

Business Insurance

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N.J. protests policyholder's recovery from reinsurers

By DOUGLAS McLEOD

HACKENSACK, N.J.—The New Jersey Insurance Department is fighting a recommendation that a surety bond policyholder of defunct Integrity Insurance Co. be allowed to collect more than \$10 million directly from Integrity's reinsurers.

A court-appointed special master in the Integrity liquidation has concluded that Ingersoll-Rand Financial Corp. has a valid security interest in reinsurance that backs dozens of surety bonds written by Integrity.

The security interest stems from agreements between Integrity and Ingersoll-Rand that call for Ingersoll-Rand to collect claims directly from the reinsurers if Integrity failed to pay.

The special master recommended that a state judge deny a summary judgment motion by the New Jersey Insurance Department that would bar direct claims against the reinsurers.

The New Jersey department has asked New Jersey Superior Court Judge William C. Meehan to set aside the special master's recommendation.

The Insurance Department argues, among other things, that allowing Ingersoll-Rand direct access to reinsurance proceeds gives unfair preference to these claims over those of other Integrity policyholders, which must try to collect their claims from the general assets of Integrity's estate.

A hearing on the special master's recommendation is scheduled for Friday.

Most states generally require reinsurance pro-

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Congress hikes costs

Medicare repeal to hurt employers

By JERRY GEISEL

WASHINGTON—Congressional repeal of the Medicare Catastrophic Act will force employers to again pay billions of dollars in retiree health care costs that they had thought the federal Medicare program would pick up.

Those added costs will heighten employers' determination to better manage the cost of their retiree health care plans, benefit experts say.

However, because of the renewed importance that employer-provided retiree health care benefits will have for many older Americans, retirees will increasingly resist any cuts in employer-provided health care programs.

Observers also speculate that the political fallout from the fiasco surrounding expansion of Medicare could cause Congress to shy away—at least in the short run—from considering other health care initiatives, like long-term health care coverage for the elderly and mandatory employer-provided health insurance.

Last week, amid a fierce and sometimes ugly lobbying campaign by hundreds of thousands of retirees violently opposed to

new taxes imposed by the expanded Medicare program, the Medicare Catastrophic Act—which was intended to give the elderly much better protection from catastrophic acute health care costs—stood on the brink of repeal.

The House of Representatives, by a whopping 360-66 margin, approved an amendment by Rep. Brian Donnelly, D-Mass., as part of a budget reconciliation bill, to repeal Medicare expansion effective Jan. 1, 1990. The House later approved the entire budget bill.

Meanwhile, the Senate late last week was considering several amendments to repeal or drastically scale back the Medicare catastrophic program. Observers said last week the Senate could vote on the proposals before the weekend was over.

Last week's congressional actions marked an about-face from a year ago: President Reagan signed the Medicare Catastrophic Act into law last year after the legislation was approved by huge bipartisan majorities in the House and Senate.

Employers were among those cheering the approval of that law.

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Illinois Supreme Court refuses to review pro-policyholder ruling

CHICAGO—A sweeping pro-policyholder ruling in a pollution coverage dispute by an Illinois appellate court became final last week when the state Supreme Court refused to review the case.

The Illinois 1st District Court of Appeals in March ruled that the pollution exclusion in comprehensive general liability policies, which bars coverage for pollution that is not "sudden and accidental," only bars coverage for pollution

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Senate panel hikes PBGC premium rate

By JERRY GEISEL

WASHINGTON—Bush administration officials and business groups are outraged by a Senate panel's decision to increase the premiums employers with well-funded pension plans must pay to the Pension Benefit Guaranty Corp.

In what some lobbyists are calling legislative sleight of hand, the Senate Labor and Human Resources Committee last week approved a proposal to increase to \$18 from \$16 the annual minimum per plan participant premium that employers pay to the PBGC.

The premium increase would cost employers about \$65 million in 1990, according to committee estimates.

However, PBGC premiums would not increase for employers whose pension plans are not fully funded. Under the variable-rate PBGC premium structure that went into effect last year, the annual premium for employers with underfunded plans can be as much as \$50 per plan participant.

Aside from increasing the PBGC premium on well-funded pension plans, which federal pension officials did not seek and contend is unnecessary, the Labor and Human Resources Committee also approved increases in the penalties assessed on employers that violate federal pension and safety rules.

For example, an employer that fails to file its annual pension financial report, known as Form 5500, would be slapped with an automatic \$200 fine. The

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Renewals to remain competitive

By KATHRYN J. McINTYRE

WHITE SULPHUR SPRINGS, W.Va.—Commercial property/casualty insurance buyers have nothing to fear from year-end renewals.

Incumbent insurers are expected to quote quite competitively to maintain existing accounts, according to the leaders of the nation's largest property/casualty insurance companies, agencies and brokerages.

Despite depressed property and casualty insurance prices that many think are too low to produce adequate profits and property and business interruption insurance losses from Hurricane Hugo expected to exceed \$4 billion, the property/casualty insurance market is not expected to tighten at year-end. In fact, commercial insurance prices are not predicted to firm until at least year-end 1990 and perhaps later.

However, losses from Hugo could stop the slide in rates for large commercial property risks, increase the cost of catastrophe reinsurance and encourage insurance companies to reduce their large retentions at year-end, according to some reinsurance experts. But, even increased demand for reinsurance isn't expected to tighten the reinsurance market (see story, page 2).

These are the observations on the U.S. property/casualty insurance market shared by industry executives attending the annual joint meeting of the National Assn. of Casualty &



Golf scores were considered a 'safe' topic at last week's NACSA/NACSE meeting at The Greenbrier.

Surety Agents and the National Assn. of Casualty & Surety Executives last week at The Greenbrier.

Executives of the nation's leading property/casualty insurance agencies and brokerages and executives of the largest U.S. insurance and reinsurance companies gather at the West Virginia resort each October for five days of business meetings and socializing.

In addition to association business, conducted at early morning breakfast meetings beginning at 7:30 a.m., formal speeches are delivered at morning sessions Monday through Wednesday. Golf, tennis, trapshooting and other sporting events bring together registrants in the afternoons, and evening receptions and private dinners provide more opportunities for business contacts.

However, unlike previous years when insurance market conditions were the subject of discussion from early morning breakfasts though tennis matches, golf games and cocktail parties, insurance company executives this year kept their comments on the marketplace restricted to individual meetings with agents and brokers and interviews with journalists. The topics of casual conversations were golf and tennis scores.

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Update

Illinois pollution ruling stands

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that is expected or intended by the policyholder. The court denied insurer arguments that the exclusion bars coverage for all pollution that does not occur quickly (BI, March 20).

In addition, the appellate court ruled that government-mandated hazardous waste cleanup costs are insurable and coverage is triggered by a letter from the U.S. Environmental Protection Agency designating a policyholder as potentially responsible for a cleanup.

The appellate court ruling, which stemmed from a dispute between Specialty Coatings Co. and Specialty Chemical Co. of Elk Grove Village, Ill., and its liability insurer, United States Fidelity & Guaranty Co. of Baltimore, conflicts with an earlier appellate court ruling upholding the pollution exclusion (BI, April 4, 1988).

As a result, the law in Illinois is unclear, said attorney Stephen Frew of Kiesler & Berman in Chicago, who represented USF&G. "There is an absolutely irreconcilable split in Illinois on the pollution exclusion," he said. "Guidance from the Supreme Court was badly needed."

However, the policyholder's attorney, Katrina Veerhusen of Kevin M. Forde Ltd. in Chicago, said that the two appellate court decisions are factually different and, therefore, do not create a conflict.

Brokers sue NYIE over fees

NEW YORK—Sixteen brokers and associate brokers of the defunct New York Insurance Exchange are suing the NYIE and its current and former directors and officers to halt liquidation assessment charges.

The suit, filed Sept. 29 in New York State Supreme Court in Manhattan, charges that the exchange is unfairly coercing assessments from the brokers, plus charging an additional 50% in fines against those who refuse to pay. The assessments are intended to finance the liquidation of the exchange, which stopped writing business in November 1987 (BI, Nov. 30, 1987).

Among other measures, the suit seeks an accounting of all funds collected and spent by the exchange since it halted operations.

"They have an open checkbook and we said, 'No more,'" said broker attorney Alan J. Martin of Abrams & Martin in New York.

NYIE President Robert M. Lowd responded that the suit incorrectly contends that the brokers' contractual relationship with the exchange ended when it stopped doing business in 1987.

He said the brokers who brought suit owe close to \$200,000 in 1988 and 1989 assessments. The remaining 75% of the exchanges' brokers have paid their assessments, said Mr. Lowd, who contends the brokers' suit has no merit.

Kraeutler guilty of tax evasion

NEW YORK—John A. Kraeutler, a former managing general agent of American Centennial Insurance Co., has pleaded guilty to tax evasion stemming from his failure to report commissions on business he wrote for ACIC.

Mr. Kraeutler, president of The Underwriters Inc. of Parsippany, N.J., was indicted on criminal wire fraud and conspiracy charges in 1985. The indictment alleged that he developed a fraudulent scheme to divert reinsurance premiums ceded to ACIC by Associated Electric & Gas Insurance Services Ltd., a Bermuda captive (BI, Jan. 23; Jan. 2).

A superseding indictment filed in June added four tax evasion counts related to his alleged failure to report commissions held in Bermuda, said Assistant U.S. Attorney Robert Cramer.

Mr. Kraeutler last month agreed to plead guilty to one of the tax evasion counts. He is scheduled for sentencing Nov. 21 and faces a maximum of five years in jail and a \$100,000 fine, Mr. Cramer said.

Mr. Cramer added that a criminal probe of the AEGIS reinsurance program continues and that more indictments are possible.

Mr. Kraeutler's lawyer could not be reached for comment.

Life of Indiana in rehabilitation

INDIANAPOLIS—The Indiana Department of Insurance placed Life of Indiana Insurance Co. into voluntary rehabilitation on Sept. 21 after finding it insolvent by more than \$1.5 million.

Life of Indiana derives 88% of its premium income from group accident and health business, according to A.M. Best Co. The company reported a \$1.7 million loss on that business in 1988.

The insurer reported net premiums written of \$22.3 million and capital and surplus of \$1.6 million at year-end 1988.

The insurer had stopped writing new business early this year, but existing business is still in force and being renewed in most states.

California freezes auto rates

SAN FRANCISCO—California Insurance Commissioner Roxani Gillespie last week ordered a six-month freeze on private passenger automobile insurance premiums in the state.

The freeze, which is effective immediately and lasts until April, was ordered partly in response to an announcement by Los Angeles-based Farmers Group Inc. that it would increase rates 5.9%. The freeze also will "protect consumers" from similar increases by

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Errors and omissions

• A story in the Oct. 2 issue of *Business Insurance* about the House of Representatives' vote to repeal Section 89's non-discrimination rules incorrectly attributed certain remarks to Rep. Byron Dorgan, D-N.D., that were actually made by Rep. Silvio Conte, R-Mass.

• Association Casualty Insurance Co. in Austin, Texas, does not write auto liability coverage for Dr Pepper Co. as reported by the Texas Railroad Commission (BI, Sept. 25). The commission said Association Casualty's name showed up in computer files instead of the correct underwriter, Associated Indemnity Corp. in San Francisco.

Contract clause softens Hugo's hit to reinsurers

By CAROLYN ALDRED

LONDON—Like the calm before the storm, reinsurers in London are waiting to feel the force of Hurricane Hugo's wrath.

They, like their U.S. counterparts, predict Hugo will not turn the soft property/casualty insurance and reinsurance market, though some believe the storm could halt the rapid slide in rates and may hasten an upturn in retrocessional rates.

Meanwhile, many reinsurers are relieved that Hugo blew for more than a week and, thus, will comprise two separate reinsurance losses.

Most catastrophe reinsurance policies contain "hours" or "hourly" clauses defining a single event as one which does not exceed a specified number of hours—typically 72.

As a result, most ceding insurers will have to satisfy two retentions instead of one, which could blunt Hurricane Hugo's impact on reinsurance markets, reinsurers say.

But hurricane losses, estimated at more than \$4 billion, still could cause havoc in the London retrocessional market, which is already reeling from at least two other windstorm losses, brokers add.

"The 'hours' clause will soften the blow for the reinsurance market overall as insurers will have to take two retentions," said a London reinsurance broker.

Most contracts specify a windstorm or hurricane cannot last more than 72 hours and be considered a single event, though some contracts have 48-hour or even 168-hour limitations, said the broker.

In most cases a ceding insurer can choose when each period starts. For example, the insurer needn't activate the contract as soon as the hurricane hits.

Because more than 72 hours passed between Hugo hitting Puerto Rico and ravaging Charleston, S.C., most insurers likely will treat losses in the Caribbean and mainland losses as separate events, London brokers agreed.

The "hours" clause is widely used in property catastrophe reinsurance to cover earthquakes, windstorms, flooding and riots.

One of the first was introduced following the 1906 San Francisco earthquake to include aftershocks within a certain period as part of an event, explained Tony Dodd, treaty underwriting manager for British & European Reinsurance Co. Ltd., a unit of Commercial Union Assurance Co. P.L.C.

The clause increasingly has been used for weather-related losses and riots, said David Holmes, assistant director of the Reinsurance Offices Assn. in London.

The modern wording of the clause is largely based on language drawn up by former Lloyd's of London underwriter Robert Kiln two decades ago, Mr. Holmes said.

In the case of Hurricane Hugo, the hours clause likely will benefit reinsurers in two ways, brokers noted.

By treating Hurricane Hugo as two events instead of one, ceding companies will pay two retentions rather than one, thus reducing the size of loss to be reinsured.

In addition, some ceding companies with both Caribbean

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High court won't review case

Safety prosecution to stand

By STACY ADLER and MEG FLETCHER

WASHINGTON—The U.S. Supreme Court will not review an Illinois ruling that allows states to bring criminal charges against employers in workplace injury

cases.

In a flurry of activity during the first week of its 1989-90 term, the Supreme Court also said it would not review federal court rulings that rescinded a \$1.2 million jury verdict in a Bendectin case.

However, the high court did agree to decide whether a group of seasonal farm workers in Florida can sue their employer for tort damages under a federal law while receiving workers compensation benefits.

In the Illinois case, the state Supreme Court ruled Feb. 2 that federal safety regulations do not preempt the state criminal prosecution of businesses and their officers who allegedly expose employees to hazardous working conditions (BI, Feb. 6).

Chicago Magnet Wire Corp. and five of its managers were charged in 1984 for allegedly knowingly and recklessly causing injuries to 42 workers by not adequately protecting workers from toxic substances.

During initial litigation, the company argued that the U.S. Occupational Safety and Health Act of 1970 pre-empted state law and thus barred local prosecutors from bringing criminal charges.

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Pension loans limited to active employees

By JERRY GEISEL

WASHINGTON—Reversing a controversial decision, the Labor Department says employers can limit their pension plan loan programs to active employees.

In an advisory opinion letter sent to Buck Consultants Inc. of New York and in a news release issued last week, the department reversed a much criticized portion of regulations that would have required employers to extend pension plan loan programs to all plan participants with active account balances, including former employees and retirees.

The Labor Department conceded what employee benefit consultants had been saying for some time: Pension plan loan programs can be limited to "parties in interest," generally defined by the Employee Retirement Income Security Act of 1974 as current employees.

"Under the department's interpretation, a participant loan program would not have to be made available to most individuals who have separated from service with vested benefits or who are retirees, because generally such individuals would not be 'parties in interest,'" the Labor Department said.

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Inside

✓ The Section 89 debacle hopefully has taught both legislators and lobbyists a valuable lesson, says this week's editorial. **PAGE 8**

✓ The most important concern to U.S. risk managers is how cross border trading will affect their insurance costs, coverage, claims and service, says Thomas J. Drag of Alexander & Alexander Inc. in Perspectives. **PAGE 43**

✓ In Ask a Risk Manager, Susan M. Werner of Hardee's Food Systems Inc. explains how to develop a litigation management system to keep a close rein on liability claims costs. **PAGE 44**

✓ Changing economic forces will create a new financial institution that will sell securities, banking services and insurance, the chairman of Citicorp predicts at NACSA/NACSE conference. **PAGE 76**

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International markets

1992 won't hurt networks

Benefit pooling to thrive

By CHRISTINE WOOLSEY

Multinational employee benefit networks aren't expected to lose their stronghold on the European marketplace as trade barriers fall in 1992.

In fact, networks still will be needed to coordinate multinational employers' benefit programs because of major differences in EC member nations' insurance rating structures—known as tariffs—and in their social security systems, insurers, consultants and benefit managers say.

And, most international benefits experts agree that the advantages gained by pooling international benefit programs through a network—experience rating and economy of scale—coupled with the myriad administrative services offered by the networks, will tie multinational employers to the networks for years to come (see story, page 10).

However, beefed-up competition by local insurers may put some pressure on the networks to enhance their products and perhaps even to lower prices, some benefits experts predict.

The Single European Act of 1985 will create a unified European market among the 12 EC nations. In accordance with the act, the European Commission's White Paper of 1985 gave a detailed timetable to achieve a European market without internal barriers by Dec. 31, 1992 (*BI*, May 16, 1988).

If employers are permitted to purchase group insurance from insurers in other EC countries on a less-expensive basis, the multinational benefit networks may lose one of their biggest selling points in the EC nations: the ability to return to employers through an international dividend a portion of the premium paid upfront under costly tariffs.

The major economic reforms in 1992 could signal the end of some insurance industry cartels that for decades have forced employers in many European countries to buy benefits coverage at

fixed prices, consultants add.

"The insurance networks are going to have to come up with a new routine because the raison d'être for pooling will no longer exist," commented Jerry Long, senior vp and managing director for international consulting services at Alexander Consulting Group in Washington, D.C., a unit of Alexander & Alexander Services Inc.

International dividends paid by the networks also could be reduced or even eliminated if competition from local insurers—spurred by the elimination of tariffs and cartels—forces network insurers to lower their prices, pointed out Sam Bernstein, an international consultant with Lincolnshire, Ill.-based Hewitt Associates.

Under pooling arrangements, benefit networks award dividends to employers whose international loss experience proves better than had been expected when its premium was set.

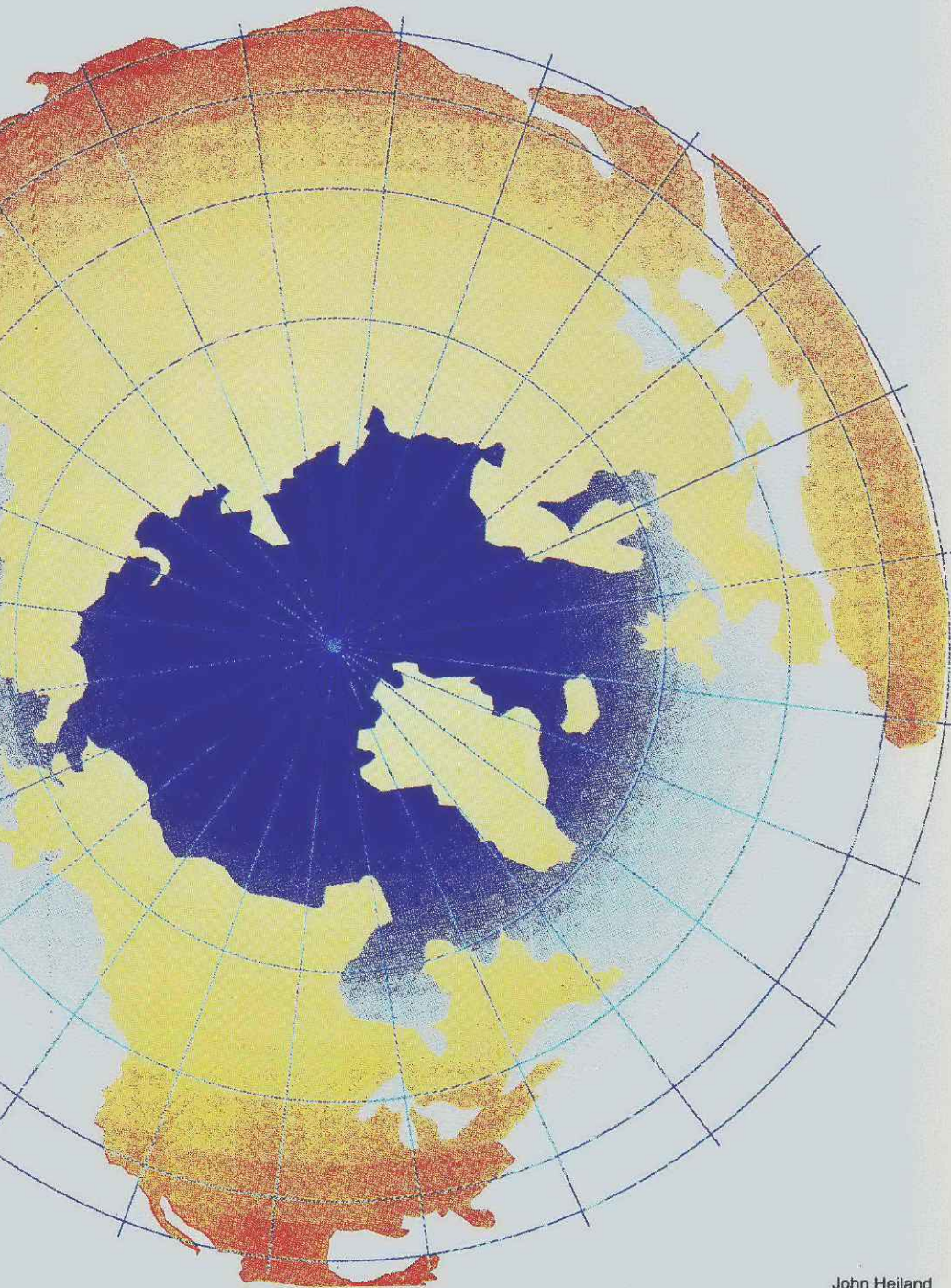
Since tariffs have been keeping premiums artificially high, "the major source of the international dividend will be gone," Mr. Bernstein explained.

While price competition is relatively foreign to European insurers, they "will have to become competitive based on premiums" as high tariffs erode, Mr. Long said. As a result, "big second-stage dividends will decrease because the artificially high premiums will no longer be appropriate."

"If 1992 and the resulting legislation gets rid of those (pricing) cartels, some of the financial advantages of pooling—namely recouping the overstated premiums—will be lost," agreed Michael Ponicall, vp and manager at Towers, Perrin, Forster & Crosby Inc.'s international consulting division in New York.

However, tariffs are unlikely to be eliminated in the near future because no EC directive has yet been passed providing for harmonization of tariff

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John Heiland

Risk managers' interest in global plans rises

By LINDA J. COLLINS

An increasingly global business economy is prompting more and more risk managers at multinational companies to examine some form of global property/casualty insurance.

"Awareness is increasing of the need for global control and, in addition, the number of multinational companies is growing. We are operating in a much more global marketplace," said Sharon Schwamberger, director of international packages for AIGlobal, a division of American International Group Inc. in New York.

"The world is shrinking and, as it does, insurance (products) will have to respond to those changes. The global program is one way of

accomplishing that," agreed Ron Forrest, senior vp and managing director of global business development for Alexander & Alexander Services Inc. in New York.

And, according to T.W. Hiers, an assistant vp in the Johnston, R.I., office of London-based FM Insurance Co. Ltd., "there is very definitely an increased awareness of the need for global programs" among multinational companies based outside of the United States. The "demand for them in Europe is now on the rise."

However, the structure and magnitude of a global insurance program varies significantly, depending on the organization's management and financial structure, the type and diversity of its operations and the countries in

which it operates or to which it exports goods and services.

Global programs can range in scope from comprehensive property/casualty insurance programs written through one insurer using its international network, to programs written by several insurers on a coinsurance basis, to programs in which difference-in-conditions policies drop down to cover exposures that exceed or are not covered under a collection of local insurance programs written through various insurers.

Multinational risk managers tend to "purchase their property insurance coverages on a global basis to make sure there are no holes in the program. On the casualty side, the risk manager might purchase some local coverages, but

would likely have some global plan to tie it all together," observed Robin N. Lamprecht, president and chief executive officer of Frank B. Hall International Inc. in New York, a unit of Frank B. Hall & Co. Inc.

"We advise our clients to have a cohesive, comprehensive program that encompasses all of their worldwide exposures. That does not mean that there is only one way to do that, but (regardless of the structure) the risk manager needs to make sure all the programs tie together," said Paul Van Zuiden, a risk management consultant with The Wyatt Co. in Chicago.

In fact, to better meet its multinational clients' coverage needs, broker Marsh & McLennan Cos.

Inc. has recently assembled "a consortium of international insurers through which we can satisfy local reporting requirements and engineering requirements" abroad, noted Robert J. Solomon, managing director and head of its M&M International unit.

"We try to mold the consortium to suit the needs of the client," Mr. Solomon added.

Brokers point out that as multinational businesses expand and diversify, risk managers are demanding a greater degree of flexibility and more services from their insurers.

Insurers "will have to become more attuned to corporate culture and the attitudes of their clients—the long-term financial goals of the

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Companies with overseas units face growing terrorism threat
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More captives are expected to form in Europe after 1992
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Australian work comp systems face employer, labor criticism
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Benefit networks

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practices, other benefits experts point out.

"1992 is not a magic date. It's a signal—the beginning of a process," said Mr. Long.

"The existing control authorities are not going to let go easily, especially in more regulated countries like Germany," predicts Michael Sandmann, second vp at Travelers Insurance Co.-Multinational Insurance Arrangement in Hartford, Conn.

"Tariffs will undergo a certain degree of harmonization," suggests a newsletter on changes in life insurance resulting from 1992 published by Zurich-based Swiss Life Insurance Co. "However, a standardization of tariffs throughout the internal market can hardly be expected."

Varying EC tax laws also are expected to inhibit harmonization of

employee benefit programs throughout Europe, according to William Pool, an independent consultant on EC insurance law based in Brussels, Belgium.

"Nothing in the 1992 program will fundamentally change the structure of existing schemes," Mr. Pool said in a speech delivered in September at a conference of the International Group Program, the network operated by John Hancock Mutual Life Insurance Co., in Boston.

For example, no directive has been passed to alter some EC members' tax laws that treat employer-paid life insurance premiums and other benefit contributions as additional employee income, Mr. Pool said.

In addition, insurer premium taxes vary by country, and some EC members charge insurers no premium tax at all, Mr. Pool added.

And the EC has not yet issued

any directive governing the regulation of employer-provided pension fund investments, according to Mr. Pool.

"In so far as pension funds are not allowed to invest in foreign securities at all, or only in certain

to come," said Cecil Gamwell, director of the Group Management Division at American International Group Inc. in New York.

"We're still dealing with nine different languages, cultures and currencies; there is a need for local

'Local, non-affiliated companies have been getting beaten up so much by networks around the world and they're tired of losing business,' says Paul Kohlenbrener of benefit consultant William M. Mercer Meidinger Hansen Inc.

types, or only up to certain ceilings, these ostensibly prudential restrictions are not automatically removed by the abolition of trade barriers in 1992, he said.

"There may be an approach to common levels of compensation and benefits, but not for some time

service, so we'll see the networks continue," pointed out Travelers' Mr. Sandmann.

Because of varying levels and structures of benefits through the European Community, the need to deal with one network that can ensure continuity for the client and

provide presence in many nations will remain, according to AIG's Mr. Gamwell said.

"No matter what happens with the trade barriers, clients will still want the control and coordination of benefits through pooling," agreed Mr. Ponicall of Towers, Perrin.

"Pooling is more than just a financial arrangement," said Elaine MacDonald, managing director of international marketing for The Aetna/Generali International Benefits Network.

"It provides a wealth of information to companies back in the States about what their local subsidiaries are doing" concerning employee benefits, Ms. MacDonald said.

And, multinational employers still will benefit from the economies of scale gained by pooling their worldwide benefit programs, experts agree.

Just because trade barriers are coming down in Europe doesn't eliminate the need for pooling arrangements on a global basis, especially if an employer has a concentration of employees elsewhere around the globe, pointed out Mr. Ponicall.

In fact, benefit networks are concentrating on expanding services to other areas of the world, most notably in the Pacific Rim countries.

"The Pacific Rim will continue to grow," notes Robert Pickrell, president of The Multinational Benefits Assn. in South Norwalk, Conn., the marketing arm of Brussels, Belgium-based Insurope.

Roger Balsiger, assistant vp at Vita Life Insurance Co. Ltd. of Zurich, Switzerland, agreed. "Many networks are focusing on the development in the Far East region," he said.

While the Pacific Rim is still a major growth area, the networks also are focusing on Europe in anticipation of increased competition from local insurers after 1992.

"We'll see a lot more local insurers spreading out and expanding business to other countries because restrictions are coming down," predicts Paul Kohlenbrener, a principal in the Chicago office of benefit consultant William M. Mercer Meidinger Hansen Inc.

"Local, non-affiliated companies have been getting beaten up so much by networks around the world and they're tired of losing business," he observed. "They are becoming more and more competitive—that will be a major issue for the multinational networks."

"Some non-network affiliated insurance companies may start to offer Europewide coverage," noted Hewitt's Mr. Bernstein. "It won't be as advantageous as pooling, but it will add some competition" to the European benefits marketplace.

"Some fat will boil out of local company rates," predicted Dick Souders, vp and manager of international employee benefits at Johnson & Higgins in New York. At the same time, "there will be more willingness by the networks to bend—to give up some profits to retain business," he said.

"Competition from local insurers will heat up, but that won't affect the pooling networks as much as the local markets themselves," offered Travelers' Mr. Sandmann.

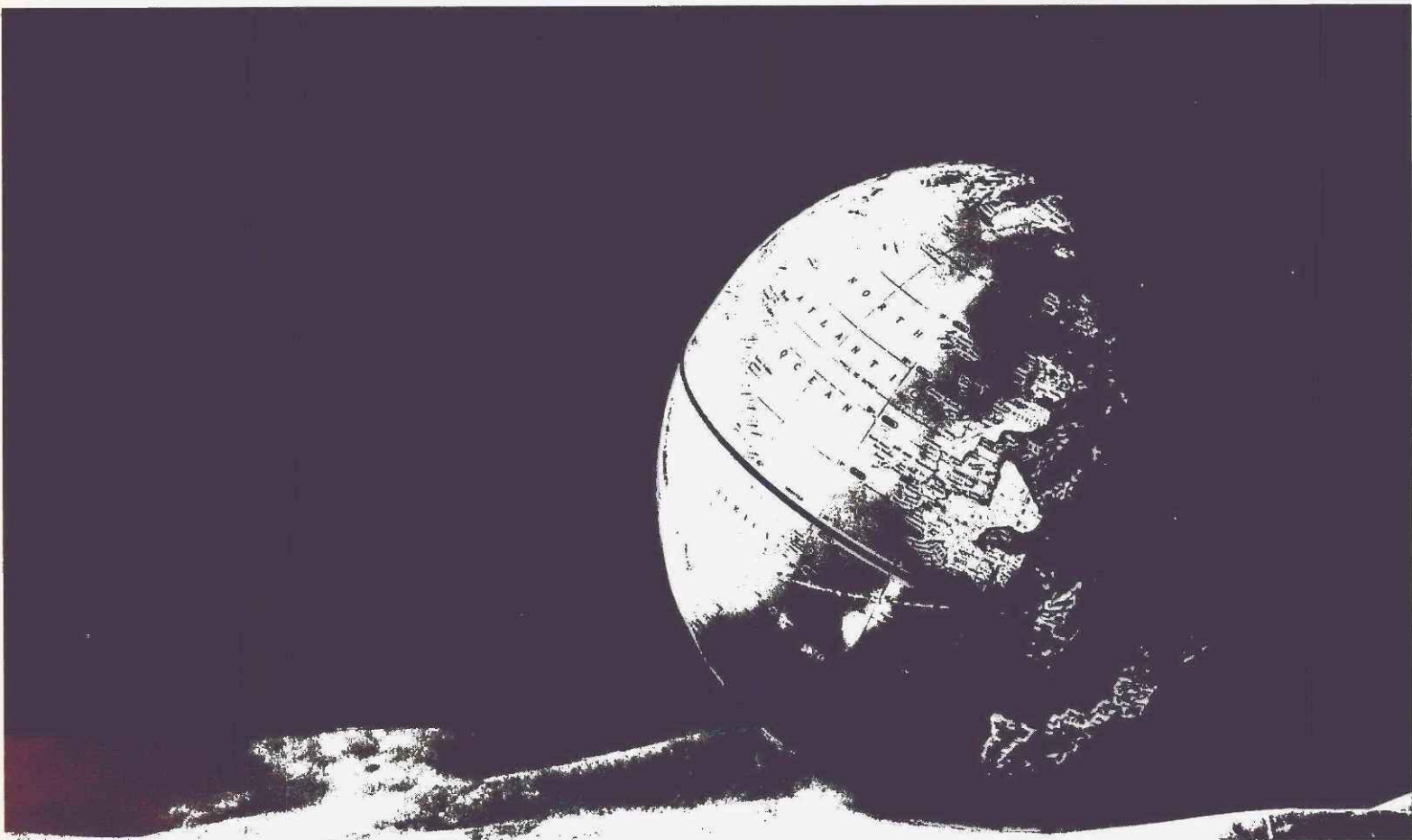
But the market is so highly competitive now that "profit margins are being squeezed to the point of non-existence," he lamented.

"Margins are shrinking, and they're shrinking on a local basis," agreed Ms. MacDonald of Aetna/Generali.

Aside from lowering premiums, some local European insurers that currently are not involved in network arrangements are strengthening their defensive positions

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Before You Take It On, Give Us A Call.



If you're developing or managing an international benefits plan, you know the world may be getting smaller. But it's also getting a lot more complicated.

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More than half of the Fortune 100 companies operating throughout Europe, Latin America and Asia Pacific have learned the value of our global/local perspective. To learn how it can work for you, contact your broker or consultant, or Elaine McDonald, Managing Director, International Marketing, 212-602-7630.



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Benefit networks

Continued from page 4 through mergers and acquisitions experts note.

"We're seeing a lot of mergers and acquisitions" said Mr. Sandmann. "Europe will be left with a few big players and a lot of smaller niche players," Traveler's Mr. Sandmann predicted.

In addition, experts point out that increasing cooperation between banks and local insurers is worrying some of the networks that may find themselves suddenly faced with some powerful and aggressive insurance/investment vehicles.

"The banks frequently act as marketing agencies for insurers they own," explained Mr. Sandmann, noting that this type of arrangement will continue through the 1990s.

"The banking industry is really the sleeping giant if they can get

their acts together," Mr. Ponicali agreed.

To counter some of this competition, "the networks will try to gain market share on a country-by-country basis through target marketing," suggested Ms. MacDonald. For example, she said, "we're trying to become more customer-oriented."

She said Aetna/Generali is in the process of reassessing its marketing approach and re-evaluating the products it offers.

Rather than presenting a standard product line to customers, "we're working with our clients more closely to see what they want," she said.

Other networks are taking the same approach.

"We're constantly listening to what consultants and clients tell us they need," said Mr. Pickrell.

"We're not offering new products as much as trying to adapt existing products to meet clients' needs."

"The message is, 'we are flexible' and are willing to discuss reasonable proposals from them. If a client wants to retain more risk, we have agreements worked out with them," according to Geraldine Pangaro, field vp of John Han-

cock's IGP.

cock's IGP. "The goal of some of the larger multinational companies is to be able to do what they do inside the U.S.," Mr. Ponicali said.

When pushed, many networks, even those that seem to be the most inflexible, are receptive to new

benefits funding arrangements, he added.

Captives are an example of a newer benefit funding plan. "We'll see a lot more utilization of captives offshore for employee benefits," predicted Mr. Long of Alex-

'I've relied on my insurance networks for advice and counsel on plan design and on the appropriateness of plans in each location,' says Tony Filippelli, manager-international employee benefits for Merck & Co.

ander Consulting (see story, page 55).

Mr. Ponicali agreed that as clients recognize the value of self-insuring international benefit programs, the networks will respond by offering "more esoteric financing approaches through captives

and other arrangements in which the client retains a major portion of the risk" while the network functions mostly as an administrator.

For example, administrative services-only contracts, a popular arrangement in the United States, are beginning to receive more attention in Europe.

But, Mr. Ponicali warned that such arrangements typically are beneficial only to very large multinational companies that can afford to assume more of their own risks.

And, "one has to be a bit cautious when you hear about a network pushing ASO," said Mr. Sandmann.

It may be difficult for an employer to construct an administrative services-only contract because of tax and investment regulations in many of the EC-member countries, explained Fiach Maguire, vp in the Chicago office of Noble Lowndes' international consulting practice.

For example, in West Germany and The Netherlands, employers that self-insure their employee benefits are subject to the same financial requirements and regulations as insurance companies, he said.

As the deregulation of the market and increased competition lead to a broader range of products and services offered by the networks, clients' ability to understand the new products will increase their need for advice.

To satisfy this need, AREA Benefits Network is setting up special service departments to explain complicated European benefits arrangements to clients, according to Uwe Petersen, general manager of the Brussels, Belgium-based company.

"If you're an employer that doesn't use consultants, you may want a network that offers consulting," Mercer's Mr. Kohlenbrener said.

Many of the networks are holding more special interest sessions to "show they know how to sell something besides insurance. That's what the market calls for, and it's a good move on their part," he said.

"I've relied on my insurance networks for advice and counsel on plan design and on the appropriateness of plans in each location," said Tony Filippelli, manager-international employee benefits at Rahway, N.J., pharmaceutical manufacturer Merck & Co.

"So, in effect, we're using our network insurers for quasi-consulting as well" as insurance, summed up Mr. Filippelli.

In addition to modifying their programs for Fortune 500 multinationals, benefit networks also are competing for the business of small and mid-sized employers.

"All the pooling networks had aimed at the Fortune 500 and now that market has matured so we have to go to the next layer," according to Traveler's Mr. Sandmann.

Network officials agree that the large-employer market is virtually saturated.

Most Fortune 500 multinational companies have pooling arrangements and, of the Fortune 1,000, about two-thirds of the companies have such programs, said J&H's Mr. Souders.

However, some growth is expected to come from smaller and midsize employers over the next few years.

"Compared to 1987, we've seen smaller and mid-sized groups get more involved with multinational pooling through the networks," observed Philipp Frei, president of Swiss Life North American Services in Ridgewood, N.J.

"The traditional large multinationals have been very familiar

Continued on page 10

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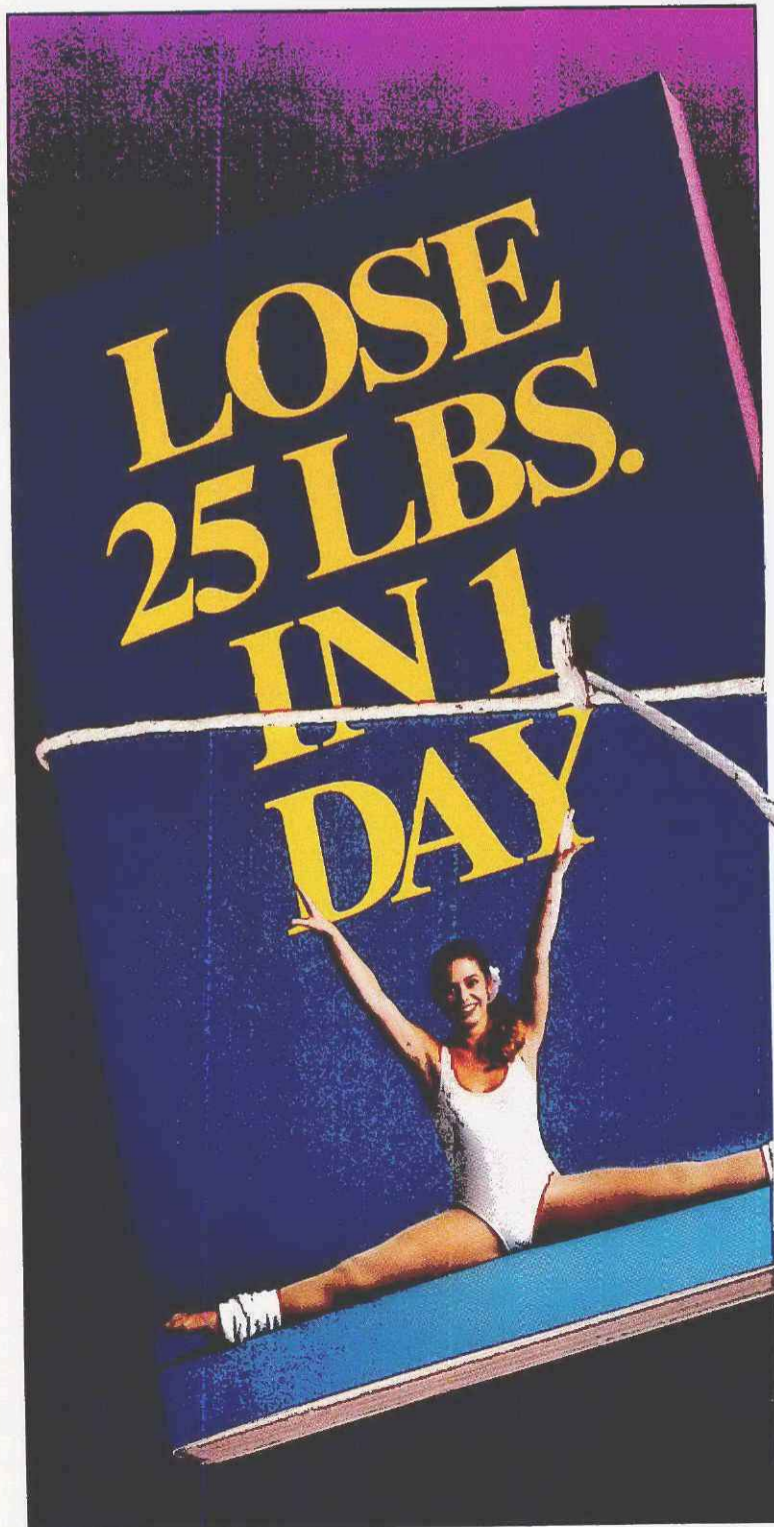
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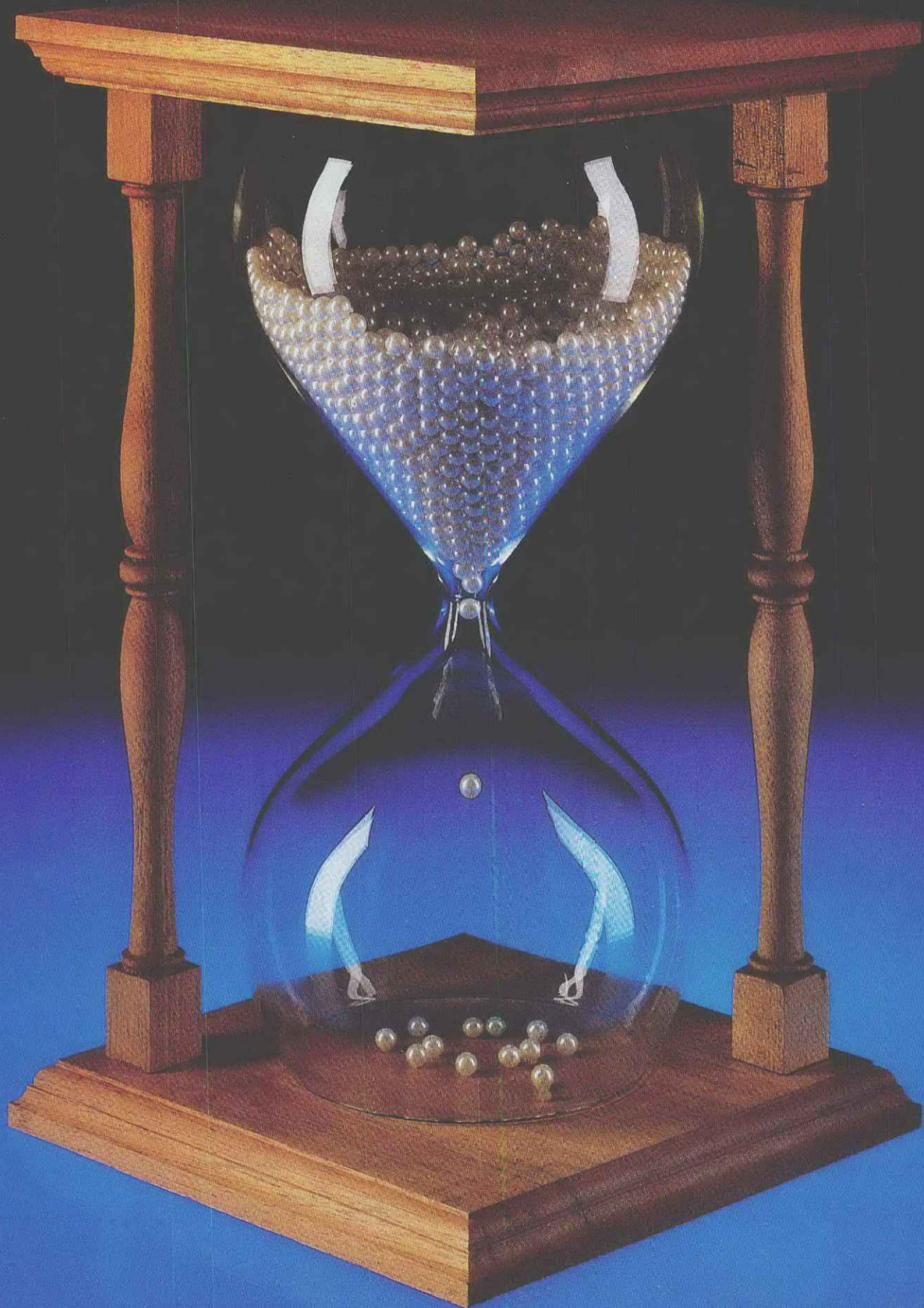


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Opinions

A lesson to be learned

THE IMMINENT DEATH of Section 89 and the subsequent lessons that must be learned from it cannot be greatly exaggerated.

The House of Representatives late last month overwhelmingly voted in favor of repealing Section 89, and it is just a matter of time before repeal is enacted.

Section 89, as one congressman put it so well on the House floor, has become a national embarrassment that must be erased.

Regrettably, the enactment of Section 89 is an example of how the political system failed.

Because there never were any hearings or official records documenting the origins of Section 89, we never shall know why several Treasury Department staffers thought it necessary to draft a statute of such mind-boggling complexity.

Certainly, we never were aware of rampant discrimination in employer-provided health care plans that would justify employers having to spend hundreds of millions of dollars—at the very least—to collect the data needed to run the various Section 89 non-discrimination tests.

The health care plan discrimination that may exist most likely is among professional service organizations, such as small physician practices or law firms, at which health care coverage may only be available to partners and not secretarial or clerical staff. That problem—and we're not sure how widespread it really is—could have been addressed by a simple availability test rather than Section 89's series of convoluted tests.

While much has been made of the fact that Section 89 was put together by mid-level Treasury Department staffers, it would be wrong to lay all of the blame with them.

For instance, why didn't the secretary of the Treasury, or any of his assistants, stop work on what would become Section 89 when it was drafted in the mid-1980s? Indeed, it should have been clear



right from the beginning that Section 89 clashed with the Reagan administration's professed tax reform goal of creating a simpler tax code.

And, where was House Ways and Means Committee Chairman Daniel Rostenkowski, D-Ill., and Sen. Robert Packwood, R-Ore., then chairman of the Senate Finance Committee? They should have demanded, at the very least, hearings on a proposal with such far-reaching consequences for employee benefit plans. Yet, none of the 535 members of Congress tried to stop, alter or at least seek an explanation of why Section 89 was needed.

