

Business Insurance

20th Century units downgraded as quake losses hit \$815 million

WOODLAND HILLS, Calif.—Earthquake loss estimates for two 20th Century Industries units surged another 19% last week, to \$815 million, prompting A.M. Best Co. to cut their ratings two notches to B- and putting the two insurers out of compliance with the terms of bank loans designed to cushion their surplus.

Best downgraded 20th Century Insurance Co. and 21st Century Casualty Co. after their parent announced that loss estimates had risen from the \$685 million reported on

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USAir crash should not lead to aviation rate hikes

By DOUGLAS McLEOD

PITTSBURGH—Aviation insurers are waiting to see if they will be hit with their second large loss from USAir Group Inc. since July, and the first since the airline's coverage was canceled and re-written Aug. 1.

USAir Flight 427, a Boeing 737-300 jetliner bound from Chicago to Pittsburgh, crashed last Thursday evening about six miles from Greater Pittsburgh International Airport, killing all 127 passengers and five crew members on board.

The crash is the fifth fatal accident involving a USAir jet in five years and the second this year. A USAir DC-9 jetliner crashed near Charlotte/Douglas International Airport in North Carolina on July 2, killing 37 (BI, July 11).

USAir's \$850 million liability insurance program renewed as of Feb. 1, but was canceled and re-written by mutual consent of USAir and most of the same insurers effective Aug. 1, according to a source familiar with the program.

The latest USAir loss is not expected by itself to cause problems for other airlines renewing programs in the already-battered aviation market. USAir itself, though, will probably pay higher premiums on its next renewal, aviation market sources say.

Flight 427 crashed just after 7 p.m. last Thursday near Aliquippa, Pa., as it approached the Pittsburgh airport in clear weather at an altitude of about 6,000 feet.

Witnesses offered different accounts of the crash, some saying the plane banked and rolled before nosediving into a wooded ravine.

Debris from the plane, luggage and body parts were scattered over a wide area, witnesses said.

The cause of the crash was unknown last week. A USAir spokeswoman said the plane's crew contacted Pittsburgh air traffic controllers as it approached and reported nothing unusual.

Investigators from the National Transportation Safety Board were

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Initiative threatens reforms

By JOANNE WOJCIK

DENVER—Colorado employers are campaigning against a ballot initiative that they contend would undermine the success they have had managing workers compensation medical costs under a 1991 reform law.

Colorado voters will be voting Nov. 1 on Amendment 11, which would amend the state Constitution to give injured workers the unrestricted right to choose their own health care providers. Early polls suggest the labor-backed initiative is likely to pass.

The push for the amendment is seen as a backlash to the increasing use of managed care in workers compensation in Colorado and elsewhere.

Letting workers, rather than employers or insurers, choose providers would increase system costs 10% to 16%, said Peter Strauss, director of government, industry and consumer affairs for the National Council on Compensation Insurance in Denver. The insurer-backed group did not factor the potential impact of the amendment into a 6.8% rate reduction it proposed last week for the state.

Colorado employers fight work comp change

'The Legislature is a more appropriate place for amending the work comp law.'

Lucky Gallagher



sation Insurance in Denver. The insurer-backed group did not factor the potential impact of the amendment into a 6.8% rate reduction it proposed last week for the state.

A Tillinghast study of closed claims in the state was even more ominous, projecting that the proposed amendment would boost workers comp rates by as much as 30%. The study, commissioned by

the Colorado Insurance Department, found that workers comp medical costs are 25% lower on average when employers choose the provider.

"The definition of health care provider in the initiative is very vague, opening the door to unproven and expensive treatments by unconventional providers, whether they are qualified or not," said Lucille A. "Lucky" Gallagher, vp of risk management for Greeley, Colo.-based ConAgra Red Meat Cos. and Monfort Inc. and president of the Risk & Insurance Management Society Inc.

Monfort and other Colorado employers are taking the offensive against Amendment 11.

A group of 200 companies, called the Coalition to Save Colorado Jobs, has launched a \$780,000 media assault. Preparing its television and radio ads is

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Court rejects unclear plan language

By CHRISTINE WOOLSEY

PASADENA, Calif.—Health plan contract language, even in a self-insured plan, is unenforceable if it is not "clear, plain and conspicuous," a federal appeals court has ruled.

The Aug. 31 decision by a three-judge panel of the 9th U.S. Circuit Court of Appeals highlights the consequences for self-insured employers that do not clearly explain the terms and con-

ditions of employees' health care coverage.

Attorneys also say the decision is a wake-up call to self-insured employers that believe they would be exempt from state insurance contract standards.

Applying the "reasonable expectations" doctrine, the panel upheld a lower court's ruling requiring a self-funded medical plan to pay for a new employee's stomach cancer treatment, despite a pre-existing condition exclusion

contained in its summary plan description.

In this case, a self-insured plan run by a group of car dealers—the Bob Baker Group Medical Trust—denied claims filed by the estate of Joseph Saltarelli, who died from stomach cancer shortly after becoming eligible for benefits in May 1990.

Until Jan. 5, 1990, he had been an employee of the Future Ford automobile dealership in San Diego and was covered through the

self-insured Downtown/Future Ford Health Protection Plan.

After he left Future Ford, Mr. Saltarelli began work at a Baker Group auto dealership on Jan. 8, 1990. His new employer's plan had a three-month waiting period before health care coverage began, so Mr. Saltarelli elected COBRA continuation coverage through Future Ford.

Near the end of March 1990, when Mr. Saltarelli received a

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Risk of violence a chronic problem in many hospitals

Safety of patients, staff a top priority

By SAMEERA KHAN

Hospitals, long accustomed to dealing with the tragic results of violence in society, are struggling against a rising tide of crime and violence within their own walls.

The rape last month of a 7-year-old in her bed at Wyler's Children's Hospital in Chicago and the strangulation death of an 83-year-old man in a Brooklyn hospital are the latest examples of the increasing violence that has hospital risk managers scrambling to protect patients and staff.

Many are setting up training programs to help staff deter violence and protect themselves, while beefing up security measures, especially in emergency rooms.

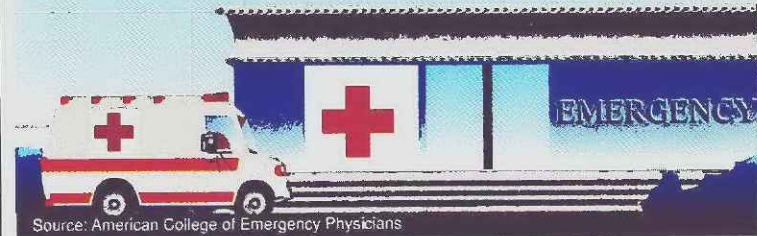
"We teach our personnel to identify the warning signs like tight clenched fists, a tense, nervous and edgy person and how to deal in a non-threatening way with such a person," said William B. Reisbeck, who supervises a risk management program for five hospitals in Oregon, Alaska and

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On the front line

A survey of 258 heads of hospital emergency departments found a high exposure to violence

Frequency of violent incidents:	Frequency of threats of violence:
2% daily	13% daily
12% weekly	27% weekly
22% monthly	23% monthly
57% rare	37% rare
7% none	1% none



Source: American College of Emergency Physicians

GRAPHIC BY MIKE GARVEY

Updates

20th Century losses rise

Continued from previous page

June 27. The parent also increased its reserves for earthquake claims by \$130 million due to higher earthquake claim costs. Paid losses and expenses total \$676 million as of Sept. 6, and total claim reserves amount to \$139 million.

Meanwhile, 20th Century Industries has asked the California Supreme Court to rethink its unanimous decision upholding a \$119 million Proposition 103 refund order (BI, Aug. 22).

Earthquake losses and that order had put the company out of compliance with a net worth covenant required to secure a \$175 million revolving line of credit from two local banks. The borrowings, which now total \$160 million, were to buttress the surplus of the two insurer units.

"Today's announcement of a 19% increase to 20th Century's earthquake losses comes as a surprise to us, given the fact that the last 14% increase on June 27 from \$600 million to \$685 million included a cushion for some further deterioration," said John H. Snyder, senior vp of Best's property/casualty division.

Many of the remaining claims have been very complicated, requiring the use of specialists and experts to adjust, explained 20th Century Industries President James O. Curley.

The California Insurance Department has requested a plan from the company that would provide a responsible level of surplus in a reasonable time period. The company is still awaiting final approval of an automobile rate increase it requested in December 1993. Hearings on the increase concluded last month.

California passes HMO reforms

SACRAMENTO, Calif.—Health maintenance organizations in California are denouncing a package of reform measures designed to protect members from abuses.

Despite HMO opposition, the Legislature late last month sent to Gov. Pete Wilson's desk three measures with bipartisan support that would require prepaid health plans to:

- Publicly disclose in their marketing materials the percentage of premiums spent on profits, administrative costs and direct medical services. S.B. 3801 also would require the state to publish an annual report comparing the financial data of all health plans.

- Standardize the process health plans use to authorize or deny medical services. S.B. 1348 also seeks to protect patients from arbitrary decisions by requiring such medical-service reviews to be done only by people with adequate medical training.

- Pay for emergency medical care for their members who go to non-network hospitals. Supporters of S.B. 1832 say HMOs sometimes refuse to pay for emergency treatment of members who go to closer, out-of-network hospitals.

Backing the bills is a broad coalition of consumer and labor groups, and health professionals, including the California Medical Assn.

The California Assn. of HMOs complains the legislation would impose costly and unneeded regulations. It contends that the financial data required by the bills is already provided to the state Department of Corporations, which regulates HMOs.

None of the bills had been signed by Gov. Wilson last week.

Duperreault new head of ACE

HAMILTON, Bermuda—Brian Duperreault, a former top American International Group Inc. executive, on Oct. 1 will succeed Walter A. Scott as chairman, president and chief executive officer of high-layer excess liability insurer ACE Ltd.

Mr. Scott, who said he wanted to reduce his role in ACE operations, will become a consultant to the company and will remain an ACE director.

Mr. Duperreault will be replaced as chairman and CEO of American International Underwriters by two individuals. Robert M. Sandler, an AIG senior vp, will become chairman of AIU, while Evan G. Greenberg, now president and chief operating officer of AIU, will be president and CEO. A new chief operating officer has not been named.

Gallagher loses in primary

TALLAHASSEE, Fla.—Florida Insurance Commissioner Tom Gallagher lost his bid to become the Republican nominee for governor.

Mr. Gallagher placed third, with 13% of the vote, in last week's primary. Jeb Bush, son of former President George Bush, won 46% of the vote. He will face Secretary of State Jim Smith, who received 18%, in a runoff primary election on Oct. 4.

The runoff winner will face incumbent Gov. Lawton Chiles in November. Mr. Chiles commanded 72% of the votes in the Democratic primary, defeating Jack Gargon, who received 28%.

In the race for insurance commissioner, Democrat Bill Nelson will face Republican Tim Ireland.

Mr. Nelson, a former congressman and space shuttle astronaut, defeated Karen Gievers, a Dade County attorney, 55% to 38%.

Mr. Ireland, a state representative from Fort Myers, received 64% of the vote to defeat R.K. "Skip" Hunter, the owner of four Pensacola-based insurance companies, who got 36% of the vote.

The Florida insurance commissioner also serves as treasurer and fire marshal and is a member of the state cabinet.

Mr. Gallagher, who made unsuccessful bids for governor in 1982 and 1986, has spent most of his professional life in various government posts since 1974, when he was elected to the Florida House of Representatives from Dade County.

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Insurer profits fall 80%, raising Superfund doubts

By MARK A. HOFMANN

NEW YORK—The earthquake that rocked Los Angeles in January continues to shake property/casualty insurers' financial results.

Insurers' first-half net income dropped nearly 80% from 1993 levels, largely due to quake losses, according to a new survey by the Insurance Services Offices Inc. and the National Assn. of Independent Insurers.

Those results are now reverberating among opponents of the

Clinton administration's controversial Superfund reform proposal. They contend the proposed Environmental Insurance Resolution Fund would add to the burdens of an industry the ISO/NAII study shows to be saddled with increased underwriting losses, lower capital gains and static investment income.

The EIRF, a centerpiece of the Clinton administration's Superfund reauthorization package, would cost insurers and reinsurers \$810 million annually for 10 years. The tax would fund a pool

from which policyholders held liable for Superfund cleanup costs could recover some of their expenses if they promised not to sue their insurers for more (BI, Aug. 22).

But, EIRF foes say it is a tax they shouldn't have to pay, particularly during a time of declining profits.

The funding for the EIRF, which won the endorsement of the House Ways and Means Committee late last month, will be considered during a hearing before the

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RIMS on the offensive

Risk managers urged to voice opposition to Superfund bill

By SARA MARLEY

NEW YORK—The Risk & Insurance Management Society Inc. is urging members to write to their senators asking them to oppose the Clinton administration's Superfund reauthorization legislation.

RIMS members in states that have a representative on the Senate Finance Committee received letters last week asking them to write to those committee members and request that Superfund reform be tabled until next year.

That committee is scheduled to hold a hearing on the measure on Wednesday.

RIMS opposes the legislation's proposed Environmental Insurance Resolution Fund, which would pay for cleanups. Financed by taxes on insurers and reinsurers, the EIRF would pay part of policyholders' cleanup costs if companies first agreed to forgo suing their insurers.

RIMS hopes delaying action on the bill will allow for time to develop a "more broadly based funding mechanism that will not

unfairly burden insurance consumers," according to the sample letter sent to risk managers.

RIMS first opposed the Clinton administration's proposed Superfund reauthorization bill in a position paper released during its annual conference (BI, April 25).

For some risk managers, though, the endorsements of the current reform bill by the National Assn. of Manufacturers and the Chemical Manufacturers Assn. will outweigh the RIMS recommendation.

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Lloyd's underwriter's 1995 plan upsets names

Syndicate going corporate

By ADRIAN LADBURY

LONDON—Lloyd's of London underwriter John Charman is pushing the envelope of corporate capital, trying to create a syndicate composed entirely of limited liability corporate capital from two major U.S. investors.

His grandiose plans to phase out his current syndicate 483, Lloyd's second-largest last year, and replace it with two syndicates—one comprising individual names and the other made up entirely of cor-

porate investors—were spelled out in an Aug. 19 letter to members agents.

Neither Mr. Charman nor officials of Charman Underwriting Agencies Ltd. would disclose the identity of the U.S. investors, which Mr. Charman describes in his letter as being of the highest quality and reputation.

A market source said the two could be Marsh & McLennan Cos. Inc. and the Harvard University pension fund. Neither would comment.

Mr. Charman's plans were disclosed by some big-ticket individual investors at Lloyd's who are organizing a pressure group called the High Premium Group to protect the rights of traditional individual members.

These members characterize the new dedicated corporate capital proposals as attempts to "hijack" the value in current Lloyd's syndicates by squeezing individual members out in favor of corporate capital.

Continued on page 4

Reinsurance intermediary directory approaches

The deadline is approaching to return questionnaires to be listed in the upcoming *Business Insurance* directory of reinsurance intermediaries.

The annual directory will be published in the Oct. 31 issue, which will include a Spotlight report on reinsurance topics.

U.S.-based and Bermuda-based reinsurance intermediaries will be included.

There is no charge to be listed in the directory;

however, companies must fill out and return a questionnaire provided by *Business Insurance*. At a minimum, organizations must provide reinsurance premium volume to be listed.

If you would like to receive a questionnaire, please request one by calling Directory Editor Kathy Welyki at 312-649-5279.

The extended deadline for returning questionnaires is Sept. 26.

Inside

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- Insurers must focus more on customer service and be more honest with customers, speakers say at the American Risk & Insurance Assn. meeting. **PAGE 9**

- M. Frank McCaffrey, former chairman and CEO of Frank B. Hall & Co. Inc. of Michigan, has died. **PAGE 16**

- Awareness of the hazards associated with electromagnetic fields is prompting U.K. insurers to emphasize that EMF damages are not covered damages. **PAGE 17**

- Lloyd's of London offers several proposals for regulating the growing runoff services industry. **PAGE 17**

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Tiffany's insured for jewelry stolen in \$1.3 million heist

By DOUGLAS McLEOD

NEW YORK—Lloyd's of London underwriters are offering a reward to recover \$1.3 million taken in a daring robbery at Tiffany & Co.

In a precisely executed heist, two armed men entered the famous Fifth Avenue jewelry store just before midnight on Sept. 4, making off with an estimated \$1.3 million in watches, necklaces, bracelets, rings and earrings. It was the biggest theft in the company's 157-year history.

According to New York City police, the two men intercepted an unarmed Tiffany security guard on the way to work and were buzzed into the store after forcing the guard to identify them as his cousins.

Once inside, they bound the guard and three other Tiffany security guards and disabled alarm systems. While one of the thieves watched over the guards, the other spent 20 minutes looting display cases on the store's main floor, police said.

The guard who was initially intercepted was then forced to accompany one of the thieves to a second-floor security room, where the robber removed videotapes from surveillance equipment recording the theft.

Given the robbers' detailed knowledge of Tiffany's security systems, police were investigating the possibility of an inside job. None of the four security guards was considered a suspect, police said last week.

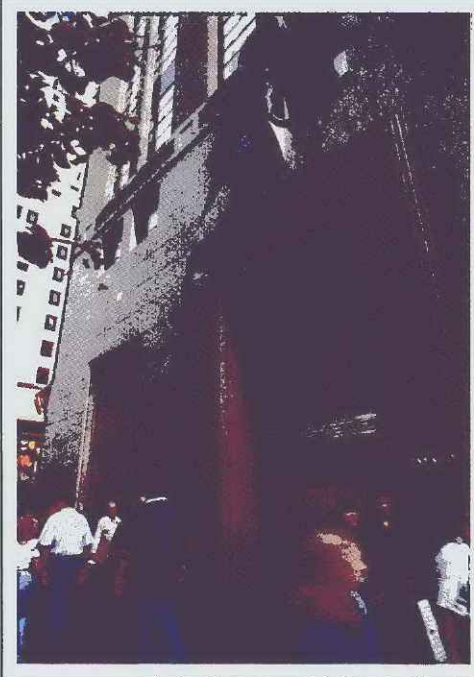
Police also questioned the thieves' knowledge of jewelry, noting that they left behind a number of items that were more valuable than those they took.

The company's policy is to leave only merchandise of "minimal value" in display cases overnight, a Tiffany spokeswoman said. The thieves did not go after more valuable jewelry locked away in the store's vaults.

Tiffany and its insurers are offering a reward of up to \$50,000 for information leading to the arrest and conviction of the robbers and recovery of the stolen merchandise, most of it easily identifiable as Tiffany's.

The store spokeswoman could not confirm the amount of the theft, but a police department spokesman put the value of the

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AP/Wide World photo

Thieves made off with \$1.25 million in jewelry from New York's Tiffany & Co.

Paper plants hit by losses

Bad luck, not industry trend, is to blame, companies say

By MICHAEL SCHACHNER

A recent string of multimillion dollar losses at pulp and paper companies does not deviate far enough from usual claims cycles to boost the industry's property insurance rates, risk managers, brokers and insurers say.

Risk managers, including those at the affected companies, attribute the recent run of paper manufacturing disasters simply to bad luck. No one should assume that a trend of multimillion dollar losses is emerging, the risk managers contend.

Each of three losses—to a Union Camp Corp. facility in Georgia last month; to an International Paper Co. facility in Spain in July; and to a Stone Container Corp. facility in Florida earlier this year—could produce tens of millions of dollars of insured property damage and business interruption expenses.

"We're in a bad streak, there's no arguing that," said Michael Alford, property insurance manager with Chicago-based Stone Container, which sustained a still-undetermined large loss from an April 13 explosion at a pulp and



GRAPHIC BY JERRY PARKS

liner board mill in Panama City.

As an industry, "we have taken our hits," said Mr. Alford.

On July 4, some of the worst forest fires in the history of Spain severely damaged an International Paper box manufacturing facility on the outskirts of Barcelona. One of its insurers, Arkwright Mutual Insurance Co., said the total cost to insurers would be more than \$30 million.

Peter Smith, IP's Memphis, Tenn.-based risk manager, said

these losses did not indicate a trend resulting from industry practices.

