Mohsen Mehran, president; Philip Miller, vp/secretary/treasurer.

Contact: Philip Miller.

Geraghty & Miller Inc.

125 E. Bethpage Road, Plainview, N.Y. 11803; 516-249-7600; fax: 516-249-7610

Year founded: 1957.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, litigation support, regulatory and public policy analysis; occasional design of waste minimization plans, public health risk assessment, risk management consulting.

Other services: Frequent reme-

diation activities, contamination investigations; occasional consulting to insurers and public policy makers, general risk management consulting.

Staff: 902 total. Professional designations held by staff include 25 PEs, 25 CPGs, 25 CGWPs, five attorneys.

Clients: 500 corporate and institutional environmental risk management consulting clients; 10% with gross revenues less than \$10 million, 20% with \$10 million-\$25 million, 40% with \$25 million-\$100 million, 20% with \$100 million-\$1 billion, 10% with more than \$1 billion.

Specialties: Chemical, petrochemical, manufacturing.

Branch offices: More than 45 offices nationwide.

Compensation: By the project; on retainer; by the hour: principal consultant, \$105; consultant, \$55.

1989 gross revenues: \$50 million total, 20% from unbundled environmental risk management consulting services.

Principal officers: David W. Miller, president/chief executive officer; Robert B. Ziegler, chief operating officer; John McCusker, chief financial officer; Gary E. Coates, vp-business development; Fred Troise, vp-marketing; Marion Gelbart, vp-controller.

Contact: Gary E. Coates, 516-249-7600.

Green Environmental Inc.

166 Independence Ave., Quincy, Mass. 02169; 617-479-0550; fax: 617-479-5150

Year founded: 1987.

Environmental risk management consulting services: Frequent environmental audits of real estate, design and analysis of remediation plans, litigation support, public health risk assessment, regulatory and public policy analysis, risk management consulting; occasional operational audits of manufacturing plants.

Other services: Frequent consulting to insurers and public policy makers, general risk management consulting; occasional remediation activities.

Staff: 25 total; seven professionals, including seven principal consultants, four consultants. Professional designations held by staff include two PEs, three CPGs, five CGWPs.

Clients: 200 corporate and institutional environmental risk management consulting clients; 100% with gross revenues less than \$10 million.

Specialties: Insurance, real estate developers, lending institutions, oil.

Branch offices: Wilton, Conn.

Compensation: On retainer; by the hour: principal consultant, \$60; consultant, \$55.

1989 gross revenues: \$3 million total, 60% from unbundled environmental risk management consulting services.

Principal officers: Glenn C. Ferguson, A.J. Bissonnette, Douglas Geller, James A. O'Day, Mark Germano.

Contact: Glenn C. Ferguson.

Greene & Associates Inc.

One Energy Square, Suite 1130, Dallas, Texas 75206; 214-691-3500; fax: 214-691-3503

Year founded: 1974.

Environmental risk management consulting services: Frequent litigation support; occasional environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, risk management consulting.

Other services: Occasional consulting to insurers and public policy makers, general risk management consulting.

Specialties: Energy, chemicals.

Compensation: By the hour.

Principal officers: Robert L. Greene.

Contact: Elaine K. Allen.

Groundwater Technology Inc.

220 Norwood Park S., Norwood, Mass. 02062; 617-769-7600; fax: 617-769-7992

Year founded: 1975.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis

Continued on next page



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Continued from previous page of remediation plans, design of waste minimization plans, public health risk assessment, regulatory and public policy analysis, risk management consulting, hydrogeologic studies, air quality management, regulatory compliance; occasional litigation support.

Other services: Frequent remediation activities, bioremediation, soil venting and hazardous vapor removal, consulting to insurers and public policy makers, general risk management consulting.

Staff: 1,400 total.

Branch offices: More than 50 offices worldwide.

1989 gross revenues: \$123.87 million total.

Principal officers: Walter C. Barber, president/chief executive officer; Paul Theodore Owens, senior vp/treasurer/chief financial officer; Zenaido R. Quintana, vp-sales/marketing; William Smith, senior vp-technology; Paul M. Yaniga, senior vp-corporate development.

Contact: Joshua B. Jackson, 800-635-0053; 617-769-7600.

H

The Hartford Steam Boiler Insurance & Inspection Co.

One State St., Hartford, Conn.
06102-3001; 203-722-1866; fax:
203-722-5106

Year founded: 1866.

Environmental risk management consulting services: Frequent environmental audits of real estate, design and analysis of remediation plans, design of waste minimization plans, public health risk assessment, regulatory and public policy analysis; occasional operational audits of manufacturing plants, litigation support.

Other services: Frequent consulting to insurers and public policy makers; occasional remediation activities, general risk management consulting.

Staff: 3,500 total; 1,720 professionals, including 340 principal consultants, 1,380 consultants. Professional designations held by staff include 37 PEs, nine ARMs, 15 CPCUs; 10 CGWPs, 14 attorneys, 11 CIHs.

Clients: 650 corporate and institutional environmental risk management consulting clients; 15% with gross revenues less than \$10 million, 25% with \$10 million-\$25 million, 35% with \$25 million-\$100 million, 15% with \$100 million-\$1 billion, 10% with more than \$1 billion.

Branch offices: Atlanta; Chicago; King of Prussia, Pa.; Austin and Houston, Texas; Research Triangle Park, N.C.; El Segundo and Sacramento, Calif.; Milwaukee, Wis.; McLean, Va.; Oak Ridge, Tenn.

Compensation: By the project; by the hour.

1989 gross revenues: \$484.5 million total, 32% from unbundled environmental risk management consulting services.

Principal officers: Wilson Wilde, president/chief executive officer; Donald K. Wilson Jr., executive vp; Kenneth J. Kelly, senior vp/general counsel; T. Skipwith Lewis and Keith S. Hynes, senior vps; Robert W. Trainer, senior vp/treasurer/chief financial officer.

Hewitt, Coleman/Kemron Environmental Services Inc.

Hewitt, Coleman: P.O. Box 3665, Greenville, S.C. 29608; Kemron: 7926 Jonew Branch Drive, Suite 1100, McLean, Va. 22102; 803-240-5807; fax: 803-232-8824

Year founded: 1923.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, public health risk assessment, regulatory and public policy analysis, risk management consulting; occasional design of waste minimization plans, litigation support.

Other services: Frequent remediation activities, consulting to insurers and public policy makers, general risk management consulting; hazardous site investigation/underground storage tank removal, indus-

trial hygiene services.

Staff: 332 total; 40 professionals, including five principal consultants, 35 consultants. Professional designations held by staff include four PEs, eight CPGs, one attorney, one one CIH, CSP, one ASP, one CSS, one CSM.

Clients: More than 50 corporate and institutional environmental risk management consulting clients; 20% with gross revenues less than \$10 million, 20% with \$10 million-\$25 million, 20% with \$25 million-\$100 million, 20% with \$100 million-\$1 billion, 20% with more than \$1 billion.

Branch offices: Atlanta; Huntington, N.Y.; Novi, Mich.; Marietta and Cincinnati, Ohio; Raleigh, N.C.; Orlando, Fla.; Birmingham, Ala.; Denver.

Compensation: By the project.

Principal officers: Kemron: Juan Gutierrez, president; Mark Wilbur, executive vp; Dick Struble, director-hazardous waste programs; Britt Noone, senior vp; Hewitt, Coleman: Charles R. Warne, president; Willard

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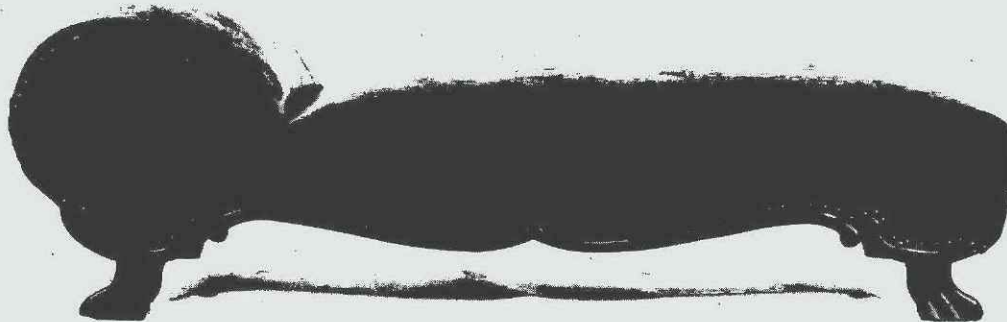
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Spotlight report

Continued from previous page
L. Quinn Jr., senior vp.
Contact: Willard L. Quinn.

Hillmann Environmental Co. Inc.

1089 Cedar Ave., Union, N.J.
07083; 201-686-3335; fax:
201-686-2636

Year founded: 1985.

Environmental risk management consulting services: Frequent environmental audits of real estate design and analysis of remediation plans; occasional operational audits of manufacturing plants, litigation support.

Other services: Frequent asbestos consulting, laboratory services, manage remediation projects, indoor air quality survey.

Staff: More than 80 total. Professional designations held by staff include one PE, one CPG, one CHMM, one C.H.

Clients: More than 200 corporate and institutional environmental risk

management consulting clients.

Specialties: Commercial office buildings.

Branch offices: Voorhees, N.J.; Tampa, Fla.; Falls Church, Va.; Long Beach, and San Francisco, Calif.

Compensation: By the project; by the hour: principal consultant, \$80; consultant, \$60.

1989 gross revenues: 20% from unbundled environmental risk management consulting services.

Principal officers: Christopher Hillmann, president/chief executive officer; Joseph Hillmann, executive vp/chief operating officer; Frank Clancey, chief financial officer; Sandra Patterson, controller.

Contact: Joseph C. Hillmann.

Eugene Horton & Associates

600 Stewart St., Suite 724, Seattle, Wash. 98101; 206-441-7020; fax: 206-441-7025

Year founded: 1985.

Environmental risk management consulting services: Risk

management consulting.

Other services: Frequent general risk management consulting; occasional consulting to insurers and public policy makers.

Staff: Six total; one professional who is a principal consultant.

Clients: 35 corporate and institutional environmental risk management consulting clients; 97% with gross revenues less than \$10 million, 3% with \$10 million-\$25 million.

Specialties: Maritime.

Compensation: On retainer; by the hour: principal consultant, \$150; consultant, \$100.

1989 gross revenues: \$35,000 total.

Principal officers: Eugene A. Horton, president.

Hygienetics Inc.

98 N. Washington St., Boston, Mass. 02114; 617-589-0660; fax: 617-589-0661

Year founded: 1982.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, litigation support, regulatory and public policy analysis, risk management consulting; occasional design of waste minimization plans, public health risk assessment.

Other services: Frequent consulting to insurers and public policy makers; occasional general risk management consulting.

Staff: 300 total. Professional designations held by staff include six FEs, one ARM, five CIHs, 10 RAs, two RGs.

Clients: 500 total clients; 5% with gross revenues less than \$10 million, 10% with \$10 million-\$25 million, 25% with \$25 million-\$100 million, 35% with \$100 million-\$1 billion, 25% with more than \$1 billion.

Specialties: Institutional investors, commercial air carriers, industry, food processing, metal forging.

Branch offices: Boston; Hartford,

Conn.; Chicago; New York; Los Angeles; San Francisco; Honolulu; Washington, D.C.; Offenbach, West Germany.

Compensation: By the project.
1989 gross revenues: \$25 million total, 60% from unbundled environmental risk management consulting services.

Principal officers: Ken Schoultz, chairman/chief executive officer; Peter Casey, president; Thomas Galvin, senior vp-marketing; Russell Matthews, executive vp; Tina Walton, treasurer.

Contact: Thomas Galvin.

IAG Ltd.

240 Madison Ave., 14th Floor, New York, N.Y. 10016; 212-697-2680; fax: 212-697-4354

Year founded: 1985.

Environmental risk management consulting services: Frequent litigation support; historic insurance reconstruction, sample policy form procurement, insurance contract analysis, policy database management.

Staff: 13 total; nine professionals, including two principal consultants, seven consultants.

Clients: 150 corporate and institutional environmental risk management consulting clients; 5% with gross revenues less than \$10 million, 5% with \$10 million-\$25 million, 30% with \$25 million-\$100 million, 35% with \$100 million-\$1 billion, 25% with more than \$1 billion.

Specialties: Chemical, manufacturing, mining, pharmaceutical.

Branch offices: Washington, D.C.

Compensation: By the hour: principal consultant, \$160-\$195; consultant, \$75-\$160.

1989 gross revenues: 80% from unbundled environmental risk management consulting services.

Principal officers: Sheila Mulrennan, president; Michele Pierro, vp.

Contact: Sheila Mulrennan.

Insurance Control Systems Inc.

1118 N. LaBrea Ave., Inglewood, Calif. 90302; 213-678-7115; fax: 213-673-3350

Year founded: 1989.

Environmental risk management consulting services: Frequent operational audits of manufacturing plants, design of waste minimization plans, regulatory and public policy analysis, risk management consulting; occasional litigation support, public health risk assessment.

Other services: Frequent general risk management consulting, regulatory compliance; occasional consulting to insurers and public policy makers.

Staff: 12 total; two professionals, both principal consultants. Professional designations held by staff include two PEs, one CSE, one CSP.

Clients: 18 corporate and institutional environmental risk management consulting clients.

Branch offices: Los Angeles, Atlanta.

Compensation: By the project; on retainer; by the hour.

1989 gross revenues: \$1.4 million total, 80% from unbundled environmental risk management consulting services.

Principal officers: Alfred Kirkpatrick, president; Ken Gordon and Laura Patten, vps; Valeta Paganelli, secretary/treasurer.

Contact: Laura Patten.

International Exploration Inc. (INTEX)

577 Sacketsford Road, Warminster, Pa. 18974-1398; 215-598-7137; fax: 215-598-0847

Year founded: 1981.

Parent company: Environmental Services of America Inc.

Environmental risk management consulting services: Frequent environmental audits of real estate, design and analysis of remediation plans; occasional operational audits of manufacturing plants, design of waste minimization plans, litigation support, public health risk assessment.

Other services: Frequent reme-

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Continued from previous page
diation activities.

Staff: 20 total; six professionals. Professional designations held by staff include one PE, three CPGs, five CGWPs.

Clients: 8 corporate and institutional environmental risk management consulting clients; 62.5% with gross revenues less than \$10 million, 25% with \$10 million-\$25 million, 12.5% with \$25 million-\$100 million.

Specialties: Chemical industry, real estate transactions.

Compensation: By the hour: principal consultant, \$95; consultant, \$65.

1989 gross revenues: \$900,000 total, 5% from unbundled environmental risk management consulting services.

Principal officers: Joseph T. Jacobsen, president; John S. Walker, vp.

Contact: Joseph T. Jacobsen.

International Technology Corp.

23456 Hawthorne Blvd., Torrance, Calif. 90505; 213-378-9933; fax: 213-791-2586

Year founded: 1953.

Environmental risk management consulting services: Frequent environmental audits of real estate, design and analysis of remediation plans, design of waste minimization plans; occasional operational audits of manufacturing plants, litigation support, public health risk assessment, regulatory and public policy analysis.

Other services: Frequent remediation activities; occasional consulting to insurers and public policy makers.

Staff: 3,500 total; 200 professionals, including 20 principal consultants, 180 consultants. Professional designations held by staff include 350 PEs, 125 CPGs, one ARM, 20 CGWPs, nine attorneys.

Clients: 500 corporate and institutional environmental risk management consulting clients; 10% with gross revenues less than \$10 million, 35% with \$10 million-\$25 million, 30% with \$25 million-\$100 million, 24% with \$100 million-\$1 billion, 1% with more than \$1 billion.

Branch offices: 45 locations in 20 states.

Compensation: By the project; by the hour: principal consultant, \$130; consultant, \$100.

1989 gross revenues: \$307.2 million total, 15% from unbundled environmental risk management consulting services.

Principal officers: Murray H. Hutchinson, chief executive officer; Brian Smith, president; Anthony J. De Luca, chief financial officer; Frank C. Rice, vp.

Contact: Raymond W. Holdsworth, vp.

J

The Jefferson Group Inc.

1341 G St. N.W., Suite 1100, Washington, D.C. 20005; 202-638-3535; fax: 202-638-3536 or 202-638-3537

Year founded: 1987.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, litigation support, regulatory and public policy analysis; occasional design of waste minimization plans, public health risk assessment.

Other services: Frequent remediation activities, consulting to insurers and public policy makers, general risk management consulting.

Staff: 43 total; nine professionals. Professional designations held by staff include one PE, six attorneys.

Clients: 18 corporate and institutional environmental risk management consulting clients; 33% with gross revenues less than \$10 million, 17% with \$10 million-\$25 million, 17% with \$100 million-\$1 billion, 33% with more than \$1 billion.

Compensation: On retainer; by the hour: principal consultant, \$200.

1989 gross revenues: \$4 million total, 39% from unbundled environmental risk management consulting services.

Principal officers: Mark D. Cowan, chief executive officer; Robert E. Carlstrom Jr., president; Frederick J. Hannett, executive vp; Carolyn A. McLaughlin, secretary/treasurer.

Contact: Randal P. Schumacher, senior vp.

K

Karch & Associates Inc.

1701 K. St. N.W., Suite 1000, Washington, D.C. 20006; 202-463-0400; fax: 202-463-0502

Year founded: 1982.

Environmental risk management consulting services: Frequent design and analysis of remediation plans, litigation support, public health risk assessment, regulatory and public policy analysis, risk communication, industrial hygiene; occasional operational audits of manufacturing plants, design of

Continued on next page

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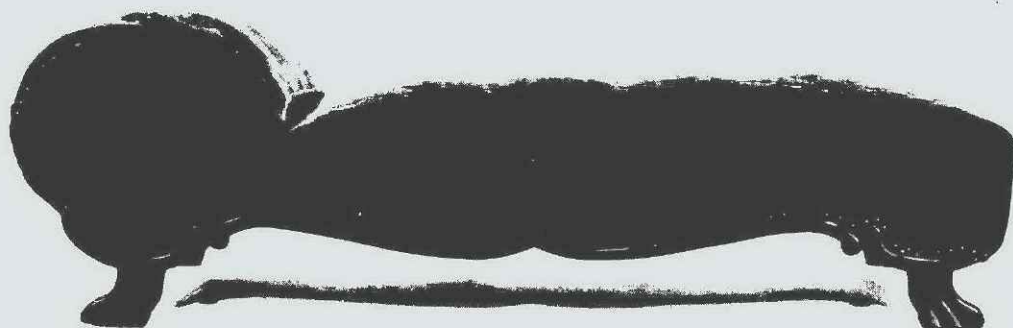
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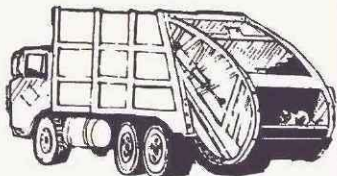
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Charles A. Johnson, NSWMA 1730 Rhode Island Avenue, NW
Suite 1000-B, Washington, DC 20036
800/424-2869 or 202/659-4613

NSWMA

Continued from previous page
waste minimization plans, risk management consulting.

Other services: Frequent general risk management consulting; occasional remediation activities, consulting to insurers and public policy makers.

Staff: 19 total; 14 professionals, including three principal consultants, 11 consultants. Professional designations held by staff include two PEs, one M.D.

Clients: 25 corporate and institutional environmental risk management consulting clients; 8% with gross revenues less than \$10 million, 12% with \$10 million-\$25 million, 16% with \$25 million-\$100 million, 40% with \$100 million-\$1 billion, 24% with more than \$1 billion.

Specialties: Chemical industry, paper industry, utilities.

Compensation: By the hour: principal consultant, \$160-\$185; consultant, \$80-\$155.

Principal officers: Nathan J.

Karch, president; Robert J. Golden, vp; Rebecca A. Donnellan, director.
Contact: Addie M. Brown.

Kidde Consultants Inc.

1020 Cromwell Bridge Road,
Baltimore, Md. 21204;
301-321-5500; fax: 301-583-1760

Year founded: 1955.

Environmental risk management consulting services: Frequent environmental audits of real estate, design and analysis of remediation plans; occasional design of waste minimization plans, litigation support.

Other services: Frequent remediation activities, consulting to insurers and public policy makers; occasional general risk management consulting.

Clients: 40 total clients; 100% with gross revenues less than \$10 million.

Compensation: By the project; by the hour: principal consultant, \$130; consultant, \$65.

1989 gross revenues: \$36 million

total, 2% from unbundled environmental risk management consulting services.

Principal officers: Jack Kinstlinger, president/chief executive officer; William E. Franswick, executive vp; Trand Greenager, Tom Hintz and Terry Neimeyer, executive vps;

Contact: Steve Garrison, senior vp; 301-792-2828.

L

LCH Construction Management

P.O. Box 290, Snellville, Ga. 30278;
404-979-6467; fax: 404-985-6866

Year founded: 1977.

Environmental risk management consulting services: Frequent environmental audits of real estate, design and analysis of remediation plans, public health risk assessment, regulatory and public policy analysis; occasional litigation support, risk management consulting.

Other services: Frequent remediation activities, consulting to insurers and public policy makers; occasional general risk management consulting.

Staff: Six total; four professionals, including two principal consultants, two consultants. Professional designations held by staff include one PE, one environmental auditor.

Clients: Six corporate and institutional environmental risk management consulting clients; 10% with gross revenues less than \$10 million, 20% with \$10 million-\$25 million, 10% with \$25 million-\$100 million, 60% with more than \$1 billion.

Branch offices: Salt Lake City.

Compensation: By the project; on retainer.

1989 gross revenues: More than \$250,000 total, 85% from unbundled environmental risk management consulting services.

Principal officers: Larry Howick.

Laventhol & Horwath

1865 Walnut St., Philadelphia, Pa.
19103; 215-299-1700; fax:
215-299-1858

Year founded: 1922.

Environmental risk management consulting services: Frequent litigation support, risk management consulting; occasional environmental audits of real estate, operational audits of manufacturing plants, public health risk assessment.

Other services: Frequent consulting to insurers and public policy makers, general risk management consulting; evaluation of damages, data base development and management.

Staff: 56 total; two professionals, including two principal consultants. Professional designations held by staff include one PE, two ARMs, five CPCUs, three attorneys, 43 CPAs.

Clients: 109 corporate and institutional environmental risk management consulting clients; 60% with gross revenues less than \$10 million, 15% with \$10 million-\$25 million, 15% with \$25 million-\$100 million, 5% with \$100 million-\$1 billion, 5% with more than \$1 billion.

Specialties: Construction, manufacturing, insurance, real estate.

Branch offices: Denver, Los Angeles, New York.

Compensation: By the hour: principal consultant, \$150; consultant, \$90.

1989 gross revenues: \$11 million total, 5% from unbundled environmental risk management consulting services.

Principal officers: Charles J. Herman, Jerry M. Gortlieb, Wesley N. Stark, Stuart A. Gollin, Bruce Jonas.

Contact: Charles J. Herman.

Law Environmental Inc.

112 & 114 TownPark Drive,
Kennesaw, Ga. 30144;
404-421-3400; fax: 404-421-3486

Year founded: 1947.

Environmental risk management consulting services: Frequent environmental audits of real estate, design and analysis of remediation plans, litigation support,

Continued on next page



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Continued from previous page
public health risk assessment, regulatory and public policy analysis; occasional operational audits of manufacturing plants, design of waste minimization plans, risk management consulting.

Other services: Frequent remediation activities, consulting to insurers and public policy makers; occasional general risk management consulting.

Staff: 650 total; 446 professionals, including 64 principal consultants, 68 consultants. Professional designations held by staff include 140 PEs, 3 CPGs, two attorneys.

Clients: 10% with gross revenues less than \$10 million, 10% with \$10 million-\$25 million, 30% with \$25 million-\$100 million, 25% with \$100 million-\$1 billion, 25% with more than \$1 billion.

Branch offices: 23 offices nationwide.

Compensation: By the project; on retainer; by the hour: principal consultant, \$80; consultant, \$130.

1989 gross revenues: \$40 million total, 5% from unbundled environmental risk management consulting services.

Principal officers: Lee M. Thomas, chief executive officer; D. Hugh Taylor, chief financial officer; J. Leonard Ledbetter, president; Ben C. Rusche, senior vp; Gerald H. Engle, director-marketing/senior vp.

Contact: Gerald Fogle-404-590-4624.

Litigation Management Specialists Inc.

Suite 1265, 12th Floor, First American Center, 315 Deaderick St., Nashville, Tenn. 37238; 615-255-5510; fax: 615-255-4679

Year founded: 1989.

Environmental risk management consulting services: Frequent litigation management, risk management consulting, exposure evaluation, project coordination; occasional environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, regulatory and public policy analysis.

Other services: Frequent general risk management consulting, loss prevention, loss avoidance, loss minimization, loss spreading.

Staff: Three total; one professional, including one principal consultant.

Clients: Eight total clients from Jan. 1-Aug. 31, 1990.

Specialties: Manufacturers in metal working industry.

Compensation: By the project; on retainer; by the hour: principal consultant, \$75-\$100.

1989 gross revenues: From Jan. 1-Aug. 31, 1990: \$50,000 total, 20% from unbundled environmental risk management consulting services.

Principal officers: James A. Freeman, president.

Arthur D. Little Inc.

Acorn Park, Cambridge, Mass. 02140; 617-864-5770; fax: 617-661-5830

Year founded: 1886.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, analysis of remediation plans, design of waste minimization plans, litigation support, public health risk assessment, regulatory and public policy analysis; occasional design of remediation plans, risk management consulting.

Other services: Frequent general risk management consulting; occasional consulting to insurers and public policy makers.

Staff: 2,450 total; 70 professionals, including 26 principal consultants, 44 consultants. Professional designations held by staff include seven PEs, three CPGs, one attorney.

Branch offices: Houston; Washington, D.C.; Toronto; Cambridge, England.

Compensation: By the project; on retainer.

Gross revenues: 12% from unbundled environmental risk management consulting services.

Principal officers: Charles R. Lamantia, president/chief executive officer; Alfred E. Wechsler, senior vp/chief professional officer; Ashok S. Kalelkar, senior vp; J. Ladd Greeno and R. Scott Stricoff, vps/managing

directors-Environmental, Health and Safety.

Contact: Donald Salmond.

M

MWR Inc.

P.O. Box 10, 615 W. Shepherd St., Charlotte, Mich. 48813; 517-543-8155; fax: 517-543-4483

Year founded: 1982.

Environmental risk management consulting services: Frequent environmental audits of real estate, design and analysis of reme-

diation plans; occasional design of waste minimization plans, litigation support, public health risk assessment, regulatory and public policy analysis.

Other services: Frequent remediation activities; occasional consulting to insurers and public policy makers.

Staff: 41 total; four professionals, including two principal consultants, two consultants. Professional designations held by staff include one PE, two CPGs, one CGWP.

Clients: 20 corporate and institutional environmental risk management consulting clients; 40% with gross revenues less than \$10 million.

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Continued from previous page
20% with \$10 million-\$25 million,
20% with \$25 million-\$100 million,
10% with \$100 million-\$1 billion,
10% with more than \$1 billion.

Specialties: Manufacturing and banking.

Branch offices: Jacksonville, Fla.; Sacramento, Calif.

Compensation: By the project; by the hour: principal consultant, \$80-\$120; consultant, \$50-\$75.

1989 gross revenues: \$4.6 million total, 25% from unbundled environmental risk management consulting services.

Principal officers: Frederick C. Payne, president; Jerry B. Lisiecki, vp-marketing/sales; Terry Mors, vp-operations; Joel E. Schaeffer, vp-environmental services; Patricia Hellebuyck, chief accountant.

Contact: Jerry B. Lisiecki.

**John Mathes
& Associates Inc.**

210 W. Sand Bank Road,
Columbia, Ill. 62236;
618-281-7173; fax: 618-281-5120

Year founded: 1975.

Parent company: Burlington Environmental.

Environmental risk management consulting services: Frequent environmental audits of real estate, design and analysis of remediation plans, public health risk assessment, regulatory and public policy analysis, remedial investigations, compliance and property transfer audits, subsurface exploration and testing; occasional operational audits of manufacturing plants, design of waste minimization plans, litigation support, risk management consulting.

Other services: Frequent remediation activities, general risk management consulting; occasional consulting to insurers and public policy makers.

Staff: 225 total; 60 professionals, including 15 principal consultants, 45 consultants. Professional designations held by staff include 13 PEs, one CGWP, three attorneys.

Clients: 150 corporate and institutional environmental risk management consulting clients; 10% with

gross revenues less than \$10 million, 20% with \$10 million-\$25 million, 20% with \$25 million-\$100 million, 30% with \$100 million-\$1 billion, 20% with more than \$1 billion.

Specialties: Petroleum, chemical, electronics, manufacturers, banks and insurance companies.

Branch offices: Pittsburgh, Seattle.

Compensation: By the project; by the hour: principal consultant, \$90-\$115; consultant, \$60-\$90.

1989 gross revenues: \$18.4 million total, 88% from unbundled environmental risk management consulting services.

Principal officers: John Mathes, chief executive officer; Gary Mathes, president; Jim Laux, secretary/treasurer; C. George Lynn, director-business development.

Contact: C. George Lynn.

Morrow & Associates

581 C. Country Club Drive,
Newark, Ohio 43055;
614-344-6971; fax: 614-344-5915

Year founded: 1989.

Environmental risk management consulting services: Frequent litigation support, regulatory and public policy analysis, risk management consulting.

Other services: Frequent consulting to insurers and public policy makers, general risk management consulting.

Staff: Five total; four professionals, including three principal consultants, one consultant. Professional designations held by staff include one attorney.

Clients: 35 total clients; 10% with gross revenues less than \$10 million, 50% with \$10 million-\$25 million, 25% with \$25 million-\$100 million, 15% with \$100 million-\$1 billion.

Compensation: By the project; on retainer; by the hour: principal consultant, \$150; consultant, \$100.

1989 gross revenues: 60% from unbundled environmental risk management consulting services.

Principal officers: James C. Morrow, president.

N

**National Environmental
Testing & Control Inc.**

450 S. Durkin Drive, Springfield, Ill.
62704; 217-793-8411; fax:
217-793-8444

Year founded: 1989.

Environmental risk management consulting services: Frequent environmental audits of real estate, design and analysis of remediation plans, public health risk assessment, regulatory and public policy analysis, risk management consulting; testing, identification, abatement design and monitoring for lead-based paint testing and abatement design, industrial hygiene consultation, structural engineering consultation.

Other services: Frequent consulting to insurers and public policy makers, general risk management consulting.

Staff: Six total; three professionals. Professional designations held by staff include one PE, two ARMs, two CPCUs, one IH, one environmental sanitarian, one public health consultant.

Clients: 50 total clients.

Specialties: Construction, institutions, government agencies, private developers.

Compensation: By the project; on retainer; by the hour: principal consultant, \$100; consultant, \$75.

1989 gross revenues: 75% from unbundled environmental risk management consulting services.

Principal officers: James Diekroeger, president; Jacqueline Cannon, vp; Sam Cannon, treasurer; Lettie Diekroeger, secretary.

P

**Peterson Consulting
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310 S. Michigan Ave., Suite 1900,
Chicago, Ill. 60604; 312-922-9500;
fax: 312-922-2046

Year founded: 1980.

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Environmental risk management consulting services: Frequent litigation support, cost allocation surveys; occasional regulatory and public policy analysis, risk management consulting.

Other services: Frequent consulting to insurers and public policy makers; occasional general risk management consulting; regulatory compliance, claims administration, data base information management, facilities/operation management.

Staff: 500 total; 50 professionals, including five principal consultants, 45 consultants. Professional designations held by staff include 20 PEs.