Finally, where was the business community when Section 89 was wending its way through Congress? Not a peep was heard from the small employer lobby, later to become the most strident advocates of Section 89 repeal, when the legislation was unveiled and its compliance horrors exposed to all.

We hope much has been learned from the Section 89 debacle. We hope that the executive and legislative branches now know they can't blindly accept staff-produced employee benefit proposals. Public officials must legislate, not merely act as rubber stamps for unelected staffers.

And we hope the business community now knows that it has to concentrate its lobbying firepower before—and not after—employee benefits legislation has been passed by Congress.

Learning those lessons would go a long way toward preventing enactment of more Section 89-type benefits statutes.

Geisel wins award

Business Insurance Senior Editor Jerry Geisel won third place in the editorial writing category in the national annual awards competition sponsored by the American Society of Business Press Editors.

Mr. Geisel, who is based in *BI*'s Washington, D.C., bureau, was recognized for his Jan. 18, 1988 editorial, "Opening Pandora's Box." The editorial warned against relaxing rules governing self-funded multiple employer trusts providing health care coverage to small employers.

The editorial earlier captured third place in the awards competition sponsored by the Chicago Chapter of the ASBPE.

Letters

CGL pollution exclusion needs explanation

To the editor: I read with interest the editorial and story regarding the history of the comprehensive general liability policy's pollution exclusion (*BI*, Sept. 25). It is a quite serious matter to draft a policy like the CGL. Unfortunately every time insurers try to fix the form, it seems to acquire more problems.

What would be very helpful to agents and policyholders would be for someone to publish a book with many of the im-

portant prior interpretive statements regarding the policy by various insurance companies and the Insurance Services Office Inc. This would give everyone a clearer picture of what the policies were represented to be.

With all the past problems of the pollution exclusion hitting the headlines, it surprises me that the very material problems with the exclusion in the current CGL form haven't been publicized.

Under the 1973 edition of the CGL form, the pollution exclusion applied policywide. Under the new CGL form, the exclusion appears to apply only to named policyholders. The framers of the new policy placed the word "you" or "your" in every section of the pollution exclusion. "You" and "your" are defined by the policy to be the "named insured shown in the declaration."

The conclusion might be drawn that every other class of policyholders have

coverage under the new CGL form. This would include all forms of additional policyholders; spouses not named in declarations; partners of a partnership who are not named in the declarations although the partnership is; executive officers; directors; stockholders; employees; real estate managers; executors of estates; people operating mobile equipment; and—here is a real beauty—newly acquired organizations.

Now I don't believe that this "accidental discharge" of a mistake in the CGL was either "expected or intended from the standpoint" of the insurance companies, but it certainly wasn't "sudden and accidental" as years were spent haggling over the various policy terms. It is hoped that the companies will correct this problem before it sinks this industry.

Thomas E. Nelson
Hallmark Insurance Associates Inc.
Fresno, Calif.

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How international networks operate

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

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

Benefits covered through multinational networks can include medical, life, accidental death and dismemberment, short- and long-term disability and pensions.

Whether a benefit is pooled through a network in a particular

country depends, in part, upon the quality of any state-sponsored benefit program.

The structure of different networks can vary.

A network can be formed by one insurer with subsidiaries in many foreign countries; by two large life insurance companies, usually a cooperative arrangement between one U.S. firm and one overseas; or by several independent foreign insurers.

One unusual pooling program lets a multinational client form its own network by using insurers of its choice.

Most networks' master coverage contracts include two agreements.

The first agreement is between the multinational company's local subsidiary and the local insurer

that is a member of the pooling program.

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

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

The second agreement, between the network and the client's corporate headquarters, provides for

pooling of experience under all local contracts. The total experience of all the subsidiaries is combined to determine if the parent corporation will receive what is known as an international dividend.

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

By spreading the risks through pooling, an employers' unfavorable claims experience in one country may be offset by good experience in another.

However, if on a worldwide basis an international account produces

a loss, the network may treat it one of three common ways:

- **Stop-loss system:** An employer's losses are fully underwritten by the network insurers in that experience year with no loss carried forward. The risk charge for this type of account is generally higher than for others.

- **Loss-carryforward system:** All losses are charged to the current account and any negative balance is carried forward to the next experience year. The risk charge in this case is reduced to covering catastrophic losses and cancellation of a master contract with a deficit.

- **Loss-carryforward system with contingency fund:** All losses and negative balances are treated as under a loss-carryforward system. However, to reduce the normal risk charge for loss-carryforward, a contingency fund is established and maintained with an annual allocation, which future losses may offset.

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

The contingency fund is an interest-bearing account. If a client cancels its contract with the network, that client's portion of the money is fully refunded, less any amount that has been used.

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

"My son is back home, and he's batting 325"

Andy fumbled some easy field balls during little league practice. His dad knew something was wrong. Andy said he felt "weird." "Maybe it's the flu," he told his dad.

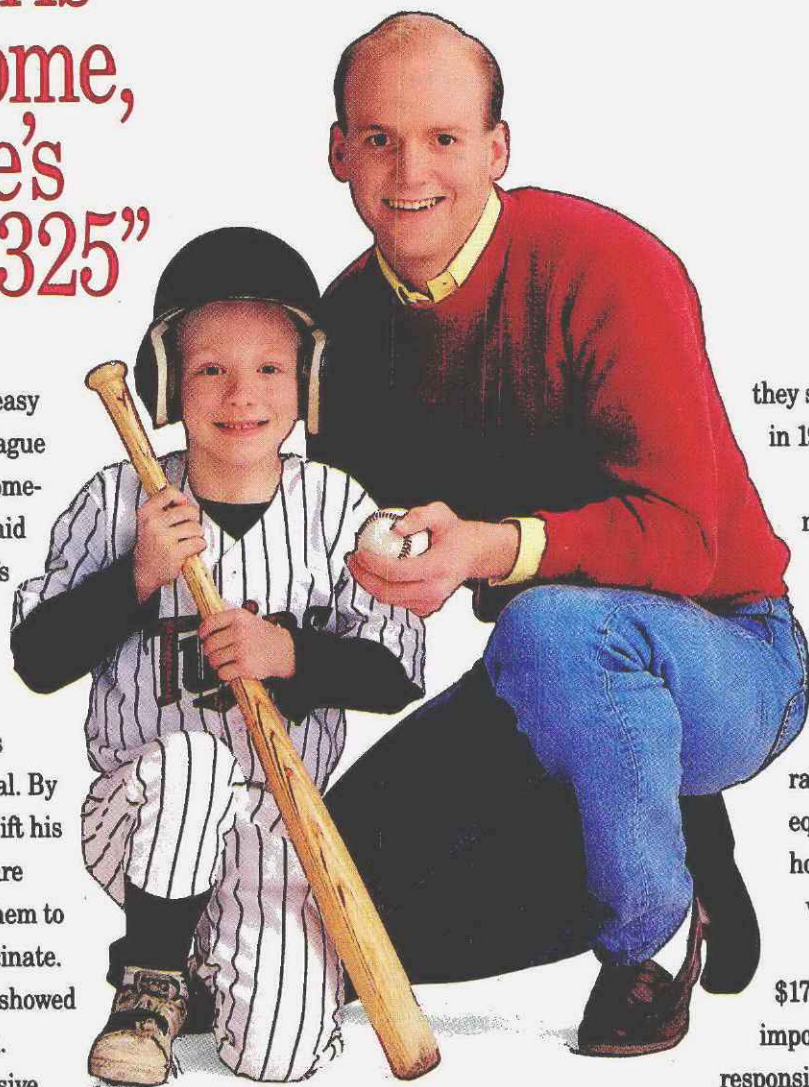
Next day, when Andy's temperature spiked to 105, his parents rushed him to the hospital. By this time, Andy couldn't lift his head. A throbbing pressure behind his eyes caused them to cross. He began to hallucinate.

At the hospital, tests showed 13 abscesses on his brain. Doctors prescribed intensive intravenous (IV) antibiotic therapy. They wanted him hospitalized. Indefinitely.

After a month, however, Andy's parents wanted him home.

His dad's company then turned to HRM's Coordinated Case Management (CCM) program. CCM manages large, long-term, catastrophic cases to make sure patients like Andy receive appropriate care at appropriate costs and within appropriate timeframes.

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So, when Andy's CCM case manager got involved, things started to happen.

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She negotiated reduced rates for at-home medical equipment. She found a home care nurse who would visit Andy daily.

Her efforts saved the client \$17,500 in medical costs. Most important, she provided responsive, reassuring information and support to Andy's anxious parents—who

thought their son was going to die. After several weeks of tender loving care and IV therapy at home, the abscesses disappeared. Andy is back in school making Bs and batting 325 for his little league team.

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Benefit networks

Continued from page 6 with multinational experience rating" through pooling, noted Mr. Pickrell.

He said Insurope is interested in targeting clients that have not yet been exposed to pooling.

"Increased activity is not coming from major multinational employers in metropolitan areas like New York," he said.

Rather, Insurope is seeing interest from smaller employers in the Midwest and Southwest with foreign subsidiaries, partly because networks are doing a better job of contacting these companies.

"The networks are regionalizing their services," agreed Burt Murdock, vp and head of The Wyatt Co.'s international consulting practice in Stamford, Conn.

"There is an increased emphasis on marketing and services because (the market) is exceedingly competitive, so they're putting more staff into different offices," Mr. Murdock said.

Also, some consultants said European parent companies will be targets for increased pooling business.

"These employers haven't looked at pooling in the past because they often haven't looked at (benefits management) on a worldwide scale, but have tended to let each country take its own route, Hewitt's Mr. Bernstein said.

But, "as they (employers) tend to take on a more global perspective, I see more opportunities for multinational pooling," Mr. Bernstein predicted.

"The traditional market is stagnant because people are waiting to see what will happen," Ms. MacDonald observed. "But just because our business is uncertain doesn't mean our clients' business is uncertain.

"There is a new market out there; I'm not sure what it is, but the business is there and we have to go look at it," Ms. MacDonald said. ■

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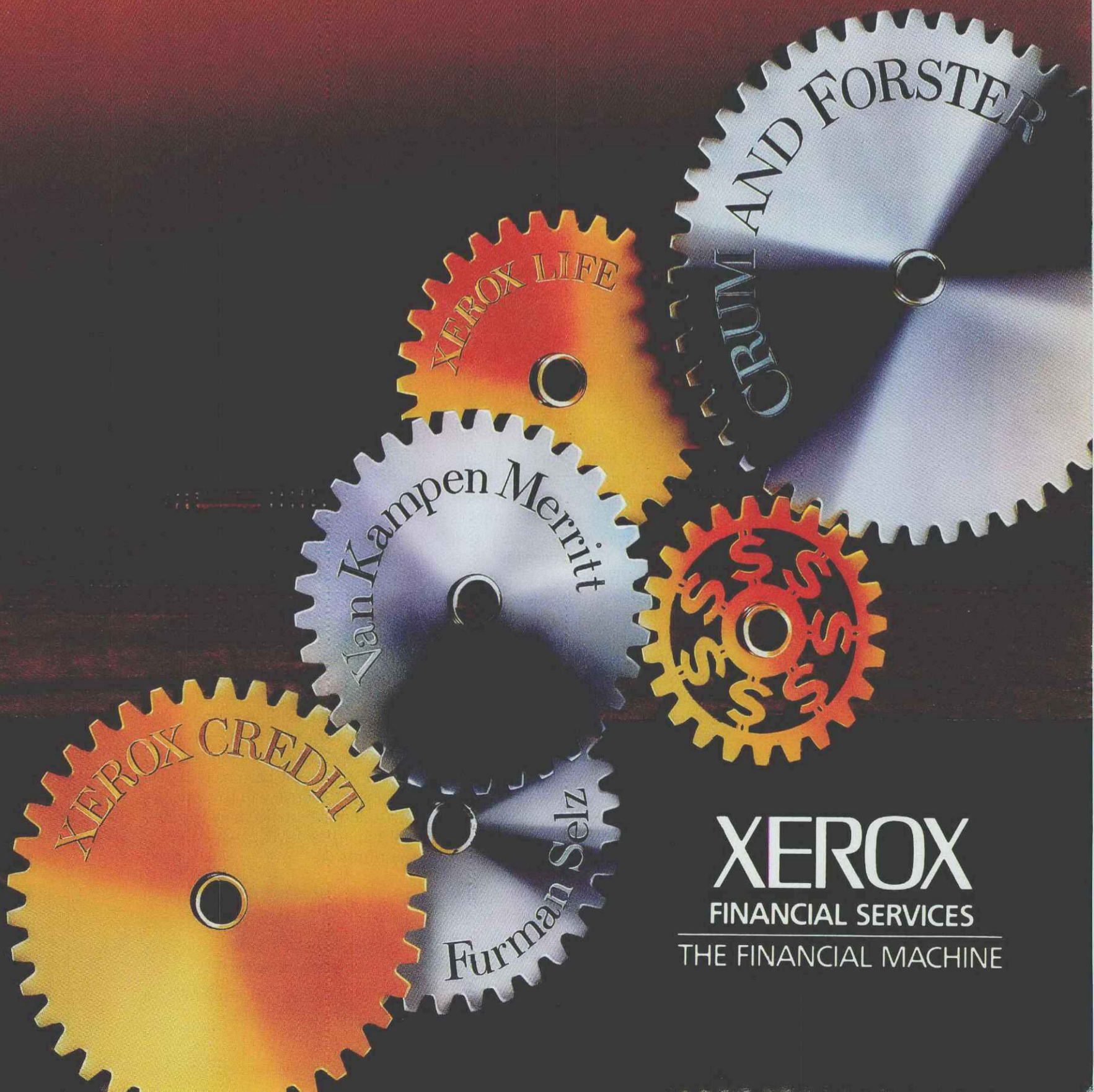
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Benefit managers advocate pooling

By CHRISTINE WOOLSEY

Pooling through multinational networks is the best way to provide benefits to employees scattered around the world, most multinational benefit managers agree.

"It doesn't matter which network you select, pooling is just by far the best way to do business," commented John Hill, senior international compensation and benefits specialist at Memphis, Tenn.-based Federal Express Corp.

Doug Conibar, director of international employee benefits at Eastman Kodak Co. in Rochester, N.Y., agreed: "As a buyer, I don't see why you wouldn't" pool international benefit programs. "It's almost a no-lose proposition because you get first-stage dividends locally and sec-

ond-stage dividends from the pool."

"To me there is no downside to pooling," said Don Dupont, managing director of human resources for Big Eight accounting firm Arthur Andersen & Co. in Chicago.

"There are not really any disadvantages. You're dealing with just the networks not all the local insurance companies, so the network does all the work, draws all the information together," said James Wickersham, international benefits manager at Minnesota Mining & Manufacturing Co. in St. Paul.

However, to get the most from pooling, benefit managers recommend that an employer consider the network's geographic spread, its flexibility and its level of services when choosing a network.

By far the biggest advantage to

pooling arrangements is the ability to reclaim excessive premiums often charged by insurers operating under a tariff or cartel system, benefit managers say.

And, the rate security gained by spreading risks to a broader base of employees almost always achieves some financial savings, depending on the company's overall loss experience, they add.

Such economies of scale are particularly appealing to multinational employers that have a large number of employees overseas, but may not have a concentration in any one geographical area.

For example, an employer "may not be able to get good coverage for three employees in Taiwan," explained Jerry Long, senior vp and managing director of The Alexander

Consulting Group-International Consulting Services in Washington, D.C.

"But, if you have a pool of 10,000 global employees, you can exert pressure on a Taiwan insurer to give you some concessions," he said.

Multinational employers' goal is to get buying power by putting together a big enough group of employees to get competitive prices from overseas insurers, explained Perry Zukowski, corporate risk manager at Lane Industries Inc. in Northbrook, Ill.

Basically, the name of the game is leverage, Mr. Conibar said. "The bigger the pool, the more leverage you have."

He said Kodak is involved with four networks that arrange coverage for some 36,000 employees in 50 countries. The company's first pooling arrangement, with American

International Group Inc.'s Group Management Division, has been in place for nearly 30 years.

The decision to add other networks was for competitive reasons "because certain pools are stronger in certain parts of the world."

Federal Express, which is expecting to expand operations to 61 from 51 countries following its merger with Flying Tiger Line Inc., may end up with more than one network arrangement, according to Mr. Hill.

"Even my network can't cover all those areas. That's a weakness: The networks don't cover the entire universe—but they're moving that way, he said."

Currently, Federal Express contracts with Aetna/Generali International Benefits Network, while Flying Tiger covers 30 lives through Winterthur Swiss Insurance Co. of Winterthur, Switzerland, according to Mr. Hill.

Using more than one network has other advantages, too, benefit consultants point out.

"The sophisticated companies will have more than one network," said Paul Kohlenbrener, principal in charge of international practice in the Chicago office of benefit consultant William M. Mercer Meidinger Hansen Inc.

"In my opinion, the ideal situation would be one primary pool, one secondary pool (to keep the first pool competitive), one utility pool—for hard-to-insure risks or odds and ends—and one local insurer with no pools," he said.

"We had a small pool when I started working here," recalls Mr. Dupont of Arthur Andersen, which employs 23,000 people in 49 countries. "I've added five since then, which is really more than I think we need. Ideally, I'd like to see no more than three."

It's a good idea to use more than one network because it gives the employer the option of an alternative if one is providing unsatisfactory service, said Burt Murdock, vp and head of The Wyatt Co.'s international consulting practice in Stamford, Conn.

However, easing out of a network can be difficult for a multinational employer, partly because most contracts are long-term and it can be difficult to recover reserves from networks, some benefit experts point out.

Most network contracts are not bid more often than once every 10 years, Mr. Murdock pointed out. But "most networks say if you're with them for five years, they will transfer your reserves to a new network," he added.

A network's flexibility is a big selling point to employers, which increasingly are demanding arrangements tailored to their global operations.

In fact, many times the lengths a network is willing to go for the client can make or break a contract, benefit managers say.

Mr. Hill said he considered four networks before choosing Aetna/Generali.

"The products were about the same, but Aetna seemed more flexible—they wanted the business more," he said.

At the time, Federal Express had only 130 lives to pool and most networks require 300 for the most favorable contracts, he explained.

Recognizing the growth potential of the corporation, Aetna officials discussed the situation with representatives from Generali, and the network worked out "a great contract at the front end and better premium for fewer lives," he said, noting that Aetna/Generali now covers some 2,000 Federal Express employees abroad.

"I'm tickled to death with the service they've given us," he added.

Mr. Conibar agreed that the flex-

Continued on page 16

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EC changes won't drop pension plan barriers

By STACY SHAPIRO

BRUSSELS, Belgium—It will be a long time after 1992—if ever—before the European Community builds a legal framework to allow portable Pan-European pension programs and common national social security systems.

"Harmonization (of occupational, or employer-provided, pension funds in the European Community) is difficult and is a long-term project rather than a short-term one," said John Jolliffe, chairman of the European Federation for Retirement Provision,

which represents the national associations of pension funds in all EC countries except Greece and Luxembourg.

"It certainly won't happen in 1992," said Mr. Jolliffe.

A European Commission study group will begin researching occupational pension legislation in the 12 EC countries next year and will begin monitoring the 12 national social security systems, said an EC source in Brussels.

However, there are no EC directives under review that would standardize occupational pension plans by the end of 1992, when trade

barriers among EC nations will be eliminated, according to the source.

And it is unlikely that European governments will allow their diverse social security systems that are ingrained in their national economies ever to be homogenized, he said.

"I don't foresee legislation in this area for a long time," he said.

Employers, however, still will be able to tap into multinational employee benefit networks and other pooling arrangements based in offshore countries after 1992 to offer

Continued on next page

European social security

Retirement ages and government benefit payments vary among European community nations.

Country	Health insurance	Retirement age (male/female)	Benefit payment ¹
Belgium	✓	65/60	60-75%
Denmark	✓	67/67	less than 45%
France	✓	60/60	50%
Germany	✓	65/60	40-45%
Greece	✓	65/60	80%
Ireland	✓	65/65	less than 45%
Italy	✓	60-65/55-60	80-100%
Luxembourg	✓	65/65	45-75%
The Netherlands	✓ ²	65/65	less than 45%
Portugal	✓	65/62	80%
Spain	✓	65/65	80-100%
U.K.	✓	65/60	less than 45%

¹Percentage of final pay ²For hospitalization only

Source: Noble Lowndes "A Guide to Pensions in Western Europe 1989"

Benefit pools

Continued from page 14

ibility of some networks is better than others.

While AIG "works out of the kitchen," mixing and matching plans according to what Eastman Kodak wants, "other networks work out of the dining room. They say, 'this is what we have—take it or leave it,'" he said.

But while many networks tout their flexibility during a sales pitch, most consultants say client size will determine just how accommodating a network is willing to be.

For example, Mr. Conibar said that because his company is so large, generally reasonable requests are met.

"The company doesn't want to lose our business," he said.

"When you're a major account with an insurance company, your accounts get the attention and service when you need it," agreed Tony Filipelli, manager of international employee benefits at Merck & Co.

The Rahway, N.J.-based pharmaceutical manufacturer employs 18,000 people overseas, one-third of which are covered by pooled contracts, he said.

But, Federal Express' Mr. Hill pointed out that Aetna/Generali was willing "to make concessions for us, even though we're a small contract."

Networks can attract and maintain business by hiring experienced account representatives that can establish a good rapport with employers.

"Networks have personalities of their own," explained Mercer's Mr. Kohlenbrener. "Their service differs and their account professionals' personalities differ."

However, most networks have a problem with high staff turnover, said Mr. Conibar.

"Just when you can talk intelligently about your account, the representative leaves," he complained, stressing that the networks should take a closer look at this problem.

"The rapport you have with the network is very important—how you get along, service, their response when you call," Mr. Conibar said.

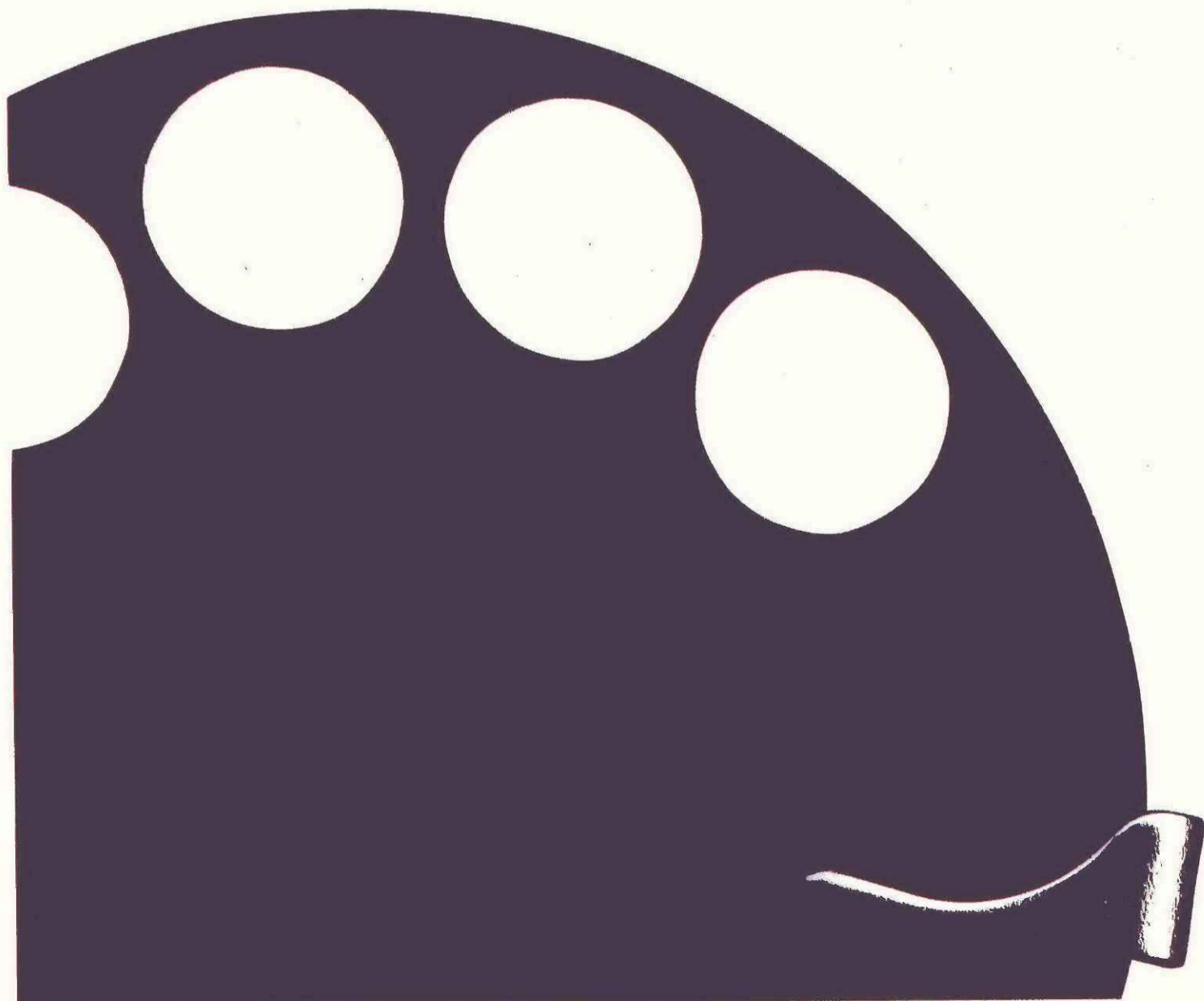
"The account executive and the services he or she provides often play a large part in the decision to expand the pool arrangement with a particular network," Mr. Filipelli agreed.

In fact, service attitude was a major reason Federal Express chose the Aetna/Generali network, Mr. Hill said.

"Sometimes you put all these numbers down and compare it all, but you just don't feel comfortable," he explained. "Our Aetna contacts made me feel that they'd go to bat for us. They are very service-oriented, knowledgeable and willing to help a newcomer understand what is going on."

He said he deals with an account representative in Brussels, Belgium, and one in New York. "I just have to call one number and everything is taken care of." ■

A lot has changed since C



Continued from previous page
Pan-European employee benefit packages, including occupational pension plans to expatriates (see stories, page 3 and 20).

Employee benefit consultants and pension fund representatives don't expect pension standardization to come quickly.

"As various tax regimes and social security regimes and pension fund legislation become more and more alike, as they will do, it will be easier to transfer people and pensions," said Stan Freilich, vp of consultant Towers, Perrin, Forster & Crosby Inc. in London. "But it's not going to happen for a long time, certainly not in 1992 or 1993."

"In the long term, there will be harmonization of human resources (in the European Community), including pension plans. But I don't think it will be 1992 when it happens," added David Johnson, an executive in charge of continental

European operations for employee benefit consultant William M. Fraser Ltd. in London. "I don't think there will be major changes in 1992 on the employee benefit side."

Michael J. Wilson, senior international consultant of Noble Lowndes International Ltd. in London, imagines it will be at least 50 years before different nations' social security systems are harmonized.

"I am a committed European and I see greater political unity happening," said Mr. Wilson. However, the harmonization of social security systems will be "a long time coming," he said.

The year "1992" is a euphemistic term to describe the European Community's intention to eliminate all trade barriers by Dec. 31, 1992, to form a single European market for business purposes. The term comes from the Single European Act of 1985, which is enabling

legislation under which all 12 EC nations agreed to create a unified European market.

In accordance with the act, the European Commission's White Paper of 1985 gave a detailed timetable to achieve a European mar-

Social security harmonization will be a 'long time coming,' says Michael Wilson, of Noble Lowndes.

ket without international barriers by Dec. 31, 1992 (*BI*, May 16, 1988).

To achieve this end, about 300 proposed directives designed to free the movement of goods and capital among the EC member countries must be approved by the

European Council of Ministers by the end of 1992.

However, these directives are not necessarily designed to allow the liberal movement of labor throughout the European Community.

Instead, a proposed social charter adopted last month by the European Commission—with only the United Kingdom objecting—would encourage, among other things, the same minimum wage and employment age requirements in each EC nation to allow a more mobile workforce.

The charter is being reviewed by the European Parliament and must be signed by the European Council of Ministers—possibly at its next meeting later in the year—before it becomes EC law.

However, neither the charter nor the 300 proposed directives deal directly with occupational pension plans or national social security systems, observers agree.

"We are only just starting to look at it," said the source at the European Commission in Brussels, referring to occupational pensions.

The European Commission will conduct a seminar at the beginning of next year "to get some idea of what barriers exist" among EC nations with regard to pensions, he said. Senior officials from the social security departments of the 12 EC countries, actuaries, representatives from EC-based pension fund institutions and employer lobbyists will participate.

"We are just in the thrashing stage at the moment, just fact-finding," he said. "Private (employer-sponsored and personal) pensions are of increasing importance in Europe, and if in 1992 there are barriers, the EC should look at the problem of (portable pensions). The seminar, we hope, will point the way to (EC) action in the future. But it's not going to be easy at all."

The European Commission also is setting up an "observatory" to coordinate the information available about national social security systems, he said. The division, which is expected to be up and running next year, will monitor the changes taking place in the EC social security systems "to see which direction the social security systems are going," he said.

But, there are no plans in the foreseeable future to harmonize national social security systems, he said.

EC legislation dating back to 1971 allows each employee in Europe to accrue social security benefits regardless of the country he lives in. The legislation, referred to sometimes as the Multilateral Agreement on Social Security within the European Community, allows, for example, a British employee to move to France and work 10 years and to return to the United Kingdom and receive social security benefits upon retirement there.

However, the legislation only protects the accrual of the social security benefits, not which country pays the benefits or under which national system the benefits are calculated, said Robert A. Sperl, senior international consultant for The Wyatt Co. in London.

The harmonization of private pension plan and social security practices is a monumental task, employee benefit consultants agree.

"Pension plans are controlled on a country-by-country basis," said Mr. Sperl of Wyatt. Each country has its own tax legislation governing pension fund contributions; its own currency; its own retirement age; and its own benefit levels, he added.

For example, retirement ages vary, from 55 for women in Italy to 67 for both men and women in Denmark, said Mr. Wilson of Noble Lowndes. And state-provided retirement benefits vary from less than 45% of final pay in countries like the United Kingdom and The Netherlands to as much as 100% in Italy, he said (see chart, page 16).

Legislation affecting employer-provided pension plans also varies from country to country, said Mr. Wilson.

For example, all commercial and industrial operations in France are required to participate in an industry or association plan to provide retirement benefits to employees, according to Mr. Wilson.

In West Germany, employers are allowed to hold "book reserves" on their balance sheets as a form of self-insurance and guarantee a level of retirement benefit to their employees, according to Mr. Johnson of Mercer. But, because there is no separate pension fund, "it is impossible to transfer reserves to another country" if an employee moves away from West Germany,

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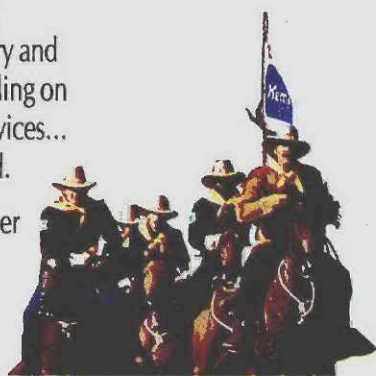
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Pension plans

Continued from previous page he said.

And, the United Kingdom has a unique system in which employees can "contract out" of one of two state pension plans and use that contribution to fund a personal pension plan run by insurance companies or as an extra contribution to a employer-sponsored pension plan.

The State Earnings-Related Pension Scheme contribution is 2% of pay from employees and 3.8% from employers, explained Ian Gordon, director of Sedgwick Financial Services Ltd.

These differences make it impossible for an employee who started work in the United Kingdom and moved to another EC country to transfer the plan without penalties, consultants agree.

"Those kinds of fundamental differences and style of benefits

will be an impediment of moving (pensions) from one country to another," said Mr. Johnson of Mercer.

Employers, however, favor EC legislation allowing portable Pan-European pension funds and other

Colin Steward, secretary of the National Assn. of Pension Funds Ltd. in the United Kingdom and secretary to the EFRP, the group representing national pension fund associations.

"This involves taking account of

Differences among nations' social security systems and benefit practices 'will be an impediment of moving (pensions) from one country to another,' says David Johnson of William M. Fraser Ltd. in London.

employee benefits, according to European observers.

"Pension funds which have European subsidiaries are very conscious of the need to harmonize their arrangements in each of the countries involved for local employees and expatriates," said

the aggregate of state and private (pension) provision, and the state provision varies significantly from country to country," said Mr. Steward.

He said EFRP's goals include:

- Establishing Pan-European plans.
- Removing restrictions on pension investments in EC countries..

Employers in Europe and the European Commission want to allow employees to move from one EC country to another without penalties, added Mr. Jolliffe of the EFRP. "Workers should be allowed to take their preserved benefit or transfer value from one country to another," he said.

Until the European Commission allows Pan-European pensions, employers have several options for employees who move from one EC country to another, consultants say.

Most U.S. companies, for example, keep their executives who have moved on a short-term basis to EC countries in the parent company's U.S. pension plan and other employee benefit programs, the consultants agree.

However, it can be a "waste of money" to keep a U.S. executive in a U.S.-based medical insurance program when a local one is just as good and cheaper to administer, said Mr. Sperl of Wyatt.

An employer in one EC country also can lobby the tax authorities in another EC country to allow his executive to maintain his social security and pension benefit in his home country for one or two years—or longer—on special application, consultants agree.

"But this is not universal," said Mr. Sperl of Wyatt.

Employers also can use multinational employee benefit networks to offer pensions and other employee benefits to traveling employees. This allows the employer to move money from one pension account in one country to another pension account in another country. However, the networks do not allow employees to move a "pot of value" from one country to another country, the consultants noted.

"Networks are not the only way, but they may be the only efficient way," said Mr. Sperl. "But the employee (in a network) loses his portability of pension when he changes employment."

Executives also may choose offshore investment programs that offer retirement and employee benefit packages, such as a program recently offered by Sedgwick Financial Services. But these programs are usually not offered to all employees, but only to executives.

Executives who move from country to country usually negotiate with employers pension and other benefits individually before moving, noted the consultants.

"We had one client which promised an individual that he would have the best benefit, the best (conditions for retirement) and the best (retirement) payout," said Mr. Sperl. "So he had a U.K. form in Swiss francs and retired in the U.S.—a perfect pot of value.

"A company will come up with the money if you have an enforceable promise," Mr. Sperl said. ■

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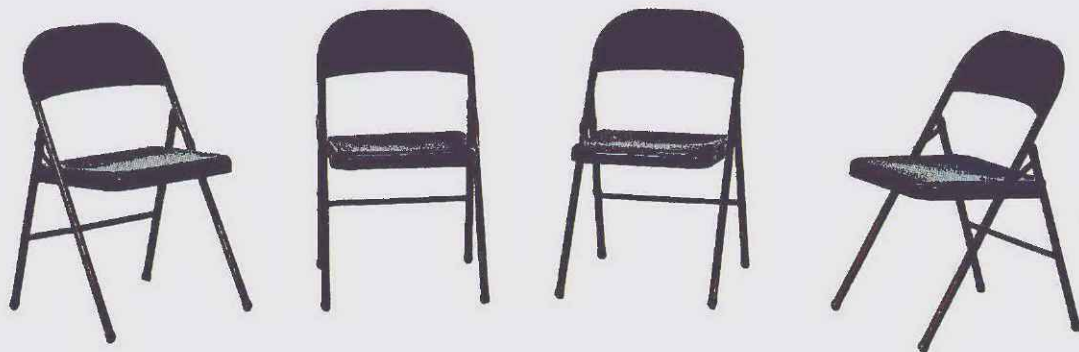
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Portable benefit package geared to EC executives

By STACY SHAPIRO

LONDON—Sedgwick Financial Services Ltd. is offering a unique employee benefit product that allows executives of non-U.S.-based companies to move from one country to another with a portable benefit package.

Ideal for executives who move from one European Community nation to another during the build-up to 1992, but available to executives worldwide, the Transnational Benefit Plan offers:

- Investment options for retirement funds through The Scorpio Portfolio managed by N.M. Rothschild Asset Management (C.I.) Ltd. in the offshore domicile of Guernsey in the Channel Islands. Executives can switch their retirement funds among 13 specialized investment funds in the Scorpio Portfolio. They also have the option of investing in three managed funds.

- Life and disability insurance underwritten by Vita Life Insurance Co. Ltd. of Zurich, Switzerland, in any major convertible currency, up to a maximum benefit of 700,000 Swiss francs (\$431,550).

- Health insurance for executives and dependents underwritten by PPP International, a British-based private health insurer. The plan pays a maximum hospitalization benefits of up to \$1 million per person per year. In addition, the plan can be written to cover repatriation or evacuation by air ambulance when suitable hospital treatment is not available, up to a limit of \$60,000 per case.

The plan is unique at least in Europe because it offers through the offshore trust retirement, health, disability and life insurance benefits, according to Sabine Debouche, a consultant of the international division of Sedgwick Financial Services, a unit of Sedgwick Group P.L.C. While other offshore plans offer retirement benefits, they do not offer a combination of health, disability and life insurance benefits, she said.

In addition, other offshore retirement benefit plans usually require executives to stay in the plan 20 years before vesting. However, employees in the Transnational Benefit Plan vest immediately in accrued benefits. "There is no time limit," she said.

The plan, launched late last month, is being offered because "international employers are relying increasingly

on a new generation of mobile international personnel, able to operate effectively across national borders," said Sedgwick in the plan brochure.

"One of the key personnel issues facing international employers today is how best to provide appropriate remuneration packages for these transnational employees."

Many current benefit programs that have been traditionally designed for expatriate and international personnel have two main disadvantages, says the company. The plans are too complex and difficult for executives to understand; and they are based on traditional insurance policies with inflexible conditions, high expenses and inadequate investment returns.

By talking to its clients, Sedgwick Financial Services found that multinational executives want simple plans that are funded for security, are personalized and tax-efficient, said Alastair Hunter, chairman of Sedgwick Financial Services' international division in Brussels.

"We decided that employees had to be satisfied with the program and understand it; that it had to be cost-effective; and it had to be flexible," he said.

The Transnational Benefit Plan allows an employer to set up an individual account within the parameters of the plan and structure the benefits to suit his expatriate executives'.

Offered on a "modular" basis, each executive can structure his own employee benefit program under the parameters set by his multinational corporation, said Mr. Hunter.

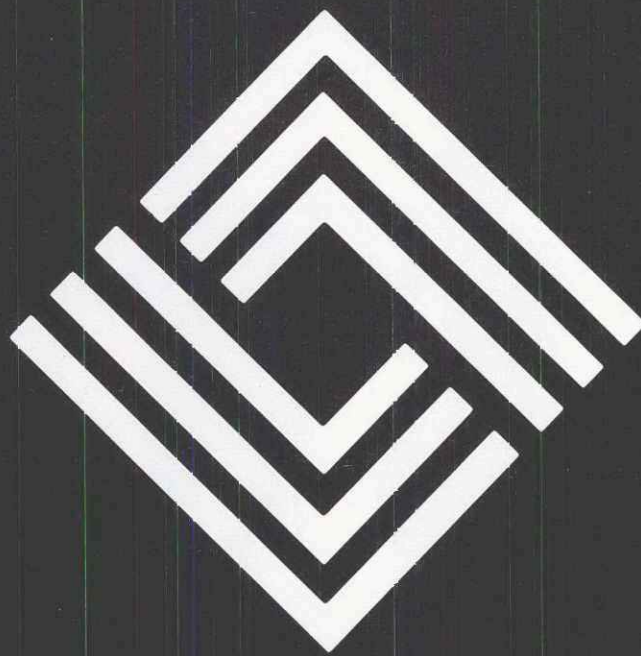
The employer pays the premiums to the trust, though the employer can ask each employee to make a personal contribution if it wants.

New insurers can be selected as an executive moves to a new country, he added.

Sedgwick charges an administration fee of 5% of all contributions received from each multinational employer, according to the brochure.

Currently, the plan is for executives with companies based outside the United States. However, Sedgwick plans to launch the plan in the United States in the next few months.

"We see this whole approach (to employee benefit plans) developing as the European market develops," said Mr. Hunter. ■



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Quebec workers get voice in pension affairs

By ADRIENNE C. LOCKE

QUEBEC—A 4-month-old provincial law establishing joint employer-employee management of private pension plans could hurt the plans' financial performance, pension experts say.

Employers will remain liable for any investment losses due to inexperience of the labor members of the employer-employee/retiree committees, observers explain.

"One of the biggest challenges for the employer will be to try to educate the plan members about pension plans, about the plan environment and to give them enough background about pension plan management," said Allan Shapira, a consultant in the Toronto offices of Hewitt Associates.

In what has been called "the most liberal approach of all the provinces," the law gives committees responsibility for all pension administration and strategy.

Success will depend, in part, on how well members work together and whether plan members can handle management responsibilities, experts say.

The Supplemental Pension Plan Act, effective in January 1990, requires committees to include at least two plan members—either retirees or current employees—and one independent representative who is neither a plan member nor an employer representative.

But the number of employer or plan member representatives is unlimited and a firm can structure a committee so its representatives outnumber those of employees.

"Quebec has gone from the idea of joint management to employee management," said Mr. Shapira.

"The law implies that there will be less employer control over the investment aspects of the pension fund," he said.

Giving plan members a say in the investment policy of the pension

plan might force employers to accept investment strategies they do not favor, he noted.

Jerry Schnurr, the national pension leader in the Toronto offices of Towers, Perrins, Forster & Crosby Inc., agrees.

"Though the employer is liable for the investment, he could have no control over the investment, theoretically," he said.

The employer "could stack the committee (in its favor), but the law could easily be changed to allow, say, a 50%-50% representation on the committee," Mr. Schnurr said.

Hewitt's Mr. Shapira also believes that the committees will make it more difficult to manage assets and handle other pension plan strategies.

"It depends on the relationship the employees or the union has with the employer," he said.

If a company maintains good relations with employees and management and labor generally agree on strategy, committee formation will be streamlined, he explained.

James Christie, a consultant with the Toronto offices of The Wyatt Co., agrees.

"There has to be good communications" between employers and plan members for the committees to work efficiently, he said.

Overcoming the inexperience of plan members on the committee is another hurdle with which employers must contend, Mr. Shapira said.

Because plan members on the committees might not understand

how pension plans work, they could inadvertently slow down the management process, Mr. Shapira said.

However, Mr. Christie believes that a learning process must take place among both employers and plan members.

"A certain amount of education is needed on the employee side, as well as the employer side, because of the added responsibility the law dictates," he said. Several employer representatives will be needed on the committees, whereas previously only one company official may have been responsible for pension management.

While the proposal could give plan members more power over pension management, plan members may not want to serve on the

committees.

"It may be difficult finding people who will take on that responsibility," said Mr. Shapira.

Besides establishing the committees, the new Quebec law also requires employers to inform all members—both current workers and retirees—of pension plan developments at an annual meeting.


Such meetings, which are not currently held, could become an expensive endeavor for some employers, Mr. Christie said, comparing them to annual shareholders' meetings.

The cost of arranging such meetings—including printing costs and perhaps room rental expenses—could amount to a huge expense for both large and small employers, he said. ■

Actions speak louder than words.

DELANOY & KIPP, INC.
Parsippany, New Jersey
has acquired
JARDINE EMETT & CHANDLER NEW JERSEY, INC.
Parsippany, New Jersey
a subsidiary of
JARDINE EMETT & CHANDLER, INC.

The undersigned initiated this transaction and acted as financial advisor to DeLanoy & Kipp, Inc.



THE MANHATTAN GROUP
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(212) 952-1700

SSF HOLDINGS, INC.
New York, New York
has acquired the assets of
SCHMUTTER, STRULL, FLEISCH, INC.
New York, New York


The undersigned acted as financial advisor to Schmutter, Strull, Fleisch, Inc.



THE MANHATTAN GROUP
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STERLING & STERLING, INC.
Great Neck, New York
has acquired the businesses of
CLEMENS ASSOCIATES, INC.
New York, New York
CLEMENS AGENCY, INC.
A New Jersey Corporation
and
ISLAND BROKERAGE CORP.


The undersigned initiated this transaction and acted as financial advisor to Clemens Associates, Inc.



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RHULEN AGENCY, INC.
Monticello, New York
has sold certain assets to
VAN VLEET, WEISBORD WELLS,
RHULEN ASSOCIATES, INC.
Monticello, New York


The undersigned acted as financial advisor to Rhulen Agency, Inc.



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MADISON INSURANCE ASSOCIATES, INC.
Madison, New Jersey
has acquired the assets of
ADLER AGENCY, INC.
Somerville, New Jersey


The undersigned acted as financial advisor to Madison Insurance Associates, Inc.



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McBURNIE-ANDREWS AGENCY, INC.
Red Hook, New York
has acquired the assets of
E.V. HOWARD AGENCY, INC.
Poughkeepsie, New York

The undersigned acted as financial advisor to McBurnie-Andrews Agency, Inc.



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RANGER INSURANCE MANAGERS, INC.
Houston, Texas
has acquired
NATIONAL AGRA UNDERWRITERS, INC.
Camp Hill, Pennsylvania

The undersigned initiated this transaction and acted as financial advisor to National Agra Underwriters, Inc.



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Ontario mulls pension indexing

Proposals could cause some firms to drop defined benefit plans

By ADRIENNE C. LOCKE

TORONTO—A proposal before the Ontario Parliament to index future benefits from defined benefit pension plans to increases in the Canadian Consumer Price Index could cause employers to replace defined benefit plans with simpler alternatives, pension experts say.

The additional administrative and financial burden would drive smaller employers to replace defined benefit plans with defined contribution or group registered retirement savings plans, according to pension experts.

In addition, the proposal would

make employers more reluctant to establish new defined benefit plans, they say.

"There is no doubt that employers are concerned because the legislation has ramifications both financially and administratively," said Allan Shapira, a consultant in the Toronto office of Hewitt Associates.

However, some believe that requiring employers to index pension benefits would cause employers to take a longer look at the pension plans.

The Ontario Pension Benefits Act, passed in June 1987, contained a provision that would require benefits paid by a defined benefit plan to be

increased according to a formula that would become part of the law by amendment at a later date.

In March 1989, the Ontario provincial government released draft legislation and a discussion paper containing proposed amendments to the OPBA that, among other things, would require employers to adjust basic lifetime pension benefits earned after Jan. 1, 1991, for inflation.

The final draft of the legislation is expected to go to the Ontario Parliament in November.

The proposal would mandate benefit increases of 75% of the Canadian CPI increase, minus 1%. For example,

annual inflation of 4% would mean benefit increases of 2%, since 75% of 4% is 3%, minus 1%, which equals 2%.

However, the formula would only apply to annual price increases of up to 8%, with any excess carried over to the next year. For example, if prices increased 10% in 1991 the formula would only recognize an 8% increase with the remaining 2% carried over to 1992.

That provision effectively limits annual pension benefit increases to 5%.

While many Canadian employers voluntarily increase pension benefits

to keep pace with inflation, employers generally oppose mandated indexing.

"Most major employers would already be making post-retirement increases, but on an ad hoc basis. The government is now saying they have to make these increases whether or not they can afford to," said James D. Christie, a consultant in the Toronto office of The Wyatt Co.

"For the employer, it is not an opposition to the principle, it is an opposition to the indexing being mandated," said Hewitt's Mr. Shapira.

If inflation soars, some employers may not be able to afford to increase pension benefits to the required level, said Jerry Schnurr, national pension leader for the Canadian offices of Towers, Perrin, Forster & Crosby Inc. in Toronto.

"Many employers are at the 2% to 2.5% increases or 40% to 50% of (increases in) the CPI in their ad hoc practices. That's around 5% inflation. But if inflation should increase, then some employers will be short," he said.