"It was a very large fire that has shut down the plant, but it was an act of nature not unlike an earthquake. It has nothing to do with anything."

And on Aug. 7, a roll within a paper-making machine exploded, severely damaging one of the six paper-making machines at Union Camp's Savannah, Ga., paper mill.

Property and business interruption losses from the failure will total \$15 million to \$20 million, said Joseph Racansky, manager of property insurance and loss prevention with Union Camp.

Each of the three companies has sufficient property coverage from one or more of the members of the Factory Mutual System or from Industrial Risk Insurers. They say business interruption coverage also is sufficient to cover their losses.

Union Camp is fully insured under a global policy from IRI that took effect in February, said Mr. Racansky.

The paper machine that was

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Outbreak of insurance rates unlikely from cruise ship virus

By ROBERTO CENICEROS

SAN PEDRO, Calif.—A virulent intestinal bug that struck hundreds of passengers on a Southern California cruise ship is not expected to affect the cruise line industry's insurance rates, even though it comes about a month after Legionnaires' disease infected a New York liner.

"What it may do is step up risk management checks," said Martin St. Pierre, assistant vp of Jardine Insurance Brokers Inc. in New York.

"One or two incidents like this isn't going to make a difference," he said.

Mr. St. Pierre and others observed that the number of people affected in the two recent incidents is relatively small compared with the millions who go on

cruises yearly.

Cruise lines' liabilities are usually covered by protection and indemnity clubs, or shipowners mutual insurers.

However, if the shigella bacteria that struck more than 600 passengers and crew members on the Southern California-based Viking Serenade is found to have come from water or food delivered to the ship, the company that supplied them will likely be liable, Mr. St. Pierre said.

The ship is owned by Miami-based Royal Caribbean Cruise Lines Ltd.

It was forced to return to port in San Pedro Sept. 1, one day short of completing a four-day cruise along Baja California because passengers fell ill with severe bouts of diarrhea, fever and vomiting.

Six people were hospitalized, including a 78-year-old man who died of a heart attack. The man had heart disease and diabetes.

The company promised passenger refunds. Fares ranged from \$599 to \$1,899 per person, including airfare. One other Viking Serenade cruise was canceled by the company.

Royal Caribbean officials refused to discuss insurance arrangements, as did Assuranceforeningen Gard, a Norwegian P&I club that provides coverage for Royal Caribbean.

In July, a New York cruise ship owned by Celebrity Cruises was contaminated with Legionnaires' disease bacteria, which causes acute respiratory problems (BI, July 25).

One man died and 30 others reported symptoms.

BI

BI names judges for 1995 risk manager award

Ten independent judges from all sectors of the risk management profession and the insurance business will select the 1995 *Business Insurance* Risk Manager of the Year and the Risk Management Honor Roll.

The recipients of the awards, presented annually by *Business Insurance* to recognize excellence in risk management, are selected by the 10 judges based on information provided in detailed nominations.

Candidates for the 1995 awards may be nominated now. Nomination forms are available from *Business Insurance's* Chicago office.

Nominations must be submitted by Nov. 19.

The 10 judges who will select the 1994 honorees include the 1994 Risk Manager of the Year, the members of the 1994 Risk Management Honor Roll, two in-

surance company executives, a brokerage executive, a risk management consultant and an insurance educator.

The judges for the 1995 awards are:

- Sal M. Bianchi, executive director of the Intergovernmental Risk Management Agency in Oakbrook Terrace, Ill.

Mr. Bianchi is a member of the 1994 Risk Management Honor Roll representing self-insurance pools.

- Peter S. Christie, chairman and chief executive officer of Minnet Group P.L.C. in London. Mr. Christie is serving on the panel for a second year, representing a global broker.

- George B. Flanigan, Insurance Industry Professor in the Katie Insurance School at Illinois State University in Normal. Mr. Flanigan is serving as a judge for the

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Mr. Bianchi



Mr. Christie



Mr. Flanigan



Ms. Gallagher



Mr. Guilloile



Mr. Hickey



Mr. Johnson



Ms. Moses McDonald



Mr. Mulderig



Mr. Spivey

Charman

Continued from page 2

The debate over who controls and owns a syndicate—the managing agent or the names who provide the capital to underwrite—has been brewing for some time (*BI*, Aug. 29). Ultimately, the Council of Lloyd's will have to settle the debate and its decision could determine the future shape of the market.

The High Premium Group, the founders of which include leading members agents, hopes to recruit members with underwriting capacity of at least 1 million pounds (\$1.5 million) and believes it ultimately could marshal up to 20% of the market's capacity to defend individual members' rights.

The group's founders focused their opening shots on Mr. Charman. Although most of the leading

managing agents plan to launch some form of dedicated corporate capital vehicle for 1995, Mr. Charman's agency appears to be farthest down the road.

As outlined in Mr. Charman's Aug. 19 letter, the agency plans to change itself into what would effectively be an insurance company at Lloyd's by replacing its individual capital with new U.S. corporate money over time.

Mr. Charman first generated controversy in May when he wrote to all members agents who supplied his syndicate with capital in 1994, and formally terminated their participations for 1995.

Neither Mr. Charman nor members of his staff would comment on the plans.

But the Aug. 19 letter revealed much of his plan. In inviting all members to rejoin his syndicate for 1995, he stated that the syndicate will be scaled down from a current

stamp capacity of 264 million pounds (\$406.6 million) to 150 million pounds (\$231 million), and each member will receive proportionally less capacity. The syndicate will be renamed 488(a).

Then a new syndicate named 488(b) will be created with 75 million pounds (\$115.5 million) of capital provided equally by two major U.S. investors "the highest quality and reputation."

Under Lloyd's rules the new syndicate would have stamp capacity of 150 million pounds (\$231 million), or twice the amount of capital contributed.

Mr. Charman told members agents that he will then launch a U.K.-registered holding company called HoldCo to hold all the share capital of the new syndicate as well as the share capital of Charman Group Ltd., the agency's current holding company.

Charman Underwriting Agencies

will manage both 488(a) and 488(b) and accept risks for both, on a pro rata basis, as if it were one syndicate with 300 million pounds (\$462 million) of underwriting capacity.

"It is intended that any new capacity required for the syndicate in 1996 and subsequent years will be offered pro rata to ongoing members of both syndicates 488(a) and 488(b). Any shortfall in take up (by individual names) will be taken up by syndicate 488(b)," Mr. Charman stated, signalling his intent to gradually develop 488(b) and diminish 488(a) as members resign or die.

Eventually, Mr. Charman wrote, Charman Group shareholders and the U.S. backers intend to list HoldCo in London and possible on a U.S. exchange "as soon as HoldCo's record and market conditions make that desirable."

"It is anticipated that syndicate 488(a) will cease underwriting for

the year following the flotation and, if that happens, syndicate 488(b) will provide reinsurance to close for syndicate 488(a) on fair and reasonable terms," wrote Mr. Charman.

The High Premium Group says Mr. Charman has acted "exceedingly arrogantly." It believes his plan will not win much support at Lloyd's and could stumble before it leaves the starting blocks.

A spokesman for Lloyd's said that the Council will consider the plan as it would any other but could not say whether it contravenes any laws.

Mr. Charman seems not to doubt that his plan would be approved. In his letter he quotes Lloyd's Chairman David Rowland from his introduction to the Value Group report (*BI*, May 9). Mr. Rowland wrote that Lloyd's big challenge was "strengthening the capital base of the society by making it more attractive for existing members to continue to trade and for new sources of capital to participate in the market."

Mr. Charman wrote that his plan "maintains our philosophy of equity between all capital providers. We will have the security of a stronger capital base to provide a reinsurance to close in the future. The issue of pre-emption rights, tradeability and value are recognized and clearly addressed." **BI**

BI making staff changes in Chicago

Business Insurance announces two editorial staff changes in the Chicago office.

Kerry Dziubek, 25, has been promoted to assistant copy editor. She joined *BI* in 1992 as an editorial assistant and was promoted to associate directory editor in January.

Ms. Dziubek received a bachelor of arts degree in communication and rhetorical studies and Spanish from Marquette University in Milwaukee. In addition, she currently is pursuing a law degree at Loyola University Law School in Chicago.

She can be reached at 312-280-3195.

Richard Trout has joined *BI* as assistant directory editor.

Mr. Trout, 25, has worked for Crain Communications Inc., the publisher of *BI*, on a part-time basis since October 1993. He has worked as a research assistant for sister publication *Advertising Age*, as a photo librarian for the company's information center, and helped maintain data bases for two other publications.

Mr. Trout received a master of arts degree in professional writing from Illinois State University. He holds a bachelor of arts degree in English from Knox College in Galesburg, Ill.

He can be reached at 312-649-5483. **BI**

YOUR LEAD PAINT PROBLEM WILL NEVER BE COVERED,
UNLESS YOU COVER THE RISK.

Most pre-1978 residential buildings contain lead-based paint, which can be a serious health threat to tenants, and a liability threat to owners. And while regular painting is smart maintenance, it doesn't eliminate the possibility of a lawsuit. Fortunately, The Home Insurance Companies offer

lead-based paint liability insurance. The only policy of its kind. While other insurance companies specifically exclude this risk, The Home's underwriters, together with environmental specialists, have pioneered this innovative policy. Call for more information: 1-800-705-LEAD. **WE SEE RISK BEFORE RISK SEES YOU.**



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Ms. Dziubek



Mr. Trout

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prosecute fraud wherever they find it. Not just because fraud

Most Companies Try To Avoid Fraud.

costs the insurance industry billions every year.

But because Workers Compensation fraud adds

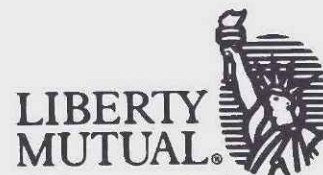
to the already high cost of doing business for all

We Look For It.

industries. Including yours.

So fraud actually costs more than money. It can cost jobs. If you're interested in flexible,

cost-effective ways to stop it in its tracks, talk to Liberty Mutual.



FACING
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FACE OUR
CUSTOMERS™

AmEx offers new managed network option

PHOENIX—American Express Travel Related Services Co. Inc. is banking that it can convince its more than 7,000 employees in the Phoenix area to join a new managed care network based on the network's reputation for quality.

American Express and the Scottsdale, Ariz., arm of the Mayo Clinic are forming a partnership to offer a new health benefits option to American Express employees and dependents beginning Jan. 1, 1995. The Mayo Healthcare Network will consist of 450 physicians, at least 10 hospitals and a wide range of ancillary health care providers.

The network will offer managed medical benefits, including preventive care, but providers will initially be paid on a fee-for-service basis.

While the structure may resemble

Benefit Beat

a point-of-service plan, employees and dependents will not be given the option to seek care from non-network providers, said Michael McGinn, a senior vp for the Segal Co. in Atlanta, which helped American Express forge the deal.

Eventually, the providers serving the network will be paid on a capitated basis like a health maintenance organization, he explained.

American Express currently offers employees an indemnity plan option as well as HMO coverage provided by CIGNA HealthCare Inc. and Aetna Health Plans. The Mayo Healthcare Network will become a fourth option, with benefit levels

identical to those offered through the CIGNA and Aetna HMOs.

American Express will probably phase out its indemnity plan in the Phoenix region altogether once the new network is up and running, Mr. McGinn said. "American Express' long-term goal is to have well-managed, high-quality health care. Having three HMOs competing for more than 7,000 employees is an ideal laboratory to see which (HMO) can deliver the best and most efficient care," he said.

American Express was able to negotiate a risk-sharing arrangement with the Mayo network, Mr. McGinn added. The employer set a target level for 1995 claims costs and if the Mayo network exceeds those costs, it will forfeit its administrative fee. Program administration is to be pro-

vided by Mayo Management Systems Inc. Employees' contributions for the new network will be slightly higher than contributions for the existing HMOs, he noted. American Express declined to disclose the contribution levels. At a health fair in late August, employees with Aetna and CIGNA HMO coverage showed a lot of interest in joining the Mayo network, despite its higher price tag, Mr. McGinn said.

—By Christine Woolsey

DuPont referral service

WILMINGTON, Del.—As Old Man Winter approaches, employees of E.I. du Pont de Nemours & Co. will not have to worry about last minute child-care arrangements if area schools close due to inclement

weather.

Instead, the diversified chemical manufacturer is spending \$80,000 to fund "Just In Time Care," a child care and elder care program that will be made available starting in January for DuPont employees in Delaware, New Jersey, Pennsylvania and Maryland.

In conjunction with Child Care Connection, a family resource and referral agency for working parents, approximately 18,000 DuPont employees will be able to call a toll-free hotline from 5 a.m. until 10 p.m. and receive access to child-care facilities and in-home companion services, depending on the level of need.

For example, some employees may need a back-up child care center if their regular facility is temporarily shut down while others may need someone to care for an elderly parent if their regular nurse is unable to provide services, a DuPont spokeswoman explained.

DuPont will subsidize at least half of the program's cost for employees who use the service.

The rugged winter of 1994 underscored the need for such last-minute alternatives, the spokeswoman said.

During the height of last winter, one company facility had a 40% absenteeism rate, "which is unheard of" for DuPont, she said. While the company cannot pinpoint the exact cause for all employees not coming to work, surveys suggested the need for an emergency-need care program, she said.

In addition to DuPont employees, "Just In Time Care" will be made available to any local businesses or individuals that register with the program, the spokeswoman said.

—By Sally Roberts

ALCOA benefit system

PITTSBURGH—Starting in 1995, employees of the Aluminum Co. of America will be able to access information pertaining to their pension, insurance and medical benefits from automated voice-response and interactive systems.

Pittsburgh-based Alcoa currently is in the process of outsourcing all defined benefit plan administration functions for its \$3.2 billion plan to Buck Consultants, said Bill Cooper, administrator of qualified plans for the aluminum producer.

According to Mr. Cooper, a toll-free number maintained by Buck will give employees full information about their vested retirement benefits under the defined benefit plan, as well as information about medical benefits and basic life insurance information.

The information line will organize account information around life events, such as such marriage, death of a spouse, divorce or retirement. This will enable employees to call the toll-free line and get relevant benefit information pertaining to that particular stage of life.

"It will eventually be like one-stop shopping. From the start of their employment at Alcoa until the end, they will be better and more easily informed about their respective benefits," Mr. Cooper said.

Alcoa already provides telephone-based 401(k) plan account information to its more than 63,000 employees through Hewitt Associates L.L.C. in Lincolnshire, Ill.

Eventually, the company hopes to interface the Buck system with the existing Hewitt system and provide all benefit information through a single number that routes callers to the appropriate consultant depending on the information they need, Mr. Cooper said.

—By Sameera Khan

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Comprehensive Occupational And Clinical Health

Judith Moses McDonald named vp at Comerica

Judith Moses McDonald has been promoted to vp of banking company Comerica Inc. of Detroit.

Ms. McDonald, who was named to the 1994 *Business Insurance* Risk Management Honor Roll representing financial institutions, was previously assistant vp.

Ms. McDonald, 54, joined Manufacturers National Corp. in 1988 and was named assistant vp when the bank merged with Comerica in 1992. She is a board member of the Financial Institutions Reserve Risk Retention Group Inc., a Vermont group captive.

She holds a bachelor's degree in business administration and a master's in business administration from Wayne State University in Detroit. She has also earned the Associate of Risk Management designation. She is a deputy member of the Risk & Insurance Management Society Inc. and served as president of the Detroit chapter in 1991-1992.

* * *

Patricia "Teesha" Hernandez has been named manager-corporate insurance for Emerson Electric Co., a St. Louis-based manufacturer of electric motors and components.

Ms. Hernandez, 35, handles Emerson's U.S. casualty risk management program and the entire property/casualty program for the company's Far Eastern and Mexican operations. She reports to Paul E. Morrison, director of risk management.

Previously, she was an assistant vp for Marsh & McLennan Cos. Inc. in Kansas City, Mo., where she was responsible for major accounts and technical risk management services.

Ms. Hernandez holds a bachelor's degree in quantitative methodology and managerial accounting from Fordham University in New York, and a master's of business administration in risk and insurance from the University of Wisconsin in Madison.

She also holds the Associate in Risk Management designation and is nearing completion of her Chartered Property & Casualty Underwriter designation. Ms. Hernandez is a deputy member of RIMS.

* * *

Diversified manufacturing concern Figgie International Inc. of Willoughby, Ohio, has announced two changes in its human resources department: **Keith V. Mabee** has been promoted to vp-corporate relations from vp-public and government affairs; and **William J. Sickman** has been promoted to director of human resources and administration from manager of manpower development.

Mr. Mabee, 46, will assume senior executive responsibility for human resources and administration in addition to his current corporate communications, government affairs and investor relations responsibilities. He will continue to report to Walter M. Vannoy, Figgie chairman and chief executive officer.

Mr. Mabee replaces **Jerry L. Leath**, 53, vp-human resources and administration, who is leaving to join St. Louis-based Saberliner Corp. as executive vp and chief operating officer.

He joined Figgie International in 1993, having previously served as vp-communications at Industrial Indemnity Co., a San Francisco-based unit of Talegen Holdings Inc., formerly Crum & Forster Inc.

Mr. Mabee holds a bachelor's degree in journalism from Bowling

Green State University in Bowling Green, Ohio, a master's in sociology from Wayne State University in Detroit and a master's in business administration from Pepperdine University in Malibu, Calif.

Mr. Sickman, 42, will assume day-to-day responsibility for human resources, employee benefits and administration functions. He will report to Mr. Mabee.

He joined Figgie International in 1988 as manager of employee relations and was named manager of manpower development in 1992. He previously served as manager-employee relations with the Bendix Heavy Vehicle System division

of Allied Signal Inc. in Charlotte, N.C.

Mr. Sickman, a graduate of the General Motors Institute in Flint, Mich., with a bachelor's degree in industrial administration, also previously served with General Motors Corp. He also holds a master's of business administration from Cleveland State University.

* * *

Benjamin C. Boylston has retired as vp-human resources for Bethlehem Steel Corp. in Bethlehem, Pa. No replacement has yet been named.

Mr. Boylston, 62, ends a nearly 40-year career with the steel com-



Mr. Boylston

pany, which he joined in 1955 as part of a management training program. He was named manager of personnel in 1966, elected assistant vp for industrial relations in 1974 and elected vp-human resources in 1986. Mr. Boylston has served in various capacities for the American Iron & Steel Institute, including chairman of the employee relations committee, chairman of the health care committee and board member of the ERISA industry committee.

He is also a founding member of

the National Leadership Council for Health Care. He is a board member of Capital Blue Cross and a corporate member of Pennsylvania Blue Shield, where he is on the medical affairs committee.

Mr. Boylston holds a bachelor of arts degree from Duke University in Durham, N.C., and a master's in industrial relations from the University of Chicago.

We would like to report on staff changes in your organization's risk management, safety and employee benefit departments. Just drop a note detailing staff changes at your company to Sara Marley, Associate Editor, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590, or call 312-649-5313. Photographs are welcomed.

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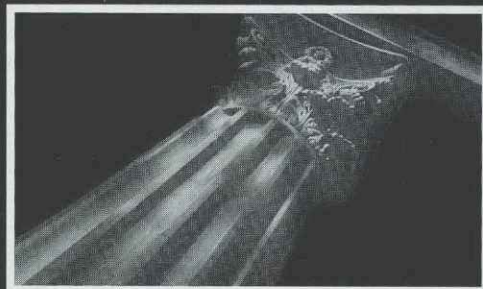
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Opinions

When risk management fails

TWO RECENT jury awards serve as chilling reminders of the unpredictability of juries and the importance of effective risk management.

In one case, McDonald's Corp. was ordered to pay \$2.9 million—including \$2.7 million in punitive damages—to a woman who suffered third-degree burns after spilling a hot cup of coffee held in her lap.

The other involves a \$7 million jury award—of which \$6.9 million was punitive—against the law firm Baker & McKenzie for failing to adequately investigate and act on complaints that a male lawyer was harassing female coworkers.

Regardless of whether one agrees with the juries or the scale of these awards, the cases serve to illustrate how companies could do more to minimize liability.

While McDonald's obviously could serve its coffee at lower temperatures to minimize the risk of injury, that is not the real issue. Risk management is.