Clients: More than 20 corporate and institutional environmental risk management consulting clients.

Branch offices: New York; Philadelphia; Boston; Washington, D.C.; Tampa and Miami, Fla.; Dallas, Houston and Austin, Texas; Los Angeles; San Francisco; Seattle; Minneapolis; Milwaukee; Denver; Phoenix; London.

Compensation: By the project; by the hour: principal consultant, \$120-\$160; consultant, \$40-\$80.

1989 gross revenues: More than \$60 million total, 10% from unbundled environmental risk management consulting services.

Principal officers: Alan E. Peterson, chairman; James F. Beedie, president; Avram Tucker, Stephen Willis, David E. Yurkerwich, vps.

Contact: Mike Emmert, Chicago, 312-347-5909; Stan Rolan, New York, 212-319-5100; Paul Meyer, San Francisco, 415-956-3654.

Professional Risk Management Inc.

1433 Utica Ave. S., Suite 70,
Minneapolis, Minn. 55416;
612-542-8414; fax: 612-542-8850

Year founded: 1988.

Environmental risk management consulting services: Frequent risk management consulting; occasional environmental audits of real estate, operational audits of manufacturing plants.

Other services: Frequent general risk management consulting.

Staff: One staff member. Professional designations held by staff include one ARM, one CPCU, one CIC.

Clients: One corporate and institutional environmental risk management consulting client; 100% with gross revenues less than \$10 million.

Specialties: Manufacturing, distribution, real estate, public entities, marine, chemicals, medical, automotive, directors and officers liability.

Compensation: By the project; by the hour: principal consultant, \$75-\$100.

Principal officers: Carl F. Lidstrom, president.

R

R-S Engineers & Consultants Ltd.

1110 W. 11th Ave., Coatesville, Pa.
19320; 215-383-6741; fax:
215-383-6819

Year founded: 1990.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, public health risk assessment; occasional design of waste minimization plans, litigation support, regulatory and public policy analysis.

Other services: Frequent remediation activities; occasional consulting to insurers and public policy makers, general risk management consulting.

Staff: Seven total; all professionals, including two principal consultants, one consultant. Professional designations held by staff include two PEs, one CPG, one CGWP, one CIH.

Clients: 11 current clients.

Specialties: Manufacturing, waste management.

Compensation: By the project; on retainer; by the hour.

Principal officers: Robert J. Schoenberger, president; Gerald M. Rice, secretary/treasurer; G.E. Valocchi, vp.

Risk International Services Inc.

3560 W. Market St., Suite 315,
Akron, Ohio 44333; 216-666-2556;
fax: 216-666-0842

Year founded: 1986.

Environmental risk management consulting services: Frequent risk management consulting, environmental claims management and insurance recovery, historical research for past coverage; occasional litigation support.

Other services: Frequent general risk management consulting.

Staff: 14 total; two professionals, including one principal consultant, one consultant. Professional designations held by staff include one ARM, one CPCU, one attorney, one CPA.

Clients: Six corporate and institutional environmental risk management consulting clients; 33% with gross revenues less than \$10 million, 17% with \$100 million-\$1 billion, 50% with more than \$1 billion.

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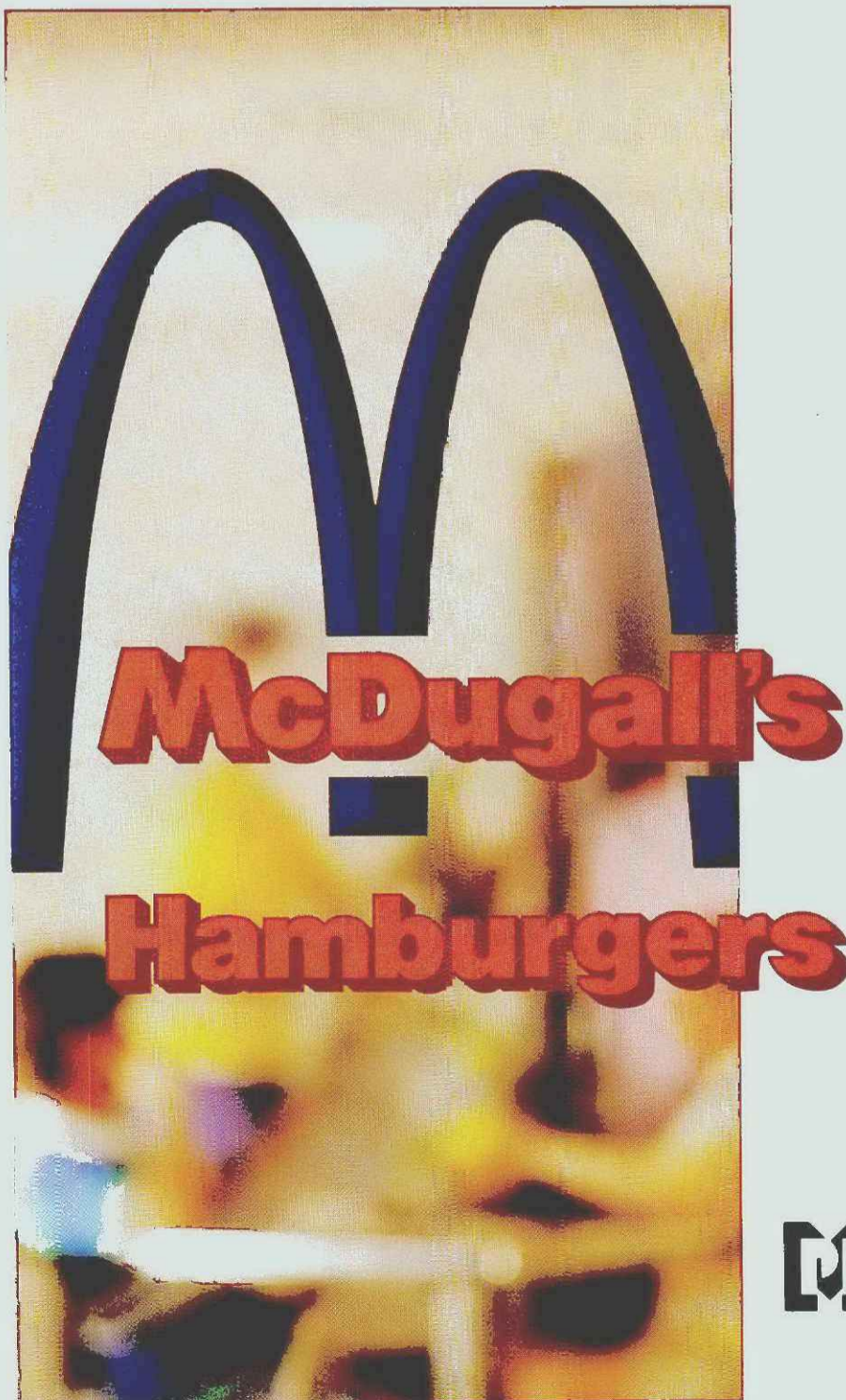
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Spotlight report

Continued from previous page

Specialties: Chemical, diversified manufacturing.**Branch offices:** Houston.**Compensation:** By the hour: principal consultant, \$85-\$125; consultant, \$55-\$85.**1989 gross revenues:** 3% from unbundled environmental risk management consulting services.**Principal officers:** Del R. Jones, chief executive officer; David C. Hatch, president; Stephanie Huey, vp; Douglas L. Talley, assistant vp/corporate counsel; John C. Kline, assistant vp.**Contact:** Douglas L. Talley.**Risk Science International/
Environmental Risk
Division**

1101 30th St. N.W., Suite 4,

Washington, D.C. 20007;

202-333-6855; fax: 202-333-7367

Year founded: 1981.**Parent company:** Frank B. Hall & Co. Inc.**Environmental risk management consulting services:** Frequent environmental audits of real estate, operational audits of manu-

facturing plants, design and analysis of remediation plans, design of waste minimization plans, regulatory and public policy analysis, risk management consulting, occasional litigation support, public health risk assessment.

Other services: Frequent general risk management consulting; occasional remediation activities.**Staff:** 25 total. Professional designations held by staff include two PEs, one CPG.**Clients:** 165 corporate and institutional environmental risk management consulting clients; 100% with gross revenues less than \$10 million.**Branch office:** Sydney, Australia.**Compensation:** By the project; by the hour.**1989 gross revenues:** \$1.8 million total, 84% from unbundled environmental risk management consulting services.**Principal officers:** Thomas V. Hallett, chairman; Robert M. Kube, senior vp; John Haines, vp; Sharon Orr, director-administration/accounting; Dawn Scanlon, vp.**Contact:** Dawn Scanlon.**Risk Strategies Group**

12900 Preston Road, Lock Box 71,

Suite 925, Dallas, Texas 75230;

214-788-2675; fax: 214-788-2722

Year founded: 1988.**Environmental risk management consulting services:** Frequent risk management consulting; occasional environmental audits of real estate, litigation support, regulatory and public policy analysis.**Other services:** Frequent consulting to insurers and public policy makers, general risk management consulting.**Staff:** Four total; one professional, including one consultant.**Clients:** 18 total clients.**Specialties:** Oil and gas, financial institutions, real estate property investment and management, hotel, retail.**Compensation:** By the project; on retainer; by the hour: principal consultant, \$100; consultant, \$85.**1989 gross revenues:** 5% from unbundled environmental risk management consulting services.**Principal officers:** William Robert Colpitts, principal.**Risk & Technical
Management Inc.**

700 Main St., Buffalo, N.Y. 14202;

716-852-1931; fax: 716-852-6638

Year founded: 1988.**Environmental risk management consulting services:** Frequent operational audits of manufacturing plants, risk management consulting; occasional environmental audits of real estate, litigation support, regulatory and public policy analysis.**Other services:** Frequent consulting to insurers and public policy makers, general risk management consulting; on-site safety and environmental management.**Staff:** 12 total; six professionals, including two principal consultants, four consultants. Professional designations held by staff include CHMM, CSP, CFCM.**Clients:** 35 total clients; 72% with gross revenues less than \$10 million,

11% with \$10 million-\$25 million, 11% with \$25 million-\$100 million, 6% with \$100 million-\$1 billion.

Specialties: Heavy industry, construction, waste site remediation.**Compensation:** By the project; on retainer; by the hour: principal consultant, \$75-\$85; consultant, \$65.**1989 gross revenues:** \$2.8 million total, 35% from unbundled environmental risk management consulting services.**Principal officers:** John P. Coniglio, president; Deborah Naples, vp/treasurer; Nancy Naples, vp/secretary.**Warren Rogers
Associates Inc.**

747 Aquidneck Ave., Middletown,

R.I. 02840; 401-846-4747; fax:

401-847-8170

Year founded: 1976.**Environmental risk management consulting services:** Frequent environmental audits of real estate, operational audits of manufacturing plants, litigation support; occasional regulatory and public policy analysis, underground storage tank management.**Other services:** Occasional consulting to insurers and public policy makers.**Staff:** 15 total; four professionals, two including principal consultants, two consultants. Professional designations held by staff include two Ph.D.s, one MBA.**Clients:** 15 corporate and institutional environmental risk management consulting clients; 7% with gross revenues less than \$10 million, 6% with \$10 million-\$25 million, 21% with \$25 million-\$100 million, 28% with \$100 million-\$1 billion, 38% with more than \$1 billion.**Specialties:** Underground storage tanks.**Compensation:** By the project; by the hour: principal consultant, \$185; consultant, \$85.**1989 gross revenues:** 100% from unbundled environmental risk management consulting services.**Principal officers:** Warren F. Rogers, president; Jillanne Jones, vp; Domenica Biriban, secretary/treasurer; William Jones, director-engineering services.**Contact:** William Jones.**S****Sandler Occupational
Medicine
Associates Inc.(SOMA)**

275 Broadhollow Road, Suite 302,

Melville, N.Y. 11747; 516-756-2204;

fax: 516-756-2213

Year founded: 1983.**Environmental risk management consulting services:** Frequent operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans, litigation support, public health risk assessment, regulatory and public policy analysis; occasional environmental audits of real estate; medical adviser to self-insureds' risk management department, loss control.**Other services:** Frequent consulting to insurers and public policy makers, general risk management consulting; occasional remediation activities.**Staff:** 35 total; five professionals, including three principal consultants, two consultants. Professional designations held by staff include four CIHs, two Sc.D.s, eight Ph.D.s, two CSPs, 15 M.D.s.**Clients:** 20 corporate and institutional environmental risk management consulting clients; 5% with \$10 million-\$25 million, 20% with \$25 million-\$100 million, 30% with \$100 million-\$1 billion, 45% with more than \$1 billion.**Specialties:** Food and beverage, pesticide application, chemical, waste management, insurance companies, government.**Branch offices:** Washington, D.C., New York.**Compensation:** By the project; on retainer; by the hour: principal consultant, \$85-\$185; consultant, \$55-\$125.**1989 gross revenues:** \$2 million total, 40% from unbundled environmental risk management consulting services.**Principal officers:** Howard M. Sandler, president; Sheldon H. Ra-

Continued on next page

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Continued from previous page
binovitz, vp-industrial hygiene and toxicology; Amalia C. Apastoleris, director-litigation services.

Contact: Sheldon H. Rabinovitz, 301-217-0092.

Shirazi & Associates International Consultants Inc.

4400 N. Lincoln Blvd., Suite 150,
Oklahoma City, Okla. 73105;
405-427-2269; fax: 405-843-9090

Year founded: 1984.

Environmental risk management consulting services: Frequent environmental audits of real estate, litigation support, regulatory and public policy analysis; occasional public health risk assessment.

Other services: Frequent consulting to insurers and public policy makers; occasional general risk management consulting.

Staff: Three total; all professionals. Professional designations held by staff include one PE, one CPG, one CAI, one CPSS, one licensed architect.

Clients: Seven total clients.

Specialties: Oil and gas exploration and production; mining; asbestos and radiation surveys; hazardous waste management.

Compensation: By the project; by the hour: principal consultant, \$100; consultant, \$75.

1989 gross revenues: \$100,000 total, 100% from unbundled environmental risk management consulting services.

Principal officers: G.A. Shirazi, Kris Agrawal, Johnathan Majid, A.H. Shirazi, Mary Piscitello.

Contact: G.A. Shirazi.

Sobeco Group Inc.

150 York St., Suite 400, Toronto,
Ontario; 416-594-0395

Year founded: 1966.

Parent company: Swiss Re.

Environmental risk management consulting services: Frequent risk management consulting.

Other services: Frequent general risk management consulting.

Staff: 14 total; including three principal consultants. Professional designations held by staff include one ARM, one attorney.

Clients: 10% with \$10 million-\$25 million, 20% with \$25 million-\$100 million, 40% with \$100 million-\$1 billion, 30% with more than \$1 billion.

Branch offices: Montreal and Quebec City, Quebec; Fredricton, New Brunswick; Calgary, Alberta.

Compensation: By the project; on retainer; by the hour: principal consultant, \$170-\$250; consultant, \$120-\$170.

1989 gross revenues: 10% from unbundled environmental risk management consulting services.

Principal officers: Martin Rochette, Paul Fitzgerald, Gaetane LaFontaine, Jacques Lemaire.

Contact: Paul Fitzgerald.

Karl Souder & Associates Inc.

1476 St. Francis Drive, Santa Fe,
New Mexico 87501; 505-983-4611;
fax: 505-983-4113

Year founded: 1989.

Environmental risk management consulting services: Frequent design and analysis of remediation plans, soil and groundwater contamination investigations; occasional environmental audits of real estate, litigation support, regulatory and public policy analysis.

Other services: Frequent remediation activities, consulting to insurers and public policy makers, water rights, groundwater resource development.

Staff: Six total; five professionals, including two principal consultants, three consultants. Professional designations held by staff include one attorney.

Clients: 12 corporate and institutional environmental risk management consulting clients; 42% with gross revenues less than \$10 million, 17% with \$10 million-\$25 million, 33% with \$25 million-\$100 million, 8% with \$100 million-\$1 billion.

Specialties: Underground storage tank management.

Compensation: By the project; on retainer; by the hour: principal consultant, \$70; consultant, \$45-\$60.

1989 gross revenues: \$75,000 total, 60% from unbundled environmental risk management consulting services.

Principal officers: Karl Souder, president; Jennifer Pruatt, secretary; Arnold Souder, treasurer.

Scott Stephenson Consulting

Suite 401, 425 University Ave.,
Toronto, Ontario M5G 1T6;
416-847-7997; fax: 416-598-3764

Year founded: 1975.

Environmental risk management consulting services: Frequent risk management consulting; occasional environmental audits of real estate, operational audits of manufacturing plants, litigation support.

Other services: Frequent consulting to insurers and public policy makers, general risk management consulting.

Staff: Two total; both principal consultants. Professional designations held by staff include two PEs.

Clients: 50 total clients.

Specialties: Hazardous waste, mining, hospitals, municipalities.

Compensation: By the project.

1989 gross revenues: \$200,000

total, 100% from unbundled environmental risk management consulting.

Principal officers: G. Scott, president; M. Stephenson, vp.

T

Tillinghast, Division of Towers, Perrin, Forster & Crosby Inc.

245 Park Ave., New York, N.Y.
10167; 212-490-3460; fax:
212-351-4157

Year founded: 1946.

Environmental risk management consulting services: Frequent regulatory and public policy analysis, risk management consulting; occasional litigation support.

Other services: Frequent consulting to insurers and public policy makers, general risk management consulting, actuarial, claims management and general management consulting; occasional litigation sup-

port.

Staff: 277 total; 201 professionals, including 52 principal consultants, 134 consultants. Professional designations held by staff include three attorneys.

Clients: 10 corporate and institutional environmental risk management consulting clients.

Specialties: Financial and policy analysis.

Branch offices: Worldwide.

Compensation: By the hour: principal consultant, \$220-\$350; consultant, \$130-\$250.

1989 gross revenues: \$54.6 million total, 1.3% from unbundled environmental risk management consulting services.

Principal officers: Norman A. Crowder, vp-managing principal; James MacGinnitie, vp/director; Robert W. Sturgis, vp/manager-Northern region; Neil Anderson, vp/manager-South and West regions, Thomas J. Wander, risk management leader.

Contact: James D. Blinn, 200 W. Madison St., Chicago, Ill. 60606; 312-609-9000; fax: 312-609-9393.

The Traverse Group Inc.

3772 Plaza Drive, Suite 5, Ann
Arbor, Mich. 48108; 313-747-9300;
fax: 313-747-9229

Year founded: 1975.

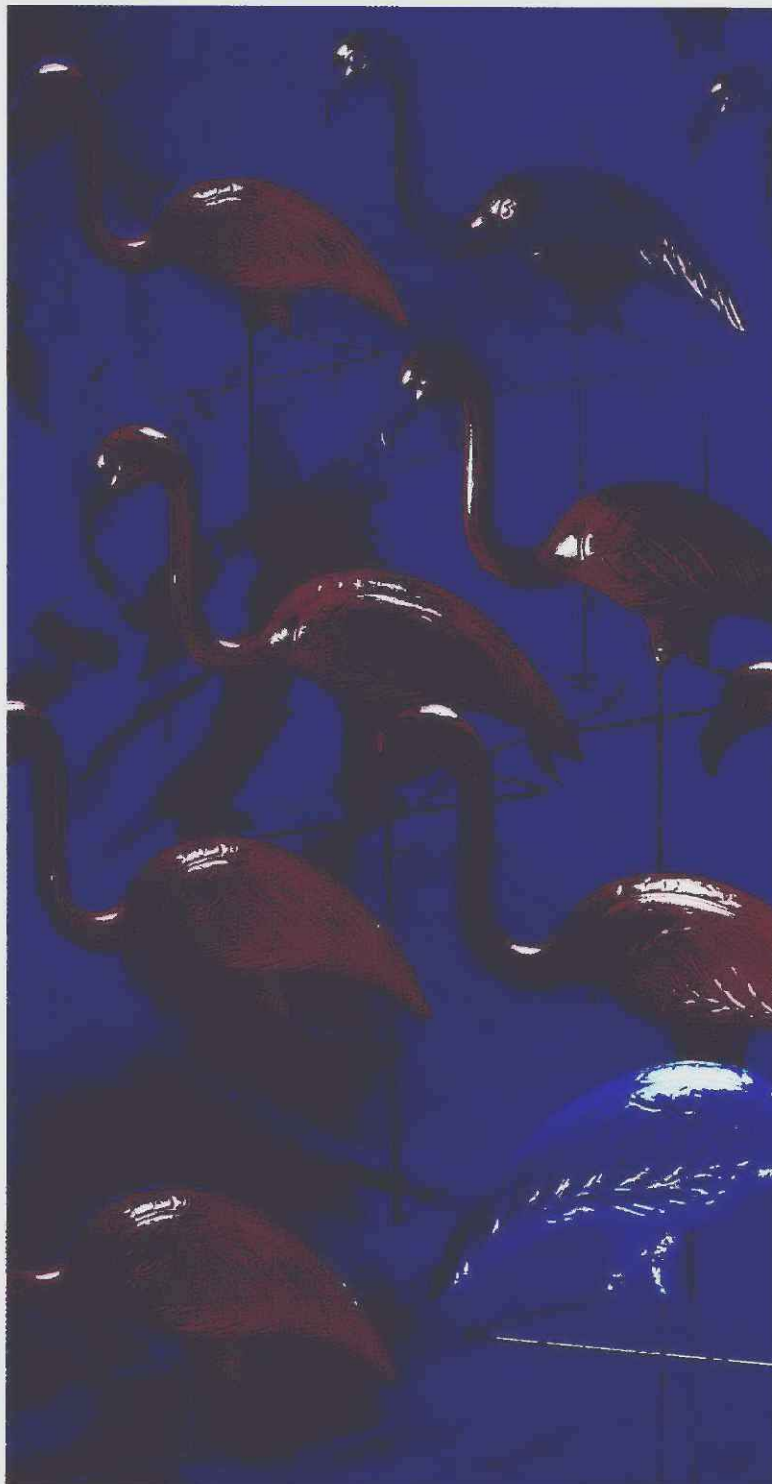
Environmental risk management consulting services: Frequent environmental audits of real estate, design and analysis of remediation plans, design of waste minimization plans, litigation support; occasional operational audits of manufacturing plants, public health risk assessment, regulatory and public policy analysis, risk management consulting.

Other services: Frequent remediation activities, consulting to insurers and public policy makers, general risk management consulting, underground storage tank management and removal, property development, risk assessments.

Staff: 42 total; three professionals. Professional designations held by staff include two PEs, two CPGs, one attorney.

Clients: Corporate and institu-
Continued on next page

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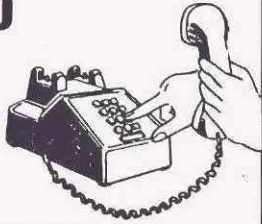
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The Insurance People
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Continued from previous page
tional environmental risk management consulting clients; 100% with gross revenues less than \$10 million.

Specialties: Construction, manufacturing, automotive, industrial utility.

Branch office: Traverse City, Mich.

Compensation: By the project; on retainer; by the hour: principal consultant, \$79-\$100; consultant, \$47-\$79.

1989 gross revenues: \$3.2 million total, 50% from unbundled environmental risk management consulting services.

Principal officers: John M. Armstrong, president/owner; Pat J. Armstrong, treasurer; Laura A. Armstrong, secretary.

Contact: Laura A. Armstrong.



Versar Inc.

6850 Versar Center, Springfield, Va. 22151; 703-750-3000; fax: 703-642-6807

Year founded: 1969.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans, regulatory and public policy analysis, risk management consulting; occasional litigation support, public health risk assessment.

Other services: Frequent remediation activities, consulting to insurers and public policy makers, general risk management consulting.

Staff: 800 total; 500 professionals. Professional designations held by staff include 17 PEs, three attorneys, six CIHs.

Clients: 1,000 corporate and institutional environmental risk management consulting clients; 20% with gross revenues less than \$10 million, 15% with \$10 million-\$25 million, 40% with \$25 million-\$100 million, 20% with \$100 million-\$1 billion, 5% with more than \$1 billion.

Specialties: Manufacturing, government entities and service industries.

Branch offices: Phoenix, Ariz.; San Francisco and Sacramento, Calif.; Grand Junction and Denver, Colo.; Fort Lauderdale, Fla.; Atlanta; Chicago; Columbia and Germantown, Md.; Binghamton, N.Y.; Cincinnati; Philadelphia; Salt Lake City; Dallas; Riverton, Wyo.

Compensation: By the project; by the hour.

1989 gross revenues: \$57.5 million total, 50% from unbundled environmental risk management consulting services.

Principal officers: Michael Markels Jr., president/chief executive officer; Robert L. Durfee, executive vp; John J. Rorke, senior vp/chief financial officer; Robert P. Ouellette, vp.

Contact: Robert P. Ouellette.



Roy F. Weston Inc.

Weston Way, West Chester, Pa. 19380; 215-430-3040; fax: 215-430-7401

Year founded: 1951.

Environmental risk management consulting services: Frequent environmental audits of real estate, operational audits of manufacturing plants, design and analysis of remediation plans, design of waste minimization plans, litigation support, public health risk assessment, regulatory and public policy analysis; occasional risk management consulting; also laboratory studies, ecological field studies, geosciences investigations, environmental medicine consultation.

Other services: Frequent remediation activities; occasional consulting to insurers and public policy makers, general risk management consulting.

Staff: 2,800 total; 1,400 professionals, including 100 principal consultants, 1,300 consultants. Professional designations held by staff include 250 PEs, 100 CPGs, 10 ARMs, 20 CGWPs, three attorneys.

Clients: 1,000 corporate and institutional environmental risk management consulting clients; 10% with gross revenues less than \$10 million, 15% with \$10 million-\$25 million, 50% with \$25 million-\$100 million, 15% with \$100 million-\$1 billion, 10% with more than \$1 billion.

Branch offices: 27 offices nationwide.

Compensation: By the project; on retainer.

1989 gross revenues: \$200 million total, 50% from unbundled environmental risk management consulting services.

Principal officers: Roy F. Weston, chairman; A. Fred Thompson, vice chairman; William J. Marrazzo, president; Ben Tencer and Thomas L. Tuffey, executive vps.

Contact: Raymond B. Bogardus.



Xordium

12465 Lewis St., Suite 104, Garden Grove, Calif. 92640; 714-748-9291; fax: 714-748-9294

Year founded: 1985.

Environmental risk management consulting services: Frequent operational audits of manufacturing plants, risk management consulting, sampling of work environment to compare with government standard; occasional litigation support, public health risk assessment, regulatory and public policy analysis.

Other services: Frequent general risk management consulting; occasional consulting to insurers and public policy makers.

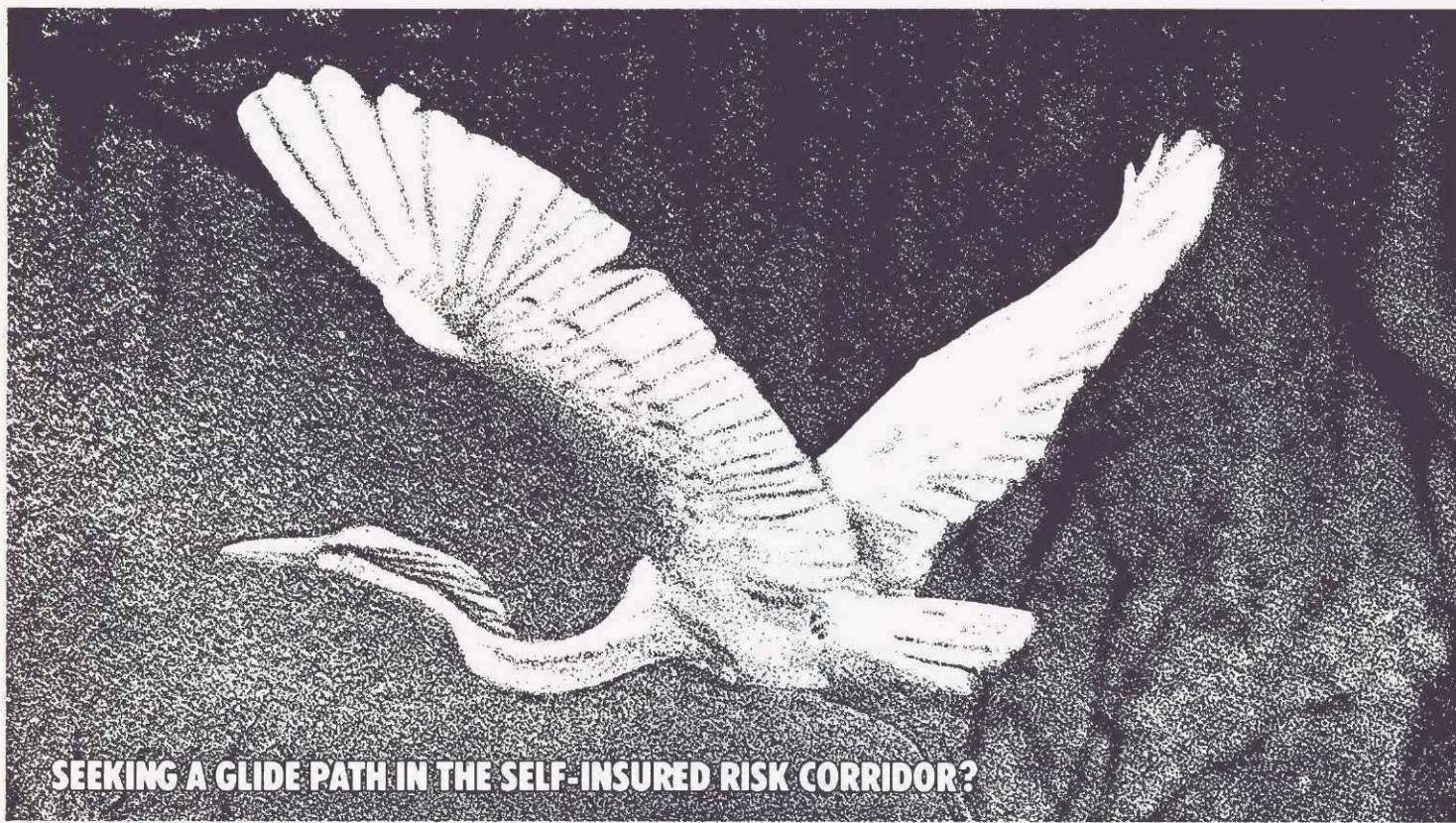
Staff: Seven total. Professional designations held by staff include one PE, two CSPs, one Ph.D.

Clients: 50 corporate and institutional environmental risk management consulting clients; 95% with gross revenues less than \$10 million, 5% with \$10 million-\$25 million.

Compensation: By the project; on retainer; by the hour: principal consultant, \$120; consultant, \$80.

1989 gross revenues: \$240,000 total, 5% from unbundled environmental risk management consulting services.

Principal officers: Karen J. Gillett, president; Fred C. Gillett, executive vp.



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D&O rates rising, but not sharply

By MARK A. HOFMANN

An ongoing firming of rates for directors and officers liability insurance does not presage a 1985-style violent market contraction, say underwriters, consultants and brokers.

Although underwriters are seeking and getting some price increases, they are not tightening terms or adding exclusions to most D&O policies, experts say.

Capacity remains abundant for most risks.

However, the problems buffeting thrift institutions have made that particular market more vulnerable to price increases.

And some observers warn that uncertainty from a Maryland Special Court of Appeals decision voiding the "insured vs. insured" and "regulatory" exclusions in a savings and loan association's D&O policy has not only hurt the market for thrifts but could roll over the entire D&O market (*BI*, May 14).

Despite the problems with the financial institution market, the general D&O market still is marked by only slight price increases, unlike the 1985 market.

The market virtually disappeared in the mid-1980s as high losses forced out many underwriters.

