

# Business Insurance

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## Outhwaite to stop underwriting due to low member support

LONDON—Lack of support from members agencies will force Richard Outhwaite to stop underwriting for troubled Lloyd's of London syndicate 317 next year, despite strong support for him elsewhere in the market.

R.H.M. Outhwaite (Underwriting Agencies) Ltd. announced last week that its syndicates—317, 1047 and 1081—and its members agency would be managed by managing agent Barder & Marsh starting in 1993, subject to approval by Lloyd's.

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## Governors lobbying for waiver of ERISA

By MARK A. HOFMANN

WASHINGTON—Waivers from the Employee Retirement Income Security Act are needed to allow states to begin reforming their health care systems, four governors urged a Senate committee last week.

With the health care crisis worsening, states "can't sit back and wait for the cavalry to arrive," argued Florida Gov. Lawton Chiles. Instead, states should be allowed to try their own programs, with their experience guiding federal lawmakers.

"The states have a remarkable opportunity to move ahead," Vermont Gov. Howard Dean told the Senate Finance Committee.

Govs. Chiles and Dean—along with South Dakota Gov. George Mikelson and Colorado Gov. Roy Romer—spoke in favor of S. 3180, the State Health Care Act of 1992.

Introduced by Sens. David Pryor, D-Ark., and Patrick Leahy, D-Vt., the bill would set up a federal commission to

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# AIG memo causes storm



AP/Wide World Photo

U.S. Army troops are helping to clean up and rebuild in the aftermath of Hurricane Andrew. This bulldozer is clearing debris in Homestead, Fla.

## Regulators vow to scrutinize rate hikes in wake of Hurricane Andrew losses

By MEG FLETCHER and DOUGLAS McLEOD

A 103-word internal memo by a top American International Group Inc. executive that says Hurricane Andrew provides "an opportunity to get price increases now" is galvanizing regulatory opposition to any rate hikes soon.

The Florida Insurance Department has frozen action on any AIG rate requests and is asking other insurers to consult with the department before attempting to

raise rates under the state's use-and-file system.

Louisiana's insurance commissioner next month also will attempt to place a moratorium on all AIG rate requests and investigate the insurer's past and current rating practices. He also is warning other insurers that rate requests filed under the state's prior approval system will now be especially scrutinized.

"The fact that anyone would try to take advantage of victims

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# Product liability reform bill killed

## But backers point to shrinking margin of opposition

By MARK A. HOFMANN

WASHINGTON—Supporters of a uniform federal product liability bill say last week's Senate vote to quash the legislation won't stop them from pushing for reform next year.

"Our commitment to this remains strong. We're not going away. We're going to be back next year," said James A. Anderson Jr., senior director-government relations for the National Assn. of Wholesaler-Distributors in Washington. NAW serves as executive secretary of The Product Liability Alliance, a business-backed group supporting a uniform federal product liability code.

"I think the supporters will gather together

and assess their strengths and weaknesses and try again," said Tom O'Day, associate vp-federal affairs in the Washington office of the Schaumburg, Ill.-based Alliance of American Insurers. The Alliance supported passage of the measure, which some other insurance groups considered too mild.

One key question facing supporters is how best to use the momentum of last Thursday's close vote on the measure to push a bill next year, added Mr. O'Day.

Supporters of S. 640, the Product Liability Fairness Act, hoped to gain the support of 60 senators to invoke cloture, a parliamentary procedure that cuts off debate—and thus precludes filibusters—last Thursday. However,

despite two rounds of voting on whether to invoke cloture, proponents ultimately fell two votes short of cutting off debate, with 58 senators voting for cloture and 38 against. Three senators recorded no votes.

The other Senate seat is vacant owing to the death early last week of Sen. Quentin N. Burdick, D-N.D.

Of the three senators who did not vote, one—Sen. Albert Gore Jr., D-Tenn., the Democratic vice presidential nominee—has opposed uniform product liability laws. Sen. Wyche Fowler Jr., D-Ga., is not identified with either side. But Sen. Robert Kerrey, D-Neb., initially cast a vote in favor of cloture and then withdrew it after conferring with Senate Majority Leader George Mitchell, D-Maine, an outspoken opponent of S. 640.

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# Open-ended HMO enrollment growth eases: Study

By NANCY P. JOHNSON

Rocketing enrollment in open-ended health maintenance organizations has slowed, but still outstrips growth in pure or traditional HMOs, a new survey finds.

Benefit experts speculate the slowdown is occurring because an increasing number of employers are turning to point-of-service plans, which are a similar type of managed care arrangement.

Between January 1991 and January 1992, enrollment in open-

ended HMOs increased nearly 25% to 1.5 million from 1.2 million, the survey says.

However, most of that growth occurred in the first half of 1991. Growth in open-ended HMOs slowed to 4% in the second half, according to a survey of 519 HMOs by InterStudy, a managed care research firm in Excelsior, Minn.

And 1991 gains are down from the previous year, when open-ended enrollment climbed 39.5% to 1.2 million from 858,000 in 1990.

From 1991 to 1992, enrollment in traditional HMOs increased a modest 5.9% to 36.1 million from 34.1 million. Enrollment rose 3% from 1990 to 1991.

A small portion of the slowdown in open-ended enrollment is due to reporting errors from 1991, in which the definition of open-ended HMO was misconstrued, according to the report, "InterStudy Competitive Edge."

InterStudy defines an open-

ended HMO as one that allows employees and dependents to obtain services outside the network but at reduced benefit levels. Traditional HMOs restrict participants to network providers.