Mr. Christie expects employers with 50 or fewer plan members to replace defined benefit plans with a group RRSP, the equivalent of an Individual Retirement Account in the United States.

He noted that only about half the cost of a small group defined benefit plan actually goes toward benefits because of high administrative expenses. In a much simpler group RRSP, benefits comprise upwards of 90% of the costs, he said.

Besides mandating that benefits earned after January 1991 be indexed to inflation, the proposal also would encourage employers to index benefits earned before 1991 by allowing them to follow a reduced indexing equation or by allowing employers to recoup some excess assets from a defined benefit plan.

While employers once could withdraw surplus assets from any pension plan with government approval, employers now can recoup surplus pension assets only upon winding up the plan, and then only if the plan members unanimously agree or if the employer receives a court order permitting an asset reversion, Mr. Schnurr said.

However, the proposal only would allow excess assets to be removed on a dollar-for-dollar basis: The employer can recoup only \$1 of excess plan assets for every dollar benefits are increased.

Employers' ability to recoup surplus plan assets is "still going to be limited, and I don't think there will be that much of a relaxation of current rules," Mr. Shapira said.

Because this may be the only way for employers to retrieve excess defined benefit plan assets, they will be less inclined to overfund their pension plans, which—in bad economic times—could mean a smaller cushion for the plan, said Mr. Schnurr.

But Fiach Maguire, vp of the international division in Chicago for Noble Lowndes, a London-based consulting firm, believes this objection to the indexing proposal is probably only speculation by opponents of indexing.

"It's talk that is used to discourage this kind of legislation. Each plan should make a decision on what is considered enough assets or too much," he said.

As long as an employer is getting good sound actuarial advice, overfunding should not be a problem, he said.

Under the proposal, an employer

Continued on next page

MEADOWBROOK-RICHMAN, INC.
Elmsford, New York

has merged with

POLAR INTERNATIONAL BROKERAGE CORP.
New York, New York

The undersigned initiated this transaction and acted as financial advisor to Meadowbrook-Richman, Inc.



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EMPIRE RISK
MANAGEMENT RESOURCES, INC.
Delmar, New York

has acquired the businesses of

OLAF LUNDBERG AGENCY
and
TUCKER SMITH AGENCY
both of Delmar, New York

The undersigned acted as financial advisor to Empire Risk Management Resources, Inc.



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EMPIRE RISK
MANAGEMENT RESOURCES, INC.
Delmar, New York

has acquired

BUTLER & BROWN, INC.
Delmar, New York

The undersigned acted as financial advisor to Empire Risk Management Resources, Inc.



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MAGINNIS AND ASSOCIATES, INC.
A Delaware Corporation formed by

HAMILTON ROBINSON & COMPANY, INC.
has acquired DUFOR ENTERPRISES, INC.
and its subsidiaries

MAGINNIS AND ASSOCIATES, INC.
COMPRO SERVICES, INC.
as well as its affiliated companies

NATIONAL PROFESSIONAL GROUP
CONSULTANTS, INC. & J.B. JOHNSTONE, INC.

The undersigned initiated this transaction and acted as financial advisor to Maginnis and Associates, Inc.



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KALVIN-MILLER INTERNATIONAL, INC.
New York, New York

has acquired the assets of

A. MATARASSO & CO., INC.
White Plains, New York

The undersigned valued the acquired assets for purposes of this transaction.



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MARK NORMAN TRUDEL,
KAREN JEANNE MARTELLUCCI
MICHAEL AMEDE TRUDEL, AND
CARTER JOHN TRUDEL

have acquired 50% of the outstanding stock of
GROUP MANAGEMENT AND MERCHANDISING
INTERNATIONAL, INC.
New York, New York

The undersigned acted as financial advisor to the acquirers and Group Management and Merchandising International, Inc.



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AMERICAN BROKERAGE CORPORATION
Hartford, Connecticut

has acquired

McDOWELL INSURANCE, INC.
Chambersburg, Pennsylvania

The undersigned initiated this transaction and acted as financial advisor to McDowell Insurance, Inc.



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REPUBLIC HOGG ROBINSON, INC.
Boston, Massachusetts

has acquired the assets of

EQUITY ASSET MANAGEMENT GROUP, INC.
Lubbock, Texas

The undersigned initiated this transaction and acted as financial advisor to Equity Asset Management Group, Inc.



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Guide to multinational benefit networks

The Aetna/Generali International Benefits Network

One Liberty Plaza, 37th Floor,
New York, N.Y. 10006;
212-630-7630

	1988	1987
Gross premiums	\$185,500,000	\$170,000,000
U.S. based	80%	85%
Non-U.S. based	20%	15%
Pension funds	\$950,000,000	\$860,000,000
Employees	90	90
U.S.	30	30
Non-U.S.	60	60
Lives covered	NA	NA
Master contracts	101	95

Foreign countries 45
Offices 8

Year formed: 1966.

Member companies: Assicurazioni Generali and Providencia Seguro de Retiro, Argentina; The Prudential Assurance Co. Ltd., Australia; Generali-Allgemeine Lebensversicherung A.G., Austria; Generali Belgium, S.A., Belgium; Aetna Life & Casualty, Bermuda; Generali do Brasil, Brazil; Aetna Canada, Canada; Aetna Chile

Vida, S.A., Chile; Compania Granda de Seguros, Colombia; Baltica Life Insurance Co., Denmark; La Nacional, Cia de Seguros, Ecuador; Misr. Insurance Co., Egypt; Generali France S.A., La Federation Continentale and La Concorde, France; Generali-Lebensversicherung A.G., Germany; Generali Life A.E., Greece; Aseguradora General S.A., Guatemala; Generali Guernsey, Guernsey; East Asia Aetna Insurance Co. Ltd. and Blue Cross (Asia Pacific) Insurance Ltd., Hong Kong; Irish Life Assurance Co., Ireland; Assicurazioni Generali, Italy; Mitsui Mutual Life

Insurance Co., Japan; Daehan Kyoyuk Insurance Co. Ltd., Korea; Le Foyer, Luxembourg; Universal Life & General Insurance Co., Malaysia; Seguros America S.A., Mexico; De Nederlanden van 1370, Netherlands; Aetna Health Corp. Ltd. and The Prudential Assurance Co. New Zealand Ltd., New Zealand; Forenede Liv A/S, Norway; Cia. Internacional de Seguros de Vida, Panama; ATLAS, Cia. de Seguros, Peru; Insular Life Assurance Co., Philippines; Tranquilidade Seguros E.P., Portugal; Insurance Corp. of Singapore, Singapore; Standard General Insur-

ance Co., South Africa; Assicurazioni Generali, Spain; Skandia International Insurance Co., Sweden; Geneva Life Insurance Co., Switzerland; Aetna Life Insurance Co. of America, Taiwan; Siam Life Insurance Co. Ltd., Thailand; Generali Sigorta, Turkey; Aetna Life Insurance Co. Ltd., United Kingdom; Seguros Nuevo Mundo S.A., Venezuela.

New Participants: The Prudential Assurance Co. Ltd., Australia; Aetna Health New Zealand, New Zealand; AB—General Budapest, Hungary; Czechoslovak State Insurance

Continued on page 26

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Ontario pensions

Continued from previous page
also would have to index pre-1991 benefits if a pension plan is "wound up," or terminated, even if the plan is terminated for only a portion of overall plan participants.

Wyatt's Mr. Christie points out this could create difficulties for employers that need to make a partial termination, which is allowed under Ontario law.

"If a chain store closes one of its stores, it must partially wind up the pension plan for those employees and, by law, index those benefits retrospectively. Yes, (indexing) would be only for those few participants, but why would you index those employees and not the others who are working," he said.

However, Mr. Maguire points out that an employer must consider all of the ramifications before terminating a plan.

"Employers should develop their proposals and take it to the pension board before they take action, to let the board know what they are planning and to get their feedback," he said.

Overall, the impact of the Ontario proposal on employers' defined benefit plans would develop slowly but, in the long run, changes would be profound, observers say.

"All of the defined benefit plans won't disappear, but the bottom third (in terms of size) will probably move on into other plans," said David Howe, director of William M. Mercer Ltd. in Toronto.

Mr. Shapira of Hewitt agrees: "Initially, it will be a discouraging factor for having new plans established because of the complications.

"Overall, it will not have much effect at the beginning, but (the legislation) will make people nervous and that may cause people to move to other retirement vehicles," he said.

"There has been no mad rush to wind up plans," but the terminations that have occurred so far have mainly centered on smaller plans.

"By forcing employers to index, it will cause some companies to look at how they are going to fund their plans," Mr. Shapira said.

Employers also must decide whether and how they would share the cost of indexing benefits with their employees, Mr. Shapira said.

Because the indexing proposal is going to the Legislature so late in the year, the effective date could be delayed, said Mercer's Mr. Howe.

"To only have two or three months to react to legislation that could add 20% to 30% to a pension plan's cost is totally unreasonable," he said.

If the proposal is implemented in January, it would create an incredible amount of work for employers in a short space of time, he said, adding that many employers might attempt to terminate their defined benefit plans and set up other arrangements before the indexing requirement takes effect.

Others, though, disagree. Mr. Maguire doubts that employers will take radical action "because it has been in the air for so long, it would be sort of foolhardy for employers to say that they didn't see it coming."

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Spotlight report

Continued from page 24
Co., Czechoslovakia.

Minimum Requirements: One country for network participation; two countries and 100 lives for multinational pooling.

Business: 55% pensions, 25% life, 10% combined long and short-term disability, 7% medical, 3% accidental death.

International dividends: Loss carryforward system with two other systems available upon request.

Principal officers: Gianni Ban, senior vp; Elaine B. McDonald, managing director.

Contact: Elaine B. McDonald, managing director, 212-602-7630.

American International Group Inc. (Group Management Division)
70 Pine St., New York, N.Y. 10270
212-770-7407

	1988	1987
Gross premiums...	\$87,200,000	\$72,800,000
U.S. based.....	83%	86%
Non-U.S. based..	17%	14%
Pension funds....	\$382,000,000	\$323,000,000
Employees.....	444	428
U.S.....	68	62
Non-U.S.....	376	366
Lives covered....	270,000	227,000
Master contracts..	162	151
Foreign countries.	137	136
Offices.....	84	83

Year formed: 1953.
Member companies: Located in 94 countries worldwide.

New participants: La Boliviana, Bolivia.

Minimum requirements: Two territories or countries and \$75,000

in premiums.

Business: 53% medical, 43% life and 4% accidental death.

International dividends: Loss carryforward system, loss carryforward system with contingency fund.

Principal officers: Ernest E. Stempel, vice chairman-American International Group Inc.; Cecil Gamwell III, director; Donald J. Kinloch, multinational account manager; Ben Gow, director-underwriting; John Dunn Don Jancauskas, Eduardo Casse, Gregory Arms and Christopher Burns, worldwide regional managers.

Contact: Donald J. Kinloch, multinational accounts manager, 212-770-7407.

AREA Benefits Network

Ave. de Beaulieu 25, Box 7, 1160 Brussels, Belgium; 322-672-2279

	1988	1987
Gross premiums...	NA	NA
U.S. based.....	12%	10%
Non-U.S. based..	88%	90%
Pension funds....	NA	NA
Employees.....	7	7
U.S.....	2	2
Non-U.S.....	5	5
Lives covered....	35,000	31,000
Master contracts..	65	57
Foreign countries.	40	40
Offices.....	2	2

Year formed: 1979.

Partner companies: Located in 43 countries.

Minimum requirements: Two countries, 100 lives; for multiemployer pool, 25 lives and one country, second country to join within three years, \$10,000 premium volume.

Business: 55% pensions, 35% life, 5% long-term disability, 5% short-term disability.

International dividends: Stop-loss system, loss carryforward sys-

tem, loss carryforward system with contingency fund.

Principal officers: J.W. Broekhuizen, chairman; A. Clemeur, secretary general.

Contact: U.O. Petersen, general manager, 516-734-6574.

CIGNA International Financial Services

1600 Arch St., 9 JFK, Philadelphia, Pa. 19103; 215-523-5300

	1988	1987
Gross premiums...	\$2,895,000	\$3,032,000
U.S. based.....	100%	100%
Employees.....	38	37
U.S.....	32	31
Non-U.S.....	6	6
Lives covered....	1,500	1,600
Master contracts..	19	20
Foreign countries.	26	26
Offices.....	10	8

Continued on next page

How to use directory

The *Business Insurance* directory of international benefit networks lists networks that responded to a *BI* questionnaire.

Networks are listed as an editorial service; there is no charge for inclusion in the directory.

Listings begin with the network name and address.

If supplied by the network, financial and operational information for 1987 and 1988 is given.

Foreign gross premiums for medical, life, accidental death and short- and long-term disability insurance (and the percent generated by foreign operations of U.S. employers vs. foreign operations of non-U.S. employers); funds under management for foreign pension plans of international network clients; total number of network employees and those in U.S. locations and non-U.S. locations; and number of foreign lives covered are listed. Also, the number of master contracts, the number of foreign countries represented and the number of foreign offices of the network are given.

(*Business Insurance* defines "foreign" as business in any country other than that of the parent or headquarters group; statistics reflect only contracts which participate in pooling arrangements for which a signed application, master contract or similar formal written arrangement exists.)

Next, the year the network was formed, insurers participating in the network, insurers new to the network in 1989, and minimum requirements for employers' participation in the network are provided. A percentage breakdown of business the network conducts in medical, life, accidental death, short- and long-term disability insurance and other benefits is given, as are methods in which the network handles worldwide losses in determining international dividends.

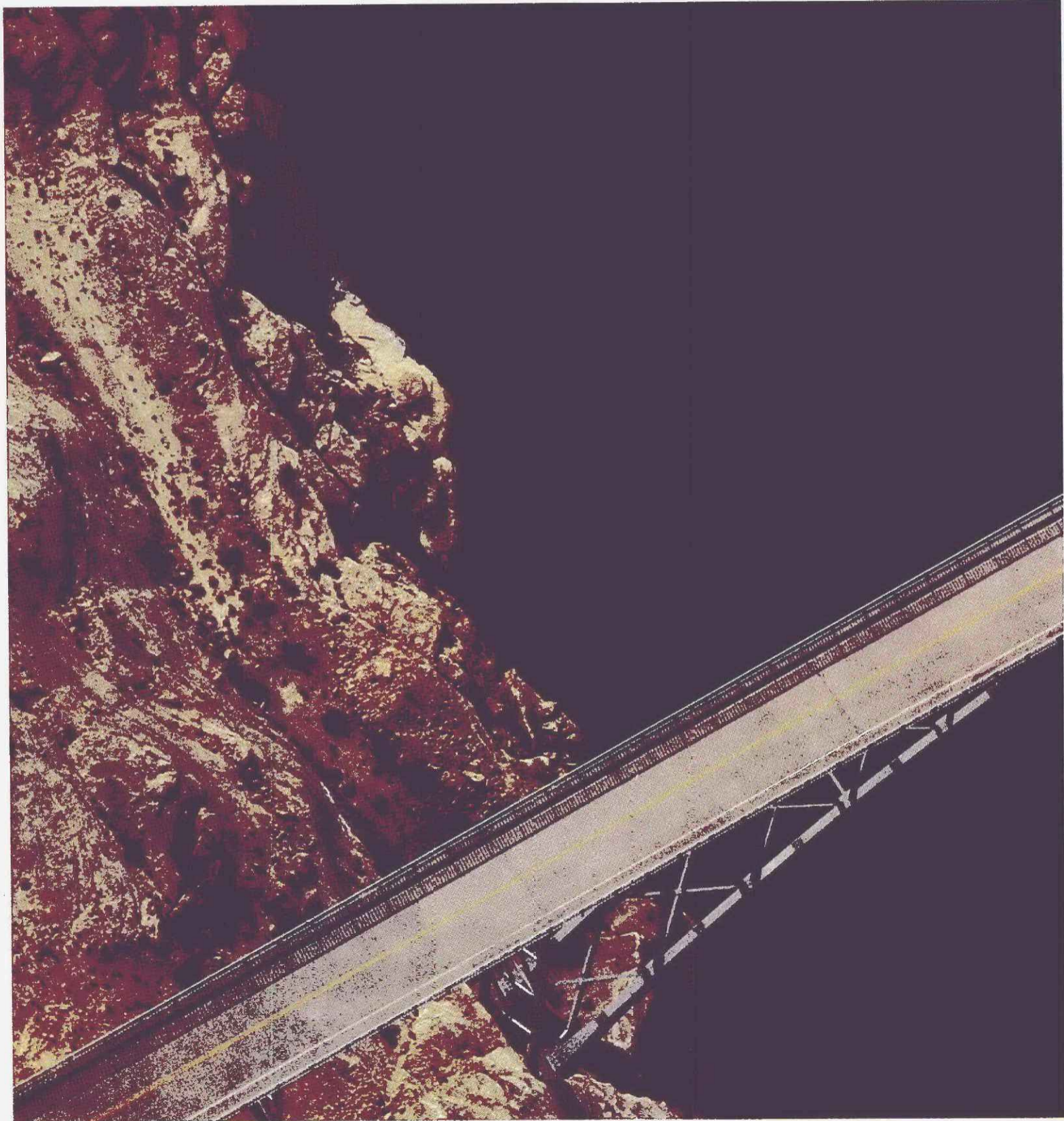
Names and titles of principal officers and the name of a U.S.-based contact person complete the listings.

If you wish to locate countries in which the network operates, you may refer to the geographic index following the directory. Locations of branch offices, subsidiaries and affiliated companies of network participants are given.

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

If you represent an international benefits network and wished to be included in next year's directory, you may request a questionnaire by writing Sara Harty, Editorial Assistant, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590; or by calling 312-280-3195.

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Continued from previous page
Year formed: 1980.

Member companies: CIGNA Life Australia Ltd., Australia; Colina Insurance Co. Ltd., Bahamas; CIGNA Seguradora S.A., Brazil; CIGNA Compania De Seguros De Vida (Chile) S.A., Chile; CIGNA Seguros De Colombia S.A., Colombia; CIGNA Hellas S.A., Greece; Seguros Cruz Azul S.A., Guatemala; INA International Insurance Co. Ltd., Haiti; CIGNA Worldwide Insurance Co., Hong Kong; INA Life Insurance Co. Ltd., Japan; Life Insurance Co. of North America-Korea branch, Korea; CIGNA Worldwide Insurance Co., Liberia and Middle East; CIGNA Life Insurance New Zealand Ltd., New Zealand; Connecticut General Life Insurance Co.-Taiwan branch, Taiwan; CIGNA-SABANCI Sigorta

Anonim Sirketi, Turkey; Crusader Insurance P.L.C., United Kingdom.

New participants: Connecticut General Life Insurance Co.-Taiwan branch, Taiwan; CIGNA-SABANCI Sigorta Anonim Sirketi, Turkey.

Minimum requirements: Two countries and 200 lives; for small group pool, two countries and 50 lives, \$15,000 premium.

Business: 38% medical, 22% accidental death, 21% life, 19% long-term disability.

International dividends: Stop-loss system, loss carryforward system, loss carryforward system with contingency fund.

Principal officers: James A. Grigsby, president; Geoffrey Sagers, senior vp.

Contact: Ed Dombkowski, vp/general manager-U.S. region, 302-479-6179.

GAIN (Group Insurance International Network)
 1 Groveland Court, Bow Lane, London EC4M 9EH, England; 01-489-0214

	1988	1987
Gross premiums...	NA	NA
Pension funds...	NA	NA
Employees.....	14	14
U.S.....	2	2
Non-U.S.....	12	12
Lives covered....	NA	NA
Clients*.....	85**	75**
Foreign countries.	26	24
Offices.....	2	2

* Figures represent number of international clients.

** Estimate.

Year formed: 1984.
Member companies: Legal & General Life of Australia Ltd., Australia; Colonia Versicherung A.G., Austria; Assubel-Vic S.A., Belgium;

Brasil Companhia de Seguros Gerais, Brazil; Mutual Life of Canada, Canada; Tryg Forsikring pensionsforsikringsselskab A/S, Denmark; Assurances Generales de France, France; Colonia Lebensversicherung A.G., West Germany; Assurances Generales de France-Hellas, Greece; Irish Life Assurance P.L.C., Ireland; Societa Reale Mutua di Assicurazioni, Italy; Toho Mutual Life Insurance Co., Japan; Vaudoise-Vie, Switzerland and Liechtenstein; Assubel-Vie S.A., Luxembourg; Pan-American de Mexico, Mexico; AEGON NV, Netherlands; UNI Insurance, Norway; Sociedade Portuguesa de Seguros, Portugal; Lifegor Assurance Ltd., South Africa; AGF Seguros S.A., Spain; Forsakringsbolaget S.P.P., Sweden; Legal & General Assurance Society Ltd., United Kingdom; The Principal Financial Group, United States; Legal & Gen-

eral Assurance of Zimbabwe (Private) Ltd., Zimbabwe.

New participants: Je-Il Insurance Co. Ltd., Korea; The First Life Insurance Co. Ltd., Taiwan.

Minimum requirements: Two countries, 250 employees, \$50,000 poolable premium.

International dividends: Stop-loss system, loss carryforward system, loss carryforward system with contingency fund.

Principal officers: G. David Hurd, chairman-GAIN/president; The Principal Financial Group; René van der Smeede, director-AEGON Verzekeringen; Eric M. Janssen, director-GAIN.

Contact: Bill Steinmetz, 515-247-5425; North American Representative Office, 212-602-9264.

COMP through GPI (Captive-Network System)
 Gerling-Konzern Welt Service GmbH, Gereonshof, D-5000 Köln 1, West Germany; 221-144-5661

	1988	1987
Gross premiums...	\$4,500,000	\$3,800,000
U.S. based.....	15%	12%
Non-U.S. based.....	85%	88%
Employees.....	20	20
U.S.....	5	5
Non-U.S.....	15	15
Lives covered....	8,500	7,639
Master contracts..	12	11
Foreign countries.	31	31
Offices.....	NA	NA

Year formed: 1982.
Minimum requirements: 250 insureds in two countries for COMP (Company's Own Multinational Benefit/Insurer Pool); 10 lives per country in two countries for a collective multinational pool.

Business: 33% life, 31% pensions and endowments, 27% long-term disability, 6% accidental death, 3% medical.

International dividends: Stop-loss system, loss carryforward system, loss carryforward system with contingency fund.

Principal officers: Bernhard Fink, managing director; Michael M. Zyball, director-international employee benefits division.

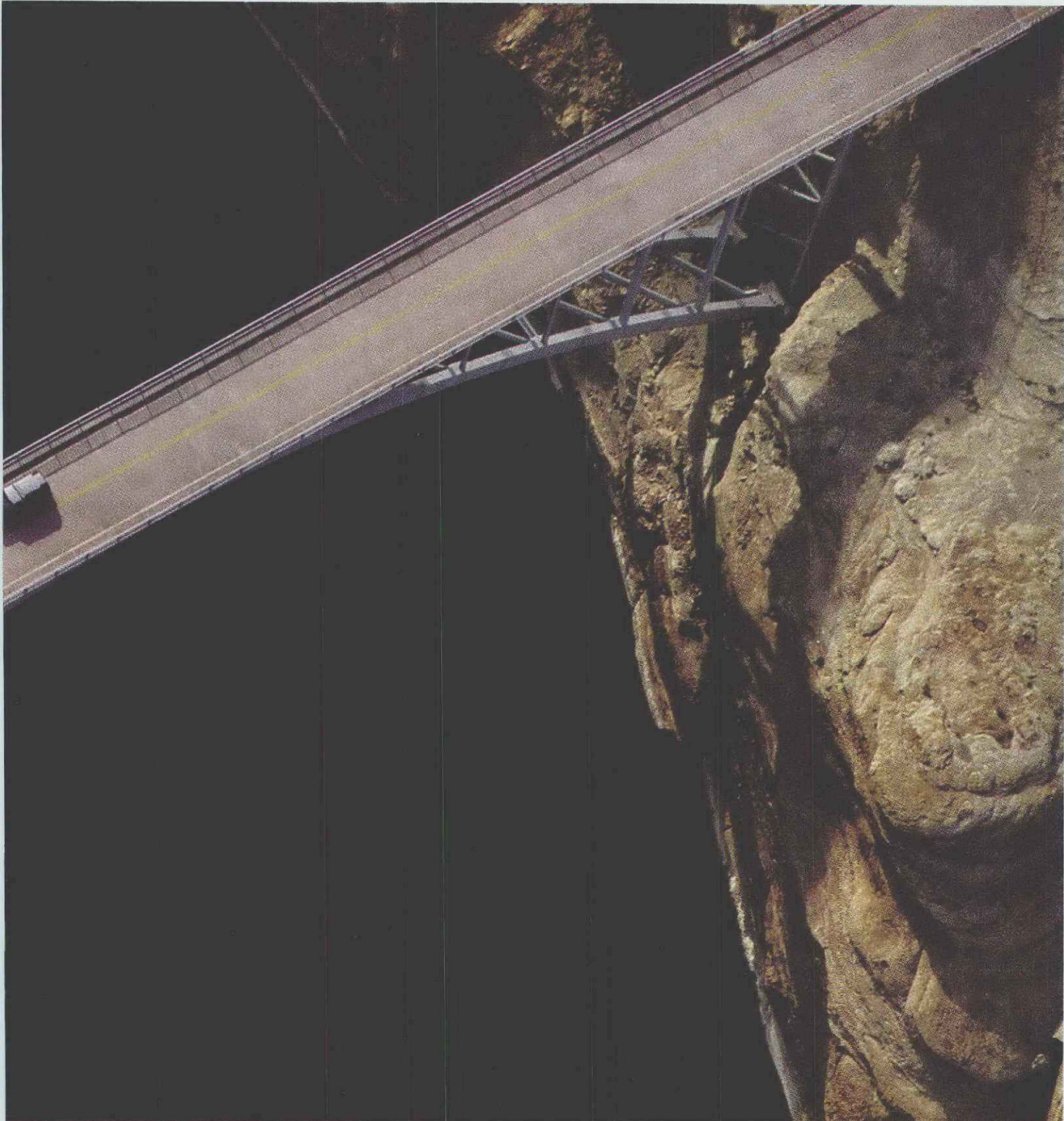
Contact: Wolfgang Schlaeger, president-Gerling Global Offices Inc.; Oscar Rodriguez, assistant vp-Gerling Global Offices Inc.

The John Hancock International Group Program
 P.O. Box 111, Boston, Mass. 02117; 617-572-8677

	1988	1987
Gross premiums...	NA	NA
Pension funds...	NA	NA
Employees.....	NA	NA
Lives covered....	NA	NA
Master contracts..	NA	NA
Foreign countries.	NA	NA
Offices.....	NA	NA

Year formed: 1967.
Associate insurers: Sud America Compania de Seguros de Vida y Patrimoniales S.A., Argentina; Australian Mutual Provident Society, Australia and New Zealand; Victoria-Volksbanken-Versicherungs-A.G., Austria; A.G. Group, Belgium and Luxembourg; Sud America Companhia Nacional de Seguros, Brazil; Maritime Life Assurance Co., Canada; Pan American Life Insurance Co., Central America, Dominican Republic, Ecuador; Consorcio Nacional de Seguros S.A., Chile; Shin Kong Life Insurance Co. Ltd., Taiwan; Pan American de Colombia Compania de Seguros de Vida S.A., Colombia; PFA Pension, Denmark; Sampo Pensions Insurance Co. Ltd., Finland; Drouot Assurances, France; Victoria Lebens-Versicherungs-A.G., West Germany; Ethniki Hellenic General Insurance Co., Greece; National Mutual Insurance Co. Ltd., Hong Kong; P.T. Asuransi Pensiun Bumiputera John Hancock, Indonesia; Irish Life Assurance P.L.C., Ireland; Societa Assicuratrice Industriale, Italy; Dai-ichi Mutual Life Insurance Co., Japan; Samsung Life Insurance Co. Ltd., Korea; Universal Life & General Insurance Sdn. Bhd., Malaysia; Seguros Monterrey S.A., Mexico; RVS Levensverzekering N.V., Netherlands; Vesta Hygea, Norway; Insular Life Assurances Co. Ltd., Philippines; Victoria Sociedade Anonima de Seguros de Vida, Portugal; Insurance Corp. of Singapore Ltd., Singapore; Sud America Compania de Seguros sobre la Vida, Spain; La Suisse Societe d'Assurances sur la Vie, Switzerland; Pietet & Cie, Switzerland, Muang Thai

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Continued from previous page
Life Assurance Co. Ltd., Thailand; Prudential Assurance Co. Ltd., United Kingdom; Private Patients Plan, United Kingdom; John Hancock Mutual Life Insurance Co., United States; Seguros La Seguridad C.A., Venezuela, Old Mutual, Zimbabwe.

Contact: Geraldine Pangaro, field vp, 317-572-8677.

Insurope/The Multinational Benefits Assn.

Boulevard Bischoffsheim 39, Box 13, B-1000, Brussels, Belgium; 322-217-8163

	1988	1987
Gross premiums..	\$130 million*	\$120 million*

U.S. based.....	50%*	60%
Nor-U.S. based.....	50%*	40%
Pension funds.....	\$170 million*	\$150 million*
Employees.....	14	14
U.S.....	6	6
Nor-U.S.....	9	3
Lives covered.....	175,000*	170,000*
Master contracts.....	230	200
Foreign countries.....	39	39
Offices.....	3	3

* Est. mate.

Year formed: 1966.

Member companies: Equitativa del Plata, Argentina; National Mutual, Australia; Osterreichischen Bundeslander, Austria; Assurances Generales (A.G.), Belgium; Bradesco Seguros, Brazil; Great Eastern, Brunei and Singapore; Standard

Life, Canada; CIGNA Chile, Chile; Seguros Colina (CIGNA), Colombia; Statsanstalten, Denmark; Ecuatoriano-Suiza, Ecuador; Pension Varma, Finland; A.G. de 1824 & Groupe des Assurances Nationales, France; Alte Leipziger, West Germany; CIGNA Hellas, Greece; Manulife & BUPA, Hong Kong; Jiwasraya, Indonesia; Standard Life, Ireland; Fondiaria, Italy; Jamaica Mutual, Jamaica; Nippon Dantai & Asahi Mutual, Japan; Dong-Ah, Republic of Korea; Baloise/Basler, Liechtenstein and Switzerland; Assurances Generales (A.G.), Luxembourg; Great Eastern, Malaysia; Seguros de Mexico, Mexico; Delta Lloyd, Netherlands; National Mutual, New Zealand; Storebrand, Norway; Peruano-Suiza, Peru; Manulife, Philippines; Tranquilidade, Portugal; SANLAM, South Africa; Espana, Spain; SPP, Sweden; CITC Life, Taiwan; Guardian Life of the Caribbean, Trinidad & Tobago; Standard Life & BUPA, United Kingdom; The Equitable Life Assurance Society of the United States, Provident Life & Accident Insurance Co. and Prudential Insurance Co. of America, United States; Pan American, Venezuela.

Minimum requirements: Insured employee benefit contracts in two countries for participation in multi-company pool; 200 units or 100 fully-insured lives for single-company pools.

Business: 50% life, 30% pensions, 10% survivors benefits, 6% medical, 3% long-term disability, 1% accidental death.

International dividends: Stop-loss system, loss carryforward system.

Principal officers: Frank Smolar, network manager; Jim Wallace, network actuary; Hugh Gallagher, marketing/sales coordinator; Mary Mellor, customer service coordinator.

Contact: Robert Pickrell, president or Mike Stapleton, director-east/midwest, 203-854-9411; Suzanne Moore, director-west/southwest, 408-298-1486.

Multinational Insurance Arrangement (MIA)

The Travelers Insurance Co., One Tower Square, Hartford, Conn. 06158; 203-954-3784

	1988	1987
Gross premiums..	NA	NA
Pension funds.....	NA	NA
Employees.....	NA	NA
Lives covered.....	NA	NA
Master contracts.....	NA	NA
Foreign countries.....	52	52
Offices.....	4	4

Year formed: 1967.

Member companies: Compania la Buenos Aires, Argentina; Guardian Assurance P.L.C., Australia and New Zealand; RAS Osterreich Adriatische Versicherung AG and Internationale Unfall-und Schadenversicherung Aktiengesellschaft, Austria; The Travelers Insurance Cos., Bahamas, Puerto Rico, United States and U.S. Virgin Islands; Patrioticque S.A. Compagnie d'Assurances, Belgium; Compania Adriatica de Seguros, Brazil and Spain; L'Union des Assurances de Paris, Burkina Faso, Central African Republic, France, Gabon, Ivory Coast, Niger, Senegal and Togo; Compagnie Camerounaise d'Assurances, Cameroon; Crown Life Insurance Co., Canada; La Star Nationale Societe Tchadienne d'Assurances, Chad; La Chilena Consolidada S.A., Chile; Skandia de Colombia, Colombia; Tryg Forsikring, Denmark; Compania Nacional de Seguros, Dominican Republic; Munchener Lebensversicherung Aktiengesellschaft and NOVA Krankenversicherung A.G., West Germany; Riunione Adriatica di Sicurtà, Greece; Guardian Assurance P.L.C., Union Insurance Society of Canton, Ltd., Hong Kong; Bumi Asih Jaya, Indonesia; Caledonian Insurance Co., Ireland; Riunione Adriatica di Sicurtà, Italy; Nippon Life Insurance Co., Japan; Le Foyer S.A., Luxembourg; Great Eastern Life Assurance Co., Malaysia and Singapore; Grupo Nacional Provincial, Mexico; Al Amane, Morocco; Nationale-Nederlanden Levensverzekering and Maatschappij N.V., Netherlands; Royal Exchange Assurance (Nigeria) Ltd., Nigeria; UNI Mutual Life Insurance Co., Norway; Compania Internacional de Seguros de Vida, Panama; El Sol Compania de Seguros Generales, Peru; Great Pacific Life Assurance Co., Philippines; Portugal Previdente Companhia de Seguros, Portugal; Great East-

Continued on page 30

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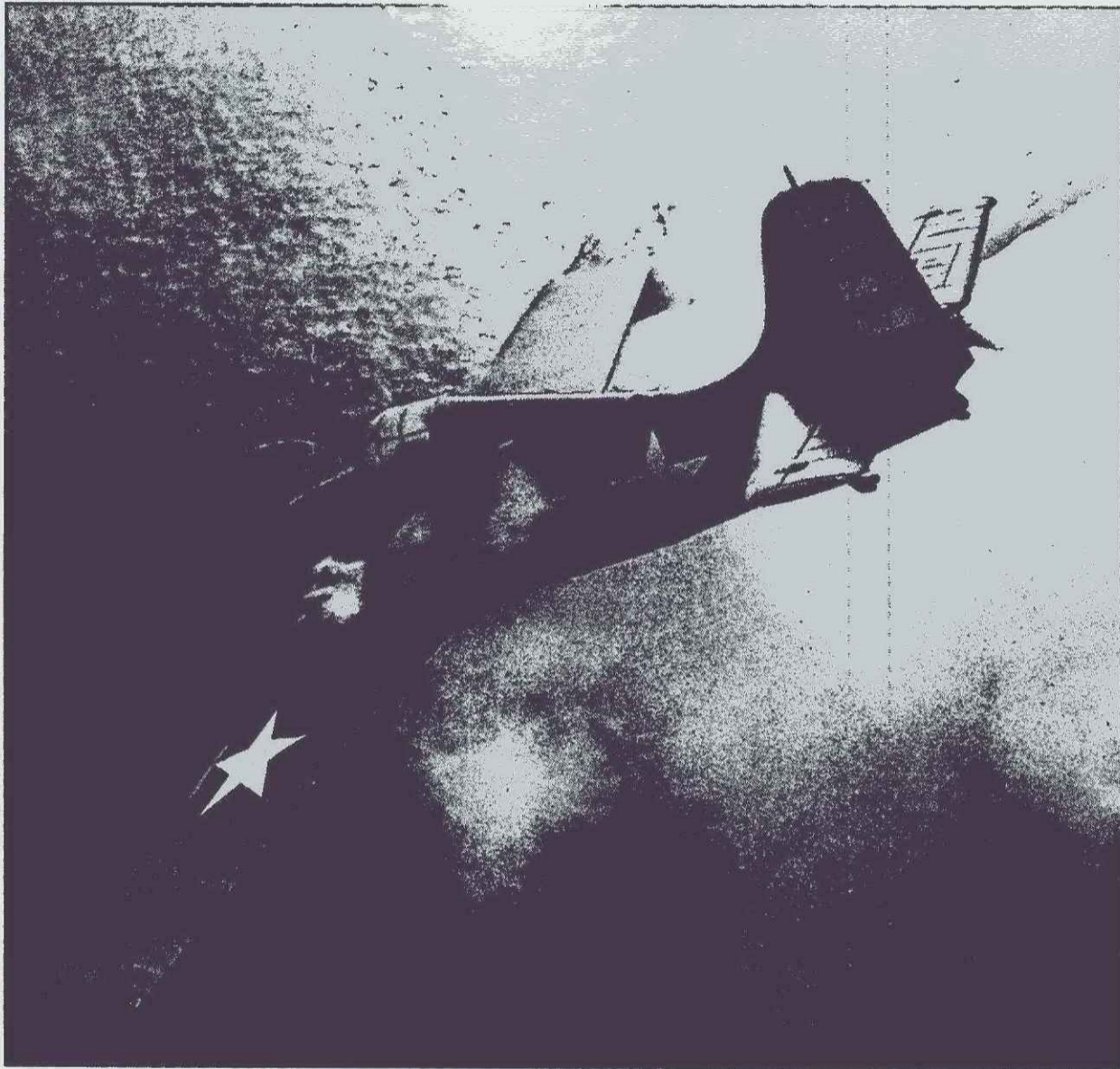
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Continued from page 28

ern Life Assurance Co., Singapore; Liberty Life Assn. of Africa Ltd., South Africa; VITA Life Insurance Co. Ltd., Switzerland; Cathay Life Insurance Co. Ltd., Taiwan; The South East Insurance Co. Ltd., Thailand; Dhamen Union d'Assurances et de Prevoyance, Tunisia; Sark Sigorta T.A.S., Turkey; Guardian Royal Exchange Assurance, United Kingdom; Adriatica Venezolana de Seguros, C.A., Venezuela.

New participants: Crown Life, Canada.

Minimum requirements: 100 lives in two countries.

International dividends: Loss carryforward system.

Principal officers: Bruce MacMillian, chairman-MIA executive committee.

Contact: Michael Sandmann, second vp-The Travelers Insurance Co., 203-954-3784.

Year formed: 1922.
Affiliates and subsidiaries: 12 in the U.S., 86 in foreign countries.

Minimum requirements: Two countries and 300 lives.

Business: 82% pensions, 11% life, 5% long-term disability, 1% medical, 1% accidental death.

International dividends: Stop-loss system, loss carryforward system, loss carryforward system with contingency fund.

Principal officers: J.N. Plattner, vp; E. Hupscmid, assistant vp; R.N. Balsiger and D. Cleuvenot, senior consultants.

Contact: James Cassidey, 312-517-7900.

Winterthur Swiss Insurance Co.

Rudolfstrasse 1, 8401 Winterthur, Switzerland, 4-1-523-1111; Two World Financial Center, 225 Liberty St., New York, N.Y. 10281, 212-416-5700

	1988	1987
Gross premiums...	\$80,000,000	\$60,000,000

U.S. based.....	33%	27%
Non-U.S. based.....	67%	73%
Pension funds.....	\$290,000,000	\$180,000,000
Employees.....	40	35
U.S.....	5	5
Non-U.S.....	32	30
Lives covered.....	55,000	50,000
Master contracts.....	87	75
Foreign countries.....	20	20
Offices.....	NA	NA

Year formed: 1969.

Subsidiaries or branch offices: Located in Switzerland, Austria, Belgium, Canada, Denmark, France, Germany, Netherlands, Italy, Liechtenstein, Luxembourg, Portugal, Spain and United Kingdom.

Joint ventures: With Norwich Union and Chiyoda.

Correspondent relationships: With American International Group Inc. CIGNA, New Ireland Life, Se-

gueros America, Agrotiki L.fe.

New participants: Agrotiki Life, Greece.

Minimum requirements: Two countries and 100 lives; less than 100 lives for small group pools.

Business: 50% pensions, 18% life, 14% long-term disability, 6% short-term disability, 6% medical, 6% accidental death.

International dividends: Stop-loss system, loss carryforward system, loss carryforward system with contingency fund, other methods offered.

Principal officers: Willi Suter, senior vp; Kees van der Plöeg, senior vp; Thomas Erny, head-technical department.

Contact: George Smyth, vp/manager or James G. Long, vp, 212-416-5700; Roy R. Brown, vp, 312-704-5120.

Networks listed by country

American Samoa

AILIFE(American International Group)

Antigua

ALICO (American International Group)

Argentina

Assicurazioni Generali (Aetna/Generali International Benefits Network)

Continued on next page

The Swiss Life Network

Genreal Guisan Quai 40, 8022 Zurich, Switzerland; 01-206-3311

	1988	1987
Gross premiums...	\$170,800,000	\$133,500,000
U.S. based.....	40%	40%
Non-U.S. based.....	60%	60%
Pension funds.....	\$280,000,000	\$233,000,000
Employees.....	87	59
U.S.....	11	9
Non-U.S.....	76	50
Lives covered.....	NA	NA
Master contracts.....	496	481
Foreign countries.....	80	80
Offices*.....	41	10

* Includes branch offices, subsidiaries and offices of network partners.

Year formed: 1960.

Member companies: Sud Atlantica, Argentina; Colonial Mutual, Australia and New Zealand; Wiener Stadtische, Austria; ZwitterLeven-A.G. Suisses (Swiss Life), Belgium; Iochpe Seguradora, Brazil; Canada Life, Canada; Renta Nacional, Chile; Seguros Bolivar, Colombia; PFA Pension and Statsanstalten, Denmark; Ilmarinen, Finland; Societe Suisse, France; Schweizerische Rentenanstalt, Germany; Laiki, Greece; Seguros de Occidente, Guatemala; Jardine Life, Hong Kong; Irish Life, Ireland; Swiss Life (Italia), Italy; Meiji Life, Japan; Korea Life, Korea; Swiss Life (Luxembourg), Luxembourg; Asia Life, Malaysia and Singapore; La Comercial, Mexico; Zwitterleven, Netherlands; NKP Forsikring, Norway; Aseguradora Mundial de Panama, Panama; Lincoln Philippine Life, Philippines; Victoria, Portugal; Southern Life, South Africa; Swiss Life (España), Spain; Trygg-Hansa, Sweden; Swiss Life Head Office and Swiss Mobiliar, Switzerland; Kuo Hua Life, Taiwan; Bangkok Life, Thailand; Swiss Life, United Kingdom; Equicor, The Guardian Life Insurance Co. and Swiss Life North American Services, United States; La Metropolitana, Venezuela.

New participants: Renta Nacional, Chile; Seguros Bolivar, Colombia; Seguros de Occidente, Guatemala; Aseguradora Mundial de Panama, Panama; Trygg-Hansa, Sweden; Swiss Mobiliar, Switzerland.

Minimum requirements: Two countries and 200 lives.

Business: 58% pensions, 16% life, 10% long-term disability, 7% short-term disability, 7% medical, 2% accidental death.

Principal officers: F. Honegger, chairman-supervisory board; K. Rutz, president-executive board; K. Muhlebach, executive vp.

Contact: Philipp Frei, president-Swiss Life North America Services, 201-670-1515.

VITA Life (Zurich Insurance Group)

Austrasse 46, Ch-8022, Zurich, Switzerland; 411-465-6565

	1988	1987
Gross premiums...	\$1.9 billion	\$1.6 billion
U.S. based.....	NA	NA
Non-U.S. based.....	NA	NA
Pension funds.....	\$8.3 billion	\$8.1 billion
Employees.....	2,000	2,000
U.S.....	200	200
Non-U.S.....	1,800	1,800
Lives covered.....	1,976,653	1,783,900
Master contracts.....	NA	NA
Foreign countries.....	30	30
Offices.....	24	24

American Re's services are

Continued from previous page

Compania la Buenos Aires (The Travelers Insurance Co.-MIA)
 Equitativa del Plata (Insurope/MBA)
 Iguazu Compania de Seguros (VITA Life)
 La Meridional (American International Group)
 Plus Ultra (AREA Benefits Network)
 Providencia, Cia. de Seguros de Retiro (Aetna/Generali International Benefits Network)
 Sud America Compania de Seguros de Vida y Patrimoniales S.A. (John Hancock International Group Program)
 Sud Atlantica (Swiss Life)
 Zurich Compania de Seguros (VITA Life)
 Zurich Iguazu Compania de Seguros de Retiro SA (Vita Life)

Aruba

ALICO (American International Group)

Australia

AAA ALICO (American International Group)
 Amev Life (AREA Benefits Network)
 Australian Eagle (AREA Benefits Network)
 Australian Mutual Provident Society (John Hancock International Group Program)
 CIGNA Life Australia Ltd. (CIGNA Worldwide)
 Colonial Mutual (Swiss Life)
 Guardian Assurance P.L.C. (The Travelers Insurance Co.-MIA)
 Legal & General Life of Australia Ltd. (GAIN)
 National & General Insurance Co. Ltd. (VITA Life)
 National Mutual (Insurope/MBA)
 The Prudential Assurance Co. Ltd (Aetna/Generali International Benefits Network)
 Zurich Shield Ltd. (VITA Life)
 Zurich Australian Insurance Ltd. (VITA Life)
 Zurich Australian Life Insurance Ltd. (VITA Life)

Austria

Colonia Versicherung A.G. (GAIN)
 Generali-Allgemeine Lebensversicherung A.G. (Aetna/Generali International Benefits Network)
 Internationale Unfall-und Schadenversicherung Aktiengesellschaft (The Travelers Insurance Co.-MIA)
 National Union (American International Group)
 Osterreichischen Bundeslander (Insurope/MBA)
 RAS Osterreich, Adriatische Versicherung A.G. (The Travelers Insurance Co.-MIA)
 Victoria-Volksbanken-Versicherungs A.G. (John Hancock International Group Program)
 Wiener Allianz Leben (AREA Benefits Network)
 Wiener Stadtische (Swiss Life)
 Winterthur Swiss Insurance Co.
 Zurich Kosmos Versicherungen A.G. (VITA Life)

Bahamas

ALICO (American International Group)
 Colina Insurance Co. Ltd. (CIGNA Worldwide International Life & Group)
 The Travelers Insurance Co.