Capacity shriveled, as some buyers with 1984 limits of up to \$100 million had to settle for half that when they renewed in 1985 (*BI*, July 15, 1985). Insurers willing to write the coverage did so only after raising rates up to 500% (*BI*, Dec. 30, 1985).

Some buyers responded by forming offshore captives to ensure access to the coverage. Others went without it.

However, as the general property/casualty market began to soften again in 1987, traditional underwriters such as Hartford, Conn.-based Aetna Casualty & Surety Co. entered the D&O marketplace, and the resulting competition drove rates down (*BI*, Oct. 10, 1988).

At the midyear renewals, some risk managers reported rate increases of 7% to 10%. But others reported no increases (*BI*, July 2).

The current firming "has been rolling in throughout 1990," said Brian Smith, senior vp in the financial products group of Alexander & Alexander of New York Inc., subsidiary of Alexander & Alexander Services Inc.

Rates for a "standard D&O" account for a non-financial institution might rise 5% to 10%, with a few increases up to 15%, Mr. Smith said.

"It's a more intelligent and reasonable approach" than that of 1985, he said.

"It's not going to be a 1985 situation," agreed Taylor Layne, vp-financial industry group for Johnson & Higgins in New York.

He called the D&O market for commercial, non-financial institution risks "middle of the road." Risk managers are getting good terms and the limits they want while paying increases of "no more than 5% to 10%"—even though some insurers normally ask for 10% to 15% increases, Mr. Layne said.

"The transition from a buyer's market during the past 12 months has been gradual and controlled. So far, carriers appear to be exercising greater underwriting discipline than seen in the last two shifts to a less 'buyer-friendly' market," said Kenneth S. Wollner, a Wyatt Co. consultant in Chicago.

Wyatt released one of its periodic D&O surveys in February (*BI*, March 5) and Mr. Wollner said he

Financial institutions hit hardest

is examining data for another report tentatively scheduled for release this fall.

He stressed that survey results have not all been tallied, but said preliminary results show that "balanced adjustments took place in third-quarter 1990 renewals."

Companies "are now paying more for D&O insurance, but insurers are providing more coverage in terms of high limits of liability, lower deductibles or fewer exclusions," said Mr. Wollner.

"Except for pockets, it's pretty easy" to purchase adequate and still affordable D&O coverage, said Richard S. Betterley, president of

Betterley Risk Consultants Inc. of Worcester, Mass. Those "pockets" include financial institutions, some high-tech concerns and real estate developers, he said.

"I have seen no spectacular increases," in rates, said Bruce A. Henriksen, vp in charge of corporate D&O coverage for Crum & Forster Manager Group, the Chicago-based Crum & Forster Inc. underwriting management unit.

But, like many other observers, Mr. Henriksen described the market as "firming."

Crum & Forster Managers began offering up to \$5 million of primary and excess D&O limits April

1. It previously offered \$2 million of limits (*BI*, Aug. 13).

"We feel \$5 million is the amount you must have to be competitive," Mr. Henriksen explained.

Crum & Forster ranked 21st in primary premium volume and 23rd in excess premium volume in the 1989 Wyatt survey.

Domestic primary D&O underwriters are "all trying to get increases," said Jim Ansaldi, senior vp of X.L. Insurance Co. Ltd., a policyholder-owned facility in Bermuda.

According to Mr. Ansaldi, primary coverage prices have risen 8% to 15%.

"We have been able to get rate increases of 12% to 15%" on a case-by-case basis for large companies, said William D. Smith, president of the management liability division of National Union Fire Insurance Co. of Pittsburgh, Pa., a unit of American International Group Inc.

Rates generally have not risen for small buyers without heavy debt loads, he said.

AIG, which offers \$25 million in primary and excess limits, ranked first in primary premium volume with 30.7% and second in excess premium volume with 13.7% in the 1989 Wyatt survey.

"Generally, we see the market up 5% to 10%, but we write on a case-by-case basis," said Ralph Jones,

Continued on next page

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D&O market

Continued from previous page
 national manager of the executive protection department for the Chubb Corp. insurance companies and senior vp and managing director of Warren, N.J.-based Chubb & Son Inc.

Mr. Jones said Chubb offers \$25 million of limits, as it has for several years.

Chubb ranked second in primary premium volume with 21.4% and third in excess premium volume with 10% in the 1989 Wyatt survey.

Joseph P. Schlosser, senior vp-financial products division with Reliance National Insurance Co., called the D&O market "still soft but firming." He reported that New York-based Reliance has been raising rates 10% to 15% at renewal.

Reliance, which offers up to \$10 million of primary or excess D&O limits, ranked 11th in primary pre-

mium volume and 9th in excess premium volume in the 1989 Wyatt survey.

Not all underwriters reported rate hikes.

Despite a "spongy" market, rates at Aetna Executive Risk, Aetna's D&O underwriting unit in Simsbury, Conn., have not changed, said Stephen Sills, vp and chief underwriting officer.

"We said we'd offer consistent pricing," Mr. Sills said.

Premiums, he conceded, have increased when exposures have increased, but "on an apples-to-apples basis, people are not getting hit with the increase just because we could, if we wanted to be, opportunistic."

Aetna Executive Risk, which writes up to \$30 million of primary or excess D&O limits, ranked 5th in primary premium volume and 4th in excess premium volume in the 1989 Wyatt survey.

Offshore policyholder-owned fa-

cilities are also generally holding rates steady or seeking small increases.

A.C.E. Insurance Co. Ltd. in Hamilton, Bermuda, which offers \$50 million of D&O limits excess of \$25 million, has not raised rates, said Walter Scott, president.

He said that Corporate Officers & Directors Assurance Ltd.—half of whose policyholders are ACE shareholders—lost no accounts after increasing rates 5% on renewals June 1.

CODA writes up to \$25 million of primary and excess or excess and difference-in-conditions limits.

At X.L., rates are steady and renewals are running at more than 95%, according to Mr. Ansaldi.

X.L. writes up to \$25 million of D&O coverage excess of \$25 million.

In terms of 1989 primary premium volume as reported in the Wyatt survey, CODA ranked eighth, ACE ranked 10th and X.L. ranked 17th.

But in terms of excess premium, ACE ranked first, X.L. ranked fifth and CODA ranked eighth.

"We perceive that people have two-tier pricing," Aetna's Mr. Sills observed. Some underwriters will compete more vigorously for new business than for renewals, he said. "I think there's still jockeying for market share," he said.

X.L.'s Mr. Ansaldi agreed that some insurers appear hungry for new business.

Underwriters and brokers reported they have not seen any wholesale changes in terms and conditions.

Crum & Forster Managers' Mr. Henriksen said that coverages have been broadening during the past three years and there is no sign of greater exclusions.

Indeed, the D&O market is tightening significantly only for financial institutions. And even within that range, experts caution to distinguish between thrifts and banks.

"We're definitely seeing a distinction in the way" D&O underwriters treat the two types of institutions, said A&A's Mr. Smith said.

For banks, rates are up 10% to 15% compared with the 5% to 10% hikes typical of D&O policies as a whole, he said.

For thrifts, however, rates have risen more steeply, he said. "Pricing can have much more dynamic swings," terms have grown tougher and "availability is an issue," he added.

But "1985-type horror stories" of violent price hikes "are still the exception," said Mr. Smith.

The D&O market for financial institutions "is definitely hardening," with average price increases for all types of financial institutions in the 20% range, according to Ed Armstrong, a Wyatt Co. consultant in Washington, D.C.

For strong commercial banks, premium increases are lower, while savings and loans are experiencing higher increases, he said.

J&H's Mr. Layne said that sound banks generally face increases of 10% to 15%, but some with claim problems face rate hikes of up to 100%.

Sound banks, he said, are having few problems maintaining coverage.

Mr. Layne said the London market, which ranked fourth in primary premium volume and seventh in excess premium volume in the 1989 Wyatt survey, is writing D&O coverage for banks. "It isn't like 1985 with low limits at a high price," he said.

Both National Union's Mr. Smith and Reliance's Mr. Schlosser said that the insurers were seeking and getting significant increases for financial institution D&O policies.

Mr. Smith called the D&O market for financial institutions "very

Continued on next page

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D&O market

Continued from previous page difficult and very small" compared to the D&O commercial market as a whole. "The picture's becoming increasingly bleak," he said.

Mr. Smith noted that National Union was getting rate increases of 25% to 30% for D&O coverage for financial institutions. "That's a sea of averages," he said, and not an across-the-board tactic.

He added that National Union—which provides D&O coverage for about 75% of the nation's regional banks—writes the policies for only 41 savings and loan associations.

Reliance's Mr. Schlosser said that rates for some financial institutions have been "going up considerably more" than those for standard commercial D&O liability risks.

"The business for D&O is not adequately priced," particularly for financial institutions, he said.

He added that Reliance is losing 35% of its financial institution renewal business.

At Union Planters National Bank in Memphis, Tenn., the D&O premium underwent a "modest increase" at renewal in June, says Don Batchelor, risk manager.

Mr. Batchelor said that based on his conversations with fellow financial institution risk managers, his experience seemed to be typical. The D&O market for strong financial institutions has stopped "bottoming out," he said.

Experts are divided over what impact a Maryland appellate court decision that strikes down two key provisions of D&O coverage for banks and thrifts will have on the marketplace.

On May 2, the Maryland Special Court of Appeals in Baltimore upheld a lower court ruling holding that D&O insurers cannot deny coverage when regulators take action or when institutions sue their officers.

As a result, the Maryland Deposit Insurance Fund was allowed to recover \$3 million in D&O insurance that American Casualty Co. of Reading Pa., a CNA Financial Corp. unit, wrote for the First Maryland Savings & Loan Assn. of Silver Spring, Md.

Lower courts had split on the issue and this was the first time a state appellate court had ruled on the exclusions, according to Dan Bailey, an attorney with the Columbus, Ohio, law firm Arter & Hadden and co-author of "Liability of Corporate Officers & Directors," the standard legal work on D&O liability.

The American Casualty verdict is being appealed to the state supreme court.

Mr. Bailey predicted the case will not influence underwriters to stop writing D&O coverage for large, well-run institutions.

Wyatt's Mr. Armstrong disagreed, saying the Maryland decision "has to impact" the D&O market. Anytime a court rewrites policy provisions, "it's got to make you nervous as an underwriter," he said.

"It will have an impact on the marketplace for people who have written distressed business and relied on the regulatory exclusion," said Aetna's Mr. Sills.

However, Aetna has not included the regulatory exclusion in all of its policies, Mr. Sills noted.

If the Maryland decision is upheld and underwriters believe courts elsewhere are likely to rule similarly, "you might see a lot of underwriters stop writing financial institutions," X.L.'s Mr. Ansaldo said.

One consultant, though, foresees no such effect.

"I know there's been a lot of talk about the impact that it's going to have on financial institutions, but I have yet to see that impact," said Michael F. Turk of Tillinghast, an

insurance and risk management consulting division of Towers, Perrin, Forster & Crosby Inc. in Stamford, Conn.

Weak institutions, said Mr. Turk, would be hit hardest if underwriters decided to restrict coverage in reaction to the Maryland decision. "It could result in higher premiums, maybe even drying up" of coverage for weak institutions.

"I hope the insurance company wins its case," said Mark Charron, manager of risk management services for Deloitte & Touche's Hartford, Conn., office.

Mr. Charron shared Mr. Ansaldo's belief that if the decision is upheld, underwriters may decide to withdraw completely from the D&O market for savings and loans.

"Any time the insurance industry thinks the government's going to use it as a deep pocket, it's not going to write the coverage," Mr. Betterley said.

Mr. Charron added that savings

and loans may decide to withdraw from the D&O market on their own.

If savings and loans cannot be guaranteed coverage from claims arising from regulatory actions and if underwriters insist on en-

'As businesses do poorly, their directors get sued,' says National Union's Mr. Smith.

forcing the insured vs. insured exclusion and adding merger and acquisition exclusions, then savings and loans officials may begin wondering why they should bother buying D&O insurance, he said.

Meanwhile, there is some interest stirring in captives and risk re-

tention groups among financial institutions, according to Ed Pouzar, a Betterley consultant.

He said he did not know of any financial institutions forming new captives or risk retention groups in response to D&O problems.

Mr. Betterley said that New England-area financial institutions face such financial problems that they could find capitalizing a captive difficult.

Many observers see additional firming in all D&O segments on the horizon because of possible economic woes, including a recession.

"We all know it is an absolute of the socioeconomic fabric that as the economy declines, the number of claims increases," said John W. Morrison, an attorney with the Chicago law firm Altheimer & Gray.

"Who knows where the economy will go?" asked Aetna's Mr. Sills. "How will some of these people who are very debt-laden be af-

ected if interest rates go up?"

"Our view is that there is substantial adverse claims development ahead for the D&O business," said National Union's Mr. Smith. "As businesses do poorly, their directors get sued," he said.

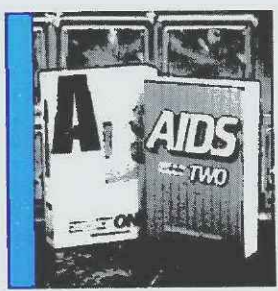
Mr. Smith said that in an attempt to reduce litigation, National Union has released a guide for corporate directors' audit committees and is in the process of establishing panel counsels of highly experienced law firms to aid in D&O claims defense.

Deloitte & Touche's Mr. Charron expressed some guarded optimism. "The old truism that profitable institutions aren't subject to D&O claims probably holds true in this market," he said.

CNA, which ranked sixth in terms of primary D&O premium volume and 22nd in excess D&O premium volume in the 1989 Wyatt survey, declined to comment for this report.

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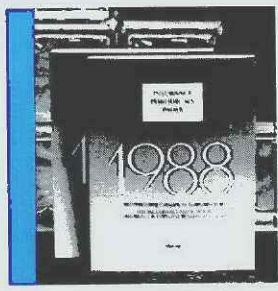
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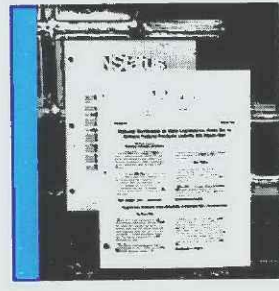
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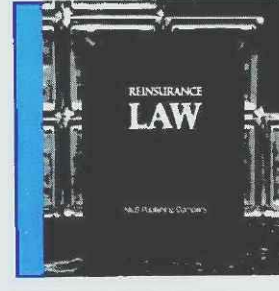
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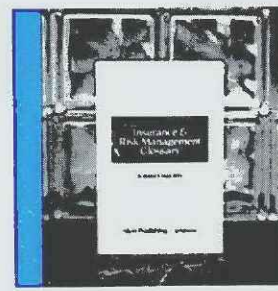
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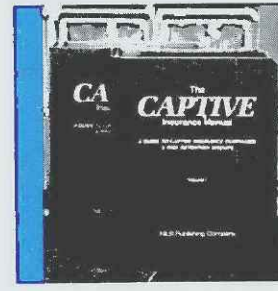
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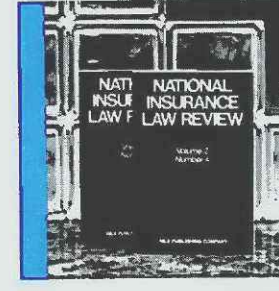


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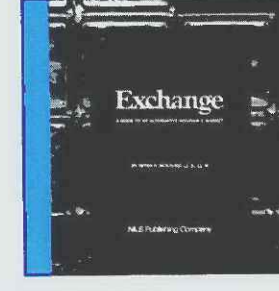
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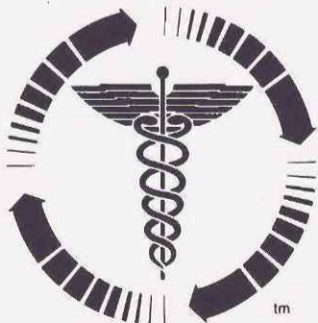
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Competition squeezing municipal bond insurers

By **JUDY GREENWALD**

Intense competition continues to characterize the municipal bond insurance marketplace.

Though competition remains intense, some observers note that insurers—which must maintain their crucial triple-A ratings—have so far kept it from becoming predatory.

Others, though, say competition is extremely tough. One insurer executive characterizes it as "vicious."

Overall demand for municipal bond insurance is likely to grow in light of the oft-cited crumbling infrastructure, although no boom is expected (see story, page 80).

Meanwhile, spurred by questions about the financial stability of Philadelphia (see story, 81), losses have emerged recently as an issue.

But, in the corporate bond segment of the financial guarantee industry, good growth is expected.

While corporate bond insurance is much smaller than the municipal bond insurance business, its growth potential is much greater than the more mature tax-exempt market.

For now, attention remains focused on municipal bond insurance.

Municipal bond insurers, as well as corporate bond insurers, confer their own triple-A ratings on the lower-graded issues they insure. To the issuer, the cost of the insurance is more than covered by the lower interest rate at which it can issue a bond with a triple-A rating.

"Manufactured" triple-A issues—those so rated because of financial guarantee insurance—tend to sell only at the level of non-insured double-A issues, rather than that of non-insured triple-A's.

Competition remains intense and margins tight in the municipal bond insurance market, observers say.

The market is "still competitive, but not unduly so," said David Elliott, president and chief operating officer of MBIA Inc. of Armonk, N.Y., a monoline company that is the country's leading municipal bond insurer.

"I'm not really disturbed by the competition" as long as underwriting standards continue to be maintained, said Stephen Berger, president and chief executive officer of Financial Guaranty Insurance Co., a monoline

company in New York.

One monoline competitor was eliminated from the business effective December 1989, when MBIA, parent company of Municipal Bond Investors Assurance Co., agreed to acquire Bond Investors Guaranty Insurance Co. for about \$275 million.

But earlier this year, Financial Security Assurance Holdings Ltd., a monoline financial guarantee insurer that had specialized in taxable corporate issues, said it planned to insure municipal bonds as well.

Joanne Morrissey, a principal with insurance and banking consulting firm Firemark Consultants Inc. in Morristown, N.J., welcomes FSA into the marketplace. With fewer players, monopoly pricing almost always prevails because each knows the price parameters in the marketplace and sets its price accordingly, she said.

"The more players we can get in the financial guarantee market, the better off the industry will be," she said. "It can only help."

With MBIA's acquisition of BIG, FSA felt there was a place for it in the municipal business, said William I. Jacobs, executive vp and chief operating officer of FSA. "We felt there was a potential for additional municipal bond business," he said.

Mr. Jacobs said he does not believe FSA's entry into the tax-exempt area "will particularly increase price competition."

It will, however, lead other insurers to become a "little sharper on the service side," he said.

Mr. Jacobs projects municipal business will account for 20% to 25% of FSA's total by 1992. He said he believes experience in structured financing—particularly for corporations—will give it an edge as structured financing becomes more popular in the tax-exempt market.

Structured financings involve securities backed by the cash flow ability or the collateral value of an asset or pool of assets. An example in the tax-exempt market would be tax-exempt housing bonds issued by state and local housing finance agencies. Revenues generated by mortgages the agencies issue are used to pay bondholders.

In addition, more municipalities are forming special-purpose com-

panies to issue revenue bonds for bridges and other special projects. Tolls from the bridge are used to pay off the bonds, so governments can avoid raising taxes.

Wallace Sellers, chairman and chief executive officer of New York-based Enhance Reinsurance Co., an Enhance Financial Services unit and one of two monoline financial guarantee reinsurers, said he is not worried about competition.

"Premium rates are relatively stable now compared to the last couple of years" and "even more happily" there has been no deterioration in the underwriting by the primary companies, Mr. Sellers said.

"Clearly the primaries are well capitalized and capable of maintaining a very competitive posture," he said.

The market has to distinguish between pricing that is exceptional, or provides extremely attractive returns, from pricing that is reasonably adequate and provides satisfactory returns, said Michael E. Satz, president and chief executive officer of Capital Reinsurance Co., a Capital Re Corp. unit in New York that specializes in reinsuring financial guarantee business.

The latter is now the case, he said. Returns "still remain fairly solid" from a credit perspective, with profits "adequate, if not spectacular."

Richard A. Ciccarone views the market differently. Extreme competition has been "more of a negative than a positive" because premiums are so low, said the senior vp and director of fixed income research for Blunt Ellis & Loewi Inc., a regional securities brokerage in Chicago.

Current premium levels reflect past low loss levels, he said. Should losses rise, insurers will be "dipping into capital much faster than would otherwise be the case."

And municipal bond insurers are becoming more involved in areas like housing and hospitals with higher default rates than the industry as a whole, Mr. Ciccarone warned.

State and local government issues remain relatively safe for insurers, but governments are beginning to feel squeezed by a lack of federal financing and declining budget sur-

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Continued from previous page
pluses, he said.

A relatively severe recession could create credit problems as well, Mr. Ciccarone said.

Michael J. Djordjevich, president and chief executive officer of San Francisco-based Capital Guaranty Insurance Co., said the competition is "still vicious."

When the marketplace appears to have hit rock bottom, "you get another kid on the block and they start making waves," he said.

"FSA's entrance into the market has intensified already intense competition and has adverse implications for growth and stability," he said.

"It's my impression that competition has not abated. I don't see how anyone could interpret it otherwise," said Nicole Anderes, vp-research at securities broker Roosevelt & Cross in New York.

With BIG out and FSA in, "there really has been no price improvement at all," said Mark H.S. Cohen, an analyst with rating agency Fitch Investors Service in New York. Mr. Cohen noted that unlike relatively short-term commercial property/casualty insurance policies, low prices on insured bonds can come back to haunt insurers for as long as 30 years.

"I would say they are as intense as they have been. I don't think there's been any lessening at all," said Richard Smith, vp at Standard & Poor's Corp. in New York.

Mr. Smith also noted that although MBIA took over BIG's book of business, as planned, MBIA, which did not retain BIG's staff, has not taken all the new business that would have gone to BIG.

"There was no particular reason that business would go to MBIA because BIG wasn't there," he said.

According to data compiled by financial guarantee insurer AMBAC Indemnity Corp. of New York, MBIA now has a 39.7% market share, up from 38% a year ago. BIG had a 13% market share.

AMBAC now has a 33% market share, while FGIC has a 21.6% share and the remaining 5.7% is shared by Capital Guaranty and FSA.

Monoline insurers largely had the municipal bond business to themselves even before a 1989 New York law restricted underwriting financial guarantee insurance to monoline insurers by 1994 (BI, April 10, 1989).

Florida passed a similar law in 1988 (BI, Oct. 10, 1988) and California Gov. George Deukmejian signed into law similar legislation last month.

Another financial guarantee insurer may enter the market soon.

Merrill Lynch & Co. Inc., one of the nation's largest financial services firms, and consultant Conning & Co. of Hartford, Conn., along with former BIG officials, have been attempting to raise money for a financial guarantee insurer that would operate in both the corporate and municipal areas, *Business Insurance* learned.

Spokesmen for Merrill Lynch and Conning could not be reached.

Observers generally are skeptical about prospects for a new entrant.

Mr. Djordjevich of Capital Guaranty said he "can't fathom why" there would be any interest in creating a new financial guarantee insurer. "Maybe they have a special plan," he said. "The returns are not really there."

To be rated triple-A by S&P, a new insurer would need \$100 million of capital in cash plus have an additional \$50 million in available capital to call on should it be needed from investors, he said.

"That's a lot of money," Mr. Djordjevich said. "I don't know how they can justify anyone putting money in it."

Mr. Berger of FGIC also said there is no room for a new insurer. "Within reason, competition is terrific." It prevents predatory pricing and makes sure buyers that need capacity get it. But "there comes a point where you can have predatory pricing that

undermines the industry," said Mr. Berger, who said he believes a new entrant would create such pricing.

In the current marketplace, "it's hard for me to see how someone could develop a new company" and produce adequate levels of return, he said. "It would require the infusion of a lot of capital," and the owners would be "hard-pressed" to get adequate returns.

"If you look at premiums, you would think not, but apparently there is" interest in creating a new insurer, said Ms. Anderes of Roosevelt & Cross.

"I guess there's room if people are willing to attract new business at the cost of premiums," she said.

"The margins are already pretty thin," said George Gregorio, vp-portfolio manager for Loews/CNA Corp., an insurance investment unit of CNA Financial Corp. in New York.

"Financial guarantee is a business you have to get into and get into for a long time," said Robert J. Genader,

senior executive vp of AMBAC.

"There probably is room for another one. But will there be a new one? That's another story," he said.

"I don't believe there's room" for another insurer, said Mr. Satz of Capital Reinsurance.

However, he added that he would not say that if a new financial guarantee insurer were properly managed and appropriately structured that it could not be successful, "so long as their measure of success is long term and they're not insistent on immediate results."

Given the insurers already in the business, a new insurer may have to be satisfied with only a 10% market share, Mr. Satz said.

Financial companies would welcome the ability to further diversify their insured paper, he observed. From that perspective, the underlying market would welcome a new entry, Mr. Satz said.

But, he warned, its short-term goals "would have to be conserva-

tive."

Regardless of whether there is a new entrant, observers say they do not believe any additional change in the ownership of either AMBAC or Capital Guaranty is likely to have a significant impact.

Several months ago, Citibank said it plans to sell AMBAC (BI, March 12). No purchaser has yet been found.

And, Fleet/Norstar Financial Corp. plans to sell up to 17.5% of its share of San Francisco-based Capital Guaranty Corp., the parent company of Capital Guaranty Insurance, by January 1991 (BI, Feb. 12).

"I don't think we're particularly concerned," said S&P's Mr. Smith. Changes in the past have been "neutral to positive," he said. "We're expecting that the ownership changes will be done in a manner that will not jeopardize the business," he said.

Assuming that a new owner would want to stay in business, Mr. Smith said he is confident a new owner

would try to retain the insurer's triple-A rating. "We really don't see that as a threatening thing to the rating," he said.

"I don't think there's any concern about ownership," agreed Enhance Re's Mr. Sellers.

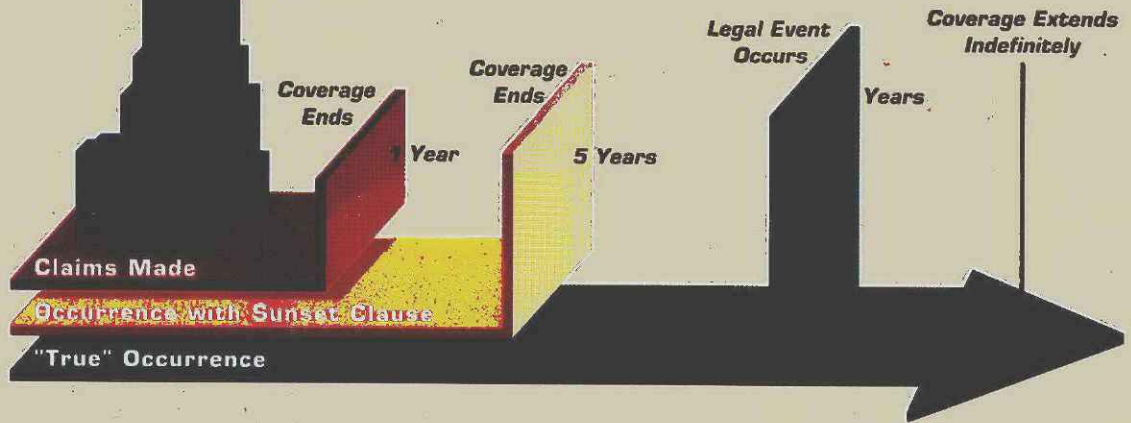
Ms. Anderes of Roosevelt & Cross said, "You can't really be a shaky company and buy one of these insurance companies."

And because a new owner could not freely take capital out of a financial guarantee insurer, "it's not an attraction for someone looking to make a killing," she said. With the "self-weeding out process" among potential buyers, this is not a concern when ownership changes, she said.

In addition, Fireman's Fund Insurance Co.'s 23.6% stake in MBIA will be transferred to the property/casualty insurer's parent company, Fund American Cos. Inc., after the acquisition of Fireman's Fund by German insurer Allianz A.G. Hold-

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Bond coverage

Continued from previous page
ings is completed.

MBIA says it will not be affected by this transaction (BI, Aug. 5).

Meanwhile, observers predict good growth for corporate bond insurance, although they note it will come off a much smaller base than for municipal issues. "Growth will be higher on corporates than munis, which is certainly not anything new," said Enhance Re's Mr. Sellers.

The municipal bond area will see steady growth, but it will be limited to growth in the underlying broad market, said Mr. Satz of Capital Reinsurance. The "more open-ended" growth will be in the non-municipal area, with new products being developed, he said.

Municipal bond insurers have at least demonstrated some interest in this sector of the financial guarantee business in an effort to build premium volume.

"They're looking for new lines of financial guarantee business," said Mr. Ciccarone of Blunz, Ellis & Loewi.

"It's a development people are watching with interest," said Ms. Anderson of Roosevelt & Cross.

FSA's move into municipal business could lead to less distinction between the corporate and municipal sectors.

"We expect to see a blurring of the marketplace in that sense," said John P. Couette, president and chief executive officer of Capital Markets Assurance Corp. of New York, which specializes in insuring corporate debt. Its holding company, CapMAC Holdings Inc., is a wholly owned subsidiary of Citibank.

Bond insurers expect slow, steady increase in municipal issues

By JUDY GREENWALD

Steady, if unspectacular, growth is expected in municipal bond insurance.

Growth has lagged recently, but insurers say crumbling infrastructures will force municipalities to seek new financing.

An estimated 24.9%, or \$30.9 billion, of the \$124.3 billion market of long-term new issues was insured in 1989, according to the Public Securities Assn. In 1988, 23.5% or \$27.3 billion, of the \$116.2 billion market was insured.

That portion is expected to grow this year, with 27.5%, or \$16.1 billion, of a \$59.5 billion market insured during the first six months.

New issues essentially are insured by monoline financial guarantee firms specializing in municipal bonds.

Though growth is not dramatic, the size of the market should be taken into account, pointed out Robert J. Genader, senior executive vp of AMBAC Indemnity Corp. of New York. "We'll take a 7% growth rate any day in a \$100 billion market."

He also noted that the insured volume has increased to its current 29% from about 17% in 1987.

Despite the rising percentage of insured new long-term issues, the municipal market "hasn't grown to the level of expectations," said Mark H.S. Cohen, an analyst with rating agency Fitch Investors Service in New York.

He noted that five years ago, when issuers rushed to market trying to avoid the impact of the Tax Reform Act, new issue volume hit \$206.9 billion. Of that total, \$44.5 billion, or 21.5%, was insured.

New issues are not expected to exceed \$120 billion in 1990.

Insurers expect that a slow, but steady development of municipal infrastructure reconstruction will fuel their growth.

"New issue volume will increase over the next two to three years, reflecting the infrastructure needs," said Wallace Sellers, chairman and chief executive officer of Enhance Reinsurance Co. in New York, an Enhance Financial Services unit and one of two monoline financial guarantee reinsurers.

But, he compared the infrastructure reconstruction boon that the market has been anticipating for

years to "the gestation period of an elephant."

Michael J. Djordjevich, president and chief executive officer of San Francisco-based Capital Guaranty Insurance Co., said he cannot predict whether an increase will be incremental or come in spurts.

Major catastrophes, like a bridge collapse, could prompt a big push, he said. Otherwise reconstruction likely will be more gradual.

Mr. Djordjevich said that in any case, municipalities in the near future will need:

- More nursing homes to care for a growing elderly population.
- More schools to relieve overcrowding. In addition, many schools are in a state of disrepair.
- More prisons to relieve overcrowding.

While the public can avoid worrying about, for instance, the crumbling water system in New York, "they can't avoid building a jail," Mr. Djordjevich said.