But the primary factor behind slower growth in open-ended HMO enrollment is competition from other open-ended type products, like point-of-service plans, according to Dr. Paul Ellwood, president of InterStudy.

The slowdown, though, "will be a temporary phenomenon," he predicted. "What we will see is a really rapid growth in managed care products. As employers become more cost-conscious, they will get people used to being in a plan. Then when they get used to it, they will close the door."

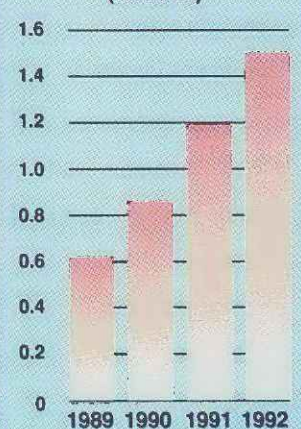
"Open-ended enrollment has really slowed down," said Michelle Porter, a research associate at InterStudy. "I think it is

*Continued on page 18*

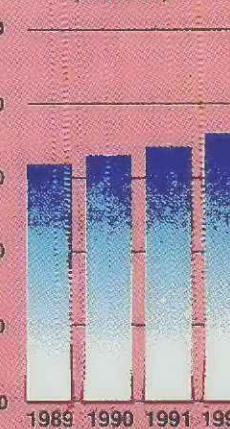
## HMO growth stabilizes

Enrollment in open-ended HMOs continues to grow, but not at the rapid pace of previous years. Growth in pure HMO enrollment is leveling off.

Open-ended HMO enrollment (millions)



Pure HMO enrollment (millions)



Source: InterStudy

GRAPHIC BY CHRIS ROY

Scandinavian financial crisis deepens

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Update

### Outhwaite forced to quit writing

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Mr. Outhwaite's syndicate, 317, will be underwritten by Simon Barder, who will continue to underwrite for syndicate 633, also managed by Barder & Marsh. Syndicate 317's open 1982 account and the runoff of all the business of the syndicates up to the end of this year will continue to be managed by the Outhwaite agency.

When members agencies would not provide capacity for 1993, Mr. Outhwaite finally had to stop writing, confirmed an Outhwaite spokesman. Several months ago, 81 members agencies agreed to pay about \$200 million to settle lawsuits over huge losses on runoff reinsurance contracts written by Mr. Outhwaite (BI, Feb. 17).

Capacity for syndicate 317 has dropped 70% to 39 million pounds (\$72.9 million) this year from its 1988 high.

Mr. Outhwaite and Edward Bloxham, chairman of the Outhwaite agency, are considering buying or setting up an insurance company in the London market, the spokesman said.

### Court seals tobacco study files

PHILADELPHIA—A federal appeals panel has vacated a ruling that would have forced several tobacco companies to turn over confidential documents relating to 1960s industry research into the health effects of smoking.

A three-judge panel of the 3rd U.S. Circuit Court of Appeals threw out a ruling by U.S. District Judge H. Lee Sarokin that the documents were not protected by attorney-client privilege. Among other things, the appeals court found that Judge Sarokin had based his ruling on evidence he should not have considered.

In an "agonizing" decision, the appeals panel also granted a tobacco company request to remove Judge Sarokin from the case, a lawsuit brought against several cigarette makers by the estate of Peter F. Rossi, a smoker who died of lung cancer in 1982.

The panel said Judge Sarokin would probably discharge his duties without bias but that his sharp tobacco-industry criticism makes it impossible for him to maintain an appearance of impartiality.

Judge Sarokin also presided over a tobacco liability suit brought by the estate of Rose Cipollone, the first such suit to result in a judgment against cigarette makers. The U.S. Supreme Court earlier this year exposed tobacco companies to certain liability claims and remanded the Cipollone case for retrial. Judge Sarokin is not expected to preside over the retrial (BI, June 29).

### New trial in fidelity bond case

CHICAGO—A U.S. appellate court here has ordered a new trial in a \$10 million fidelity bond coverage dispute in which the insurer argued it can deny coverage because the policyholder's dishonest employee did not intend to cause his employer to lose money.

The new trial was ordered after the court found that a lower court jury was not given an adequate definition of some policy terminology.

Attorneys for the policyholder, finance company Heller International Corp. of Chicago, view the Sept. 4 decision by the 7th U.S. Circuit Court of Appeals as a victory, even though it does not force the insurers, a consortium led by Lloyd's of London underwriter Alec Sharp, to provide coverage.

At the new trial, Heller must prove that an employee had a "manifest intent" to defraud it when he made a series of bad loans, said Kimball R. Anderson, a partner with Winston & Strawn in Chicago.

The case centers on the actions of Heller employee Irving Chudy, who made the loans to Zenith Shirt Co. The company eventually went into default, costing Heller more than \$15.6 million.

Mr. Chudy pleaded guilty to felony fraud charges and was sentenced to prison. Heller then recovered \$1.2 million from Mr. Chudy.

But when Heller sought coverage under its \$10 million fidelity bond, its insurers denied the claim on the basis that Mr. Chudy did not have the "manifest intent" to cause Heller to sustain a loss.

Heller sued, but a jury awarded it only \$77,090. On appeal, Heller successfully argued that the trial court jury did not have an adequate definition of the term 'manifest intent' when it rendered its verdict.

### New chief executive at Lloyd's

LONDON—Peter Middleton, group chief executive of travel outfit Thomas Cook Group, last week was named chief executive at Lloyd's of London as expected.

The 52-year-old former monk spent 16 years in the diplomatic service before joining Midland Bank P.L.C. in 1985 and becoming head of its Thomas Cook subsidiary four years later. He played a key role in the recent sale of Thomas Cook to German charter airline LTU and Westdeutsche Landesbank Girozentrale, a large German bank.