Bahrain

ALICO (American International Group)
 CIGNA Worldwide Insurance Co. Credit & Commerce Insurance Co. (AREA Benefits Network)
 Zurich Insurance Services-Middle East E.C. (VITA Life)

Bangladesh

ALICO (American International Group)

Barbados

ALICO (American International Group)

Belgium

A.G. Group (John Hancock International Group Program)
 Assubel-Vie S.A. (GAIN)
 Assurances Generales A.G. (Insurope/MBA)
 Euravie (American International Group)
 Generali Belgium S.A. (Aetna/Generali International Benefits Network)
 Partiotique S.A. Compagnie d'Assurances (The Travelers Insurance Co.-MIA)
 Royale Belge (AREA Benefits Network)
 Vita Compagnie d'Assurances sur la Vie (VITA Life)
 Winterthur Swiss Insurance Co.
 Zurich Compagnie d'Assurances (VITA Life)
 ZwisserLeven-A.G. Suisses (Swiss Life)

Belize

ALICO (American International Group)

Bermuda

ALICO (American International Group)
 Aetna Life & Casualty (Bermuda) Ltd. (The Aetna/Generali International Benefit Network)
 Centre Reinsurance Holdings Ltd (VITA Life)
 Zurich International Ltd. (VITA Life)

Bolivia

ALICO (American International Group)

Brazil

Bradesco Seguros (Insurope/MBA)
 Brasil Companhia de Seguros Gerais (GAIN)
 CIGNA Seguradora S.A. (CIGNA Worldwide International Life & Group)
 Companhia Adriatica de Seguros (The Travelers Insurance Co.-MIA)
 Generali do Brasil (Aetna/Generali International Benefits Network)
 Grupo Bradesco Seguros (AREA Benefits Network)
 Interamericana (American International Group)
 Iochpe Seguradora (Swiss Life)
 Sul America Companhia Nacional de Seguros (John Hancock International Group Program)
 Zurich-Anglo Seguradora SA (VITA Life)

Brunei

Great Eastern (Insurope/MBA)

Burkina Faso

L'Union des Assurances de Paris (The Travelers Insurance Co.-MIA)

Cameroon

ALICO (American International Group)
 Compagnie Camerounaise d'Assurances (The Travelers Insurance Co.-MIA)

Canada

ALICO (American International Group)
 Aetna Life & Casualty of Canada Ltd. (Aetna/Generali International Benefits Network)
 Canada Life (Swiss Life)
 Crown Life Insurance Co. (The Travelers Insurance Co.-MIA)
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Continued from previous page

The Excelsior Life Insurance Co.
(Aetna/Generali International
Benefits Network)
London Life (AREA Benefits
Network)
Maritime Life Assurance Co. (John
Hancock International
Group Program)
Mutual Life of Canada (GAIN)
Standard Life (Insurope/MBA)
Travelers Life Insurance Co.
of Canada
Winterthur Swiss Insurance Co.
Zurich Indemnity Co. of Canada
(VITA Life)
Zurich Insurance Co. (VITA Life)
Zurich Life & Health Insurance Co.
of Canada (VITA Life)
Zurich Life Insurance Co. of Canada
(VITA Life)

Cayman Islands

ALICO (American International
Group)
Generali Guernsey (Aetna/Generali
International Benefits Network)

Central African Republic

L'Union des Assurances de Paris
(The Travelers Insurance Co.-MIA)

Chad

La Star Nationale Societe
Tchadienne d'Assurances
(The Travelers Insurance
Co.-MIA)

Chile

Aetna Chile S.A. (Aetna/Generali
International Benefits Network)
CIGNA Chile (Insurope/MBA)
CIGNA Compania De Seguros
De Vida (Chile) S.A. (CIGNA
Worldwide International
Life & Group)
Consorcio Nacional de Seguros (John
Hancock International
Group Program)
La Chilena Consolidada S.A. (The
Travelers Insurance Co.-MIA)
La Interamericana (American
International Group)
Renta Nacional (The Swiss
Life Network)

Colombia

CIGNA Seguros de Colombia S.A.
(CIGNA Worldwide International
Life & Group)
Compania Granadina de Seguros
(Aetna/Generali International
Benefits Network)
Compania de Seguros de Vida SA
(John Hancock International
Group Program)
La Interamericana (American
International Group)
Pan American de Colombia
(John Hancock International
Group Program)
Seguros Bolivar (The Swiss
Life Network)
Seguros Colina (CIGNA,
Insurope/MBA)
Skandia de Colombia (The Travelers
Insurance Co.-MIA)

Costa Rica

Instituto Nacional de Seguros de
Costa Rica (American International
Group)

Curacao

ALICO (American International
Group)

Cyprus

ALICO (American International
Group)
Eagle Star (AREA Benefits Network)

Czechoslovakia

Czechoslovak State Insurance Co.
(Aetna/Generali International
Benefits Network)

Denmark

AHA (American International
Group)
Baltica Life Insurance Co.
(Aetna/Generali International
Benefits Network)
Pensionsforsikringsanstalten (John
Hancock International Group
Program, Swiss Life)
Statsanstalten (Insurope/MBA,
Swiss Life)
Tryk Forsikring
Pensionsforsikringselskab AS
(AREA Benefits Network, GAIN,
The Travelers
Insurance Co.-MIA)
Vita Livsforsikring (VITA Life)
Winterthur Swiss Insurance Co.
Zurich Forsikring (VITA Life)

Dominican Republic

ALICO (American International
Group)

Continued on next page

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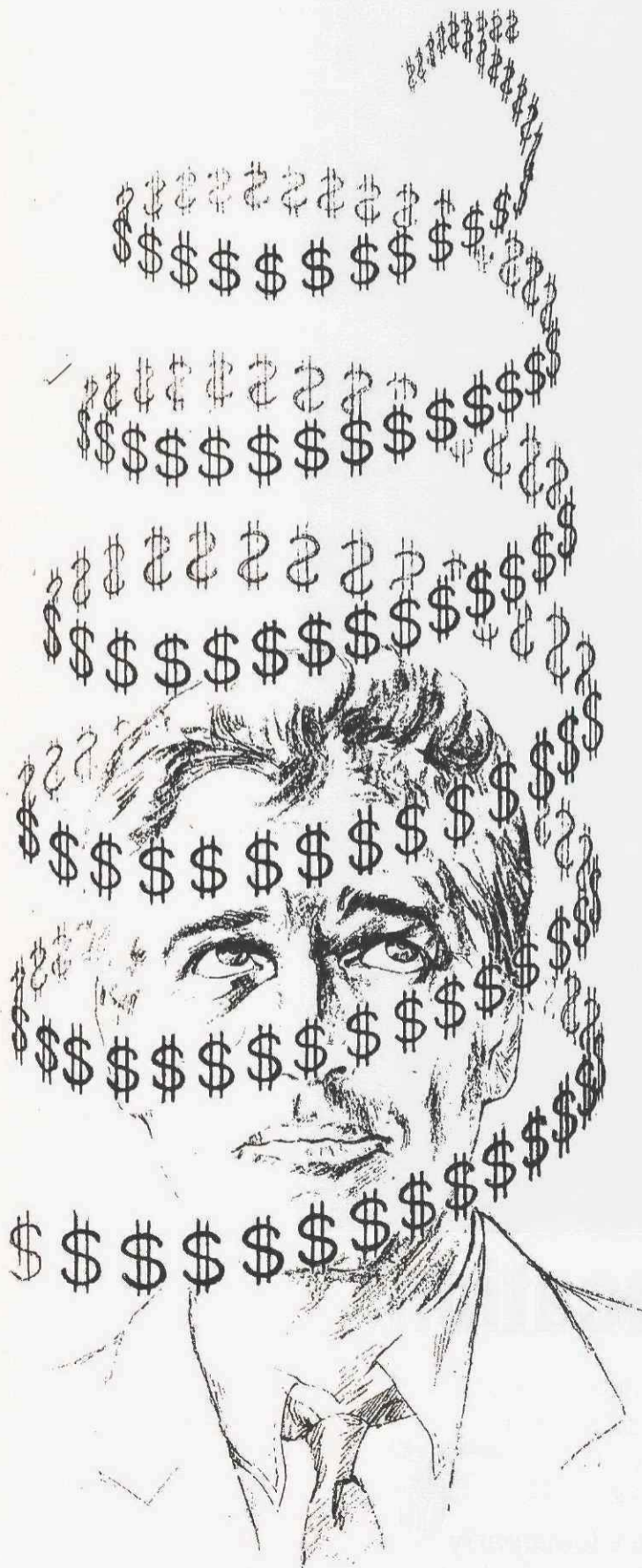
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Continued from previous page

Compania Nacional de Seguros
C. por A. (The Travelers
Insurance Co.-MIA)

Ecuador

Ecuatoriano-Suiza (Insurope/MBA)
La Nacional Cia. de Seguros
(Aetna/Generali International
Benefits Network)
Equinocial Seguros Rocafuerte
(American International Group)
Pan American Life Insurance Co.
(John Hancock International
Group Program)

Egypt

Al Chark (American International
Group)
Misr Insurance Co. (Aetna/Generali
International Benefits Network)

El Salvador

Pan American Life Insurance Co.
(John Hancock International Group
Program)

Finland

Ilmarinen (Swiss Life)
Pension Varma (Insurope/MBA)
The Pohjola Group (American
International Group)
Sampo Pensons Insurance Co. Ltd.
(John Hancock International
Group Program)
Suomi-Salama-Pohjola Group
(AREA Benefits Network)

France

Abri Compagnie d'Assurances
(VITA Life)
Assurances Generales de 1824
(Insurope/MBA)
Assurances Generales de
France (GAIN)
Astorg-Accident (VITA Life)
Astorg-Vie (VITA Life)
Drouot Assurances (John Hancock
International Group Program)
Euravie (American International
Group)
Generali France S.A. (Aetna/Generali
International Benefits Network)
Groupe des Assurances Nationales
(Insurope/MBA)
La Concorde (Aetna/Generali
International Benefits Network)
La Federation Continentale
(Aetna/Generali International
Benefits Network)
L'Union des Assurances de Paris
(AREA Benefits Network, The
Travelers Insurance Co.-MIA)
Societe Suisse (Swiss Life)
U.A.P. (AREA Benefits Network)
Vita Compagnie d'Assurances sur la
Vie (VITA Life)
Winterthur Swiss Insurance Co.
Zurich Compagnie D'Assurance
(VITA Life)
Zurich Vie (VITA Life)

Gabon

L'Union des Assurances de Paris
(The Travelers Insurance Co.-MIA)

Gibraltar

ALICO (American International
Group)

Greece

Agrotiki Life (Winterthur Swiss
Insurance Co.)
ALICO (American International
Group)
Assurances Generales de France
(GAIN)
CIGNA Hellas S.A. (CIGNA
Worldwide International
Life & Group, Insurope/MBA)
Ethniki Hellenic General Insurance
Co. (John Hancock International
Group Program)
Generali Life A.E. (Aetna/Generali
International Benefits Network)
Interamerican Life (AREA Benefits
Network)
Laiki (Swiss Life)
Ruinione Adriatica di Sicurta (The
Travelers Insurance Co.-MIA)

Grenada

ALICO (American International
Group)

Guam

AILIFE (American International
Group)
Zurich Insurance (Guam)
Co. Inc. (VITA Life)

Guatemala

Aseguradora General S.A.
(Aetna/Generali International)

Benefits Network)
La Seguridad (American
International Group)
Pan American Life Insurance Co.
(John Hancock International
Group Program)
Seguros Cruz Azul S.A. (CIGNA
Worldwide International Life &
Group)
Seguros de Occidente (The Swiss
Life Network)

Guyana

ALICO (American International
Group)

Haiti

ALICO (American International
Group)
CAH (American International Group)
INA International Insurance Co. Ltd.
(CIGNA Worldwide International
Life & Group)

Holland

Winterthur Swiss Insurance Co.

Honduras

AIU (American International Group)

Pan American Life Insurance Co.
(John Hancock International
Group Program)

Hong Kong

AIA (American International Group)
Blue Cross (Asia Pacific) Insurance
Ltd. (Aetna/Generali
International Benefits Network)
BUPA (Insurope/MBA)
CIGNA Worldwide Insurance Co.
Eagle Star Insurance Co. (AREA
Benefits Network)
East Asia Aetna Insurance Co. Ltd.
(Aetna/Generali International
Benefits Network)
Guardian Assurance P.L.C. (The
Travelers Insurance Co.-MIA)
Continued on next page



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Spotlight report

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 National Mutual Insurance Co. Ltd.
 (John Hancock International
 Group Program)
 Union Insurance Society of Canton
 Ltd. (The Travelers
 Insurance Co.-MIA)
 VITA Life Insurance Co. Ltd.
 Zurich Insurance Co. (Asia) Ltd.
 (VITA Life)

Hungary

AB-General Budapest
 (Aetna/Generali International
 Benefits Network)

Indonesia

AJIA (American International Group)
 Bumi Asih Jaya (The Travelers
 Insurance Co.-MIA)
 Jiwasraya (Insurope/MBA)
 Panin Putra (AREA Benefits
 Network)
 P.T. Asuransi Antal Malayan Bali
 (VITA Life)
 P.T. Asuransi Pensiun Bumiputera
 (John Hancock International
 Group Program)

Ireland

AIIC (American International Group)
 Caledonian Insurance Co. (The
 Travelers Insurance Co.-MIA)
 Irish Life Assurance Co. Ltd.
 (Aetna/Generali International
 Benefits Network, GAIN, John
 Hancock International
 Group Program, Swiss Life)
 New Ireland Life (Winterthur Swiss
 Insurance Co.)
 Shield Life (AREA Benefits
 Network)
 Standard Life (Insurope/MBA)
 Zurich Insurance Co. (VITA Life)

Isle of Man

Eagle Star International Life
 (AREA Benefits Network)

Italy

Allianz Pace (AREA Benefits)
 Assicurazioni Generali
 (Aetna/Generali
 International Benefits Network)
 Danubio Compagnia di Assicurazioni
 (VITA Life)
 Euravie (American International
 Group)
 Fondiaria (Insurope/MBA)
 Minerva (VITA Life)
 Minerva Vita (VITA Life)
 Riunione Adriatica di Sicurtà (The
 Travelers Insurance Co.-MIA)
 Sicurtà 1879 (VITA Life)
 Società Assicuratrice Industriale
 (John Hancock International
 Group Program)
 Società Italiana Assicurazioni
 (VITA Life)
 Società Reale Mutua di Assicurazioni
 (GAIN)
 Swiss Life (Italia)
 Vita Compagnie di Assicurazioni
 sulla Vita (VITA Life)
 Winterthur Swiss Insurance Co.
 Zurigo Compagnia di Assicurazioni
 (VITA Life)

Ivory Coast

ALICO (American International
 Group)
 L'Union des Assurances de Paris (The
 Travelers Insurance Co.-MIA)
 Zurich Compagnie d'Assurances
 (VITA Life)

Jamaica

ALICO (American International
 Group)
 Jamaica Mutual (Insurope/MBA)

Japan

ALICO (American International
 Group)
 Asahi Mutual (Insurope/MBA)
 Chiyoda (Winterthur Swiss
 Insurance Co.)

Dai-ichi Mutual Life Insurance Co.
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 INA Life Insurance Co. Ltd. (CIGNA
 Worldwide International
 Life & Group)
 The Meiji Mutual Life Insurance Co.
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 Swiss Life)
 Mitsui Mutual Life Insurance Co.
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 Benefits Network)
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 Nippon Life Insurance Co. (The
 Travelers Insurance Co.-MIA)
 Toho Mutual Life Insurance
 Co. (GAIN)
 Zurich Insurance Co. (VITA Life)

Jordan

ALICO (American International
 Group)
 Jordan Eagle (AREA Benefits
 Network)

Kenya

ALICO (American International
 Group)
 African International Insurances
 (A.I.I.) Ltd. (VITA Life)

Korea

ALICO (American International
 Group)
 Daehan Kyoyuk Life Insurance Co.
 Ltd. (Aetna/Generali International
 Benefits Network)
 Dong-Ah (Insurope/MBA)
 Group Program)
 JEIL Insurance Co. Ltd (GAIN)
 Korean Life (Swiss Life)
 Life Insurance Co. of North
 America-Korean Branch
 (CIGNA Worldwide)
 Samsung Life Insurance Co. Ltd.
 (John Hancock International
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Kuwait

ALICO (American International
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 Credit & Commerce Insurance Co.
 (AREA Benefits Network)

Lebanon

ALICO (American International
 Group)
 Societe Nationale D'Assurances
 (AREA Benefits Network)

Liberia

ALICO (American International
 Group)
 CIGNA Worldwide Insurance Co.

Liechtenstein

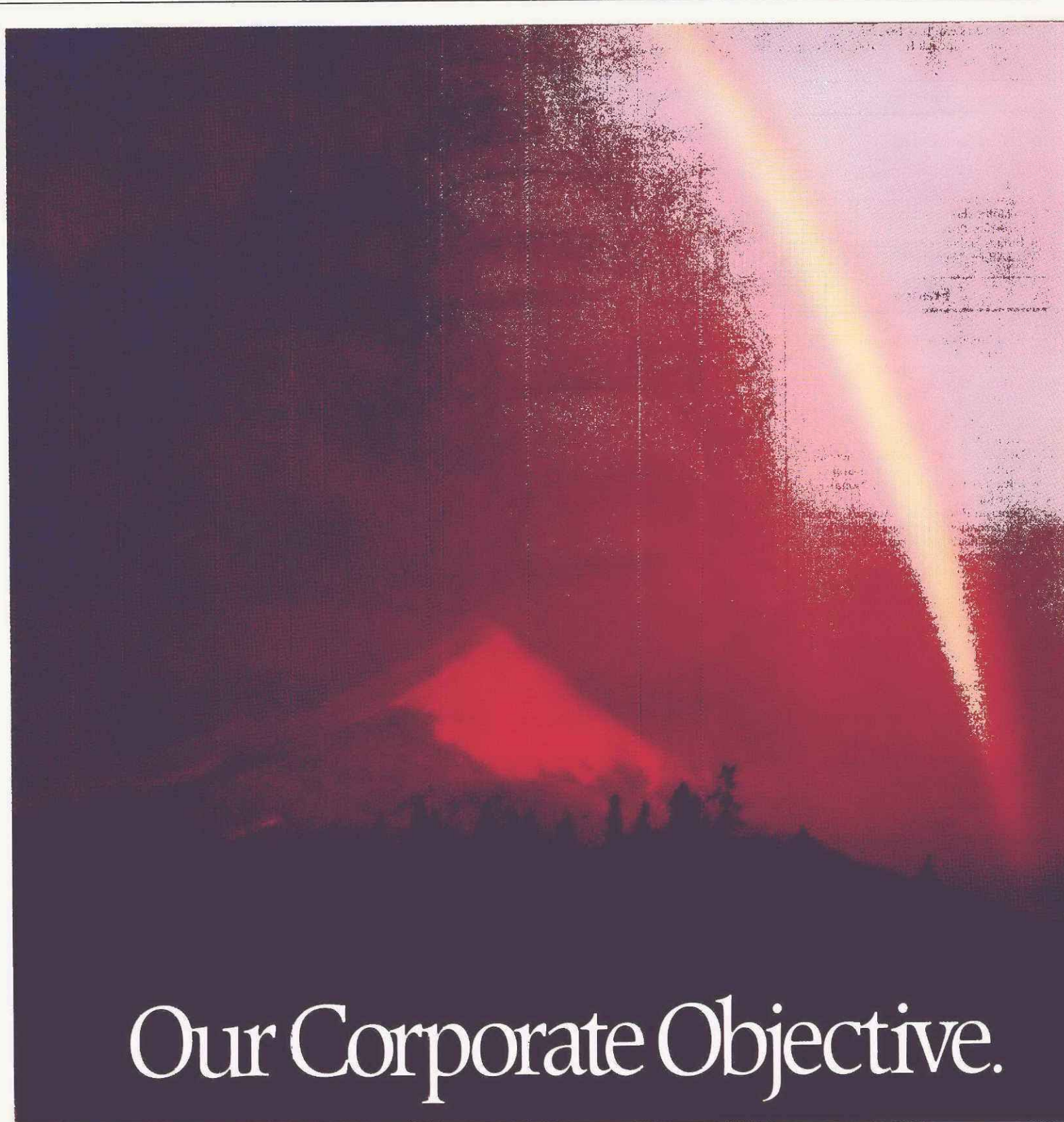
Baloise/Basler (Insurope/MBA)

Pax Versicherungen (AREA
 Benefits Network)
 Vaudoise-Vie (GAIN)
 Winterthur Swiss Insurance Co.
 Zurich-Versicherungs-Gesellschaft
 (VITA Life)

Luxembourg

A.G. Group (John Hancock
 International Group Program)
 Assubel-Vie SA (GAIN)
 Assurances Generales
 (Insurope/MBA)
 La Luxembourgeoise (AREA Benefits
 Network)
 Le Foyer S.A. (Aetna/Generali
 International Benefits Network,
 The Travelers Insurance Co.-MIA)
 Swiss Life (Luxembourg)
 Winterthur Swiss Insurance Co.
 Vita Compagnie d'Assurances sur la
 Vie (VITA Life)
 Zurich Compagnie d'Assurances
 (VITA Life)
 Zurich International (Luxembourg)
 SA (VITA Life)

Continued on next page



Our Corporate Objective.

It's as uncomplicated as this:

Since we started, we've seen our clients strained by adversity. The industry hit by hard times. The nation mired in a depression. And every time, for

almost 75 years, we've still been there after the storm.

So, before you choose a reinsurer, look beyond the tempting terms and conditions you may find today. Look at strength. Stability. Security.

Continued from previous page

Malaysia

AIA (American International Group)
 Asia Life (Swiss Life)
 Great Eastern Life Insurance Co.
 (Insurope/MBA, The Travelers
 Insurance Co.-MIA)
 Malayan Insurance Sdn. Bhd.
 (VITA Life)
 Universal Life & General Insurance
 Co. (Aetna/Generali
 International Benefits Network,
 John Hancock International
 Group Program)

Malta

Eagle Star Malta (AREA Benefits
 Network)
 Montaldo's Insurance Services Ltd.
 (American International Group)

Mexico

Grupo Nacional Provincial (The
 Travelers Insurance Co.-MIA)
 La Comercial (AREA Benefits
 Network, Swiss Life)
 La Interamericana Independencia
 (American International Group)
 Pan-American de Mexico (GAIN)
 Seguros America S.A.
 (Aetna/Generali International
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 Swiss Insurance Co.)
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 Seguros Monterrey S.A. (John
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 Co.-MIA)
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 G.G.M. (VITA Life)

Netherlands

ALICO (American International
 Group)
 Aegon NV (GAIN)
 Amev Leven (AREA Benefits
 Network)
 Delta Lloyd (Insurope/MBA)
 De Nederlanden van 1870
 (Aetna/Generali International
 Benefits Network)
 Nationale-Nederlanden
 Levensverzekering
 Maatschappij N.V. (The Travelers
 Insurance Co.-MIA)
 RVS Levensverzekering N.V. (John
 Hancock International
 Group Program)
 Vita Levensverzekering-
 Maatschappij (VITA Life)
 Zurich Verzekering Maatschappij
 (VITA Life)
 ZwitserLeven (Swiss Life)

New Guinea

AHA (American International Group)

New Zealand

ALICO (American International
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 Aetna Health Corp. (Aetna/
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 Benefits Network)
 Aetna Life & Casualty Ltd
 Amev Life (AREA Benefits Network)
 Australian Mutual Provident Society
 (John Hancock International
 Group Program)
 CIGNA Life Insurance New
 Zealand Ltd.
 Colonial Mutual (Swiss Life)
 Guardian Assurance P.L.C. (The
 Prudential Assurance Co.
 (Aetna/
 Generali International
 Benefits Network)
 Travelers Insurance Co.-MIA)
 National Mutual (Insurope/MBA)

Niger

L'Union des Assurances de Paris (The
 Travelers Insurance Co.-MIA)

Nigeria

ALICO Nigeria Ltd. (American
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 African Alliance (AREA Benefits
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 Royal Exchange Assurance (Nigeria)
 Ltd. (The Travelers Insurance
 Co.-MIA)

Norway

ALICO (American International
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 Forenede Liv A/S (Aetna/Generali
 International Benefits Network)
 Forsikringselskapet Zurich
 (VITA Life)
 Gjensidige Liv (AREA
 Benefits Network, American
 International Group)
 NKP Forsikring (Swiss Life)
 Storebrand (Insurope/MBA)
 UNI Mutual Life Insurance Co.
 (GAIN, The Travelers Insurance
 Co.-MIA)
 Vesta Hygea (John Hancock
 International Group Program)

Oman

ALICO (American International
 Group)
 Credit & Commerce Insurance Co.
 (AREA Benefits Network)

Panama

ALICO (American International
 Group)
 Aseguradora Mundial de Panama
 (Swiss Life)
 Cia. Internacional de Seguros S.A.
 (Aetna/Generali International
 Benefits Network)
 Compania Internacional de Seguros
 de Vida (The Travelers
 Insurance Co.-MIA)
 Metropolitana (AREA Benefits
 Network)
 Pan American Life Insurance Co.
 (John Hancock International
 Group Program)

Paraguay

AHA (American International
 Group)

Peru

El Pacifico (American International
 Group)
 El Sol, Compania de Seguros
 Generales (The Travelers
 Insurance Co.-MIA)
 Peruano-Suiza (Insurope/MBA)

Philippines

Filipinas Life Assurance Co. (AREA
 Benefits Network)
 First Nationwide Assurance Corp.
 (VITA Life)
 Great Pacific Life Assurance Co. (The
 Travelers Insurance Co.-MIA)
 Insular Life Assurance Co. Ltd.
 (Aetna/Generali International
 Benefits Network, John Hancock
 International Group Program)
 Lincoln Philippine Life (Swiss Life)
 Malayan Insurance Co. Inc.
 (VITA Life)
 Malayan Zurich Insurance Co.
 (VITA Life)
 Manulife (Insurope/MBA)
 Philippine-American Life Insurance
 Co. (American International Group)

Portugal

Companhia de Seguros Metropole
 S.A.R.L. (VITA Life)
 EURAVIE (American International
 Group)
 Fidelidade Grupo Segurador (AREA
 Benefits Network)
 Portugal Previdente Companhia de
 Seguros (The Travelers Insurance
 Co.-MIA)
 Sociedade Portuguesa de Seguros
 (GAIN)
 Tranquilidade Seguros E.P.
 (Aetna/Generali International
 Benefits Network, Insurope/MBA)
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Spotlight report

Continued from previous page

Victoria Sociedade Anonima de Seguros de Vida (John Hancock International Group Program, Swiss Life)
Winterthur Swiss Insurance Co.

Qatar

ALICO (American International Group)
Credit & Commerce Insurance Co. (AREA Benefits Network)

Saipan

Allife (American International Group)
Delamlife (American International Group)

St. Kitts

ALICO (American International Group)

St. Lucia

ALICO (American International Group)

St. Maarten

ALICO (American International Group)

St. Vincent

ALICO (American International Group)

Saudi Arabia

ALICO (American International Group)
CIGNA Worldwide Insurance Co.
National Insurance Co. S.A. (VITA Life)

Senegal

ALICO (American International Group)
L'Union des Assurances de Paris (The Travelers Insurance Co.-MIA)

Singapore

AIA (American International Group)
Asia Life (Swiss Life)
Great Eastern Life Assurance Co. (Insurope/MBA, The Travelers Insurance Co.-MIA)
Insurance Corp. of Singapore Ltd. (Aetna/Generali International Benefits Network, AREA Benefits Network, John Hancock International Group Program)
Malayan Zurich Insurance P.T.E Ltd. (VITA Life)

South Africa

Liberty Life Assn. of Africa Ltd. (The Travelers Insurance Co.-MIA)
Lifegro Assurance Ltd. (GAIN)
SANLAM (Insurope/MBA)
Southern Life (Swiss Life)
Standard General Insurance Co. Ltd. (Aetna/Generali International Benefits Network)

Spain

AGF Seguros S.A. (GAIN)
Assicurazioni Generali (Aetna/Generali International Benefits Network)
ALICO (American International Group)
Catalana Occidente (AREA Benefits Network)
Caudal SA de Seguros y Reaseguros (VITA Life)
Compania Adriatica de Seguros (The Travelers Insurance Co.-MIA)
Espana (Insurope/MBA)

Hispania Compania General de Seguros (VITA Life)
Sud America Companhia Nacional de Seguros (John Hancock International Group Program)
Swiss Life (Espana)
Union Iberoamericana Compania Anonima (VITA Life)
Vita Compania de Seguros sobre la Vida (VITA Life)
Winterthur Swiss Insurance Co.
Zurich Compania de Seguros (VITA Life)

Suriname

ALICO (American International Group)

Sweden

Forsakringsbolaget SPP (GAIN, Insurope/MBA)
New Hampshire Insurance Co. (American International Group)
Zurich Forsakring (VITA Life)
Skandia International Insurance Corp. (AREA Benefits Network, American International Group)
Trygg-Hansa Group (Swiss Life)

Switzerland

Alpina Insurance Co. Ltd. (VITA Life)
Alstadt Insurances (VITA Life)
Baloise/Basler (Insurope/MBA)
Geneva Life Insurance Co. (Aetna/Generali International Benefits Network)
La Suisse, Societe d'Assurances sur la Vie (John Hancock International Group Program)
Pax Versicherungen (AREA Benefits Network)
Pictet & Cie (John Hancock International Group Program)
Swiss Life
Ticino Vita (American International Group)
Turegum Insurance Co. (VITA Life)
Vaudoise-Vie (GAIN)
VITA Life Insurance Co. Ltd. (The Travelers Insurance Co.-MIA, VITA Life)
Winterthur Swiss Insurance Co.
Zurich Insurance Co. (VITA Life)

Taiwan

Aetna Life Insurance Co. of America
CITC Life (Insurope/MBA)
Cathay Life Insurance Co. Ltd. (The Travelers Insurance Co.-MIA)
Connecticut General Life Insurance Co. (AREA Benefits Network)
The First Life Insurance Co. Ltd. (GAIN)
Kuo Hua Life (Swiss Life)
Malayan Overseas Insurance Corp. (VITA Life)
Nan Shan (American International Group)
Shin Kong Life Insurance Co. Ltd. (John Hancock International Group Program)

Thailand

AIA (American International Group)
Bangkok Life (Swiss Life)
Siam Life Insurance Co. Ltd. (Aetna/Generali International Benefits Network)
Muang Thai Life Insurance Co. Ltd. (John Hancock International Group Program)
The South East Insurance Co. Ltd. (The Travelers Insurance Co.-MIA)

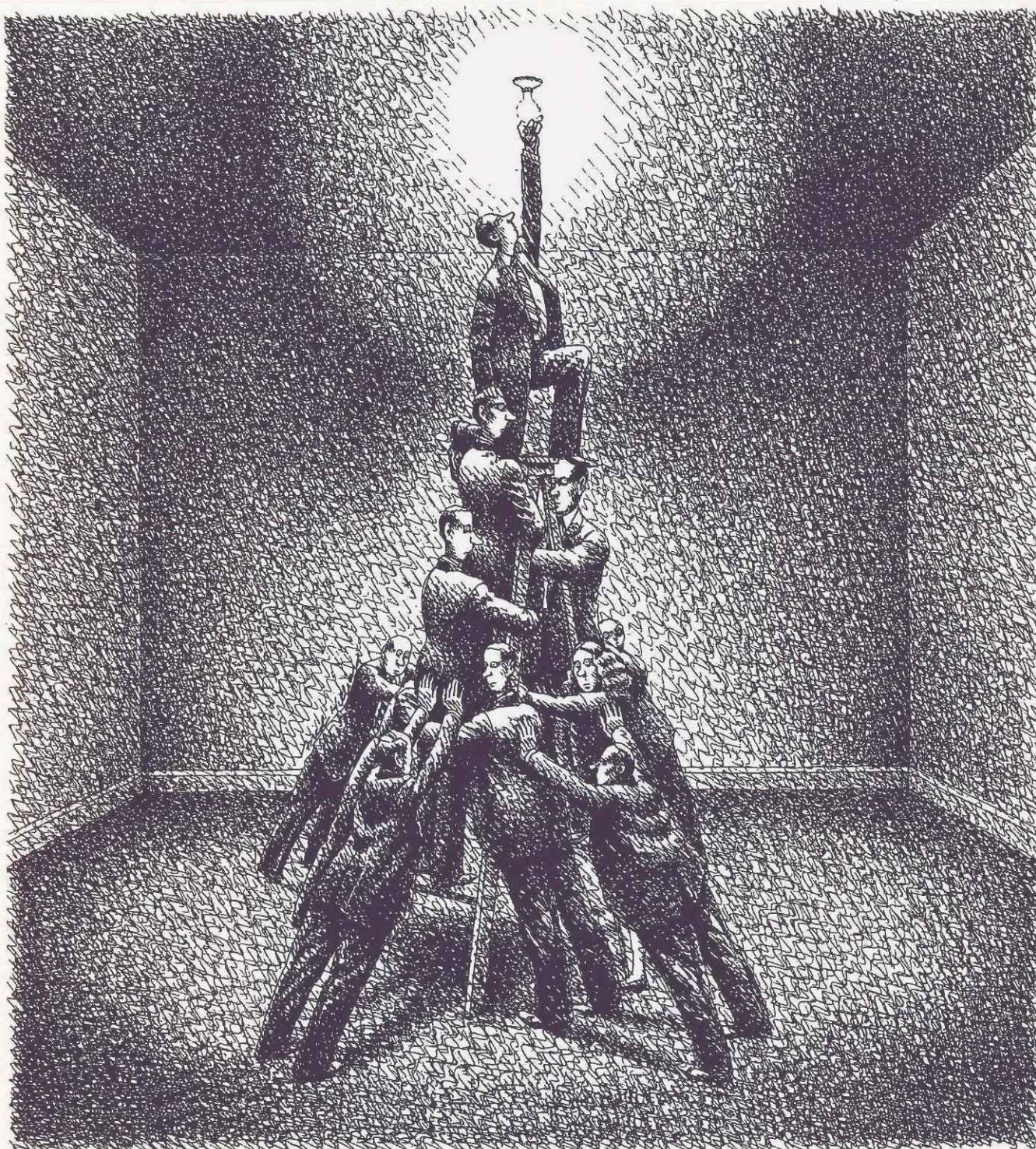
Tobago

Guardian Life of the Caribbean (John Hancock International Group Program)

Togo

L'Union des Assurances de Paris (The Travelers Insurance Co.-MIA)

Continued on page 38



Why have many do a job that one can do better?

Consolidate your international benefits with GMD.

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sands of North and South Carolinians, we related to those whose lives became as upended as the trees that came crashing down on their homes and automobiles.

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More than ever, we are proud to be members of an industry dedicated to the safety and security of the public wherever, and whenever, they and their property are affected.

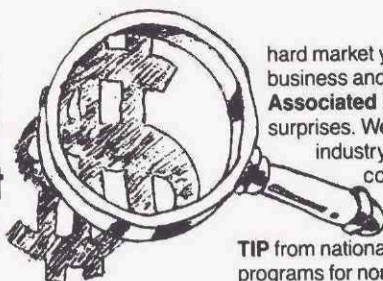
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Continued from page 36

Trinidad

ALGICO (American International Group)
Guardian Life of the Caribbean (Insurope/MBA)

Tunisia

Dhamen Union d'Assurance et de Prevoyance (The Travelers Insurance Co.-MIA)

Turkey

ALICO (American International Group)
Benefits Network)
CIGNA—SABANCI Sigorta Anonim (CIGNA Worldwide)
Generali Sigorta (Aetna/Generali International Benefits Network)
Sark Sigorta T.A.S. (The Travelers Insurance Co.-MIA)
Turkiye Genel (AREA Benefits Network)

Uganda

Uganda American Insurance Co. Ltd. (American International Group)

United Arab Emirates

ALICO (American International Group)
CIGNA Worldwide Insurance Co. Credit & Commerce Insurance Co. (AREA Benefits Network)
Vita Life Insurance Co. (VITA Life)

United Kingdom

ALICO (American International Group)
Aetna Life Insurance Co. Ltd.
BUPA (Insurope/MBA)
The Bedford General Insurance Co. Ltd. (VITA Life)
Crusader Insurance P.L.C. (CIGNA Worldwide)
Eagle Star Insurance Co. (AREA Benefits Network)
Guardian Royal Exchange Assurance (The Travelers Insurance Co.-MIA)
Legal & General Assurance Society Ltd. (GAIN)
Norwich Union (Winterthur Swiss Insurance Co.)
Private Patients Plan (John Hancock International Group Program)
Prudential Assurance Co. (John Hancock International Group Program)
Standard Life (Insurope/MBA)
Swiss Life
Turegum Insurance Co. (VITA Life)
Winterthur Swiss Insurance Co.
Zurich Insurance Co. (VITA Life)
Zurich Life Assurance Co. Ltd. (VITA Life)

Uruguay

Montevideo (American International Group)

Venezuela

Adriatica Venezolana de Seguros C.A. (The Travelers Insurance Co.-MIA)
Casai AI Life of Puerto Rico (American International Group)
La Metropolitana (Swiss Life)
Pan American Life Insurance Co. (Insurope/MBA)
Seguros Nuevo Mundo S.A. (Aetna/Generali International Benefits Network)
Seguros Venezuela (American International Group)
Zurich Internacional de Venezuela (VITA Life)

West Germany

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Agrippina Rechtschutzversicherung A.G. (VITA Life)
Agrippina Ruckversicherung Aktiengesellschaft (VITA Life)
Agrippina Versicherung Aktiengesellschaft (VITA Life)
Allianz Leben (AREA Benefits Network)
Alte Leipziger (Insurope/MBA)
Colonia Lebensversicherung A.G. (GAIN)
Deutsche Allgemeine Versicherungs-Aktiengesellschaft (VITA Life)
Generali-Lebensversicherung A.G. (Aetna/Generali International Benefits Network)
Gerling-Konzern Welt Service Munchener Lebensversicherung Aktiengesellschaft (The Travelers Insurance Co.-MIA)
National Union (American International Group)
NOVA Krankenversicherung A.G. (The Travelers Insurance Co.-MIA)
Patria Versicherung Aktiengesellschaft (VITA Life)
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Victoria Lebens-Versicherungs A.G. (John Hancock International Group Program)
Vita Lebensversicherung-Gesellschaft (VITA Life)
Winterthur Swiss Insurance Co. Zurich International Versicherungs-Vermittlungs-Aktiengesellschaft (VITA Life)
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Zimbabwe

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Global coverage

Continued from page 3
client and its overall long-term corporate strategy—to be able to respond to companies that are going to be in a diversification mode—geographically, economically or by product line,” said Mar-nix L.K. Guillaume, vp of Corroon & Black Corp. and president of its international division.

Because of an increasing corporate emphasis on cost effectiveness, “the risk manager has found himself more in the driver’s seat. Now they have the hammer and are insisting on loss control services and a better quality worldwide program,” said Eliot Pardee, group international director for Fred S. James & Co. Inc. in San Francisco.

In addition, multinationals are becoming the beneficiaries of greater competition in the international insurance marketplace, partially spurred by insurers positioning themselves for the dismantling of EC trade barriers, risk managers, consultants, brokers and insurers say.

The international marketplace is competitive “and becoming more so,” said J. Kenneth Seward, senior vp and director of Johnson & Higgins in New York.

Christian Dahms, a partner with broker Jauch & Hubener in Hamburg, West Germany, explained that competition is particularly intense in Europe, “because this will soon be one large competitive insurance area.” And he noted that merger and acquisition activity among insurers in EC nations already is booming (*BI*, Sept. 19).

“European markets are more competitive. U.S.-based international insurers are going through an analysis to determine their long-term strategies and are not as aggressive” on average, said Lawrence S. Doyle, president of Hartford International Insurance Co. in Hartford, Conn.

“There is more competition in Europe, and the more barriers that drop, the more competition there will be,” predicted Steve A. Schleisman, president and chief executive officer of UNAT S.A., a Paris-based unit of AIG that services European multinational risks.

“I see European insurance companies becoming more competitive on a multinational basis. This process is going well beyond the boundaries of Europe as their fundamental philosophies are changing,” said Peter F. Reid, senior vp of Continental Insurance Co.

Within the European community, “Spain is seeing an increase in insurance activities among banking concerns, and that type of competition should be expected to expand to other European countries,” predicted Steven Debrovner, vp of marketing for CIGNA Worldwide Inc. in Philadelphia, a unit of CIGNA Corp.

Norman B. Chanzis, director of risk management for American Standard Inc. in New York, said: “I am seeing some competition, particularly from Europe-based insurers, possibly in anticipation of 1992,” he said, referring to the elimination of EC trade barriers.

Large U.S. and European multinational insurers are “more interested in multinational industrial risks and more willing to compete in local services, pricing and captive participation,” concurred Joseph Wojdula, manager of corporate insurance for Motorola Inc. in Schaumburg, Ill. “We’re looking at more choices this year,” he added.

However, sources are quick to note that global insurance programs are based upon long-term, service-oriented relationships and are less subject to the wide swings in premium rates and coverage availability that plague the U.S. commercial property/casualty in-

surance marketplace.

The multinational market is competitive, but “less so than the extremely rough and tumble cycles of the U.S. market. There is a narrower band of fluctuation,” with “more tempered” rate reductions, said Peter K. Maier, director of risk management and prevention for Corning Glass Works in Corning, N.Y.

It’s “a different marketplace than indigenous markets are. There are fewer players and it is a different type of competition,” said Vincent Masucci, president of AIGlobal.

“Within that market, there is a cycle, and we are in a soft part of that cycle,” Mr. Masucci said. But the emphasis in these “relatively long-term relationships” is on service, rather than just price, “and it is very expensive for both sides to switch them from year to year,” he explained.

Cycles in the multinational marketplace “have never been as dramatic as they have been in the U.S. The peaks and valleys are a little closer together and stay in the 30% to 40% (fluctuation) range,” said David M. Glantz, president and chief executive officer of broker Rollins Burdick Hunter International Inc., a unit of Rollins Burdick Hunter Group Inc. of Chicago.

Global programs help insulate businesses from wide rate swings because of the wide spread of risk, explained John Ormerod, vp and director of marketing-international division, for Zurich-American Insurance Group in Schaumburg, Ill., a division of Zurich Insurance Group of Switzerland.

The limited number of truly “multinational” insurers also tempers rate competition in comparison with what is experienced within the domestic marketplace, where many insurers are competing for business, he added.

“There is less insurer hopping in the international marketplace, because long-term commitments between the insurer and insured are necessary for adequate protection of both sides,” agreed Hugh R. Loader, group insurance manager for Tetra Pak P.L.C. in Saffron Waldron, England.

Geoffrey Saunders, risk management advisor to RTZ Corp. P.L.C. in London, pointed out: “We try to go for stable, long-term availability of coverage and for that we are willing to pay the premium.”

Mr. Saunders does not pressure his insurer for premium reductions because of RTZ’s wide geographic spread of risks and the multiplicity of exposures faced by the mining company, including political risks and earthquake and cyclone losses.

The price competition that does exist in the international arena is much more prevalent for property risks than for casualty business, observers say.

“It seems like the market has been softening all year long, particularly in the property area. We’ve been keeping virtually all of the business we want, but premiums are down,” said James W. Webb, second vp-international department at The Travelers Insurance Co. in Hartford, Conn.

But, rather than shopping their clients’ risks among international insurers, “brokers are working with their incumbent insurers to get the best deal they can” for their clients, Mr. Webb noted.

“There is certainly overcapacity” in the multinational property insurance market “and, as a result, in many areas of the world, there is relatively unattractive pricing” as far as insurers are concerned, said Gordon W. Kreh, president of Engineering Insurance Group in Farmington, Conn., a joint venture between The Hartford Steam Boiler Inspection & Insurance Co. and General Reinsurance Corp.

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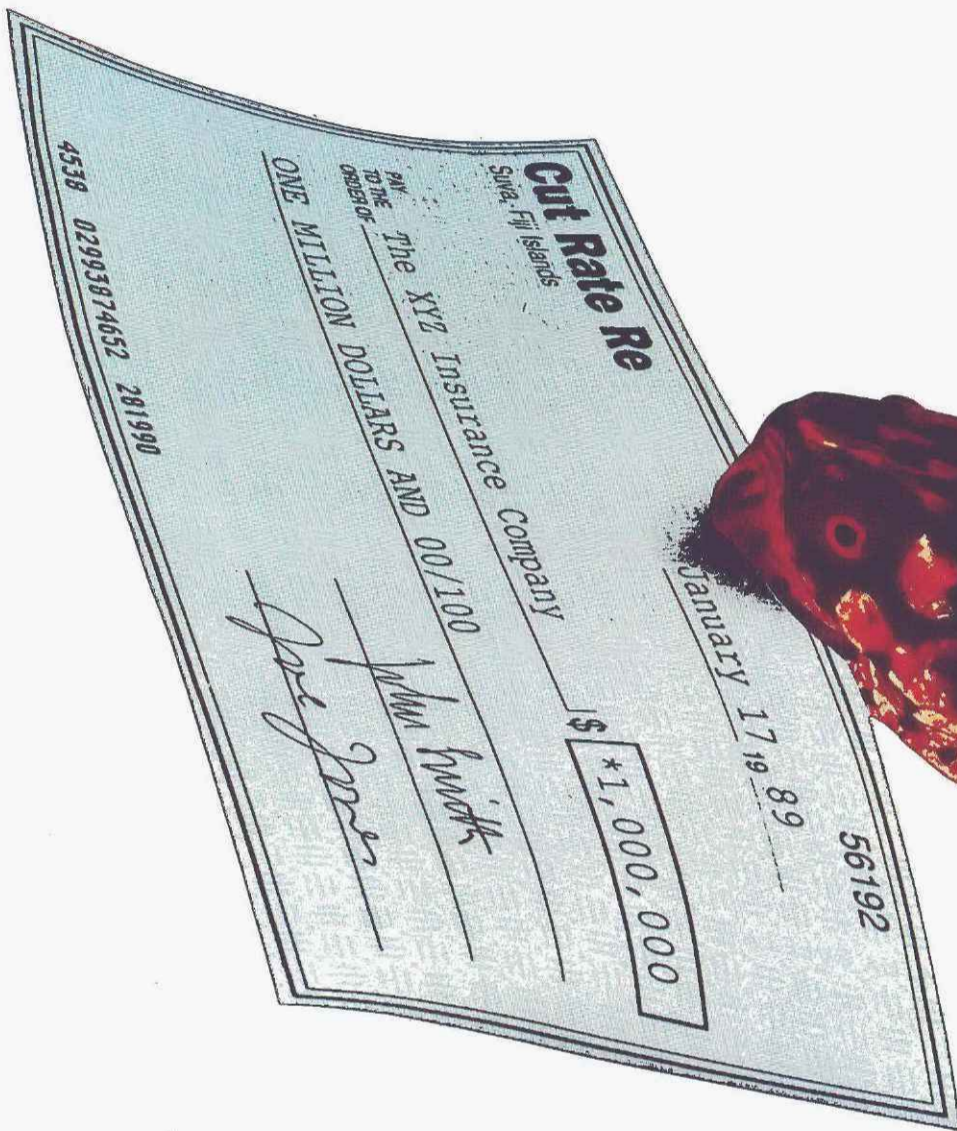
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**Choosing A Reinsurer
Shouldn't Be A Risk**

Managing risk in 1992

By Thomas J. Drag

Rates will fall, coverage broaden

THE TERM "EC 1992" has come to mean the creation of a single market in the European Community, permitting the free flow of capital, goods and services between member states. Whatever specific changes occur in Europe over the next decade, the development of a single European market could be one of the most significant global events in our lifetime.

The most important concern to U.S. risk managers is how EC 1992 will affect the cost of and coverage provided by their insurance programs, the claims environment and the service they will receive from brokers and underwriters.

The Treaty of Rome, signed in 1956, was the first step toward a single market. It established two principles—freedom of establishment and freedom of services—that apply not only to insurance but to all service industries. These two phrases embody the significance of EC 1992 to the insurance industry. In 1988, the directive was passed that will actualize the Treaty of Rome for the insurance industry.

Known as the Second Non-Life Directive, it is one of 300 legislative measures drawn up in 1985 by the European Council of Ministers. These measures, which comprise a comprehensive program of change, are scheduled to be passed into EC law by the end of 1992.

The effective date for the Second Non-Life Directive is July 1, 1990, a little more than eight months from now. That is when EC 1992 will be legally in place for the insurance industry. In practical terms, the next renewal date faced by policyholders in Europe will occur under the terms of the new directive.

For some time after the directive takes effect major changes in insurance industry practices are unlikely. Most large U.S. multinationals already have programs in place with insurers licensed in every country, so EC 1992 will not alter the nature of their insurance programs. One senior European brokerage executive recently coined the term "anticipointment," meaning the tremendous anticipation of change followed by disappointment as to the magnitude of the actual result.