At the same time, tax code changes from 1986 likely will leave the municipal bond market dominated by individual investors attracted by the promised security.

And, as growth lags, municipal bond insurers are insuring secondary issues to build premium volume.

This involves the sale of previously issued securities held by large investors as opposed to new issues, where the seller is the issuing entity.

Secondary issues, some observers point out, can be considerably riskier because insurers of primary issues have a say in how initial deals are structured.

Insurers contend there is no cause for concern.

"We underwrite it the same way" said Stephen Berger, president and chief executive officer of Financial Guaranty Insurance Co., a monoline financial guarantee insurer in New York. "We're not increasing our risk in any way by writing the secondary markets."

"They're very cautious about their underwriting procedures," said George Gregorio, vp-portfolio manager for Loews/CNA Corp. in New York, an insurance investment unit of CNA Financial Corp.

"I think they're a little more conservative on the secondary market" because insurers have less latitude in structuring deals, he observed.



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Ailing Philadelphia drag on MBIA stock

By JUDY GREENWALD

Philadelphia's shaky financial condition and fears that it will default on its general obligation bonds are driving down the stock price of municipal bond insurer MBIA Inc.

Several financial guarantee insurers for the city, including MBIA, say they do not expect a default. And even if the city does default, insurers contend, the effects on the financial guarantee insurance industry would be insignificant.

City Finance Director Elizabeth C. Reveal said that, depending on how revenue is allocated, the city has enough cash to continue operating only up to 14 weeks.

The state refuses to extend more taxing authority to Philadelphia, and the City Council is reluctant to increase the taxes it controls.

Philadelphia, which has had budget deficits in four straight fiscal years, projects a \$206.4 million deficit in the current fiscal year.

Observers say concerns about a default drove MBIA shares down to \$25 as of Oct. 1, off about 45% from a 52-week high of \$45.38.

MBIA is the only publicly-traded monoline financial guarantee insurer.

In addition, the sale of 4,500 shares of MBIA stock valued at \$157,000 by Leon J. Karvelis, MBIA's chief analyst, has been widely publicized.

A company spokesman said Mr. Karvelis sold the stock because he was concerned about the impact of the Persian Gulf crisis on the stock market, and not because of Philadelphia's financial condition.

"We don't think there's going to be a default," the spokesman said.

If Philadelphia were to default, the company would pay out \$9 million in 1991, he said. The insurer is liable for \$123 million of outstanding net par general obligation bonds.

Payouts would rise in subsequent years, including \$29 million in 1992, he said.

Unlike with a corporate bond default—which triggers accelerated payments by insurers—municipal bond insurers assume the defaulted issuer's normal, timely payment of obligations.

MBIA, which says it has never had a loss, posted \$102.3 million in net income in 1989.

Dropping share prices for MBIA reflect "a bit of an overreaction," said Richard Ciccarone, senior vp and director of fixed income research at Blunt Ellis & Loewi Inc., a regional securities brokerage in Chicago.

He agreed that Philadelphia was unlikely to default on its general obligation bonds in the near future. He added that MBIA could bear the \$9 million in debt service "without too much trouble."

Other insurers of the Philadelphia bonds say they do not expect the city to default.

"We don't anticipate they're going to default," said a spokesman for Financial Guaranty Insurance Co., a New York company with \$197 million of net par bond insurance in force with the city.

And because these are general obligation bonds, Philadelphia would be required to eventually repay any missed payments, he pointed out.

A default would cost FGIC a maximum of \$13.1 million annually after trustee-held funds are taken into account, he said. With more than \$1 billion in claims-paying ability, FGIC would be well able to handle this payment, he said.

AMBAC Indemnity Corp. of New York insured \$225,000 of Philadel-

phia general obligation bonds, said Robert J. Genader, senior executive vp.

He noted that the bonds are now trading at a triple-B level, which is considered the lowest investment grade.

"A triple-B is not the end of the world," said Mr. Genader.

He said he does not expect Philadelphia to default, but adds that if it did, "I think it would really make investors feel that much better about our business" once they see how insurers react.

"It would actually enhance the perception of bond insurance because they would see we pay and pay immediately," said Mr. Genader.

Referring to the plunge in MBIA stock, Mr. Genader draws a dis-

inction between bondholders and stock investors: Few stock investors will hold onto their investment for 20 years, "where bondholders will."

AMBAC was the insurer on the only major loss so far in the municipal bond insurance business: the default of \$2.25 billion of municipal bonds by the Washington Public Power Supply System in 1984. AMBAC, which insured about \$25.5 million of that amount, now pays out about \$1 million a year on it, Mr. Genader said.

AMBAC also has a \$98 million exposure involving the Philadelphia Gas Works, which is a separate entity from the city and would not be affected by a default.

While Capital Guaranty Insurance Co. of San Francisco has in-

sured Philadelphia issues, the insurer has ceded all of the risk, so there would be no impact on the insurer if the city defaults, according to Michael J. Djordjevich, president and chief executive officer.

"We do not expect any payments on our portfolio as far as Philadelphia is concerned" he said.

The stock market's reaction to Philadelphia's financial situation "indicates widespread ignorance" about the strength of municipal bond insurance and how it functions, Mr. Djordjevich said.

"Millions won't be paid out overnight," he noted. "The industry is in a very strong position."

"When all is said and done," even if Philadelphia defaults, it will recover within a reasonable period of time and re-emerge as a

viable credit risk, Mr. Djordjevich said.

And if it does take a year or two before it can resume payment on its bonds, "it would be no big deal at all," he said.

"This is just a reminder that municipal bonds are going to have losses," said Mr. Ciccarone, referring to Philadelphia's financial situation.

While there has been a tendency to look at municipal bond insurance as a commodity, this will help buyers distinguish one insurer from another, he said. "Losses are going to make the difference," he said.

Now, he added, "I think people will take a little bit harder look at the asset quality of the bond insurance companies." ■

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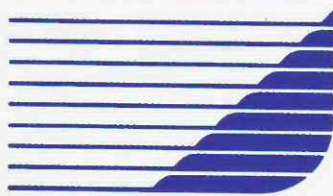
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E&O insurance for accountants costly, plentiful

By MICHAEL BRADFORD

Professional liability insurance for accountants can be expensive, but there's plenty of it.

Insurers acknowledge that the coverage doesn't come cheap, but say its cost isn't prohibitive for firms without particularly risky clients like financial institutions.

And some insurers have increased the limits they will write because reinsurers have increased the amount of capacity that they will provide.

Several insurers are providing "quality coverage" to accountants, according to Walter Primoff, director of professional programs for the 33,000-member New York State Society of Certified Public Accountants.

Although E&O coverage has remained expensive for accountants since the mid-1980s hard market, subsequent price hikes have been moderate, said Mr. Primoff.

"There was an incredible shortage of capacity" in the last hard market, and when the crunch was over, E&O rates for accountants did not fall as much as for other risks, he explained.

With the costs remaining relatively high, some accounting firms and sole practitioners are not carrying the same limits they were before 1985, Mr. Primoff pointed out.

"There were firms that had \$5 million then, that could only get \$1 million" when the market hardened, he said.

Mr. Primoff said restricted capacity caused many firms to "end or severely curtail services with the most risk attached to them." That means accountants said goodbye to many clients like savings and loans and other financial institutions, he said.

Accountants also have shied away from start-up companies, which have a high failure rate, said Mr. Primoff. "A lot of accountants used to welcome start-ups. Now they're more careful about how well-capitalized a business is and how well it's run."

Increased litigation against accounting firms also has led to a reduction in some services, a recent survey found.

Brokerage Johnson & Higgins found that with lawsuits against accountants becoming more common, 76% of the accountants it surveyed have limited the types of services they provide and 56% said they have quit doing business with certain industries and organizations, particularly financial institutions (*BI*, Oct. 1).

Insolvent savings and loans are one source of increased litigation.

Last year, for example, the Federal Home Loan Bank Board sued Deloitte Haskins & Sells, Coopers & Lybrand, Touche Ross & Co. and several regional firms. The suits, related to audits the firms performed for now-insolvent S&Ls, seek more than \$663 million (*BI*, March 20, 1989).

In another case, E&O insurance underwriters for Arthur Young & Co. last year agreed to pay \$42.9 million to Johnson Matthey P.L.C. in an out-of-court settlement of claims from the collapse of Johnson Matthey Bankers Ltd., which Arthur Young had audited (*BI*, Feb. 10, 1989). The payment came on the heels of a \$44.3 million settlement the underwriters paid to the Bank of England in the same case.

Arthur Young's coverage was placed in London and U.S. markets by Minet International Professional Liability Ltd. of Montreal.

Despite a number of large settlements and highly publicized lawsuits against accounting firms, capacity remains available for accountants'

E&O insurance with a wide range of limits for firms ranging in size from sole practitioners to the Big Six firms.

Insurers of small operations say they will provide coverage at limits as low as \$100,000. The maximum amount of coverage available for the largest firms is a matter of speculation, although primary and excess coverage of at least \$50 million and probably more can be bought worldwide.

Smaller firms whose clients don't fall into the "risky" category can purchase coverage from U.S. insurers at limits as high as \$10 million, Mr. Primoff said. However, "not many carry that much."

Much of the coverage for very large accounting firms is placed in the London market by Minet.

Peter Christie, deputy chairman of Minet Holdings, would not disclose how much coverage the Big Six firms purchase, but said "there has been some improvement in capacity" in the last two years and rates have not increased dramatically.

Although the amount of coverage purchased is not known, the Big Six accounting firms have 1990 self-insured retentions of \$6 million to \$10 million per claim and aggregate retentions of \$20 million to \$30 million, sources confirm.

The E&O insurance market for large accounting firms has been "calm for the past couple of years," Mr. Christie noted. Still, he added, "it continues to be a difficult class. Insurers are nervous about it."

The collapse of the savings and loan industry has contributed to the skittishness of underwriters, Mr. Christie said. But, he added, while there have been "a number of claims arising out of the savings and loan crisis, it's far too early to get a handle on how many of them, if any, will turn out to be serious."

While problems with savings and loans have contributed to the nervousness of accountants professional liability insurance underwriters, most insurers who feared an increase in claims as a result of the 1986 Tax Reform Act have yet to see it.

"There's been no increase in claims whatsoever for large accounting firms," as a result of the Tax Reform Act, said Mr. Christie.

Kyle Nieman, assistant vp at Crum & Forster Insurance Managers Corp. of Illinois, an underwriting management subsidiary of Crum & Forster Corp. in Chicago, said, "We haven't seen a big blip in claims, but we're not out of the woods yet. There's a fairly long tail on those type claims."

Mr. Nieman pointed out that there are "always a lot of tax claims anyway."

John Dodsworth, president of CAL Accountants Mutual Insurance Co. in San Francisco, said his firm hasn't experienced an increase in tax-related claims since the 1986 reforms and doesn't expect an increase in tax claims any time soon. "We're not anticipating any increase in frequency over the next year," he said.

However, tax reform did prompt CAL Accountants Mutual to institute a small rate increase last year to help pay for its increased tax bill, Mr. Dodsworth noted.

Michael Silchuck, vp of the Herbert Landy Insurance Agency Inc. in Needham, Mass., said that while some of the accountants' E&O claims his agency has seen are related to the tax law changes, "we really haven't seen an increase in the frequency."

But Mr. Silchuck said an increase in those kinds of claims could still be

Continued on next page

Continued from previous page
on the horizon. Many claims related to 1982 tax law changes didn't show up until several years later, he pointed out.

Agents and insurers that provide professional liability coverage for small and medium-sized accounting firms are reporting some coverage changes.

The Herbert Landy Insurance Agency offers accountants limits of up to \$3 million in a program sponsored by the National Society of Public Accountants and underwritten by Transportation Insurance Co., a unit of CNA Financial Corp., said Mr. Silchuck.

In addition, the agency is assembling a new E&O package that will target state CPA societies.

Plans are to also provide up to \$3 million in coverage under the new program, which is underwritten by Continental Casualty Co., another CNA unit, Mr. Silchuck said. It is possible that available limits for the new program could rise to \$5 million if reinsurance support is put in place, he said.

The coverage will carry deductibles ranging from \$1,000 to \$50,000.

Both programs provide minimum coverage of \$100,000 per claim with a \$200,000 annual aggregate. The minimum premium for the insurance is \$325.

Deductibles on coverage for the NSPA coverage start at \$500.

Mr. Silchuck said coverage offered through his agency does not automatically exclude any class of accounting firms, but underwriters look very closely at any accountants with financial institution clients.

CAL Accountants Mutual, which provides coverage for around 2,000 policyholders, has raised its available limits to \$3 million from \$1 million a year ago.

"The reinsurance market has responded to us because the program has done pretty well," Mr. Dodsworth remarked. An increase in reinsurance allowed the insurer to raise its limits.

CAL Accountants Mutual, formed in 1986, also provides limits of \$500,000, \$750,000 and \$1 million. In 1991, a limit of \$250,000 will be available.

The insurer covers a broad range of accounting operations, from sole practitioners to accounting operations with 50 professionals. An average policyholder is a firm with four or five professional accountants, according to Mr. Dodsworth.

Mr. Nieman of Crum & Forster said C&F writes coverage for about 9,500 firms, offering limits up to \$5 million, an increase from limits of \$3 million available in 1988. Last year C&F wrote more than \$90 million in E&O premiums.

The majority of C&F's policyholders are small firms, but it also provides coverage for sole practitioners and larger firms, according to Mr. Nieman.

The C&F program is written by C&F units North River Insurance Co. in Morristown, N.J. and International Surplus Lines Insurance Co. in Chicago.

One of the newer programs offering E&O coverage to accountants also has seen recent changes.

Homestead Insurance Co. of Philadelphia since 1988 has written the coverage through managing general agent Professional Indemnity Management Co. in Chicago.

Michelle A. Duffett, executive vp with PIMCO, said \$1 million in coverage is now available, up from the maximum \$500,000 limits previously offered.

Ms. Duffett said most policyholders, which are firms of 15 or fewer professionals, purchase limits of \$250,000 or \$1 million. The minimum premium is now \$850, which is a reduction from the \$1,150 PIMCO charged when it began offering the insurance.

PIMCO last year wrote E&O premiums of \$2.2 million and expects to top \$3 million in 1990, said Ms. Duffett. "Our experience has been very good," she remarked, "but with a new program and business with a potential long tail, I don't find that unusual."

Another relatively new player also is reporting favorable results.

Golden Eagle Insurance Co. in San Diego has written the coverage for three years after taking over a program previously offered by Harbor Insurance Co. in Los Angeles.

Mark Van der Griff, senior underwriter with Golden Eagle, said Toma Insurance Brokers Inc. of Tustin, Calif., approached the insurer with "good statistics that showed we could do a profitable business" by writing the coverage. "And it has been profitable."

Golden Eagle offers the coverage mostly to firms with 10 or fewer professionals and writes limits of

up to \$5 million. The minimum premium is \$950 and the minimum deductible is \$1,000.

Because Golden Eagle is still a relatively young player and wrote only about \$1.5 million in accountants' E&O insurance premiums last year, finding cooperative reinsurers can be tricky, said Mr. Van der Griff.

"To get reinsurers interested at an attractive rate, you have to write a large volume," he explained, and most won't provide reinsurance that attaches at under \$500,000, which is where most of the claims fall for small firms.

Another insurer, writing accountants' professional liability coverage for just more than a year, is relying on its experience as an underwriter of architects' E&O insurance to help it carve out a niche in the marketplace.

Design Professionals Insurance Co. in Monterey, Calif., a member of the Orion Group, started writing

professional liability coverage for accountants in July 1989, through its risk purchasing group Accountants Professional Liability Systems. During the past 12 months, the insurer has written about \$4 million in premiums.

DPIC has provided professional liability insurance for architects and engineers since the mid-1970s and two years ago began studying the possibility of writing E&O coverage for accountants, according to Betty LeFevre, assistant vp and underwriting manager.

Before DPIC began writing insurance, it was a risk management consultant, said Ms. LeFevre. "We set up loss prevention programs to limit the liability of architects and engineers."

Eventually, "we applied the same rationale to CPAs," she said.

Among the risk management techniques offered to accountants is a textbook course on loss prevention, she explained. If the

course is passed by all of the firm's professionals, the firm receives a premium credit.

The insurer carefully checks areas of expertise, backgrounds and general business practices of accountants before writing coverage, said Ms. LeFevre.

Currently, around 200 firms purchase coverage from DPIC at limits ranging from \$1 million to \$5 million. The firms are medium-sized, with 10 to 40 professionals.

While no accounting firms are automatically excluded from coverage, Ms. LeFevre said DPIC, as other insurers, checks very carefully any firm with Securities and Exchange Commission exposures or financial institution clients.

Because of DPIC's history as an underwriter of E&O coverage for architects and engineers, the insurer hasn't had much difficulty getting reinsurance, she said.

Reinsurers, she said, "have given us a lot of support." ■

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Earthquake insurance market not shaken by Bay-area quake

By LOUISE KERTESZ

Last October's San Francisco Bay area temblor is causing just minor aftershocks in the earthquake insurance market.

Only some new buyers—generally those with old buildings—first seeking coverage this fall are having trouble finding markets.

But, in large part, that is because underwriters reached their capacity earlier than normal this year meeting an increased demand for coverage, though most risk managers still do not obtain the coverage, brokers and insurers say.

Those buyers generally found that limits, rates and terms were comparable to those underwriters offered before the earthquake, though some are seeing higher deductibles.

Renewals since the earthquake, even in the geographic areas hardest hit by the temblor, have not been a problem, brokers and insurers said.

After a bubble of price increases immediately following the quake, coverage generally has renewed at virtually the same rates as before the quake, they say.

Indeed, one risk manager even found some cheaper coverage.

However, some underwriters are reducing their earthquake business, and some small markets have stopped writing the coverage.

Brokers, though, are surprised at what little impact last October's quake has had on the market.

They attribute the mild reaction to the soft property market.

The impact was "relatively slight compared to the way the insurance market has typically overreacted to other natural disasters" such as hurricanes and earlier earthquakes, observed Mary Ann Little, senior vp at Jardine Insurance Brokers Inc. in San Francisco.

Ms. Little blamed the relatively light reaction by underwriters on "an extremely, extremely loose" property insurance market.

The California quake "has had

less impact than probably I or many of our competitors anticipated because the property insurance market generally has been so soft and loose for the past couple of years," agreed Glenn Thomas, senior vp-property liability underwriting at Woodland Hills, Calif.-based Transamerica Insurance Co.

Transamerica ranked as the seventh-largest writer of commercial and personal earthquake insurance in the state, based on \$9.7 million of gross premiums in 1989, according to the California Insurance Department.

In addition, though the quake was the costliest one for insurers

"We started to see capacity restrictions as early as July and August this year," said Jeff Baker, vp and property manager at wholesale broker Swett & Crawford in Los Angeles.

As a result, capacity is "rapidly shrinking" for new business, particularly coverage for "C-class," or masonry structures, in Los Angeles and San Francisco, said Robert P. Keul, president of Los Angeles-based wholesaler Montgomery & Collins Inc.

"The ones that are really suffering now are older structures," Mr. Baker agreed.

"A lot of markets have decreased

vely easy.

"In San Francisco, our main concern is certain types of construction that basically flatten out when the earthquake hits, and those don't appear to be a problem," she said.

"A problem would be extremely restricted availability and very high prices, and I don't see either one of those things happening," Ms. Little said.

Indeed, underwriters had been busy trying through late summer to meet increased demand since last fall's earthquake.

Interest in earthquake insurance among California risk managers rose significantly after the October 1989 quake, which was vividly brought home to television viewers who were watching a World Series game at San Francisco's Candlestick Park.

"If the insurance industry was trying to attract earthquake clients, that's probably the best free advertising they could have gotten," said Swett & Crawford's Mr. Baker. "A lot of clients have bought into it this year that hadn't before," he added.

"Some clients are having their buildings inspected to find out" if they sustained damage during the October quake, "and then they're calling us," said Jardine's Ms. Little.

"We're also being more aggressive" in suggesting to risk managers that they purchase earthquake insurance, and "more are accepting," she said.

That heightened interest follows a year in which the 10 largest earthquake insurers in California reported significant premium increases. Those insurers wrote \$251.2 million in commercial and personal earthquake premium in 1989, up 13.6% from \$221.2 million in 1988, according to state insurance department data.

Like last year, this year "\$200 million is banded about as a total earthquake capacity," said Swett & Crawford's Mr. Baker.

However, "that assumes access to every market worldwide that writes (earthquake insurance), including the London facilities," he said.

Swett & Crawford has a couple of clients "at the \$100 million level. Some of the municipalities have been able to buy \$200 million, but you're talking about a line slip that includes every player that writes the coverage at all."

Many insurers will write the coverage only for policyholders that are insuring other risks with the company.

State Farm Insurance Cos. offers quake limits that equal the limits written for other perils under the policy, according to Robert Canfield, operations manager of commercial lines in Westlake Village, Calif.

State Farm will write limits as high as \$5 million per building, the same as last year, Mr. Canfield said.

The California Insurance Department ranks State Farm as the largest writer of commercial and personal earthquake insurance in the state based on \$88.4 million in gross premiums in 1989.

Transamerica will write primary and excess layer quake limits "as low as \$5 million or as high as \$50 million," based on the quality and the age of the building and "how desirable the rest of the account is," Mr. Thomas said.

Charley Littlejohn, assistant vp
Continued on next page

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Underwriters' relatively light reaction to the October 1989 California earthquake is due to 'an extremely, extremely loose' property market, says Mary Ann Little of Jardine Insurance Brokers Inc. in San Francisco.

since the 1906 San Francisco temblor, it was not a devastating hit to insurers overall, said Richard Roth, California's assistant insurance commissioner.

A recent insurance department study places insured commercial and personal losses from the quake at \$590 million, including \$190 million in ceded losses, he said.

The only buyers with problems finding coverage are those with older buildings that waited until late summer to shop for coverage, according to observers.

Since earthquake markets keep track of their aggregate writings on a calendar year basis, markets typically reach a saturation point for the Los Angeles and San Francisco metropolitan areas by September and October, according to brokers.

And, this year, increased demand has caused some insurers to reach their saturation points a bit sooner, brokers say.

the maximum age of the structure that they would write. For example, buildings from the '30s and '40s used to be difficult but not impossible. They're tending more toward that now," he said.

In addition, because of the seasonal capacity crunch, a "major primary player in the San Francisco area" recently notified Swett & Crawford that it would write no more primary earthquake insurance in 1990 and would be available only for participation on excess layers, Mr. Baker said.

"A number of markets have established moratoria here in L.A., where they'll only play in excess of a probable maximum loss," he said.

However, capacity still is no problem for renewals, observers said.

Jardine's Ms. Little finds that obtaining coverage for even older structures, as long as they were previously covered, is still relative-

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Continued from previous page

of Jardine in San Francisco, said he just placed a "typical" renewal in Los Angeles for a "better" class C tiltup concrete construction: \$40 million excess of \$10 million.

The premium, which was the same as last year, was 10 cents per \$100 of total insurable value—not limits—or \$130,000.

There is a 5% deductible on the primary layer based on the building's and contents' total insurable value but no deductible on the excess layer.

Rates at Transamerica range from 5 cents per \$100 of total insurable value for a brand-new earthquake resistant building in a non-seismic area to \$1.50 per \$100 of value for an old brick building in a quake zone, unchanged from last year, according to Mr. Thomas.

Rates on average range from 15 cents to 50 cents per \$100 of insurable value, Mr. Thomas said.

Rates at State Farm will vary based on the type of structure, the location and the deductible, according to Don Marwin, commercial underwriting superintendent.

For a two-story wood-frame stucco freestanding commercial building in Los Angeles, the rate would be \$1.15 per \$1,000 of value, regardless of limits, with a 10% deductible, unchanged from last year, Mr. Marwin said.

If the structure were not as sound and the building susceptible to damage, the rate would be \$1.925 per \$1,000 of value, he added.

Karen Banks, director of risk management at personal care products manufacturer Shaklee Corp. in San Francisco, said she was "really surprised" at the ease with which she was able to increase earthquake limits 36%, even with three properties located on three major faults.

"We found we were able to structure a program with high earthquake limits" with the same terms and conditions as before the quake, she said.

"The price was probably down slightly, and that enabled us to purchase" higher limits, she said.

But, Swett & Crawford's Mr. Baker said "the carryover effect" of seeing last year's earthquake on television and increased demand for quake cover has prompted insurers to take "a more conservative approach" to writing quake cover.

"Rates and premiums went up a bit. And, to a degree, deductibles increased," he said.

Underwriters generally are requiring deductibles ranging from 5% to 10% of the total value of the building and contents insurable, regardless of policy limits.

Before the quake, underwriters generally sought 5% deductibles.

Prior to the quake, "we were still having luck getting 5% deductibles on modern concrete tilt-up buildings, a more desirable class within the C category," Mr. Baker said.

"Afterwards, and for most of 1990, the market stuck to the old 10% deductible on those," he said.

Transamerica's Mr. Thomas said deductibles range from 5% to 10% of total insurable value.

However, Ms. Little said buyers still "typically" can get 5% deductibles.

Ms. Little noted, though, that "a lot of clients think they are buying a deductible of 5% of policy limits" rather than of total, or insurable value.

Despite the increased demand for earthquake coverage, most risk managers still do not obtain the coverage, observers pointed out.

"Most people are not interested," said Mr. Thomas of Transamerica.

"Maybe one in 100" of Transamerica's commercial risks purchase earthquake coverage, he said.

"There are probably three or four reasons," Mr. Thomas specu-

lated.

The first is that "lenders don't demand quake insurance," he said.

Another reason is the cost of coverage, he said. "While I can sit here and tell you it's relatively affordable compared to three or four years ago, it is still not cheap if you look at it as one line" of coverage compared with other lines, Mr. Thomas said.

And "there's a fairly hefty deductible. Risk managers probably look at that and say, 'My gosh, there'd have to be one large quake'" to penetrate the deductible, Mr. Thomas said.

Among the markets reducing its earthquake writings is Los Angeles-based Allianz Underwriters Insurance Co.

Before last October's quake, the insurer had decided to reduce the amount of California quake coverage it would write, said vp Thomas J. Barber.

Allianz, the fifth-largest earthquake writer in California, wrote \$13.8 million of commercial and personal earthquake insurance in 1989, \$2 million less than in 1988, according to the Insurance Department.

The decision was based on its desire to reduce its earthquake exposure and to distribute its writings "more country-wide," he said.

In a "change in underwriting philosophy," Allianz is not insuring C-class buildings, he said.

However, "there are always exceptions," Mr. Barber said.

"We're renewing on more restricted guidelines and not seeking any new earthquake business in Los Angeles and San Francisco," he said.

"You'll see a truly significant reduction for 1990," Mr. Barber said.

Likewise, Aetna Casualty & Surety Co., the state's fourth-largest writer of commercial and personal earthquake insurance, decided after the quake to reduce its earthquake exposures.

Aetna wrote \$21.5 million of gross earthquake premium in 1989, down 38.4% from \$34.9 million in 1988.

We "made a decision to reduce quake coverage for some of our very largest accounts," explained Alison Coolbrith, general manager of commercial insurance at Aetna's San Francisco office.

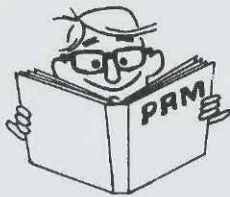
However, Aetna has not changed its underwriting standards.

"We had a four-week moratorium after the October quake to figure out if our underwriting should change," but no changes were made in underwriting standards, Ms. Coolbrith said.

"And, a couple of people just flat dropped out of (California) quake completely," said Swett & Crawford's Mr. Baker, who declined to name the companies. "These were smaller, out-of-California markets that were, shall we say, dabbling in quake insurance," he said.

Following are the leading writers of commercial and personal earthquake insurance in California, based on gross premium volume reported to the California Insurance Department for 1989:

- State Farm Fire & Casualty Co., \$88.4 million.
- Allstate Insurance Co., \$45.6 million.
- Fire Insurance Exchange, a unit of Farmers Group Inc., \$32 million.
- Aetna Casualty & Surety Co., \$21.5 million.
- Allianz Underwriters Insurance Co., \$13.8 million.
- United Services Automobile Assn., \$12.9 million.
- Transamerica Insurance Co., \$9.7 million.
- California State Automobile Assn. Inter-Insurance Bureau, \$9.6 million.
- SAFECO Insurance Co. of America, \$9.2 million.
- 20th Century Insurance Co., \$8.5 million. ■



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Banks spend biggest chunk of premiums on bonds: ABA

By JUDY GREENWALD

WASHINGTON—Financial institution bonds, which are purchased by 99% of all banks, accounted for a third, or \$592.7 million, of the \$1.76 billion in premiums that surveyed banks paid to insurers last year, the American Bankers Assn. reports.

In its 1989 survey of 614 banks, the Washington, D.C.-based trade group covered policy limits, premiums, coverages, deductibles and insurers.

Financial institution bonds—also known as bankers blanket bonds—cover risks including employee dishonesty, robbery, burglary, misplacement, loss in transit, forgery and threats to persons and property.

The survey found that financial institution bond coverage limits range from \$250,000 to \$2.5 million at small community banks to \$25 million to \$75 million at institutions with \$5 billion or more in assets.

Other coverages purchased by banks, according to the survey, are:

- Directors and officers liability insurance, carried by 75% of banks. D&O coverage accounted for \$257.2 million, or 14.6%, of the total premiums paid by the surveyed banks.

- Workers compensation coverage, which is purchased by 83% of banks and which accounted for \$194.3 million, or 11.1%, of the total premiums.

- Property insurance covering buildings and contents, carried by 94% of the banks and which accounted for \$162.6 million, or 9.2% of the total premiums.

- General liability insurance, carried by 74% of the banks and which accounted for \$103.4 million, or 5.9%, of the total premiums.

- Umbrella and excess liability insurance, purchased by 77% of the banks and which accounted for \$78.1 million, or 4.4%, of the total premiums.

- Trust department errors and omissions, carried by 23% of the banks and which accounted for \$62.6 million, or 3.6%, of the total premiums.

- Safe deposit legal liability, carried by 88% of the surveyed banks and which accounted for \$28.4 million, or 1.6%, of the total premiums.

The survey also found that more than half of medium-sized and large banks purchased policies covering automated teller machine crimes or computer system losses. And while 91% of the smallest banks insure electronic funds transfer functions, all surveyed large banks insured such functions.

"Electronic payments systems, especially wire transfers, have replaced the vault as a bank's weak spot," notes the survey. "While electronic payment alternatives offer convenience, safety and cost efficiency, they also provide opportunities for fraudulent use in direct proportion to the computer

skills and intent of the potential perpetrator."

The survey also found that 97% of the large banks purchase coverage for liability from telephone voice instructions, 94% have coverage for their proprietary systems and 84% insure their software programmers and independent system consultants, with smaller proportions of smaller banks holding these coverages as well.

Total average annual property/casualty insurance premiums ranged from \$15,800 for community banks with less than \$25 million in assets to up to \$5 million for banks with more than \$5 billion in assets, according to the survey.

Policy limits varied widely. For instance, average limits on directors and officers coverage ranged from \$950,000 for small banks to \$32.8 million for large banks.

Deductibles also covered a large range. The median deductible for financial institution bonds for small banks, for instance, was \$10,000, while it was \$2.8 billion for banks with more than \$5 billion in assets.

The survey found that 91% of banks with more than \$5 billion in assets had commercial policies.

In contrast, only 29% of small banks did, with another 45% of the small banks using an association cap-

itive and 21% using a single-parent captive.