The Lloyd's post will be Mr. Middleton's first in the insurance industry. Changes in Lloyd's governance this year will make Mr. Middleton's role different than that of his predecessor, Alan Lord. The new chief executive's primary function is expected to be in a new Market Board that will oversee business strategy beginning in 1993.

### Family leave bill veto expected

WASHINGTON—Congress is unlikely to override an expected presidential veto of the family leave bill it passed last week.

The House approved S. 5 on a 241-161 vote, well short of the

Continued on page 38

### Errors & omissions

• Bavarian Reinsurance Co.'s 1990 aftertax net income is \$8 million. An incorrect exchange rate was used in converting the figure from deutsche marks in the Aug. 31 issue.

# Hearing on ELNY health, regulatory shortcomings

By JERRY GEISEL

WASHINGTON—Executive Life Insurance Co. of New York should be able to pay all promised benefits to policyholders without support from state guaranty funds, New York regulators say.

The less well-known of the two major units of once high-flying First Executive Corp. "is well-funded," said Terence Lennon, chief of the New York Insurance Department's life insurance bu-

reau, before a congressional panel last week. "It is able to meet its obligations. Policyholders will not lose anything."

Meanwhile, California Insurance Commissioner John Garamendi laid a great deal of the blame for the failure of Executive Life Insurance Co. of Los Angeles on his predecessors.

Top state regulators decided "not to clamp down" on Executive Life as the huge insurer's financial problems began to mount, contends Mr. Garamendi,

who took over last year as California's first elected insurance commissioner.

For several years, California regulators knew of serious problems, Mr. Garamendi charged. "The decision makers in the department allowed the problems to go on and on, and no action was taken."

A "will to act" is paramount to protect policyholders, the commissioner told the House Oversight and Investigations

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### Labor Department finds MEWA subject to state rules

# Union health plan questioned

By DOUGLAS McLEOD

WASHINGTON—A New York-based union health plan is operating under questionable collective bargaining agreements and therefore is subject to state insurance regulation as a multiple employer welfare arrangement, the U.S. Labor Department says.

A tentative Labor Department opinion found that a welfare

plan offered through Amalgamated Local Union 355 is not exempted from the definition of MEWA under the Employee Retirement Income Security Act of 1974.

Senate investigators have cited the collectively bargained plan exception to ERISA's MEWA definition as a loophole allowing some plans to circumvent state regulation. The issue is addressed in MEWA regulation

bills now pending in Congress (BI, June 22).

The Florida Insurance Department last year sought to shut down the union health plan, charging that it was operating illegally as an insurer.

Local 355 then sued the Florida department in U.S. District Court in Brooklyn, claiming its United Welfare Fund was a collectively bargained union plan

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### HMO, PPO info due for BI directory

Business Insurance will publish its fifth annual Managed Care Market Report in December, listing health maintenance organizations and preferred provider organizations nationwide along with reports on the state of the alternative health care market.

The report will be published as a special issue in addition to the regular weekly edition of BI. All subscribers will receive this issue free of charge.

In addition to addresses and phone numbers, the directories will provide information on individual HMOs and PPOs, including federal and state qualification; model type; number of participating physicians, hospitals, pharmacies and diagnostic labs; service areas; services offered and rating options; and the number of employers contracting with the organizations.

The directories are published as an editorial service. There is no charge to be included, but HMOs and PPOs must complete and return a BI questionnaire by Oct. 5.

HMOs that have not yet received a questionnaire should contact Directory Editor Kathy Welyki at 312-649-5279. PPOs contact Assistant Directory Editor Cindy Bloom at 312-649-3195.

# Two U.S. insurers to boost capacity for ocean hulls

BERN, Switzerland—With marine ocean hull rates rising worldwide and capacity shrinking, two U.S. insurers plan to offer more capacity at December renewals.

Officer of America Corp. will increase its capacity 50% to \$7.5 million for any one hull, according to Thomas J. Prendergast, chairman and president of the Continental Corp. subsidiary in Cranbury, N.J.

"We see this time as an opportunity to repatriate some of the accounts that have gone to foreign markets in recent years," Mr. Prendergast said last week at the International Union of Marine Insurers' annual meeting in Bern, Switzerland.

MOAC also wants to take advantage of rising ocean hull rates, he said. Ocean hull underwriters have received cash increases of about 60% in the past year through higher rates, he said.

GRE Insurance Group units will begin offering direct coverage of up to \$3 million per hull, said Vp Harry Keefe. New York-based GRE Insurance Group comprises the U.S. subsidiaries of U.K. insurer Guardian Royal Exchange Assurance P.L.C.

Until now, GRE Insurance Group subsidiaries had been underwriting only through the American Hull Insurance Syndicate. Rising rates and shrinking capacity are prompting the insurer to seek more direct business, Mr. Keefe said at the IUMI meeting.

—By Gavin Souter

### Inside

- ✓ Sky Chefs Inc. expects to save \$27 million over five years with a new wellness plan. **PAGE 6**
- ✓ A bizarre IRS proposal would thwart the goal of encouraging employers and trade groups to offer health care plans, this week's editorial says. **PAGE 8**
- ✓ Scandinavia's worsening financial crisis hits two Swedish insurers. **PAGE 31**
- ✓ A new Australian law may spark higher liability rates for manufacturers there, observers say. **PAGE 31**
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# Where do we go from here?

Changing employee buying habits seen as next cost control frontier



Start buying health care results, not just services, employers told

By CHRISTINE WOOLSEY

BOSTON—Employers may have come to the end of the line in terms of the cost savings they can wring out of existing health care cost containment techniques, says a corporate benefits manager.