However, the risk manager of a U.S. firm with European exposures can expect to have more decisions to make in the 1990s as a result of the changed business environment. Some large corporations are developing their multinational networks and strengthening their overall financial bases so that the likelihood that any single loss would prove devastating is reduced. This gives policyholders the confidence to take large deductibles and/or to establish alternative risk transfer mechanisms.

Firms operating in Europe will be able to exert a major influence on the insurance marketplace, much as they already do in the United States.

Changes in the patterns of commerce

and industry as a result of EC 1992 could lead to increased product availability and marketing initiatives. Such developments in the EC industrial world may result in similar changes in insurance purchasing and risk management practices.

Those policyholders with centralized control of their insurance programs should be in the best position to take maximum advantage of this new environment. The controlled master program is in many cases the most effective vehicle for managing risks throughout the new EC, as well as worldwide. This is, in fact, the type of international insurance program used by most large U.S. multinationals.

Although no immediate change in industry practices is likely, EC 1992 will probably have some effect on the cost of insurance programs both in the short and long term. Policyholders operating in the EC can expect lower insurance costs because of increased competition. As more insurers compete EC-wide, and as banks and other financial services companies enter the field, the supply of available insurance should increase. Further competition can be expected from U.S. insurers and, in the long term, perhaps Japanese insurers entering the market.

Initially, there is likely to be a general trend toward building market share at the expense of profit, which could result in hard/soft market fluctuations similar to those in the United States. U.S. multinationals in Europe may have a greater need to establish a long-term relationship with their insurers to help overcome the extremes of such market swings.

The termination of cartellike agreements such as those on tariff rates, uniform policy conditions and mandatory pools is expected to follow upon the implementation of the Second Non-Life Directive. This elimination of highly regulated and protected individual markets should also cause downward pressure on premium rates.

Premium rates in the United Kingdom and The Netherlands tend to be as much as 50% less than those in Italy and France. Such price differentials are unlikely to continue under the new directive. Competition and increased efficiency will tend to push rates in the higher-rate countries down to the level of the lower-rate countries, where free competition is already the rule.

The increasing size of multinationals could support a move toward more risk retention, especially through the use of captives. The expanded use of captives could in turn exert further downward pressure on prices, because it represents an alternative that reduces the demand for traditional insurance and gives the policyholder a unique opportunity to examine and manage costs.

Increased competition also may prevail in reinsurance markets. As self-insurance and primary insurer retentions increase, it is likely that reinsurers will step up competition for their decreasing portion of the total market. An increase in competition in the reinsurance market in turn would be an important factor in bringing primary rates down. The decrease in costs, though, could be offset somewhat by an increase in claims costs.

In such a newly competitive insurance environment, increased concern about the financial stability of insurers is appropriate. A good indication of what may happen is provided by Spain, which deregulated its insurance industry in 1984. Since then, there has been a consolidation—165 mergers and acquisitions—and a shakeout of unprofitable insurers as well, with 96 failures.

In conjunction with lower costs, firms operating in the EC can expect broader, more liberal coverage, terms and conditions. Increased competition and the elimination of cartellike agreements, in particular those that mandate unitary public policy conditions, are factors affecting coverage as much as cost. Multinationals also can expect a movement toward more consistent coverage terms and conditions, ultimately resulting in one policy covering all EC operations. This one policy could be either a stand-alone European controlled master program or a part of an international/worldwide controlled master program.

In addition, the presence of Lloyd's of London as a full participant in the European marketplace should enlarge the scope of available coverage.

Promotions by the various insurers of lower costs, better coverage and better service should prompt re-examination of insurance programs by risk managers. This could create a circular effect, resulting in greater demand for more products.

Another result of the increase in the number of suppliers could be an increase in insurance capacity. This increase in capacity may be offset to some extent as insurers merge and their combined capacities are reduced.

While some changes in cost and coverage are likely to appear over the next few years, the effect of EC 1992 on claims may take longer to become apparent.

EC 1992 may, over time, equalize the claims environment throughout the European Community; this will probably mean a change in the claims environment now typical in the less claims-conscious countries toward that which exists in the higher claims-conscious countries. There will probably be some increase in the

frequency and severity of claims in the countries where insurance is more developed, but greater increases in claims can be expected in those EC countries where claims currently tend to be infrequent and small.

The competitive business environment generated by EC 1992 will probably result in mergers, acquisitions and business agreements to create economies of scale. Such combinations bring about a greater concentration of value and larger probable maximum losses. Greater emphasis would then be placed on protection and establishing highly protected risk facilities. Property losses, in keeping with this trend, would be larger and require additional expertise in settling claims. This would be particularly true for business interruption (loss of profits) and contingent business interruption.

One additional factor affecting the claims environment in the EC is the Product Liability Directive, passed in July 1985. This directive imposes strict liability on every manufacturer and distributor in all member states for any bodily injury/property damage claim arising out of a defective product. Within three years all EC countries were required to have passed the directive into law. Although progress toward full implementation is slow, ultimately the directive will become law in all EC countries. In practice, the directive is already considered by some to be operational throughout the EC.

The introduction of strict liability into the EC has already changed the parameters of liability.

Manufacturers and importers in the EC should not rely upon lenient European courts in this new strict liability environment. The product liability directive has increased exposure to claims and will probably result in larger claims, on average, in all EC countries.

The product liability directive is another reason for U.S. multinationals to establish long-term relationships with insurers. Such relationships will prove important due to the expectation of increasingly long-tailed claims. The financial stability and long-term presence of the insurer covering your risk will now be more important than ever.

Increased competition, which is the key concept in understanding changes in cost and coverage, is also an important factor in understanding the effect of EC 1992 on service. Brokers and underwriters will stress service due to the increased level of competition for business. A further improvement in service and efficiency may occur as the number of policies

Continued on next page



Thomas J. Drag is senior vp and national director of the international division of Alexander & Alexander Inc. in New York.

ASK A RISK MANAGER

Litigation management involves tight controls

Q

An increasing number of our liability claims are being litigated. I would appreciate your suggestions on how to establish a litigation management system.

A

Effective risk management involves establishing, directing and controlling activities that strive to reduce the financial impact accidental losses have on the operational goals of an organization.

Losses that have evolved into litigation can adversely impact the cash flow of an organization. A few specific examples are the costs incurred by a company in providing a legal defense, the actual payment of judgments if liability is self-insured or possible increases in insurance premiums if losses are covered under an insured program.

Reality tells us there appears to be no escaping the effects of this litigation trend since "sue thy brother" has become a universal motto in resolving complaints. In my opinion, a viable litigation management system should encompass three main areas:

- ✓ Selection of defense counsel.
- ✓ Establishment of case handling/reporting procedures.
- ✓ Utilization of a litigation claims tracking program.

I subscribe to the belief that the decision on the selection of defense counsel should be made by the defendant (policyholder) rather than the insurer. After all, the defendant's good name and business reputation are to be protected.

A law firm entrusted with such responsibility must have the complete confidence of its client. The issue of attorney selection is one to be addressed during the insurance marketing process so as to avoid any future conflict or confusion when a summons and complaint is filed.

The risk manager could approach the insurer or claims administrator—the latter if claims services are "unbundled"—for their recommendations concerning attorneys. Other sources of reference include such publications as "Best's Directory of Recommended Insurance Attorneys" or "Martindale-Hubbell Law Directory" and, of course, following up with a firm's existing clients.

Often, risk managers and members of the

organization's legal staff arrange for a face-to-face meeting with defense firms that would handle any measurable case volume. It is absolutely necessary for the law firm to understand the settlement philosophy of an organization.

Some companies prefer to routinely settle cases out of court for economic reasons, while others believe in proceeding to the courtroom. The risk manager and/or members of the organization's legal staff should periodically review the defense firm's case handling practices to assure that consistent, high-quality work is being produced.

Establishing case handling and reporting procedures is aimed at answering the famous five "Ws": who, when, where, why, what. The case referral letter forwarded to defense counsel should be specific in identifying the type of insured arrangement being utilized by the organization, brief background information on the incident that resulted in the filing of the lawsuit and the names of primary contacts within the defendant's organization, claims administrator and insurer, if applicable. Arrangements should be made for counsel to receive all copies of all investigative material gathered to date.

Under our current claims administration contract, adjusting costs are charged on a flat fee per claim basis. We, therefore, require the claims adjuster to provide any additional investigation required rather than have the defense firm provide the same activity on a time and expense basis.

For the same reason, our claims administrator is actively involved in directing the activity of defense counsel through all phases of defense. The risk manager can assist in further reducing defense costs by arranging for company personnel to assist in the information gathering process.

One question that must be answered immediately is who will approve any proposed settlement or disposition of the case. The risk manager should have pre-established the reporting levels with the claims administrator. Any changes to routine reporting practices must be communicated to defense counsel and the reporting practices must be communicated to defense counsel and the claims administrator by the risk manager. There is no room for ambiguity here!

We require defense counsel to furnish us and our claims administrator with status reports in writing every 45 days, the purpose of which is to keep all interested parties up to date on new developments. Control, communication and cooperation are essential ingredients in handling litigation.

As new cases are filed and old ones settled, is there a program in place to track the litigation claim history and expense? Studies of some organizations indicate that only 2% of claims are actually litigated yet these cases ultimately produce more than 40% of aggregate losses.

A litigation tracking system is a computer-based program for monitoring the activity associated with these cases. Such a system is useful in identifying cases by location and incident type. Trends can be depicted and operational controls implemented to contain the volume of future cases.

When isolating the various components of the "incurred loss" figure (settlements vs. expenses), it is important to understand how much a company pays for defense costs. Be forewarned that the figure is often shocking! By evaluating these defense costs on a case-by-case basis, the risk manager is in a better position to negotiate the fee structure with the defense firm.

Litigation tracking systems can be purchased from risk management information system vendors (*BI*, July 24) or designed in-house to transfer data to a personal computer.

Whether the system is purchased through a vendor or produced internally, the payoff comes from developing a substantial and easily retrieved body of case experience and having the capability to communicate this data to appropriate persons within the organization.

Once you have established the litigation management system best suited for your company, you will find reassurance in knowing the cases are being managed and monitored on a routine basis. The peace of mind is well worth your time and effort.

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. Joseph W. Duva, director of employee benefits at Allied-Signal Inc. in Morristown, N.J., answers benefits management questions. 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.

Mr. Duva's and Ms. Werner's columns appear alternately on the second Monday of each month. 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.

Changes in the EC

Continued from previous page
and forms needed to cover the same risks decreases.

Brokers will have to be prepared to unbundle their services and to provide a broader range of services. Brokers may feel pressure to improve their management of costs, as they will be required to work more on a fee basis. Perhaps most important of all, broker innovation, combined with value-added service, will be the determining factor of those who thrive and those who do not.

In the short term, particularly, what will be most important to U.S. risk managers and U.S. multinational programs is the ability of the local

broker to keep pace with the changes. At present, European insurance marketplaces exhibit distinct regional differences and a broker must know the customs and characteristics of each region.

These functions can best be performed by a global broker with ownership or management control of its European operations and with longstanding connections in each country and region. Knowledge of local insurance conditions and practices has always been a service expected of brokers with worldwide or Europe-wide representation. What is new is that global brokerage services will take on greater importance to

multinationals with European operations. Policyholders and insurers will rely in many cases more on the broker's network of offices for coordination and control. Effective brokers will provide this higher level of service through their knowledge of the marketplace and their ability to communicate it to the client.

Underwriters will have to be prepared to offer more alternatives to traditional insurance programs to meet the varying needs and demands of firms operating in Europe. Competition will force them to improve their management of costs and increase their flexibility; those underwriters that do not will find it

difficult to survive. They, too, will have to be able to keep up with the changes in the marketplace as they occur in each region; again, longstanding local connections and knowledge of local conditions and practices will be important.

In summary, the overall effect of EC 1992 on U.S. multinational programs will most likely be lower cost, broader coverage, a gradually more homogenous claims environment and better service from underwriters and brokers. U.S. multinationals operating in Europe can thus look forward to changes that should, for the most part, be positive for their insurance programs.

Continued from page 39

In the property area, we are seeing probably 10% reductions on average, said Kemper's Mr. Hoch.

However, some are reporting much larger rate cuts.

Consultant Joseph H. Albert, president of J.H. Albert International Insurance Advisors in Needham, Mass., said international property premiums are "dropping like a stone, with 40% to 50% reductions on a few I've looked at recently. There is a significantly competitive atmosphere in 1989 on foreign property business, even at the previously low rates," he added.

"On longstanding accounts that are coming up for renewal, we have seen a reduction in premiums of anywhere from 30% to 40%," said M&M's Mr. Solomon. Those reductions, he added, are "much more property-oriented."

However, Harold Lang, director of insurance and risk management for Kohler Co. in Kohler, Wis., who is now renewing his underlying property insurance coverage in Spain, said a U.S.-based multinational insurer came up with a quote that was "very significantly less than the existing European carrier." That European insurer was subsequently willing to reduce its initial quote, and Mr. Lang says he is now weighing his options.

While greater capacity is available for multinational casualty risks and some coverage enhancements are being offered, casualty rates are not nearly as competitive as property rates, most observers agree.

"There seems to be ample capacity and pricing continues soft in the liability area," said Mr. Lang.

The casualty market is "relatively stable on rates," said UNAT's Mr. Schleisman.

Most multinationals can buy the capacity they need, but "in tougher casualty lines, the marketplace is tighter," said AIGlobal's Mr. Matuscei.

In the excess liability marketplace, capacity "is plentiful and premiums are liberal, pretty much without geographic breakdown," said Clinton Greene, vp of American Excess Insurance Assn. and president of Farmington Management Inc. in Hartford, Conn. Competition has intensified this year for most industries, he added.

However, casualty exposures represent a far smaller portion of a business' overseas insurance premium than they do in the United States, where legal costs are astronomical, some sources pointed out.

International operations outside of the United States "don't have the big legal tort problem that exists in the U.S. Casualty premiums typically represent only 3% to 10% of their premiums," said Hartford's Mr. Doyle.

In addition to Western Europe, observers cited Australia as a particularly competitive marketplace.

That is because it "is a country with hundreds of insurance companies and only 60 million people," said Dennis J. Orio, assistant vp of Chubb Corp.'s international department.

Australia's competition "is driven by the supply and demand equation. There is not a tremendous amount of business available for the capacity that exists," agreed RBH's Mr. Glantz.

In countries that impose a tariff rating system for some types of coverage—like Japan, some Latin American countries and West Germany—rate reductions are not an issue. Competition in those countries comes in the form of services provided, some insurers and brokers explained.

But, in any country that has a "free market environment, we are in a highly competitive cycle," Mr. Orio stressed.

Insurers and brokers predict that competition will further intensify

among multinational insurers in Western Europe when trade barriers start to fall next summer.

Insurers and brokers with operations in Europe will be able to market their products to many commercial clients within European Community member countries without trade restrictions beginning in July 1990.

John T. Sinnott, president of M&M Worldwide, predicted that the elimination of these trade barriers will prompt "underwriters to sharpen their pencils and will have some definite price softening effects."

"Everyone is anticipating a softening of the European marketplace and more competition" within the European Community and "we see that already," said CIGNA's Mr. Debrovner.

And, the "movements within Europe will mean the emergence of other global players in the insurance field," predicted A&A's Mr.

Forrest. Furthermore, insurers' ability to issue one policy that covers risks in all EC countries "will lead to economies from which the client, no doubt, will benefit," he added.

In addition, John R. Pacholick, vice chairman of RBH International in Chicago, predicted that there will be more unbundling of services and that "risk managers will want to make more risk management decisions independent of the purchase of insurance" as liability laws change within the EC countries.

But Willi Suter, managing director of the international division at Winterthur Swiss Insurance Co. of Winterthur, Switzerland, observed that insurers will still "need to be wary of the customer is" to compete properly in Europe for the next few years, because European risk managers are beginning to demand more risk management, loss control and risk financing services

from insurers.

Mr. Suter explained that while trade barriers will be eliminated in EC countries, their differences in language and custom "will not change in a year or two. That will take a long time to go," he added.

Insurers and brokers point out that so-called "reverse-flow business" still is a growing part of the international property/casualty insurance arena.

Reverse-flow business is business generated when a foreign company does business with an insurer or broker to cover operations in the country where that insurer or broker is domiciled. For instance, European multinationals have increasingly sought coverage from U.S. insurers and brokers to cover U.S.-based operations.

"We have extremely strong operations overseas, which gives us a lot of access to reverse-flow business coming into the U.S.," said Zurich-American's Mr. Ormerod.

"The U.S. is still a very attractive place for foreign investors to invest their money because of its stability and size," he added.

"Our reverse-flow business has been very strong over the last couple of years. At first we thought it was due to the valuation of the U.S. dollar, but as it increased in value to foreign currency, we haven't seen any signs at all of it diminishing," said Mr. Pacholick.

CIGNA Worldwide's reverse-flow division "is only a year old and it has already exceeded all of our growth expectations," said Mr. Debrovner.

Royal Insurance U.S.A. in New York examines reverse-flow business to see if it "has potential to turn into a global program," said G.J. Orford, assistant vp-international. If it does, that business is handled within its international operations, and if it doesn't, "we turn it over to our domestic operations," he noted.

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Buyers satisfied with international services

By LINDA J. COLLINS

Risk managers for multinational companies generally are satisfied with levels of service available overseas, even though observers note that services provided abroad are not as comprehensive as those in the United States.

With far fewer multinational than domestic insurers, risk managers accustomed to "picking and choosing engineering and loss control services from 20 to 40 companies will find a limited marketplace," said Robin N. Lamprecht, president and chief executive officer of broker Frank B. Hall International Inc. in New York, a unit of Frank B. Hall & Co. Inc.

"But within those confines I think you can satisfy the service needs of most risk managers," particularly in Europe, he said.

Glenn A. MacCorkle, director of risk management and insurance for NCR Corp. in Dayton, Ohio, said services obtained abroad "are equal to what we get in the U.S., but we don't demand the same intensity of those services (abroad) as we do here."

"For the level of assistance we seek, we are finding (services) available overseas in increasing amounts. . .to the point where we can't see any real distinction," said Richard C. Heydinger, risk management director for Hallmark Cards Inc. in Kansas City, Mo. He added: "Europe is much more receptive to risk management and loss control" today.

"In most cases, our clients are satisfied with the services they are receiving" outside the United States, said David M. Glantz, president and chief executive officer of broker Rollins Burdick Hunter International Inc., a unit of Rollins Burdick Hunter Group in Chicago.

"I haven't had any U.S. (multinational) clients raise service as an issue," said Paul Van Zuiden, a consultant with The Wyatt Co. in Chicago.

"I'm not hearing of any problems," said consultant Joseph H. Albert, president of J.H. Albert International Insurance Advisors in Needham, Mass.

While services from domestic insurers in the United States are "more developed" than those provided by international insurers, "loss control services are available around the world," said Hugh R. Loader, group insurance manager for Tetra Pak P.L.C. in Saffron Waldron, England.

Distinguishing between property and casualty risks, Norman B. Chanzis, director of risk management for American Standard Inc. in New York, said that while property loss control and engineering services are generally available overseas, casualty loss control services are lacking abroad.

"There is very little in the way of product liability loss control provided by local insurers, and I have seen nothing in relation to automobile and fleet safety services. I don't think there's much of an interest" in it from foreign risk managers, Mr. Chanzis added.

However, because U.S. liability costs far exceed those overseas and because workers compensation coverage in many foreign countries is provided through government programs rather than privately, liability loss control has never been as important to businesses or insurers abroad, observers point out.

"It's really a matter of supply and demand and depends very much on the country. As there is a lesser demand, there will be less of an infrastructure built up in the country to handle services," said Laura Markos, chairwoman of the international cooperation commit-

tee of the Risk & Insurance Management Society.

"In the casualty area, risk managers are more likely to seek the services of independent adjusters. As far as the property side is concerned, equal services are definitely available" in the United States and abroad, added Ms. Markos, who is director of risk management for Avery International Corp. in Pasadena, Calif.

Even in Western Europe, "one of the most advanced insurance areas of the world, there is not as great a focus on loss control, although companies are gearing up for that now," said Eliot H. Pardee, group international director for broker Fred S. James & Co. Inc. in San Francisco.

"Select underwriters overseas

are as qualified in providing certain loss control methods, although U.S. underwriters, in general, provide better loss control services because they've been at the game

elimination of trade barriers among European Community nations will further increase business demand for engineering and loss control services.

'For the level of assistance we seek, we are finding (services) available overseas in increasing amounts. . .to the point where we can't see any real distinction' from services in the United States says Richard C. Heydinger of Hallmark Cards Inc.

longer," said Marnix L.K. Guillaume, vp and president of the international division of broker Corroon & Black Corp. in New York.

But Mr. Pardee predicts the

Mr. Albert agreed that while European companies "typically" have not provided loss control services, they will be forced to begin offering such services to compete with

U.S.-based multinational insurers.

Harold Lang, director of insurance and risk management for Kohler Co. in Kohler, Wis., also predicts that as EC trade barriers fall, competition will force European insurers to improve service.

Consultant George M. Betterley, vp of the Tillinghast division of Towers, Perrin Forster & Crosby Inc. in Newton, Mass., further noted that many international risk managers "do not think of getting these services from their insurers, but rather of getting them through their broker or through an independent source."

However, insurers that underwrite coverage for highly protected property risks are "gearing up to do a better job on international services," Mr. Betterley said. ■

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Global programs called a necessity

By LINDA J. COLLINS

Advisers tout coverage uniformity

Risk managers, brokers and consultants recommend that multinational businesses establish some form of global insurance program.

Advantages of global programs, under which most of a multinational's risks are insured under one program, include consistency of coverage, economies of scale, greater cost stability and added clout in obtaining services from insurers, proponents of global programs say.

However, some observers remain cautious, warning that multinationals could end up with "all their eggs in one basket" in the event of rate increases or service restrictions.

"We are a global company and we try to market our products and services the same around the world. We

manage our financial structure on a global basis and a global insurance program just fits in with the scheme of things," said Glenn A. MacCorkle, director of risk management and insurance for NCR Corp. in Dayton, Ohio.

A global program "provides us with administrative efficiencies and consistency of coverage, and the volume (with the insurer) brings cost-effectiveness to our program," Mr. MacCorkle said.

About 80% of NCR's international exposures are covered under a global program written by a U.S. multinational insurer. For its remaining risks, NCR purchases policies from

local insurers, with a difference-in-conditions policy covering any risks not insured locally.

Global programs "enable a multinational company to achieve some standards of risk management structure that go beyond the vagaries, variations or differences that can exist in different parts of the world," said Peter K. Maier, director of risk management and prevention for Corning Glass Works in Corning, N.Y.

"If one of our divisions blows it, in terms of loss experience, we have the strength of the other divisions to pull us through the year," said Geoffrey Saunders, risk management ad-

viser to mining company RTZ Corp. P.L.C. in London.

"Evolutionary changes" that occur when a company expands foreign operations can often leave "duplication of coverages, excess costs and coverages that are not state-of-the-art because they were not being handled by a full-time risk manager," said Laura Markos, chairwoman of the Risk & Insurance Management Society Inc.'s International Cooperation Committee.

Because of this problem, Ms. Markos, director of risk management for Avery International Corp. in Pasadena, Calif., advocates the global program approach.

But, one potential drawback of a global insurance program purchased through one multinational property/casualty insurer is that a buyer is "putting all of its eggs in one basket" if the insurer pulls out of the market, increases rates substantially or restricts coverage terms and conditions, several observers point out.

Furthermore, autonomous operating units of a multinational might object to a structured, uniform global program that did not allow a measure of control over local coverage needs.

So, experts caution that an effective global program must properly fit a company's management style and scope of operations.

Rather than purchase a single policy to cover all multinational exposures, many risk managers select a master policy that drops down to cover risks left uncovered under a series of local coverages purchased from various insurers.

But, regardless of whether the program consists of one or a collection of policies, "anybody with international operations should have a global design in mind—a central direction to the program and to the monitoring of it," advises consultant George M. Betterley, vp of the Tillinghast division of Towers, Perrin, Forster & Crosby Inc. in Newton, Mass.

Furthermore, "we recommend a reporting procedure to the corporate risk management department, even if it is a decentralized account," Mr. Betterley added.

"The more you can put your worldwide severity risks in one program, the better off you are. You can still place your underlying coverages in separate programs," advises John T. Sinnott, president of Marsh & McLennan Worldwide, a unit of Marsh & McLennan Cos. Inc. in New York.

Joseph H. Albert, president of J.H. Albert International Insurance Advisors in Needham, Mass., also strongly recommends that multinational clients establish some form of global coverage. "We see advantages in costs and in knowing what coverages they have on an overall basis," he said.

"With a global program, all you have to do is look at the master program and you have the answer. With individual programs, you have to look at the individual document," said Hugh R. Loader, group insurance manager for Tetra Pak P.L.C. in Saffron Waldron, England.

"You can read a translation, but if the translation is not as good as you thought, the native language will prevail" and the company might be left without coverage, Mr. Loader said.

Norman B. Chanzis, director of risk management for New York-based American Standard Inc. is "a great proponent" of the global coverage approach. American Standard purchases a collection of coverages written locally by units or affiliates of a U.S.-based multinational insurer, with a master DIC policy covering both property and liability exposures not covered by the local policies.

"In addition to price savings, you get coverage concessions or the broadest possible coverage" in situations in which coverage for a claim could be questionable, Mr. Chanzis said.

Richard C. Heydinger, risk management director for Hallmark Cards Inc. in Kansas City, Mo., said he also purchases a global program that insures risks not covered under a collection of local policies.

In addition to "economies of scale and purchasing power," global programs provide a multinational with the "comfort of knowing what your coverage is and who the provider is," Mr. Heydinger said.

Hallmark's foreign subsidiaries
Continued on next page



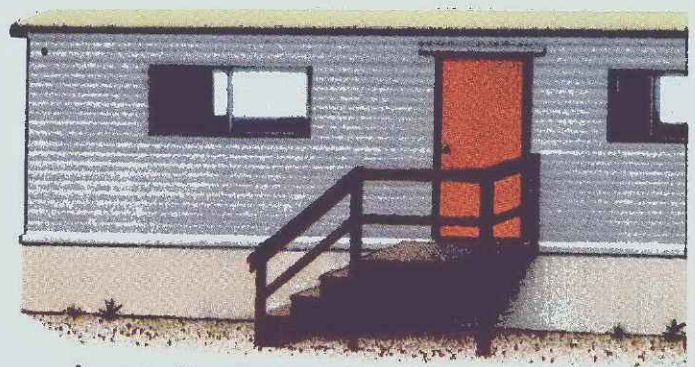
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Global coverage

Continued from previous page
 also prefer this arrangement because they can purchase coverage from local insurers that they can call when questions arise, he added.

"This approach works very well. They stay on top of their local programs, and we're here protecting the catastrophic exposures," Mr. Heydinger said. "We only get involved in claims issues if there are major problems or if the claim falls into the international program."

Because some of RTZ's "autonomous divisions are big enough in their own right to be multinationals," the British company's "program has to be flexible enough to respond to their needs for risk retention and they have to determine their own destiny when it comes to sensitivity to losses," said Mr. Saunders.

Under RTZ's program, its captive insurance company insures all-risk property exposures up to \$100 million in value, except for earthquake

and flood perils.

"Each division manages its own affairs within the captive and we draw upon in-house risk management expertise to organize our global (catastrophic property and liability) programs," he explained.

A somewhat decentralized approach also works well for Kohler Co. in Kohler, Wis., said Harold Lang, the company's director of insurance and risk management.

Purchasing insurance locally avoids "potential tax exposures, since there is no imputed income to the parent. Global programs could incur this if they are not structured properly," he said.

"Still, I think we have a global program through our DIC coverage, which is in our case is satisfactory," Mr. Lang said.

"There is no set formula for a global program. Every client has its individual needs," said J. Kenneth Seward, senior vp and director of Johnson & Higgins in New York.

"This trend is just starting on the continent of Europe and in England because of 1992. Buyers are now developing an interest in having one coordinated program," said Christian Dahms, a partner with broker Jauch & Hubener in Hamburg, West Germany.

However, some companies prefer to separate their U.S. risks from the rest of their global coverage.

Mr. Dahms said that liability exposures are "so different in the U.S. to anything you find in the world elsewhere, there is a tendency to keep the U.S. coverages" separate. ■

Multinationals in U.K. buy global cover

By LINDA J. COLLINS

The bulk of British multinational companies have some form of global property/casualty insurance program, a study shows.

Seventy-one percent of 125 of the largest British multinationals surveyed by Alexander Stenhouse Ltd., a London-based unit of broker Alexander & Alexander Services Inc., said at least some element of their property/casualty risks was covered on a global basis.

However, only 18% had a full global program that covered all their material damage, business interruption, liability, fidelity guarantees and marine exposures.

Of those companies that did not have some form of global program, 89% said that consistent worldwide insurance is important. Most of these companies said they monitor reports from their various subsidiaries to achieve this consistency.

Of the companies that do not have global programs:

- 40% said they had insufficient exposures to warrant global coverage. However, more than half of these companies currently are considering some type of global program.

- 25% said that they needed to give insurance autonomy to their local managements.

- 20% blamed their lack of a global program on "inertia."

Of the respondents with some form of global coverage, three out of four cited consistency of coverage worldwide as essential or very important to their decision to establish a global program. And, two-thirds cited cost savings and better management control over subsidiaries as reasons for global programs.

The survey also indicated that 76% of the respondents used several insurers to cover overseas exposures.

Single copies of "Global Insurance and U.K. Multinationals Survey" are available free from Richard Porter, Executive Director, U.K. Development, Alexander Stenhouse U.K., P.O. Box 214, 10 Devonshire Square, London EC2M 4LE; 01-621-9990.

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Insurers reach to international clients

By LINDA J. COLLINS

Several international insurers report they have restructured their operations or enhanced their services to multinational clients.

For example, American International Group Inc. of New York earlier this year formed two new units, AIGlobal in the United States and UNAT S.A. in Paris, to provide enhanced underwriting and financial and risk management services to its multinational clients.

AIGlobal is expanding AIG's marketing efforts to provide global programs to small to medium-sized companies that export products or services overseas, said Sharon Schwamberger, director of international packages. "The number of companies that export overseas is increasing by leaps and bounds," she said.

Continental Insurance Co. in New York restructured by paring down staff in some countries and increasing it in others, "to make us a lot more efficient and nimble in going after market opportunities that fit our business mission," said Senior Vp Peter F. Reid.

Chubb Corp. earlier this year reorganized its international division to offer its full resources to international markets and "achieve a global insurer status," explained Donald E. Mergen, vp and manager of the international department.

Chubb places heavy emphasis on its ability to provide solid loss control services worldwide, he said.

The Warren, N.J.-based insurer also just completed the linkage of all its U.S. and foreign offices through an online communications and information network, Mr. Mergen added.

CIGNA Worldwide Inc., a unit of Philadelphia-based CIGNA Corp., has established risk management units in several of its overseas offices, said Michael Ross, assistant vp-marketing.

They are staffed by specialists in large underwriting who can administer such options as cash-flow programs and captive insurance company arrangements, Mr. Ross explained.

Also, CIGNA's CRIS risk management information system is being made available to European clients, said Steven Debrovner, vp-marketing.

Last month, Kemper Group's national property/casualty companies formed a joint venture with the UAP Group in France to market and service highly protected risk property insurance throughout Europe, said Theodore J. Hoeh, senior vp of Kemper International Corp. in Long Grove, Ill. (BI, Sept. 11).

Kemper is also marketing a new, all-risk business computer insurance policy, CompuPak, that combines coverage for office computers and factory control robots and computers.

It can be tailored to suit the needs of any client, and features optional coverages to protect such risks as computer viruses, dishonest acts of employees and equipment in transit.

Hartford Insurance Group in Hartford, Conn., has opened an office in Hong Kong, obtained a license to operate in Taiwan and capitalized an insurance company in Belgium—Hartford International Insurance Co.—to operate as a holding company for all of its international operations. The insurer received its license last month, said President Lawrence S. Doyle.

A new property insurer, Engineering Insurance Group, was formed at the beginning of this year as a partnership between

Hartford Steam Boiler Inspection & Insurance Co. and New York-based General Reinsurance Corp. Farmington, Conn.-based EIG is designed "to combine what we think are unique skills, particularly in the area of engineering risks," said President Gordon W. Kreh.

"We offer a combination of underwriting skills and engineering, loss prevention and other value-added services" to such industries as electric utilities, chemical and

petrochemical operations, oil refineries, pulp and paper operations and heavy industry. Mr. Kreh said.

Coverages offered through EIG include all-risk property, stand-alone boiler and machinery programs and erection all-risk insurance, which is construction coverage for risks where a major portion of the value of the facility relates to machinery and equipment, he added.

Among European-based multinational insurers, Winterthur Swiss

Insurance Co. in Winterthur, Switzerland, is making "inroads" into alternative risk financing and currently is forming Winterthur Management Services in Bermuda to provide captive management services. The facility should open this fall, said Willi Suter, managing director of its international division.

According to Mr. Suter, Winterthur also is adapting some of its existing products to find a "new approach" to providing coverage

for some pollution exposures. However, he would not be more specific, because the products are not yet on the market.

London-based Royal Insurance Holdings P.L.C. is also expanding its staff to strengthen its European service capabilities in such areas as loss control and self-insurance programs, "because these things are becoming more popular in Europe," said G.J. Orford, assistant vp-international for Royal Insurance U.S.A. in New York. ■



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1992 not prompting major changes

By MICHAEL SCHACHNER

Many to stick with current programs

Risk managers at many U.S. multinational companies with operations in the European Community are not planning to change their insurance-buying habits next year when they will be permitted to place coverage for property/casualty risks across EC borders without restrictions.

A few risk managers, however, say they will explore new markets created by a more relaxed, less restrictive trade environment.

But nearly all U.S. multinational risk managers predict the removal of restrictions on the cross-border placement of insurance could spur competition, thus prolonging the soft commercial property/casualty insurance market in Europe and

possibly triggering a market consolidation as smaller insurers join forces to better compete with larger, more established underwriters.

The Single European Act of 1985, approved by the European Council of Ministers in 1987, mandates the dismantling of all European trade barriers by the end of 1992. But a directive approved by the council late in 1987 will give risk managers with insurable interests in EC countries the opportunity to insure their large property/casualty risks with any insurer licensed in the European Community beginning in 1990 (BI,

Nov. 21, 1988).

The changes will allow risk managers to purchase one policy from one insurer to cover all of the corporation's European operations. Currently, risk managers must obtain separate policies for operations in different countries.

The upcoming free-trade atmosphere, however, probably will not change the way most risk managers insure their European operations' property/casualty risks.

Many risk managers already purchase coordinated global coverage from multinational insurers and, for the most part, risk managers say they will continue to use

their existing global programs (see story, page 3).

"In general, 1992 is a non-event for us," said Fred Ingham, risk manager for Union Carbide Corp. in Danbury, Conn. "We are structured now to be insured by international companies that are licensed throughout Europe and we'll probably continue to insure that way."

Union Carbide has sales offices or insurable property in almost every EC country.

Joseph Wojdula, corporate insurance manager at Motorola Inc. in Schaumburg, Ill., said: "It's premature to say whether we'll be

making changes. If there is a business reason to use other companies, then that decision will be made at that time."

Motorola purchases a global property/casualty insurance program from Philadelphia-based CIGNA Corp. that encompasses its operations in the United Kingdom, Spain, France, West Germany, Italy and Belgium, said Mr. Wojdula.

Under the "controlled master coverage," insurance for each European unit is arranged locally based on local needs and then issued internationally, he explained.

For example, coverage issued for a division located in Toulouse, France, would be rated based on its individual property and liability exposures, and then be included as part of Motorola's global policy.

However, not all risk managers feel their operations will be unaffected by the 1990 European insurance directive.

"We won't be standing still," said Harold Lang, risk manager for Kohler Co. in Kohler, Wis. "It's very possible that we will try to obtain one policy with the territorial limits of, say, Western Europe. We would like to buy one policy and endorse it for all locations."

Kohler, which manufactures plumbing materials, has three operations in France and one in Spain, as well as sales offices throughout the European Community. They are all wholly owned subsidiaries that currently obtain their insurance locally and pay for it in local currency, he said.

As a result of the less restrictive insurance arena, "I think we'll be able to obtain optimum coverages, optimum limits and a cost-effective price, and I'm sure we'll be able to pick up DIC (difference in conditions) coverage for any exclusions," Mr. Lang said.

Tony Pfaffle, risk manager for the investment banking firm of Goldman Sachs & Co. in New York, also acknowledged that the new rules in Europe will allow Goldman Sachs an opportunity to possibly revamp its European insurance programs.

"For us this is great," said Mr. Pfaffle. "Although we currently have a worldwide program through AIG, CIGNA, Chubb and Lloyd's, this will offer us other European firms like Allianz as well as some Norwegian and Swedish companies. We may be able to obtain broader coverages both in property and marine, and we need it."

In addition to searching for enhanced property and marine coverages through alternative European markets, Mr. Pfaffle said he may consider buying Goldman Sachs' professional liability and general liability insurance from European insurers.

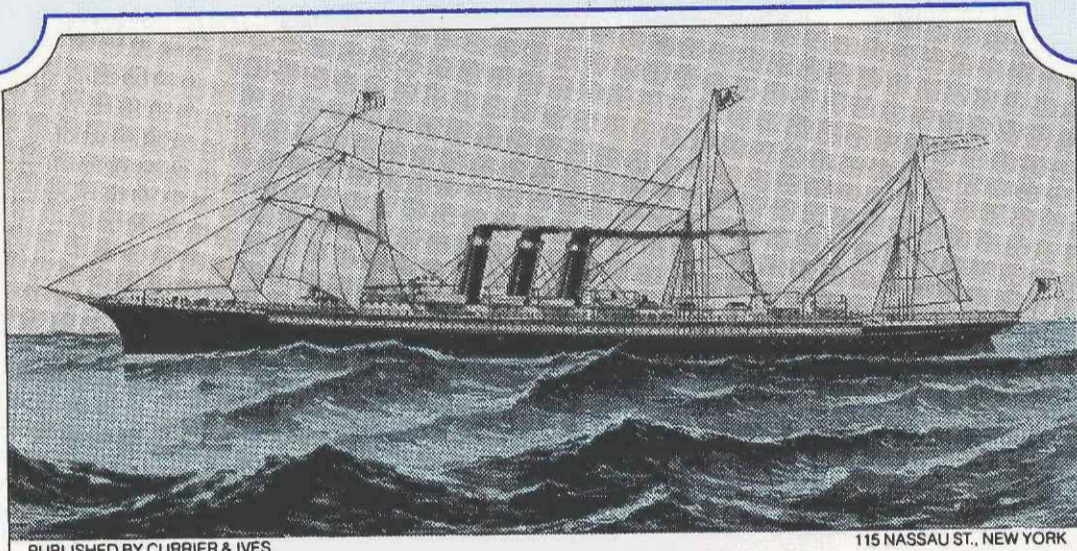
Risk managers agree that the European Community insurance directive will create a much more competitive marketplace—one that may be competitive enough to cause rates to drop further than current levels and prolong the current soft market well into the 1990s.

"As a buyer of insurance I always welcome any opportunity to have more insurance markets available. This will make Europe more competitive and should lead to overall better pricing," said Union Carbide's Mr. Ingham.

And, a risk management executive at a major U.S.-based oil company who requested anonymity said that France and West Germany—two countries that he said have traditionally not offered truly competitive rates—will see heavy competition within their frontiers from other EC-based insurers.

Continued on next page

1887: a year for successful beginnings



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Correspondents throughout the world



Continued from previous page
 "The strong local independent European insurers will suffer the most (from increased competition). They'll be forced to become competitive, especially local independents in France and Germany," concurred Norman B. Chanzis, risk

Although a freer marketplace is viewed as mostly positive, some risk managers who opt to insure their company's European operations outside the country in which the risks are located may face claims servicing problems, warns Thomas Welgoss, insurance man-

'This may very well create a consolidation of European insurers,' says Joseph Wojdula of Motorola, who feels some of the large EC insurers may band together with smaller underwriters to challenge international giants.

manager for American Standard Inc. in New York.

American Standard has foreign operations in West Germany, France, Italy, the United Kingdom, The Netherlands and Greece, and its European corporate offices are located in Belgium.

In addition to free trade prompting more competitive pricing and a prolonged soft market, one industry expert said capacity could balloon as well.

Edward Kettel, assistant treasurer for Chevron Corp. in San Francisco, believes capacity in the worldwide insurance market will grow as the result of the open European market because European insurers will begin to court attractive risks, both U.S.- and EC-based, that are currently off limits due to border restrictions.

Another byproduct of the removal of trade barriers in Europe after 1990 may be a consolidation of insurers, risk managers predict.

Smaller European insurance companies, which up until now have not been able to compete for large multinational risks, may pool their capabilities to challenge the industry leaders, they say.

"This may very well create a consolidation of European insurers," said Mr. Wojdula of Motorola, who feels some of the large EC insurers may band together with smaller underwriters to pose a competitive challenge to international giants like CIGNA and New York-based American International Group Inc.

Some of the European-based international underwriters that are likely to challenge "entrenched companies like CIGNA and AIG" include the Zurich Insurance Group of Switzerland, Allianz Insurance Group of West Germany and Assicurazioni Generali SpA Group of Italy, he said.

"This may create a confederation of international insurers," said Goldman Sachs' Mr. Plaffle. "To a degree it's there now, but we could see a lot more, something similar to banking."

Multinational companies with only a few European operations that are insured individually by European insurers rather than through global programs are likely to benefit most from the opening of the European insurance market, risk managers agree.

"This will have more effect on companies with operations in one or maybe two countries," Mr. Ingham predicted. "They will now be able to insure both or all their operations through one insurer."

"Smaller companies with first-dollar coverage will be affected the most," agreed Chevron's Mr. Kettel.

Chevron's worldwide property/casualty program exemplifies the global insurance mechanisms that most huge corporations currently employ, according to Mr. Kettel.

Chevron purchases global limits ranging up to \$500 million above a \$10 million retention, he said. Chevron's risks are underwritten in the London market, the U.S. marine market and by several Scandinavian insurers, which Mr. Kettel did not identify.

ager for Gillette Co. in Boston.

"One policy for a number of risks may ease the administration of issuing policies, but you still require local services and the handling of claims—these needs will continue," he pointed out. ■

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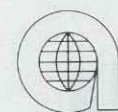
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Terrorism is threat to companies overseas

By MARK A. HOFMANN

Risk managers of U.S. multinational companies with operations in terrorist-ridden countries need to do more than just purchase kidnap and ransom insurance to protect foreign-based executives, international security consultants warn.

They also should take steps to prevent the sometimes "innocent mistakes" that could trigger terrorist incidents, especially as the type of terrorism that has plagued other countries strikes closer to home, the consultants stress.

"The corporate sector is the principal target of terrorist activity," said Gene Mastrangelo, manager of the Arlington, Va.-based Risk Assessment Information Service provided to clients of Nashville, Tenn.-based

Business Risks International, a security consulting firm.

"Terrorists go for soft targets. The business sector is what I call 'the Salisbury steak.' It satisfies their appetite," he said, even though kidnaping a corporate executive may not be as ideologically satisfying as capturing a foreign embassy's military attache.

"The whole thing boils down to common sense," said Benno Friedman, vp and department head-financial services for Alexander & Alexander of New York Inc.

"It's far more satisfactory not to have a client snatched than to get one back," said Hugh Bicheno, chief consultant for Key Biscayne, Fla.-based Security Management Associates and a former member of Great Britain's MI6 intelligence service.

Security Management Associates is on retainer to KRI Corp., a Washington, D.C.-based broker and consultant that deals exclusively in kidnap and ransom insurance.

One of the best ways multinational risk managers can shield their companies from the impact of terrorism is to purchase kidnap and ransom insurance, said A&A's Mr. Friedman, who points out that the coverage provides a dual benefit: Not only does it provide indemnification in the case a ransom must be paid, but it also provides instant access to consulting services.

Executives doing business overseas should carry kidnap, ransom and extortion insurance, agreed Carol Odinet Godfrey, manager of the political risk division of FG Special Risks Inc. in Houston.

In addition to kidnap and ransom coverage, risk managers can also purchase broad-form terrorist coverage that covers physical damage to property risks, Ms. Godfrey said, adding that the coverage is "sort of an extension" of the riots, strikes and civil commotions coverage offered by political risk insurers.

However, the terrorist coverage specifically excludes civil war, rebellion and hostile or warlike actions, she said.

While risk managers don't like to talk about anti-terrorism preparations for obvious security reasons and because a kidnap and ransom policy can be voided if a policyholder reveals its existence, risk managers can't leave security planning strictly to corporate security professionals, consultants say.

"The security manager's and the risk manager's role are very complementary," said David Samuel, president of Argen Inc., the New York-based unit of London-based Argen Ltd. that is on retainer to New York-based American International Group Inc.

Although the risk manager does what he called the "pre-work" by setting up insurance programs while security officials are called in to deal with a terrorist act as it occurs, both must take a lead in educating their colleagues about how to reduce the company's exposure to terrorist acts, he said.

This educational role is becoming more and more important, agreed Jon Harkavy, who until last month was director of government affairs and general counsel for the New York-based Risk & Insurance Management Society Inc.

"With extremely attractive opportunities available for American business on the international front comes a concomitant exposure of terrorism and kidnap and ransom," said Mr. Harkavy.

"Just as RIMS has always said that it is imperative that the risk manager get involved with mergers and acquisitions, the same involvement is absolutely essential on international ventures. Kidnap, ransom and terrorism are just another aspect to the sophistication required to adequately protect the corporate human resources of an entity doing business globally," he said.

"We think it's very important" to be prepared, concurred Richard C. Heydinger, risk management director for Hallmark Cards Inc. of Kansas City, Mo., and a former RIMS president.

Mr. Heydinger said that he could not release specific details of Hallmark's anti-terrorism strategy other than to say it involves education, training and preparedness.

But important as precaution is, consultants warn that preparation for dealing with terrorism should not be allowed to degenerate into paranoia.

"It's a state of mind, not a state of siege," said Herb Clough, vp-international operations and director of the international response team for Beverly Hills, Calif.-based Paul Chamberlain International, which is on retainer to the Professional Indemnity Agency of New York as its international response team to assist PIA clients who must deal with kidnaping or extortion threats.

Perhaps the most important component of a successful anti-terrorism strategy is to recognize security mistakes and correct them immediately, the experts say.

"Virtually all of the mistakes are innocent. When people make a mistake, they're doing so because they don't have the background, information or knowledge" necessary to avoid it, said Steve Van Cleave, Atlanta-based manager of international operations for Business Risks International.

Mr. Van Cleave cited the experience of an American executive in a Latin American country as an example of the consequences of an innocent mistake that led to a terrorist act.

Every day for nine months, the man's driver picked him at precisely the same time from the same hotel and then proceeded to his place of business by the same route. That predictability made him an easy mark for kidnapers, who seized him for ransom, Mr. Van Cleave said.

Had the American's driver picked him up at a different time each day and had alternate routes to his workplace been chosen, the executive's company might not have had to pay ransom to secure his release, Mr. Van Cleave said.

Continued on next page

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Simply contacting the nearest American consulate can help prevent trouble, but U.S. corporations sometimes overlook doing so, Mr. Van Cleave said. Companies send people to a hot spot for a temporary assignment, decline to register those workers with the consulate and then find that the consulate can't locate the unregistered people to warn them of trouble, he said.

"There's sometimes an unresponsiveness to security concerns," said E.C. "Mike" Ackerman, principal in Ackerman & Palumbo, a Miami-based security consulting firm that is on retainer to the policyholders of Warren, N.J.-based Chubb Corp.