Although the jury's award may seem ludicrous on the surface, McDonald's has been hit with similar injury claims in the past and, in fact, has lost two hot coffee cases brought by the same attorney who brought the most recent suit.

Juries are notoriously unpredictable, but we believe McDonald's should have seen the writing on the wall and considered settling rather than putting its assets on the litigation roulette wheel. In this case, that seems to us an appropriate risk management step.

In Baker & McKenzie's case, the failure of risk management was also an issue.

Six women testified that they had complained to firm management after being harassed by the same partner beginning in 1987—four years before the legal secretary that ultimately sued was harassed.

Although Baker & McKenzie said it investigated each complaint, it obviously failed to prevent the harassment from continuing over several years.

The law firm's handling of the problem appears to



be a case of too little risk management, too late. After the woman complained, she was transferred. Yet not until she sued was the partner in question sent to two sessions of counseling.

Baker & McKenzie lawyers counsel corporate clients on how to avoid sex discrimination lawsuits and in this case the world's largest law firm should have heeded its own advice. It should have acted more promptly and decisively after receiving the complaints.

Indeed, the jury's finding sends a strong signal to all employers that they will be held accountable for not eliminating sexual harassment in the work place.

With more attention paid to risk management, problems like these could be dealt with before an organization's customers or employees are hurt—and well before juries are involved.

Letters

Don't mourn death of Clinton health reforms

To the editor: Your Sept. 5 article, "Death knell for Clinton's dream," appeared to mourn the death when, in fact, the death of Clinton's dream was the best thing for America, assuming Congress doesn't rush some half-baked plan through at the last moment.

The United States can no longer afford big mistakes. We have a large debt and a world economy that requires that America remain competitive if we are to maintain our standard of living. And, most observers now agree that Clinton's health care reform plan would have been a big mistake and a nightmare for which our children would have paid dearly.

I admit that Clinton (or the fear of Clinton's plan) did help get the states, large employers and the health care industry working at improving a system that needed improving. So, now let's use one of the advantages of our economic system; that is, let's evaluate the different plans and ideas that have been put into action before we commit to a single and potentially very costly federal plan.

Lastly, it is wrong to imply that this health care battle was one that pitted the rich vs. the poor. A vibrant economy benefits all of us and this dead plan would have hurt our economy, leaving us with fewer resources to help those in need.

Walter R. Curtner
President
Curtner Risk Management Inc.
Denver

To the editor: Wake up health care industry! Wake up!

You have just dodged a bullet in the postponement of a major overhaul of the health care system. But the attack will still come.

While nobody wants the scope of the changes that are being proposed, we are going to get them unless the health care industry acts; if not this year, then the next.

Policyholders resent CEO pay

To the editor: An article in the Aug. 29 issue, "Improved 1993 Results Boost CEO Pay," reported that half of all leading commercial insurers' chief executive officers are on the Forbes list of the highest-paid CEOs in America.

My clients equate high-paid CEOs with profit and "fat" in the company. This is one of the reasons why your editorial in the July 18 issue, "Getting Past Annual Renewals," about Chubb Corp.'s proposal for long-term policies without

But there is hope for the industry. To defuse all the weapons of the overhaul advocates, the insurance industry must provide solutions for the legitimate concerns that are voiced by the public. The health insurance industry should show the leadership in providing products that:

- Cover pre-existing conditions.
- Ensure transportability of coverage. (How about extending COBRA?)
- Create a common policy form for health insurance, similar to homeowners forms.

Good luck, health care industry! Provide these products and the momentum of the advocates of suicidal change will be disarmed. If you fail, even with all the expertise and talent at your disposal, the government won't fail.

James H. Whittinghill
Whittinghill Associates
Peoria, Ill.

the aggravation of annual renewal negotiations falls on deaf ears.

Policyholders don't want the fat to come out of their hide.

Incidentally, Chubb's CEO was seventh on the Forbes list of the highest-paid.

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Time to adopt service mentality

Regulators, insurers aim for honesty to meet customer needs

By SAMEERA KHAN

TORONTO—To survive and prosper in the future, insurance companies will have to focus more on customer service and be more honest with their customers.

That was the consensus at a panel discussion that included state regulators, academics and insurance company executives during the recent American Risk & Insurance Assn. annual meeting in Toronto.

Solvency concerns dominated the first half of this decade, but insurers' market conduct will be the focus of the second half, predicted David J. Walsh, president of the National Assn. of Insurance Commissioners.

As a first step, insurance companies need to evaluate their own practices, added Mr. Walsh, who also is Alaska's insurance commissioner.

Several NAIC committees are expected later this year to develop guidelines for information that life insurers should provide to their customers, he said.

Problems earlier this year at Metropolitan Life Insurance Co. highlighted the concerns over insurers' dealings with customers.

Computer technology benefits buyers

By SAMEERA KHAN

TORONTO—Advances in imaging technology and recent evolutions of Internet capabilities could make the insurance industry more efficient and more responsive to policyholders.

That was the prediction of an insurance company executive and a finance professor during a session on new technology at the recent American Risk & Insurance Assn. annual meeting in Toronto.

Imaging refers to electronically scanning information now stored in bulky paper files and storing it on small optical disks.

It has a bright future in many aspects of the insurance industry, particularly for claims handling, explained Ken Graham, executive director of image applications at United Services Automobile Assn.

The San Antonio-based insurer has used imaging technology in its policy service area since 1987 and will soon implement it in its claims section as well, he said.

One-fourth of all transactions in USAA's policy service area use imaging technology. All outgoing policies are stored on disk, and incoming mail and documents are also scanned into the system.

"Eventually, not a scrap of paper is left hanging around," Mr. Graham said.

Continued on next page

The New York-based insurer projects that it will end up paying from \$40 million to \$50 million to settle suits by policyholders who allege they were misled by some MetLife agents into buying certain policies as retirement investments (BI, July 25).

While state insurance departments routinely run market conduct exams to monitor regulatory compliance by insurers, most states currently follow different exam schedules. Regulators are trying to better coordinate market conduct exams to make "more efficient use of regulatory dollars," Mr. Walsh said.

Misrepresentation of life insurance products has been going on

for many years, said Joseph Belth, professor emeritus of insurance at Indiana University in Bloomington.

The way to stop deception in life insurance sales is to urge greater voluntary disclosure by companies, not in paternalistic regulation, he said.

Not only should life insurers disclose to regulators how policy values are determined, but they should also make available their annual reports to their policyholders and be required to provide a prospectus at the point of sale, Mr. Belth said.

Regulators need to put in place standardized methods for disclosure of key information to insurance consumers, he recommended.

Michael McLaughlin, senior vp and deputy general counsel at New York Life Insurance Co., suggested the possibility of a self-regulating organization supported by the life insurance industry to supplement state insurance regulation.

Eventually, those in the business of insurance will have to develop more of a service mentality and less of a sales mentality, said Kevin T. Sullivan, vp and assistant general counsel at Allstate Insurance Co. "The insurance industry needs to serve the public well by adding value—by helping the public to understand the risks they face and manage them."

While there is a need to concentrate resources on weeding out the bad players in the field, Mr. Sullivan said the marketplace itself is a

significant regulator of so-called bad actors.

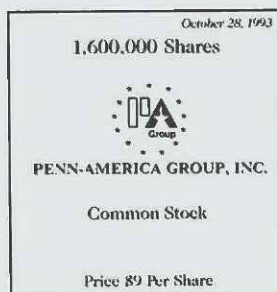
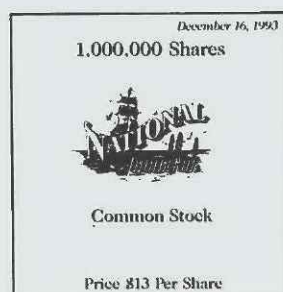
"This (weeding out) is possible if the customer has adequate information. So it is really important to increase consumer understanding and awareness of the business and of the marketplace," he said, adding this is a job for the industry, regulators and insurance educators to jointly perform.

But, insurers will have a hard time developing a service orientation because there is no single place for them to start to make enough improvements, Mr. Sullivan added.

Entire organizations will have to be redesigned to consider the customer needs before the company needs, he said. "It just has to become the way a company approaches its business—it's in a business to serve customers and has to do it in a way that customers perceive adds value." BI

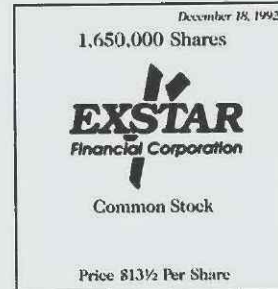
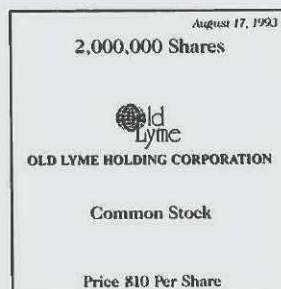
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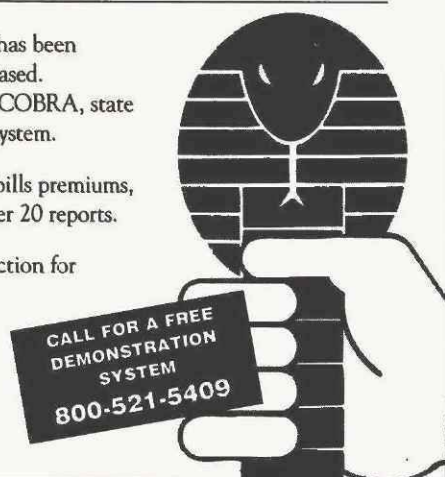
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High-tech

Continued from previous page

Customers so far are benefiting the most from imaging technology, according to Mr. Graham.

Call back times to customers are virtually nil, he said, because any service representative can look up a policy document in minutes to answer a customer's query.

USAA is in the process of acquiring voice storage and recall facilities as an add-on feature to the image scanning. "This will particularly be of use in the claims section to record depositions or statements," Mr. Graham said.

Another area where insurance and technology may intersect in coming years is on the Internet—the international computer communications network that has long been used by educational and research organizations.

Over the next five years, more business and financial transactions will be handled over the Internet, said James Garven, associate professor of insurance and finance at the University of Texas at Austin.

Taking ARIA members on a guided tour through one corner of the Internet, Mr. Garven explained that using the Internet for commercial applications is still a fairly recent phenomenon.

Banks, insurers and other financial services firms have relied mainly on proprietary networks for electronic communication.

Open networks like the Internet have only recently found business' favor, Mr. Garven said.

In fact, Fortune magazine recently found that 75% of the new registered networks on the Internet in 1993 were commercial, Mr. Garven said.

While banks are looking at increasingly using the Internet to link up with customers, insurers seem more hesitant to use it. Mr. Garven attributes insurers' hesitancy to the fear of data security, he said.

Encryption technology could soon dispel those concerns. When encryption technology is used, data being transferred between different networks is encoded before sending. The receiving party has the key to decipher the coding.

"Once we get that encryption technology down, the commercial usage of Internet will literally explode," Mr. Garven said.

Insurers could use the network to collect underwriting data or even to sell policies, he said. All this could be done very cheaply for the price of a workstation and a telephone line.

All information currently circulated on paper, such as claims settlement procedures, could be distributed via Internet.

"In fact, risk managers could create a marketplace on the Internet by putting up various risks for bids. One could do reinsurance deals electronically and have a Lloyd's market where you could place risks electronically," Mr. Garven said.

Meanwhile, risk managers can participate in RISKNet—an electronic bulletin board covering risk and insurance issues.

Subscription requests can be sent via electronic mail on the Internet to listproc@mcfeeley.cc.utexas.edu. Requests should include this message: "subscribe risknet (your name)." **BI**

Safety-Kleen settles probe of waste site

ELGIN, Ill.—Safety-Kleen Corp. has reserves to cover the \$1.9 million it agreed to pay to end a three-year-old investigation by state and federal officials into the handling of used oil at a Buffalo, N.Y., site.

The recycler of automotive and industrial fluids wrongly doing and said it was settling to avoid costly litigation. Investigators were looking into whether the company had properly inspected for hazardous wastes during the recycling. No charges had been filed.

In the settlement with the state of New York and the U.S. Attorney's Office for the Western District of New York in Buffalo, Safety-Kleen agreed to buy the Buffalo site from Booth Oil Co. for \$2.4 million and install new management at the site, which a Safety-Kleen unit used.

Safety-Kleen does not expect the settlement to affect earnings.

—By Rodd Zolkos

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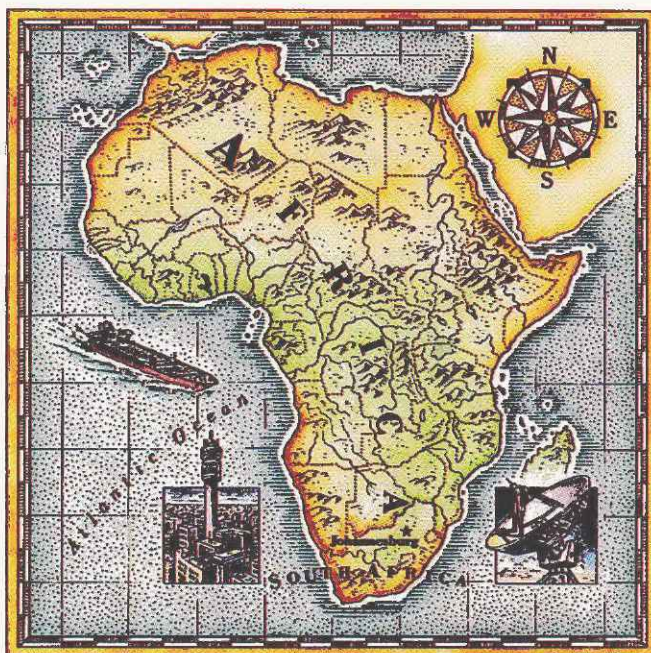
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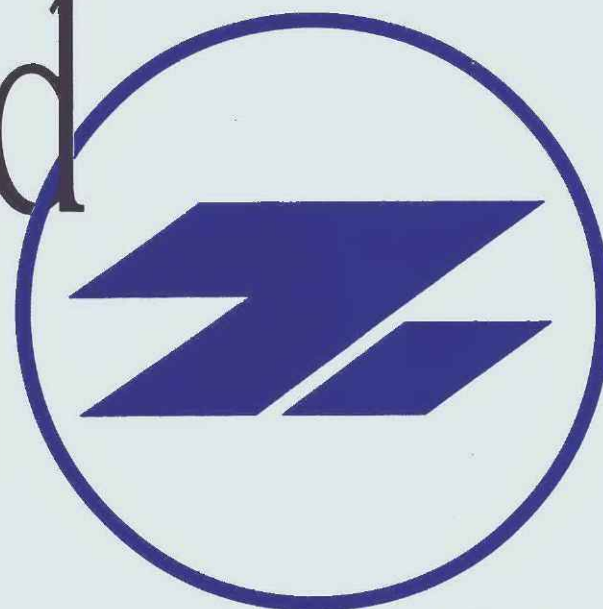
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Hospitals

Continued from page 1
Washington state.

Failing that, though, a six-member restraint team, code-named "Mr. Strong," is trained to immobilize any violent patient or visitor, said Mr. Reisbick, who is director of risk management for Health & Hospital Services in Bellevue, Wash.

And where hospitals have not taken such action on their own, some state legislatures are making the decision for them.

For example, in California, where a former patient fatally shot three doctors early last year, a new law requires hospitals to provide training and education in security measures to employees, especially those assigned to the emergency room. The law also requires all general acute care, acute psychiatric and special hospitals to conduct a security and safety assessment and develop a security plan by July 1995.

The Chicago-based Joint Commission on Accreditation of Healthcare Organizations, a non-profit industry organization, is also asking hospitals around the country to conduct similar risk assessments of their medical facilities and file a plan outlining specific security measures as a condition of accreditation.

Although hospitals and health care facilities have long been required to submit such proposals, the commission, which is the industry's main accreditation agency, in 1993 "broke this out as a separate standard in response to the increased violence we saw in hospital emergency rooms," said JCAHO Associate Director Glenn Krasker.

"We feel this will give greater visibility to the issue and make our staff especially look out for the security aspects when we inspect a hospital," which the commission does once every three years, he said.

The JCAHO accreditation plan requires hospitals to identify areas of potential risk and demonstrate that they have put into place systems to make them safe, Mr. Krasker said.

The challenge of that task is enormous.

"Hospitals are particularly vulnerable to violence because they are open 24 hours a day and have drugs and drug paraphernalia like syringes easily available on their premises," noted Allan D. Morphet, risk management liability analyst at Los Angeles-based Farmers Insurance Group.

Mr. Morphet, who is currently conducting a series of hospital security seminars for California hospitals, said violence has become an immensely significant issue to hospital risk managers, who are responsible for protecting hospitals from such liability.

"The problem for risk managers is how aggressive do you become? After all, you have to be secure but also accessible to the community you operate in," said Pamela J. Roberts, director-risk prevention services at the New Jersey State Underwriters Inc., a professional liability insurance program run by the New Jersey Medical Society in Lawrenceville, N.J.

"Should you have metal detectors in the emergency room or just have a set of policies and procedures and invest in training? Eventually, each risk manager of a hospital has to make an independent evaluation of the situation," said Ms. Roberts, who is also the current president of the Chicago-based American Society

for Healthcare Risk Management.

As hospital risk managers confront the issue head-on, a survey reported in the June 1992 issue of *Topics in Emergency Medicine*, an industry quarterly, highlights the magnitude of the problem. Forty-three percent of responding hospitals reported at least one physical attack per month on a medical staff member. Seven percent said a violent incident in the emergency department had resulted in death.

In a survey of emergency room physicians conducted in 1993 by the Washington-based American College of Emergency Physicians, 37% of those polled reported an increase in violence in emergency rooms in the last two years.

In fact, the preamble to California's new hospital safety bill quotes a 1991 national survey of emergency room nurses. Two-thirds of the nurses reported at

least one assault during their careers, and over a third had been assaulted at least once during the previous year, the survey found.

In addition, health care providers have a tendency to underreport incidents of violence, according to Sylvia M. Brown, senior vp of the PLCM Group, a risk management consulting firm in Universal City, Calif.

"Risk managers are continuously needing to balance the public image of the hospital as a safe haven against safety and security issues, and have all that balanced against cost containment issues," she said.

Dr. Gervase Flick, a former emergency room physician in Tacoma, Wash., said most hospitals ignore the problem, estimating that only 20% of hospitals are doing something about increased violence.

Dr. Flick, who once had a pa-

tient point a gun at him in the emergency room, said there is no financial incentive right now for hospitals to beef up security. "But they will really get conscious of this when they begin to pay out huge sums in liability and it comes up as a workers compensation issue," he said.

All hospitals have some kind of general liability coverage besides a professional liability insurance package that also covers medical malpractice, explained John Lahey, managing executive at the Orlando, Fla., offices of Sedgwick Inc.

But many hospital risk managers are doing more to minimize their exposure than buy insurance coverage.

The ACEP survey found that hospital emergency rooms in 1993 adopted various security measures to minimize the risk of violence in their midst: 52% of the

responding facilities used panic buttons that alert local security personnel or police, 34% used closed-circuit television, and 31% maintained security staff 24 hours a day.

Training staff to deal with violent situations is a major area of attention.

Although hospital security staff in the past usually consisted of retired police officers, hospitals today are insisting on younger, more highly trained security personnel, Mr. Lahey said. And, other hospital personnel are now being prepared to deal with various situations.

For example, some Florida hospitals have organized patrol teams on different floors to watch for suspicious-looking loiterers and report them to a central security department, he said.

Pamela C. DeMarco, director of

Continued on next page



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Continued from previous page
risk management at Parkview Community Hospital in Riverside, Calif., recently attended a security seminar organized by Farmers Insurance Group.

"We want to regularly conduct such courses at our hospital to train our staff on how to cope with confrontational situations—like how to calm people in violent scenes, how to be aware of the assault cycle of a person and defuse that cycle and to understand the reasons why a person could attack," she said.

Popular perceptions notwithstanding, violence is not limited to big inner-city hospitals. A mobile society has made it easier for violence to move into suburban and small-town America.