Employers should now focus their energies on modifying employee behavior so that workers become more sophisticated health care consumers, he says.

"We won't get much more out of cost shifting and utilization review. You got something from those techniques 10 years ago, but what's left now is the need for a partnership with your (employees) to modify their use of health care," according to Douglas M. Bartlett, director of employee benefits for the U.S. operations of NCR Corp. in Dayton, Ohio.

"It's a question of getting your employees to truly use a managed care network without too much fuss, flack and bother," Mr. Bartlett said during a panel discussion at the fourth annual Corporate Benefits Conference sponsored by the International Foundation of Employee Benefit Plans in Boston Aug. 17-18.

By encouraging more of its employees to use providers in a managed care network, NCR has managed to slow the pace of its health care cost increases to about 6% for 1992—well below the double-digit increases typical for U.S. employers.

The computer manufacturer, which self-insures its group health care benefits, employs about 27,000 people in 50 states. Because its employee population is so spread out, the company had some diffi-

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By CHRISTINE WOOLSEY

BOSTON—Employers must change the way they buy health care services if they want to effectively control costs, says a benefits manager.

Rather than paying providers for services rendered, employers should buy health care based on quality care and favorable health outcomes, said Richard C. Dreyfuss, director of executive compensation and employee benefits for Hershey Foods Corp. in Hershey, Pa.

"We recognize that change within the health care environment is slow," Mr. Dreyfuss acknowledged during a panel discussion at the International Foundation of Employee Benefit Plans' Corporate Benefits Conference in Boston Aug. 17-18. "The people reluctant to change health

care include those in the corporate finance, legal and human resource departments. Many of us are complacent with the status quo and we don't know how change will affect us," he said.

Hershey, though, has recognized that it must change the way it purchases health care if it is ever to get a handle on rising costs, according to Mr. Dreyfuss. So the self-insured company will implement a point-of-service managed care network in January for its 6,000 employees in Pennsylvania.

Hershey's health care costs now average about \$3,200 per year per employee. Employees currently pay 3% of the program's overall costs.

All of Hershey's 10,000 U.S. employees currently can choose from among several

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## Risk Manager of the Year

10 independent judges to select 1993 winner, honor roll

Ten independent judges from all sectors of the risk management profession and the insurance industry will select the 1993 *Business Insurance* Risk Manager of the Year and the Risk Management Honor Roll.

The winners of the awards, presented annually by *Business Insurance* to recognize excellence in risk management, are selected based on the 10 judges' assessments of the risk managers as detailed in their nominations.

Candidates for the 1993 awards can 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 1993 honorees include the 1992 Risk Manager of the Year, the three members of the 1992 Risk Management Honor Roll, two insurance company executives,

two brokerage executives, a risk management consultant and an insurance educator.

The judges for the 1993 competition are:

- Norman A. Baglini, president of the American Institute for Chartered Property & Casualty Underwriters and the Insurance Institute of America in Malvern, Pa. Mr. Baglini is serving on the panel of judges for the first time, representing the academic community.

- Percy Chubb III, vice chairman of Chubb Corp. in Warren, N.J. Mr. Chubb is serving on the panel for a second year, representing a stock insurance company.

- Marc Darby, director of risk management and insurance for Montreal-based Bombardier Inc. Mr. Darby was named to the 1992 Risk Management Honor Roll, representing large corporations.

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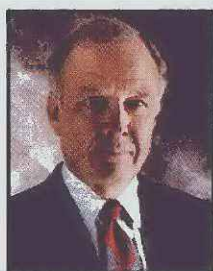
Mr. Baglini



Mr. Chubb



Mr. Darby



Mr. Kohler



Mr. Newsom



Mr. O'Connell



Mr. Taylor



Ms. Tornese



Mr. Wallace



Ms. Workman

## Enlist workers so safety efforts don't slip and fall

By SARA J. HARTY

A corporate-wide and uniform approach to improving workplace safety is helping Weyerhaeuser Corp. control its workers compensation costs by substantially cutting claims.

But other companies, like CR Industries and McJunkin Corp., target certain units for safety improvement and leave the development of workplace safety programs primarily to these units. The basis of this approach is that each unit can best identify and solve its own unique safety problems.

The key to all, though, is enlisting the aid of workers. When workers understand that escalating workers comp costs hurt profits, which will hurt future wages, employee cooperation and interest picks up.

"Prevention can have a real impact on the bottom line," said William E. Board, director of personnel for McJunkin Corp. of Charleston, W.Va., which supplies pipe, pipe valves and fittings for oil companies.

Weyerhaeuser has learned over a 10-year period that simple changes in corporate-wide safety policy can make it easier to get the safety message out.

And, its efforts are paying off. Workers comp claims have plummeted to 5,300 in 1991 from about 11,000 in 1982, while the number of employees has remained stable



at about 40,000.

Lost workdays paid for all claims—some of which may have been filed in previous years—dropped nearly 42% in 1991 to 147,000 from 253,000 in 1984, said Kenneth L. Gipson, corporate director of safety, health and statutory benefits.

With its workers comp costs "out of control" a decade ago, the first step the Tacoma, Wash.-based company took was to implement a so-called "ownership" concept: charging individual operating units for the costs associated with their own injuries (*BI*, Aug. 10).

Previously, all claim costs were paid out of a corporate pool.

But with the ownership concept came real motivation for stressing safety to employees to control workers comp costs, Mr. Gipson said.