"Where mistakes are made, it's where undue weight is given to the economic situation. Colombia is a perfect example of that," said Mr. Ackerman, who spent more than a decade in the Central Intelligence Agency's clandestine service.

"Colombia's been on our front burner for some time," said Mr. Ackerman, whose firm has been warning clients to think twice before investing in the country because of political and drug-related violence. But some U.S. business ignored the firm's advice until the Aug. 18 assassination of Sen. Luis Carlos Galan, the Liberal Party leader thought likely to be Colombia's next president, by killers allegedly tied to the so-called Medellin drug cartel.

American managers tended to focus on the fact that the Colombian economy was vibrant while the rest of Latin America had slumped into a recession, Mr. Ackerman explained.

"We do see some avoidable mistakes," said Christopher Groce, president of the Bethesda, Md.-based North American division of Control Risks Ltd. of London, which is on retainer to Lloyd's of London syndicates that underwrite kidnap and ransom insurance.

Mr. Groce, a former British military officer, said that while most countries are "perfectly safe to visit," business travelers are often not told about areas in a specific country to avoid. This is particularly true if the person in question is considered an experienced traveler by his or her employer.

"There's a tremendous tendency for people to ascribe to the travelers a greater familiarity than they really have," Mr. Groce said. Even if a traveler has visited a particular country, changes in the country's political situation that occurred since his or her most recent visit could render previous experience a less-than-perfect guide, he said. "A lot of people go off very unprepared," he added.

"Good security is basically being aware of where there are dangers," said Mr. Groce.

Argen's Mr. Samuel, a former federal Drug Enforcement Agency agent, cited "a lack of understanding of certain common-sense do's and don't's" as one of the biggest mistakes U.S. citizens make abroad.

For example, "people still go to Colombia dove-hunting" despite that nation's drug war, he said.

And, corporate executives often fail to notify their security managers when they are about to take a foreign trip, he added.

One of the biggest mistakes managers can make is to engage in "magical thinking," said Mr. Bicheno of Security Management Associates. Magical thinking, he said, centers around one misconception: "It won't happen to me."

"The worst possible thing is for top management to feel it can't happen to them" agreed Paul Chamberlain's Mr. Clough. "There's frequently an inability to comprehend" how serious a threat terrorism presents because bombs simply don't explode that often in the streets of New York or Chicago, said Argen's Mr. Samuel.

Jack Willyard, vp-financial products group for New York-based Fred S. James & Co. Inc., explained that executives often grow complacent

because they have no idea how common kidnaping for ransom is. Perhaps as many as 90% of all kidnapings go unreported in the press, Mr. Willyard estimated.

Managers with a "macho attitude"—who think that preparing for possible terrorist acts is a sign of weakness—ought to think twice about the possible legal consequences of their attitude, said Mr. Clough, who was special agent in charge of the FBI's Los Angeles office before his retirement.

If a corporation is considered negligent in protecting its personnel, it could find itself facing a liability lawsuit filed by the executives or their estates, he said.

Having a contingency plan to deal with a terrorist situation could help shield a company from litigation, Mr. Groce agreed.

Another problem corporations face involves the tendency of managers to think in business rather than security
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Terrorism

Continued from previous page
 terms, Mr. Groce said. "Security problems are usually different from business problems," he said.

The coolest, most rational executive might respond emotionally to a threat of a bombing, he said.

"The intelligent corporate executive understands that security is as much a part of today's business activity as marketing or accounting is," said Mr. Clough.

Security managers must have access to top decision-makers, Mr. Clough pointed out. A security director without immediate access to the chairman of the board isn't going to be very effective in a terrorist situation, he said.

Managers also need to know who provides contracted services to their companies' installations, he said. "Nobody knows who the contract cleaning crew is," Mr. Clough said, yet contract cleaners may

have access to the corporate secrets—including itineraries of executives about to be posted overseas—simply by looking over the papers absentmindedly left on a desktop, he said.

In addition, corporations should perform a risk analysis, weighing the risks vs. rewards of foreign operations very carefully before committing to a foreign venture, according to Mr. Ackerman. "You just don't go helter-skelter into overseas operations," he said.

Also, to deter terrorist acts from originating inside a company, an organization must screen potential employees, Mr. Clough said.

"Pre-employment screening is the single most intelligent, cost-effective measure anyone can undertake in the United States or overseas," he said. Thorough background investigations can uncover serious security concerns such as an applicant's use of drugs, he said. ■

Firms issue security warnings

Because a successful anti-terrorism strategy depends on accessible, up-to-date information, many international security consultants offer electronic information services.

For example, Miami-based Ackerman & Palumbo operates RiskNet, an electronic service reporting on 75 countries. The service is updated daily with such information as which airlines appear to be likely targets and with general political reports.

"Basically, we're trying to get the traveler to travel in a way to decrease his risks," not trying to scare executives out of traveling overseas, said E.C. "Mike" Ackerman, a principal.

For example, the firm's Aug. 31 forecast on Panama warned that new U.S. sanctions "will push the country one step closer to the brink" of unrest. The economy, is "already in utter shambles," the report said, ad-

ding that reduced opportunities for gain were costing strongman Gen. Manuel Noriega military support. Last week, a coup attempt by dissident army officers failed.

The North American office of London-based Control Risks Ltd. provides three information services—a monthly hard-copy briefing book and two data bases. One data base, Security Forecast, gives the security outlook for more than 70 countries and is updated at least once a week. The other—Travel Security Guide—describes security risks, including weather-related catastrophes.

Beverly Hills, Calif.-based Paul Chamberlain International also provides travel information for clients, said Herb Clough, vp-international operations. He said the security consultant will receive a client's itinerary, offer advice on airlines or des-

tinuations to avoid, provide an oral update on conditions the day before the trip and monitor the situation while they're in transit.

Business Risks International of Nashville, Tenn., keeps a data base of 35,000 terrorist incidents since 1970. Files include locations, names of those responsible and the outcome, said Gene Mastrangelo, manager.

Some consultants also provide guidebooks on reducing the chances of becoming a terrorist victim.

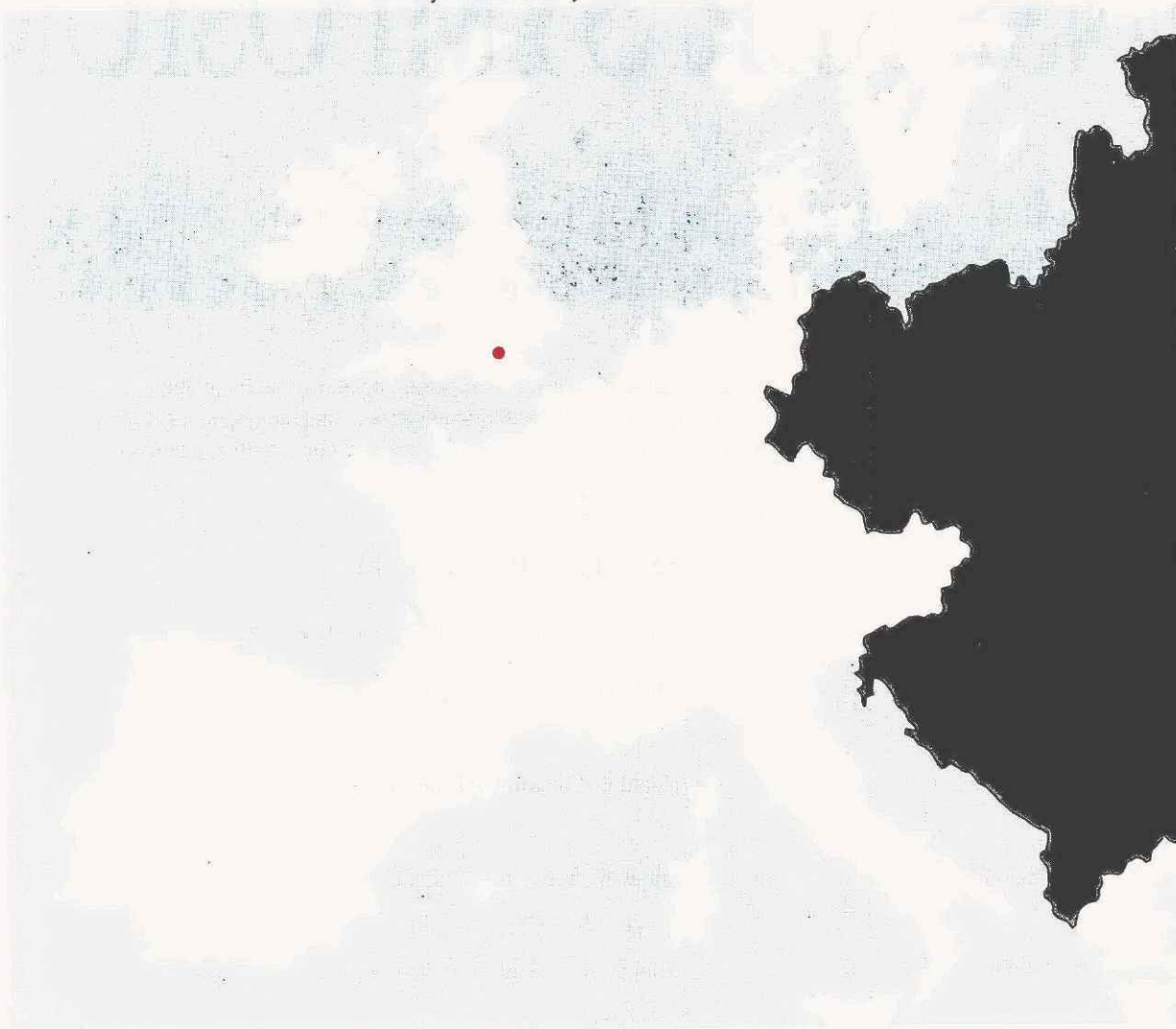
For example, a guide produced by Argen Inc., the New York-based unit of Argen Ltd. of London, tells how to check a car for explosives.

And Key Biscayne, Fla.-based Security Management Associates' booklet on personal security advises clients on selecting a domestic staff, said chief consultant Hugh Bicheno.

—By Mark A. Hofmann

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U.S. sites vulnerable: Experts

By MARK A. HOFMANN

Terrorism shows no sign of abating, and, in fact may soon strike closer to home in such forms as "narco-terrorism"—drug-related terrorism with no apparent ideological motive—international security consultants warn.

Some experts predict that radical animal rights fanatics and environmentalists may begin hitting U.S. targets on U.S. soil.

Indeed, terrorism that is both politically and criminally motivated is increasing in South and Central America, said Bob Urban, vp-FinancialGroup of New York-based Johnson & Higgins.

"There has been an upswing in business-related" terrorist activities, such as the kidnapping of executives in Latin America, concurred E.C. "Mike" Ackerman, principal in Ackerman & Palumbo, a Miami-based security consulting firm.

Terrorist activity is like a kaleidoscope, said Gene Mastrangelo, manager of the Arlington, Va.-based Risk Assessment Information Service. "A piece of glass moves and the whole picture changes."

Lebanon tops the list of trouble spots for Hugh Bicheno, chief consultant for Key Biscayne, Fla.-based Security Management Associates. Mr. Bicheno also cited any other Middle Eastern states with substantial Shiite minorities; Sri Lanka, where ethnic strife has shredded the social fabric; Colombia; Peru; and El Salvador.

"We identify the various Shiite terrorist manifestations and the Peruvian Sendero Luminoso as the most inimical to all U.S. interests and personnel without exception," he said.

Animal rights terrorism, a relatively new form, is likely to increase, according to several consultants.

Among the animal-rights related attacks in the United States was the planting of a bomb designed to kill a medical testing company executive earlier this year, he noted.

Richard C. Heydinger, risk management director for Hallmark Cards Inc. in Kansas City, Mo., expressed concern about narco-terrorism spawned by the Bush administration's recently declared war on drugs.

A few days before a Colombian drug cartel threatened to kidnap Bush family members, Mr. Heydinger warned risk managers to "take the Colombian drug lords seriously."

"I think this time around, the security risk may be imported," he said. Narco-terrorists may strike U.S. corporations' U.S. facilities as well as foreign plants, and attack their personnel on their native soil, he said. ■

More captives on horizon for Europe, experts predict

By CAROLYN ALDRED

Dozens of new captive insurers will be formed in Europe in the next few years as trade barriers fall and European companies broaden their use of these alternative risk financing vehicles, experts predict.

Also fueling this growth is the development of European captive domiciles and the insurance market's more positive attitude toward captive insurance, they note.

Legislation designed to remove trade barriers among European Community member nations is due to come into effect by the end of 1992 (BI, May 16, 1988).

However, barriers for commercial lines insurance will be partially removed in July 1990, allowing large corporations in eight EC countries to place non-life insurance risks with any insurer within the European Community.

The Freedom of Services legislation in the European Community "will make it easier for captives to operate. For large commercial risks after 1990, it should be possible to issue one single insurance policy for a company's entire EC operations, reducing costs," said Christine Douse, a director of the Global Risks Group division of broker Willis Faber P.L.C. in London.

"There's going to be tremendous growth in the future," predicted David Ovenden, group risk and insurance manager for The Wellcome

Foundation Ltd., a London-based multinational pharmaceutical company.

"1992 is going to increase the whole level of self-insurance and use of captives," he said.

"As companies get bigger and get involved in bigger markets they will get more involved in risk management and will make more use of captives," Mr. Ovenden said, referring to the wave of mergers among European industrial companies that is expected to follow the removal of trade barriers.

"People in the past who have not thought about having a captive are now thinking about it seriously because of freedom of services," agreed John C. Speller, a director of Sedgwick European Risk Management Services Ltd.

Currently, risks in most European countries must be insured directly by a local insurer. Under the new freedom of services legislation, a company will be able to insure all of its EC risks with just one insurer, provided it is located in an EC member country.

"In the past, the inability to give premiums (to a captive insurer) without going through a fronting company in each country inhibited people from setting up captives. It took away many of the reduced costs and administration benefits of a captive. Now that the restrictions are being removed there will be an increased impetus," said Mr. Speller.

About 550 European companies currently have captive insurers, and about 300 of these are located within European captive domi-

ciles, according to Brady Young, a consultant with the Tillinghast division of Towers, Perrin, Forster & Crosby Inc. in London.

Nearly half of the European companies forming captives are British, he noted.

However, he predicts significant growth in the number of captives formed by companies based elsewhere in Europe within the next few years.

Many more continental European companies are likely to establish captives in Europe and a "significant number of our non-European clients with large invest-

ments in Europe also are looking to establish separate captives in European domiciles," he noted.

"There will be a surge in growth" of captives, agreed Larry Maxted, European development director of Alexander Stenhouse Europe Ltd. in London.

An additional "100 to 200 captives will be formed in the next couple of years," he predicted.

Paul Bawcutt, managing director of Risk & Insurance Research Group Ltd., a London-based consultant, forecasts that the number of European companies owning captive insurers will increase by

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An additional '100 to 200 captives will be formed in the next couple of years,' Mr. Maxted predicts.



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European captives

Continued from previous page
 take off," she said.

Although many large British companies already have captive insurers—including about 66 of the largest 100 British companies—the rest of Europe now is beginning to talk about captives, said Steve Butterworth, superintendent of insurance of Guernsey, a captive domicile in the Channel Islands between England and France.

If about 2,000 U.S. companies have captives, the growth potential in Europe is enormous, because the "marketplace in Europe is substantially greater than the U.S.," according to Bill Hastings, chief executive and insurance supervisor of the Isle of Man, a captive domicile located in the Irish Sea.

"It's a boom market. The big corporations in Europe want to develop captives. German and French companies will create a huge

growth in captives," said a London-based broker who specializes in obtaining reinsurance cover for captives.

And European captive domiciles are poised to facilitate this anticipated growth.

Observers predict that the newly formed captive center in Dublin, Ireland, will attract many of the new European captives because Ireland is an EC member nation and the Irish government is offering favorable tax and financial arrangements to attract captives (*BI*, April 10).

Due to the EC freedom of services legislation, if a company sets up a captive in Dublin it will—beginning in July 1990—be able to insure all of its EC risks directly with the captive.

"The creation of a captive center in Dublin has enabled captive managers to look again at establishing a captive within the EC. A lot of companies are reassessing

the situation," said Mr. Maxted of Alexander Stenhouse.

In the last two years Mr. Maxted has "seen a great deal of interest from continental clients wanting to go the captive route."

Interest in captives among European companies has grown with

are conservative, and some didn't like the tax haven image of captives," Mr. Maxted explained.

However, now "more and more companies are seeing captives as a legitimate way of self-assuming risks," he added.

Meanwhile, insurance markets in

market traditionally is "very, very tight, and companies have always been told by their insurers and brokers not to bother with captives. Companies now are changing their ideas and brokers and insurers are slowly changing their attitude, too. For example, at least one major German insurer now is willing to front for German captives for the first time," said the broker.

"If there's going to be tremendous competition among insurers in the EC—as many people predict (because of the removal of trading barriers)—insurers will be more willing to cooperate with captives," predicted RIRG's Mr. Bawcutt.

"Even German insurers are willing to talk with captives now, and we will see increasing support in Europe from insurers and brokers," he said.

In the United Kingdom, "brokers and insurers already have started to support captives, and we now are seeing European brokers selling the captive concept," Mr. Bawcutt said.

"The British insurance market is increasingly cooperating with captives. They know now that's what the buyers want," agreed Willis Faber's Ms. Douse.

"A captive is not the dirty word it was a year or so back. Captives are now much more acceptable in the U.K.," said Geoffrey Thomas, deputy chairman of the management services division of London broker Bain Clarkson Ltd.

"A lot of insurance companies have come to terms with captives in the last three to four years. There aren't many U.K. insurance companies that still act in a hostile fashion toward captives because they're worried about losing busi-

Continued on next page

'A captive is not the dirty word it was a year or so back. Captives are now much more acceptable in the U.K.,' says Bain Clarkson's Mr. Thomas. 'A lot of insurance companies have come to terms with captives in the last three to four years.'

the increasing recognition of EC member nations Luxembourg and Ireland as captive domiciles, he said.

"This has helped ease the fear some European companies had about offshore captives. Europeans

Europe also are relaxing their attitude toward captives, observers say.

For example, in recent months:

- West German reinsurer Gerling-Konzern Group set up a captive management and reinsurance operation in Luxembourg.

- American International Group Inc. opened offices in Dublin (*BI*, May 29).

- Alexander & Alexander Services Inc. set up a new captive management subsidiary in Dublin (*BI*, Oct. 2).

- An increasing number of treaty reinsurance facilities are being devised by London brokers specifically for captive operations.

One London-based reinsurer recently spoke with a West German manufacturer who had considered setting up a captive two years ago "but his broker put him off the idea," related the London broker specializing in reinsurance placement for captives.

Now the manufacturer is reconsidering the captive, said the broker, who did not wish to be named.

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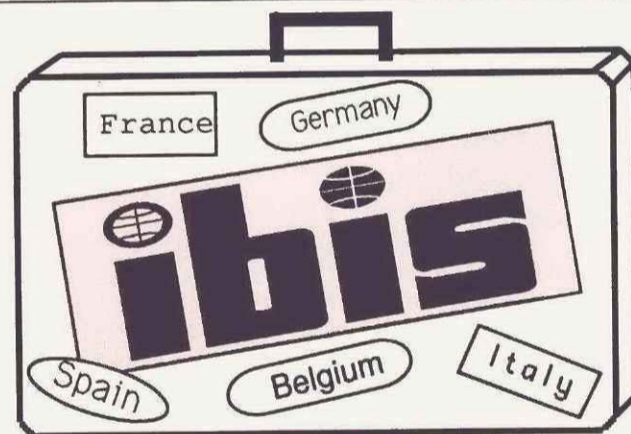
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Continued from previous page
ness," said Mr. Thomas, who is responsible for Bain Clarkson's U.K. captive operations.

In addition to increasing in number, European captives also are writing a much broader range of risks, observers say.

Captives set up by European companies traditionally have written just property, business interruption and automobile risks, observers agree.

Captive insurers originally were used "simply to fund deductibles," said Mr. Bawcutt.

Although he estimates that about 50% of European captives still simply retain low levels of property insurance, captive insurers increasingly are being used as a "proper insurance and risk management vehicle as risk managers have recognized that captives should be used more pro-actively."

There is "an increasing recognition by buyers of what captives can be used for. This partly was helped by the hard market" of 1985 and 1986, Mr. Bawcutt said.

"During the last liability crisis a lot of captives began taking liabilities for the first time. Now European companies more and more are looking to use captives to insure risks not covered by the traditional market or risks that may be subject to fluctuating availability or pricing," he noted (see story, page 58).

A "whole wave of captives was formed by U.K. companies in the 1985-86 capacity crisis partly because of the difficulty in finding liability protection," agreed Willis Faber's Ms. Douse.

Now many captives "cover every part of a company's insurance, including global property and liability, global marine, automobile, aviation and credit insurance," she said.

"Nowadays a company wouldn't just set up a captive to write a small proportion of its risks like property. Most captives are writing a broad spectrum of risks now," she added.

Mr. Thomas estimates that about half of Bain Clarkson's clients use their captives to write liability business now.

"The stability that the insurance industry used to provide isn't there any more (and as a result) big companies increasingly are using their captives to stabilize rates," he said.

"Some classes of business are more volatile than others, but there is no type of business our clients will not write," Mr. Thomas added.

"A lot more liability business now is being written by European captives. At one time most captives here just wrote property risks," said Mr. Butterworth of Guernsey.

"Companies are prepared to use their captives for more things now. Historically, a (European) captive was started to write property business and maybe some marine and business interruption. People then began looking at casualty and now are beginning to write more esoteric lines such as credit risks and professional indemnity," said Tim Windibank, a director of Sedgwick European Risk Management Services Ltd. in London.

Although many people regard European captives as far less sophisticated than U.S. captives, others believe the gap is quickly narrowing.

"The facts about European captives are different from the perception," said Tillinghast's Mr. Young.

"There is as much commitment and as much innovation in captives owned by European companies as those of U.S. parents," he said.

One example of the level of commitment being shown by European companies is the amount of capital companies are prepared to put into their captives, Mr. Young noted.

Several European companies re-

cently established captives with paid up capital of tens of millions of dollars, he said.

European captives also are insuring a broader range of risks, he noted.

For example, European companies are using their captives to insure such diverse risks as death benefits; industrial disease; pollution; and extended warranty guarantees, which insure manufacturers' product guarantees.

In addition, "companies increasingly now are investigating the role captives can play as a risk bearing entity for employee benefits," said Mr. Young.

He cited a recently completed study Towers, Perrin conducted for a major European company that showed the company could save 500,000 pounds (\$807,000) per year in employee benefits costs by making increased use of its captive.

Mr. Thomas of Bain Clarkson estimates that about 20% of the bro-

ker's clients that have captives now are looking at writing group health insurance through their captives for their senior employees.

One risk manager *Business Insurance* contacted is now using its

insurance because we believed our risks to be better than the average," the risk manager explained.

However, "we have been expanding it gradually in the last 10 years, and now it writes every class of business except directors and

'Historically, a (European) captive was started to write property business and maybe some marine and business interruption. People then began looking at casualty and now are beginning to write more esoteric lines,' says Mr. Windibank.

captive to write medical benefits for company employees.

The captive, owned by a major British electronics company, is a typical example of how British captives have expanded.

"We set the captive up in 1979 to write automobile and property in-

officers liability and aircraft product liability," he said.

In addition, retention levels have increased fivefold, he said.

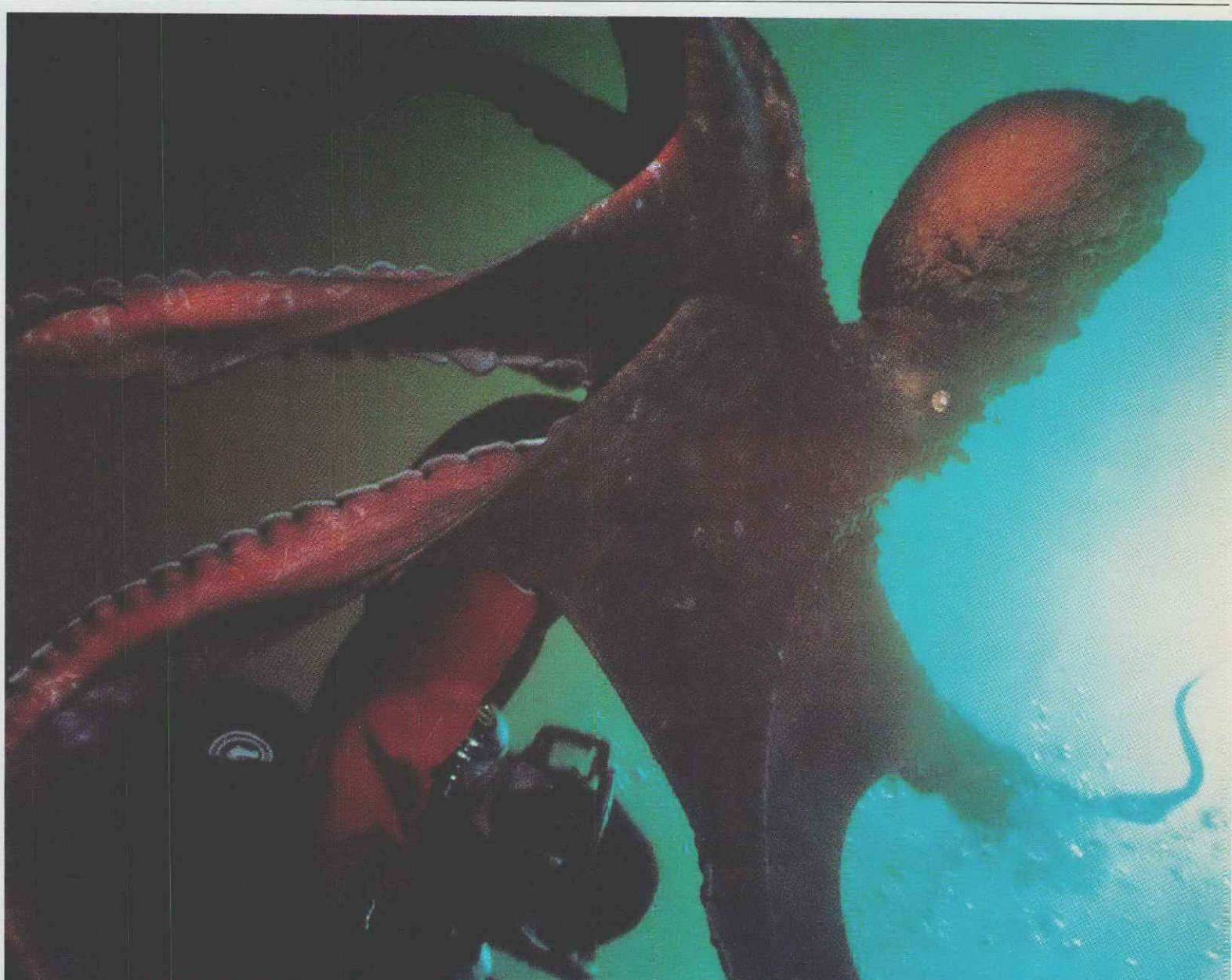
RIEG's Mr. Bawcutt noted that although the capitalization of captives by European companies tends to be higher than for U.S. com-

panies, European captives' risk retention levels are similar to those of captives formed by U.S. companies.

European property captives tend to write net retained premiums of at least 250,000 pounds to 500,000 pounds (\$403,500 to \$807,000), said Mr. Bawcutt, who added that retention levels have not increased in recent years because of the current soft market.

"Ten years ago, (British and European) companies capitalized captives for 100,000 pounds (\$161,400) to write property risks and maybe some marine risks. Now few captives are capitalized for less than 1 million pounds (\$1.6 million) and write everything including liabilities," said Willis Faber's Ms. Douse.

To justify the costs of setting up and maintaining a captive, ideally it "should not be writing net premiums of less than 500,000 pounds (\$807,000)."



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European parents brace for hard market

By CAROLYN ALDRED

European companies are setting up captives during the current soft property/casualty insurance market in preparation for the next era of rate hikes, observers and risk managers say.

"Although we're in a soft market, companies still are setting up captives. Companies are frightened of the cyclical market and are worried about the next hard market," said Steve Butterworth, insurance superintendent of Guernsey, a major captive domicile in the Channel Islands.

The liability insurance capacity crisis during 1985 and 1986 forced many European companies—especially British companies—to consider captives for the first time.

"A whole wave of captives were formed by U.K. companies in the 1986 capacity crisis partly because of difficulty in finding liability protection," said Christine Douse, a director of the Global Risks Group division of Willis Faber P.L.C.

The Wellcome Foundation Ltd. is an example of a European company that has opted out of the conventional insurance market because of its experience during the last hard market.

In October 1988, the London-based multinational pharmaceutical company formed Unicorn Insurance Ltd., a Bermuda-based captive, to underwrite product liability insurance.

"The main factor leading to the captive's formation was the last

hard market. We had been with our former liability insurers for many, many years. But the last crisis went too far. We thought we should begin paddling our own

'Companies are frightened of the cyclical market,' says Steve Butterworth of Guernsey.

canoe," said David Ovenden, Wellcome's risk and insurance manager.

Mr. Ovenden would not provide details of the captive. However, he

confirmed that the captive's has excess insurance protection underwritten by A.C.E. Insurance Co. Ltd. and X.L. Insurance Co. Ltd. A.C.E. offers excess liability limits of \$150 million excess of \$100 million, while X.L. offers excess liability limits of \$25 million, or \$75 million excess of \$25 million (BI, April 10).

"The hard market was the best boost to risk management and self-insurance we ever had. It did a great deal to make people realize about risk and risk financing methods. The hard market developed risk management techniques and raised the interest of senior financial management," said Mr. Ovenden.

"I suspect many captives have been formed in the last few years

to write product liability" insurance, he added.

"Although we are in a soft market at the moment, it will get harder," he predicted. Coverage "may not be available again and, if it is, it likely will be double the price."

Mr. Ovenden plans to also use the Bermuda-based captive to cover "other areas where the insurance market isn't able to provide what we need or give consistent pricing, such as pollution" insurance.

However, the company will "continue to use the conventional market for property" and other types of coverage where it has had no problems purchasing insurance from commercial underwriters, said Mr. Ovenden. ■

Association captives slow to catch on

Captive insurance company observers are divided over whether group and association captives will take off in Europe.

European management philosophy and the fear of sharing information with rival companies makes the concept of a multiple-parent captive hard for many European companies to grasp, several observers say.

However, at least one consultant has made it his "goal" to export the idea of group or association captives to Europe from North America.

The formation of association captives by European companies "is one of my goals. An association captive is one of the best tools to insure a risk. The costs are less and the premiums are tax deductible," said Pierre G. Laurin, an actuary with The Wyatt Co. (U.K.) Ltd. in London.

Many mutual insurance companies have been formed in Europe by professionals like lawyers, architects, doctors and engineers, Mr. Laurin noted. However, very few groups of companies have banded together to form association captives or mutual insurers, he said.

"There are very few association captives in Europe compared with the U.S.," agreed Steve Butterworth, superintendent of insurance for Guernsey, a captive domicile in the Channel Islands.

He estimates that there only are about 10 captives owned by more than one European company.

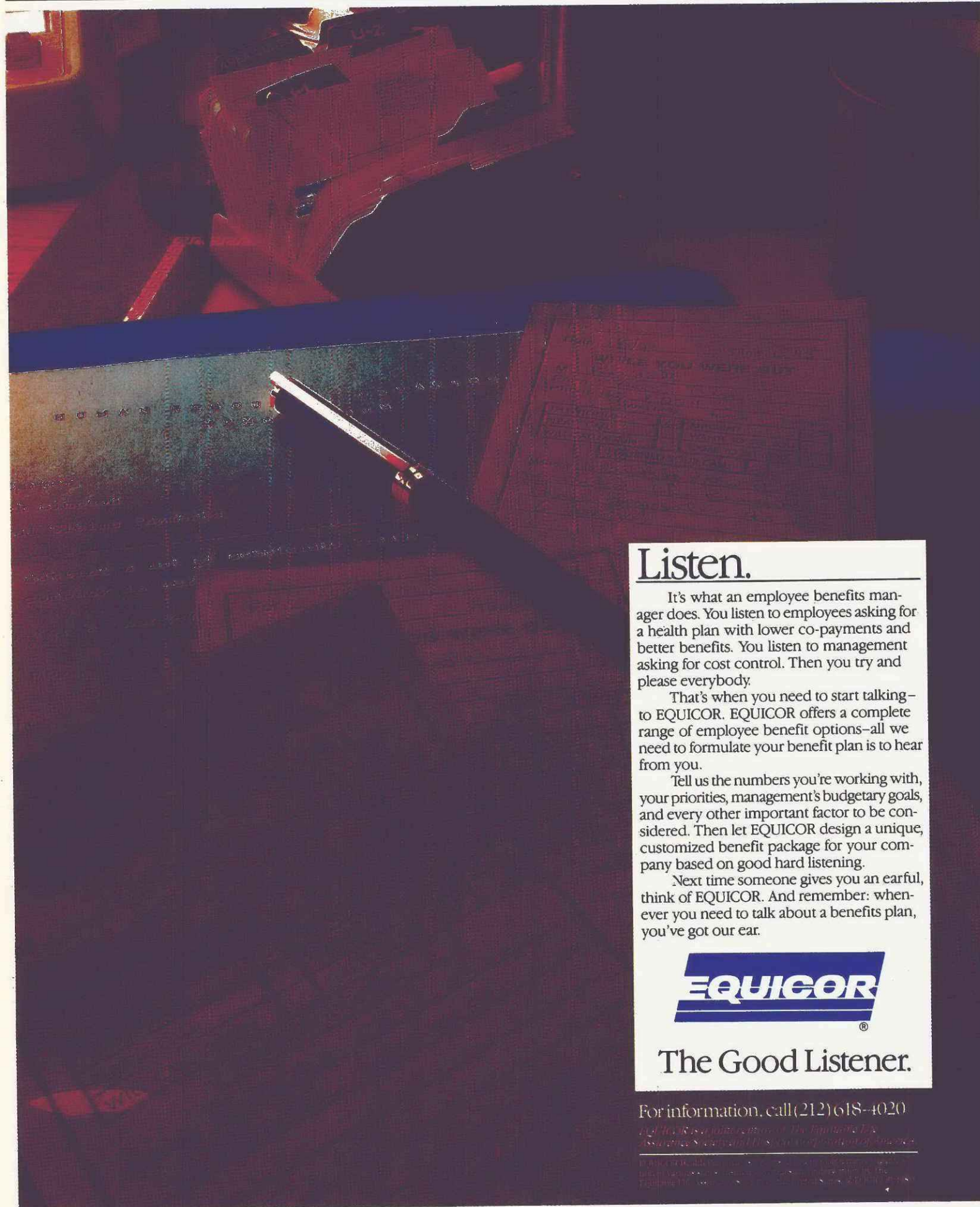
However, "it's very, very difficult to get European groups and companies together. They're frightened of sharing each other's business and commercial knowledge. It's a difficult concept for Europeans to cope with," Mr. Butterworth noted.

"But I can see association captives increasing as liabilities in Europe increase with spreading consumerism," he added.

However, at least one consultant predicts association captives will take a long time to gain wider acceptance in Europe.

"Association captives won't grow in Europe. There's a different mentality here. European management does not like telling each other what they're doing. It's a totally different approach and many attempts to form association captives have failed," said Paul Bawcutt, managing director of Risk & Insurance Research Group Ltd., a London-based consultant.

—By Carolyn Aldred



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Australian workers comp State systems face union, employer complaints

By KATE McILWAINE

BRISBANE, Australia—The state-run workers compensation programs in Australia's two most-populous states are in deep trouble, observers say.

The workers compensation programs in New South Wales and Victoria both face declining employer participation and union opposition, while Victoria's program has financial problems as well.

In response to growing premiums and resentment from workers about government proposals to change the two systems, many large employers are leaving the programs and either are purchasing commercial insurance or are opting to self-insure their workers comp risks.

In New South Wales alone, 56 employers have been licensed as self-insurers after meeting strict financial requirements set by the government. Each also was required to purchase reinsurance.

And, in Victoria, recent applications from corporations wishing to opt out of the state-funded workers compensation program would reduce by 91,000 the approximate 1.7 million-worker participation.

Victoria-based employers seeking to leave the program include: Coles Myer Ltd., a subsidiary of K mart Corp.; Amcor, a paper manufacturer; Philip Morris Inc.; Kodak; TNT, a major transportation company; the state Electricity Commission of Victoria; Unilever; and Melbourne University.

In addition, the powerful employer coalition, the Australian Chamber of Manufacturers, has announced plans to develop its own workers compensation insurance program.

Nearly 1 million trade union members in the two southeastern Australia states staged protest strikes in late July over government proposals to cut benefits and limit workers' right to sue their employers for work-related injuries.

Workers in a wide range of industries took part in 24-hour strikes on July 25 and 26, and many of the 500,000 Victorian workers imposed work bans that cut power supplies on Aug. 8, the day the Victorian Parliament resumed for its spring session.

The strikers included many government workers, schoolteachers, construction industry workers, coal miners and journalists. There was only limited public transportation in both states during the protests, and airports, factories and manufacturing plants were closed.

In Sydney, the capital of New South Wales, 30,000 workers marched to Parliament House to stage a protest rally where Premier Nick Greiner was holding a cabinet meeting.

In both states, negotiations are still continuing between government and union representatives in an attempt to mold workers compensation changes. The proposed changes have been altered as a result of the strikes, and a redrafted bill is still before the New South Wales Parliament.

In Victoria, major changes to the work comp system were approved earlier this year and became effective on Oct. 1. While the trade union movement was not totally happy with the redrafted legislation, the new law makes many concessions to the unions, industrial relations analysts say.

Australia has not experienced such a widespread labor dispute since 1976, when unions staged a nationwide strike over federal government plans to scrap the national health insurance program.

Employer participation in Australia's six state-run work comp programs is optional in all states but Queensland. However, to discourage alternative funding methods, the state governments require work comp self-insurers to meet strict financial guidelines.

The state-run workers compensation program in New South Wales, dubbed WorkCover, was set up in 1987, while the Victoria program, Workcare, was established in 1985. Previously, workers compensation in both states was the domain of commercial insurance companies.

Under both states' programs, employers pay a percentage of their payroll to a government fund that is invested to provide coverage for injured workers. In New South Wales, employers with good safety records pay less, but in Victoria employers pay a flat rate.

The New South Wales program, WorkCover, is solvent with an estimated surplus of \$336 million Australian (\$260.7 million) for the fiscal year ended June 30, 1989, according to an actuarial audit conducted for the government by the Tillinghast division of Towers, Perrin, Forster & Crosby Inc.

In contrast, industry analysts have estimated that the Victoria program has unfunded liabilities of as much as \$5 billion Australian (\$3.9 billion). But New South Wales Industrial

Relations Minister John Fahey contends that the program in his state cannot continue to operate successfully unless the legislative changes he has proposed are approved by the state's Parliament.

For example, the state government wants to change WorkCover provisions that currently prevent workers from having a right to sue their employer for damages under common law if the employer is found at fault.

The government's new proposal would give workers limited access to common law remedies and set a payout ceiling of \$180,000 Australian (\$139,680). It would limit those

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able to seek common law remedies to those workers who suffer at least a 33% incapacity. And, workers that file common law actions would automatically lose their right to WorkCover benefits, even if their suits are unsuccessful.

The government also proposes eliminating "journey claims," or claims for injuries that occur while a worker is in transit to or from the workplace.

Eliminating journey claims would help reduce workers compensation risks to a more manageable level, Mr. Greiner explained last year at an Australian National Insurance Brokers Assn. meeting in Sydney.

Journey claims "quite clearly" fall outside the concept of a genuine accident happening in the workplace," Mr. Greiner said.

The New South Wales reforms also would outlaw "top-up payments," or arrangements negotiated by some

unions in which employers pay a supplement to an injured worker to ensure that he or she receives a benefit equivalent to the wage earned prior to the accident.

In response to the proposed changes, the state's trade unions, represented by the New South Wales Labor Council, are seeking full access to common law remedies for injured workers. And, they are particularly opposed to the provision that could cause a worker who unsuccessfully sues his employer to lose all injury compensation.

In addition, construction workers have been holding industrial disputes over the past few months to force their employers to make a commitment to continuing their top-up payment agreements. However, the New South Wales government has said it will impose a 25% levy on top of premiums paid by any employer that makes top-up payments.

Meanwhile, union workers in Victoria are protesting changes to the

government work comp program that they claim would deprive injured workers of adequate compensation.

Because of its massive debt, the Victoria government was forced to restructure its workers compensation program. The approved changes that took effect last week include:

- Increasing the fee paid by employers to 3.3% of payroll from 2.4%. Employers with bad safety records are required to pay a higher fee—up to 7%.

- Decreasing benefits for long-term claimants (those receiving benefits 12 months or more after an injury) to 60% of wages from 80%.

- Emphasizing rehabilitation by requiring employers to offer injured workers light-duty jobs for up to 12 months.

In addition, auditing has been upgraded to crack down on fraudulent claims which are estimated to cost approximately \$100 million Australian (\$77.6 million) per year.

Victoria Treasurer Rob Jolly says

Workcare's financial problems stem from the fact that approximately 2% of the workforce is drawing benefits. There are 18,600 Victorian workers on long-term benefits and about 30,000 total workers receiving benefits in an average week. In comparison, only 0.5% of the New South Wales workforce is receiving comp benefits, he said.

Insurance industry analysts say that without any modifications to Victoria's Workcare, the program's unfunded liabilities would increase to \$7 billion Australian (\$5.4 billion) within 12 months, and that would bankrupt the state.

Victoria's Auditor-General Ches Baragwanath confirms the Workcare program's financial troubles and says that levies one employee must be doubled by July 1990 if the program is to become fully funded.

Richard Cumpston, a director of the Victorian Accident Compensation Commission, the agency that administers the Workcare program, says the

only way to solve the workers compensation problems in Australia is for the federal government to introduce a nationwide accident-compensation system similar to that which operates in New Zealand. A national program is part of the policy of the ruling Australian Labor Party.

A report prepared by Australia's Industries Assistance Commission has estimated that workers compensation programs cost businesses \$2 billion Australian (\$1.6 billion) a year or 3% of their total wages and salaries paid. The IAC says the cost-effectiveness of the programs has never been fully assessed.

The IAC's report criticizes the cross-subsidization of the Victoria system, alleging that it reduces incentives for accident prevention and allows liabilities for benefits to be underfunded.

The trouble with Victoria's Workcare system is that it reflects past, rather than current, risks, the report said.

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Year international operations began: 1986.

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Participating companies: The Aetna Casualty & Surety Co., American Home Assurance Co., Insurance Co. of North America, Continental Casualty Co., Continental Insurance Co., Federal Insurance Co., General Star National Insurance Co., The Home Insurance Co., Maryland Casualty Co., NAC Reinsurance Corp.,

Royal Insurance Co. of America, The Travelers Indemnity Co., United States Fire Insurance Co., Zurich Insurance Co., U.S. Branch.

Principal officers: T.V.A. Kelsey, president; Clinton Greene, vp; Norma Colgan, secretary/treasurer.
Contact: Clinton Greene, president-Farmington Management Inc., 203-528-2121.

American International Underwriters

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

	1988	1987
Net premiums....	\$1.8 billion	\$1.5 billion
U.S. based.....	NA	NA
Non-U.S. based..	NA	NA
Offices: claims....	130	130
Underwriting....	375	375
Employees.....	30,000	30,000
U.S.....	14,000	14,000
Non-U.S.....	16,000	16,000
Foreign countries.	130	130

Owned offices.... 130 130
Combined ratio... 95.0% 93.4%

Year international operations began: 1919.

Parent: American International Group Inc.

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

Affiliates: UNAT, Austria, Belgium, Denmark, Finland, France, Holland, Italy, Norway, Portugal, Spain, Sweden, Switzerland, West Germany; EURAVIE, Belgium, France, Greece, Holland, Spain, Portugal, Switzerland, United Kingdom, West Germany; AIA, Japan, Southeast Asia; AAA, Australia; Interamericana, Chile, Mexico.

Principal officers: Houghton

Freeman, chairman; James Smith, president.

Contact: Roger L. Tornećen, senior vp, 212-770-5792.

Chubb Group of Insurance Cos.

15 Mountain View Road, Warren, N.J. 07060; 201-580-2000

	1988	1987
Gross premiums..	\$429,215,000	\$377,497,000
U.S. based.....	15%	10%
Non-U.S. based..	85%	90%
Offices: claims....	38	37
Underwriting....	38	37
Employees.....	951	903
U.S.....	91	60
Non-U.S.....	860	843
Foreign countries.	104	104
Owned offices....	16	15
Combined ratio...	93%	92%

Year international operations began: 1902.

Parent company: Chubb Corp.
Specialties: International package

policies, directors and officers liability, fidelity, kidnap and ransom, film productions, exporters, excess liability, personal insurance for expatriate employees of multinationals.

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

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

Subsidiaries: Federal Insurance Co., New York; Chubb Insurance Co. of Europe, Belgium; Chubb Insurance Co. of Canada, Canada; Chubb Insurance Co. of Australia, Australia.

Continued on next page

How to use directory

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

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

If provided by the insurer, financial and operational information for 1987 and 1988 is listed. Foreign gross premiums for property and casualty risks (and the percent generated by foreign operations of U.S. employers vs. foreign operations of non-U.S. employers) are given. Also provided are the number of foreign claims and underwriting offices, the number of foreign based employees in U.S. and non-U.S. locations, the number of foreign countries represented as well as the number of countries in which the company owns offices (51% or more ownership). The insurer's combined ratio for foreign business is also given.

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

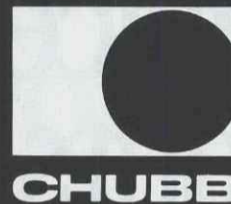
Next, the year the insurer's international operations began, its parent company (if any) and risks the company specializes in insuring are given. Special services related to international business are then detailed.

Names and locations of affiliates and subsidiaries and 1989 acquisitions of the insurer follow. Finally, names and titles of the insurer's principal officers and a U.S.-based contact person are supplied.

If you wish to locate countries in which a company does business, you may refer to the geographic index following the directory. Locations of branch offices, subsidiaries and affiliated companies are provided.

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

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



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Malta	American International Underwriters CIGNA Cos.	Morocco	Zurich Insurance Group	Nigeria	American International Underwriters CIGNA Cos. Royal Insurance U.S.A.	Panama	American International Underwriters CIGNA Cos.	St. Christopher & Nevis	CIGNA Cos.
Martinique	CIGNA Cos.	Netherlands	American International Underwriters Chubb Insurance Co. of Europe CIGNA Cos. The Continental Insurance Co. (Europe) Ltd. Gerling Insurance Group Kemper S.A. Royal Insurance U.S.A. Winterthur Swiss Insurance Co. Zurich Insurance Group Zwolsche Insurance Group (Hartford Fire International Ltd.)	Northern Mariana Islands	CIGNA Cos.	Paraguay	American International Underwriters CIGNA Cos.	St. Kitts	American International Underwriters
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Winterthur Swiss Insurance Co.
Zurich Insurance Group

Uruguay
Royal Insurance U.S.A.
Venezuela
American International Underwriters CIGNA Cos. La Federacion Campana de Seguros C.A. (Chubb Corp.) Royal Insurance U.S.A. Zurich Insurance Group
West Germany
American Excess Insurance Assn. American International Underwriters CIGNA Cos. The Continental Insurance Co. (Europe) Ltd. Federal Insurance Co. (Chubb Corp.) Gerling Insurance Group Hartford Fire International (Germany) Kemper S.A. Royal Insurance U.S.A. Winterthur Swiss Insurance Co. Zurich Insurance Group
Zimbabwe
American International Underwriters Royal Insurance U.S.A.