The emergency room at Wake Medical Center in Raleigh, N.C., has had a walk-through metal detector for the past two years, said

Risk Manager Jeannie Sedwick. Security officers at the hospital, which serves as a county hospital and trauma center, use pepper spray to temporarily disarm violent people, limit access to the center after midnight and patrol the grounds in vans and on bicycles.

As gang presence in the small Chicago suburb of Barrington, Ill., increases, Dennis Walters, director of public safety at the Good Shepherd Hospital there, is starting to conduct seminars for hospital staff on how to identify and deal with gang members. For one of these sessions, two of his officers dressed up in gang clothing, jewelry and painted-on tattoos.

Good Shepherd Hospital also held a self-defense workshop recently for its female staff members and has organized a campaign against violence in its community.

The best deterrent to violent incidents is to have a large number of security officers, says Ben Poole.

At St. Mary's Hospital in Milwaukee, a training seminar on defusing violent behavior was held this spring for emergency room and psychiatry unit staff after they expressed some concerns on the matter, said Lynn Schuster, the hospital's director of risk management.

At Health & Hospital Services, Mr. Reisbick has developed a pre-emptive security training/education program.

Initially, the program was just a two-day seminar for emergency

room personnel and later it was expanded to include staff from the obstetrics department.

At the obstetrics department seminar, infant security issues were discussed and, as a follow-up, alarms were installed in all back rooms and unused exits were closed.

Ben Poole, assistant director of safety and security at Munroe Regional Medical Center in Ocala, Fla., believes the best deterrent to violent incidents is to have a large number of security officers placed around the hospital, making them visible to all, and having closed-circuit cameras in many places.

While hospitals all over the country are alert to violence, the large urban hospitals do face the biggest challenges. For them, staff training is just the starting point. Investment in high-security equipment is often their answer to violence.

Hospitals such as the Los Angeles County/Harbor-UCLA Medical Center in Torrance, Calif., which treats 100,000 patients in its emergency room every year, have seen violence increase.

Dr. Robert Hockberger, chairman of the hospital's department of emergency medicine, says the violence is of three types: that exhibited by psychiatric patients; that of people who get tense, irritable and abusive when they wait for long hours to get medical attention; and that from gang members.

Every month or so, the medical center witnesses an incident in which a shot or stabbed gang member is pursued into the emergency room by a member of a rival gang, who is bent on finishing him off, he said.

As a result, the hospital has beefed up its security staff, making their presence more visible. The hospital has also installed a lock-in entrance that allows screening of people entering the hospital and a walk-through metal detector to the emergency room.

Closed-circuit cameras monitor entrances not guarded directly, barbed wire tops the walls surrounding the hospital and brighter lighting illuminates the parking lots.

Before the metal detector was installed six months ago at the entrance to the emergency room, the nurses at the triage desk sat in a bullet-proof glass "fish bowl," where emergency room patients received their initial examinations.

"Eventually, the aim is to have metal detectors installed at all seven entrances to the hospital," Dr. Hockberger said.

At the Harbor View Medical Center in Seattle, a regional trauma center that serves the states of Washington, Idaho, Alaska and Montana, metal detectors operate during off hours and high-risk areas are protected by bullet-proof glass and panic buttons.

In another six months, the hospital will be ready to implement a computer security alert system, said Helen Johnson, Harbor View's risk manager. This database will enable the hospital to check a patient's history of violent behavior at the time of registration.

The hospital, which sees almost 70,000 patients every year in its emergency room, also organizes aggression control education programs for its staff and has two clinical nurse specialists on staff to deal with patients in any department who exhibit violent behavior.

"We've also made staff aware of the need to report all incidents of out-of-control behavior so that we can plan and strategize accordingly," Ms. Johnson said. She attributes most of a 50% increase in incidents of violence at the hospital between 1993 and 1994 to better reporting of incidents this year.

Not all hospitals, though, are reporting an increase in violent incidents.

New York's Columbia Presbyterian Medical Center, which receives emergency room patients from Manhattan and the Bronx, claims it has a low level of violent incidents.

No metal detectors are used at the hospital, though the emergency room is staffed round the clock by a minimum of three officers, said Thomas Taylor, investigational supervisor in the hospital's department of safety and security.



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Datebook

SEPTEMBER

SEPT. 18-20. Public Risk Management Assn. Midwestern Miniconference in Itasca, Ill.; \$175 for PRIMA members, \$225 for non-members. Lynne Armstrong, PRIMA, 1117 N. 19th St., Suite 900, Arlington, Va. 22209; 703-528-7701.

SEPT. 18-20. 1994 Houston Marine Insurance Seminar sponsored by Marine Insurance Seminars Inc.; \$225. Stacie Cardwell or Weldon Corbett, Energy Insurance International Inc., 2000 Bering Drive, Suite 900, Houston, Texas 77057; 713-783-6640.

SEPT. 18-20. American Assn. of Preferred Provider Organizations 1994 Fall Forum in New Orleans; \$750 for

AAPPO members, \$850 for non-members. AAPPO, 601 13th St. N.W., Suite 370 South, Washington, D.C. 20005; 202-347-7600.

SEPT. 18-21. Society of Insurance Accountants Conference in Phoenix; \$125 for SIA members, \$165 for non-members. Robert W. Bauer, P.O. Box 61, Hollowville, N.Y. 12530-0061; 518-851-9780.

SEPT. 18-23. Medicare and Medicaid: Challenges, Changes and Opportunities in an Era of Health Care Reform seminar in Baltimore, sponsored by the Group Health Assn. of America; \$1,085 for GHAA members, \$1,365 for non-members. GHAA, Department No. 0612, Washington, D.C. 20073-

0612; 202-778-3281.

SEPT. 19-20. Understanding Personnel Law seminar in Arlington Heights, Ill., sponsored by the Council on Education in Management; \$395. Also **Sept. 21-22** in Milwaukee. Council on Education in Management, 325 Lennon Lane, Walnut Creek, Calif. 94598-2418; 510-934-8333.

SEPT. 19-20. Workers' Compensation Managed Care forum in Boston, sponsored by the Institute for International Research; \$1,195. Conference Administrator, Institute for International Research, 708 Third Ave., Fourth Floor, New York, N.Y. 10017-4103; 1-800-345-8016 or 212-661-8740.

SEPT. 19-20. Designing & Managing Specialty Niche Insurance Programs conference in New York, sponsored by the International Quality & Productivity Center; \$1,195. International Quality & Productivity Center, P.O. Box 43155, Upper Montclair, N.J. 07043-7155; 201-783-4403.

SEPT. 19-20. 1994 Casualty Loss Reserve Seminar in Boston, sponsored by the American Academy of Actuaries, the Casualty Actuarial Society and the Conference of Consulting Actuaries; \$535 for members of AAA, CAS or CCA, \$585 for non-members. Jeffrey Speicher, 202-223-8196.

SEPT. 20. COBRA "Alert" Seminar in Pittsburgh, sponsored by the National Assn. of State Boards of Accountancy; \$195. COBRA Compliance Systems Educational Foundation, Attn: Reservations, P.O. Box 889, Coldwater, Mich. 49036-0889; 1-800-262-6272.

SEPT. 21. Today's OSHA: A Compli-

ance Update seminar in Milwaukee, sponsored by the American Management Assn.; \$159. Also **Sept. 23** in Minneapolis and **Sept. 29** in Chicago. KEYE Productivity Center, American Management Assn., P.O. Box 27-480, Kansas City, Mo. 64180; 1-800-821-3919 or 913-345-2140.

SEPT. 21. Human Resource Law Symposium in Skokie, Ill., sponsored by the Illinois Chamber of Commerce; \$145 for Chamber members, \$195 for non-members. The Illinois Chamber, 311 S. Wacker Drive, Suite 1500, Chicago, Ill. 60606-6619; 1-800-621-4220 or 312-983-7100.

SEPT. 21-22. Nuclear Insurance Coverages and Current Issues seminar in Atlanta, sponsored by Johnson & Higgins; no charge. Steve Kempsey, Nuclear Insurance Consultant, Johnson & Higgins, 125 Broad St., New York, N.Y. 10004-2424; 212-574-7970.

SEPT. 21-23. Captive Insurance Conference on Grand Cayman, B.W.I., sponsored by the Cayman Insurance Managers' Assn.; \$750. Conference Coordinator, Cayman Insurance Managers' Assn., Fourth Floor, Butterfield House, P.O. Box 1051, Grand Cayman, B.W.I.

SEPT. 22-23. ADR for the Defense seminar in Chicago, sponsored by the Defense Research Institute; \$475 for DRI members, \$525 for non-members. Defense Research Institute, ADR for the Defense, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

SEPT. 22-23. Re-Engineering Managed Care Customer Service forum in Washington, sponsored by the Institute for International Research; \$1,195. Also **Oct. 13-14** in Santa Monica, Calif. Conference Coordinator, Institute for International Research Inc., 708 Third Ave., Fourth Floor, New York, N.Y. 10017; 1-800-345-8016 or 212-661-8740.

SEPT. 25-27. CPCU Society Annual Meeting in Chicago; \$350 for CPCU Society members only. CPCU Society, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 610-251-2728.

SEPT. 26-27. The Eighth Annual National Congress on Defined Contribution Plans in New Orleans, sponsored by the Institute for International Research; \$1,195. Conference Administrator, Institute for International Research, 708 Third Ave., Fourth Floor, New York, N.Y. 10017-4103; 1-800-345-8016 or 212-661-8740.

SEPT. 26-27. 1994 Electronic Health Records Conference in Denver, sponsored by Faulkner & Gray Inc.; \$695. Electronic Health Records Confer-

ence, 11 Penn Plaza, New York, N.Y. 10001; 1-800-535-8403.

SEPT. 26-27. Target Marketing Strategies for Managed Care Payers conference in Washington, sponsored by the Institute for International Research; \$1,195. Conference Administrator, Institute for International Research, 708 Third Ave., Fourth Floor, New York, N.Y. 10017-4103; 1-800-345-8016 or 212-661-8740.

SEPT. 26-28. Outcomes in the New Health Care Environment: Measuring, Managing & Applying the Results conference in Chicago, sponsored by the Institute for International Research; \$1,195. Conference Administrator, Institute for International Research Inc., 708 Third Ave., Fourth Floor, New York, N.Y. 10017-4103; 1-800-345-8016 or 212-661-8740.

SEPT. 26-28. The Managed Health Care Congress Northeast in New York, sponsored by the National Managed Health Care Congress; \$1,195. Northeast Managed Health Care Congress, 1000 Winter St., Suite 4000, Waltham, Mass. 02154; 617-487-6700.

SEPT. 26-30. The Fundamentals of Money Management Workshop in Philadelphia, sponsored by the International Foundation of Employee Benefit Plans; \$1,770 for IFEBP members, \$1,895 for non-members. Registrations Department, International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710, ext. 257.

SEPT. 27. Town Hall Meeting on Health Care Reform in Chicago, sponsored by the Chicago Chapter of the International Society of Certified Employee Benefit Specialists; \$25 for ISCEBS members, \$35 for non-members. Constance Karduck, Chicago Chapter ISCEBS, c/o Alumni Services, P.O. Box 350, Kenilworth, Ill. 60043-0350; 708-256-4422.

SEPT. 27-28. Advanced Risk Management Analysis course in Orlando, Fla., sponsored by the Risk & Insurance Management Society; \$700 for RIMS members, \$800 for non-members. Risk & Insurance Management Society Inc., Education Department, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

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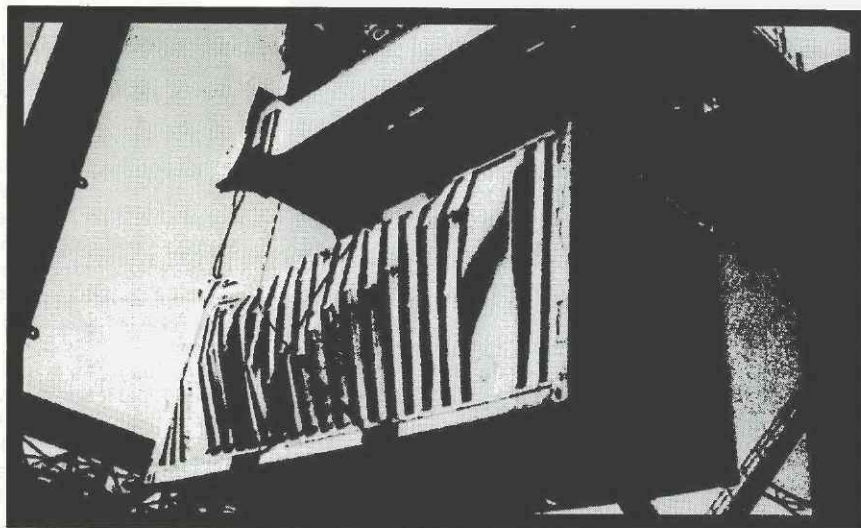


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ISO/NAII

Continued from page 2

Senate Finance Committee on Wednesday.

According to the ISO/NAII survey, the nation's property/casualty insurers' consolidated after-tax income fell 77.9% to \$2.1 billion during the first six months of 1994 from \$9.5 billion in first-half 1993.

The figures include a \$1.2 billion net loss during the first quarter, which reflects the impact of the Jan. 17 Los Angeles earthquake. Estimates for total insured damages from the quake have been rising and currently stand at \$7.2 billion.

For the second quarter alone, insurers posted net income of nearly \$3.5 billion. That represented a 31.4% drop from the more than \$5.1 billion in profits posted during the same quarter a year earlier.

Major property/casualty companies fared far better than the industry overall.

First-half net income for major companies fell only 13.9%, according to a *Business Insurance* survey (BI, Aug. 29).

Unlike the BI survey, the ISO/NAII study includes large personal lines insurance companies that proportionally suffered greater earthquake losses (BI, June 6; Jan. 24).

Net underwriting losses also increased dramatically during the first half, reflecting the effects of the Los Angeles quake, according to the ISO/NAII study.

The industry suffered a net underwriting loss of \$14.8 billion during the first six months of this year, compared with a loss of less than \$9.3 billion in the same period last year.

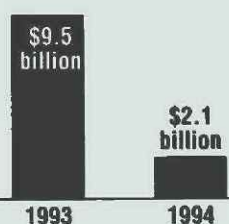
Investment income needed to offset underwriting losses also fell, though not nearly as sharply. In fact, a comparison of first-half 1994 with first-half 1993 shows a drop of only \$100 million in investment income, to \$16.1 billion from \$16.2 billion.

One notable difference between the first-half results of this year and 1993, though, was the diminished levels of realized capital gains, said Sean Mooney, senior vp and economist for the New York-based Insurance Information Institute.

Realized capital gains fell more

A tough first half for P/C insurers

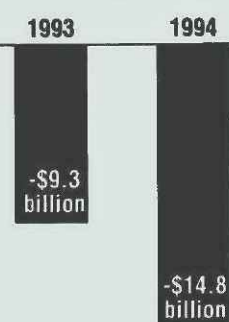
Net income plummets



Realized capital gains dry up



Underwriting losses grow



Source: ISO/NAII study

GRAPHIC BY KIM ROME

than 70% to less than \$1.4 billion in the first half of 1994 from \$4.7 billion in the comparable period of 1993.

In the second quarter, the difference was even more dramatic: only \$397 million, down more than 80% from slightly more than \$2 billion in the second quarter of 1993.

"We expected capital gains to evaporate, and a year later they're gone," Mr. Mooney said. He said that the survey results, bad as they are, contained no real sur-

prises.

Mr. Mooney said he wasn't certain how significantly the EIRF tax would affect insurance companies.

But the Alliance of American Insurers, one of the most vocal groups opposed to the proposed Superfund tax arrangement, has little doubt the first-half results show that a bad idea has been made worse.

"From the Alliance's viewpoint, it's hard to see how the EIRF tax could be worse. But, in light of the numbers, it simply amplifies the impact of the tax. It will be interesting if this law passes to see where the money will come from unless the state insurance commissioners grant insurers a huge rate increase," said Julie A. Rochman, assistant vp of the Alliance in Washington.

"The EIRF has so many problems that any deviation for the industry simply creates more problems," said Pam Allen, vp-federal affairs for the National Assn. of Mutual Insurance Cos. in Washington.

If a new tax is imposed as industry profits shrink, the difference may have to be made by dipping into surplus, which ultimately would hurt consumers, she said.

"While it's hard to draw any sweeping conclusions, obviously if the industry is down and you're placing additional burdens on it, it is going to cause problems for some companies," said Jack Ramirez, executive vp of the NAII in Washington.

But, quantifying the exact impact of the resolution fund tax proposal on companies remains very difficult, he cautioned.

"The latest report is not good news. It certainly would raise doubts about the depth of the well from which these new taxes can be drawn," said Steve Dreyer, a director of Standard & Poor's Corp. in New York.

He co-authored a recent survey of the potential environmental liability exposures and possible EIRF tax exposures of the nation's largest liability insurance companies (BI, Sept. 5).

The NAII/ISO survey figures are consolidated estimates for the entire property/casualty insurance industry based on reports from insurers that account for 96% of the country's property/casualty business. **BI**

Ohio employers in tiff with agency

COLUMBUS, Ohio—The Ohio Bureau of Workers Compensation, the agency that provides workers comp benefits to all injured workers in the state, is squabbling with employers and unions over who should develop and manage a preferred provider network for the agency.

A 1993 law called for a cost-effective and efficient managed care system for injured workers. The BWC board wants to develop and run the system itself.

But, employers in Ohio don't think the agency can handle the task and are calling for an independent, private organization to create and run the network.

The Ohio House Commerce and Labor Committee recently heard J. Wesley Trimble, then the bureau administrator, discuss the BWC's analysis of the issue. Among other things, he said he was concerned that the various medical cost controls the bureau already has in place would be eroded if the system were turned over to private interests.

Mr. Trimble resigned from his post effective Sept. 1, in part because the he and the BWC board were unable to agree on the management of the agency, a bureau spokeswoman said. That may cause further delay in resolving the issue, she noted.

At a Sept. 1 meeting with leading employers, BWC board members suggested that the BWC create and run managed care networks in two of five regions in Ohio, while private entities submit bids to run networks in the remaining three regions, for comparative purposes. The employers will likely respond to that proposal in mid-September.

Law shields landlords in lead paint suits

BALTIMORE—Landlords cannot be held liable under Maryland's Consumer Protection Act for damage from lead-based paint, but can be held liable for negligence under common tort law.

The statute, which was amended

in 1976 to include property transactions, applies only to errors or omissions that occur at the inception of the lease, not during its term, the state's highest court has ruled.

But landlords can be found liable under common law for concealing a known danger such as lead-based paint from tenants, the court concluded.

The Aug. 22 decision by the Court of Appeals of Maryland affirmed a lower court ruling finding negligence under common law but overturned its finding of violation of the consumer protection law.

The case stemmed from a lawsuit filed by Barbara Richardson against the owners and managers of a house she rented in Baltimore. Her two children were found to have elevated lead levels in their blood. One child was hospitalized to undergo chelation therapy, a drug treatment that helps the body excrete lead.

A trial court had awarded compensatory damages of \$518,444 for negligence but no attorneys fees. The plaintiffs appealed to obtain attorneys fees, which are provided under the Consumer Protection Act but are not permitted in personal injury suits.

Five men indicted in TPA fraud scheme

ST. LOUIS—Five men ran a series of fraudulent third-party administration companies, collecting \$2 million for health insurance that they never provided, a federal grand jury in St. Louis has charged.

An indictment handed up last month alleges that John Allen, Michael P. McClelland and three other men formed several companies in 1991 and 1992 that sold non-existent health policies to individuals and businesses in several states. Those policies covered nearly 1,400 people. The companies the five men operated included Triad Assn., Delta Group Administrators, Magna Group and Metro Group Administrators Inc. Several of the firms had offices in Bridgeton, Mo.

Among other things, the indictment charges that Delta falsely told prospective agents that it had contracts with several large insurers and that it had more than 22,000 policyholders.

The indictment also names Michael A. Anderson, Barney L. Sandow and Ronald Horn, who are charged with participating in the alleged fraud.

Each of the defendants is charged with multiple mail fraud and conspiracy counts, each carrying a maximum penalty of five years in prison. Messrs. Allen and McClelland are also charged with multiple money-laundering counts carrying maximum sentences ranging from 10 to 20 years.