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## Employers collaborate on dependent care

By CHRISTINE WOOLSEY

More than 100 employers are joining forces in a \$25.4 million effort to expand the supply and improve the quality of dependent care services in dozens of communities nationwide.

The project, called the American Business Collaboration for Quality Dependent Care, will combine the efforts of 109 com-

panies and 28 public and private organizations.

The participants will contribute a total of \$25.4 million over the next two years to support 300 dependent care programs in 44 communities in 25 states and the District of Columbia.

The primary goals of the collaboration are to expand and improve dependent care services where employees of participating

companies and organizations live and work, according to corporate leaders of the program. This, in turn, is expected to help employers build and retain a talented and productive workforce.

The effort will focus on expanding and developing infant and child care services and elder care services. Such services might include specialized training for dependent care providers;

expansion of child care facilities and school vacation and holiday programs; and in-home volunteer programs for the elderly.

The 44 communities selected for the project range from the nation's largest cities—including New York, Los Angeles and Chicago—to smaller communities like Boulder, Colo.; Des Moines, Iowa; and Huntsville, Ala.

Led by a group of 11 large

companies, the organizations say they joined forces because they realized they could accomplish more by working together than by working alone. A group of companies first met in April 1991 to discuss the possibility of a collaboration.

"We have 9,000 locations countrywide, 290 of which have more than 50 employees," ex-

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## ERISA waivers

Continued from page 1

grant exemptions from ERISA and federal Medicaid and Medicare laws to up to 10 states with plans to expand health insurance and control costs (BI, June 29).

Businesses oppose the bill, arguing that such state action would increase costs to company and worker alike and would make it impossible for large companies operating in multiple states to maintain uniform benefit plans.

Meanwhile, Sen. David Durenberger, R-Minn., introduced his own ERISA waiver bill late last week.

The bill, the State Health Care Financing Equity Act of 1992, would amend ERISA "to make clear that non-discriminatory broad-based health care taxes imposed by states on hospitals,

doctors and other providers do not violate ERISA," according to the senator's office.

Under the Durenberger bill, states with plans to expand coverage and control costs would be able to seek a waiver from the U.S. Labor Department that would allow them to levy taxes or surcharges on self-insured health plans.

Right now ERISA pre-empts any state law that "relates" to benefit plans.

The governors—and S. 3180, the State Health Care Act of 1982—did not lack support on the committee.

"I believe states should be the laboratories" of reform, said Sen. Max Baucus, D-Mont.

"Whatever we do, it has to be a state-based system" that would promote flexibility and innovation, said Sen. Thomas A. Daschle, D-S.D.

Supporters of the measure also claimed the backing of another prominent governor.

The bill "will help states to truly perform the laboratory function in this area of health care reform as we seek to design

**'I believe states should be the laboratories' of reform, says Sen. Max Baucus, D-Mont.**

an overall system of health care for all our nation's citizens," wrote Arkansas Gov. Bill Clinton in a Sept. 4 letter to Sen. Pryor.

S. 3180 would create a pilot program to provide federal

grants of up to \$2 million each to 10 states to fund programs that would ensure health insurance for all residents and control overall health care costs. States would have five years to institute the changes, which could involve comprehensive insurance programs like single-payer plans or "play-or-pay" plans.

State programs would be monitored and evaluated before exemptions were renewed.

"Let us do our jobs, let us govern," said Colorado Gov. Romer. Referring to the federal deficit, he said, "We have an economic disaster in the making, and health care costs are the main thing fueling it."

What's standing in the way of state reform efforts is ERISA, said Gov. Romer.

But granting waivers from the law isn't enough, he argued. "We ought to come back in the first

100 days of the next presidency and do the rest of the job."

In their committee testimony, the governors left little doubt that they ultimately want national health care reform.

"Certainly we prefer a national health care bill," said Gov. Chiles. But with 2.5 million residents uninsured, Florida recently adopted its own reform program, even though putting it into effect will require ERISA waivers.

"We have to move," said Gov. Chiles.

State waivers may actually hinder efforts to devise a national plan and could leave large employers facing a patchwork of conflicting state benefit laws, the governors acknowledge.

Gov. Dean predicted that approval of the ERISA waivers would actually speed up the adoption of a national health care system. As people move from state to state and experience different systems, they will press Congress to duplicate, on a national basis, those that work well.

Others at the hearing, though, shared neither the governors' enthusiasm for waivers nor their desire for quick action.

"Congress has a responsibility to move with care in amending the ERISA, Medicare and Medicaid statutes," said Sen. Lloyd Bentsen, D-Texas.

The Finance Committee chairman was not alone in his concern, for representatives of business and labor disagreed with the governors' contention that waiving ERISA rules for states would promote a better system.

Karen Ignagni, director-employee benefits department of the AFL-CIO in Washington, repeated the labor federation's call for national health care reform. "As it stands, the free market rewards employers" who do not provide coverage to employees because those employers do not bear the benefits costs of their counterparts who do pay for workers' health care, she said.

She was skeptical about the states' ability to provide the money and oversight necessary to carry out the programs permitted under the bill.

States have fallen short of the goals of providing universal access to care based on "equitable" financing, she said. They are encountering the same problems that Congress has to face, said Ms. Ignagni: deciding whether employers should be required to contribute to health insurance and designing fair and equitable financing systems.

"Past experience argues for a national, rather than a state-based approach," she said.

The chairman of the Washington-based ERISA Industry Committee, a business-backed group, also testified against S. 3180.

The bill would allow states to tax benefit plans; would require employers to convert uniform plans into a state-by-state patchwork; would "likely" increase both employer and employee contributions and would "disrupt carefully negotiated health care provider arrangements," said Robert S. Stone, associate general counsel of International Business Machines Corp. in Armonk, N.Y.