Loan rules

Continued from page 2

"This is a vindication of what we had been saying," said Frederick Rumack, Buck's director of tax and legal services in New York.

"Every once in awhile the regulatory agencies bow not only to superior logic, but also to a proper reading of the law," said James Geld, a principal with William M. Mercer Meidinger Hansen Inc. in New York.

The Labor Department's policy reversal is welcome news to employers that would have faced significant administrative difficulties if they had been required to extend pension plan loan programs to non-active participants.

Such an extension would have boosted administrative costs because payroll deduction—the simplest and most common way employees repay pension loans—is not available to non-active participants.

In fact, 40% of employers surveyed last month by Kwasha Lipton, a Fort Lee, N.J.-based benefit consultant, reported that extending loan programs to non-active plan participants would have a great impact on their pension plan loan programs (BI, Sept. 25). Typically, those programs are offered as part of 401(k) salary reduction plans.

"This is very welcome relief," said Seth Tievsky, an attorney in The Wyatt Co.'s Research and Information Center in Washington,

D.C.

Benefit experts note that the Labor Department's policy reversal did not come a moment too soon.

The provision in the regulations requiring loan programs to be extended to non-active participants had been scheduled to go into effect Oct. 18.

"The department should be cre-

'This is very welcome relief,' says Seth Tievsky, of The Wyatt Co.'s Research and Information Center.

ated with a quick response on a matter where timeliness was vital," said Mr. Tievsky.

Ivan Strasfeld, director of the Labor Department's Office of Exemption Determinations in Washington, D.C., acknowledged that there were internal differences in the department about whether ERISA requires loan programs to be extended to non-active partici-

"This was a difficult issue. But based on considerations of policy and legal issues, this (the policy reversal) was the best response," he said.

Along with the welcome news, the Labor Department advisory opinion letter notes that employers still will have to extend loan programs to a limited number of former employees who may have left a company but still remain "parties in interest." That would include 10% shareholders and company directors.

The controversy in the Labor Department regulations centered on the preamble to those regulations.

The Labor Department's preamble said that loan programs could not exclude non-active participants because ERISA requires that the programs be available to all participants on a reasonably equivalent basis.

But the Labor Department's recent advisory opinion letter amends the earlier interpretation.

ERISA, the department now says, "does not require the inclusion in participant loan programs of participants and beneficiaries who are not parties in interest to the plan."

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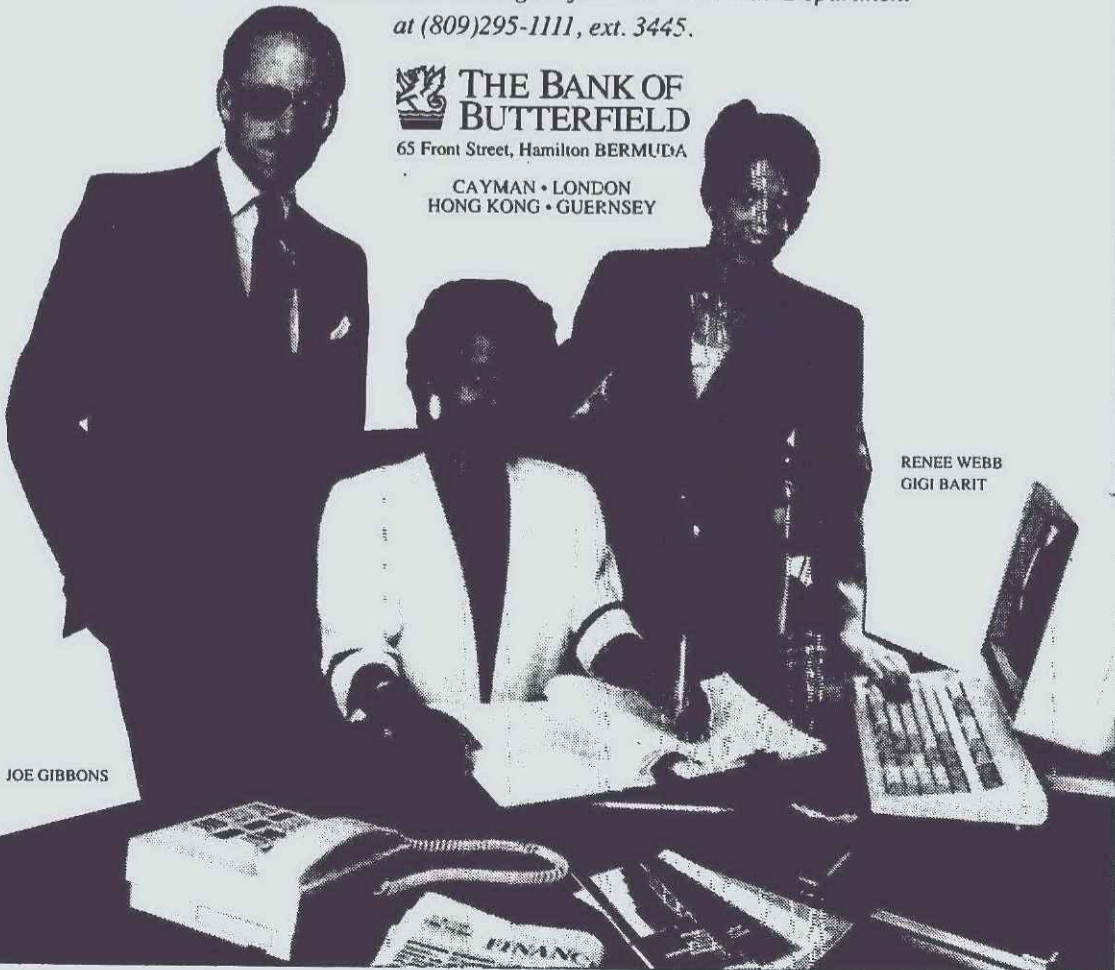
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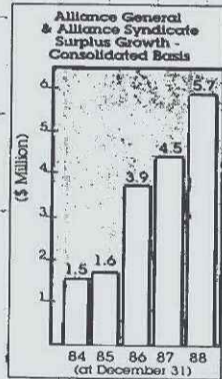


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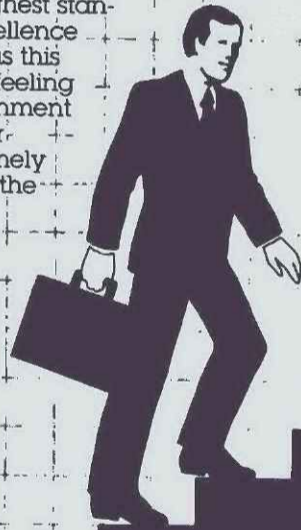
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Hugo losses

Continued from page 2

bean and U.S. losses likely will need to pay reinsurers an additional sum—a reinstatement—to restore property catastrophe reinsurance limits.

Reinsurance contracts commonly offer ceding companies coverage for one event, with one free reinstatement for a second. However an additional premium is due for more than one reinstatement.

Hugo losses have already caused several U.S. ceding insurers, including CIGNA Corp., to request reinstatements from their reinsurers, brokers and reinsurers in London confirmed.

Meanwhile, U.S. insurers continue to tally hurricane losses:

- Travelers Corp. in Hartford, Conn. reportedly expects about \$60 million in net pretax losses in the United States and the Caribbean and about 9,000 Hugo-related property and automobile claims.

- Fireman's Fund Insurance Co. in Novato, Calif., predicts claims of \$35 million to \$40 million, net of reinsurance.

- Aetna Life & Casualty Co. in Hartford said third-quarter after-tax profits would be cut by about \$35 million.

- AmBase Corp., the New York-based parent of The Home Insurance Co., U.S. International Reinsurance Co. and Commonwealth Insurance Co. of San Juan, Puerto Rico, said claims would cut pretax income \$25 million to \$30 million.

- SAFECO Corp. in Seattle projects final losses of about \$5.5 million from claims in North Carolina and South Carolina, said David Kipp, SAFECO's property claims manager. Mr. Kipp said he expects 1,500-1,700 claims from commercial and personal lines policyholders in the Carolinas.

- Allendale Mutual Insurance Co. in Johnston, R.I., expects the cost of claims from the hurricane to total around \$28 million, net of

reinsurance, according to a spokesman for the insurer.

As London reinsurers wait for ceding companies to file Hugo claims, brokers say they are unsure what to expect as they prepare for reinsurance renewals in the next few weeks.

Though Hugo is unlikely to trigger a major market turn, rate reductions will be harder to find during year-end renewals, say reinsurers and brokers.

Ceding companies "won't be get-

ting the rate reductions they would have expected," noted one London reinsurance broker.

Pre-Hugo rates for major catastrophe programs would have been reduced by about 10% during year-end renewals, with even larger rate cuts applying to smaller programs, the broker said. Unless a program has suffered no losses, such rate cuts are now considered unlikely.

Any market turn likely would hit retrocessional rates first, brokers and underwriters say, but retro-

cessional underwriters may not feel the hurricane's impact in time to harden rates for renewals.

Hugo's effect may not be felt for a year, one broker predicted.

"The retrocessional rate is very much commodity-orientated and there will be players dropping out of the market while demand will increase," he said.

"The famous London excess-of-loss reinsurance market eventually picks up all losses of this sort. But

Continued on next page

Regulators rush to coast

COLUMBIA, S.C.—Hurricane Hugo managed to pick clean the South Carolina Department of Insurance, even though the full force of the storm didn't reach the department's offices in Columbia.

"We're almost completely unstaffed," said Joe P. Barnett, assistant to Insurance Department Chief Commissioner John G. Richards. "We've sent all our assistants except one, two lawyers and a couple of other people who know a little bit about insurance to the 10 disaster centers."

Mr. Barnett said the Insurance Department personnel are at the sites in Charleston and along the South Carolina coast to help people interpret policy language and determine what is insured under the contracts.

Although the Insurance Department has sent its staffers to join the estimated 4,000 adjusters and 2,000 insurance agents at the disaster sites, there is still a

need for insurance expertise in the areas left devastated by Hugo, according to Mr. Barnett.

"There's just not enough of them," he remarked.

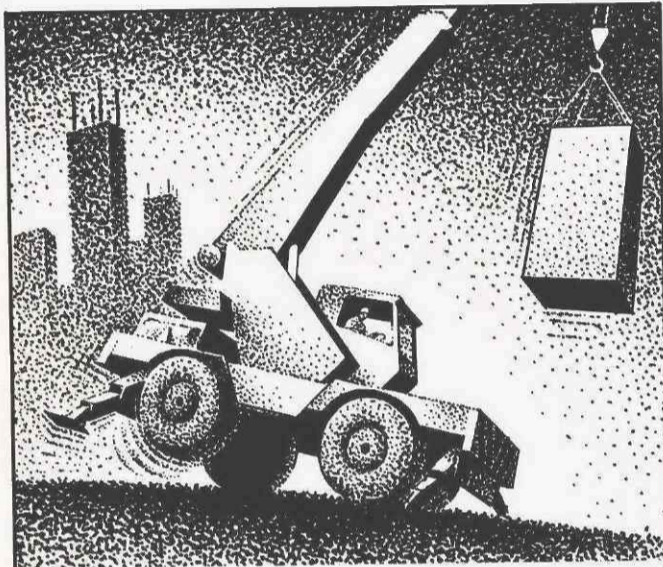
"It's too much for the adjuster force to handle."

"All the hotel rooms are full; you can't rent a car," Mr. Barnett said. Adjusters and other personnel are working 12-hour days and longer in an attempt to handle the estimated 360,000 claims expected to be generated in the area, he said.

Mr. Barnett said Mr. Richards has suggested the National Assn. of Insurance Commissioners form a temporary committee to establish guidelines for handling claims from disasters like Hurricane Hugo.

"It would be of assistance to other commissioners to share the knowledge that has been gained from this storm," said Mr. Barnett.

—By Michael Bradford



The Case of the Overturned Crane

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PBGC premium

Continued from page 1

penalty would rise to \$1,000 per day for reports that are more than 90 days overdue.

The Labor Department currently decides whether to fine an employer—up to \$1,000 a day—for failing to file Form 5500 on time.

In addition, an optional penalty the Labor Department can assess for violations of Title I of the Employee Retirement Income Security Act of 1974, now up to 5% of the transaction amount, would become a mandatory 20% penalty. Title I is the section of ERISA dealing with such items as fiduciary responsibilities, funding and records requirements.

Furthermore, the committee proposal would increase by 400% the maximum penalties for violations of the federal Occupational Safety and Health Act.

For example, the current \$10,000 maximum penalty for each willful or repeated safety or health violation would be boosted to \$50,000, while employers would face a maximum \$5,000 fine for each serious violation, up from a \$1,000 maximum.

While not attempting to justify the higher PBGC premium, Committee Chairman Sen. Edward Kennedy, D-Mass., said an increase in penalties for employer violations of federal pension and safety laws is overdue.

"Adjusting these penalties is long overdue and hopefully will provide an increased deterrent to those who would otherwise violate the provisions of these laws," he said.

However, benefit observers say the real reason for increasing PBGC premiums and pension and safety fines is the need for new revenue sources to make up for revenues lost by restricting pension asset reversions.

A proposal by committee member Sen. Howard Metzenbaum, D-Ohio, that also is included in the budget reconciliation bill would impose so many restrictions on terminations of overfunded defined benefit pension plans as to make it virtually impossi-

ble for employers to recoup the excess assets.

Restricting terminations of overfunded pension plans would cost the federal government millions of dollars because employers must pay a 15% excise tax, as well as regular federal income taxes, on the pension assets they recoup in that move.

Under informal congressional rules on budget reconciliation legislation, any time a congressman proposes a change that would add to the federal deficit, he or she also must offer a proposal to offset those lost revenues.

The Labor and Human Resources Committee in July, as part of its first budget reconciliation package, proposed that employers be slapped with an annual \$1,000 fee for each Form 5500 they file with the Internal Revenue Service. It was commonly acknowledged that income generated by the filing fees would be used to pay for Sen. Metzenbaum's longtime goal of restricting pension asset reversions (BI, Aug. 7).

However, that plan fell apart amid opposition to the filing fees from Senate Finance Committee Chairman Lloyd Bentsen, D-Texas. He said the filing fees were not within the jurisdiction of the Labor and Human Resources Committee.

A similar pension filing fee proposal also was included in a portion of budget reconciliation legislation approved in July by the House Education and Labor Committee, but that provision was struck on the House floor last week on the grounds that it was a tax measure approved by a committee that lacks jurisdiction over tax legislation.

While the higher pension and safety penalties are opposed by business groups, it is the proposed boost in the PBGC premium for employers with well-funded pension plans that is triggering the most outrage.

"This punishes employers who have done a good job of funding their pension plans to pay for stopping reversions, which only a tiny minority in Congress favor," said Mark

Ugoretz, executive director of the ERISA Industry Committee, a benefits lobbying organization.

"The real reason we are going through these hoops is because one bad idea—imposing pension filing fees—to pay for a second bad idea—restricting reversions—has been rejected. Now, they've come up with a third bad idea to pay for the second bad idea," said Howard Weizmann, executive director of the Assn. of Private Pension & Welfare Plans.

The PBGC wants no part of the premium increase, describing it as unnecessary and a violation of its charter.

Due to improved investment results and higher revenues from the 1988 premium increase, which replaced the flat \$8.50 premium with the variable \$16 to \$50 per-plan-participant premium, the PBGC is steadily reducing its deficit, said Executive Director James Lockhart III.

The premium is set at the lowest level needed to carry out its congressionally set mission of guaranteeing benefits to participants of terminated underfunded pension plans.

Other benefit experts warn that raising the PBGC premium could lead more employers to terminate their defined benefit pension plans.

And, they point out that if Congress increases the PBGC premium to meet a revenue goal unrelated to the PBGC, there would be nothing to stop Congress from doing the same thing again in the future.

"Many employers hung in there when the premium was raised to \$16. But if employers believe that the PBGC premium will keep rising, even if the increase is not needed, we will see more terminations," said Fred Green, a consultant in the Detroit office of The Wyatt Co.

The proposed increases in fines for violations of pension reporting and workplace safety rules also are drawing fire.

For example, making certain ERISA penalties mandatory rather than optional would prevent the Labor Department from negotiating

penalties based on facts in each case, said the APPWP's Mr. Weizmann.

In addition, higher penalties for OSHA violations are likely to encourage more employers to contest proposed fines, according to the U.S. Chamber of Commerce in Washington, D.C.

And the increase in litigation will strain the resources of both employers and the federal government, the Chamber said in a letter last week to members of the Senate Labor and Human Resources Committee.

Benefit experts also are angered by the scanty consideration the Labor and Human Resources Committee gave to the proposals to increase PBGC premiums and pension and safety fines.

No hearings were held on the proposals, which were approved by a 8-7 party line vote after fewer than 30 minutes of discussion.

"It is shocking how easily this was done...no hearings...no public discussion," said Wyatt's Mr. Green.

Indeed, the proposals were drawn up so hastily that the panel's ranking minority member, Sen. Orrin Hatch, R-Utah, complained that members did not—contrary to committee rules—receive copies of the proposals within seven days of the meeting.

Also, in the rush to draft the PBGC proposal, no effective date for the

new premium is mentioned in the legislation. But committee staffers were not aware of that oversight until after the proposal passed.

The ability of a congressional committee to attach significant benefit provisions—without discussion or hearings—to a budget reconciliation bill is another illustration of the need to reform Congress' budget-making process, benefit experts say.

"It is mind-boggling that these kind of changes could become law without a public airing. It demonstrates that the budget reconciliation process has gotten totally out of hand," said Edward J. Davey, a principal with A. Foster Higgins & Co. Inc. in New York.

Under the budget reconciliation process, congressional committees can add myriad proposals to a much larger budget bill. After the committees act, the full House and Senate vote on the entire bills.

However, because benefit provisions are only a small part of what can become huge bills—the House reconciliation legislation totals more than 1,800 pages—they often are overlooked by legislators.

And, even when members spot objectionable provisions, they may be so preoccupied with other issues that they may not have time to fight for their removal.

Hurricane Hugo

Continued from previous page

it's too early to tell when and how badly" Hugo will hit that market, noted Hugh Prior, managing director of Winchester Bowring Ltd., a London broker specializing in non-marine LMX reinsurance.

"Certainly underwriters will look very closely at the rates now and form a judgment of how they will deal with it. I think it's fair to say there will be very few rate reductions" this renewal season, said Mr. Prior.

"Rates will change, particularly in the retrocessional market, which has been hit yet again," said Calum Stewart, chairman of broker C.E. Heath (North America) Holdings Ltd.

Losses are still spiraling from one underwriter to another in the non-marine LMX market from the October 1987 windstorm that caused about \$3 billion of damage in Western Europe and from Hurricane Alicia, which hit the Texas coast in 1983.

Meanwhile, LMX underwriters in the marine market face the \$1.4 billion loss of the Piper Alpha oil platform in July 1987.

Hugo "is just another nail in the coffin" of the LMX market, said a leading Lloyd's of London reinsurance underwriter.

LMX underwriters "already have several large losses and dealing with another one will cause a rethinking, a reating and a repositioning of capacity at varying levels," predicted Mr. Prior.

However, "the LMX market is a survivors' market that can cope well because it is flexible," he said. "The one feature of the spiral is that the cash is not required instantly. It takes some time for losses to move around the market," he noted.

Hugo will not likely worry non-marine LMX insurers as much as the Piper Alpha loss worries those in the marine LMX market, noted an executive of a Lloyd's members' agency.

The Piper Alpha loss likely will cause about 15 to 20 Lloyd's marine syndicates to burn through

their reinsurance programs, but Hugo represents a "more broadly spread loss," according to Mr. Prior.

International Editor Stacy Shapiro in London and Associate Editor Michael Bradford in Dallas contributed to this story.

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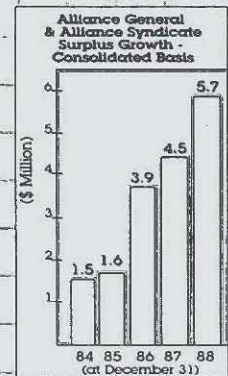
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Goldman, Sachs & Co.

September 26, 1989

Supreme Court

Continued from page 2

But the Illinois Supreme Court rejected the argument, ruling that "to adopt the defendant's interpretation of OSHA would, in effect, convert the statute, which was enacted to create a safe work environment for the nation's workers, into a grant of immunity for employers responsible for serious injuries or deaths of employees."

To date, no court has ruled on the merit of the original criminal charges against Elk Grove Village, Ill.-based Chicago Magnet Wire and its executives.

"The Supreme Court can always relook at the matter when there is final adjudication," said Chicago Magnet Wire attorney Robert Stephenson of Cotsirilos, Crowley, Stephenson, Tighe & Streicker in Chicago.

Quinten Regal, counsel for the National Assn. of Manufacturers in Washington, D.C., agreed.

"The issue is still open" despite the U.S. Supreme Court's decision not to review the case, he said.

Besides the Illinois high court, Wisconsin and Michigan courts also have ruled that OSHA does not pre-empt criminal prosecution of employers that violate workplace safety rules.

In the Bendectin case, a federal appellate court last year agreed with a lower court judge and threw out a \$1.2 million jury award against Merrell Dow Pharmaceuticals Inc., the drug's manufacturer (BI, Oct. 3, 1988). The jury in 1986 had awarded the verdict to a 10-year-old girl, saying her mother's use of the anti-nausea drug during pregnancy caused birth defects (BI, Dec. 29, 1986).

However, U.S. District Judge Thomas Penfield Jackson threw out the verdict after the trial.

"No reasonable jury could find on the basis thereof that this infant plaintiff's birth defects were more likely than not to have been caused by her intrauterine exposure to Bendectin," he wrote.

The U.S. Court of Appeals for the District of Columbia subsequently upheld that ruling, with Judge Spottswood W. Robinson III writing that Bendectin "has been extensively studied and a wealth of published epidemiological data has been amassed, none of which has concluded that the drug is teratogenic."

More than 1,500 women have sued Cincinnati-based Merrell Dow, alleging the drug—marketed from 1957 to

1983 to curb nausea during pregnancy—caused birth defects.

However, the Supreme Court last week did agree to review a federal appellate court ruling that allows a group of Florida orange pickers to sue their employer under federal law for work-related injuries while still collecting state workers compensation benefits (BI, Sept. 4).

The workers were injured in 1985 while riding a van belonging to Adams Fruit Co. of Auburndale, Fla. Although the workers received compensation benefits under Florida law, they later asked a U.S. District Court in Tampa to also award damages under the federal Migrant and Season Agricultural Workers Protection Act of 1982.

The workers alleged that Adams Fruit violated the federal act's motor vehicle provisions, including seat-belt and load-limit requirements and record keeping standards, according to their attorney.

The district court ruled in favor of Adams Fruit, ruling that work comp benefits are the exclusive remedy for workplace injuries.

However, the 11th U.S. Circuit Court of Appeals reversed that decision and ruled that the employees were not barred from filing suit under the MSAWPA for actual or statutory damages.

The 11th Circuit's decision contrasts with an earlier ruling by the 4th U.S. Circuit Court of Appeals in Richmond, Va., which upheld the exclusive remedy of South Carolina's workers comp law. In 1987, that court rejected a suit by an agricultural worker who was sprayed with pesticides while working in his employer's field.

The Adams Fruit case is "very significant" because the exclusive remedy doctrine has been the general standard since workers compensation laws took effect, said Bonita Kneeland, a company attorney.

If the Supreme Court upholds the 11th Circuit decision, employers "will have to take a long, hard look at their insurance situation for claims like this—which are outside workers compensation—and make sure they are protected," said Ms. Kneeland, of Fowler, White, Gillen, Boggs, Villareal & Banker P.A. in Tampa, Fla.

Among the groups filing amicus curiae briefs supporting Adams Fruit were the National Council of Self-Insurers, the American Farm Bureau Federation and a Florida-based organization that represent agricultural employers. ■

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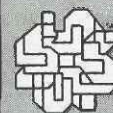


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Integrity

Continued from page 1

ceeds to be paid to the liquidator of an insolvent insurer. In rules governing credit for reinsurance, some states, like California, provide for payment of reinsurance proceeds directly to policyholders if insurance contracts specifically name policyholders as the payees in case of insolvency, lawyers familiar with liquidations say.

In addition, New York law governing credit for reinsurance specifically requires that fidelity and surety bondholders be allowed—under certain circumstances—to collect directly from reinsurers when a bonding company fails, according to Jonathan Bank, a lawyer with Buchalter, Nemer, Fields & Younger in Los Angeles.

Nevertheless, insurance regulators and state guaranty fund officials are not likely to be pleased if Judge Meehan adopts the special master's recommendations in the Ingersoll-Rand case.

"Liquidators are not going to be happy with this decision," said Lawrence I. Brandes, a lawyer with Miller, Singer, Raives & Brandes in New York. "Depending on how broad it is, it holds out the possibility of the (insolvent insurer's) estate being depleted, and liquidators don't like to see that."

"My view generally is that those

kinds of things should not be permitted," said Karl Rubenstein, a lawyer serving as California special deputy insurance commissioner for the liquidation of Mission Insurance Co.

"I think it's a dangerous thing to allow, and cuts against the concept that the reserves of a company should be there for policyholders," Mr. Rubenstein said. "Policyholders should not be disadvantaged by specific business dealings."

Paul Gulko, president of Boston-based Guarantee Fund Management Services—which manages the guaranty funds of seven Northeastern states—also expressed concern about the special master's recommendation, noting that assignment of reinsurance proceeds depletes an insolvent insurer's assets and increases the burden on guaranty funds.

"The policyholders are the ones that ultimately pay," Mr. Gulko said.

Integrity, based in Paramus, N.J., entered voluntary rehabilitation on Dec. 30, 1986, and was subsequently ordered liquidated on March 24, 1987. Integrity's insolvency has been estimated at \$300 million (BI, Dec. 14, 1987).

During 1984 and 1985, Integrity issued about 71 surety bonds securing loans made by Ingersoll-Rand to numerous limited partnerships, many of which later failed.

Ingersoll-Rand filed 64 claims against the liquidator, seeking direct payment from Integrity's reinsurers

under two agreements in which Integrity had granted a security interest in the reinsurance proceeds to Ingersoll-Rand.

The New Jersey department denied Ingersoll-Rand's claims, and Ingersoll-Rand then objected to the denials.

Judge Meehan in January appointed Andrew T. Fede as special master to hear arguments concerning the Ingersoll-Rand claims.

The judge also allowed four of the Integrity bond reinsurers—Allstate Insurance Co., North American Reinsurance Corp., Resolute Reinsurance Co. and Skandia America Reinsurance Corp.—to intervene in the case.

Mr. Fede's report, which recommended a ruling in Ingersoll-Rand's favor, was issued in response to a motion by the Insurance Department for summary judgment dismissing the claims.

Among other things, Mr. Fede concluded that Ingersoll-Rand's claims to reinsurance proceeds do not constitute "voidable preferences" under New Jersey law.

Under New Jersey statutes, a lien on an insurer's assets created within four months before an insolvency is voidable if it is created with the intention of granting preferential treatment to a particular creditor, Mr. Fede's report says.

The Ingersoll-Rand security agreements, however, do not constitute a voidable preference for several rea-

sons, Mr. Fede found.

Applying the Uniform Commercial Code and common law, he concluded that the security agreements attached and became enforceable when they were signed in December 1935 or when Ingersoll-Rand reported them in filings with the New Jersey Secretary of State's Office in December 1985 and January 1986.

This means the liens on Integrity's reinsurance proceeds were created before the four-month preference period, Mr. Fede concluded.

The New Jersey department had argued that the liens created in the security agreements were not perfected until Integrity became insolvent, which would automatically render them voidable preferences.

Meanwhile, the four Integrity reinsurers allowed to intervene in the case argued that Ingersoll-Rand's claims should be rejected because secured liens on reinsurance proceeds are against New Jersey public policy.

The reinsurers argued that state laws create a public policy interest in seeing all reinsurance proceeds paid to the liquidator, making them general assets of the estate available to all policyholders.

However, Mr. Fede noted that New Jersey—unlike many other states—has not adopted a statute specifically requiring reinsurance proceeds to be

payable to the liquidator.

"I do not derive any public policy that is offended by the payment of reinsurance to the policyholder, whether as a result of an assignment or a secured lien," Mr. Fede wrote.

He added that the liabilities of the reinsurers are not changed by the assignment of the reinsurance proceeds to Ingersoll-Rand or by the fact of Integrity's insolvency.

Mr. Fede also rejected the Insurance Department's argument that 31 of Ingersoll-Rand's 64 claims are barred because Ingersoll-Rand did not object to the Insurance Department's denial of the claims within the 60-day period set out in the liquidation proceedings.

The special master concluded that Ingersoll-Rand had merely failed to supply supporting documentation required by the Insurance Department for the 31 claims, and that this supplementary material can be filed after the 60-day objections period.

In its Sept. 1 motion to set aside Mr. Fede's recommendations, the Insurance Department asks Judge Meehan to rule in its favor on all of these issues.

Ingersoll-Rand, meanwhile, has filed its own motion asking Judge Meehan to affirm Mr. Fede's findings. ■

Taylor promoted at C&B, Hodson

Ronald J. Taylor has been appointed chairman of Corroon & Black Corp.'s reinsurance brokerage group and of its reinsurance intermediary unit, G.L. Hodson & Son Inc.

Mr. Taylor had been president of both entities.

Robert G. Hodson, formerly chairman of G.L. Hodson, has been named chairman emeritus and will remain a consultant to Corroon & Black and G.L. Hodson.

Other reinsurance changes:

Kevin F. Fitzgerald promoted to vp of Herbert Clough Inc., a reinsurance intermediary in Stamford, Conn.

Ross S. Sturm promoted to vp of treaty account services at American Re-Insurance Co. in Princeton, N.J.

Gary R. Gumbrecht promoted to vp at General Re Services Corp. in Stamford, Conn.

Comings & goings: industry

to vp of Frank S. Phillips Insurance Agency in Bethesda, Md.

Silas Lamm named vp and risk control services manager at Fred S. James & Co. of Oregon in Portland. He had been vp/property and boiler and machinery engineering manager at Rollins Burdick Hunter Co. of Oregon.

Earl D. Butler joined Fred S. James & Co. of California's Los Angeles office as senior vp. Mr. Butler previously was regional manager for Republic Hogg Robinson Inc.

Gary J. Bausom named senior vp of Alexander & Alexander of California Inc. in San Francisco.

Ransom H. Widmer joined Johnson & Higgins in New York as

a vp and international actuary in the firm's international employee benefits departments. He previously worked with another international benefit consultant.

Excess/surplus

Robert L. Wasserman elected president and chief executive officer of Southwest Fire & Casualty Insurance Co. in Matamoras, Pa. Mr. Wasserman previously had been vp of The Jay Mar Group in Matamoras.

Robert Spitzer joined Frontier Insurance Co. in Monticello, N.Y., as vp and actuary. Mr. Spitzer had been vp and actuary at American Universal Insurance Co. ■

Insurers

Douglas W. McCaskey elected president and chief executive officer of Michigan Millers Insurance Co. in Lansing, Mich. He most recently was first vp and chief operating officer of Michigan Millers.

Stephen B. Center promoted to executive vp-employee benefits division at UNUM Life Insurance Co. in Portland, Maine.

Edward Bull promoted to executive vp-group operations at Mutual Benefit Life Insurance Co. He heads the company's group insurance headquarters in Kansas City, Mo.

Robert E. King promoted to vp and manager of field underwriting services at Liberty Mutual Insurance Co. in Boston.

Agents/brokers

John P. Olsen named executive vp of the corporate risk division of Frank B. Hall & Co. Inc. in New York. Mr. Olsen formerly was executive vp of Fred S. James & Co. Inc. in New York and assistant general counsel and risk manager for Ingersoll Rand Co.

Richard V. Rupp joined Andreini & Co. in San Mateo, Calif., as director of risk management. He was formerly president and founder of Rupp & Johnson Inc.

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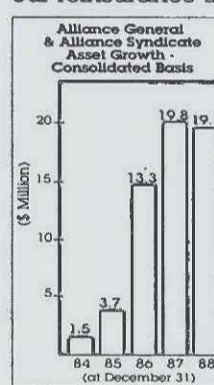
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NACSA/NACSE

Continued from page 1

Everyone agreed that they did not want to invite any more lawsuits from state attorneys general alleging violations of antitrust laws—not because they feared they would lose a suit, but because they feared the defense costs.

While some agents and brokers scoffed at what they described as antitrust paranoia among insurance company CEOs, Fireman's Fund Corp. Chairman Jack Byrne said in an interview: "We're not paranoid. They really are out to get us."

Although the antitrust litigation brought in federal court in San Francisco by 19 state attorneys general has been dismissed, "We haven't won," Mr. Byrne said.

The attorneys general say they will appeal the dismissal (BI, Sept. 25).

Furthermore, according to Mr. Byrne, the attorneys general that

brought the suit "have already accomplished what they wanted—to paint us as nasty colluders and profit mongers."

"There never were illegal or improper discussions here," Mr. Byrne said of the Greenbrier gathering. "But executives are far more careful about the way we conduct ourselves. We've been briefed by our lawyers."

The new concern for how their comments on market conditions might be characterized also squashed any discussion of market conditions during the traditional Wednesday morning round table discussion at which agents and brokers and insurance company executives have historically discussed the marketplace as well as other insurance industry issues. As a result, this year's panel focused on the image of the insurance industry (see story, page 77).

The customary clubby atmosphere among insurance company executives, agents and brokers that

has pervaded previous NACSA/NACSE meetings also was jarred by the decision of NACSE President Jack Moseley, chairman and chief executive officer of USF&G Corp. in Baltimore, to forgo the traditional president's address.

And, NACSA and NACSE members were shocked by the death on Sept. 29 at The Greenbrier of NACSA Executive Vp Bruce Wallace, who died of a self-inflicted gunshot wound.

With 40 years of tradition to follow, however, the 600 insurance industry leaders and their spouses that gathered for their annual meeting otherwise followed the usual mix of business, recreation and entertainment. Insurance company executives also met with and entertained their best producers—and those from whom they would like to see more business—during the day and at private dinner parties.

Fireman's Fund, for example, met with 40 to 50 of its agents to

discuss their business and Fireman's Fund's underwriting policy.

While public discussion of insurance market conditions was more circumspect, there was no doubt among those attending the meeting that the soft commercial property/casualty insurance market will continue through year-end and probably through 1990—despite the losses created by Hurricane Hugo, estimated at \$4 billion to \$5 billion.

"I'm not hearing from the underwriting community any forecasts of an early change in market conditions, even with Hugo," commented Richard Page, chairman of Fred S. James & Co. Inc. in New York, who will become chairman of Sedgwick James Ltd. when the Sedgwick Group merges its retail brokerage operations Jan. 1.

"The \$5 billion loss is spread among reinsurers," Mr. Page noted.

"Hugo will have no impact on year-end renewals," said William

Bolinder, manager of the U.S. operations of Zurich Insurance Co. of Zurich, Switzerland. "There's an awful lot of competition in the marketplace."

It will be a year from now before any impact from the Hugo losses will be felt, Mr. Bolinder predicted, noting that it "takes a while for the losses to get through the process."

"It takes a while for the music to stop and everyone to sit in their seats. Then we'll see," he said.

Arthur Quern, president of Rollins Burdick Hunter Co. in Chicago, agreed with Mr. Bolinder's observation that the industry does not yet really know what impact Hugo losses will have on the marketplace.

However, he noted that insurance company executives are devoting their attention to making sure claims are being handled properly because of the reflection that claims handling will have on the industry overall. "They are aware of the visibility of Hugo. They know how many people are down there" adjusting claims, he said.

"Hugo probably makes for huge reinsurance losses," observed William Thiele, senior executive vp of Continental Corp. in New York. And although the catastrophe reinsurance market "made a lot of money" in recent years when there were few catastrophe losses, "that money is gone—taxed and paid in dividends," he noted.

Therefore, the catastrophe reinsurance market logically will tighten, he said.

However, in the primary marketplace, the storm losses will not hit the insurance industry uniformly because the damage was in such a tight geographic area, Mr. Thiele noted.

The losses from Hugo "probably

Continued on next page

NACSA exec dies at meeting

WHITE SULPHUR SPRINGS, W.Va.—Tragedy confronted registrants when they arrived Sept. 30 at The Greenbrier for the annual meeting of the National Assn. of Casualty & Surety Agents and the National Assn. of Casualty & Surety Executives.

NACSA Executive Vp Bruce T. Wallace died Sept. 29 at The Greenbrier from a self-inflicted gunshot wound.

Those closest to Mr. Wallace, who was attending his 30th insurance industry meeting at The Greenbrier, said they could not even speculate on the reason Mr. Wallace took his own life.

A memorial service was held Oct. 1 at the meeting.

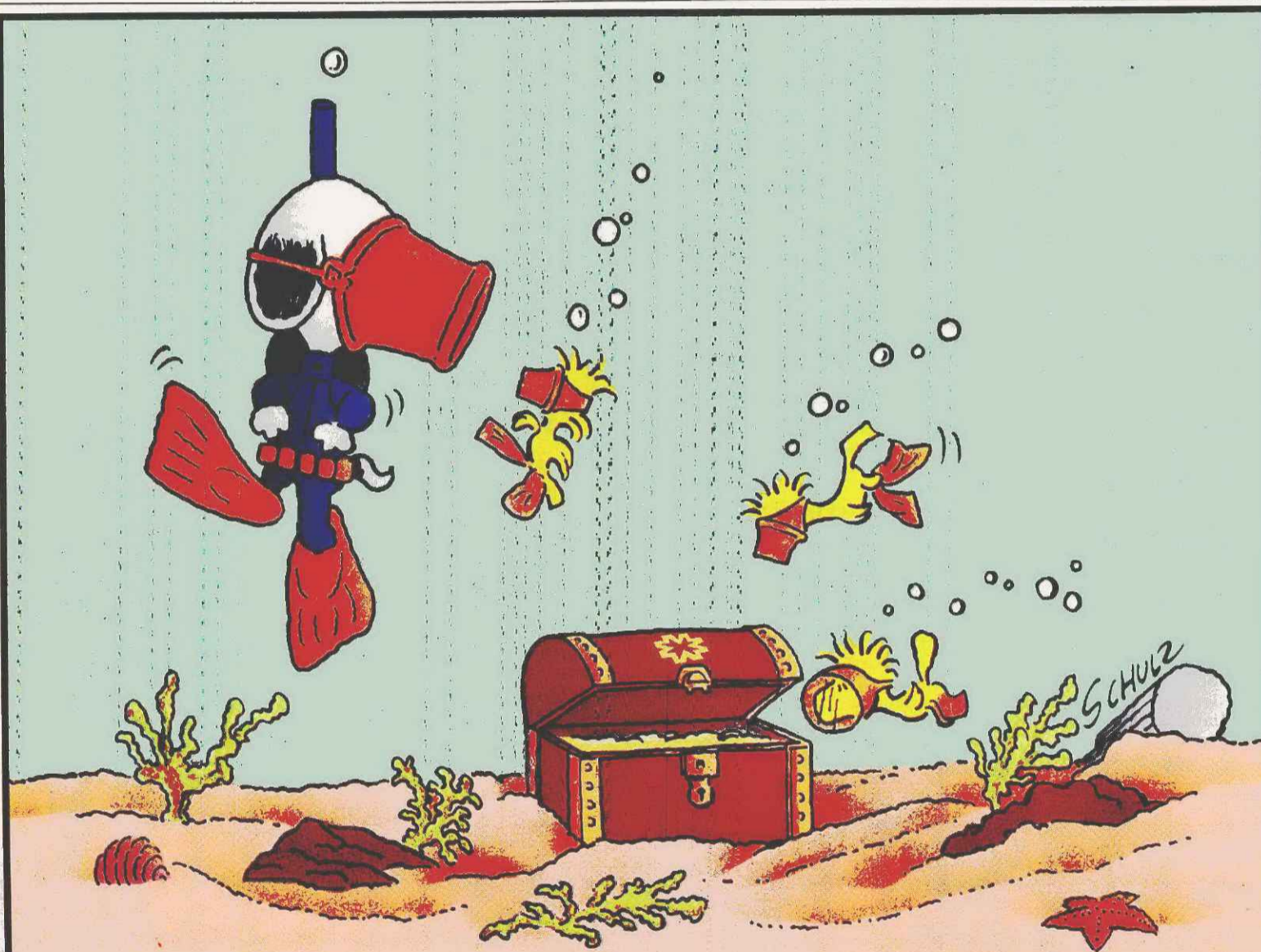
"Bruce will be sorely missed," said Timothy N. Thoelecke, president of Great Lakes Agency Inc. in Chicago and the newly elected NACSA president.

Mr. Wallace had served as the chief staff executive of NACSA since 1962, when NACSA and the National Assn. of Surety Bond Producers first shared headquarters offices and staff. Mr. Wallace had been the first full-time executive of the NASBP starting in 1960. The two associations continue to share offices and staff in Washington, D.C.

J. Martin Huber, executive director of NACSA and the NASBP since 1974, has been named acting executive vp of both organizations.

Mr. Wallace, born in 1930, is survived by his wife, Joni, son Scott Wallace, daughters Jennifer Beebe and Julianne Benson and two grandchildren.

Mrs. Wallace requested that those wishing to remember Mr. Wallace send contributions to the National Alzheimer's Assn. in Washington, D.C. A member of Mr. Wallace's family has Alzheimer's disease.



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Continued from previous page
will stop the price erosion on big-ticket commercial property" risks, predicted N. David Thompson, president of North American Reinsurance Co. in New York, referring to both the primary and reinsurance market.

However, while the storm is a big loss, "it is not cataclysmic," he said.

Hurricane Hugo, however, does "bring home that a \$10 billion storm is not a possibility, it's a probability," observed Mr. Thompson.

And, "some companies will be badly hurt by Hugo because they did not have the right reinsurance program or enough limits," Mr. Thompson said.

Steven J. Bensinger, executive vp and chief financial officer of Skandia America Group in New York, contends it will not be business as usual after Hurricane Hugo.

"Primary companies will feel the hit more substantially than people are expecting because of high retentions," he said.

As a result, he predicts more reinsurance will be purchased at year-end for 1990. "There will be a renewed sense of awareness of where the risks are," he said, which may influence insurance companies to also decrease their casualty retentions.

While Mr. Bensinger predicted that insurance companies could reduce their retentions as much as 15% to 25%, he could not say whether the increased demand for reinsurance would influence pricing in the reinsurance marketplace.

However, "if another major property loss occurs in the next six to 12 months, there will be a substantial impact," he said.

Hugo's losses "could hurt more in London" than in the United States, observed Joseph Prochaska, chief executive officer of Evanston Insurance Co. in Evanston, Ill. "Losses from Alicia are still spiraling around the London market," he noted, referring to reinsurance claims stemming from the 1983 hurricane that slammed Texas.

Travis Oxford, senior vp and regional manager in Atlanta of Frank B. Hall & Co. Inc., expressed the strongest view on the impact of Hugo losses on the U.S. insurance marketplace. Calling current market conditions "fragile," Mr. Oxford said, "I can't believe you can rip out \$5 billion in surplus from the business—with the impact on cash flow and earnings and investment income—and it can't precipitate some change in the market."

Mr. Oxford suggested the market could turn by the end of the year, depending on how quickly a change in direction ordered by insurance company senior management is manifested in field offices.

Charles Keller, president of Republic Hogg Robinson Inc. in Boston, mused: "It's interesting as to what does affect the industry," citing no obvious impact from a spate of large losses ranging from the July 1987 explosion of the Piper Alpha oil platform in the North Sea to the December 1987 loss of Pan American World Airways Flight 101 over Scotland.

Executives' assessment of the year-end renewal marketplace range from flat rates to continuing price reductions.

Excess insurance program pricing is "as competitive as it can be," according to Zurich's Mr. Bolinder. And, for small and medium-sized accounts, he said, "I can't see prices going down much more. They've about bottomed out."

However, he added, competition depends on the account, the insurer and where the account is located because the competition varies by geographic region. "It's spotty. It's not one company and it's not one geographic region," he said.

Mr. Thompson of North American Re noted that "we are not seeing terrible price erosion from small and regional companies," which are North American Re's target markets. "The margins are thin, but it does not appear to be getting worse," he said.

Mr. Quern commented that RBH is expecting a flat market, with no dramatic changes for the next 18 months.

"We see no signs that anything is changing," said Mr. Byrne of Fireman's Fund. "We think prices are still sliding downward, but not nearly as much as two years ago."

Mr. Thiele of Continental is among the most optimistic of insurance company executives, reporting that while "the conventional wisdom is (that) it's worse, the market is showing some signs of firming."

Continental has "arrested the decline in rates in the aggregate," Mr. Thiele reported, "at some penalty to volume."

And overall, "the market is not in as precipitous a decline as it had been," he said.

However, some brokers predict further rate cutting.

Tinsley Irvin, chairman of New York-based Alexander & Alexander Services Inc., predicts price cutting of 10% to 20% in property/casualty

lines, except workers compensation where loss ratios are high.

Mr. Page of James expects property/casualty insurance prices to fall 5% to 10% across the board over the next two years.

Insurers and agents and brokers agree that insurance companies are

Hugo's losses 'could hurt more in London' than in the United States, says Joseph Prochaska.

more interested in maintaining their current accounts than in acquiring new business.

"Underwriters say retention is the name of the game," according to Thomas V. Hallett, executive vp of Frank B. Hall in New York.

"Underwriters are interested in re-

taining the business they have, and there's little interest in the way of new business for the majority of insurers," he said.

Although insurers say they also want to maintain their current pricing, they also say "they want second looks" at accounts in competitive situations, Mr. Hallett reported, especially if the account is one of long standing.

Insurers have paid the costs of acquiring their accounts and now "want to protect them," commented Mr. Bolinder.

"Insurance underwriters are trying very hard to retain their business," said Mr. Page noting that James' retention of accounts is "up substantially over 1988 and new business figures are not as high. We are being more successful with our companies to retain business."

Mr. Keller of Republic Hogg Robinson characterized the emphasis on retaining business rather than generating new business as "healthy."

"If companies stay loyal to the cli-

ent, it is easier to sell long-term relationships," he explained. "If not, all we are selling is price, and in a service business it's frightening to admit that we are cost-driven."

Mr. Byrne of Fireman's Fund noted that "we've permitted—with great reluctance—a lot of business to walk away," pegging lost business at 25% to 30%. "I want us to become a \$4 billion company again, but I don't want underpriced business," he said.

A few executives were willing to predict when property/casualty insurance pricing will firm.

"We will go to negative cash flow at 112% to 113% and that's going to be one of the tests," said Mr. Bolinder of Zurich. And, he noted, most insurers will pay their full tax bill next year, having depleted their tax loss carryforwards.

In addition, some insurance companies will be forced to report reductions in their surplus due to new regulations governing credit for reinsurance payments that are over-

Continued on next page

PLAN AHEAD

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Continued from previous page
due, Mr. Bolinder predicted. "A lot of reinsurers are good for their responsibilities, but are slow to pay," he noted.

"That surplus impact and pretty lousy results will get everyone managing their affairs properly by year-end '90," he predicted.

"I really believe there will be a turn in the market in 1990," Mr. Bolinder said, "but it won't be that abrupt."

"We will see a prolonged period of competition by insurance companies and by brokers," said Mr. Page. "There are too many people chasing the same accounts."

"There are competitive cycles to get capacity distributed," Mr. Page observed. "When that capacity is distributed, clients compete for capacity and prices go up."

"The North American underwriting community has \$125 billion in surplus as of June 30. Until that erodes, we will see a very competitive industry," Mr. Page said.