All the defendants have pleaded not guilty except Mr. Horn, who was scheduled to plead guilty to some of the charges last Friday. All have been released on bond, pending trial on the charges.

Information in brief

The Texas Department of Insurance has issued a **cease-and-desist order** to Global Insurance Co. S.A., which is purportedly based in Montevideo, Uruguay. The company, which collected \$850,000 in annual premiums, wrote "fraudulent, false or suspect insurance" for motels and apartment complexes, officials charge. **BI**

RIMS

Continued from page 2

The Dow Chemical Co. in Midland, Mich., supports the EIRF, said Gerald A. Heinz, manager of risk management.

"RIMS must necessarily represent a broad spectrum of members and interests," Mr. Heinz said. "We're on one end of the continuum. On a given issue, we may not see eye to eye."

In all, about 1,000 risk managers in 20 states received the requests, said Paul Brown, general counsel and director of governmental affairs for RIMS.

The number is relatively small due to the makeup of the Senate Finance Committee, he explained. Although Michigan, New Jersey and New York are represented on the committee, many other heavily populated states—such as California, Florida and Texas—are not.

RIMS' letter writing campaigns, which are conducted about half a dozen times per year, are not always successful.

"Historically we have had less

response than we had hoped for," Mr. Brown said. "The power of this organization is in the members, and they need to get motivated. We need to get the weight of our membership out there."

"We have to get RIMS members to recognize this is important to them," said David Kuhnke, vice chairman of the RIMS environmental committee and president of Environmental Management Strategies, a Simsbury, Conn.-based consulting and engineering company.

RIMS also hopes to arrange for members to meet with senators on the Finance Committee in Washington this week.

Mr. Kuhnke rebuts assertions by proponents of the Superfund reform legislation that the EIRF would reduce litigation between policyholders and insurers.

"Most litigation early on in Superfund cases is between PRPs and the government," Mr. Kuhnke noted. "Nothing in the bill makes us think there will be less of that type of litigation."

RIMS also doubts that 85% of potentially responsible parties would endorse the EIRF, as the

bill currently requires before the fund would become operational.

"It would be a four or five year process and at the end of the day it would all be down the drain. We would be where we are today, litigating over every issue," Mr. Kuhnke predicted.

"The insurance industry historically has fought federal intervention," he added. "Now they are asking the federal government to tell them what their policy says. It's a very bad precedent."

Although the insurance industry is divided in its support for the EIRF, several groups—including the American Insurance Assn.—have expressed support for the concept.

RIMS still supports the concept of Superfund reform in general, Mr. Kuhnke said. "The current process is awful, but any fix is not a good fix. We don't believe the proposal fixes the problems" with Superfund, particularly joint and several liability.

Many risk managers who received the letters have not yet decided whether to respond. Others believe their companies are not impacted significantly enough by

Superfund to write to their senators.

"I don't have strong feelings one way or the other," said Robert F. Lacroix, manager of financial analysis and shareholder administration for Stewart Enterprises Inc., a funeral services company in Metairie, La. If he writes to Sen. John Breaux, D-La., "it would be strictly out of loyalty to RIMS. Superfund is not a big issue for us."

Eric Larson, risk manager for the city of Des Moines, said he asked for a copy of the full bill before deciding whether to urge Sen. Charles Grassley, R-Iowa, to vote against it.

"99 times out of 100 I agree with RIMS," Mr. Larson said. "But as a public entity, we have to be careful. What is good for companies might not be good for governments. I want to read the fine print and make sure there is nothing bad for public entities."

If there is not, Mr. Larson said he would definitely support the RIMS campaign and will urge other members to do the same at a chapter meeting being held this week. **BI**

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44RSA

M. Frank McCaffrey, former Hall executive, dies at age 89

By SALLY ROBERTS

DETROIT—M. Frank McCaffrey, former chairman and chief executive officer of Frank B. Hall & Co. Inc. of Michigan and a director of the parent company, died late last month of heart disease. He was 89.

Mr. McCaffrey began his 60-year insurance career as an underwriter for Globe Insurance Co., the previous name for Globe Indemnity Co., in New York. In 1935, he joined Johnson & Higgins in Chicago and was transferred to the company's Detroit office two years later.

In 1939, Mr. McCaffrey and two partners founded an insurance brokerage, Byrnes-McCaffrey Inc., in Detroit. A little more than 30 years later, Byrnes-McCaffrey merged with Frank B. Hall.

After 17 years as vp, chairman and chief executive of the Michigan unit, Mr. McCaffrey retired in 1988.

"Every risk manager who ever knew my father thought he was a special person," said John F. McCaffrey, chairman of Belle Meade Group, a brokerage development association in Chicago.

A New York City native, Mr. McCaffrey attended Upsala College in Orange, N.J., on a football scholarship and later played semi-professional football in New Jersey until 1928. Twelve years later, the former running back became part owner and a director of the Detroit Lions. William Clay Ford later bought the team.

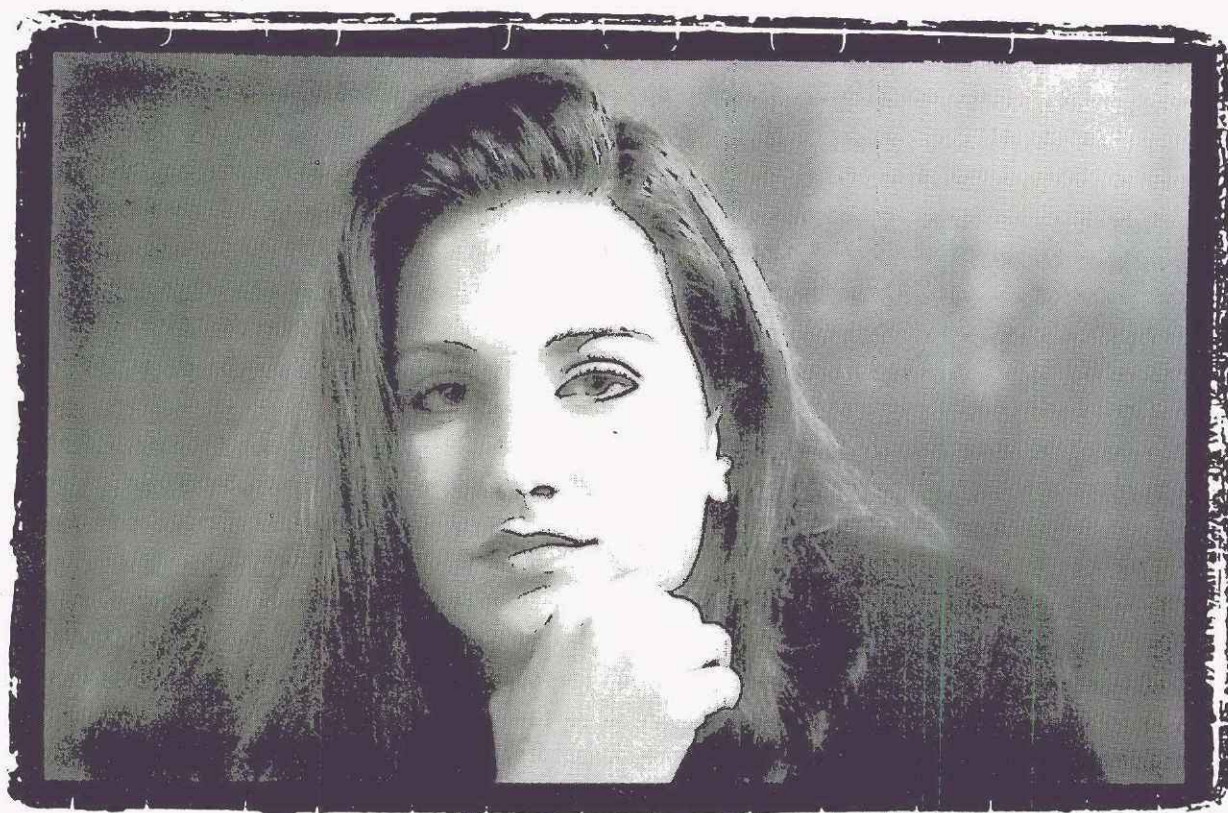
Among his industry activities, the late Mr. McCaffrey was deputy Michigan insurance commissioner charged with coordinating insurance claims for Chesterfield Township following a 1963 tornado and for Detroit following the 1968 riot.

Mr. McCaffrey also spent 25 years as the state national director for the Michigan branch of the Independent Insurance Agents of America—a position normally held for one year.

He was a director of the Detroit & Mackinac Railroad Co. of Tawas City; co-founder of American Presidents Life Insurance Co., which is now known as the Alexander Hamilton Life Insurance Co.; and director of the Boys and Girls Clubs of Detroit.

He is survived by his wife, Anne, four children, 11 grandchildren and two great-grandchildren.

Contributions in memory of Mr. McCaffrey may be sent to the H. Marvin Pollard Research Institute located at the Department of Internal Medicine, 3101 Taubman Center, University of Michigan Medical Center, Ann Arbor, Mich. 48109. **BI**



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INTERNATIONAL

Insurers emit liability concerns

U.K. insurers say EMF hazards not covered by policies

By ADRIAN LADBURY

LONDON—Amid growing awareness of the potential hazards associated with electromagnetic fields, leading U.K. insurers are saying their general liability policies do not cover injuries or damage arising from EMF exposure.

The concern also is prompting at least one insurer to withdraw from the market for utility company excess liability coverage.

The decision by Iron Trades Insurance Co. Ltd. to pull out of that market indicates that U.K. insurers are increasingly worried about the potential liability exposure associated with the EMF fields around power lines.

Some studies have linked EMF exposure to cancer, but the overall scientific evidence is inconclusive.

To date, no U.K. courts have ruled on the question of EMF liability. But about 20 such cases are pending or in the early stages of trial, a situation that a spokesman for Leigh, Day & Co., a London law firm that represents plaintiffs, calls "the thin edge of the wedge."

Utility company risk managers in the United Kingdom say they are monitoring the situation closely.

Insurers contend that EMF risks are not covered by the standard general liability policy.

Although those policies do not specifically exclude the risk, insurers argue that any liability from EMFs would be defined as gradual pollution and therefore subject to the Assn. of British Insurers' 1990 gradual pollution exclusion wording.

"(Electromagnetic field damage) is a form of gradual pollution and we don't cover that," said David Berry, a business controller in the liability department at Iron Trades.

Some utility companies may be able to obtain an endorsement providing liability coverage for the risk with separate limits. Such an extension of coverage, though, would likely exclude diminution of property values, said Mr. Berry.

"There are no exclusion wordings as far as I am aware, but we take the view that it is excluded from general liability policies because of the pollution restriction wording," said Derek Howie, assistant liability manager at Eagle Star Insurance Co. Ltd., a large U.K. casualty insurer.

Many U.K. risk managers and insurers are watching EMF lawsuits in the United States as an indicator of liability and coverage issues yet to be resolved.

In the United States, lawsuits alleging injury

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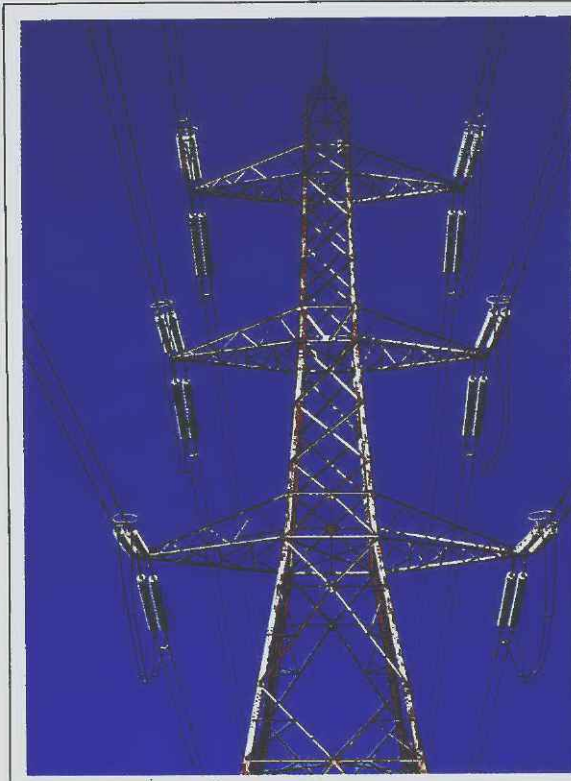


Photo by David Gould/Image Bank

EL cap may hurt buyers, AIRMIC chief says

By ADRIAN LADBURY

LONDON—A 10 million pound (\$15.5 million) limit on employers liability coverage that U.K. insurers will begin imposing in January may be insufficient for many risk managers.

And, even if an excess-of-loss market develops to help replace part of what until now had been unlimited coverage, risk managers will likely balk at the cost, predicted Peter Lerwill, risk manager for British Airways P.L.C. and chairman of the Assn. of Insurance & Risk Managers in Industry & Commerce.

"At least 10% to 20% of (AIRMIC) members will not find 10 million pounds sufficient and it will prove an extra cost," he said. Even if an excess-of-loss market forms, "my question is how much will there be? An extra 10 million (\$15.5 million) to take it up to 25 million pounds or even 35 million pounds would not be good for me or others like myself. This causes a lot of concern."

Beginning with January renewals, insurers will cap previously unlimited employers liability coverages at 10 million pounds per incident, the Assn. of British Insurers said last week (BI, April 11). Defense costs are included within the limit.

Reinsurers and insurers have threatened to cap the coverage for some time. U.K. multiline insurers have seen profits return for almost all lines except employers liability, which has been unprofitable for years, the ABI said.

Separately, leading Lloyd's of London underwriter John Murphy, who had written unlimited employers liability coverage for oil compa-

Continued on next page

Runoff demands require new regulation: Lloyd's

LONDON—Lloyd's of London is proposing what may be the first ever attempt to regulate the management of insurance company runoffs.

The market last week published recommendations on how best to conduct Lloyd's syndicate runoffs, including suggestions for minimum qualifications that runoff management companies should be required to meet.

Developing a regulatory mechanism to police the fast-growing runoff industry was first suggested by Lloyd's in last April's business plan (BI, May 3, 1993).

The new recommendations call for runoff managers to be required to meet "rigorous standards" before they would be given approval to compete for business in the market.

Peter Middleton, Lloyd's chief executive and the driving force behind the market's recent focus on cost-cutting and improving efficiency,

said new runoff regulations could help achieve both goals.

"The cost of runoffs is one of the major challenges facing the society. In 1993, the amount spent by syndicates with 1990 and prior runoff years of account was 135 million pounds (\$204.5 million). Further syndicate runoffs have already been announced and will add more to this total," said Peter Middleton, Lloyd's chief executive.

Lloyd's is particularly keen to hold down the costs of syndicate runoffs because NewCo, the planned reinsurer for all pre-1986 liabilities, will be by far the biggest user of runoff services in the market (BI, Aug. 29).

Among other things, Lloyd's suggested that prospective runoff managers be required to demonstrate they have adequate resources to do the job. It recommended that runoff firms be required to have a mini-

Continued on next page

Allianz plans to reduce policy term to 5 years

MUNICH—Allianz A.G. Holding plans to reduce its maximum policy term to five years from 10 beginning in 1995, due to a new German law that allows policyholders to cancel policies after five years.

The changes will apply to all German non-life subsidiaries of the Munich-based insurance group, according to Reiner Hagemann, executive director of subsidiary Allianz Versicherung A.G. Other German subsidiaries that will change policy terms include Deutsche Versicherungs-A.G. and Frankfurter Versicherungs-A.G.

Allianz made the decision after changes to Germany's insurance laws went into effect July 1. "In effect, legislators upheld the 10-year policy but gave clients the right to cancel after five years. We decided to go with five years and leave it at that," Mr. Hagemann said.

To make the five-year policy more attractive, Allianz plans to increase the rebate it offers on premiums for long-term policies. Beginning next year, Allianz will increase the rebate on the five-year non-life policy to 10% from 5% for a 10-year policy.

An Allianz spokesman said the shorter policy period will primarily affect personal lines and smaller commercial clients that bought the 10-year policies.

—By Don Lewis Kirk

Germany unbundles pension services

By DON LEWIS KIRK

NUERNBERG, Germany—Nuernberger Insurance Group is among the first German insurers to expand its services to include pension fund administration, a move made possible by deregulation of the European insurance market.

"In the past, insurers were not able to administer pensions if the plans were not" directly insured by the company, said Brigitte Kuhlemeier, department director for Nuernberger. "Now, if companies want to finance pensions with insurance alternatives...we can do that."

Other life insurers are expected to follow suit. The change follows the July reforms in Germany's insurance laws, which brought them into compliance with European Union directives.

Among other reforms, the law now allows insurers to compete with other outside advisers for the management of corporate pension

funds. In the past, insurers had to set up separate subsidiaries if they wanted to get around the prohibition of providing standalone pension management services.

The change in the law is expected to be particularly attractive to mid-sized and smaller companies that may benefit from increased competition.

"Insurers still tell employers they need insurance coverage to back the fund. But it is no longer necessary" before providing plan administration services, said Manfred Braune, chief executive of Munich-based insurance brokerage Braune & Partner.

"Pension fund administration is costly and difficult for mid-sized companies to do themselves," he said. "They don't have the people. With help from brokers and insurers the situation can improve."

Currently, most employers in Germany set aside reserves to fund their pension plans, which are administered on an in-house basis.

'Deregulation gives us more leeway to invest funds as employers wish,' says Brigitte Kuhlemeier.

Other options include funding pension benefits with life insurance and annuities; self-insuring pension obligations; and placing pension assets in "support funds," which are investment vehicles managed by outside firms.

The support funds, in particular, give employers much greater investment flexibility than in-house reserves.

The changes in Germany's law now allow insurers to compete with other money management firms for this business.

Lebensversicherungs A.G., Nuernberger's life insurance arm,

plans to target midsize German companies for its new pension administration services, Ms. Kuhlemeier said.

"If managed correctly, alternative pension (financing) can perform with efficiency and higher yield. Deregulation gives us more leeway to invest funds as employers wish," she said. "Companies don't have to rely on themselves to administer alternatively financed pensions. They can get service from us."

"Such alternatives can be more cost-effective and free the employer of administration. A support fund, for example, provides a single-payment solution with no administration and more flexibility," said Paul-Gert Kolvenbach, a director of Gerling Institute for Employee Benefit Planning GmbH.

The new flexibility in pension administration has enormous growth potential, according to Axel Heitkamp, director at Jauch & Huebener Consulting GmbH, a

UNISON network company.

"Employers are finding they can make pension contributions more effective," he says. "They have more say in how funds are invested and get higher yields. More and more employers are transferring the administration of pensions to outside the company."

Due to the demand for outside pension administration, starting Sept. 1, Jauch & Huebener will offer plan administration services to employers, Mr. Heitkamp said. "There are a lot of benefits to employers," he said. "The personnel departments that now administer pensions often lack expertise, and outsourcing takes away the burden of difficult pension questions."

While there were no restrictions on brokers providing these services before the law was changed, many found there was little demand. That has changed. "In the last two to three years, we have found more companies want this kind of service."

BI

INTERNATIONAL

EMF

Continued from previous page
or damage caused by EMF exposure have targeted utilities; in Britain, where companies focus on either generating, transmitting or distributing electricity, the targets are distribution companies.

Some U.S. property owners have won suits over reduced property values due to the public fear—whether scientifically justified or not—that emissions from nearby utility wires caused cancer (BI, Oct. 18, 1993).

At least one U.S. insurer, Philadelphia-based Reliance Insurance Co., has argued that coverage for EMF-related damage is excluded under a broad pollution exclusion it adopted (BI, April 11). The wording of that pollution exclusion includes in its definition of "pollutant" any "electric, magnetic, electromagnetic, irritant or contaminant..."

Liability coverage for U.K. electricity companies in general is much more restrictive today than it was in 1990, when many of the formerly state-run enterprises were privatized, said Marion Brown, assistant manager-commercial section at Guardian Royal Exchange P.L.C. in London. Insurers have recently started to introduce lower limits and increased deductibles into the coverage.