"The mobility of the workforce is essential to improving America's competitive edge. And employees need to know that their health benefits are consistent and predictable, regardless of being transferred to work locations in different states," he said.

From employee enrollment through benefit disbursement, you can now offer smaller firms the same 401(k) advantages that the largest corporations enjoy.

ITT Hartford presents EconoMax<sup>SM</sup>, a complete retirement package for businesses with 25 to 250 employees.

EconoMax advantages include a wide variety of investment options, professional money management and a simplified approach that keeps paperwork to an absolute minimum.

EconoMax also includes a big advantage for you—unusually attractive producer commissions.

What's more, everything is overseen by a designated case manager who'll help achieve maximum participation, stay current with all federal

# ANNOUNCING A RELATIVELY SMALL BREAKTHROUGH IN PENSION PLAN DESIGN.

regulations, perform ongoing IRS qualification testing and ensure timely, accurate statements.

The first major company to offer 401(k) plans, ITT Hartford has been administering them for more than a decade.

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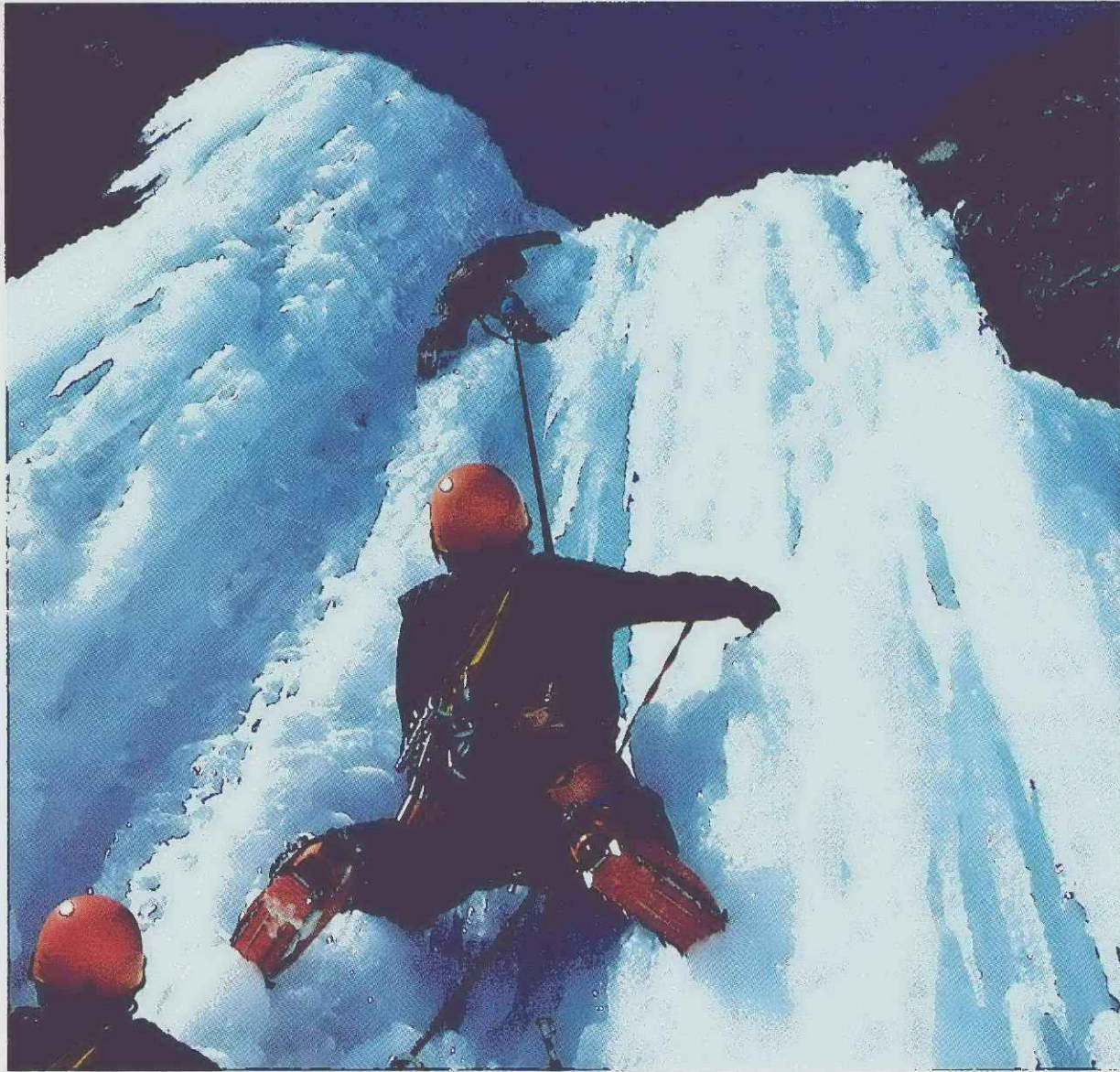
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# Sky Chefs launches novel wellness effort

Sky Chefs Inc., a large airline catering firm, is trying to take a bite out of soaring health care costs by covering most of the cost of wellness-related services and raising deductibles on the treatment of "preventable" injuries.

After its self-insured health care costs rose 37% last year to about \$18 million, the Arlington, Texas-based caterer—which employs 8,000—reworked almost its entire health plan. Its goal: to hold down annual cost increases to 15%.

Included in the overhaul of health benefits are higher deductibles and coinsurance for traditional indemnity coverage; additional deductibles for injuries the company deems preventable; a mail order prescription drug plan; and a point-of-service managed care plan that in-

cludes coverage for prenatal care, annual physicals and mammograms.