The survey also reported average annual losses on a per-bank basis. Banks with less than \$25 million in assets averaged \$6,000 in annual losses; banks in the \$25 million to \$99 million asset range had \$7,400 in losses; banks in the \$100 million to \$499 million range had \$20,600 in annual losses; banks in the \$500 million to \$999 million had \$51,800 in losses; those in the \$1 billion up to \$5 billion range posted \$201,000 in per-bank losses and those with \$5 billion or more in assets had average losses of \$1 million.

Seven percent of the smallest banks had unrecovered losses below their deductible, while 100% of the largest banks did so.

The survey also found that bank insurance premiums as a percentage of operating expenses, excluding the cost of funds, ranged from 3.3% for the smallest banks to 0.85% for the largest banks.

The survey also includes Federal Bureau of Investigation statistics, which indicate that bank robberies at commercial banks increased 7% in 1989, to 4,511. Burglaries at commercial banks, though, decreased 14% to 189. Among all banking institutions—which, in addition to commercial banks include mutual savings banks, savings and loan institutions, credit unions and armored carriers—there were 6,691 robberies.

For copies of the survey, call the ABA's order processing department at 1-800-338-0626, and ask for catalog number 217100. The survey costs \$55 for ABA members and \$80 for non-members, plus a \$3.95 shipping and handling charge.

'Electronic payments systems... have replaced the vault as a bank's weak spot,' the survey says.

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Issue of October 8

READER SERVICE #	ADVERTISER	PAGE #	READER SERVICE #	ADVERTISER	PAGE #
1	Acstar Insurance	7	—	Home Insurance Company	10-11
2	Admiral Insurance	89	39	Hospitality Risk Services	65
3	Agricultural Insurance Co.	6	—	Illinois Captive Insurance	80
4	Agricultural Excess Surplus	56	40	Illinois Insurance Exchange	52
—	Agricultural Insurance Co.	28,70,98	41	Industrial Risk Insurers	99
5	AIG Aviation	81	42	Int'l Found. Empl. Benefits	96
6	AIG/Commerce & Industry	49	43	Intracorp	45
7	All American Agency Facil.	90	—	ISS	52
—	Allianz AG Holdings	92	44	Johnson & Higgins	12
8	American Reinsurance	63	45	Kemper Insurance Group	14-15
9	American Reinsurance	65	46	K&K Insurance	54-55
10	American Reinsurance	67	47	K&K Ins./Lincoln National	44
11	Am-Re Brokers	94	48	LDG Reinsurance Underwriters	32
—	Anthem Life	83	—	LEMAC	90
12	Argonaut Insurance Company	9	49	Lincoln Nat'l. Emp. Benefits	30-31
—	Arkwright Mutual	34-35	50	Lindsey & Newson	28
—	Atlantic Star Intermediaries	88	51	London Agency Incorporated	85
13	Brownyard Brothers	42	52	Mass Mutual Insurance	60
14	Celtic Life Insurance	70	53	William H. McGee	16
15	Centre Re-Insurance	19	54	Media/Professional Ins.	71
16	CIGNA	5	55	Media/Professional Ins.	73
17	Claimnet	44	56	Media/Professional Ins.	75
18	Claims Network	78	—	Mercantile & General Reins	50-51
19	Claims Overload Systems	63	57	Mutual of Omaha	106
20	CNA Insurance Co.	72	—	NAC Reinsurance Corp.	33
21	CNA Insurance Co.	24	—	NAS Insurance Services	80
—	Conservo/The Travelers	37-38	—	National Benefit Resources	88
22	Conservo/The Travelers	39	—	Nat'l. Environmental Coverage	84
—	Construction Insurance	76	58	National Reinsurance	17
23	Continental Underwriters	84	—	National Solid Waste Mgmt.	68
24	Crawford & Company	25	59	Nils Publishing Company	77
25	David Corporation	91	60	North American Reinsurance	43
26	Delaware Valley Underwriters	91	61	Northland Insurance	62
27	Delta Dental Plan Assoc.	59	—	Paige-Ruane, Inc.	74
—	Dentafts Inc.	89	—	Panalpina	98
—	Doran Excess Underwriters	23	62	Practical Risk Management	85
—	Ecology & Environment	96	—	Professional Coverage Managers	80
28	Employers Reinsurance	22-23	63	Protection Mutual Ins. Co.	46-47
29	Employers Reinsurance	97	64	F.A. Richard & Associates	36
30	Employers Reinsurance	74	65	RLI Corp.	69
—	ENSR Operations	91	66	San Marcos Treatment Center	20
31	ECI	90	67	Shand, Morahan & Company Inc.	26-27
32	Environmental Compliance	29	68	Star Insurance Company	78
33	Fidelity Environmental Ins.	79	—	Swiss Life	95
—	First State Insurance	40-41	69	Transamerica Ins. Group	42
34	Gay & Taylor	18	70	The Traverse Group	48
35	General Rehabilitation Serv.	82	—	Tudor Insurance Company	78
—	General Star Management	61	71	United National Group	4
36	Global Special Risks	82	72	U.S. Risk Underwriters, Inc.	66
37	Great American Insurance Co.	64	—	Vermont Insurance Management	69
38	Guarantee Insurance Resource	76	—	Floyd West & Company	89
—	John Hancock Mutual Life	48	73	Xerox Financial Services	13
—	Hannover Reinsurance	68	74	Yasuda Reinsurance	53



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16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
31	32	33	34	35	36	37	38	39	40	41	42	43	44	45
46	47	48	49	50	51	52	53	54	55	56	57	58	59	60
61	62	63	64	65	66	67	68	69	70	71	72	73	74	75
76	77	78	79	80	81	82	83	84	85	86	87	88	89	90
91	92	93	94	95	96	97	98	99	00	101	102	103	104	105
106	107	108	109	110	111	112	113	114	115	116	117	118	119	120
121	122	123	124	125	126	127	128	129	130	131	132	133	134	135
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'Managed care is better care'

Federal health official hails innovation, faults fee-for-service

By MICHAEL BRADFORD

NEW ORLEANS—The Bush administration is bullish on managed care, a government official says.

"We think managed care is better care," said Edmund C. Moy, the director of the Office of Prepaid Health Care, an arm of the Health Care Financing Administration.

"When it comes right down to it, the current fee-for-service marketplace isn't really doing the job," asserted Mr. Moy, who worked for 10 years for Blue-Cross & Blue Shield United of Wisconsin before joining HCFA. Mr. Moy was involved in selling, developing and managing group health and dental prepaid plans and PPOs.

"There is duplication of services, there are conflicting treatment plans, the rates of increase are unacceptable" in the fee-for-service marketplace, he said.

Only through innovation can those problems be solved, and "managed care plays an extremely important piece in that," Mr. Moy told the American Assn. of Preferred Provider Organizations in New Orleans last month.

The Bush administration believes competition would help bring down costs and improve care, he said.

"I think it's very important for you folks to have a good understanding of where this administration wants to go, because it's going to affect your lives over the next decade," Mr. Moy said.

HCFA oversees Medicare and Medicaid programs. With annual health care expenditures rising above \$150 billion, the federal government is the nation's single largest spender on health care, Mr. Moy pointed out.

In a free market, consumers can "choose plans that are best for them, the ones that they perceive as being the best for their family, versus a one-size-fits-all. We don't think Canada will work," he said, referring to Canada's national health care system, under which the federal, provincial and territorial governments pay for Canadians' health care.

Currently, the administration is concentrating on expanding managed care options and modifying relevant U.S. policies, which usually have been applied only to health maintenance organizations, according to Mr. Moy.

"The federal government has concentrated on HMOs as the only legitimate form of coordinated care," Mr. Moy said.

"We want to begin making a radical departure and open it up to innovative organizations such as the

New name for managed care

NEW ORLEANS—The new government buzzword for managed care is "coordinated care."

Until recently the terms were used interchangeably, said Edmund C. Moy, director of the Office of Prepaid Health Care, a division of the government's Health Care Financing Administration.

"In general, the industry is familiar with managed care," but consumers "don't like to be managed," he explained to the American Assn. of Preferred Provider Organizations.

So the more "user-friendly" term "coordinated care" is being emphasized in public dealings.

Besides, Mr. Moy remarked, "we believe this is a kinder, gentler" phrase. ■

PPO," he said.

He pointed out that HCFA has sent to Congress a proposed law called Medicare Select that would promote forms of managed care other than HMOs.

"We would like to create a market opportunity for PPOs to participate in the Medicare population," he said.

While no laws prohibit PPOs from competing in that market, there are no incentives for them to do so, Mr. Moy said.

The administration would like to work with PPOs "to discover new ways of presenting coordinated

care options," he said.

"So this is an open invitation to you to send me your ideas, to talk to me," Mr. Moy said.

Much of Mr. Moy's talk focused on current work both with HMOs that serve Medicare patients and those he would like to attract to that market.

Several concerns arose in recent talks with HMO contractors, according to Mr. Moy.

Operators claimed "the government never pays enough," he said. "We paid the HMO industry 95% of what we think are the average costs of fees-for-service," Mr. Moy said.

As a result, providers have been

raising the costs of services provided to non-Medicare patients, he noted.

The government's response in January was to increase HMOs' fees to 100% of average estimated costs.

The idea behind that "bold step" was that "we are getting better quality care and more appropriate care for that amount of money," Mr. Moy said.

Providers also complained that the government created an unnecessary burden for them by hiring firms to review their performance with Medicare patients, he said.

HMOs argue that their in-house quality assurance and utilization

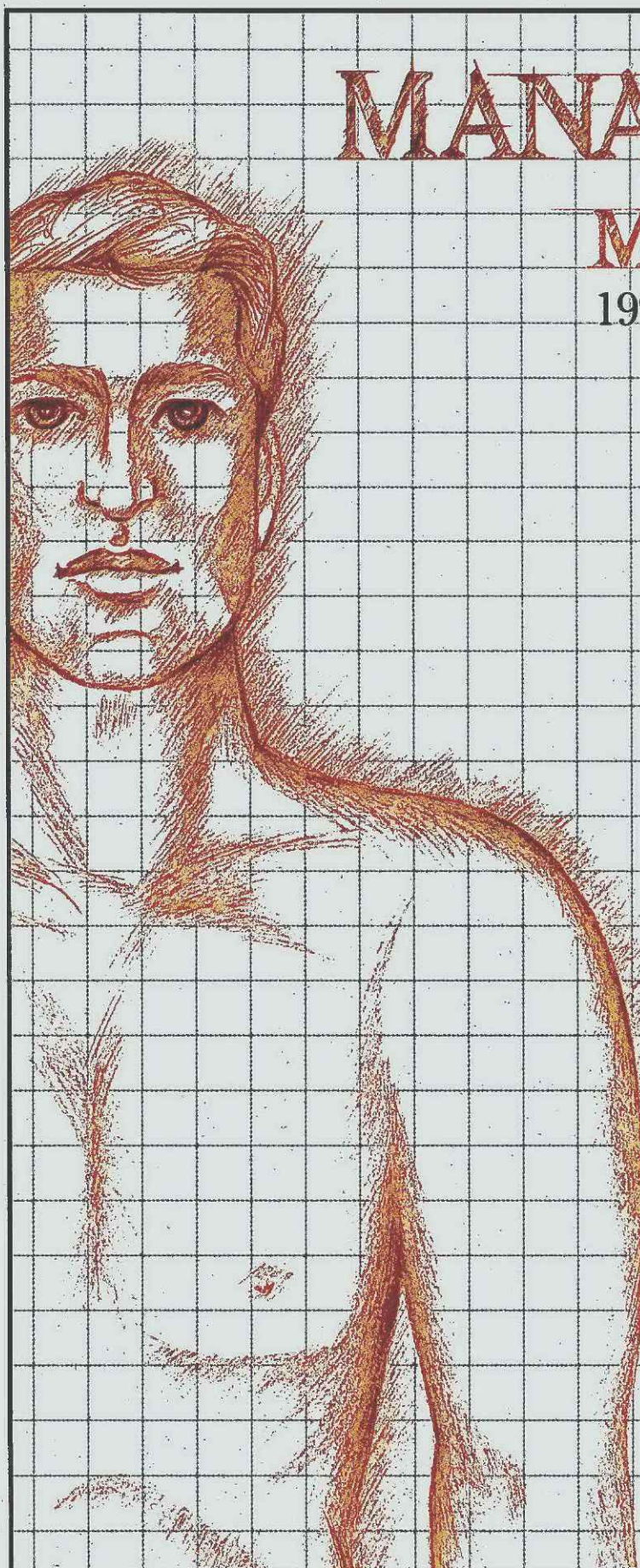
review procedures are adequate and that outside reviews wasted time and money.

Peer reviews have since been reformed to make them less burdensome, he said.

HMOs also complained that mid-year Medicare changes made by Congress raised their costs unexpectedly.

Capitation charges set at the beginning of the year cannot be changed and HMOs are left with the cost of providing increased benefits, he explained.

"The next decade shows itself to be a very exciting one and one that will be constantly marked by change," Mr. Moy said. ■



MANAGED CARE

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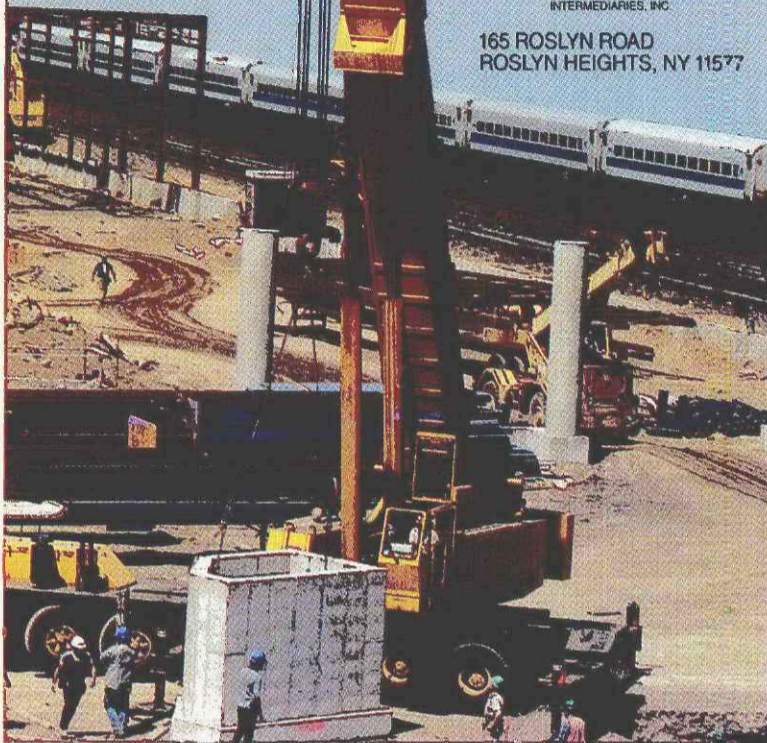
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Expert slams 'excuses' for soaring health costs

By MICHAEL BRADFORD

NEW ORLEANS—The traditional excuses given for the rising cost of health care just don't hold up any longer, charges an expert on managed care.

Alain C. Enthoven, a professor of public and private management at Stanford University in Palo Alto, Calif., discounted the "usual suspects" blamed for spiraling costs during a speech at the American Assn. of Preferred Provider Organizations' conference in New Orleans last month.

Instead, he laid the responsibility on the old economic principle of supply and demand.

High health care costs are blamed on the aging population, advancing and expensive technology and malpractice lawsuits, he pointed out.

"Well, there's no way those factors are going to explain to me why Stanford University's premiums went up 20% last year," Mr. Enthoven commented.

"Those factors are not changing that fast," he contends.

To illustrate his point, Mr. Enthoven pointed out that the Health Care Financing Administration, a division of the U.S. Department of Health and Human Services, recently calculated that the aging population is responsible for only around one-tenth of the annual increase in health care costs.

"As for malpractice, well I just don't believe it," Mr. Enthoven said.

"There's no way that it could explain it. In fact, the incidence of malpractice claims has been falling since 1985," while doctors bills have been rising, he said.

Mr. Enthoven concedes that "spectacular and costly advances" in technology do contribute to rising health care costs. "Once these wonderful advances are available, we feel morally obligated to provide them to



people who can benefit from them," he said.

Still, he said, "technology doesn't change that fast, and if used appropriately, it might generate some savings. In any case, that's not something we can do much about since medical technology is a worldwide phenomenon."

It's a more fundamental problem that drives the cost of health care, according to Mr. Enthoven. To find the cause, one must examine the "very structure of the demand side and the supply side of the health care economy," he said.

"On the demand side, we have a structure that is based on a cost-unconscious demand," Mr. Enthoven explained. "That is, the dominant, open-ended, fee-for-service system pays providers more for doing more whether or not more is appropriate."

One of the biggest problems with the current health care system, he said, is that "most employers systematically subsidize the more costly modes of health care finance, meaning usually the open-ended, uncontrolled, fee-for-service system against cost-effective managed care programs."

Thus, employers are destroying the incentive for consumers or providers to make economical choices, Mr. Enthoven said.

Of course, some employers do offer health care choices, he pointed out, but often, "the way they structure it is to present it in a way that destroys the incentive for the employee to make an economical choice."

As an example, he said employers often offer to pay 90% of a plan's cost, regardless of the one chosen. "The net of it all is, if you choose the more expensive plan, the employer is going to pay more money."

There are comparable problems on the supply side of the health care equation, he said.

The health care system, although it is changing, has in the past not been organized for "quality and economy," said Mr. Enthoven.

"The system was shaped, frankly, by organized medicine seeking to assure its right to practice, accountable only to the patient who doesn't pay and doesn't have the information to evaluate quality or appropriateness," he commented.

"One of the big problems today is that physicians feel no commitment to managing and holding down the costs of third-party payers. . . Well, of course in the long run, that's irresponsible."

What is needed, Mr. Enthoven said, are "managed care organiza-

tions that attract the understanding, support and commitment" of resourceful doctors.

Another supply-side problem is the lack of incentives for physicians to provide high-quality, economical care, Mr. Enthoven maintained.

Quality doctors are not rewarded "because employers and consumers don't have the data to identify them," Mr. Enthoven said.

There are too many doctors in too many specialties, he added, "and too many doctors can be bad for your health as well as bad for your pocketbook."

A study conducted several years ago showed "if you have 10% more surgeons per capita, you get 3% more surgery without any indication that more is needed."

In a proposal published in the New England Journal of Medicine, Mr. Enthoven and a colleague suggested several health care reforms.

He told conference attendees the proposal calls for:

- Changing the tax laws to limit the amount of tax-free employer contributions to employees' health care plans.

- "We propose to set the tax-free limit at about 80% of the average cost for a health plan meeting federal standards," said Mr. Enthoven.

These changes would "enlist all employed Americans in a search" for value in health care, he said, and would "stimulate the development of high-quality, cost-effective care."

The changes would also create a market for cost-effective managed care programs, Mr. Enthoven predicted.

- Requiring all employers and employees who do not have coverage to contribute a combined total of 8% of the first \$22,500 of payroll per employee to an insurance fund that would provide them with coverage.

- Establishment of an agency called "the public sponsor" in each state. These agencies would be commissioned to offer a "subsidized, cost-conscious choice of managed health care plans to those people otherwise uninsured," Mr. Enthoven said. The office would contract with managed care plans and offer subsidized enrollment to workers who have no coverage from their employers.

The funds used by the public sponsor would come from the premiums contributed by uninsured employers and employees as well as new revenues generated by the reduction of tax-favored benefits.

- Allowing employers to take advantage of the economies of scale and purchase coverage through the public sponsors.

- Surveying employees on the quality of their care and "raising the consciousness of employers" so they realize they have to monitor the quality of care and can't simply "hope for the best."

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PPO forum draws 600 attendees

NEW ORLEANS—The American Assn. of Preferred Provider Organizations attracted about 600 attendees to its late summer gathering a few blocks from the Mississippi River on Sept. 9-11.

The conference was titled "Managed Healthcare: Experience and Expertise from the Front Lines."

Registrants strolled down Bourbon Street or the Riverwalk in the evenings and made their way to daytime sessions featuring Edmund C. Moy of the federal Office of Prepaid Health Care, Alain Enthoven of Stanford University, several insurance company representatives, benefit managers, consultants and others.

The 7-year-old trade group sponsors two conferences each year. Its next gathering is April 8-11 in Washington, D.C.

Information on the AAPPO or its conferences is available from the group at 111 E. Wacker Dr., Suite 600, Chicago, Ill. 60601; 312-644-6610 ext. 3270.

PPOs advised to develop individual identities

By MICHAEL BRADFORD

NEW ORLEANS—Preferred provider organizations should offer new coverage options to spur growth and distinguish themselves from competitors, a health care consultant advises.

PPOs have a particularly hard time convincing purchasers that the managed care facilities have something new to offer, says Eve M. Stern, an associate with HealthCare Connections Ltd. in Braintree, Mass.

When asked what separates them from the competition, PPOs "all sound the same," said Ms. Stern during a panel discussion at an American Assn. of Preferred Provider Organizations conference in Dallas last month. "They really are not able to articulate clearly what the nuances and subtleties are that truly make them different from their competition."

Most have similar networks, tout 15% to 20% discounts and claim to perform the same utilization review procedures, Ms. Stern noted.

Increased competition is one reason to develop new health care options. Features that made a given organization unique three to five years ago are now being mimicked by others, she explained.

Another reason for new options is

that PPOs could serve emerging markets, Ms. Stern pointed out. "Specialty PPOs is a big area, moving into workers comp, mental health, chemical dependency and the whole self-funded market."

Changing demographics can also prompt such development: "How is the age/sex population changing?" she asked. "What industries are going in or out of your area?"

Care for the elderly represents a major untapped market, she added.

"I am amazed at how few PPOs have gotten into Medicare or are dealing with the elderly population. And yet that market continues to grow."

Before developing new options, Ms. Stern advises organizations to formulate a "strategic focus" by asking: "What do you want to accomplish? What business do you want to be in? Why are you doing it and... can you get into this business" without hurting your core business?

"There are a lot of PPOs that are talking about getting into the HMO market," she said. "I really question whether they understand what they're getting into. Do they know the risks they are taking? The rewards might be there, but it's a long

term and it's a hell of a lot different than the PPO market."

Other concerns she mentioned for those considering new options are:

- Determining management skills. Dealing with different audiences may require new training. "Obviously selling to a broker is different from selling direct to employers," Ms. Stern said. "Does your staff have the time to really learn this new product well?"

- Evaluating opportunities. Feasibility studies must be completed and the "needs and wants" of employers have to be considered. "Consistently I have observed organizations make decisions on what they think particular clients want" without actually knowing the needs, Ms. Stern said.

- Understanding the market. "I'm not talking about heavy-duty qualitative market research where you get a lot of statistics," Ms. Stern explained. "I'm talking about hiring an outside resource, someone who doesn't have any hidden agendas or vested interests, to go out as a third party and objective source to speak to brokers, to employers, to your existing clients and providers to find out what they want and when they want it. Get that feedback and incorporate it into your plan."

- Evaluating legal considerations.

PPO regulations vary among the states, she pointed out.

- Defining the product. "Make sure your product has value and benefit for the customer," said Ms. Stern.

- Assembling administrative support. "If you don't have the backup staff, the front-line people to back up the business that you bring in, it's not going to succeed," said Ms. Stern.

- Choosing quality providers. "All we are is our providers," she said. "Getting their support is key." A provider's job should be administratively easy and the PPO should be willing to form a close partnership, Ms. Stern advised.

- Developing a strategic marketing plan. "How are you going to distribute this product?" she asked. "How are you going to package the product?"

- Arranging financing. Even with a brilliant and hard-working staff, an underfinanced operation will not succeed, Ms. Stern said. "You still need the dollars behind you to make it work."

Kerry Kaplan, principal with HealthCare Connections, pointed out that a written plan is a key ingredient

for PPOs preparing to launch a new option or redirecting core business.

The plan must include expected results of the new or redirected business.

"Also, key objectives and the issues you expect to come up" as the PPO strives to meet its objectives should be outlined in the plan, he said.

He also recommended having contingency plans in case original income or membership targets are not met. "What happens if we are below target or above target? It's not always good news to be above target. What impact does that have on the staff and how quickly can we make adjustments?"

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Rising costs called risk for PPOs

By MICHAEL BRADFORD

NEW ORLEANS—Rising health care costs are keeping preferred provider organizations in a "vulnerable position," says an executive with an insurer that manages the networks.

Although PPOs often generate savings and improve care, "things are not always as they seem," said Neil Waldron, vp of product development and marketing at Massachusetts Mutual Life Insurance Co. in Springfield, Mass.

Continually rising health costs are one factor leading some employers, operators and others to conclude that the arrangements could lose their effectiveness, Mr. Waldron pointed out.

Frustration with that rising tab has made benefits "a major corporate issue," he said during a panel discussion at an American Assn. of Preferred Provider Organizations conference in New Orleans last month. Benefits, he added, are "becoming far less a human resource issue and far more a financial concern."

As health costs keep rising, PPO operators, brokers, consultants and employers are growing increasingly concerned. They worry that the networks—as well as health maintenance organizations—will not control costs, Mr. Waldron said.

Mr. Waldron suggested that PPOs begin to look for new approaches and programs to stem rising health benefit costs. Networks should be sensitive to criticism from policyholders and others with a stake in health costs, he said.

For example, Mr. Waldron recommended that PPO marketing efforts not focus on discounted rates. Such efforts are "likely to be met with increasing skepticism," he remarked. "If costs continue to rise dramatically, this argument will be less and less compelling." And, he pointed out, increased utilization can render discounts meaningless.

Mr. Waldron suggested that PPOs improve and help guarantee their effectiveness by:

- Monitoring physicians and helping them provide effective care.

- Increasing arrangements with facilities like hospices and extended-care providers to provide high-quality, low-priced care.

- Making sure health care purchasers are well-informed about how

the PPO is managed.

Anne E. Bossi, vp of Southwestern group operations at Prudential Insurance Co. of America, stressed that the quality of care "is the cornerstone of our program and is essential to any program."

Ms. Bossi said the Newark, N.J.-based insurer, which operates 43 PPOs, believes "higher quality means lower cost" and uses a rigorous process of checks and balances to ensure quality service from its PPOs.

For example, there is a detailed process for checking physician credentials and malpractice histories, Ms. Bossi pointed out. And hospitals must meet certain standards to

be accepted in a Prudential network.

Such processes are paying off with "favorable, downward trends in hospitalization and utilization over the past seven quarters," Ms. Bossi said.

Robert Murphy, vp and manager of group alternative delivery systems at Mutual of Omaha Insurance Co. in Omaha, Neb., said "policyholder satisfaction" is the key to PPO success.

Mutual of Omaha uses surveys to try to determine whether policyholders are happy with the management and structure of its PPOs.

"It is important to understand the needs of the policyholder and to be able to respond to them," Mr. Murphy said.



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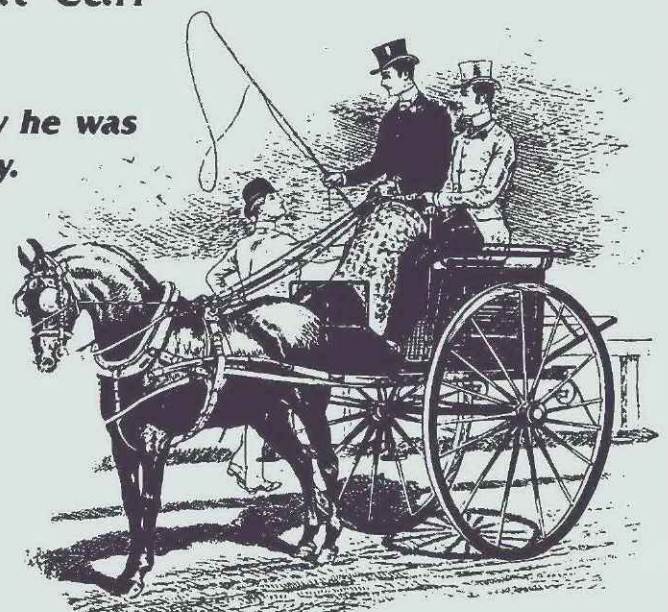
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Letters

Continued from page 8
doubt is fully explained to a claimant when they are "signing up"—rather, it is handled much the same as the \$100 to \$150 "processing fee" tacked onto your automobile purchase price after you thought you made a deal, although these expense dollars are probably a tad more.

It would be nice to see a mandated disclosure form explaining contingency fees and expenses to plaintiffs, and their estimated dollar impact.

I also appreciate Mr. Nader's commitment to carry the sword for 50% contingency fee victims (does that 50% include expenses?). No matter. Mr. Nader, please start your campaign in Arizona, where 50% plus expenses does happen.

Bruce A. Hesselborn
Chairman, President and C.E.O.
United Capitol Insurance Co.
Atlanta

California ruling on witness suits called mistake

To the editor: In regard to "Court Says Witnesses of Accident Can File Suit" in the Sept. 10 issue, the California Supreme Court must hold most of its sessions in Disneyland.

The "unpublished" decision simply put means that now—when I return from California and have survived the freeway system—I can immediately contact an attorney and file suit for the emotional stress I have just survived. All I need to make a case is to collect a couple of auto license plate numbers.

Congratulations once again to the legal profession for figuring out new ways to soak the insurance industry through the use of Snow White and the Seven Dwarfs, or whatever.

George Knight Jr.
President

George Knight & Associates Inc.
Tulsa, Okla.

Study data may prove helpful for the defense

To the editor: Your article, "Unique Study Shows High Death Rates" (BI, Sept. 10), is fascinating. As a defense lawyer, I found some of the categories and descriptions at least partially explicable on anecdotal data of which I am aware.

The article raises the question, however, about "who's living longer?" Lawyers and insurance executives are not mentioned as categories. According to the statistics, when will we die?

On the defense side, I have clipped this article for use in cross-examining the next plaintiff's economist who assumes that a decedent who belonged to a high-risk occupational category under the COMS II study has been assumed by the plaintiff's economist to continue to work and live to the end of the average for the whole population.

Lloyd B. Ericsson
Attorney

Martin, Bischoff,
Templeton, Ericsson
& Langslet
Portland, Ore.

Continued on next page



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Letters

Continued from previous page

Employers beware adverse selection against indemnity

To the editor: This letter is relative to the article, "Trimming Health Care Costs" (BI, Aug. 27).

Employers that want to offer a choice between traditional health maintenance organizations and a viable indemnity plan have to be very careful about adverse selection against the indemnity plan when designing the plan.

Employers currently may be perfectly contented with almost a 70% enrollment in the HMO plans as long as they understand that they have probably triggered what we refer to as the "death spiral" of the indemnity plan. The cost of the indemnity plan in the future will inevitably become so high as

to effectively eliminate indemnity plans, unless some heavy subsidies come from the employer. Today's cost savings may prove illusory.

Tom Ghysels
Senior Vp
Corroon & Black
Pasadena, Calif.

Employers, OSHA should cooperate on trauma rules

To the editor: You are absolutely right to encourage employers to work with the Labor Department and the Occupational Safety & Health Administration to make sure planned new rules on cumulative trauma disorder "are fair to employers but still protect workers from injury" (BI, Sept. 17).

Based on reported cases, it is easy to understand why OSHA has

targeted these disorders. Your suggestion that "simple, general rules that all employers can follow would be better than no rules at all" makes sense if we are to solve the cumulative trauma problem. The difficulty, however, will be in developing understandable, fair and simple guidelines that work for employers and employees.

We believe the answer may lie in industry, labor and government working together in a cooperative spirit. I am hopeful that can be done.

As a former deputy assistant secretary of labor for occupational safety and health, let me add that I also agree with your suggestion that "OSHA has come a long way in the 20 years since it was established." It has.

Mark D. Cowan
Chief Executive Officer
The Jefferson Group Inc.
Washington, D.C.