"There can be no certainty that coverage (for EMF exposures) will be available when it comes to renewal," said Ms. Brown. "The major problem is the research costs which would be involved with defending the actions."

Electric utility companies, though, say they are convinced that plaintiffs will not be able to prove they were

harmed by EMF exposure.

"It's a shame the law (being formed through EMF litigation) has been introduced before the scientists have found a definitive answer," said Richard Barlow, general manager of communications of the Electricity Assn., the U.K. trade association for generators, transmitters and distributors of electricity.

"The issue of EMF and health is an extremely complicated scientific subject on which all the facts simply are not known. All we can really conclude at this stage is that, if there are any risks, they are very small indeed, and that the worldwide public stress and fear produced by alarmist reporting is almost certainly out of all proportion to the scale of the real problem," Mr. Barlow wrote recently in an association statement titled, "EMF—Putting the Record Straight."

Utility risk managers sound a bit more guarded.

"It is too early to set reserves for potential exposures, and utilities will not begin inspecting policies until the courts or scientists can prove a definite cause between EMFs and health risks," said Mervin Ricketts, risk manager at Powergen P.L.C. of Birmingham, one of the main U.K. non-nuclear electricity generating companies.

"It is a concern and a potential issue, but on the evidence of the technical reports carried out so far, there is certainly nothing which either proves or disproves a linkage," said Mr. Ricketts, who is also chairman of the utilities special interest group at the Assn. of Insurance & Risk Managers in Industry & Commerce. "Research will not stop, however,

and it will go on until it has been proved or...totally disproved. Until this happens, we can do little further."

"If a link is proved it will open a whole Pandora's box," he added.

Much attention in Britain is focused on two EMF lawsuits, but neither has yet produced a final ruling.

The first, a 1993 suit, was brought on behalf of Simon Studholme, a young boy who died after contracting acute lymphatic leukemia 18 months after his family moved into a house in Bolton, Lancashire.

The house was built a few feet from an electricity substation owned by distribution company NORWEB P.L.C. of Manchester, and the boy's bed was inches away from the household electricity meter.

His parents allege that NORWEB is liable for Simon's illness because he was exposed to levels of EMF about 20 times the level said by some studies to be cancer-causing.

A NORWEB spokesman would not comment on the case, which is not expected to reach the courts for another two to three years. Given the timetable, the case is causing little panic among insurers.

But, the second could spur insurer action more quickly.

In July, a U.K. court held a trial in a suit brought by 2,000 London schoolchildren against Michael Heseltine, secretary of state for trade and industry, accusing him of failing to prevent six electric power lines from being placed near their homes and schools. The plaintiffs alleged the power lines generate an EMF 10 times above safe levels.

A judgment is expected in that case on Oct. 4.

Cap

Continued from previous page
nies with offshore operations, recently had to cancel coverage because he could not get confirmation of reinsurance (BI, Sept. 5, Aug. 15).

British law requires employers to carry at least 2 million pounds (\$3.1 million) in employers liability coverage. Insurers, which have until now provided unlimited coverage, give four key reasons for the cap:

- Increased use of subcontracted labor makes it difficult for insurers and reinsurers to track exposures and accumulations.

- Claims are constantly increasing for long-term work-related disabilities, such as noise-induced hearing loss, asbestosis and upper-limb disorders or repetitive strain injuries.

Last week, an Edinburgh court awarded 72,000 pounds (\$154,820) to an industrial radiographer who sustained an RSI-type injury at work, which is the second-largest U.K. award for this type of injury.

Because such claims are often made years after cover is provided, they are hard for insurers to rate.

For example, Britain's five largest multiline insurers had predicted total employers liability claims for 1988 would be 131 million pounds (\$237.1 million), but by year-end 1992 the total was 192 million pounds (\$290.9 million), according to Smith New Court Securities Ltd. of London.

- Improved medical techniques to help identify work-related injuries and diseases coupled with the troubled economic climate have led to more claims.

- Amounts awarded have increased faster than inflation.

These factors have produced steady losses for employers liability insurers. From 1989 to 1993, they paid out about \$1.50 in claims for every \$1 in premium earned, the ABI said. And, excluding Lloyd's of London syndicates, they produced an underwriting loss of 588 million pounds (\$870.2 million).

Insurers say the 10 million pound limit, considering inflation, is equivalent to the 2 million pound minimum limit set in 1972.

Insurers predict that an excess-of-loss market will develop and that underwriters may exceed the limit for some employers.

Runoffs

Continued from previous page
mum of 25,000 pounds (\$38,750) in capital for 1995—the same as managing agents—which would increase to 400,000 pounds (\$620,000) by 1999.

Lloyd's also proposed that runoff specialists should be evaluated to ensure that they have adequate

computer systems and experienced staff to perform the job.

In addition to regulations governing runoff managers, Lloyd's said that any new regulations should be designed to give members more opportunity to become involved in the affairs of their syndicate runoffs and to provide more information on runoffs in progress.

—By Adrian Ladbury

The Professional Marketplace

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Sub-total	15,138
Associations, Unions and Educational Institutions	27,859
Commercial Consumers Sub-total	371
Insurance Agents and Brokers	986
Insurance Companies	29,216
Accountants, Actuaries, Attorneys & Consultants	8,607
Managers & Health Care Providers	8,258
Others Allied to the Field	3,576
TOTAL	1,941
	52,949

★ Source Business/Occupational breakdown of qualified circulation, November 29, 1993 Issue, as submitted to BPA for December 1993 BPA Publisher's Statement.

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Paper

Continued from page 3
damaged produced 700 tons per day, leaving the company short of materials it needs to produce finished paper products. The machine is expected to be down for another two months.

"We're trying to buy what we can, but internally, we rely on that machine for our finished products," said Mr. Racansky. As is standard in the industry, the company had no replacement for the machine or arrangements to use an alternative facility, he said. The nature of the machinery makes

up and maintenance has taken a back seat, but that's untrue," he said.

John Lambdin, manager of property insurance at Weyerhaeuser Co. in Tacoma, Wash., said he does not think the three incidents are related closely enough to affect rates. "There were various occupancies and various causes. I don't see the tie."

The losses are large and close together in time, he said. "But I could probably find you years in which losses were greater and years in which they were smaller. I only foresee an impact on the market if common reinsurers are on all the losses, and I doubt that's the

'I think the major insurers are aware of how our loss experience runs and they underwrite accordingly. These losses are so diverse and unexpected that you can't deduce anything,' says Stone Container's Michael Alford.

such plans unfeasible.

Stone Container, said Mr. Alford, is fully insured by a "multitude of insurers" for the April 13 explosion that killed three workers and injured seven others in Florida (BI, April 25).

The loss, which resulted from a rupture in a chip pressurizing vessel called a digesture, has left Stone Container struggling to produce the volume of liner board that it was accustomed to producing.

In an Aug. 15 filing with the Securities and Exchange Commission, the company said it expected insurance to cover both business interruption and property claims. After the explosion, the company's liner board production facilities were shut down for about 23 weeks and its bleached market pulp facilities for about 18 weeks.

Final damage estimates are not available yet. But as a result of the explosion, the company recorded in its second-quarter results a \$22 million "involuntary conversion gain"—that is, the expected net proceeds from the property insurance claim in excess of the carrying value of the assets damaged or destroyed.

"It hasn't been determined whether this is a fire or a boiler and machinery loss. Regardless, we won't be out of pocket," said Mr. Alford.

The most devastating and unpredictable of the recent disasters was probably the near total fire loss at International Paper's Barcelona factory.

Factory Mutual members, including Arkwright Mutual Insurance Co., insured the factory, said Mr. Smith, who would provide no other coverage details.

"It was a large loss and we don't have all the answers yet," said Mr. Smith. "It's still early."

Many observers say it is unlikely that the three big paper-related losses will produce higher property rates.

"Special underwriting guidelines for pulp and paper have been in place for many years and there's no reason to expect any changes," said an IRI spokesman.

Conceding that a rate hike is possible, Mr. Alford of Stone Container said he hopes underwriters will stay the course, realizing that the pulp and paper industry's loss record has been cyclical.

"I think the major insurers are aware of how our loss experience runs and they underwrite accordingly. These losses are so diverse and unexpected that you can't deduce anything. Some people may think that competition has heated

Front Royal to buy Waite Hill companies

CARY, N.C.—Front Royal Inc. has signed a letter of intent to acquire the three Waite Hill Insurance Group companies, which are wholly owned by Figgie International Inc. of Willoughby, Ohio.

Front Royal, a Cary, N.C.-based holding company, already owns Front Royal Insurance Co., an environmental underwriter that wrote about \$844,000 in gross premiums last year. Its other subsidiaries are Front Royal Environmental Services Inc., an environmental engineering and consulting firm, and Front Royal Environmental Management Inc., a unit that provides underwriting and claims management services to insurers that write environmental insurance, including Front Royal Insurance Co.

The largest of the three Waite Hill companies, Colony Insurance Co., is an excess and surplus lines insurer writing non-standard property/casualty coverages in most states. Cardinal Casualty Insurance Co. and Hamilton Insurance Co. write similar coverages in states in which Colony is not an approved insurer. The three insurers collectively wrote about \$45 million in direct premium in 40 states last year.

"The combination of the three Waite Hill companies, a well-capitalized insurance group with an outstanding nationwide agent network and excellent management, will provide us with the size and market scope needed to take maximum advantage of opportunities in the environmental insurance business. At the same time, it will allow us to participate in other profitable segments of the insurance industry," said J. Adam Abram, Front Royal's chief execu-

Markets

tive officer.

Figgie announced its intention to sell the Waite Hill companies earlier this year as part of a corporate restructuring. Terms of the transaction, which is expected to be completed this fall pending regulatory approval, were not disclosed.

Agency acquired

SAN FRANCISCO—USI Insurance Services Corp. has acquired WRIMS Corp., an Exton, Pa.-based insurance agency, as part of its effort to become one of the world's 20 largest brokers.

USI was created last year by Bernard H. Mizel, former chairman of American Business Insurance Inc. and Jardine Insurance Brokers Inc., and John Addeo, former chief financial officer of Preferred Health Care Ltd. and senior vp and treasurer of Frank B. Hall & Co. Inc., with the sponsorship of limited partnership Saratoga Partners.

San Francisco-based USI's goal is to acquire "fewer than 20" medium-sized to large brokerages that serve middle-market businesses with the hope of generating revenues of \$140 million within the next four years (BI, Sept. 27, 1993).

WRIMS, which specializes in the rental equipment, traffic safety and car rental industries, ranked No. 63 in the 1994 Business Insurance U.S. broker rankings with more than \$12 million in gross revenues.

This is USI's third acquisition

in six months: It acquired Sherman Oaks, Calif.-based TriWest Insurance Services Inc. in March (BI, March 3) and Max Behm & Associates of Woodland Hills, Calif., in July.

Claims service expands

GREEN BAY, Wis.—Employers Health Insurance Co. is expanding its health plan claims administration services for larger companies in Georgia, Maryland, Ohio, Tennessee and Texas.

Based in Green Bay, Wis., Employers Health Insurance is the principal operating unit of EMPHESYS Financial Group and provides managed care medical insurance to more than 50,000 small businesses nationwide. In 1993, the company managed more than \$200 million in medical claims for self-funded clients in Wisconsin, Illinois and Indiana.

With the expansion, Employers Health also will provide administrative services for self-funded health and dental plans as well as stop-loss insurance to those plans in the five additional states.

Benefit trust alliance

SAN FRANCISCO—A national alliance between San Francisco-based BankAmerica Corp. and Coopers & Lybrand will provide integrated record keeping, consulting, trustee and investment services to their employee benefit trust clients across the United States.

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Awards

Continued from page 3
first time, representing insurance educators.

- Lucille A. "Lucky" Gallagher, vp of risk management for ConAgra Red Meat Cos. and Monfort Inc. in Greeley, Colo. Ms. Gallagher was the 1994 Risk Manager of the Year and is also president of the Risk & Insurance Management Society Inc.

- Ronald J. Guilfoile, risk and employee benefits manager for the City of St. Paul, Minn. Mr. Guilfoile was named to the 1994 Risk Management Honor Roll representing municipalities.

- Thomas J. Hickey, risk manager for Malcolm Pirnie Inc. in White Plains, N.Y. Mr. Hickey was named to the 1994 Risk Management Honor Roll representing small businesses.

- Dean E. Johnson, chairman, president and chief executive officer of Park Ridge, Ill.-based Protection Mutual Insurance Co. Mr. Johnson is serving for the first time on the panel of judges, representing mutual insurance companies.

- Judith Moses McDonald, risk manager and vp of Comerica Inc. in Detroit. Ms. McDonald was named to the 1994 Risk Management Honor Roll representing financial institutions.

- Robert A. Mulderig, chief ex-

ecutive officer of Bermuda-based Mutual Risk Management Ltd. Mr. Mulderig is serving on the panel of judges for a second year, representing a stock insurance company.

- C.J. Spivey, president of C.J. Spivey Associates Inc. in Charlotte, N.C. Mr. Spivey is serving on the panel for the first time representing risk management consultants.

"These highly talented leaders who have agreed to score the nominations for the 1995 Risk Manager of the Year and Risk Management Honor Roll are making a substantial commitment of their time to the risk management community," said Kathryn J. McIntyre, vp, publisher and editorial director of *Business Insurance*.

"We are very honored and grateful that they will judge the nominations," she said.

The judges score each of the candidates on 10 criteria (see box). The candidate with the highest score after the judging is completed is named Risk Manager of the Year. Then, the remaining nominees are separated by employment category:

- Corporations with sales exceeding \$300 million.
- Corporations with sales of less than \$300 million.
- Government entities.
- Tax-exempt or non-profit institutions.

The candidate with the highest score on 10 criteria will be named Risk Manager of the Year.

- Financial institutions.
- Self-insurance funds and pools.

The highest-scoring candidate in each of the categories not represented by the Risk Manager of the Year is named to the Risk Management Honor Roll, subject to the judges' discretion. As many as five other nominees can be named to the Risk Management Honor Roll.

The 1995 honorees will be announced in the April 24, 1995, issue of *Business Insurance*. The publication of that issue will coincide with the annual Risk & In-

surance Management Society Inc. conference, which will be held in San Francisco April 23-28.

A candidate need not handle risk management functions full time, but he or she must be a full-time employee of the organization for which he or she directs the risk management program.

A candidate may be nominated by anyone familiar with the candidate's work.

For example, any employee or group of employees may nominate the organization's risk manager. A broker, insurer, consultant or other service supplier may nominate a client. And, a risk manager may nominate a colleague.

Nominations of risk managers based anywhere in the world are invited.

In addition to the completed nominating forms outlining the candidate's accomplishments, each nomination must include a letter from the sponsor nominating the candidate and a letter of

endorsement by an executive of the candidate's organization, who may be the candidate's superior or any higher officer. The letter must certify the accuracy of the information submitted in the nomination.

All nominations will be kept in the strictest confidence, with only the honored candidates' names announced.

Business Insurance created the Risk Manager of the Year award in 1977, on the 10th anniversary of its publication, to recognize outstanding achievement in the field.

The Risk Management Honor Roll was created in 1981 to recognize outstanding risk management achievement in different employment categories.

To request a nomination form, please contact Karen Brown, Assistant to the Publisher, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590; 312-649-5319. **BI**

Judging risk management nominees

Ten criteria are used to score the nominations submitted for the *Business Insurance* Risk Manager of the Year Award and Risk Management Honor Roll.

The 10 independent judges score each candidate on a scale of one to 10 according to how well he or she:

- Established and implemented an effective risk management program within the organization.
- Tackled and solved one or more major problems for his or her organization.
- Innovatively applies the diverse tools of risk management and insurance.
- Creatively and effectively uses the insurance markets to structure an insurance program that serves the needs of the organization (specifically addressing the types of policies purchased and manuscripted policies, if any).
- Established a workable intelligence system inside and outside the organization, culminating in a flow of information about events and activities that affect the organization's risk management

and insurance. (How the risk manager secures information from other departments and the use of risk management information systems are addressed in this criterion.)

- Skillfully performs the functions of management in the overall organization and within the risk management/insurance department. (The functions include planning, organizing, directing and controlling.)

- Achieves the most effective program at the optimum cost over the long term.

- Developed technical expertise in any or all of the broad categories included within risk management, leading to a better managerial grasp of the operations aspects of the job.

- Exhibits an attitude and performs activities fostering the advancement of the risk management profession (such as professional activities, speaking engagements, teaching and related activities).

- Develops in his or her career (as exhibited by job history, including current job description, education, honors and memberships).



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Colorado

Continued from page 1

Goddard Claussen/First Tuesday, the same agency that developed the infamous "Harry & Louise" campaign for the Health Insurance Assn. of America. Those ads are credited with playing a key role in killing President Clinton's health reform plan (BI, Sept. 5).

Some people, in fact, speculate that Harry & Louise's insistence that all Americans be free to choose their own doctors may have inspired the Colorado ballot initiative.

"There's a running joke at First Tuesday that we have Harry & Louise to blame," said Rena Offutt, the agency manager of the campaign.

But it's property/casualty insurers, not health insurers, that are pressing the issue this time.

"It really is a coincidence" that First Tuesday will produce the ads, insisted Bob Ferm, a partner at the Denver law firm of Hall & Evans who represents the insurance industry on the Coalition to Save Colorado Jobs.

"The (coalition's) steering committee chose First Tuesday because of its background in insurance and workers compensation issues," Mr. Ferm explained.

Harry & Louise aside, many observers think the initiative was probably triggered by failed negotiations earlier this year between organized labor and an employer workers comp coalition over a workers comp law.

That law, S.B. 199, changed the calculation for permanent total disability payments established in the 1991 workers comp reform

courage scams, opponents charge, such as a recent swindle of more than \$350,000 from the state's workers compensation fund by members of a southern Colorado religious sect.

Opponents also contend that the initiative would make Colorado as notorious as California, which perhaps is the nation's insurance fraud capital for permitting unscrupulous lawyers and doctors to solicit workers outside unemployment offices to file phony workers comp claims.

The proposed initiative also would wipe out the benefits of managed care, which has helped stabilize workers comp insurance rates in Colorado since the reform legislation was enacted in 1991, according to Ms. Gallagher of Monfort.

She also objects to using constitutional amendments to change the workers compensation laws. "The Legislature is a more appropriate place for amending the work comp law."

A phone survey conducted by First Tuesday late last year showed the initiative would pass on voters' initial reading, Ms. Offutt said.

However, focus group research conducted this summer indicated that voters who understood the potential economic ramifications of the initiative would vote against it, she said.

"It takes some real concerted effort to educate the public, but once they understand that it will have a negative impact on companies, resulting in a loss of jobs or a slower increase in job growth, they change their minds," said Mike Grace, risk manager for Gary-Williams Energy Corp. in Denver and legislative director of the Rocky Mountain RIMS Chapter.

In addition to the RIMS chapter and the coalition, other opponents of Amendment 11 include: the American Insurance Assn.; Blue Cross & Blue Shield of Colorado; Farmers Insurance Group; and the National Federation of Independent Business.

The coalition is headed by George Dobbie, president of the Colorado Assn. of Industry & Commerce.

Despite their participation, some coalition members expressed skepticism about the insurance industry's sincerity in backing the effort to derail the initiative.

"A lot of initial funding for the coalition came from the insurance industry," acknowledged Mr. Grace.

"I had a problem with them being so visible because they pass along the cost, particularly in work comp," he said.

But the insurance industry has been "an equal partner" with the business community on at least two other previous issues affecting workers comp in the state, namely two proposed initiatives in 1991 and 1992 that would have given employees the right to sue their employers for work-related injuries outside of work comp, Mr. Ferm said.

Half of the coalition's \$780,000 advertising budget came from the insurance industry, according to Ms. Offutt. The rest was raised by RIMS and various Colorado employers.

In addition to its fund-raising efforts, the Rocky Mountain RIMS Chapter is mounting an information campaign that will include setting up a phone bank, Mr. Grace said.

"If it comes to handing out pamphlets on street corners, we'll do it," he said. **[B]**

Exclusions

Continued from page 1

premium notice from Future Ford, he sent in his payment with a handwritten message noting that he would be going off COBRA as of May 1, 1990, at which time he would begin receiving coverage under the Baker Group medical plan.