One key element in the new plan is better care for lower-paid, inner-city employees, said Ralph Gretzinger, a consultant in Dallas with Hewitt Associates, which helped Sky Chefs set up its new plan.

The overhaul took effect July 1 for the 7,000 workers who belong to unions; it became effective Jan. 1 for 1,000 non-union workers.

"Our costs were rising at such a rate that we had to do something for the company to continue to exist and still provide a high level of benefits," explained Cheryl Flynn, employee benefit programs manager.

The new program should hold annual health care inflation to about 14%, said Ms. Flynn. That means

## Benefit beat

costs over the next five years will be about \$27 million lower than they would have been otherwise.

Spurring the overhaul was a Hewitt Associates analysis done last year. Hewitt, says Ms. Flynn, attributed about \$4 million of Sky Chefs' costs directly to claims stemming from preventable injuries and health conditions, like obesity and high blood pressure.

In response, the company introduced a point-of-service managed care plan designed to promote wellness. Employees can select from two levels of copayments, \$10 or \$20, for office visits under the plan, depending on how much in premiums they

want to pay. The copayments cover all services including well-baby care, annual physicals, mammograms and prenatal care.

By contrast, Sky Chefs' old indemnity plan had deductibles ranging from \$175 to \$700.

Under the old plan, "people weren't seeking care until late in an illness because they couldn't afford the deductibles," commented Ms. Flynn.

"The more we looked into their old plan, the more we realized how difficult it was for inner-city employees to get good care," added Hewitt's Mr. Gretzinger. "Many of them only make \$5 or \$6 per hour, and then to ask them to pay \$200 up front for care and then seek reimbursement was just too much. Now they can pay as little as \$10 per visit

and they're fully covered," he said.

Another new element in Sky Chefs' plan is a stand-alone \$1,000 deductible on treatment for injuries from "preventable situations."

Such situations include alcohol-related accidents; motorcycle accidents when people were not wearing helmets; and car crashes where adults were not wearing seat belts or children under two were not secured in a car seat.

"We had more than \$100,000 in preventable claims last year. We'd really like to eliminate as much of this as possible," Ms. Flynn said.

Hewitt also found that 70% of Sky Chefs' prescription drug costs came from maintenance drugs. Sky Chefs responded by offering a mail-order drug plan.

At this point, 96% of the employees are enrolled in the managed care point-of-service option.

The indemnity plan was retained but its benefits cut. The deductible was raised to \$1,000 per person and employee coinsurance raised to 30% from 20%.

Sky Chefs communicated the changes to employees in four languages: English, Spanish, Vietnamese and Tongan.

—By Michael Schachner

## Mammogram claims

Less than one-fifth of women get regular mammograms to detect breast cancer, according to a study by Blue Cross & Blue Shield of Illinois.

In 1990 and 1991, only 14% of the women over age 40 who were covered by Blue Cross & Blue Shield filed a claim for a mammogram. Among women over 50, the figure rose only slightly to 16%.

Most doctors recommend mammograms every two years for women in their 40s and every year for women older than that, the study's authors note.

The study tracked claims filed from five Blue Cross client companies with a total of 26,227 women over the age of 40.

For more information, call Dennis Culloton, Blue Cross & Blue Shield of Illinois, 312-819-1628.

—By Sara J. Hartly

## Psychiatric care

Private psychiatric hospitals are discharging patients more quickly, partly because use of managed care has grown.

Overall, the average length of stay fell 20% from 1989 to 1991, the National Assn. of Private Psychiatric Hospitals found in a poll of 95% of its 306 members.

Length of stay for children and adolescents fell by about 25%.

Patients with emotional disorders spent 25% fewer days in inpatient treatment in 1991 than in 1989; even patients with schizophrenia spent 20% fewer days in the hospital.

In 1991 only, 71% of those admitted to private psychiatric hospitals needed preadmission approval by an outside reviewer. Seven out of 10 also were subject to outside review before their stays could be extended.

More than 90% of denied requests for continued stay were appealed, with the hospitals reporting a 61.9% success rate in appeals.

Copies of "The NAPPH 1991 Annual Survey: Final Report" are \$300. Contact the NAPPH, 1319 F St. N.W., Suite 1000, Washington, D.C. 20004-1154; 202-393-6700.

—By Sara J. Hartly

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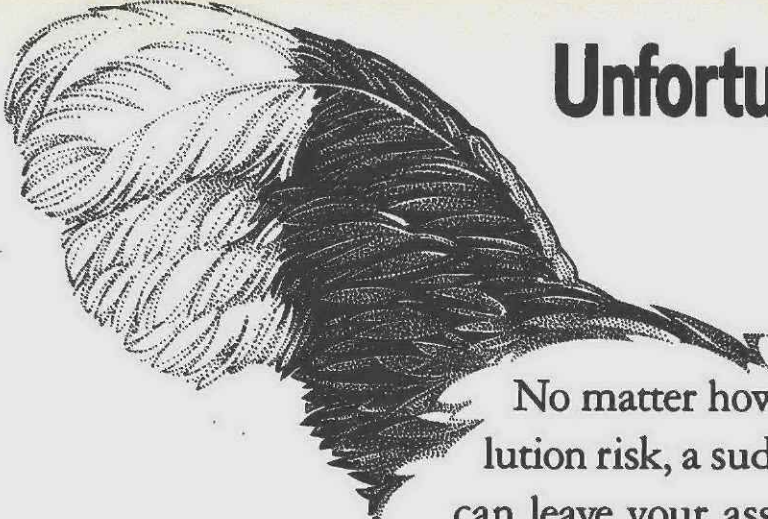
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## Opinions

## New IRS restriction is bizarre

AT A TIME when health care costs are soaring and millions of Americans are without health insurance, the last thing that is needed is a government regulation that would exacerbate both problems.