CPCU society stresses ethics, president says

By MARK A. HOFMANN

BOSTON—Ethics will be an integral part of the Society of Chartered Property and Casualty Underwriters' activities in the next year, says its new president.

"An important part of professionalism is ethics," said Stephen J. Paris, managing partner at Morrison, Mahoney & Miller, a Boston law firm. Stressing the group's commitment to ethics, he said, will increase its visibility at a time "when society and all professions are facing a crisis in ethics."

Mr. Paris says he also wants to target community affairs.

"We want to raise awareness that the insurance industry is a caring industry," he said. He said that the society, based in Malvern, Pa., will urge chapters to "do good works" that show insurance professionals as "real people doing real things."

"To the extent that any president has the prerogative to direct the society, my emphasis will be on ethics and professionalism," Mr. Paris said. As its theme for the next year, the group has chosen: "Set the Standards: Project Professionalism."

A heightened emphasis on ethics, he said, does not reflect an ethical crisis among society members.

"Once in a while, somebody gets into an ethical problem," he said. Each year the group holds a handful of hearings for those accused of unethical conduct. While members have been expelled, those actions are rare in the group's 46-year history.

"We don't have a lot of hearings, which speaks very well of the membership," he said.

Ethics will be featured throughout the year in national and local society programs, Mr. Paris said. A local program on workers compensation, for instance, could contain some discussion of relevant ethical questions. "No matter what your program's about, have ethics as a part of it," he said.

The Society of CPCU and the Malvern-based Insurance Institutes of America, which administers the CPCU exam, along with the Bryn Mawr, Pa.-based American College and the Society of Chartered Life Underwriters will sponsor "Ethics Awareness Week," Dec. 3-7.



Mr. Paris

A videotaped panel discussion of ethics in insurance will be shown at local meetings, Mr. Paris said.

Its emphasis on ethics is part of the society's ongoing plan to increase visibility of the CPCU designation and "to call attention to the fact that CPCUs are professionals," he said. Stressing ethical conduct, he says, will burnish their image.

Mr. Paris said that efforts to give the society a higher profile come at a time when people outside the industry are beginning to recognize the CPCU designation as more than a random collection of letters. "The general public is also beginning to understand what CPCU means," he added.

The designation is being seen as a mark of professionalism, in part because of the size of the organization, Mr. Paris said. Generally, a membership of 25,000 gives an organization "critical mass" in the public eye, he said. "That's basically where we are," he said.

Community involvement is also to be stressed as a way of raising

the group's collective profile. "Part of our oath is to serve the interests of others," he explained. He said that chapters would be urged to become active in projects like volunteer adult literacy programs, Special Olympics, public television fund-raising and high school career days.

"We have CPCUs who are heavily involved in community activities," Mr. Paris said.

He added, though, that he wants chapters to identify and honor members "who not only have distinguished themselves as professionals but who—above and beyond that—have contributed to the community."

Another project is a televised news conference on workers compensation set for the week of May 21, 1991, Mr. Paris said. The 105-minute conference will be beamed by satellite to society members at viewing locations across the country. Speakers will include regulators, representatives of rating boards and others involved in workers compensation. ■

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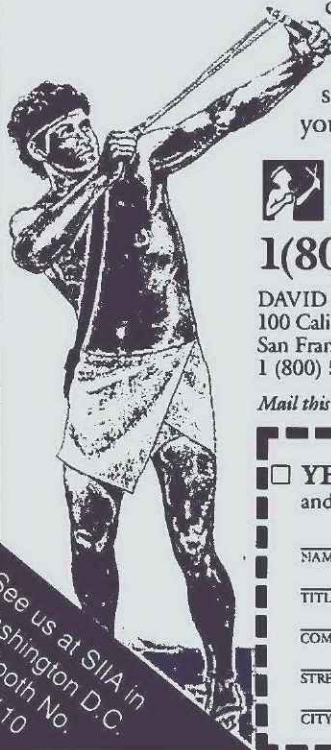
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Aussies debate change in marine cargo liability

By KATE McILWAINE

CANBERRA, Australia—Australian shippers and insurers are anxiously awaiting action by Parliament on revisions to the country's 1924 marine cargo liability law.

Little action was taken on a 1988 reform bill until late last month when it was heard in Parliament for the first time.

The Australian government recognized in late 1987 that the 1924 Sea Carriage of Goods Act placed Australian shippers at a competitive disadvantage with other nations.

Current law "effectively absolves (cargo) carriers from any liability for loss, damage or delay in delivery," the Department of Transport said in a report.

Shipowners have little legal responsibility to ensure cargo is delivered in good condition under the current cargo liability law, concurred Sen. Robert Ray, who introduced the reform legislation in 1988.

"Currently, an exporter must bear the major burden of insuring cargoes against damage, theft or loss during the sea voyage," he said.

Sen. Ray's legislation would adopt the Visby Protocol and Special Drawing Rights amendments to the Hague Rules of 1924, which govern liability for ocean-going cargo and upon which Australia's law is based. It also would set the stage for the eventual adoption of another cargo liability standard, the so-called Hamburg Rules.

The 1924 Hague Rules govern the responsibilities and liabilities of shipowners to cargo interests. The Visby Protocol and SDR amendment updated the Hague Rules without affecting the main body of the law by:

- Increasing the per-package liability limits to 667 SDRs (\$933 at current exchange rates) from the current limit in Australia of 100 pounds sterling (\$180).

SDRs are an "imaginary" unit of currency based on five actual currencies: The U.S. dollar, the German mark, the British pound, the French franc and the Japanese yen.

- Providing a better definition of what constituted a package, to

take into account containerization, in which a quantity of materials is loaded into a single container for shipping.

The Visby/SDR amendments define the number of packages as the number of units the shipper describes on the bill of lading, according to William Augello, general counsel of the Shippers National Freight Claims Council in Huntington, N.Y.

Precisely defining "package" is important because containers are frequently used in modern shipping. Whether a container constitutes a single package or instead contains, say, 20 packages has a profound impact on the size of a claim and has been the subject of considerable litigation.

The Hamburg Rules, officially known as the United Nations Convention on the Carriage of Goods by Sea, would impose a standard of strict liability and presumption of negligence on vessel owners for lost or damaged cargo unless the cargo carriers could prove they took all possible measures that could be reasonably expected to avoid the loss (*BI*, Feb. 29, 1988).

In sharp contrast, vessel owners have 17 possible defenses when dealing with claims under the Hague Rules.

In addition, the Hamburg Rules would increase the per-package liability limits to 835 SDRs (\$1,169) from 667 SDRs.

So far, only 17 nations have agreed to the Hamburg Rules, which require at least 20 signatories before they are adopted as international law (*BI*, June 15, 1987). Sen. Ray's legislation would allow Australia to enact the Hamburg Rules once more of its major trading partners become signatories to the rules.

Though it was introduced in 1988, the reform bill was not read in Parliament until last month. Measures generally are read three times before being passed into law.

Ted Jrzynski, director of legisla-

tion in the Department of Transport, said he is "confident it will go through," but could not estimate when the new law would come into force.

Sen. Ray's legislation, in adopting the Visby/SDR amendments and paving the way for the Hamburg Rules, is "providing for both sides" because shippers want the Hamburg Rules, while insurers favor the Visby/SDR amendments, Mr. Jrzynski said.

Chris D. Henri, marine manager for the Insurance Council of Australia in Sydney, said he is disappointed that amending the cargo liability law has taken so long.

Mr. Henri said the current laws are "so antiquated they're almost useless. Penalties are so minuscule they're no deterrent for carriers and everything about the transport of goods by sea has changed."

Michael A. Hill, managing director of Melbourne-based Associated Marine Insurers Agents Pty. Ltd., agreed, noting that the existing cargo liability law takes "no cognizance of containerization." The law refers only to packages transported by sea.

"We've been waiting and waiting for the amendments" to update the law, he said.

Stuart Hetherington, a partner in the Sydney law firm of Ebsworth & Ebsworth and a specialist in marine law, said the amendments are necessary because they "take into account modern transport and currency, recognizing the fact that cargo has been shipped in containers for the past 20 years."

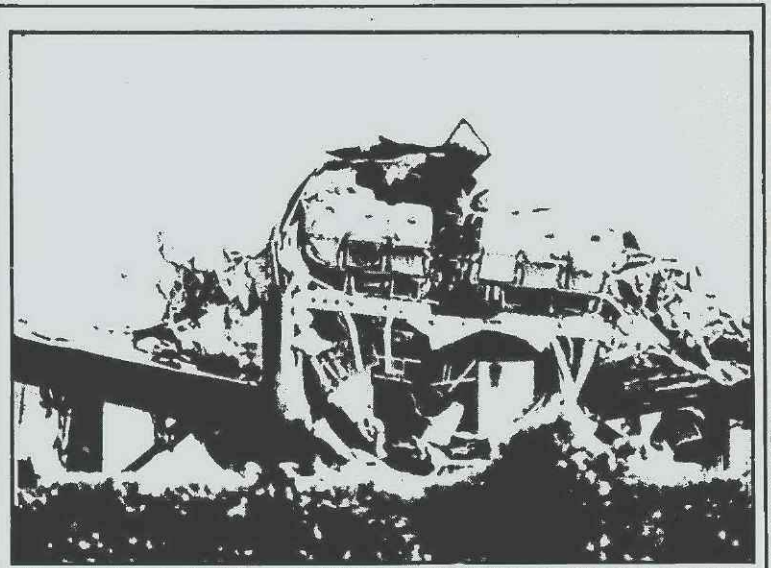
Mr. Hetherington said he expected the Visby/SDR amendments to be enacted by December. But, he added, "it's anyone's guess whether the Hamburg Rules will ever see the light of day."

Shipowners oppose the Hamburg Rules, claiming they would introduce a dramatic shift of liability to the owners, Mr. Hetherington said.

"The fear is that if that happens, we won't need cargo insurance in Australia—it will take that insurance out of the local market," he said.

The Department of Transport notes in its report that insurers fear that if shipowners' liability for cargo losses is increased under

Continued on next page



The wreckage of a Shanghai-bound plane lies on the tarmac after it was hit by a hijacked jet that crashed at the Guangzhou airport.

\$100 million reserved for 3-plane collision

By STACY SHAPIRO

LONDON—The People's Insurance Co. of China has reserved \$100 million for hull and liability losses resulting from the three-plane collision at Guangzhou airport last week in which 127 people were killed.

The PICC set up the "unofficial reserve" last week, sources in London say. Although the London market reinsures more than 60% of the planes' coverage, it has not set up a similar reserve pending a report from a surveyor it sent to the city in southern China last week.

The coverage is written to a limit of \$750 million per accident, including war risk. However, ticketed passenger liability for flights within China is limited to 20,000 yuan (\$4,255) per person.

But, that limit would not apply to passengers with international tickets. About 24 Taiwanese tourists are believed to have been on board the Xiamen Airline Co. 737 that exploded Oct. 2 when it landed at the airport in Guangzhou, formerly known as Canton.

The flight originated from Xiamen with 94 passengers and 10 crew on board. It's believed that a hijacker's bomb exploded—probably during a struggle in the cockpit—as the plane was landing, sending it crashing into two jetliners on the ground.

The Xiamen plane clipped a Boeing 707, damaging its tail, before plowing into and badly damaging a Boeing 757 with about 140 passengers waiting for takeoff to Shanghai.

All three jetliners, which are valued at approximately \$80 million, are owned by subsidiaries of policyholder Civil Aviation Administration of China.

All-risk hull and liability insurance and separate hull war risk coverage for the CAAC is placed with state-owned PICC.

The PICC retains at least 20% of the hull and liability coverage. More than 60% of the all-risk hull, hull war risk and liability coverage—including liability war risk—is reinsured in the London market through C.T. Bowring & Co. Ltd. and Willis Faber P.L.C.

Lloyd's of London aviation underwriter Barry Coleman leads the all-risk reinsurance. He put the total value of the three planes at more than \$50 million, but would not be more specific.

Another London underwriter said that the Boeing 757 involved in the incident—which was bought in May—was insured for \$55.5 million; the Boeing 737 involved was insured for \$19.5 million; and the

Continued on page 95

Swiss Re sees 'hard road' in Eastern Europe

By DON LEWIS KIRK

Insurance companies will play a central role in Eastern Europe's transition to a free market economy, says Swiss Reinsurance Co.

That transition, however, will entail "adjustment problems," the company warns in "Eastern Europe: Hard Road from Insurance Monopoly to Market," published in its periodical, *Sigma*.

Several changes must occur before the insurance industry can play a meaningful role in these economies, Swiss Re contends, including:

- Privatization of state-run insurance monopolies.

- Gradual opening of borders to foreign insurers and reinsurers.

- Introduction of insurance supervisory laws to guarantee stability.

- Creation of a capital market.

So far, the greatest insurance re-

forms have been made in Poland and Hungary, according to Swiss Re. A more liberal insurance law is scheduled to come into force in Czechoslovakia in 1991 and, in the Soviet Union, an insurance supervisory law is being drafted, the company said. In Bulgaria and Romania, "the reform process is making heavy progress," Swiss Re noted.

East Germany, which last week reunited with West Germany, simply adopted West German insurance supervisory law, Swiss Re said.

The breakdown of insurance throughout Eastern Europe into 51% non-life and 49% life lines is roughly equivalent to the U.S. and Western European markets, the study noted.

In addition, the coverage available in Eastern Europe "corresponds roughly to the Western pattern, although certain lines of

Eastern Europe's insurance markets

The premium volumes of the insurance industries in Eastern Europe are only a fraction of the U.S. and E.C. markets. Figures in millions of dollars.

Country	Premium volume		% of worldwide premium		Premium per capita		Premium as a % of gross national product	
	1988	1987	1988	1987	1988	1987	1988	1987
Soviet Union	\$29,804	\$29,215	2.55%	2.73%	\$104.0	\$102.7	2.84%	2.86%
Poland	623	703	0.05	0.07	16.5	18.6	1.06	1.31
Romania	501	440	0.04	0.04	21.7	19.2	0.71	0.66
Czechoslovakia	3,827	3,723	0.33	0.35	245.0	239.1	2.67	2.75
Bulgaria	NA	1,135	NA	0.11	NA	126.4	NA	2.62
East Germany	4,010	4,053	0.34	0.38	241.1	239.4	3.52	3.66
Hungary	465	473	0.04	0.04	43.9	44.5	1.73	1.79
European Community	266,674	258,612	22.77	24.17	821.1	800.0	5.60	6.02
United States	431,399	406,652	36.84	38.00	1,751.3	1,668.2	8.90	9.07

NA = Not available

Source: Swiss Re

business—industrial insurance, for example—are relatively undeveloped and some insurance products

are not available," according to Swiss Re.

In 1988, the insurance industry

in Eastern Europe, including the Soviet Union, posted \$39.2 billion

Continued on next page

By HOLLY SEGUINE

INTERNATIONAL

Cargo liability

Continued from previous page

the Hamburg Rules, more insurance will be placed overseas rather than with domestic marine insurers.

"It is argued that the Australian insurance industry would suffer a loss of business as shippers' insurance requirements decreased and shipowners placed (business) with . . . protection and indemnity associations," the report said.

It also concluded that shipping companies' premiums would be cut because they would need less coverage once shippers paid a higher proportion of claims.

The ICA's Mr. Henri also warned that insurance and legal costs would rise if the Hamburg Rules are adopted because, unlike the Hague Rules, they would introduce a new regime for cargo liability.

"The Hague Rules have a sub-

stantial body of case law developed over 66 years. The Hamburg Rules are untested and would require litigation for the fine tuning," he said.

Among Australia's major trading partners, only Germany has adopted the rules, and then only because they were "drafted in their own backyard," according to Mr. Henri.

"We're better off to wait and see what the big boys do," he said, noting that the United States, Canada, Great Britain and others had not signed.

"I don't think the Hamburg Rules will ever succeed. I think a new regime will be drafted," he said.

However, Mr. Angello said that the Hamburg Rules are needed to not only boost the size of recoveries for a loss, but to eliminate the 17 defenses available to shipowners. ■

GLOBAL BRIEFS

Irish company may file claim after Iraq misses payments

DUBLIN, Ireland—An Irish hospital management company fears it may have to file a claim with Ireland's state export credit insurer for lack of payments by an Iraqi hospital it manages, says the export credit insurance manager.

Payments due soon from the Baghdad hospital Ibn Al Bitar to PARC, a hospital management subsidiary of airline Aer Lingus that provides management services for U.S. and Middle Eastern hospitals, may not be paid because of the United Nations embargo on dealings with Iraqi inter-

ests, said Bob Frewen, manager of the credit and guaranty department of Insurance Corp. of Ireland. ICI administers Ireland's export credit insurance program on behalf of the Minister of Industry and Commerce.

While medical care and pharmaceuticals are excluded from the sanctions, "Iraq has no mechanism for paying just now," said Denis Hanrahan, the Aer Lingus executive responsible for PAEC.

The management company's four-year contract with the hospital totals \$30 million, according to Mr. Hanra-

han. About \$20.5 million is paid in U.S. dollars with the remainder in Iraqi currency.

Under normal circumstances, Iraq would have up to a year from the time payments are due to pay, he said.

ICI "has never had a payment problem with Iraq," Mr. Frewen said.

The Iraqi hospital employed 350 British and Irish medical personnel. The employees are apparently still in Iraq, Mr. Frewen said.

ICI—which does not write the cov-
Continued on next page

Eastern Europe

Continued from previous page
in premiums, Swiss Re reports. That figure included:

- \$29.8 billion in the Soviet Union.
- \$4 billion in East Germany.
- \$3.8 billion in Czechoslovakia.
- \$623 million in Poland.
- \$501 million in Romania.
- \$465 million in Hungary.

For purposes of this study, Swiss Re did not include Yugoslavia because it is not yet a member of the Council for Mutual Economic Assistance. Also, 1988 figures for Bulgaria were not available.

The size of the Eastern European market's premium volume compares with \$266.67 billion in the European Community and \$431.4 billion in the United States.

In Eastern Europe, the average insurance premium per capita was \$100 in 1988, compared with an average of \$820 in the European Community and \$1,750 in the United States, the study found.

"The discrepancy between the various countries is substantial," Swiss Re noted. For example, in 1988, \$245 was spent on insurance in Czechoslovakia per capita, compared with only \$16.50 in Poland.

Swiss Re also found that in 1988 premium volume in Eastern Europe comprised 2.68% of its aggregate gross national product.

By comparison, insurance premiums as a percentage of the U.S. GNP totaled 8.9% in 1988, and in the European Community, 5.6%.

In comparing the size of the Eastern European insurance markets to those of the United States and the European Community, Swiss Re acknowledges there are several problems of comparison between the different types of economies.

For example, in a planned economy—as opposed to a market economy—the GNP is less relevant as a measure of economic output than net material product, the report pointed out. Swiss Re found that as a percent of NMP, Eastern Europe's 1988 premium volume was 2.72%.

As Eastern European nations build free market economies, "the restructuring process can be eased by the insurance industry thanks to its risk carrier and information function and its role as a financial intermediary," Swiss Re noted in its report.

As a financial intermediary, insurance "transforms savings into investments by accepting premiums from policyholders and investing the technical reserves," the report explained.

As an information vehicle, Swiss Re said the insurance industry informs "policyholders about potential risks and their probability. In this way, they help to prevent losses, raise safety standards and improve the quality of products." ■

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GLOBAL BRIEFS

Continued from previous page

erage itself—generally has not accepted applications for coverage of export credit risks in Iraq “for a number of years,” Mr. Frewen said. Exceptions are PARC and meat exports to Iraq.

But, earlier this year, prior to the Iraqi invasion of Kuwait, Irish officials voided two export credit policies taken out by Goodman International, the country's largest meat producer, for its substantial exports to Iraq, Mr. Frewen said.

The policies were voided after the Ministry of Industry and Commerce concluded that 40% of the beef was not produced in Ireland.

Goodman, which is now in a proceeding similar to Chapter 11 reorganization under U.S. bankruptcy law, has filed suit in the High Court in Dublin against the commerce ministry and ICI as the manager of the insurance program for reinstatement of the policies and for unspecified damages.

“It is the state's plan to defend the proceedings,” Mr. Frewen said.

A Goodman spokesman said the company is owed 170 million to 180 million Irish punts (\$293 million to \$310 million at current exchange rates) “just in Iraqi debt.” That debt, he says, is just part of the company's problems.

In August, the Irish parliament passed emergency legislation to allow “an examiner” to be put in charge of the company, said the spokesman.

—By Stacy Shapiro
and Aidan O. Sullivan

Hudig divestiture?

ROTTERDAM, The Netherlands—Dutch insurance and brokerage group Hudig-Langeveldt Group by may sell its substantial underwriting operations as part of a restructuring, a company official says.

“The underwriting group wants to expand and for that we have to find outside alternatives,” said T.J.M. Alders-Timmer, secretary.

No decisions have been made, but “thoughts at the moment are going toward selling the underwriting group,” Mrs. Alders said.

“Recent developments in the insurance market have led to the conclusion that the insurance activities of the underwriting group require further expansion, which will be sought outside the Hudig-Langeveldt group,” Hudig said in a statement.

Hudig, which also is the world's

China air crash

Continued from page 93

Boeing 707 involved was insured for \$5 million.

London marine syndicates managed by Janson Green Ltd. lead the CAAC's hull war risk reinsurance program.

It is not clear whether all-risk or war risk hull underwriters will be responsible for paying the hull losses. Although the Boeing 737 was hijacked and damaged supposedly by a terrorist act, the other jetliners were sitting on the runway and not directly involved in any terrorist plot.

Whether all-risk or war risk hull underwriters will pay for all three aircraft “is a matter for the lawyers to sort out,” said Russell Pickup, executive director of Bowring Aviation Ltd.

Ironically, CAAC—which altogether owns 12 airlines—renewed its coverage Oct. 1, 24 hours before the crash, confirmed Mr. Coleman. Its rates, like those of other airlines renewing Oct. 1, were cut significantly, he said.

Other sources said its rates were reduced 47% on hull coverage and 18% for liability, while deductions for brokerage commissions and taxes increased 5.4% and the fleet's value increased to \$3.7 billion from \$2.4 billion last year. Mr. Coleman would not comment on these figures.

17th-largest brokerage (BI, June 18), has hired Chase Investment Bank Ltd. in London as an “adviser.”

Hudig's 1989 brokerage revenues were 193.4 million guilders (\$101.3 million), while gross premiums from insurance operations were 218 million guilders (\$114.7 million), according to the annual report.

Hudig's underwriting operations include:

- Insurers Interloyd Insurance Co. and Interloyd Life Insurance Co.

- Managing agents Tollenaar & Wegener.

- Insurance adjusters Alfred Schroder, De Vos & Zoon, and Langeveldt Schroder.

Responding to persistent rumors that Marsh & McLennan Cos. Inc.'s 30% stake in Hudig may change hands, Mrs. Alders contends that “nothing is going to happen that concerns the ownership of the group.”

—By Stacy Shapiro

Safe energy sources

MUNICH, Germany—The insurance industry may play a key role in reducing the risk of pollution and global warming by requiring industries in poor nations adopt safe alternative energy sources, says Munich Reinsurance Co.

Many alternative energy systems, such as wind parks and solar energy facilities, are more ecologically sound and pose a smaller threat of causing large fires, engineering and liability losses, the reinsurer contends.

By contrast, conventional energy sources pose a risk for large losses, a Munich Re spokesman said.

For example, the reinsurer cited substandard nuclear power stations in the former East Germany and an Iranian dam damaged in an earthquake earlier this year.

“We didn't have anything to do with energy production in these

countries before,” the spokesman said. “Now, the industry faces the huge task of dealing with safety standards and environmental technology which differ greatly” from those in industrialized countries.

As the demand for energy in Eastern Europe and Third World countries increases, the insurance industry must ensure that new sources of energy are ecologically safe, the reinsurer concludes.

—By Don Lewis Kirk

PIA joins GATT talks

GENEVA, Switzerland—The National Assn. of Professional Insurance Agents will have a say in developing a worldwide insurance trade agreement.

A PIA representative will serve on an advisory committee to the General Agreement on Tariffs and Trade negotiations in Geneva, Switzerland.

The GATT talks are expected to

result in an agreement in early 1991, called the General Agreement in Trade and Services, that will regulate trading by insurers and banks around the world and prevent dominance of a market by one or two major financial services or insurance companies (BI, Nov. 13, 1989).

U.S. Department of Commerce Secretary Robert Mosbacher asked the association of independent agents to serve on the committee.

“Your advice is critical in pursuing trade objectives that reflect the concerns and interests of the private sector,” he said in appointing a PIA representative to the GATT Industry Sector Advisory Committee, which will deal with global financial services issues.

The PIA said it will work to ensure fair protection for agents and insurers at home as well as to provide the U.S. insurance industry fair access to foreign markets.

—By Paul D. Winston

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Hotel fire suit

Continued from page 2

of a Secret Service agent who died in the fire, according to the jury verdict forms.

Although there are 2,300 plaintiffs in the litigation, the steering committees for the plaintiffs and defendants agreed upon 12 representative plaintiffs to establish liability and typical damages.

The remaining plaintiffs now can pursue individual damage award from those five defendants.

However, the jury did not award damages against four additional U.S. defendants: Lewis Industries Inc., a cutter of polyurethane foam; Foss Manufacturing Co. Inc. and Wolfe Gordon Inc., both manufacturers of a wall carpet product; and furniture manufacturer Drexel Heritage Furnishings Inc.

The 2,300 plaintiffs cannot seek damages from those defendants.

The litigation stems from the 1986 New Year's Eve fire at the San Juan hotel, which killed 97 people and injured 140 others (BI, Jan. 19, 1987; Jan. 12, 1987; Jan. 5, 1987).

More than 2,300 plaintiffs filed lawsuits against more than 200 original defendants. However, all

but the nine defendants reached out-of-court settlements.

Among the settling companies were 20 defendants that supplied products and services to the hotel that settled after the trial started last summer to escape mounting defense costs (BI, July 17, 1989).

Earlier last year, other defendants—including corporate and individual owners, operators and affiliates of the hotel; its insurers, units of American International Group Inc.; and former hotel owner Sheraton Corp.—had reached settlements totaling more than \$140 million (BI, May 22, 1989; May 15, 1989).

White and Hufcor plan to appeal the Sept. 28 verdict, contending the jury was misinformed about the progression of successors to the manufacturer of the hotel airwall, said Hector Martinez, a Sar. Juan attorney who represents the five defendants.

Airwall, the original manufacturer of the ballroom's airwall, went out of business in the early 1970s, Mr. Martinez said.

Since then, the product line was purchased by White and sold, then resold to the other defendants, making unclear which defendant should be held ultimately liable.

Hufcor Chairman John Hough outlined what he believes is the succession of companies to Airwall: Sometime after White purchased Airwall, the unit manufactured the airwall that was used in the hotel.

White later divested itself of the manufacturing unit. The owner of

White has a \$1 million self-insured retention and purchased \$2 million of coverage excess of \$1 million from Continental Corp. of New York, *Business Insurance* learned. White also has coverage excess of \$3 million from Victoria Insurance Co. Ltd., a self-managed insurer in the Cayman Islands.

final apportionment trial to determine each defendant's loss could be held.

"White is not going to have to come up with \$5 million anytime soon," said lead defense attorney Mary Hulett with Daniels Daratta & Fine of Los Angeles.

In addition, the defendants hit by the \$5 million award still can seek to recover from the defendants that settled with the plaintiffs, pointed out Drexel Heritage defense attorney Michael J. Black with Denenberg, Tuffley, Bocan, Jamieson, Black, Hopkins & Ewald P.C. of Southfield, Mich.

For example, White could seek to recover damages from ADT Security Systems Inc., a manufacturer of smoke alarms that has settled with the plaintiffs, he said.

"It's just a monstrous piece of litigation, and I hope our client is out of it for good now," said Mr. Black.

Although a great many defendants opted for out-of-court settlements because of "fear that the legal system was too inefficient for anyone to get a fair trial," the most recent verdict proves that "a jury can be conditioned to base its decision on the evidence" rather than emotion, Mr. Black said. ■

Many defendants settled because of 'fear that the legal system was too inefficient for anyone to get a fair trial,' but the most recent verdict proves that 'a jury can be conditioned to base its decision on the evidence' rather than emotion, says Mr. Black.

the new company then formed Aircoustic, the assets of which were later purchased by Hufcor. Hufcor later sold its Aircoustic unit.

ACW Airwall existed sometime before White purchased Airwall, according to former Aircoustic attorney Donn Kemble in Newport Beach, Calif.

As a result, "the problem is White's," Mr. Hough contended.

Mr. Hough said Hufcor is insured but would not disclose details of the company's coverage.

Johnson & Higgins was a broker for White.

However, even if the defendants' appeal does not succeed, they may not have to pay damages if the judge in the litigation determines that the roughly \$200 million in previous settlements and interest currently held in trust will fully compensate the fire victims, Mr. Martinez said.

If the \$200 million is exhausted—or if the settling defendants demanded the payment to them—a

Opinions vary on ADR in work comp claims

NEW YORK—There are pros and cons to using an alternative dispute resolution process in the adjudication of contested workers compensation claims, experts say.

On the positive side, ADR can help state work comp officials reduce their frequent case backlogs by speeding up the processing of contested claims. It can also reduce a state agency's expenditure of time and manpower to achieve

those settlements.

However, if not done properly, ADR can add an extra layer of bureaucracy to an already burdened system and may increase system costs rather than decrease them, said Thomas S. Cook, director of Pennsylvania's Bureau of Workers' Compensation.

Both sides of the issue were aired during a panel discussion at the recent annual convention of the

International Assn. of Industrial Accident Boards & Commissions in New York.

About two dozen states now use some form of ADR, although some systems are not codified by statute or rule, according to a previous committee report from the International Assn. of Industrial Accident Boards & Commissions.

And, more states are likely to consider such an approach, experts said last year (BI, Jan. 16, 1989).

The most common ADR procedure is a prehearing conference called by a state workers compensation administrator or neutral third party, depending on the state. The administrator or neutral party meets in person or by telephone with both the claimant and perhaps his attorney or union official and the employer or his insurer representative.

The session is intended to move the case through activities such as supervising discovery, identifying issues, establishing a value on the

disputed benefit amounts and exploring the possibility of settlement.

A study of how the process works in six states found that the usefulness and cost-effectiveness of the approach varied from state to state

57% of those.

That is a better record than in Maine, he said, where 12% of all cases go to ADR and 80% of those are settled, with only 88% paid voluntarily or resolved beforehand.

The usefulness of ADR can best

If not done properly, ADR can add an extra layer of bureaucracy to an already burdened system and may increase system costs rather than decrease them, says Thomas S. Cook of Pennsylvania's Bureau of Workers' Compensation.

and were not always easy to gauge with simple statistics, said Richard B. Victor, executive director of the Workers Compensation Research Institute in Cambridge, Mass.

For example, he praised Washington for having only 4% of all cases go to ADR—with 96% resolved or paid voluntarily before reaching that stage—and settling

be illustrated by shading the universe of work comp claims in black, white and gray, he said.

There is "a large white area" of claims in which ADR is used primarily as "a focal point" to get all parties to a contested action to pay attention to a case at the same time.

That approach—which is typical of what was happening in Maine—raises questions about cost-effectiveness, especially if the state agency is represented by commissioners rather than lower-paid paraprofessionals, he said.

There is also "a small black area" of cases that involve difficult disputes or precedent-setting issues. A state should aim to get those cases to a formal hearing as quickly as possible, he said.

Finally, there is "a large gray area" where ADR may or may not be useful or cost-effective, he said.