On May 4, Mr. Saltarelli was hospitalized and diagnosed with stomach cancer. Soon after the diagnosis, Baker Group told Mr. Saltarelli it would probably not cover his cancer treatments because of the plan's pre-existing condition exclusion.

Mr. Saltarelli remained hospitalized until his death May 29, 1990.

Mr. Saltarelli's widow had mailed June premium payments to both Future Ford and Baker Group and sued both plans to collect payment of more than \$50,000 in medical bills.

Future Ford's attorney, Bruno Wolfenzon of Campbell, Rubino, Wolfenzon & Souhrada in San Diego, argued in U.S. District Court that the Future Ford health plan was not liable for the expenses because Mr. Saltarelli had notified the plan he would be going off COBRA coverage in April.

Baker Group's attorney, Karl Lindegren of Fisher & Phillips in Newport Beach, Calif., claimed Baker Group's health plan rightfully denied payment because, although Mr. Saltarelli became eligible for its coverage in April 1990, the plan's pre-existing conditions clause excluded payment for illnesses which existed in the nine months before he became eligible.

In June 1992, the District Court found Future Ford not liable because Mr. Saltarelli's notice to the dealership had "irrevocably terminated" his COBRA coverage.

But, the court found the Baker Group's pre-existing condition exclusion unenforceable because it "is not conspicuous enough to attract the attention of a reasonable layman."

The Baker Group appealed.

In upholding the District Court's decision, the 9th Circuit Court noted that information on Baker Group's pre-existing condition exclusion was not clearly marked in plan summary documents.

"An insured reading the table of contents of the plan summary would find no heading for this critically important item," explained Judge Melvin Brunetti, writing for the unanimous three-judge panel.

In addition, Judge Brunetti pointed out, a chapter in the body of the document titled "Exclusions and Limitations," did not mention the pre-existing conditions exclusion.

"We affirm the District Court's legal determination that since Baker Group's attempted exclusion was not clear, plain, and conspicuous enough to negate layman Saltarelli's objectively reasonable expectations of coverage, it was unenforceable and Baker Group was liable for Saltarelli's medical expenses incurred beginning April 8, 1990."

Judge Brunetti relied on the legal doctrine of "reasonable expectation." Generally, he explained, courts will protect the reasonable expectations of policyholders regarding their health insurance "even though a careful examination of the policy provisions indicates that such expectations are contrary to the expressed intention of the insurer."

Baker Group had argued that the doctrine of reasonable expectations should not apply because, as a self-insurer, it is exempt from state insurance laws by the Employee Retirement Income Security Act of 1974.

The 9th Circuit disagreed: "ERISA pre-emption does not mean that general principles of state law are irrelevant to the interpretation of ERISA-governed insurance contracts," Judge Brunetti wrote.

"This tells (self-insured employers) drafting health plans that they better look at state insurance

law," said Mr. Lindegren, Baker Group's attorney. "The court in this case is saying, 'ERISA plans, whether or not they are insured, are insurance contracts and we're going to treat them as such.' The trend in ERISA law is to get away from the good old days where you could limit things."

The 9th Circuit's reasoning is likely to be adopted by other courts, Mr. Lindegren predicted. "It's only controlling for the 9th Circuit, but if you are in a different circuit you need to worry about it.

defense, you need to assume the courts are going to apply" the reasonable expectation standard to all summary plan documents, he said.

The federal courts are increasingly fashioning "federal common law for ERISA plans based on state law," commented Henry Saveth, a principal with A. Foster Higgins & Co. Inc. in New York. "But, this case underscores the importance of clearly communicating health plan terms to employees."

"When companies provide so-called comprehensive coverage, they are in such a better position to inform people what is or is not covered, they should be very clear and explicit in listing exclusions," said Future Ford's attorney, Mr. Wolfenzon.

Other attorneys point out that policyholders increasingly are winning in disputes where there is a discrepancy between their understanding of what is covered and information provided in summary plan documents.

"People purchase insurance based upon brochures, pamphlets and other types of solicitations. The courts are saying that solicitation really needs to give them a full picture of what they can expect from their coverage," commented James Risch, a plaintiffs attorney with Risch, Goss & Insinger in Boise, Idaho.

Saltarelli vs. Bob Baker Group Medical Trust, 9th U.S. Circuit Court of Appeals; No. 92-56252.

'The concern is unbridled choice with no definition of provider at all,' says attorney Bob Ferm.

law and required that a study be conducted of the state's workers compensation system.

Officials at the Denver Labor Federation's Committee for Choice, which is mounting the campaign for Amendment 11, did not return phone calls.

Amendment 11 would change the state Constitution to read: "Benefits to an injured worker under the Workers Compensation Act shall include all reasonable and necessary treatment for work-related injuries by health care providers selected by the injured worker. The fees charged by such health care providers shall be subject to regulation by the state of Colorado."

"What that tells me is, 'Give me massage therapy. I've got a paper cut,'" Ms. Offutt quipped.

Colorado law currently permits employers to manage their workers comp medical costs by selecting occupational injury specialists to treat injured employees.

That and other changes favorable to business were first instituted by a 1991 reform law (BI, July 1, 1991).

Most of the insurance companies and employers opposing the initiative argue that giving workers a choice will not ensure better care.

"The concern is not reasonable choice within managed care. The concern is unbridled choice with no definition of provider at all," said Mr. Ferm.

The initiative would also en-

USAir

Continued from page 1

sent to the scene last week and were analyzing the cockpit flight data recorder.

The Boeing 737-300 that crashed was built in 1987 and had logged 23,800 flying hours. It had received a routine maintenance check, done every 35 flight hours, last Wednesday, and a "heavy" maintenance check, done every 11,000 hours, in February 1993, neither of which found anything unusual, said a spokeswoman for USAir.

The plane's engines were manufactured by CFM International, a joint venture of General Electric Co. and a French manufacturer.

Though liability has yet to be determined, USAir is fully insured for any losses it may sustain.

The major participants on the airline's \$850 million liability program as of Feb. 1 included: Associated Aviation Underwriters of Short Hills, N.J., which wrote 30% of the coverage; United States Aircraft Insurance Group Inc. of New York, 25%; and La Reunion Aeriennne of Paris, 17.5%.

Although USAir's latest filings with the U.S. Department of Transportation still show details of the Feb. 1 program, a source familiar with the risk said USAir and most of the same underwriters agreed to cancel and rewrite the program as of Aug. 1.

Officials of USAir, its broker, Sedgwick James Inc., and under-

writers either could not be reached or would not provide details.

Any loss to USAir underwriters from the latest crash would be their second major USAir loss this year: Underwriters have put up \$90 million in reserves for the July crash in Charlotte, which occurred during a thunderstorm and may have been caused by wind shear.

Earlier USAir accidents occurred March 22, 1922, when a USAir Fokker F-28 skidded off a runway at LaGuardia International Airport in New York, killing 37 people; Feb. 1, 1991, when a USAir 737 collided with a commuter plane at Los An-

geles International Airport, killing 34; and Sept. 20, 1989, when a USAir 737 skidded into the East River at LaGuardia, killing two.

The crash in Pittsburgh is the nation's worst air disaster since 1987, when a Northwest Airlines jet crashed on takeoff from Detroit Metropolitan Airport, killing 156.

The aviation market, already battered by about \$1 billion in losses so far this year, is unlikely to react with higher rates as a result of the latest crash, market sources say.

"Those that have stayed in the market seem to enjoy the punishment," said one London broker. **[B]**

Recent USAir crashes

Sept. 8, 1994 Plane plunges to the ground outside Pittsburgh, killing all 131 on board. Cause of crash not yet known.

July 2, 1994 Plane crashes near Charlotte, N.C., airport, killing 37. Wind shear and heavy rain may have contributed to crash.

March 27, 1992 Plane crashes on takeoff from LaGuardia International Airport, killing 27. Ice on wings blamed for crash.

Feb. 1, 1991 Plane lands on a commuter aircraft at Los Angeles International Airport, killing 34. Air traffic control error blamed.

Sept. 20, 1989 Plane skids off runway at LaGuardia into East River, killing two people. Pilot error blamed.

Weill named president of MBIA

Richard A. Weill promoted to president from executive vp of financial guarantee insurer MBIA Inc. in Armonk, N.Y.

As president, Mr. Weill replaces **David H. Elliott**, who will remain chairman and chief executive officer.

Mr. Weill, who joined MBIA in 1989 as general counsel, will be head of the municipal bond insurance, international and structured finance businesses.

Two other executive vps, **James E. Malling** and **Robert R. Godfrey**, will take over some of the duties formerly handled by Mr. Weill.

In other insurer changes:

Fritz Gerber announced plans to step down as chairman of Zurich Insurance Group next year, after 17 years at the helm. **Rolf Hueppi** will succeed Mr. Gerber following Zurich's annual meeting in June 1995.

Agents/brokers

Alexander & Alexander Inc. has made several appointments: **Edward A. Rogers** named senior vp-new business in Boston; **Kurt Urban** named president of A&A of Washington Inc.; and **Joseph J. Hamill** named senior vp-account development at A&A National Aviation & Aerospace Division in Lyndhurst, N.J.

Also at A&A, **Albert A. Skwartz Jr.** named general counsel, replacing **Ronald J. Roessler** who is retiring.

Comings & Goings: Industry

Elizabeth Ogilvie Simer named vp at Near North Insurance Brokerage Inc. in Chicago. Also at Near North, **Tucker Sheahan** named a vp in the commercial sales division specifically working with restaurant and hotel clients.

Rollins Hudig Hall Group Inc. announced several appointments: **Michael Prins** named president and CEO of RHH of Minnesota Inc. in Minneapolis; **Lawrence J. Babbitt** named president and CEO of RHH of Florida Inc. in Tampa, Fla.; **Dean L. Middour** named a vp at RHH of Northern California Inc. in San Jose, Calif.; and **Jerry F. Bober** named senior vp-multinational accounts for RHH of New York Inc. in New York.

Theodore J. Fuller named president of Johnson & Higgins of Pennsylvania. Also at J&H, **John B. Ahrens** named senior vp of the broker's Parsippany, N.J., branch; and **David Wright** named vp of the Costa Mesa, Calif., branch.

Reinsurance

Delmar Kim Summy joined TIG Reinsurance Co. as vp-director of finance in Stamford, Conn.

Michael Cooper named executive vp of The Mercantile & General Reinsurance Co. of Canada, a wholly

owned unit of Prudential Corp. P.L.C. of London.

Zurich Reinsurance Centre Inc. announced three new appointments in New York: **Karen M. Matrunich** named vp in the specialty casualty department; **Richard L. Weiler** named vp in the business development department; and **Frederick J. Pagnani Jr.** named vp-underwriting.

Charles F. Barr named vp, general counsel and corporate secretary for General Re Corp. in Stamford, Conn.

Other suppliers

R. George Monti joined the New York law firm of Mound, Cotton & Wollan specializing in reinsurance and insurance corporate and regulatory law.

Michael Fiaschetti named vp and chief financial officer of Health-America of Central Pennsylvania, a Harrisburg-based managed care organization.

Roland G. King joined Ernst & Young as national director of governmental insurance programs in the firm's actuarial services practice in Washington. Also, **Gregory S. Pence** named a senior manager of Ernst & Young's actuarial, benefits and compensation consulting services practice in Los Angeles. **BI**

Why health reform died

Magaziner blames misinformation

By SALLY ROBERTS

NEW YORK—Guided by misinformation, powerful interest groups and the media stymied efforts to overhaul the nation's health care system, contends a chief architect of the president's reform plan.

Although Congress is expected to consider smaller, more moderate reforms when it returns today, there is increasing doubt among lawmakers that any reforms will be passed this year.

One reason that reform bills have stalled is that the public was never well enough informed, said **Ira C. Magaziner**, who headed the Task Force on National Health Care Reform. His comments came shortly before the task force papers were to be released to the public. According to reporters who have reviewed the papers, they indicate that from the onset staff members had doubts about the feasibility of major parts of the president's plan.

"From the outset, we should have done a better job of informing the press about the process," Mr. Magaziner told the American Political Science Assn. in New York earlier this month. "That way we could have avoided perceptions that the deliberations were cloaked in secrecy, and we could have helped the

news media develop a better understanding of reform as the debate evolved."

Powerful special interest groups were the single biggest obstacle to reform, he said.

"Never in the history of this country have modern technology and scare tactics combined to produce the degree and tone of misinformation that was spewed out so quickly about health care reform. And never has there been such an extraordinary amount of money spent on disseminating that misinformation."

As an example, he cited health insurance industry ads denouncing mandatory alliances. Led by the Health Insurance Assn. of America's infamous "Harry & Louise," those ads misrepresented the alliances as a government takeover of health plans that would reduce choice, he said. In fact, the idea behind alliances was to give people more choice and to reduce the administrative burdens that now exist for businesses, argued Mr. Magaziner.

In addition, the length of the President's health care reform bill became a metaphor for the complexity people would supposedly face under a reformed system and a symbol of the amount of government involvement people would see in their health care, Mr. Magaziner said. He

noted, though, that many pieces of major legislation are as long or longer than the health bill, including the recently passed crime bill.

Mr. Magaziner said the president's plan was distorted into some "radical, wild-eyed attempt to revamp our health system."

"In spite of the barrage from special interests, the American people have said what they want—and they have said how they want to pay for it. And they've been very consistent in their views," said Mr. Magaziner, referring to universal coverage, employer mandates, government cost controls and a tobacco tax.

"With that kind of support, these ideas and proposals are not going to disappear and be forgotten by the public," he predicted.

"As was proven with the crime bill, special interests do not always succeed in undermining the interests of the American people. And we must continue to make sure that the voices of reason are heard over the shouts of fear and confusion. That's why we will not walk away from the fight to provide security for the American people," he said.

Although health care remains on Congress' agenda, comments by lawmakers last week raise doubts whether even incremental reforms will pass this year.

Rep. **Jim McDermott**, D-Wash., a leading advocate of a single-payer system, urged Congress to put off acting on health care bills until next year, arguing that none of the incremental bills now on the table would come close to achieving universal coverage. "This relentless effort to retain a system of employer-based, private insurance led to endless complexity and confusion and delay that ultimately sank health care reform," Rep. McDermott said in a speech to a Seattle Rotary Club last week.

Separately, Sen. **Paul Simon**, D-Ill., predicted Congress would not enact any national health legislation during the final month of the current session. **BI**

Tiffany

Continued from page 3
stolen goods at \$1.25 million.

Tiffany's insurance is led by underwriters at Lloyd's, with about two-thirds of the total limits written by Lloyd's syndicates and the remaining one-third placed outside Lloyd's, a Lloyd's spokesman confirmed. He could not provide further details of the coverage.

Johnson & Higgins is the store's broker. Maxson Young Associates Inc., a New York claims adjust-

ment firm, is handling the loss for the underwriters.

Maxson Young officials are scheduled to meet with Tiffany representatives this week to start reviewing supporting documents for the store's claim, said **Michael Watters**, a Maxson Young vp.

A Tiffany spokeswoman said the company's coverage was sufficient for the loss.

The last robbery at Tiffany occurred in 1982, when a man and two women pocketed \$300,000 in jewelry during regular store hours and fled. **BI**

Updates

AIG managed care venture

NEW YORK—American International Group Inc. is entering the managed care field, both domestically and internationally.

Its new AIG Managed Care Inc. unit will forge ties between commercial insurance clients and managed care networks to help clients cut workers compensation and health care costs, said **Mark Tabak**, head of the new AIG venture and former chief executive officer of Group Health Plans Inc. in St. Louis.

Mr. Tabak noted that AIG will be able to selectively match client needs in a particular geographic area with the best-suited local networks to increase client satisfaction.

The company will offer its domestic clients two basic services:

- Managed care for the medical portion of workers comp programs.
- A 24-hour managed health and workers comp plan.

AIG Managed Care also will seek to spread managed care to its international clients, even in countries where no networks now exist. "(It) won't be Western-style managed care as we know it," said Mr. Tabak. "It will be more like applying some of the concepts we use such as wellness, case management and utilization review to existing systems. However, we may eventually find specific countries whose health care systems allow for us to create a Western PPO, where discounts are agreed to in exchange for volume."

AIG does not plan to put together new managed care networks.

Blues sued over copayments

RICHMOND, Va.—A federal judge will decide whether to allow a class-action suit alleging that Trigon Blue Cross & Blue Shield violated federal racketeering law in its handling of copayments.

Three policyholders filed suit Aug. 31 in U.S. District Court in Richmond, Va., seeking treble damages and unspecified punitive damages. They allege that they had to make excessive copayments because the plan did not pass on savings it negotiated with hospitals. If Judge **Richard Payne** certifies the class, thousands of policyholders would be eligible to join.

"Trigon did not knowingly engage in any wrongdoing regarding hospital coinsurance calculations. Certain marketing materials and forms were not as clear as they might have been and we changed them in October. We regret that some of our policyholders may have misunderstood how their coinsurance payments were calculated," said a spokesman for the Richmond-based insurer, formerly called Blue Cross & Blue Shield of Virginia.

The insurer's calculation of copayments between 1991 and 1993 is the subject of an ongoing investigation by the state Insurance Department and other agencies (BI, Aug. 8).

Surplus lines rule criticized

NEW YORK—Standard & Poor's Insurance Rating Services warns that a proposal to tighten trust fund requirements for foreign non-admitted insurers could reduce capacity in the surplus lines market.

The proposal, which would require most foreign surplus lines insurers to maintain an irrevocable trust fund equal to 75% of their net U.S. liabilities, is part of the Non-Admitted Insurance Model Act, which the National Assn. of Insurance Commissioners is scheduled to vote on at its fall meeting Sept. 18-20 in Minneapolis (BI, June 27).

Stuart Shipperlee, an S&P director in London, said the trust fund could restrict capacity because some foreign insurers may decide to concentrate their marketing in nations with less strict requirements.

The plan also could create a disincentive to maintain adequate loss reserves, since understating liabilities would, in effect, be a way to lower the amount needed in the trust fund, he said. This could occur despite a requirement that an actuary certify reserves, he added.

NAIC regulators say the draft is an attempt to achieve a balance between maintaining availability of surplus lines coverage and protecting policyholders from financially troubled companies.

Briefly noted

Rating agency Weiss Research Inc. has upgraded 28 **Blue Cross & Blue Shield** plans, citing five straight years of strong financial results for many plans and the shift from traditional insurance to managed care practices. ... **Seibels Bruce Group Inc.**, a specialty insurer hard hit by Hurricane Andrew losses, hopes to attract new capital following the resignation last week of its two top officers: **Sterling E. Beale**, chairman and chief executive officer, and **W. Thomas Reichard**, president and chief operating officer. ... **Work-related homicides** took 1,063 lives in 1993, says a new Bureau of Labor Statistics study. Although women accounted for only 188 of the victims, those homicide victims represented nearly 40% of all women killed in the workplace. ... **Louis Bordeaux Montrieux**, chairman of Paris-based **Groupe des Assurances Mutuelles Agricoles**, died Sept. 7 of cancer. **GROUPAMA** is the majority shareholder of international reinsurer **SOREMA International Holding**. ... **The Hartford Steam Boiler Inspection & Insurance Co.** plans to issue \$20 million of convertible preferred stock to General Reinsurance Corp. in return for the remaining 50% interest in Engineering Insurance Group, a six-year-old joint partnership that provides machinery breakdown insurance to businesses outside the United States and Canada. ... **Oakland, Calif.-based medical malpractice insurer Medical Insurance Exchange of California** plans to be a corporate investor in Lloyd's of London next year, providing 2.5 million pounds (\$3.9 million) of capital. The capital, which would give the reciprocal insurer about 5 million pounds (\$7.7 million) of underwriting capacity, probably would be spread among syndicates that currently reinsure MIEC, sources said. ... **Three Bermuda companies** are opening London offices. **Scandinavian Reinsurance Co. Ltd.** as of Sept. 1 operates from the offices of affiliate **Sirius (U.K.) Insurance P.L.C.** **LaSalle Re Ltd.** today will open a contact office at the London Underwriting Centre. **ACE Ltd.** will open a London contact office on Sept. 14.