Mr. Page continues to forecast that

property/casualty insurance pricing will not firm until the fourth quarter of 1991. And, when higher insurance prices are charged in 1992, Mr. Page expects to see rates up an average of only 5%.

Mr. Prochaska of Evanston Insurance also pegs 1992 for a turn in market conditions.

While Evanston Insurance, with policyholder surplus approaching \$100 million, is quoting more accounts, it is writing fewer, Mr. Prochaska said. "It's what we expect, given the market."

Evanston Insurance, which specializes in underwriting professional liability and product liability insurance, expects business to be down 10% to 15% again this year.

The company has lost its directors and officers liability insurance book of business "at half the price for double the limits," Mr. Prochaska said. However, Evanston Insurance is holding its insurance company errors and omissions liability insurance business, he noted.

Mr. Irvin of A&A describes a 1992 turn in the market as the "worse case," because he expects that would

"create a much more volatile turn, which won't be understood or appreciated by the consumer."

The earliest Mr. Irvin expects a turn in the market is mid- to late 1990, with the turn more likely in mid-1991.

Reluctant to cite a year for a turn in the market, Mr. Byrne of Fireman's Fund predicts the insurance industry will report combined ratios in the area of 120% in 1990 and 1991.

However, Mr. Byrne also predicts that the general liability insurance business written in 1989 will produce an accident-year loss ratio of 125%, "a full 15% more than the industry thinks it will."

The Insurance Services Office Inc., Mr. Byrne pointed out, has calculated that the insurance industry's loss adjustment expense reserves are under what is needed by 50%.

"Loss adjustment expenses are soaring," Mr. Byrne said, citing lawyers' costs as the major contributor.

Too many people focused only on ISO's report that loss reserves are 12% less than they should be, he said. It will be six to seven years from now, however, before the in-

dustry will recognize the underreserving, he said.

Michael Goldberg, vp of Berkshire Hathaway Inc. in Omaha, Neb., speculated that "loss reserves have been weakened—unintentionally. The accident year will turn out to be worse than the calendar year because people can't believe the numbers are that bad," he said.

Even if there is no further rate cutting, current pricing in the commercial marketplace is "not keeping pace with monetary and social inflation and coverage is being broadened," Mr. Goldberg noted.

But, the good performance of the stock and bond markets is contributing to acceptable returns on investment for the industry, commented Mr. Thompson of North American Re.

And he expects the competitive market cycle to be tempered by memories of the early 1980s. "No one is eager to repeat the early '80s—the old-fashioned gas pump price war," he said.

Mark Hinkley, senior vp and director of marketing for Skandia America Group, also commented that

"the imprint of how bad that market was in '82-'84 is keeping people more disciplined" in the reinsurance marketplace. Reinsurers are exerting more control over the source of their business and more underwriting audits are conducted, he said.

And, like the primary marketplace, reinsurers are more intent on renewing their existing accounts than swapping accounts, Mr. Hinkley noted. "Renewal business is better business because you know it better," he explained.

Whether it was due to new self-imposed restraints on public discussion of market conditions or evidence of a new emphasis on strategic planning, industry executives gathered at The Greenbrier last week also were focusing their discussion on the overall future of their industry.

"There is a lot of discussion about an inevitable repositioning of the business," said Mr. Page of James.

"We know there are going to be major changes," he said. "We see it at the state and local level. We see pressure on insurers to reduce their cost of acquiring business."

Continued on next page

The professional marketplace

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Low rates imperil private work comp market

By KATHRYN J. McINTYRE

WHITE SULPHUR SPRINGS, W.Va.—Inadequate rates for workers compensation insurance are becoming an annual lament when the leaders of the property/casualty insurance industry convenes at each fall at The Greenbrier.

Insurers, agents and brokers attending the joint annual meeting of the NACSA/NACSE expressed concern for the future of the private work comp insurance market because states are holding rates too low, forcing too many employers into assigned risk plans and increasing the assessments on insurers to fund these markets of last resort.

"We are in more danger of losing workers compensation than personal lines business to something nationalized," commented William Bolinder,

manager of the U.S. operations of Zurich Insurance Co.

The problem states: Texas, Louisiana and Florida, insurers agree.

Efforts to reform work comp systems to control costs and permit insurers needed rate hikes are not successful, he said, because "workers compensation is not as sexy to individual consumers and our risk management friends aren't able to marshal the legislative might."

The Texas work comp market "has reached crisis proportions," said Michael Crall, president of Argonaut Insurance Co. in Menlo Park, Calif.

"Either the Legislature will enact changes to enable the private market to continue or Texas will go the way of Maine with a single market—the assigned risk pool," he predicted.

The assigned risk pool in Texas is adding enormously to the cost of

writing a work comp account, and high assigned risk costs drive insurers from the market, Mr. Crall said.

However, overall the workers compensation insurance market has a "different market cycle than the industry in general," Mr. Crall noted.

The work comp market never became hard and never became soft, he said, pointing to a 118% combined ratio for work comp insurers overall for the last three years.

"No one sets out to write at 118%," he noted. "We all assume we can be significantly above the average."

Because workers compensation insurers start with fixed rates, they compete on other levels, especially service, he said. And, he noted, there are fewer insurance companies competing for large workers compensation accounts, and they are "relatively conservative."

Argonaut, Mr. Crall noted, continues to stress with clients its philosophy that "losses don't have to happen" with proper loss prevention and loss control programs available. And, since large employers pay their own losses for workers compensation, reducing their loss costs makes paying a slightly higher price for service quite cost-effective, Mr. Crall says.

William Thiele, senior executive vp of Continental Corp., which continues to look for opportunities in the workers compensation market, takes heart that workers compensation market problems will be corrected because businesses will threaten to leave states where workers compensation has become a large obstacle.

Still, he noted there are "very big problems in workers compensation," including the erosion of the exclusive remedy rule, rising medical costs and

abuse of the system, such as fraud.

The medical community views workers compensation systems as the "last unrestrained payers" of medical bills, Mr. Thiele said, citing cost containment programs adopted in public and private health insurance plans.

However, "leading-edge" insurers are developing cost containment programs," he said, including auditing medical bills, creating preferred provider systems, trying to minimize litigation and promoting pre-employment physicals and drug testing.

William Cohen, president of r Insurance Management Associates Inc. in Wichita, Kan., pointed to workers compensation as "the worst problem we have." One insurer has instructed its branch offices not to write an account with more than 5% of its work comp premium in Texas without home office approval, he noted. ■

NACSA/NACSE

Continued from previous page

The future of the business, according to Mr. Page, "is not brokering. It's in risk services, in dealing with clients large and small."

The need to become more efficient was an important topic of conversation, said Mr. Keller of Republic Hogg Robinson. His company's discussions with insurers focused on "how can we work more efficiently with insurance companies."

This effort has to go beyond automation, Mr. Keller said, to incorporate efficient and effective personal service.

Companies also discussed some specific plans for the future.

Berkshire Hathaway, for example, is "trying to position ourselves in more segments of the market," noted Mr. Goldberg. In addition to recruiting someone to start a facultative reinsurance operation, Berkshire Hathaway wants to develop an excess/surplus lines company to be in place when capacity is short and "there is an opportunity to be creative, to find creative solutions to problems" Mr. Goldberg said.

The new excess/surplus lines company would be dedicated to distributing its products through wholesale brokers, Mr. Goldberg noted.

The new company will be formed when Mr. Goldberg finds the right personnel to run it.

Mr. Page discussed the creation of Sedgwick-James on Jan. 1. The new retail arm of Sedgwick Group will employ 9,250 people in 270 offices in more than 60 countries, producing in excess of 50% of the parent company's revenues.

Sedgwick retail offices around the world have penetrated the indigenous market business, but Sedgwick-James is planning to develop the national accounts market in those countries as well as to serve more U.S.-based international accounts.

Mr. Thompson of North American Re observed it was also interesting that some subjects were not being discussed at the meeting, including the antitrust litigation and California's Proposition 103.

People were not talking about Proposition 103 "because there is so much confusion about what will happen next," he said, adding that the industry does take comfort in the California Supreme Court decision that constitutional protections will be brought to any rate regulation.

Mr. Irvin of A&A marveled that in discussions with insurance company executives and insurance brokerage executives, it was the insurance company executives who appeared optimistic that pricing in the industry was not that bad while brokers, anticipating more rate cutting, were pessimistic.

"That's reversed" from their usual outlook, he said. ■

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Financial services to converge: Reed

By KATHRYN J. McINTYRE

WHITE SULPHUR SPRINGS, W.Va.—Changing economic forces will create a new financial institution that will sell securities, banking services and insurance, predicts the chairman of New York-based Citicorp, the largest commercial bank holding company in the United States.

Within 10 to 15 years, these financial service industries will come together, according to John S. Reed, who addressed "The Modern World of Finance" at the annual joint meeting of the National Assn. of Casualty & Surety Agents and the National Assn. of Casualty & Surety Executives last week at The Greenbrier.

The merger of financial service organizations into single institu-

tions will begin first in Europe and Japan and will eventually occur in the United States, Mr. Reed said.

However, because "banks know very little about underwriting risk," Mr. Reed expects that the interaction between banking and insurance "will take place at the distribution and product end."

And, anticipating that banking products will become more complex, Mr. Reed predicted that banks will "seek to get insurance agents to distribute our products."

"Insurance agents are a more robust distribution system than branch banks," he explained.

The forces driving financial services together are twofold, Mr. Reed said: Businesses' direct access to capital markets is forcing banks to become intermediaries, and individual consumers are

looking for full value on their money, both from banks and insurers.

Consumers "are demanding new products, new efficiencies and new effectiveness," he said.

NACSA/NACSE CONFERENCE The Greenbrier

In response to consumer demand, banks are "looking for new delivery techniques," Mr. Reed said. "Increasingly, we are doing business with our customers by telephone and by automatic devices called cash machines."

In the future, Mr. Reed expects banks will deliver home banking

services. And, "it is hard to believe that when home banking comes there won't also be insurance products merchandised through electronic interaction in the home," he said.

"We are all driven by cost and service pressures," Mr. Reed said, adding "our customers are very much the same."

In addition, both bankers and insurers are "in the money business—both require knowledge with regard to markets and investment," he said.

"There's more in common between the industries than separates them," Mr. Reed said.

Mr. Reed noted that in Belgium, Citicorp already is using 1,000 insurance agents to sell bank products to individuals, garnering 7% of the Belgian banking business.

The insurance agents have the "credibility" needed to sell the products, he noted.

Heading off any criticism of the merger of banking and insurance services, Mr. Reed observed that "in Europe, where these industries are more closely tied together, it does not raise any meaningful problems so far as society is concerned. The economies of distribution and product development can be for the betterment of customers."

In addition, "the strength of the distribution of insurance will enhance banking," he said. Insurance companies will be interested in buying banks, and banks will be interested in acquiring insurers."

However, since the banking industry as well as the insurance in-

Continued on next page

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Over the past several weeks BI has published several important issues on a vital link in the insurance chain: Reinsurance.

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Industry asked to aid uninsured hurricane victims

WHITE SULPHUR SPRINGS, W.Va.—A South Carolina insurance company executive is calling on the insurance industry to contribute funds to aid the uninsured victims of Hurricane Hugo.

In a letter distributed last week at the annual joint NACSA/NACSE meeting, Sterling E. Beale, chairman of The Seibels Bruce Group Inc., asked fellow insurers and agents to "help meet the non-insured emergency needs of many people in South Carolina... beyond any insurance claims."

For companies doing business in South Carolina, Mr. Beale suggested a contribution of 0.1% of net written premiums in the state. On that basis, Columbia, S.C.-based Seibels Bruce Group has contributed \$20,800 to activate the effort, Mr. Beale wrote.

"For those not writing in our state, or doing so on a limited basis, please give as much as you can," he asked.

Commenting that the insurance industry has spent millions of dol-

lars for advertising to improve its image, Mr. Beale suggested that contributing to a fund for the uninsured victims of Hugo would "do far more in public understanding and support than we have otherwise accomplished."

"Our industry has an opportunity now to go beyond the contractual obligations of our insurance contracts and make a statement to the public that we are also a sensitive, caring, sharing industry."

"More importantly, it will feel good. Even more importantly, it will help thousands of people who cannot help themselves right now," he wrote.

Funds collected will be turned over to South Carolina Gov. Carroll Campbell to be used in areas and for those needs he considers best, Mr. Beale wrote.

The letter asks for contributions to be made payable to the South Carolina Hugo Relief Fund and sent in care of Mr. Beale at The Seibels Bruce Group, P.O. Box. 1, Columbia, S.C. 29202. ■

Governor offering training aid to industry

WHITE SULPHUR SPRINGS, W.Va.—Former insurance agency executive and current West Virginia Gov. Gaston Caperton is offering the insurance industry a trained workforce if it opens or expands operations in his state.

Addressing his former colleagues at the annual NACSA/NACSE joint meeting last week at The Greenbrier, Gov. Caperton announced a new initiative to create jobs in West Virginia through a state-backed customized training program.

West Virginia will train workers to a company's specifications and administer company-provided tests to workers to ensure a trained workforce is available when an insurance company or other computer-intensive company opens or expands its operations in West Virginia.

If a worker is not qualified, the state will retrain the worker, Gov. Caperton pledged.

Employers could "save 20% to 40% on their workforce costs by moving jobs from large urban areas to West Virginia," he said.

This customized training program for workers is available to any company that promises 250 to 1,000 new jobs in West Virginia, Gov. Caperton said. It is particularly attractive to insurance companies, banks and any industry with a large back-office workforce, Gov. Caperton said in his opening remarks to the insurance industry gathering.

Recalling his former position as president of Charleston, W.Va.-based McDonough Caperton Insurance Group, a brokerage and third-party administrator, Gov. Caperton said: "We built a successful TPA operation because we had the best workforce in the country."

"In West Virginia, people like to come to work, appreciate their job, come to work on time and work hard," Gov. Caperton said.

Continued from previous page
industry "are not held in high regard by our customers," Mr. Reed advised that "the two industries have a challenge as to how to present themselves to the regulatory world and the public at large."

In response to a question on how to improve the image of banking and insurance with the public, Mr. Reed suggested: "You earn your public legitimacy by providing legitimate services on a plain vanilla, straightforward basis."

Banks, he said, could do a better job if they more clearly explained their price structures. Instead, banks engage in what he called "harassment pricing," such as charging one amount for a bounced check, another fee when a checking account balance drops below a certain level and various other charges.

"We don't make clear what we charge, and that invites suspicion," he said.

Furthermore, "nothing bothers a consumer more than sensing that they don't have control," Mr. Reed pointed out. A chief executive officer of a major corporation whose credit card is turned down "behaves the same way as a drunken rogue sailor," he said.

"We have to design products and interact in a way that makes the relationship valuable to the customer," he advised. "Make the value of the relationship visible to them."

Citicorp, he noted, has 22 million credit card customers because "we've communicated that our product is more friendly, more responsive, less likely to turn them down."

"The challenge is to deal with our customers on terms that relate to their expectations," he said.

While predicting that insurance, banking and securities will "come together" in a "universal bank," Mr. Reed acknowledged that certain "fire walls" may be created between the pools of assets allocated to each business.

In response to a question on whether there should be federal or state regulation of the businesses, Mr. Reed said: "There is no obvious answer."

While the "ultimate regulatory control is competition" because no

one bank or insurer has a large market share, Mr. Reed added that "we clearly need regulation with regard to prudence and in terms of market practice."

In addition, regulation "helps provide society with some assurances as to how we behave, how we meet our responsibilities to them."

Noting that banks operate under a system of federal and state regulation, Mr. Reed said, "both work and the interplay between the two is good. I would worry if we had only one thing."

Questioned on whether banks would bundle the cost of a loan with insurance, Mr. Reed predicted that the pricing would be kept separate. However, he added, "There is some reason to worry about big corporate customers."

Citicorp sold its investment management business because its corporate customers, citing all the banking business they did with Citicorp, were forcing the margins on the

NACSA/NACSE CONFERENCE The Greenbrier

business down too low, he said.

"Our big customers will try to nickel and dime us to death," he quipped.

Citicorp, with \$220 billion in assets, already has expanded into the insurance industry, a fact not discussed by Mr. Reed.

Citicorp owns Citicorp Insurance Holdings Ltd. in London, headquarters for its worldwide insurance brokerage operation excluding the United States, where regulations still limit its ability to broker insurance.

Its 1989 worldwide brokerage revenues are expected to reach \$50 million to \$60 million on the strength of the acquisition of Lloyd's of London professional liability insurance broker Nelson Hurst & Marsh (Holdings) Ltd. (BI, March 6).

With that acquisition, Citicorp Insurance Brokers is now the 10th largest Lloyd's broker, according to James W. McLane, president and

chief executive officer of Citicorp Insurance Group Inc.

While its London insurance brokerage operation is its largest, Citicorp also operates insurance brokerages in 19 countries, with a large presence in Asia.

And in Japan, Citicorp has a joint venture, Santei-Citicorp, which arranges insurance programs for associations in Japan.

In the United States, Citicorp owns two financial guarantee insurers: AMBAC Indemnity Corp. and Capital Markets Assurance Corp.

Also, Citicorp International Trade Indemnity underwrites political risk and export insurance, authorized by a federal act to facilitate international trade.

Citicorp also owns several credit life insurance companies in the United States, United Kingdom, Belgium, Germany and Australia.

"We try to keep our businesses related to Citicorp's strengths rather than wandering into the traditional property/casualty business where we have very little expertise," commented Mr. McLane.

Insurance brokerage, he added, "is not that different from corporate finance." In both, the service provider works with a customer to solve a problem, package it and distribute in the marketplace.

L. William Seidman, chairman of the Federal Deposit Insurance Corp. in Washington, agreed with Mr. Reed's vision of the universal bank as the "wave of the future," but predicted that the restructuring will occur sooner than within the 10 years quoted by Mr. Reed.

Within his remarks on the rescue of failed savings and loan institutions, Mr. Seidman endorsed removing regulatory barriers to one type of regulated financial institution owning another type of regulated financial institution.

The current regulated holding company structure is unique to the United States and "is very expensive," Mr. Seidman said.

However, the separation between commonly owned financial institutions should be maintained, with banks and insurers separately capitalized and separately regulated, he advised.

Update

California freezes auto rates

Continued from page 2

other insurers while giving the Insurance Department time to conduct a series of public hearings on the implementation of Proposition 103, an Insurance Department spokeswoman said.

Public hearings for insurers seeking exemptions from Proposition 103's rate rollbacks have been consolidated and will begin Oct. 30.

If issues of rating criteria and establishing a fair rate of return are resolved before April, the six-month freeze on private passenger auto rates would be lifted, the department spokeswoman said.

A spokesman for the American Insurance Assn. noted that "proposing a rate freeze without doing anything to reduce losses creates the appearance for consumers of being able to get something for nothing."

Briefly noted

A hearing will be held Nov. 3 in U.S. District Court in San Francisco on a motion filed last week by state attorneys general that Judge William W. Schwarzer vacate his decision to dismiss the **insurance anti-trust litigation** (BI, Sept. 25). . . . The Massachusetts House last week voted to delay until 1993 a provision in **Massachusetts' 1988 universal health care law** that imposes a \$1,680 surtax on employers that do not provide health care coverage to employees. The legislation supersedes a bill, tentatively approved this summer, that would have repealed the \$1,680 tax and delay until 1992 a mandatory 0.12% tax to employers on the first \$14,000 of each employee's wages, up to a maximum \$16.80 per employee. The 0.12% tax, now set to go into effect in 1990, is to be used to provide health care coverage for the uninsured who are unemployed. . . . **David F. Lambert III** has resigned as executive director of the National Assn. of Insurance Brokers to become principal of Lambert & Associates, a Washington, D.C.-based firm that provides governmental and public affairs consulting services to business. NAIB Director of Federal Affairs Barbara S. Haugen has been named acting NAIB executive director. . . . **Peter Rawlins**, managing director of Lloyd's of London managing agency Sturge Holdings P.L.C., has been appointed chief executive of London's Stock Exchange. . . . Both the full House of Representatives and the Senate Finance Committee last week gave final approval to budget reconciliation legislation that includes provisions to totally repeal **Section 89** non-discrimination rules for welfare benefit plans. . . . The criminal trial of former Alexander Howden Group Ltd. Chairman **Kenneth Grob** and former Lloyd's of London underwriter Colin Hart has been delayed until Jan. 8 because Mr. Grob is too "ill and exhausted" to stand trial. . . . The liquidators of **Mentor Insurance Co. Ltd.** on Oct. 3 filed suit in Bermuda Supreme Court against Ocean Drilling & Exploration Co., Pinnacle Reinsurance Co. and several current and former ODECO and Mentor officers alleging substantially all of the claims previously asserted in litigation in U.S. federal court that was dismissed in 1988 (BI, April 25, 1988). The Bermuda action, however, asserts claims under Bermuda's fraudulent trading act in lieu of the U.S. Racketeer Influenced and Corrupt Organizations act. The suit seeks to recover the current deficiency of Mentor's estate, which is alleged to be in excess of \$400 million. . . . Eight insurers are appealing a federal district judge's decision upholding a **Nevada law requiring insurers to roll back "charges"** for personal and commercial automobile liability insurance for one year to 15% below July 1988 levels. However, the effective date of the law has been stayed until Oct. 16.

Understanding the customer

By KATHRYN J. McINTYRE

WHITE SULPHUR SPRINGS, W.Va.—Improving service and listening to the customer will improve the insurance industry's public image, a panel of agents and insurance company executives agree.

But, there are some problems with insurance that the industry should point out it has not created, advises one insurance company executive.

"Our image problem is dominantly one of performance," suggests Robert A. Anker, president of American States Insurance Co. in Indianapolis. "As an industry, I do not believe we are doing a proper job of delivering value to our customers," he told those attending the annual joint meeting of the National Assn. of Casualty & Surety Agents and the National Assn. of Casualty & Surety Executives last week at The Greenbrier.

"A lot of what we focus on today is claims service and claims service tends to be pretty good," he said at the round-table discussion.

"Where we really don't do very well is on the underwriting service side," he said. "We abuse our customers with billing systems that are almost incomprehensible. We speak in our language, not theirs. And we continue to make the mistake that they don't understand us. They do."

"We need to spend more time understanding their needs, to deliver the product correctly the first time. Price is not the dominant issue."



Mr. Anker

Industry must listen: Panel

Panelist T.J. Adams, president of T.J. Adams & Associates Inc. in Oak Brook, Ill., agreed with Mr. Anker. "We not only need to understand their needs, we need to understand their viewpoint. We tend to do things from our viewpoint and with our own problems in mind."

But the policyholder, he said, "wants to know what he's getting, wants to understand what he's getting and what he's paying for it."

One problem, according to Mr. Adams, is applying workers compensation modifications on interstate-rated risks. "Sometimes, the insured doesn't know what he's paying for workers compensation insurance, which is sometimes a significant part of his expenses, until six months after the policy is in effect."

Panelist Frederick J. England, president of Hastings Tapley Insurance Agency Inc. in Cambridge, Mass., disagreed with Mr. Anker on one point. Cost is a fundamental issue, Mr. England said.

"We have to be efficient," he said.

Mr. England also suggested that the insurance industry "needs to do a thorough analysis of customers' reactions" to identify reactions to events the industry can control and reactions to events over which it has no control.

Panelist Charles J. Clarke, senior vp of Travelers Insurance Co. in Hartford, Conn., confessed that "I always assumed that the business probably was too complicated for my customer to understand. But when I said I was listening to my customer, it was not with

the intent to hear; it was with the intent of explaining the business."

Now, he said, he has learned that "I have to improve the service, listen with the intent to understand and I had better do something about those costs."

Insurers, Mr. Clarke said, "have to stop saying, 'I'm just the messenger. Don't blame me. I'm just a reflection of you,' when discussing the cost of insurance."

"That may be true, but if I insist on this message, they are going to kill this messenger."

Panelist William E. Thiele, senior executive vp of Continental Corp. in New York, advised that the insurance industry should not allow particular insurance problems to give the entire business a bad image.

For example, the problem of high inner-city personal automobile insurance costs should be recognized as a function of the inner-city, he said. Instead, "we let the whole industry get broad brushed" by the problem, he said.

Panelist George W. Brown, president and chief executive officer of Jardine Ematt & Chandler Inc. in San Francisco, suggested that it is important not only to understand the customer but also to understand that when insurance industry opponents propose legislation, "we had better properly inform the public or we'll get bad law."



Mr. England

The insurance regulatory reform of Proposition 103 was approved by California voters as a "result of a public that was not informed," Mr. Brown said.

Mr. Anker, however, pursued his point that service has to be improved by asking for a show of hands from the audience of those who had not encountered some frustrating experience with their own personal insurance. Only about 10% raised their hands.

"We are all customers. We know what's driving people crazy. It's the same thing that's driving us crazy. We have to take personal responsibility to make better what we can make better—one on one," Mr. Anker said.

When asked by panel moderator George C. Hill, executive vp of Rollins Burdick Hunter of Northern California in Oakland, whether it was price or service that the audience was frustrated by in their personal insurance programs, most indicated it was service.

Mr. Clarke of the Travelers agreed that service is an important issue to his commercial insurance clients. "Every time I ask one of our customers what they would like us to do, they say, 'Do what you said you would do and do it on time and inform us.'"

"That's not impossible," he observed.

Members of the audience also suggested that if the insurance industry wants to enhance its image, it should contribute funds to help the victims of Hurricane Hugo (see story, page 76).

The subject of the panel discussion was focused on the insurance industry's image, moderator Mr. Hill explained, because it is an important issue and also because it was agreed the panelists would not discuss insurance pricing and insurance cycles out of concern for antitrust issues.

NACSE chief quietly breaks tradition

WHITE SULPHUR SPRINGS, W.Va.—Jack Moseley, chairman and chief executive officer of USF&G Corp., surprised—and disappointed—some by breaking with tradition and not delivering a speech as president of the National Assn. of Casualty & Surety Executives.

NACSE's sole purpose is to bring together top property/casualty insurance and reinsurance executives and members of the National Assn. of Casualty & Surety Agents annually at The Greenbrier in West Virginia.

NACSA, in contrast, is a highly active trade association representing 317 agencies and brokerages providing insurance and risk management programs to businesses.

Traditionally, the president of NACSA and NACSE each deliver a speech at their annual joint meeting.

But this year, after NACSA President John A. Kohler spoke about the need for insurance industry cooperation in agents' automation efforts, Mr. Moseley departed from custom.

"The only duty the president of NACSE has is to make another useless speech," Mr. Moseley said. "I've made more than my fair share," he added, drawing laughter.

"I've thought about this very hard for the last six months," he said, "and nothing original came to me."

He recalled "funny speeches" made by some predecessors, like one by former Crum & Forster Chairman Bobby Russell who "coined the only true phrase that reflects what an insurance company is about when he talked about 'bulletin proof branch offices.'"

"We've also heard serious speeches," Mr. Moseley said, recalling those "damning the agents and other company executives for creating yet another cycle."

"Frankly, I haven't heard any one come up with a speech that changed anything," Mr. Moseley said.

"It will go on like it has been going on because we are a competitive industry and I certainly hope we remain a competitive industry. It will be good for the consumers if we do."

Mr. Moseley concluded by saying: "If I gave a very enlightened talk, I would put you in severe danger of having me say someday down the road that 'I told you so.' On the other hand, I also put myself in severe danger of having you not listen to me either."

"I thank you very much for this opportunity to serve you, gentlemen," he said to his NACSE colleagues, "and ladies, thank you for coming to listen to nothing," he said to the spouses in the audience.

Although there was laughter and applause immediately following Mr. Moseley's surprise approach to his remarks, several agents, brokers and other insurance company executives later complained privately that they were disappointed that Mr. Moseley did not deliver a more traditional speech.

The prevailing comments of those disappointed were that they would have liked to have heard his opinions on industry issues and the president of NACSE owed it to those assembled to share his views.

One broker, however, characterized Mr. Moseley's approach as "clever and funny."

Asked to respond to Mr. Moseley's remarks, newly elected NACSA President Timothy N. Thoelecke, president of Great Lakes Agency Inc. in Chicago, said: "The NACSA membership is very proud of the manner in which our leadership addressed the subject of the agency/company relationship during the address of our president, John Kohler, at the Tuesday morning general session. We are disappointed not to have received similar communication from the executives."

—By Kathryn J. McIntyre

Insurers must promote uniform interface: Agent

WHITE SULPHUR SPRINGS, W.Va.—Insurance companies should promote development of a single, easy-to-use, shared electronic interface between agencies and the multiple insurers they represent, urges John A. Kohler, outgoing president of the National Assn. of Casualty & Surety Agents.

Such interface "is the key to reducing our expenses and increasing productivity," he told the annual joint meeting of NACSA and the National Assn. of Casualty & Surety Executives last week at The Greenbrier.

"High costs and bloated overhead will not be tolerated by our customers," warned Mr. Kohler, founder and chairman of Brandow Howard Kohler & Rosenbloom Inc. in Minneapolis. The "alleged inefficiency of our industry was the grist for much of the Proposition 103 mill in California," he told the audience of agents and leading property/casualty insurer executives.

But, the type of "multiple company interface that will have a real impact on the cost of doing business in the American agency system has not yet been achieved," Mr. Kohler said.

Instead, companies and their agents are linked by proprietary sys-

tems requiring agents to use more than one system.

To create multiple company interface, companies should join the two industry organizations—White Plains, N.Y.-based ACORD and IVANS—that are devoted to improving efficiency in independent agency distribution, Mr. Kohler said.

ACORD oversees development of automation standards while IVANS—Insurance Value Added Network Services—is a data communications network linking agents and insurers.

However, agents and insurers linked to IVANS still need compatible hardware and software to interface.

While IVANS and ACORD member insurers wrote more than half of all agent-generated premiums, less than one-half of the companies represented at The Greenbrier meeting are members of ACORD, and only one-third belong to IVANS, Mr. Kohler reported.

He challenged non-members to "charge your agency automation people to join."

"Some companies have implemented effective interfaces using ACORD standards," Mr. Kohler noted. Others will have to modify systems to adopt the standards, "but ACORD has support programs to assist your people in doing just that."

He praised Chubb Corp., American States Insurance Co., CIGNA Corp., Maryland Casualty Co., Royal Insurance Group, Selective Insurance Group, SAFECO Corp. and Transamerica Insurance Cos. as insurers making

"significant moves toward use" of the agency interface standards.

"We compliment these leaders for their foresight and urge the rest of you to join them," he said.

Maryland Casualty, an IVANS founding member, is a leader in efforts toward single-entry multiple-company interface, Mr. Kohler said. Having registered more than 1,000 agencies in the network, that company "even more significantly has implemented interface with a number of different agency management systems, via the IVANS' network, using ACORD standards," he said.

Aetna Life & Casualty Co., meanwhile, has made a commitment to provide multicompartment interface capabilities using ACORD standards to its 1,500 agents using Aetna's Gemini Systems' agency automation system, he said. Aetna, however, does not plan to change its home office systems to accept ACORD standards.

"A single, easy-to-use, shared network helps agents and companies," Mr. Kohler said. "Proprietary, overlapping networks complicate our lives, cost more and induce error."

"It is simply good business for companies to have their agents operating efficiently and productively, selling insurance, not struggling with piles of paper or an office full of different computer terminals."

While challenging insurers to support multicompartment interface, Mr. Kohler also urged fellow agents to "complete the automation of your agencies."

Agencies must automate now to survive in the 1990s, he advised.

And agencies should "demand the interface benefit you as well as the company. Accept only interfaces that will work with more than one company, that provide for single entry of data and that are based on ACORD standards. Then work arm-in-arm with the companies you represent to make them work."

—By Kathryn J. McIntyre

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Medicare debate

Continued from page 1

Many employer-sponsored retiree health care plans, which cover more than 10 million people, are designed to pick up hospital and physician expenses not covered by Medicare. With the expanded Medicare program assuming a much greater share of the costs, employer-provided retiree plans automatically would pay less.

That was especially good news at a time when the Financial Accounting Standards Board was about to propose new rules that would require employers to include hundreds of billions of dollars in retiree health care liabilities on their financial statements.

Indeed, the General Accounting Office this summer estimated that Medicare expansion would cut employers' accrued retiree health care liabilities, as of 1988, to \$197 billion from \$227 billion—a \$30 billion decrease.

However, "billions of dollars in liabilities will be shifted back to the employer community," said Dallas Salisbury, president of the Employee Benefit Research Institute in Washington, D.C.

That, in turn, will complicate employers' efforts to find a way to control burgeoning retiree health care costs, which has been a goal of employers dating back long before the enactment of the Medicare Catastrophic Act.

After the Medicare expansion was approved last year, some employers had even considered terminating health care plans for retirees over age 65, consultants said.

"Some employers were saying perhaps there no longer was a need to provide 65 and older coverage because Medicare was covering much of what the companies had provided," said Richard Ostuw, a vp in the Cleveland office of TPF&C, the benefits consulting division of Towers, Perrin, Forster & Crosby Inc.

But if the Medicare expansion is repealed, "That argument is gone," Mr. Ostuw said.

The increased reliance by retirees on employer-provided health care plans will make cost control steps even more of a necessity, experts note.

"Employers will be propelled to move faster to redesign their plans," said Mr. Ostuw.

Possible redesign changes, also considered by companies before the firestorm over the expanded Medicare program erupted, include limiting employer contributions—and thus retirees' benefits—to a fixed amount, much like a defined contribution pension plan.

However, labor will resist any benefit cutbacks, especially because employer plans will pay more of retirees' health care bills with the demise of the Medicare catastrophic program.

"Employers will want to move faster to redesign their plans, but it will be a tougher

climate to try to make those changes. It will be more difficult to balance retiree needs and employer costs," said Mr. Ostuw.

While the climate may be tougher, some employers will forge ahead and make drastic cutbacks for future retirees, some experts predict.

"The next generation of retirees may have much more limited health care coverage," said Donald McKinnon, a managing director in the Stamford, Conn., office of William M. Mercer Meidinger Hansen Inc.

With the political firestorm created by the Medicare Catastrophic Act fresh on their minds, legislators likely will steer clear, at least for now, from other controversial health care proposals, like a federal long-term health care program or mandated health care legislation by Sen. Edward Kennedy, D-Mass.

"Congress will fear being bitten again. They will be wary on health care issues," said Edward J. Davey, a principal with A. Foster Higgins & Co. Inc. in New York.

"Legislators will take a giant step away from other health care proposals in the next few years," said Linda Havlin, a consultant with Hewitt Associates in Lincolnshire, Ill.

"If Medicare catastrophic was perceived as unaffordable, how realistic is it to talk about expanding other types of coverage?" she asked.

Others say that legislators are unlikely to attempt, as they did with the expanded Medicare program, to require a narrow segment of the population to pay for a disproportionate share of the costs.

"Any financing mechanism that relies on one group will not fly," said Frank McArdle, a consultant in Hewitt Associates' Washington, D.C., office.

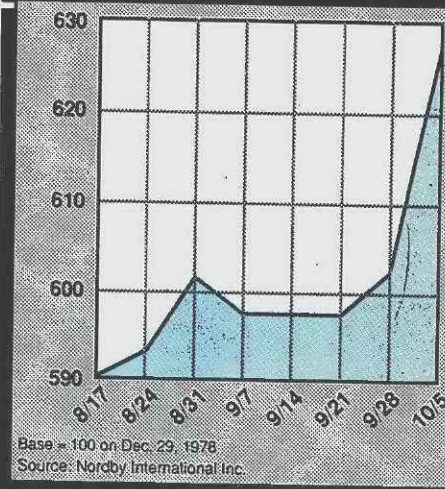
Under the Medicare Catastrophic Act, middle and upper-income retirees were supposed to pay as much as \$800 in additional federal taxes to help finance the program, while millions of lower-income retirees were exempt from the new Medicare surtax. Those higher income retirees were enraged about being slapped with a new tax because many already had health care coverage from their former employers.

"A group of relatively affluent retirees who had employer coverage were the most vocal in their opposition to the program," said Harry Don, a Wyatt Co. consultant in Cleveland.

"There was a very visceral reaction by fairly well-to-do retirees," added Stuart J. Brahs, vp-federal government relations in the Washington, D.C., office of The Principal Financial Group.

"There was a fundamental miscalculation by Congress. The people who paid the most taxes for the catastrophic program were those who needed it the least because they were most likely covered by an employer plan," said Lance Tane, chairman of the group health and flexible benefits practice at The Wyatt Co. in New York.

BI Insurance Index



Insurance industry stocks soared last week, as the *Business Insurance* index rose 25.2 points to 627.4 on Oct. 5, from 602.2 on Sept. 29. Advancing issues were led by Pacificare Health Systems, up 24.2%; Kemper Corp., up 12.8%; and Torchmark Corp., up 8.5%. Decliners followed Poe & Associates, down 5.7%; HMO America Inc., down 4.1%; and United Fire & Casualty Co., down 2.2%. The most active issue during the period was Sears, Roebuck & Co. (Allstate), 3.9 million shares traded. The *Business Insurance* index gained a slight 4.2% for the period; the Dow Jones 30 Industrials was up 2.9%; the Standard & Poor's 500 gained 2.4%; and the New York Stock Exchange Composite gained 2.3%.

British Issues

Oct. 5 Companies	Price pence	P/E	Div. pence	Yield %	1 Week	
					High	Low
Comm'l Union	456	19.0	29.3	6.4	460	451
Gen'l Accident	1058	10.5	68.0	6.4	1083	1058
Gdn Royal Exch	224	14.3	15.7	7.0	228	223
Royal	456	13.9	34.0	7.5	463	454
Sun Alliance	303	8.9	17.0	5.6	309	303

Brokers	Price	P/E	Div.	Yield	High	Low
Bradstock	202	13.8	10.0	5.0	202	197
CE Heath	488	13.9	34.5	7.1	488	473
Hogg Robinson	150	10.5	9.7	6.4	150	147
Lloyd Thompson	235	13.4	9.3	4.8	235	228
PWS Holdings	53	13.3	3.3	6.3	54	52
Sedgwick Grp	274	19.3	16.7	6.1	276	266
Steel Br'l Jones	234	14.6	15.3	6.6	234	234
Willis Faber	255	18.0	15.3	6.0	255	244

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

Employers may still share '89 savings

WASHINGTON—Even if Congress repeals the Medicare Catastrophic Act, employers still may have to provide participants in their retiree health care plans with cash or added benefits to make up for benefits that employers did not have to pay this year.

Under the so-called "maintenance-of-effort" provision in the 1988 Medicare expansion law, employers that eliminate portions of their retiree health care plans that duplicate the expanded Medicare program must pass those savings on to retirees in two phases:

- This year, employers must pass on savings they achieve when they eliminate hospital benefits that duplicate the expanded Medicare Part A, which covers hospitalization expenses.

Part A was expanded this year to limit a Medicare beneficiary's out-of-pocket hospital expenses to \$560. Previously, beneficiaries potentially were liable for thousands of dollars in hospital expenses.

However, employer plans that supplemented Medicare often picked up many of these costs.

Under guidelines published this year by the Health Care Financing Administration, employers must refund a maximum of \$65 to retirees

under the Part A maintenance-of-effort requirement. Alternatively, employers could provide this amount in new benefits to make up for the costs shifted to Medicare (BI, Sept. 4).

Under the House-passed repeal of the Medicare Catastrophic Act, employers would still have to comply with the Part A refund because the repeal would not take effect until next Jan. 1. Therefore, employers would have reaped a one-year savings by eliminating benefits in 1989 that duplicated the expanded Part A.

- In 1990, employers must pass along savings they reap from the expansion of Medicare Part B.

Under the 1990 Part B expansion included in the new Medicare law, retirees' liabilities for out-of-pocket physician expenses will be capped at \$1,370. Part B now pays 80% of physician expenses with no stop-loss limit.

However, if the Medicare expansion is repealed, the 1990 Part B expansion will be killed and this maintenance-of-effort phase will be moot.

Benefit consultants earlier estimated that individual retirees would receive a maximum of about \$95 in refunds under this phase.

—By Jerry Geisel

BI Industry Stock Report

OCT. 5, 1989

9/30/89 THROUGH 10/5/89

BROKERS	Price	Weekly % change	Year to Date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value	
				High	Low							
Alexander & Alexander	NYS	31.13	7.34	33.89	31.13	22.63	65	1.00	3.21	19	2.90	10.73
Corroon & Black	NYS	37.50	6.76	18.11	37.38	29.13	32	1.24	3.31	16	7.62	4.92
Gallagher Arthur J. & Co.	NYS	22.88	4.00	34.59	24.75	15.88	7	0.52	2.27	16	5.33	4.29
Frank B. Hall	NYS	2.88	4.73	-4.00	4.63	2.50	84	0.00	0.00	-1	N/A	N/A
Hill, Rogal & Hamilton	OTC	21.75	7.41	56.90	21.75	10.45	150	0.20	0.92	19	4.60	4.73
Marsh & McLennan	NYS	75.25	5.24	35.59	76.50	55.00	1	2.50	3.32	13	6.48	11.61
Poe & Associates	OTC	8.25	-5.71	-5.71	9.75	8.00	-	0.40	4.85	13	1.43	5.77
AVERAGE			4.3	24.2					2.6	14		

CONGLOMERATES & HOLDING COMPANIES	Price	Weekly % change	Year to Date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value	
				High	Low							
Berkley W.R. Corp.	OTC	42.75	6.21	44.30	43.00	27.50	854	0.40	0.94	9	21.28	2.01
Berkshire Hathaway Inc.	NYS	8725.0	0.58	87.63	8750.00	4600.00	1	0.00	0.00	133	2468.63	3.53
ITT (Hartford Group)	NYS	62.63	4.38	24.95	64.50	47.75	132	1.48	2.36	1	56.33	1.11
Sears (Allstate)	NYS	43.00	2.08	6.50	48.13	37.75	3856	2.00	4.65	15	36.09	1.19
AVERAGE			3.3	40.8					2.0	42		

INSURERS/REINSURERS	Price	Weekly % change	Year to Date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value	
				High	Low							
Aetna Life & Casualty	NYS	59.00	3.74	25.87	60.13	46.00	661	2.76	4.68	9	58.11	1.02
Ambace Corp.	NYS	15.75	0.80	41.57	16.38	10.50	20	0.20	1.27	6	18.66	0.84
American General	NYS	36.75	2.08	22.50	38.50	29.50	894	1.50	4.08	10	28.04	1.31
American Heritage	NYS	28.00	1.36	9.80	28.50	25.00	2	1.20	4.29	11	22.47	1.25
American Indemnity/Fin'l	OTC	10.25	5.13	-2.38	13.00	9.50	2	0.56	5.46	-	17.38	0.59
American International	NYS	106.50	6.50	59.85	108.25	61.75	1065	0.48	0.45	13	33.55	3.17
Aon Corp.	NYS	35.75	5.54	29.41	38.00	26.00	299	1.40	3.92	12	16.67	2.14
Argonaut Group	OTC	68.13	2.45	56.62	68.13	42.25	54	1.00	1.47	9	36.83	1.85
AVEMCO Corp.	NYS	26.88	3.38	4.90	27.50	22.63	9	0.40	1.49	14	9.20	2.92
Baldwin & Lyons Inc.	OTC	21.13	3.07	45.72	21.13	14.38	80	0.20	0.95	7	17.57	1.20
Belvedere Corp.	ASE	4.88	8.44	8.44	6.50	4.25	13	0.04	0.82	8	8.43	0.58
Chandler Insurance	OTC	11.63	0.04	55.07	12.25	5.80	14	0.00	0.00	7	9.53	1.22
Chubb Corp.	NYS	81.75	4.14	41.56	82.50	53.75	555	2.32	2.84	9	53.50	1.53
CIGNA Corp.	NYS	63.88	3.87	38.12	64.38	45.75	943	2.96	4.63	11	53.08	1.20
CNA Financial Corp.	NYS	92.25	6.12	58.72	93.25	56.00	160	0.00	0.00	11	54.52	1.71
Continental Corp.	NYS	36.00	3.23	12.50	45.00	31.50	172	2.60	7.22	-75	42.10	0.86
Durham Corp.	OTC	31.75	0.00	-0.78	33.00	31.75	1	0.92	2.90	29	26.32	1.21
Fremont General Corp.	OTC	15.75	0.00	26.00	18.25	10.63	25	0.80	5.08	10	32.74	1.19
Frontier Insurance Group	NYS	19.50	-1.27	75.12	21.75	9.55	6	0.00	0.00	10	7.53	2.59
General RE Corp.	NYS	88.75	6.93	57.73	87.25	53.13	1559	1.36	1.57	14	29.04	2.99
Hanover Insurance Co.	OTC	30.63	3.39	15.58	30.63	25.50	968	0.44	1.44	7	31.47	0.97
Harleysville Group	OTC	22.75	0.00	28.17	24.13	14.88	2	0.60	2.64	8	18.94	1.20
Hartford Steam Boiler	OTC	57.25	6.51	54.73	58.75	30.63	191	1.60	2.79	15	13.04	4.39
Kansas City Life Ins.	OTC	35.75	-0.35	4.38	41.00	29.25	4	1.04	2.91	12	39.22	0.91
Kemper Corp.	NYS	51.75	12.81	120.21	51.75	22.75	568	0.84	1.62	9	28.91	1.79

HEALTH MAINTENANCE ORGANIZATIONS	Price	Weekly % change	Year to Date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value	
				High	Low							
Lawrence Insurance Group	ASE	7.63	5.24	-4.63	11.25	6.63	3	0.28	3.67	-	3.19	2.39
Liberty Corp.	NYS	38.50	2.67	5.84	40.50	32.50	1	0.80	2.08	22	21.17	1.82
Lincoln National	NYS	56.88	4.37	31.51	57.25	42.75	154	2.48	4.36	15	39.21	1.45
NAC Re Corp.	OTC	38.25	7.75	85.10	38.75	19.50	363	0.20	0.52	17	22.81	1.68
Navigators Group	OTC	27.00	-0.92	31.71	27.75	18.25	587	0.00	0.00	-	15.22	1.77
Nobel Insurance LTD.	OTC	2.25	5.88	-51.35	6.50	1.50	158	0.37	16.44	-2	7.76	0.29
NWNL Companies	OTC	36.75	1.38	19.51	40.63	26.88	624	1.20	3.27	12	37.50	0.98
Ohio Casualty Corp.	OTC	50.75	7.98	41.96	51.25	33.25	154	2.08	4.10	8	33.30	1.52
Old Republic Int'l	OTC	29.63	6.77	30.32	30.38	22.62	223	0.74	2.50	14	26.60	1.11
Orion Capital Corp.	NYS	27.88	3.26	74.25	28.50	13.88	102	0.84	3.01	7	12.93	2.16
Phoenix RE Corp.	OTC	10.63	3.71	9.03	11.00	8.75	47	0.00	0.00	6	12.99	0.82
Protective Life Corp.	OTC	14.25	0.00	7.55	16.25	12.88	11	0.70	4.91	35	14.54	0.98
Provident Life	OTC	27.50	2.80	41.94	28.75	17.75	744	0.68	2.47	9	12.60	2.18
Re Capital Corp.	ASE	12.25	1.03	32.43	12.88	7.88	2	0.00	0.00	-	10.71	1.14
RLI Corp.	NYS	8.63	1.53	13.18	9.38	7.13	13	0.40	4.63	8	23.24	0.37
St. Paul Companies	OTC	61.50	6.96	43.02	61.75	40.50	1059	2.20	3.58	8	32.00	1.92
SAFECO Corp.	OTC	33.63	2.30	43.87	34.75	23.13	23	1.20	3.57	8	24.88	1.35
SCOR U.S. Corp.	NYS	12.50	6.38	44.93	12.50	6.88	79	0.2				



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