The ADR hearings are useful when an inexperienced attorney is involved or a claims adjuster needs to have a state bureau representative indicate the value of a case so he can take that information back to his supervisors. When experienced attorneys or adjusters are involved, the only real value of ADR is to get an indication of the final outcome that a commissioner is likely to reach, he said.

Connecticut is unusual in that it has both a state-sponsored and privately sponsored ADR process for workers compensation claims.

The American Arbitration Assn. earlier this year established a privately sponsored ADR program for parties to use voluntarily.

"It hasn't been an outstanding success," said Robert Coulson, AAA president. Approximately 15 cases have been heard through the association's program and none has been settled, he said. ■

3 FREE MONTHS

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Firing workers with AIDS invites lawsuits

By STACY ADLER

NEW YORK—Employers who fire workers because they have the virus that causes AIDS yet are able to work can be sued successfully for wrongful termination, says an attorney.

As a result, employers must treat employees who have the human immunodeficiency virus—HIV—as handicapped and provide appropriate accommodations whenever possible, said Joseph Kelly, a lawyer and assistant business professor at State University of New York in Buffalo.

Mr. Kelly spoke last month at the annual International Bar Assn. conference in New York. The meeting was to have been held in Kenya, but was moved at the last minute due to political unrest.

"The HIV-infected employee who is able to work should be allowed to work," Mr. Kelly said.

Medical evidence, he said, shows

that the virus causing acquired immune deficiency syndrome is not transmitted through casual contact, saliva or biting. It is transmitted through bodily fluids such as blood and semen.

An employer that fires an HIV-infected employee could face a wrongful termination suit.

In fact, federal, state and municipal laws protect those employees from being terminated unjustly, he said.

The Americans With Disabilities Act, which was signed into law July 26, includes HIV-positive individuals within its definition of handicapped, Mr. Kelly said.

And the Federal Rehabilitation Act of 1973 protects certain handicapped employees, including HIV-infected ones, from wrongful ter-

mination, he explained.

In addition, several states have adopted laws that protect HIV-positive employees from wrongful termination, he said.

Some municipal laws also forbid AIDS-related discrimination.

In New York, for example, the city human rights commission has jurisdiction over HIV discrimination complaints including those alleging employment discrimination. New York employers can be held liable for wrongful termination simply if an inference can be made that the termination was based on a perceived handicap.

Beyond federal, state and municipal laws, several court rulings give ammunition to HIV-infected employees terminated because of the disease.

An administrative agency warned in a landmark California case that punitive damages might be awarded for future AIDS-related discrimination.

In *Department of Fair Employment and Housing vs. Raytheon*, the California Fair Employment Housing Commission awarded attorneys fees and back wages of \$4,359 to the estate of an AIDS patient who was fired despite his ability to work. The commissioners considered awarding punitive damages, but concluded there was no malice, oppression or fraud in evidence.

However, the commissioners went on to say that they would "look with growing skepticism upon employer claims that they were legitimately, if mistakenly, uncertain about the casual transmission of AIDS."

"The worst defense an employer can offer in a wrongful termination case is that he didn't know AIDS couldn't be transmitted casually," Mr. Kelly said. "This argument will lead to the assessment of punitive damages."

Similarly, an employer should

not use co-workers' fears to try to justify firing an HIV-infected employee, Mr. Kelly said. Nor should an employer argue that keeping an HIV-infected employee—such as a restaurant waiter—will cause him to lose business, he said.

And an employer who fires a worker on the basis of an alleged HIV infection could be successfully sued for defamation if that allegation proves false.

Even if an employer-mandated test proves the HIV charge true, the employee may have a successful cause of action based on violation of his privacy.

Any employer who tests for the HIV virus, who discriminates against an HIV-infected employee or who terminates an HIV-infected employee is increasing the possibilities of successful litigation, Mr. Kelly said.

"The best thing an employer can do is educate, educate, educate" employees about AIDS, he said. ■

Phoenix Re forms primary P/C insurer

Phoenix Re Corp. recently formed a wholly owned subsidiary, Transnational Insurance Co., to write direct property and casualty insurance.

With capital and surplus of \$10 million, Transnational is licensed in Connecticut, where it is based. It operates in several other states on a non-admitted basis.

Initially, Transnational will concentrate on property insurance, according to Frank A. LoPiccolo, vp-facultative of Phoenix Re and senior vp of Transnational.

"Given current market conditions and Phoenix Re's principal focus on property coverage, we plan to specialize in excess and surplus property lines for more difficult and unusual risks," Mr. LoPiccolo said. "Our strategy calls for possible expansion into other lines and risks."

Transnational is located at 500 Putnam Ave., Greenwich, Conn. 06830; 203-661-1441.

ABI acquires broker

American Business Insurance Inc. recently acquired a New Jer-

Markets

sey brokerage. Terms were not disclosed.

CPI Insurance Group, in Morristown, N.J., will serve as ABI's regional base for expansion in New Jersey and the eastern United States, according to the San Francisco-based ABI.

Day-to-day operations will be unchanged and the brokerage will retain its name, an ABI spokesman said.

ABI is the 12th-largest U.S. brokerage, with 1989 gross revenues of \$57 million (*BI*, June 18).

Also, an ABI subsidiary in San Francisco, American Business Insurance Brokers, recently acquired Skevington & Co. Ltd., a specialist in aviation business. Skevington operations will move into ABIB's office and become the Skevington Aviation Division of ABIB.

Skevington's specialties include insurance for private and corporate aircraft, helicopters, flying clubs, aircraft product liability and airport liability.

CalFed to sell unit

CalFed Inc. has agreed to sell its annuity and life insurance subsidiary, Beneficial Standard Life Insurance Co. of Los Angeles, to Consec Capital Partners L.P. for about \$140.2 million.

Consec Capital Partners is a Delaware-based limited partnership formed to acquire and operate life insurance companies. One investor is Consec Inc., a life and health insurance holding company which receives fees for operating the acquired companies, said Jim Rosensteele, vp-investor relations for the Carmel, Ind., company.

The sale, which is subject to regulatory approval and other conditions, is expected to close by the end of the year. Beneficial will retain its name, Mr. Rosensteele said. Jerry St. Dennis, chairman and chief executive officer of CalFed, said the sale "is another major step in the restructuring of CalFed."

Beneficial Standard wrote \$425

million in net premiums in 1989, according to A.M. Best Co. Of that amount, \$3.6 million involved group life premiums and \$12.1 million involved group accident and health premiums.

Mutual unit buys HMO

Exclusive HealthCare Inc., a Mutual of Omaha Insurance Co. subsidiary, has agreed to acquire Health America/Capital Care Inc., a staff model health maintenance organization based in Lincoln, Neb. Terms were not disclosed.

The acquisition will take effect pending federal regulatory approval.

According to Mutual of Omaha, Health America covers state employees, the University of Nebraska, Lancaster County, the City of Lincoln, Lincoln Public Schools and more than 200 private firms.

Health America will be wholly owned by Omaha-based Exclusive HealthCare, which handles Mutual of Omaha's HMO programs, and will be known as Health America-Lincoln. Its board of directors will include representatives of Mutual

of Omaha and Health America, and its staffing and location will be unchanged.

Hall acquires broker

Frank B. Hall & Co. Inc. of Missouri has merged a recently acquired brokerage into its St. Louis office.

Terms of the purchase of Engler, Hundhausen & Lockos Insurance Group were not disclosed.

EHL Insurance Group has been known for designing and servicing programs in construction, manufacturing and health care. Hall's St. Louis brokerage has concentrated on national manufacturing, construction and finance.

Combined, they will offer services in large industrial and commercial risk management, international insurance marketing and custom program development for the petroleum and franchise industries.

New York-based Frank B. Hall & Co. Inc. is the world's seventh-largest broker, based on \$383.7 million in 1989 gross revenues (*BI*, June 18). ■



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Arizona laws

Continued from page 99

personal injury claim alleged to have been caused by a policyholder for errors, omissions, negligence or breach of contract.

Under former law, this information was provided to the Arizona Insurance Department, which then informed the appropriate regulatory board.

• S.B. 1225, which permits hospital service corporations, like Blue Cross, to contract with certified registered nurses and registered nurse practitioners.

It also allows these nurses to receive direct reimbursement if they have a participation contract with such a corporation.

The law also makes permanent a requirement that insurers provide coverage for services of a nurse practitioner if the policy or contract covers the services that are within the scope of the nurse practitioner's duties.

• S.B. 1328, which reduces to 0.66% from 2.2% the amount of premium tax that insurers are required to pay for fire insurance underwritten on property in incorporated cities without fire departments.

• H.B. 2016, which extends the existence of the Insurance Department until the year 2000.

• H.B. 2065, which prohibits insurance companies, health care service organizations or hospital and medical service corporations

from requiring a covered individual to purchase prescription drugs exclusively from a mail-order pharmacy.

• H.B. 2098, which requires drivers in the state to have proof of valid financial responsibility in the form of an insurance identification card in their vehicles at all times.

Copies of the ID cards must be filed and updated with the Motor Vehicle Division when a driver changes insurers.

H.B. 2098 also allows courts to order the suspension and surrender of a driver's license and motor vehicle registration for failure to comply with financial responsibility laws.

In addition, insurance companies

are required to provide the Motor Vehicle Department with monthly magnetic tapes of all known cancellations, non-renewals and newly issued policies within 60 days.

• H.B. 2102, which prohibits hospital service corporations, health care service organizations and individual and group disability insurers from canceling or non-renewing an insurance policy or contract based on the insured becoming eligible for, or enrolling in, the Arizona Health Care Cost Containment System, a program similar to Medicaid.

• H.B. 2116, which removes from existing law provisions for a joint underwriting plan for licensed and certified nurse-midwives.

• H.B. 2556, which limits the medical malpractice liability of physicians providing emergency care to a delivering mother, her newborn(s) and family, unless an injured party can prove with clear and convincing evidence that the physician failed to meet the prevailing standard of care and that such failure caused the injury.

This liability limitation applies only if the delivering mother did not receive previous pregnancy care from the attending physician, or his or her associates or assistants.

The law also grants the same immunity to the facility in which the emergency care was provided.

—By Joanne Wojcik

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EXT. 5340

Republic Hogg names Griffith executive vp

Gary R. Griffith named executive vp of Republic Hogg Robinson Inc. in Boston.

Mr. Griffith, who is to be a director and executive committee member, had been president and chief operating officer of Corroon & Black Corp. of California. He had also previously been head of the C&B subsidiary in Illinois.

Other brokerage changes:

Rollins Burdick Hunter Co., an Aon Corp. unit in Chicago, announced these changes: **Barbara A. DeMarco** joins RBH of New York Inc. as vp in the casualty de-

Comings & goings: industry

partment and **Michael A. Schoenback** joins the unit as senior vp; and **H. Jay Varner** joined RBH of Ohio Inc. in Cincinnati as executive vp.

In addition, **Ron Fredriksen** joined Rollins Financial Brokers in Los Angeles, a specialist in brokering to financial institutions.

John A. Tift III named executive vp and manager of Johnson & Higgins Inc., the Minneapolis unit

of Johnson & Higgins. Mr. Tift joined the Minneapolis office last year after being executive vp with the J&H unit in Missouri. He replaces **Ralph D. Waters**, who is retiring.

Insurers

Dr. Stephen A. George named vp and chief medical officer in the group department of Provident

Life & Accident Insurance Co. in Chattanooga, Tenn. He had been managing partner of a group medical practice in Dallas.

William F. Campbell Jr. promoted to field vp for the Northwest from regional sales manager for General American Life Insurance Co. of St. Louis.

Robert P. Cochran named president and chief executive officer of Financial Security Assurance Inc., a financial guarantee insurer based in New York. He succeeds **W. James Lopp**, who founded the company in 1985 and died recently.

Continental Corp. of New York announced appointments to vp: **William N. Burkett**, who had been group chief of staff, named vp and regional manager for the eight-state South Atlantic region; and **Michael R. Gannon**, who had been vp-personal lines, named vp and chief of staff in the agency and brokerage group.

Bengt Westergren appointed senior representative of American International Group Inc. in Paris and executive vp of the central and Eastern European division with American International Underwriters, an AIG unit. He had been an executive vp of UNAT S.A., a European insurance subsidiary of AIG.

James Klindt named chief financial officer, vp-finance and treasurer for New Jersey Life Insurance Co. of Paramus, N.J. He had been chief financial officer with American Medical & Life Insurance Co. of Hicksville, N.Y.

Business Men's Assurance Co. of America, a Kansas City, Mo.-based unit of Italian insurer Assicurazioni Generali S.p.A., announced these changes: **Lawrence E. Engel**, who had been vp-product development and technical services, named vp-insurance actuary; **Edward E. Butts**, who had been vp-group customer service, named vp-new business and customer service; **Taylor L. McCann**, who had been vp-benefit payments, named vp-benefit services and risk appraisal; and **Joseph R. Andrews** and **Henry Heimendinger**, both of whom had been regional vps, named vps-agency sales.

Donald L. Morchower named to the newly created position of executive vp and chief operating officer with Empire Blue Cross & Blue Shield of New York. He had been executive vp and chief information officer since 1987.

Donald R. Allard named division senior vp and general manager of a new legal professional liability division at Great American Insurance Co., an American Financial Corp. unit in Cincinnati. He had been senior vp-finance with Transport Insurance Co. of Dallas.

Barbara A. Schisani named vp in group insurance department for New York Life Insurance Co. of New York. She had been a regional financial officer and operations vp with EQUICOR since 1986.

Roger C. Tibedo named vp and director of information services with Massachusetts Casualty Insurance Co., a Sun Life Assurance Co. of Canada unit in Wellesley Hills, Mass.

Reinsurers

John A. Dore elected president and chief executive officer of Financial Institutions Insurance Group Ltd. and a subsidiary, Financial Institutions Insurance Fund Inc., both of Chicago. He had been president and chief operating officer of two Aon Corp. subsidiaries: Virginia Surety Co. Inc. and Dearborn Insurance Co.

Michael R. Parker joined G.L. Hodson & Son Inc., a Corroon & Black Corp. reinsurance subsidiary

in New York, as senior vp and manager of a new surety and fidelity unit.

Kenneth J. Rutkowsky joins North Star Reinsurance Corp. of Parsippany, N.J., as executive vp and chief operating officer.

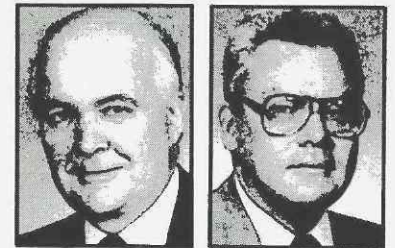
General Reinsurance Corp. announced these appointments to vp: **Charles F. Sutton** in Atlanta; **Arthur R. Nielsen** in the treaty division at the Stamford, Conn., headquarters; and **Carl M. Webster**, also in Stamford.

Prudential Reinsurance Co., a unit of the Prudential Insurance Co. of America in Newark, N.J., announced two appointments to director: **Patrick A. Hunt**, formerly director of strategic planning for Metropolitan Reinsurance Co., named director in the alternative risk services division; and **Debra D. Chatman** promoted to director from manager of the international department.

Stephen W. Renshaw named vp-claims at Reliance Reinsurance Corp., a Reliance Group Holdings Inc. unit in Philadelphia.

Curtis A. Gabbard promoted to executive vp with USF Reinsurance Co., a US Facilities Corp. unit in Costa Mesa, Calif.

American Re-Insurance of Princeton, N.J., announced these changes: **Robert J. Katz**, **James**



Mr. Muldoon

Mr. McGill

W. Soch and **John P. Muldoon** named vps in the claims division; and **William W. McGill** named vp and underwriting manager in the facultative property department.

Other suppliers

Thomas A. Ference joined Booke & Co., a compensation and benefits consulting firm in Winston-Salem, N.C., as vp and consultant.

John G. Freeland named regional industry director for insurance practice in the Northeast with Andersen Consulting, an Arthur Andersen & Co. information consulting unit in Philadelphia.

Gregory T. Clashan and **Lisa A. Witlen** named consulting actuaries with Buck Consultants Inc. in Secaucus, N.J.

Robert Frewing, **Russell Moes** and **Barry Gates** named senior vps with OUM Group Inc., a Bellevue, Wash., company that administers and manages professional liability insurance programs.

Stephanie Huey named vp and chief of Houston office for Risk International Services Inc., a risk management consulting firm in Akron, Ohio. She had been a senior account executive with American International Group Inc.

Alan J. Miller joined Martin E. Segal Co. as senior vp and manager of the benefits and compensation consultant's Segal Advisors Inc. unit. He had been managing director of SLH Asset Management, a division of Shearson Lehman Hutton Inc.

David G. Schorr appointed national health and welfare practice leader for flexible compensation at benefit consultant A. Foster Higgins & Co. Inc. He had been managing consultant and regional leader for the Pacific region.

Louis D'Andrilli named vp-account management for Republic RSB Cos. Inc. of Chicago, a health care cost management unit of HCX Inc. ■

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reinsurers

Budget package

Continued from page 1

Benefit experts expect the new budget pact to make even deeper cuts in expected Medicare payments to hospitals and doctors. The rejected pact called for cuts of \$30 billion in expected payments to providers over five years.

Benefit experts say health care providers will, as they have done in the past, try to recoup lost income by raising charges for private payers.

"If you take \$30 billion away, providers are going to try to get it back from somewhere else. Where they will get it from will be from the private sector. The net result: another ratcheting up" of employers' health care costs, predicted Lawrence W. Leisure, a vp in the San Francisco office of TPF&C, the benefit consulting division of Towers, Perrin, Foster & Crosby Inc.

A new pact likely "will make things even worse for providers" and ultimately result in more cost shifting to employers, agreed Carol Malone, a Mercer associate in Washington, D.C.

"You can be sure that physicians and their accountants will calculate how charges would have to be increased to make up for the difference. It will be a clear cost shift to employers," said Linda Havlin, a consultant with Hewitt Associates in Lincolnshire, Ill.

Benefit experts, though, expect some modification to a provision in the pact that boosted Medicare deductibles and coinsurance requirements.

Under the pact, the current \$75 deductible for Medicare Part B, which covers physicians expenses, would have risen over the next five years to \$150 while beneficiaries would have paid 20% of charges for laboratory tests. Medicare now covers 100% of laboratory tests.

Rep. Stark last week proposed raising the deductible to only \$100 and benefit experts believe a smaller deductible increase is likely. That would be good news for those employers whose retiree health care plans are coordinated with Medicare. Anytime Medicare benefits are cut, employer plans that are coordinated with Medicare automatically pay more.

"Depending on the way your retiree medical plan is structured, your plans could be hard hit by the deductible and coinsurance changes," Ms. Havlin said.

Some employer-provided retiree health care plans, though, would not be affected by any Medicare

deductible and coinsurance changes. For example, companies that limit their contributions for retiree health care coverage to a specific amount, known as a defined dollar or defined contribution approach, would not be affected by the increase.

It also is possible that changes will be made in a provision in the rejected pact that would have boosted Medicare Part B premiums. Under that provision, premiums would have covered 30% of Part B costs, up from the current 25%. That change would have boosted the monthly Part B premium to about \$55 in 1995, up from the present \$28.60.

In view of the political uproar over jacking up the Part B premium, a smaller increase is likely in a new deficit reduction pact, said Dallas Salisbury, president of the Employee Benefit Research Institute in Washington, D.C.

Such a change would benefit a small number of employers because less than 10% of employers now pay Part B premiums, benefit consultants note.

Meanwhile, other Medicare-related changes in the rejected pact would have raised employers' benefit costs by billions of dollars. For example, a provision raising the amount of wages subject to the Medicare portion of the FICA tax to \$73,000 from \$51,300 would have cost companies \$6.5 billion over the next five years.

And, public employers would have been hit with about \$8.4 billion in new payroll taxes between 1991 and 1995 under pact provisions that would have increased the number of their workers subject to Medicare and Social Security taxes.

Currently, hundreds of state and local governments are not covered by Social Security. However, an earlier budget law requires public employees hired after March 31, 1986, and their employers to pay the Medicare portion of the FICA tax. The budget pact would extend the Medicare portion of the tax to public employees hired before March 31, 1986, in essence extending the tax to all public employees.

And, another pact provision would have required public employers to pay the entire 7.51% FICA tax, which covers both Medicare and Social Security, for employees who are not covered under state and local governments' retirement programs. Part-time workers are an example of such an employee.

Benefit lobbyists are stunned and angry over a provision in the

'You can be sure that physicians and their accountants will calculate how charges would have to be increased to make up for the difference. It will be a clear cost shift to employers,' says Linda Havlin, a consultant with Hewitt Associates.

rejected pact—likely to remain in the new proposal—that would boost PBGC premiums paid by employers.

Under the pact, revenues the PBGC receives from employer-paid premiums would be increased by \$120 million annually. With about 30 million workers and retirees participating in defined benefit plans insured by the PBGC, that \$120 million in revenues could be met by increasing PBGC premiums by about \$4 per participant.

However, the budget pact left it up to the congressional tax committees to decide how the premium should be increased.

Currently, the PBGC charges an annual base premium of \$16 per plan participant for fully funded plans, while employers with underfunded plans pay surcharges, up to a maximum of \$34 per participant. The maximum annual premium is \$50 per participant.

To obtain the \$120 million in additional revenue set by the budget pact, legislators could lift the \$16 base premium, raise the surcharges for underfunded plans, or do both.

Benefit lobbyists are angry because they say the PBGC's finances are improving—the agency's deficit has dropped from about \$4 billion to \$1 billion over the last few years—and that an increase is not needed.

"We are astounded that an increase is being proposed," said James Klein, deputy executive director of the Assn. of Private Pension & Welfare Plans in Washington, D.C.

"People are shocked that premiums are going up. This is being done to increase government revenues" and not out of need, said Frederick Rumack, director of taxes and legal services for Buck Consultants Inc. in New York.

PBGC Executive Director James Lockhart III acknowledges that the agency did not seek a premium increase. However, Mr. Lockhart said, an eventual increase was inevitable because the agency has a deficit and an uncertain future due to its exposure to billions of dollars in pension liabilities in underfunded plans maintained by financially troubled companies.

Meanwhile, the rejected pact would have made it much less attractive for employers to terminate overfunded pension plans to recover surplus assets.

Under current law, employers terminating overfunded pension plans are slapped with a 15% excise tax on the reversion.

Under the rejected pact, the tax would have been increased to 40% for employers that did not establish a new retirement plan. In the case of companies setting up a replacement plan, the excise tax would have been raised to 20%, while 20% of the reversion generally would have had to be shifted to the replacement plan.

These excise tax penalties on reversions are so stiff that they would effectively kill reversions for companies looking to quickly obtain cash, said Steve Vernon, a consultant with The Wyatt Co. in Sherman Oaks, Calif.

However, the rejected pact would have allowed companies to remove surplus assets from overfunded plans—without paying any excise taxes—to fund retiree health benefits.

While full details of this proposal were not available, a pact outline says employers first would have to meet several conditions, including fully vesting pension plan participants and agreeing not to decrease retiree health care expenditures for five years.

Benefit experts say such transfers would be attractive for mature companies with low turnover and a big retiree health care liability.

"Perhaps 2% to 3% of Fortune 500 companies would look into this," said Tony Yezzi, a Hewitt consultant.

Other provisions in the rejected pact would have:

- Raised fines for employers that violate Occupational Safety and Health Administration rules. The current maximum \$1,000 fine for a non-serious OSHA violation would climb to \$5,000, while the maximum fine for a willful and serious violation would increase to \$50,000 from \$10,000.

- Boosted taxes for the nation's life insurers by \$8 billion between 1991 and 1995 by requiring insur-

ers to amortize over 10 years certain policy acquisition costs, such as agents' commissions. Currently, insurers can immediately deduct those costs as a business expense.

- Required property/casualty insurers to reduce tax deductions taken for loss reserves by the amount they expect to receive through subrogation and salvage. Currently, income from subrogation and salvage does not have to be recognized until actually received.

This change would hit property/casualty insurers with \$1.1 billion in new taxes during the same five-year period.

Life insurers are howling about the tax increase. The increase "is a really big hit on the life insurance industry," complained American Council of Life Insurance President Richard Schweiker in a letter to President Bush.

A spokesman for the Washington, D.C.-based ACLI said the increase is unwarranted and could decrease the availability of affordable life insurance.

At the same time, property/casualty insurers are complaining about subrogation and salvage provisions in the rejected pact.

Under the pact, an insurer would have to estimate—at the time it established loss reserves—the income it eventually expects to receive through subrogation and salvage.

For example, assume an insurer had provided a \$10 million property policy for a shipowner whose ship sank in the Atlantic Ocean. Currently, the insurer could take a \$10 million tax deduction for the loss reserve. If the insurer later was able to salvage the ship, it then would add the recovery to its taxable income.

Under the pact, the insurer would have to estimate the amount it will eventually recover through salvage and reduce its reserve and tax deduction by that amount.

Insurers say this change, which would increase their tax liabilities over the next five years by \$1.1 billion, ultimately will mean higher costs for buyers.

"Anytime overhead is increased, those costs are passed on to consumers. Ultimately, there has to be an impact," said David Farmer, vp-federal affairs in the Washington, D.C., office of the Alliance of American Insurers.

When the industry's taxes rise, there have to be premium increases or a decrease in surplus, said David Pratt, vp-government affairs for the American Insurance Assn. in Washington, D.C. ■

Punitive damages

Continued from page 1

damages. However, the jury did not break down the award into separate amounts for compensatory and punitive damages.

Pacific Mutual appealed to the Alabama Supreme Court, which upheld the verdict.

The Supreme Court agreed to review the case in late March (BI, April 9).

The case attracted 31 "friend-of-the-court" briefs, an uncharacteristically large number of such briefs, from business organizations, consumer groups and plaintiffs (BI, Oct. 1).

Several justices at various times during the oral arguments appeared sympathetic to the position that unbridled jury discretion to award excessive or arbitrary punitive damages violates due process.

For example, Justice O'Connor asked Ms. Haslip's attorney, Bruce Ennis of Jenner & Block in Washington, D.C., whether due process is satisfied "when a jury is told punitive damages are wholly within their discretion?"

When Mr. Ennis answered "Yes," Justice O'Connor shot back: "That is a very strange notion of what due process means."

Justice Scalia appeared to agree. He asked Mr. Ennis: "Do you really think it is fair to call this a standard—telling a jury to make sure the punishment fits the crime?"

But Mr. Ennis suggested that juries are given more instruction than that.

However, Justice Scalia did not back down: "What you are saying is that juries are told 'don't punish too much.'"

Mr. Ennis added that juries are told to award punitive damages that are sufficient to punish and deter future wrongful conduct.

Justice Scalia then asked: "If a defendant has a net worth of \$1 billion, how much is necessary to deter that defendant?"

Mr. Ennis suggested the jury would weigh the wrongfulness of the defendant's conduct in determining how much punitive damages to award.

Justice Scalia retorted: "So, it isn't just how much is necessary to deter, but how much the jury hates what was done."

Noting that judges often review punitive damage awards, the justice wondered, "How does a judge determine how much he hates the conduct?"

Justice Anthony M. Kennedy also expressed some concern.

He asked Mr. Ennis: "If it could be established that there was no rhyme or reason to an award of punitive damages, would there be a due process violation?"

Mr. Ennis responded: "Those are not the facts of this case."

But Justice Kennedy was not persuaded, and replied: "Fairness, predictability and evenness are all indices of due process."

And, Justice Byron R. White asked: "Is there a due process requirement that punitive damages not be excessive?"

On this point, Mr. Ennis conceded that "there are decisions that set an outer limit" on punitive damage awards. These decisions require that punitive damage awards not exceed the state's goals for punishment and deterrence.

However, due process does not require that punitive damage awards be predictable, Mr. Ennis said.

Justice White appeared to agree: "Due process need not go further than requiring that punitive damage awards not be excessive."

The justices appeared most skeptical about Pacific Mutual's argu-

ment that a corporation should not be held liable for punitive damages for the unsanctioned acts of its employees.

Pacific Mutual attorney Bruce A. Beckman of Adams, Duque & Hazeltine in Los Angeles used much of his time to argue that holding a company liable for an employee's actions that violate company policies and provide no direct benefit to the company is unfair.

Chief Justice William H. Rehnquist asked Mr. Beckman whether he was arguing a company should not be held vicariously liable for punitive damages or should not be held vicariously liable in any situation.

Mr. Beckman assured him he was arguing only that punitive damages are inappropriate when the company's liability is vicarious.

Justice O'Connor seemed surprised by this argument and called it "a rather curious position."

Justice Stevens was skeptical about this concept. He said such reasoning would prevent the government from holding companies liable for treble damages under the federal antitrust laws for the acts of their employees.

Justice Scalia also seemed concerned: "What if an officer intentionally pollutes the environment? Are you saying a penalty could not be imposed against his company because the officer was not acting in the company's interest?"

When Mr. Beckman tried to differentiate that situation from the present case, Justice Scalia insisted: "Your answer has to be you can't punish the corporation."

The justices, though, gave no hint of how they might change the current system of awarding punitive damages if they found a constitutional violation.

However, Justice O'Connor seemed unconvinced that a dollar limit on punitive was the only way to satisfy due process.

And, Justice Stevens noted that if the high court finds that Alabama procedures for awarding punitive damages are invalid, all of the punitive damages awarded under that system could be invalidated.

The justices have taken the case under advisement.

If there is a deadlock among the eight justices, the case could be reargued before the court after Mr. Souter is sworn in. ■

Update

Exxon spill claim names U.S.

ANCHORAGE, Alaska—Exxon Corp. is preserving its right to pass the blame for the March 1989 Exxon Valdez oil spill on to the federal government following two court rulings widening the scope of the company's liability.

Exxon and its Exxon Shipping Co. unit have filed claims seeking indemnification from the U.S. Coast Guard for damages from the March 24, 1989, spill in Prince William Sound, a spokesman at the energy company's Dallas headquarters confirmed.

The spokesman, who would not discuss the content of the claims, said they "are solely an administrative requirement under the law in order to preserve future legal options with regard to any potential litigation involving the federal government."

Two recent rulings have expanded liability for spill-related damages. In a decision last week involving a 1987 spill by the S.S. Glacier Bay, U.S. District Court Judge H. Russel Holland found that maritime laws limiting shipowners' liability do not apply to oil spills involving Trans-Alaskan Pipeline crude oil.

The judge said that both the Oil Spill Liability Act of 1990 and the Trans-Alaska Pipeline Act of 1973 supersede the 1853 Vessel Owners Liability Act that limits shipowners' liability to the cost of a vessel and its cargo. The 1990 and 1973 laws also supersede the Robbins Drydock doctrine, derived from a 1927 U.S. Supreme Court decision that states shoreside businesses cannot collect for damages from oil spills, the judge ruled.

The ruling was the latest in the S.S. Glacier Bay case, in which plaintiffs are seeking more than \$107 million for damages that occurred when the vessel spilled nearly 150,000 gallons of oil into Alaska's Cook Inlet Bay on July 2, 1987 (BI, April 30).

The decision could have a substantial impact on the Exxon Valdez case because defendants in both cases have cited the same laws, said Lloyd B. Miller, liaison for plaintiffs who filed 181 suits against Exxon. Mr. Miller is with Sonosky, Chambers, Sachse & Miller in Anchorage.

"Exxon believes that federal maritime law provides the basis for defining recoverable damages, and we expect that any appeal in the Glacier Bay case will so state," the company said in a statement.

Meanwhile, Alaska Superior Court Judge Brian Shortell ruled Sept. 26 that Exxon is liable for damages under the state's oil spill liability law, which holds those responsible for oil spills strictly liable for unlimited property and environmental damage (BI, April 3). Exxon says it has not yet decided whether to appeal.