Garbage in, garbage out

Insurers still underpricing despite rating agencies' tougher stance

By MYRON M. PICOULT

Special to Business Insurance

WE WOULD GENERALLY argue that the regulation of the industry by the National Assn. of Insurance Commissioners has been less than spectacular. To a large extent, regulation has been left to the rating agencies and their record is also quite spotty.

However, our sense is that the rating agencies are crankier this year than last and are seeking to raise specific industry benchmarks. This is clearly a step in the right direction and direly needed. For the history buffs, it should be noted that the last two insurance market bottoms came in August 1984 and September 1974. So much for the three-year cycles!

A.M. Best Co., for example, is apparently adopting a more active response to industry conditions.

Rather than accept that catastrophe losses since 1989 have been at an "unusual" level and therefore likely to correct to a lower figure, the company is somewhat quietly requiring insurers with heavy property exposures to increase their capital availability and flexibility. The penalty for not listening and acting is likely to be a reduced rating.

A.M. Best is in the process of reviewing Continental Corp.'s current rating. Moody's Investors Service has also placed under review for possible downgrade the senior debt ratings of Continental Corp. and the financial strength ratings of its property/casualty subsidiaries. Standard & Poor's Corp. is also being more active, as witnessed by the recent downgrading of the claims-paying ability rating of Aetna Casualty & Surety Co. and Standard Fire Insurance Co. property/casualty intercompany pools. Finally, Standard & Poor's has put Home Holdings Inc. and its subsidiary, Home Insurance Co., on its CreditWatch list.

To achieve the needed flexibility, affected underwriters are likely to resort to increased use of reinsurance, possible capital infusions from their parent organizations or seek private placements, given the current state of the public markets. Other near-term fixes could include either the reduction or elimination of

shareholder dividends (Continental Corp. is a case in point) or the sale of low-return and non-strategic assets. In extreme cases, the sale of good assets may also be needed.

For the shareholders of public companies, the reality check from the rating agencies places emphasis on capital flexibility and liquidity. This could accelerate greater pricing discipline eventually in those companies staying in the business and interested in maintaining their ratings. We should caution that we are using logic, which has proved to be a very unsatisfactory exercise in the past—as noted by the aforementioned insurance market bottoms some 10 and 20 years ago. Logic would have dictated a reversal in casualty prices some time ago.

Before a return of pricing discipline occurs, dividends stand out as a ready source of cash for companies that are financially strapped. This raises the threat of dividend cuts for some insurers and implies a clear cap on dividend growth for many insurers. The conclusion very simply is that balance sheet strength is more important than it has ever been in choosing an investment in the property/casualty group.

One of the standard laments going around in insurance circles is when will the cycle turn? What else will it take to change the casualty pricing trends? To begin with, the dynamics of the insurance marketplace have changed due to the chunk of business that now resides in the alternative market, which accounts for roughly one-third of commercial writings. This shift has reduced the pricing power of the traditional purveyors (as it relates to standard covers), it implies that some of the better risks have deserted the traditional market and, consequently, has tilted the risk profile of the remaining "traditional" pool. Finally, we sense that there is a higher volatility of the existing risk profile due to more aggressive purchases by the buyers of excess covers and reinsurance.

There is one thing that changes pricing cycles. When managements and/or the boards fear for their positions, actions are taken. Indeed, ignore what managements and boards say, look at what they do. Notwithstanding

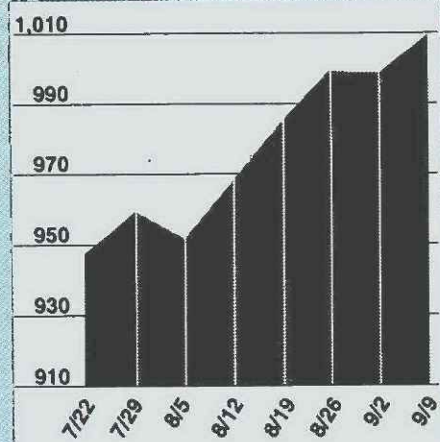
the cries of deficient pricing, most insurers are ramping up their writings. This is cash flow underwriting without the yield kicker.

Furthermore, the guaranty funds provide the ultimate backup if an insurer implodes. This, too, is a major fault of the existing system and must be corrected. The original concept of the funds have been sorely distorted. You can only price your product as well as your stupidest competitor. Hence, the stronger insurers are clipped twice: Once on the pricing side and once when they are being required via the guaranty funds to bail out another insurer. Nothing hurts more than bailing out a competitor only to have them come back and beat your brains in with another underpriced product.

An old insurance sage once said, "Garbage in, garbage out." This fairly accurately describes our general view of the industry's second-quarter results and figures. While there are some exceptions, it is clear that many underwriters continue to underprice their casualty products, remain overextended on their property exposures and continue to compromise the integrity of their balance sheets.

It seems to us that it would be less costly for most companies to send their underwriting staffs and their families to Disneyland for at least the remainder of 1994 (and perhaps for all of 1995). To be sure, this would at least be a defined loss, because the cost of lodging, food, park entrance fees and golf and tennis fees can be more accurately estimated. They clearly do not have the foggiest idea of the ultimate cost of the business they are putting on their books.

BI Insurance Index



Base = 100 on Dec. 29, 1978

Source: Nordby International Inc.

Insurance stocks rose last week, as the **Business Insurance Index** gained 10.7 points to 1009.7 Sept. 9 from 999.0 on Sept. 2. Advancing issues were led by: Harleysville Group, up 13.4%; Seibels Bruce Group, up 9.8%; and Humana Inc., up 7.5%. Declining issues followed: Safeguard Health Enterprises, down 10.1%; Selective Insurance Group, down 5.4%; and Home Holdings Inc., down 5.2%. The most active issue was U.S. Healthcare, 5.5 million shares traded. The **BI Index** rose 1.1%; the Dow Jones 30 Industrials lost 0.3%; the NYSE Composite fell 0.6%; and the Standard & Poor's 500 fell 0.6%.

British Issues

Sept. 8	Price	P/E*	Div.*	Yield	1 week
Companies	pence		pence	%	high—low
Comm Union	556	17.7	31.0	5.6	564—556
Genl Accident	571	11.4	34.4	6.0	581—571
Gdn Royal Exch	191	12.3	9.5	5.0	197—187
Independent	267	8.7	14.4	3.9	267—260
Royal	281	12.2	9.4	3.3	298—281
Sun Alliance	332	14.9	12.4	5.5	352—332

Brokers	Price	P/E*	Div.*	Yield	1 week
	pence		pence	%	high—low
Bradstock	100	11.2	6.9	6.9	100—100
Fenchurch	155	12.1	9.0	5.8	155—155
CE Heath	287	10.3	20.0	7.0	288—287
JIB Group	139	12.2	5.4	6.8	147—139
Lloyd Thompson	171	11.6	5.4	4.9	171—170
Lowndes Lmbt	199	12.6	5.4	4.7	200—199
Nelson Hurst	153	15.0	7.0	4.6	153—152
PWS Holdings	44	N/M	2.5	5.7	44—44
Sedgwick Grp	167	18.6	7.5	4.5	169—164
Steel Brl Jones	123	N/M	11.3	9.2	124—123
Willis Corroon	153	14.0	8.3	5.4	153—151

Source: Philip Olsen, London

* Actual 1993 figures

Myron M. Picoult is managing director and senior insurance analyst with Oppenheimer & Co. in New York. He is the past president of the Assn. of Insurance & Financial Analysts and a member of the New York Society of Security Analysts.



BI Industry Stock Report SEPT. 5, 1994, THROUGH SEPT. 9, 1994

BROKERS														INSURERS/REINSURERS														HEALTH MAINTENANCE ORGANIZATIONS														
		Price	Weekly % change	Year to date % change	Annual High	Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt./Bk. value			Price	Weekly % change	Year to date % change	Annual High	Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt./Bk. value			Price	Weekly % change	Year to date % change	Annual High	Low	Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt./Bk. value				
Acordia Inc.	NYS	27.63	3.76	12.18	28.75	21.00	6	0.60	2.17	14	10.22	2.70	NAC Re Corp.	NDQ	26.50	0.00	-9.01	37.00	24.00	112	0.16	0.60	11	19.24	1.38			27.13	1.40	4.33	29.75	18.25	1332	0.00	0.00	17	11.43	2.37				
Alexander & Alexander	NYS	20.38	-0.61	2.52	24.75	14.00	543	0.10	0.49	-	6.73	3.03	National Re Corp.	NYS	26.88	6.44	-12.24	36.75	23.50	242	0.16	0.60	10	17.51	1.53			23.25	7.51	26.53	23.25	11.88	4524	0.00	0.00	27	5.71	4.07				
E.W. Blanch Holdings Inc.	NYS	22.63	-0.55	30.22	23.50	15.75	12	0.32	1.41	20	4.10	5.52	Navigators Group	NDQ	17.06	0.37	-51.25	39.00	16.00	48	0.00	0.00	-3	16.99	1.00			72.38	1.22	91.72	73.00	30.50	566	0.00	0.00	25	11.15	6.49				
Gallagher Arthur J. & Co.	NYS	33.13	-0.38	-7.34	37.13	28.13	23	0.88	2.66	17	7.52	4.40	Nobel Insurance Ltd.	NDQ	8.00	0.00	4.92	8.63	6.63	54	0.20	2.50	-4	6.84	1.17			10.00	-10.11	-20.00	15.50	9.50	89	0.00	0.00	11	5.71	1.75				
Hill, Rogal & Hamilton	NYS	12.25	2.08	-6.67	15.13	11.13	34	0.48	3.92	17	4.51	2.72	NWNL Companies	NYS	31.25	-3.10	-3.85	38.75	27.00	92	0.90	2.88	11	23.97	1.30			27.38	3.30	23.03	73.75	15.50	226	0.00	0.00	11	4.60	5.95				
Marsh & McLennan	NYS	82.38	-2.51	1.23	91.88	77.00	222	2.90	3.52	17	16.76	4.91	Ohio Casualty Corp.	NDQ	31.25	-0.79	-1.96	36.00	26.50	208	1.46	4.67	13	23.84	1.31			53.75	3.86	43.81	53.75	27.19	2706	0.03	0.06	35	10.64	5.05				
Poe & Brown	NDQ	20.38	-1.21	13.19	22.75	16.88	10	0.40	1.96	15	3.02	6.75	Old Republic Int'l	NYS	21.88	-1.13	-2.78	27.63	21.25	211	0.48	2.19	8	23.57	0.93			44.00	2.62	14.78	47.50	26.66	5408	0.84	1.91	20	6.21	7.09				
BROKERS	AVERAGE		0.1	6.5					2.3	14			Orion Capital Corp.	NYS	32.75	1.16	6.07	36.31	28.63	46	0.72	2.20	9	27.43	1.19			27.50	3.29	-10.93	37.00	24.25	241	0.00	0.00	10	10.94	2.51				
													Partner Re Holdings Ltd.	NDQ	20.75	-4.60	-4.60	23.50	18.50	1030	0.40	1.93	17	N.A.	N.A.																	
													Penn-America Group Inc.	NDQ	7.50	3.45	-2.44	9.50	6.50	0	0.00	0.00	9	6.21	1.21																	
ACE Ltd.	NYS	24.25	7.18	-20.49	35.00	22.75	782	0.44	1.81	-32	28.74	0.84	Phoenix Re Corp.	NDQ	27.63	1.84	0.45	37.75	18.50	205	0.30	1.09	7	19.99	1.38																	
Acceptance Insurance Cos.	NYS	14.75	-1.67	26.88	15.63	11.13	82	0.00	0.00	14	9.65	1.53	Provident Life	NYS	28.75	-1.29	-9.09	31.88	24.38	43	1.04	3.62	-	26.38	1.09																	
AEGON N.V.	NYS	56.63	-0.66	3.42	59.50	46.00	6	2.94	5.18	10	34.71	1.63	Re Capital Corp.	NDQ	12.50	-0.50	-8.26	15.50	12.25	11	0.32	2.56	2	16.88	0.74																	
Aetna Life & Casualty	NYS	48.13	-3.27	-20.12	66.25	48.13	1355	2.76	5.74	-7	71.84	0.67	Reliance Group Holdings	NYS	6.38	2.00	-17.74	10.38	4.88	527	0.32	5.02	-	4.22	1.51																	
Allied Group Inc.	NDQ	29.00	-0.43	16.00	32.75	22.75	64	0.60	2.07	7	10.45	2.78	RLI Corp.	NYS	22.00	-1.12	-17.76	27.75	20.63	14	0.60	2.73	-3	22.91	0.96																	
Allmerica Prop. & Casualty	NYS	17.25	0.00	-19.92	22.16	14.25	41	0.16	0.93	11	56.97	0.30	St. Paul Companies	NYS	41.13	-2.37	-8.36	49.00	37.69	867	1.50	3.65	6	57.84	0.71																	
Allstate Corp.	NYS	26.25	0.00	-11.76	34.25	22.63	791	0.72	2.74	17	18.43	1.42	SAFECO Corp.	NDQ	55.50	2.78	1.60	65.75	48.50	699	1.96	3.53	0	41.59	1.33																	
American General	NYS	29.13	-2.10	2.19	35.00	24.88	789	1.16	3.98	23	22.09	1.32	SCOR U.S. Corp.	NYS	11.75	1.08	-6.93	16.88	10.13	57	0.36	3.06	-	16.08	0.73																	
American Heritage Life Ins.	NYS	18.88	3.42	1.34	23.50	16.50	23	0.66	3.50	12	12.42	1.52	Seibels Bruce Group	NDQ	2.81	9.76	60.71	3.50	0.31	638	0.00	0.00	6	1.90	1.48																	
American Indemnity/Fin'l	NDQ	11.13	1.14	-14.42	15.25	10.00	10	0.24	2.16	5	16.18	0.69	Selective Ins. Group	NDQ	26.25	-5.41	-13.22	31.00	23.00	186	1.12	4.27	7	23.11	1.14																	
American International	NYS	90.63	-1.76	2.84	100.25	81.75	1934	0.46	0.51	14	45.25	2.00	Sphere Drake Holdings	NYS	15.50	-0.80	-6.06	21.53	14.63	46	0.12	0.77	7	12.17	1.27																	
American Re Corp.	NYS	31.25	2.04	10.62	35.75	23.50	44	0.00	0.00	16	14.80	2.11	Statesman Group Inc.	NYS	15.38	0.00	23.00	15.50	10.25	263	0.10	0.65	6	8.65	1.78																	
Aon Corp.	NYS	34.25	-1.44	6.48	39.00	30.00	188	1.28	3.74	11	33.10	1.03	TIG Holdings	NYS	20.38	-1.21	-9.94	28.00	17.25	299	0.20	0.98	6	18.49	1.10																	
Argonaut Group	NDQ	30.00	0.84	-1.64	35.25	26.25	66	1.16	3.87	9	27.65	1.08	Titan Holdings Inc.	NYS	9.00	5.88	-17.24	12.63	7.75	13	0.28	3.11	6	8.93	1.01																	
AVEMCO Corp.	NYS	15.75	3.28	-16.00	21.25	13.75	159	0.44	2.79	11	8.13	1.94	Tokio Marine & Fire	NDQ	60.50	-2.42	12.04	66.00	49.25	5	0.41	0.67	-	57.72	1.05																	
Baldwin & Lyons Inc.	NDQ	15.13	1.68	1.68	16.25	13.75	6	0.24	1.59	9	12.59	1.20	Torchmark Corp.	NYS	41.13	-1.50	-1.80	59.75	36.75	311	1.12	2.72	13	17.35	2.37																	
Berkley W.R. Corp.	NDQ	36.50	0.00	11.45	47.50	32.00	330	0.44	1.21	17	28.12	1.30	Transatlantic Holdings	NYS	52.50	-1.64	-6.14	61.13	45.38	15	0.38	0.69	13	29.60	1.77																	
Berkshire Hathaway Inc.	NYS	19000.00	1.04	16.39	19750.00	15150.00	0	0.00	0.00	-	8115.28	2.34	Transnational Re Corp.	NDQ	22.75	-1.62	-15.74	27.00	0.13	113	0.00	0.00	13	N.A.	N.A.																	
Capital Re Corporation	NYS	22.75	2.82	-11.65	28.13	18.50	7	0.20	0.88	9	21.66	1.05	Travelers Corp.	NYS	35.75	-2.72	-8.04	49.50	31.00	1507	0.60	1.68	9	33.35	1.07																	
Capsule Holdings Corp.	NYS	13.00	0.00	-3.70	17.25	12.25	26	0.00	0.00	12	13.08	0.99	Trenwick Group Inc.	NDQ	39.00	0.00	0.65	47.75	33.25	61	1.00	2.56	14	26.00	1.50																	
Chubb Corp.	NYS	71.25	-1.55	-9.38	90.13	70.63	1080	1.84	2.58	25	46.58	1.53	United Fire & Casualty	NDQ	41.00	1.23	13.89	44.00	36.00	153	1.08	2.63	9	28.96	1.42																	
CIGNA Corp.	NYS	64.50	-3.01	1.98	74.00	57.00	736	3.04	4.71	13	78.23	0.82	Unitrin	NDQ	48.25	-0.52	13.53	51.50	38.50	376	1.80	3.32	24	38.90	1.24																	
CNA Financial Corp.	NYS	61.00	-0.41	-22.54	89.50	60.00	50	0.00	0.00	-16	77.92	0.78	UNUM Corp.	NYS	49.13	-0.25	-6.43	58.00	43.00	474	0.96	1.95	12	27.55	1.78																	
Continental Corp.	NYS	15.25	3.39	-44.80	33.00	14.13	1451	0.00	0.00	-66	38.99	0.39	US Facilities Corp.	NDQ	12.13	-3.48	2.11	14.63	8.25	120	0.00	0.00	13	11.07	1.16																	
EMC Insurance Group Inc.	NDQ	8.75	-4.11	-7.89	10.25	8.50	4	0.52	5.94	9	N.A.	N.A.	USF&G Corp.	NYS	13.63	2.83	-9.92	18.38	11.69	813	0.20	1.47	3	10.60	1.29																	
Emphesys Financial Gr. Inc.	NYS	33.13	3.52	N/A	33.13	21.25	190	0.60	1.81	9	N.A.	N.A.	USLICORP.	NYS	21.25	0.59	28.79	22.75	15.75	219	0.24	1.13	3	25.22	0.84																	
EXEL Ltd.	NYS	39.75	-2.45	-11.67	47.88	36.00	162	1.20	3.02	8	33.81	1.18	USLIFE Corp.	NYS	35.63	0.71	-8.06	45.75	34.88	232	1.24	3.48	3	41.73	0.85																	
Fremont General Corp.	NYS	25.63	1.49	6.22	28.25	21.50	126	0.76	2.97	8	23.40	1.10	Washington National	NYS	22.00	2.33	-9.28	26.13	20.63	53	1.08	4.91	3	28.40	0.77																	
Frontier Insurance Group	NYS	31.75	-3.05	-27.64	37.50	25.41	19	0.48	1.51	15	16.33	1.94	Zenith National Ins.	NYS	24.88	-1.97	12.43	28.75	20.63	26	1.00	4.02	11	17.71	1.40																	
Gaisco Inc.	ASE	9.00	-2.70	0.00	12.16	7.84	78	0.04	0.44	13	3.49	2.58	Zurich Reinsurance Centr.	NYS	27.00	-0.46	-4.42	33.00	24.25	25	0.00	0.00	-56	24.41	1.11																	
General Re Corp.	NYS	108.00	-2.15	1.65	131.88	101.75																																				

The snowshoe rabbit changes color with the season, adopting a white coat in winter and a brown coat in summer. This change, which is governed by the shortening length of day, enables the rabbit to blend into its background for protection.



The Ability To Adapt To The Environment Is Necessary For Survival In Nature. And In Benefits Management.

In nature, the ability to change and adapt is required for survival. In managing employee benefits programs, it's also becoming a necessity.

The Mutual of Omaha Companies recognize this need. Our experience in developing and offering PPO, EPO, HMO and point-of-service plans gives us the ability to work with companies to design benefit programs that can meet their changing needs. Our years of experience have taught us the best ways to prepare for change — and therefore, we're ready to help benefits managers meet it.

Nature is experienced at managing change. And so are we.

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