Exec acquitted in death case

BOSTON—A federal jury has acquitted a former construction executive who was charged with misdemeanor violations of federal workplace safety laws in the death of a worker.

The fact that more than five years had passed from the May 1985 electrocution of John Nixon until the trial of his former employer, Michael Pandelena, "hurt" the Occupational Safety and Health Administration in the first case of its kind in New England, said John Miles, OSHA's New England regional administrator.

However, last week's jury verdict after a one-day trial will not deter OSHA from pursuing similar cases in the future, he said.

Mr. Nixon worked part-time for Mill Road Contractors Inc., a now-defunct firm based in Kingston, N.H. Mr. Nixon died when he grabbed a chain to guide a sewer pipe into a trench while at the same time, Mr. Pandelena, who was driving the backhoe that was lifting the pipe and chain, struck a high voltage line. The accident sent more than 7,000 volts through Mr. Nixon.

At the time, local authorities said they had insufficient evidence to charge Mr. Pandelena with criminal manslaughter.

The case was referred to OSHA, which fined Mr. Pandelena's firm \$8,200 for unsafely operating the backhoe near the wires. OSHA reopened the case in 1989 at the urging of Mr. Nixon's father. Mr. Pandelena subsequently was charged with misdemeanor violations of federal workplace safety laws.

National Union bad-faith action

SANTA CLARA, Calif.—A Superior Court judge has applied a bad-faith jury verdict in a test case against National Union Fire Insurance Co. of Pittsburgh, Pa., to a group of 1,200 plaintiffs who are seeking \$107 million of damages to cover their losses from investments in now-insolvent investment and real estate firm Technical Equities Corp.

But, the plaintiffs will not seek a bad-faith award until punitive and emotional distress damages are determined in a trial beginning today, said plaintiffs' attorney Marie Seth Weiner of Cotchett & Illston in Burlingame, Calif.

A jury earlier this year ordered the American International Group Inc. unit to pay \$49 million, including \$43 million of punitive damages, to six investors of Technical Equities for, among other reasons, failing to inform the firm that it had insurance to cover claims by investors against the firm (BI, July 30).

National Union will seek a clarification of last week's ruling by Santa Clara County Superior Court Judge Conrad L. Rushing, said attorney Thomas Fellows, a partner with Robinson & Wood of San Jose, Calif. The insurer also is appealing the \$49 million awarded in the test case.

Briefly noted

Congress last week passed the so-called **Betts legislation** that consultants say protects early retirement plans while essentially overturning a 1989 Supreme Court decision that had made it easier for employers to provide discriminatory benefits to older workers (BI, Oct. 1; July 17, 1989). . . **Travelers Corp.** is adding \$650 million to reserves for its mortgage loan and real estate investments, which is expected to result in a \$500 million net loss for the third quarter and a net loss for the year. . . The U.S. Supreme Court has agreed to hear a case alleging The New Yorker and the author of an article that appeared in the magazine libeled a psychoanalyst by changing or making up quotes. If the court reverses the 9th U.S. Circuit Court of Appeals' dismissal of the suit, the case will return to a lower court for trial. The plaintiff is seeking \$10 million in damages.

Texas regulators criticize report

AUSTIN, Texas—The State Board of Insurance is blasting a report by a special grand jury that concludes insurer insolvencies and fraud could cost Texas taxpayers \$400 million.

But, the board is asking the Legislature to appoint a special panel to look into the Travis County grand jury's conclusions.

The Legislature empaneled the grand jury last April and charged it with investigating allegations of insurance fraud following several insurance company failures, most nota-

bly the demise of National County Mutual Fire Insurance Co. in 1983 (BI, Nov. 7, 1988).

Legislators had criticized the State Board for failing to detect the insolvency earlier, leading to the resignation of the entire board.

The grand jury released its report last month after an investigation that produced several indictments (BI, June 25). In the report, the grand jury compares Texas insurers to the state's critically ill savings and loan industry and asserts state officials'

regulatory efforts were lax.

In a letter sent last week to legislators who head an insurance regulation committee, state officials and Gov. Bill Clements, the three State Board members contend the report "unnecessarily alarmed the insurance-buying public with unsubstantiated charges about the overall health of the insurance industry and made overly broad statements about the prevalence of fraud in the insurance industry."

—By Michael Bradford

Bell Atlantic

Continued from page 1
nent for the past few years, said Mr. Bezuyen.

From year-end 1989 through August, the CPI's medical care component rose 10.5%, compared with 6.1% for the entire CPI, according to the U.S. Bureau of Labor Statistics.

The medical care component for 1989 rose 7.7% compared with 4.8% for the entire CPI. In 1988, the medical care component rose 6.5%, compared with 4.1% for the entire CPI.

The development of Bell Atlantic's PPO network system was part of a 1989 collective bargaining agreement with the company's two largest unions: the Communications Workers of America and the International Brotherhood of Electrical Workers.

The pact ended a two-week strike spurred by a company move to shift benefit costs to employees (BI, Aug. 14, 1989).

Because health care costs were rising continually, Bell Atlantic was seeking concessions from the unions. But, the unions resisted.

Managed care first emerged as an option during negotiations between the company and the unions after the union contracts expired, Mr. Bezuyen said.

The network is similar those agreed to by another so-called Baby Bell company, San Francisco-based Pacific Telesis Group, to settle the labor dispute with its 41,000 union employees and a Bell Atlantic unit Pennsylvania Bell (BI, Aug. 28, 1989).

Bell Atlantic employees using the network, including those who retired on or after Jan. 1, will not pay any deductibles for any care.

Surgical procedures will be covered at 95% and all other medical expenses will be paid in full.

But, union employees will be required to pay \$10 for office visits.

For union employees who obtain care from non-network providers, the company will pay 80% of the pre-negotiated network fee for the type of care received.

For example, if a non-network physician billed a worker \$200 for services a network physician would have provided for \$100, Bell Atlantic would pay \$80.

Union employees and their dependents who are eligible for the managed care network but who seek care from other doctors or hospitals also are subject to a \$250 per person deductible.

Employees in network areas also could opt to join an HMO. Coverages vary among HMOs, Mr. Bezuyen noted.

Networks are scheduled to begin operating in:

- Baltimore; Washington, D.C.; and Pittsburgh on April 1, 1991.
- Philadelphia and Allentown, Pa.; area; Wilmington, Del.; the Scranton/Wilkesbury, Pa., area; and Richmond, Va., on July 1.
- New Jersey on Oct. 1, 1991.
- Charleston, W.Va.; Harrisburg, Pa.; the Norfolk/Virginia Beach, Va., area; and Roanoke, Va., on Jan. 1, 1992.

About 8,000 union employees will not have access to a network. Those workers can choose an HMO,

if one is available, or remain in the current self-insured indemnity plan, which pays 95% for surgical procedures and 100% for all other medical expenses after deductibles of \$150 for individuals and \$450 for families.

Prudential will take over administration of Bell Atlantic's health plan for active employees and those who retired in 1990 beginning Jan. 1. Blue Cross/Blue Shield of the National Capitol Area, which previously administered both the employee and retiree plans, will continue to administer the company's health care plan for those who retired before 1990.

While lower coverage levels for care received outside of the network are an obvious incentive for using the network, there also should be a strong emphasis on employee education and strong efforts to "sell" employees on quality of care and value, said Barbara J. Lephardt, assistant to the vp of the CWA in Washington, D.C.

Managed care is a new concept to union employees, she said.

"Bell Atlantic has planned a rather expansive communications and education plan that has already begun," said Helen Guilfoyle, manager of the managed care networks for Bell Atlantic, also in Arlington.

Employee meetings have been planned, as well as video tapes and written materials.

Managed care is still a relatively new concept to employees in the East and they need to get comfortable using the network, said Joseph Duva, a partner and national practice leader for managed care with Ernst & Young in New York.

"Generally, if they try it, they see that it works well, then they will use it," he said.

When researching the network, Bell Atlantic was unwilling to sacrifice quality of care and freedom of choice for lower costs, Mr. Bezuyen said.

The CWA agreed. "Bell Atlantic did not look for the cheapest package. Together we looked for what could service our employees the best," said the CWA's Ms. Lephardt.

"Yes, we were very conscious of cost, but it was not the deciding factor," she said.

A joint committee on health, consisting of union and Bell Atlantic representatives formed shortly after the 1989 contract was approved, selected Newark, N.J.-based Prudential as the network administrator.

The process of choosing an administrator was a learning experience for the company and its two largest unions, Ms. Lephardt said. Both sides were somewhat naive, she said.

Bell Atlantic proposed creating the network but "had no idea what they were proposing and couldn't explain it," she said. "That's where the advisory committee came in," said Ms. Lephardt, who was a committee member.

The committee of 10 company and 11 union representatives set the parameters of the managed care network. It reviewed insurer

proposals, heard oral presentations and visited hospitals and other providers before choosing Prudential, Mr. Bezuyen said.

"The advisory committee on health care was very cooperative and very quick to recognize the problem, mainly the escalating health costs, and at the same time was aware of the unions' desire not to have its benefits eroded," he said.

Prudential's commitment to developing and maintaining a high quality network and its experience in managed care were two reasons why the insurer was chosen over the other bidders, say Ms. Lephardt of CWA. "How they did their selection process for the hospitals and other providers in the network and their criteria for that selection" was very impressive, she said.

The advisory committee and Prudential took several steps to ensure high-quality care, according to Mr. Bezuyen. The committee and Prudential set standards for hospitals and screened physician accreditation records and other state medical board data, he said.

Reviews by Prudential to ensure that quality is maintained throughout the networks will take place as each branch of the network is established, said Ms. Guilfoyle.

According to one expert, such concern for quality reflects an evolution in managed care programs.

Early networks "concentrated more on cost," said Ernst & Young's Mr. Duva.

"But, now we are seeing more and more health plans trying very hard to bring in quality in health care, and that's very attractive."

As the corporate director of employee benefits for Allied-Signal Inc. of Morristown, N.J., Mr. Duva contracted with CIGNA Corp. to develop a huge, innovative managed care network. The CIGNA program, which replaced Allied-Signal's multitude of indemnity plans and HMOs, guaranteed the company that its health care costs would not increase more than 6% to 7% over a three-year period (BI, March 19; Jan. 22, 1988).

One year after settling the strike at Bell Atlantic, both union and management say they are very pleased with the network and praise the cooperation shown in selecting the network administrator.

The CWA's Ms. Lephardt says the new program shows that labor is just as concerned as management about rising health care costs and is willing to do its part.

"We are trying just as desperately as the companies to do something about keeping cost down. We're not out there trying to raise costs," she said.

Ms. Lephardt noted that she has never seen unions work so easily with a company on such a thorny health care issue.

Mr. Bezuyen said that other employers can learn from the cooperative effort to contain costs.

"Managed care is a step in the right direction in resolving the difference between the company and the union. It is a fair compromise for all parties," he said. ■

AmBase sells Home

Continued from page 2
several months to complete.

In addition to selling The Home and its subsidiaries to TVH, AmBase would sell Gruntal Financial Corp., a New York-based securities brokerage, and Sterling Forest Corp., a real estate holding company in Tuxedo, N.Y.

AmBase would retain Carteret Bancorp of Morristown, N.J., a savings and loan that analysts describe as financially troubled.

In accepting the TVH bid, AmBase rejected a bid for an undisclosed amount for only The Home alone by an investor group including Sequoia Associates of Menlo Park, Calif.

Investors led by Sequoia—and including Hermitage Capital Corp., a subsidiary of Financial Securities Fund of New York and Nashville, Tenn., and New York-based Whitman Heffernon Rhein & Co.—made the bid for The Home after withdrawing an earlier bid for 50.1% of AmBase (BI, Aug. 27).

AmBase, in announcing the sale of its insurance unit, said it is unlikely that stockholders will receive a promised special dividend once the company satisfies its debt obligations (BI, Feb. 26).

Included in the \$970 million transaction are \$507 million in cash and the assumption of \$76 million in 14% senior subordinated debentures and \$102 million of 11% sinking fund debentures.

It leaves in place the corporation's \$2.95 Series A cumulative preferred stock, which has a face value of \$285 million, of which \$124 million is held by the corporation, said an AmBase spokesman. The deal will also leave the company with another \$150 million in senior subordinated debt.

The spokesman noted that the \$507 million in cash is expected to be used to retire \$410 million in bank debt. The remaining \$97 million—plus gains from the sale of preferred stock should it be sold—will be used to pay fees to lawyers and bankers and other AmBase obligations, said the spokesman.

"This allows the company to meet all of its obligations," the spokesman said. He added that AmBase's 57-member workforce is expected to be cut in half by year-end.

AmBase stock dropped 50% on Tuesday—the day after the agreement was announced—to 87.5 cents a share. The stock fell further, closing at 68.8 cents on Thursday.

The shares, which had a 52-week high of \$16.13, had traded for up about \$30 in 1985, noted one analyst.

AmBase closed at \$7.38 per share on Aug. 10, before Vik Brothers made its original offer.

Fifteen shareholder suits are now pending against the company, the spokesman noted.

One stockholder last week said he plans to vote against the TVH offer.

"We just don't see how any reasonable shareholder can, in decent conscience, want to do this," said Robert Lange, senior vp of the Lindner Fund. The St. Louis investment fund owns 600,000 shares—or almost 2%—of AmBase common stock purchased for more than \$12 a share.

Mr. Lange dismissed the proposed deal, calling it another attempt by AmBase Chairman George Scharffenberger "to expropriate the wealth of the shareholders."

The proposed transaction is "one last twist of the dagger into the shareholders," added Charles Ronson, an analyst with Baird, Patrick & Co. in New York.

In retrospect, said Mr. Ronson, it looks like the company has done everything it could to reduce AmBase to a penny stock. "This was the final coup de grace."

"I don't have a clue as to what the shareholders might do," said Gloria Vogel, associate director at Bear, Stearns & Co. in New York.

Ms. Vogel noted, however, that she believes shareholders preferred the original Sequoia proposal to buy 50.1% of AmBase. That proposal would have left The Home, considered AmBase's most viable division, part of the company.

"I just think the deal was clearly done at the behest of (AmBase's) creditors," commented another analyst.

The banks "held a gun to their heads" and told them they had to find a buyer and pay off their debt, he added. "They were forced into doing a deal that was not necessarily in the interest of shareholders."

The AmBase spokesman recommended that shareholders wait for the prospectus outlining the TVH proposal before making a decision on the transaction. He would not say when the prospectus is expected to be distributed.

Mr. Ronson also noted that it should not be assumed that state insurance regulators—whom he described as "ornery right now"—would approve the deal.

Robert M. Solitro, chief examiner with the New Hampshire Insurance Department in Concord, commented that "there is no rubber stamp process for an acquisition of this nature." The Home is domiciled in New Hampshire.

New Hampshire regulators, Mr. Solitro said, have a responsibility to policyholders to determine whether the acquisition is in their best short- and long-term interests.

While the department does not have financial details of the proposed deal, a preliminary investigation indicates that both Vik Brothers and Trygg-Hansa appear to have "very credible reputations," he said.

Mr. Solitro also noted that while The Home

itself and two of its subsidiaries are domiciled in New Hampshire, other Home subsidiaries are domiciled in six other states: New Jersey, Texas, Illinois, Indiana, California and New York. Regulators in those states also must approve the deal.

Shareholders may not welcome the transaction, but it could benefit The Home and its policyholders, one analyst points out.

"It's a positive," said W. Dolson Smith of Firemark Consultants Inc. in Morristown, N.J. "The Home Group will be on more sure-footing, and that's important for the policyholder."

"They (The Home) will have some assistance, some financial wherewithal that will be backing them," he said. Perhaps, he added, "They'll be able to grow in a better fashion. They'll have some backing now of some substance."

The uncertainty over The Home's ownership is "not conducive to a sound operating environment. There's going to be an adjustment, probably, to foreign ownership, but that's a way of life. Anyway, the financial backing is there," Mr. Smith said.

Baird Patrick's Mr. Ronson noted the proposed sale to TVH certainly will not hurt The Home. The insurer's problems stem from low property/casualty rates, which is a "lot worse than the problem of whether or not the company's going to be sold," he said.

In a statement announcing the proposed transaction, Bjorn Sprangare, president of Trygg-Hansa Group, said The Home "is well-managed and fits our profile." He also noted that the proposed acquisition fits Trygg-Hansa's strategy of expanding internationally.

TVH plans to retain The Home's current management if the acquisition is approved.

Home Chairman James J. Meenaghan said in a statement that "the investors behind (TVH) are very knowledgeable about the U.S. property/casualty business." He added that the acquisition would "provide tremendous strategic opportunities for both organizations."

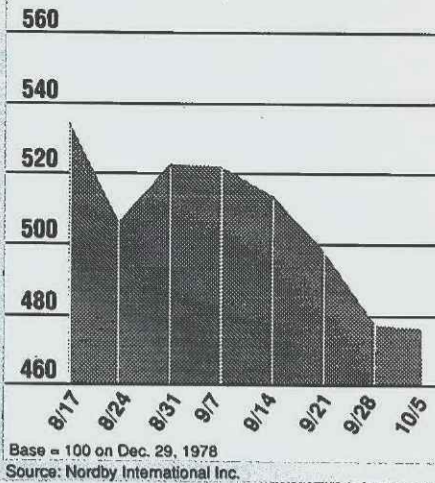
Trygg-Hansa's participation in the offer "lends additional credence, I think, to the deal," commented Bear, Stearns' Ms. Vogel.

Trygg-Hansa is a multiline insurance holding company with gross premiums of about \$2.3 billion and total managed assets of about \$15 billion, according to AmBase.

The Home and its subsidiaries reported \$2.7 billion in gross premiums and total assets of \$5.5 billion in 1989. Policyholder surplus stood at \$840.1 million at year-end.

However, The Home that TVH will acquire is a smaller company than it was several months ago. AmBase said last month it is running off the existing business of Home subsidiary U.S. International Reinsurance Co. and is selling another Home subsidiary, Commonwealth Insurance Co. (BI, Sept. 17).

BI Insurance Index



Insurance industry stocks declined only slightly last week as the Business Insurance Index fell 1.83 points to 474.88 on Oct. 8, from 476.71 on Sept. 28. Advancing issues for the week were led by Tokio Marine & Fire Insurance Co. Ltd., up 15.9%; American Indemnity Financial Corp., up 13.3%; and CNA Financial Corp., up 8.3%. Declining issues for the week followed AmBase Corp., down 39.3%; Belvedere Corp., down 26.2%; and Travelers Corp., down 23.9%. The most active issue during the week was American General Corp., 2.4 million shares traded. The BI Index lost 0.38% for the week; The Standard & Poor's 500 gained 1.8%; the Dow Jones 30 Industrials were up 2.4%; and the New York Stock Exchange Composite climbed 1.7%.

British Issues

Oct. 4 Companies	Price	P/E	Div. %	Yield %	1 Week	
					High-Low	Change
Comm'l Union	444	20.4	28.7	6.5	444-426	
Gen'l Accident	448	13.5	33.4	7.4	455-438	
Gdn Royal Exch	184	16.0	15.3	8.3	188-181	
Royal	386	20.6	34.0	8.8	386-371	
Sun Alliance	290	10.4	16.7	5.7	290-279	
Brokers						
Bradstock	204	14.2	10.0	4.9	204-204	
CE Heath	390	11.5	34.5	8.8	390-369	
Hogg Group	140	9.3	9.7	6.9	142-140	
Lloyd Thompson	268	17.9	10.0	3.7	268-268	
PWS Holdings	70	10.8	3.3	4.7	70-70	
Sedgwick Grp	192	14.5	16.0	8.3	192-174	
Steel Brl Jones	233	14.0	14.7	6.3	234-233	
Willis Faber	212	15.4	16.0	7.5	217-206	

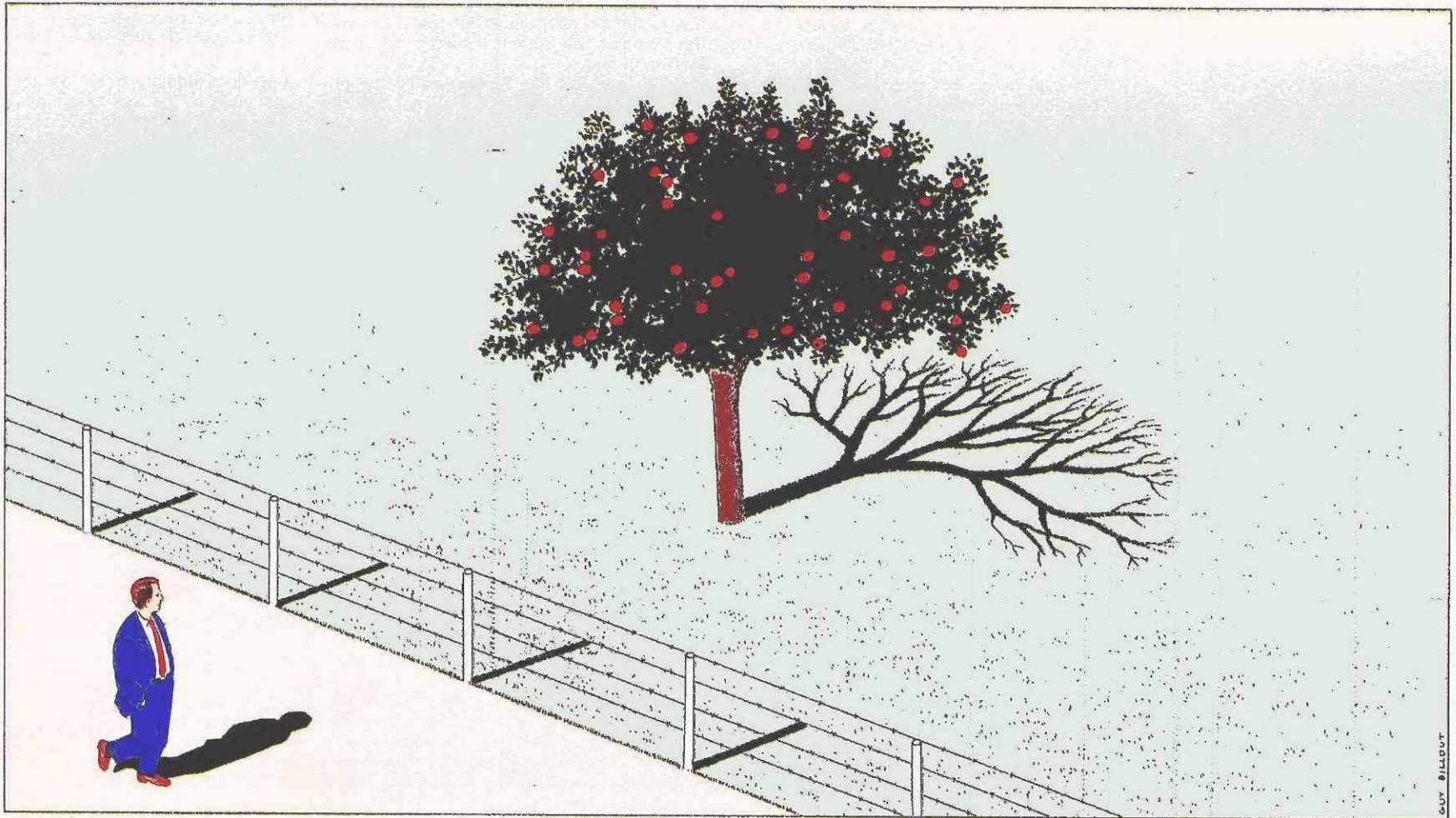
Source: Philip Olsen, Insurance Industry Specialist
London

BI Industry Stock Report

OCTOBER 1, 1990 THROUGH OCTOBER 5, 1990

	Weekly Price	% change	Year to Date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value	Weekly Price	% change	Year to Date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value	
				High	Low										High	Low							
BROKERS																							
Alexander & Alexander	NYS	17.88	-0.69	-43.25	34.00	17.25	170	1.00	5.59	16	9.18	1.95	7.13	-0.07	0.00	9.13	6.50	1	0.36	5.05	13	4.40	1.62
Berkshire Hathaway Inc.	OTC	31.00	5.08	-18.95	41.00	28.50	966	1.36	4.39	15	12.73	2.44	44.25	3.51	4.12	50.25	35.00	11	0.92	2.08	10	31.82	1.39
Gallagher Arthur J. & Co.	NYS	20.88	0.60	-15.66	26.50	20.25	110	0.60	2.87	17	5.33	3.92	42.88	-3.65	-29.71	62.88	41.38	193	2.60	6.06	7	49.19	0.87
Frank B. Hall	NYS	2.75	0.00	-8.33	4.25	2.50	93	0.00	0.00	-2	-2.80	-0.98	28.25	7.62	-22.07	41.00	25.50	84	0.20	0.71	13	22.81	1.24
Hild, Rogal & Hamilton	OTC	12.75	2.00	-31.54	20.63	12.00	107	0.28	2.20	17	4.60	2.77	28.50	-1.72	3.64	33.75	25.25	19	0.00	0.00	11	15.22	1.67
Marsh & McLennan	NYS	65.25	5.45	-16.35	89.75	59.75	711	2.60	3.98	16	10.56	6.18	2.81	2.29	40.65	3.75	1.50	20	0.00	0.00	-7	7.75	0.36
Poe & Associates	OTC	10.25	-4.65	-22.64	13.00	8.25	1	0.40	3.90	13	1.93	5.31	15.00	-10.45	-62.03	44.13	15.25	816	1.32	8.80	3	37.50	0.40
BROKERS AVERAGE																							
1.1																							
CONGLOMERATES & HOLDING COMPANIES																							
Berkley W.R. Corp.	OTC	31.25	-1.57	-24.92	46.50	28.50	195	0.44	1.41	7	25.06	1.25	27.25	-3.80	-13.66	28.25	21.13	37	0.76	3.44	5	30.70	0.72
Berkshire Hathaway Inc.	OTC	5750.00	0.00	-33.33	8900.00	5675.00	2	0.00	0.00	-19	2869.00	2.00	16.88	-0.03	-27.42	27.75	16.50	33	0.92	5.45	5	19.72	0.86
ITT (Hartford Group)	NYS	45.25	0.27	-24.43	63.25	43.75	2366	1.60	3.54	5	56.33	0.80	6.50	4.00	-50.00	15.50	5.63	102	2.00	3.08	-7	12.99	0.50
Sears (Allstate)	NYS	25.00	-1.50	-35.48	42.75	24.38	2263	2.00	8.00	7	37.75	0.66	12.25	-3.92	-14.04	15.38	10.25	83	0.76	6.20	7	14.54	0.84
CONGLOMERATES AVERAGE																							
-0.7																							
INSURERS/REINSURERS																							
Aetna Life & Casualty	NYS	33.50	-11.84	-42.24	62.50	35.25	2137	2.76	8.24	6	58.11	0.58	16.63	-5.00	-35.75	30.13	16.75	828	0.80	4.81	5	23.24	0.72
AmBase Corp.	NYS	1.06	-39.26	-91.58	16.13	0.63	2160	0.00	0.00	0	29.08	0.04	12.38	1.02	-14.66	15.25	11.25	14	0.00	0.00	10	14.43	0.86
American General	NYS	33.00	8.20	0.76	50.63	28.13	2425	3.20	9.70	8	34.68	0.95	10.25	2.50	15.49	14.75	6.88	11	0.44	4.29	5	12.42	0.83
American Heritage	NYS	20.75	-1.19	-27.19	24.63	19.75	3	1.00	4.82	10	22.60	0.92	48.50	-3.00	-19.17	63.50	47.00	1695	2.40	4.95	6	43.47	1.12
American Indemnity/Fin'l	OTC	4.25	13.33	-46.88	10.00	3.38	20	0.08	1.88	-1	17.38	0.24	26.75	-3.60	-32.70	42.38	26.50	1709	1.36	5.08	6	24.87	1.08
American International	NYS	60.38	-3.78	-28.47	89.63	57.00	2389	0.44	0.73	9	41.92	1.44	9.00	2.86	-36.84	14.50	8.50	18	0.20	2.22	13	10.61	0.85
Aon Corp.	NYS	29.88	-2.85	-29.50	43.25	29.00	68	1.52	5.09	8	19.62	1.52	5.25	-4.55	-51.72	11.75	5.00	24	0.80	15.24	-1	13.75	0.38
Argonaut Group	OTC	64.00	-0.78	-7.08	78.00	63.25	8	1.60	2.50	7	36.83	1.74	14.25	-1.72	-25.49	20.25	14.50	120	1.04	7.30	5	15.72	0.91
AVEMCO Corp.	NYS	22.38	2.87	-8.21	30.13	20.38	16	0.44	1.97	16	9.52	2.35	1.31	5.04	-52.25	3.31	1.25	292	0.04	3.05	2	4.19	0.31
Baldwin & Lyons Inc.	OTC	19.25	-5.84	-10.47	24.00	19.25	2	0.28	1.45	7	20.80	0.93	40.00	15.94	-46.93	78.13	34.50	20	0.26	0.65	-	70.93	0.56
Belvedere Corp.	ASE	2.13	-26.22	-61.36	5.63	2.13	109	0.04	1.88	-2	8.03	0.26	42.25	3.05	-26.20	58.75	40.00	317	1.40	3.31	10	13.23	3.19
Chandler Insurance	OTC	5.50	-4.35	-53.19	13.25	5.25	91	0.00	0.00	3	9.53	0.58	24.75	-7.48	-44.54	47.75	25.88	615	1.96	7.92	6	34.63	0.71
Chubb Corp.	NYS	36.75	-6.37	-61.67	51.38	36.00	1545	1.32	3.59	7	55.49	0.66	16.38	-23.84	-55.59	42.00	20.00	2119	2.40	14.66	4	44.85	-
CIGNA Corp.	NYS	36.13	-4.30	-40.04	66.75	36.50	1229	3.04	8.42	11	66.64	0.54	17.00	1.49	-30.26	26.88	16.25	14	0.48	2.82	8	16.91	1.01
CNA Financial Corp.	NYS	59.00	8.26	-41.00	108.75	54.00	238	0.00	0.00	9	54.87	1.08	30.25	-3.20	-8.33	35.00	30.25	5	1.20	3.97	8	22.56	1.34
Continental Corp.	NYS	19.38	-0.64	-38.25	35.50	17.88	685	2.60	13.42	14	41.36	0.47	15.13	-13.57	-48.95	31.38	16.13	1581	2.92	19.31	11	22.87	0.66
Durham Corp.	OTC	27.25	0.93	-11.38	34.75	25.00	1	0.92	3.38	13	26.32	1.04	35.88	-10.60	-24.87	57.13	37.00	1422	0.80	2.23	7	31.20	1.15
Fund American Corp.	NYS	45.50	5.50	29.08	51.88	29.50	609	0.68	1.49	101	32.74	1.39	28.25	5.10	-37.57	47.00	26.25	233	1.48	5.24	7	54.34	0.52
Fremont General Corp.	OTC	10.75	-6.52	-46.58	22.50	10.38	311	0.80	7.44	3	19.09	0.56	16.25	-3.73	-42.48	28.75	16.13	71	1.08	6.65	18	32.90	0.49
Frontier Insurance Group	NYS	19.25	4.05	4.05	33.00	14.13	80	0.00	0.00	8	7.29	2.64	16.00	-14.67	-32.63	24.50	16.00	107	1.00	6.25	6	27.7	

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emerging issues in employee benefits -- the provision of practical, economical group long-term care coverage -- and moved to implement it. Today, those we serve have this coverage available to them -- because our experience and the resources we command made it possible early. ♦ Clients who depend on your advice want to know how well group insurance companies know the industry. Now you can tell them how we make our experience and expertise work for them. For more information, call Tom McKellar, Director of National Accounts, at 1-800-877-1052.

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