But a recently proposed Internal Revenue Service regulation that deals with voluntary employee beneficiary associations sponsored by national trade associations would do just that. VEBAs are a type of trust that many trade associations and employers use to fund their group health and disability programs.

Under the regulation, which can only be described as bizarre, trade association VEBAs generally would be allowed to offer coverage only to members located in no more than three contiguous states. Three contiguous states, according to the IRS, are three states that share a land or water border with at least one of the others (BI, Aug. 17).

The impact of the regulation, if adopted, on VEBAs that provide coverage to a trade association's members across the country is clear: They would be destroyed.

The only alternative for such VEBAs would be to break up into smaller units. That would raise administrative costs and give VEBAs less market clout when buying health insurance.

As a result, VEBA members, many of which are small employers already struggling to pay health insurance premiums, would be hit with even higher health care costs. Some employers probably would be forced to drop coverage and their workers would be added to the rolls of the nation's 36 million uninsured.

This isn't the first time the IRS has tried to limit the geographic scope of trade association VEBAs. In a preamble to 1981 regulations, the IRS said a trade association only could offer a VEBA if members were located in the same geographic area, defined as a single city and its surrounding counties. Later the IRS slightly modified its rules and said a trade association could offer a VEBA if members were located in one state.

## Letters

## Policyholder lawsuit could expand broker liability

To the editor: I found the Aug. 10 article about a lawsuit filed by a policyholder against its workers compensation insurer to be of great interest, especially since this is evidently the first suit brought by a policyholder against an insurer for allegedly failing to provide promised loss prevention and claims services.

If this lawsuit should be successful, what will be the effect on the collection of retrospective rating plan adjustments and the effect on the market for such plans, particularly with re-

spect to credit terms?

In addition, a brokerage executive quoted in the article pointed out that the insurer named as the defendant in the suit is a direct writer. He added that "this type of lawsuit would be unlikely on a brokered account." His logic escapes me.

Having recently retired from a major direct-writing insurer, I remember my involvement in the sale of workers compensation insurance to a major retail chain that fired its prominent international broker and canceled its

workers comp coverage with a major stock company because, in the policyholder's opinion, there was a serious breakdown in claims and loss prevention service.

Brokers are not always the solution; they can be the problem as well.

If this type of lawsuit becomes common, agents and brokers, which provide claims and loss prevention services, will evidently be liable to these changes as well.

Leslie G. Walker Jr.  
Spring, Texas

## Snuff out litigation over coverage for nicotine patch treatment

To the editor: The Aug. 24th article "Nicotine Patch Dispute" is a classic example of unnecessary litigation. Why should a health insurance plan be responsible for the payment of a new treatment plan to

wean individuals who have consciously made the choice to smoke cigarettes, especially when the treatment has not been proved effective?

It only stands to reason that the individual has the most to gain by kicking the habit, and therefore saving money both for the cost of cigarettes and the residual health care cost they have encountered as a result of their habit.

To me, the \$500 one-time investment for the individual would be an insignificant expense in contrast to the life-long cost of both cigarettes and other costs associated with the habit.

Only the individual can make the choice to become a smoker, and only the

individual should be responsible for making the choice to quit. If they are spending their own money in pursuit of the cure, it may be more effective.

At this time, the patches have not proved to be a cure-all, but they can be an effective remedy in conjunction with counseling and the motivation of the individual to quit. Let's have attorneys spend their free time pursuing more noble pursuits, rather than suing insurance companies to pay for their self-induced health problem.

Terrence P. Frett  
Certified Employee Benefit Specialist  
Frett/Barrington Ltd.  
Milwaukee



In 1986, the 7th U.S. Circuit Court of Appeals in Chicago rejected that one-state restriction. The court correctly ruled that in attempting to impose a geographic restriction, the IRS was overstepping its authority by legislating rather than interpreting the tax code. In short, the court said, if Congress had wanted to limit the geographic scope of trade association VEBAs, it would have done so.

A three-contiguous-state limitation has no more basis in law than a one-state limitation.

Inevitably, the latest IRS rules will be challenged by VEBAs. Even if the VEBAs prevail, money that could have been used to provide health insurance will be chewed up fighting the IRS.

We hope Congress intervenes quickly and prevents the IRS from enforcing its latest restriction on VEBAs. Section 501(c)(9), that part of the tax code which authorizes VEBAs, was added to encourage employers and trade groups to offer health care plans. An arbitrary geographic restriction interferes with that goal.

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## NCR fee schedule

*Continued from page 3*  
culty developing a cost-effective managed care network, Mr. Bartlett noted.

Nevertheless, NCR in 1989 implemented a point-of-service network that covers 70% of its employees in all 50 states. "The network is very diverse because no one organization could provide coverage in all locations," he explained.

In some cases, NCR directly contracts with local providers, while other locations are served by networks sponsored by insurance companies, health maintenance organizations and preferred provider vendors.

Unfortunately, "only 10% of our employees used the plan" in 1991, Mr. Bartlett said. The low participation rate may be due in part to NCR's "soft channeling" of employees to network providers, he speculated. "We were going to guide employees to network providers by appealing to their better instincts. We thought if we stressed that it was desirable for the company to control costs and desirable for the country they would happily go. But, people don't like to change their behavior, so this didn't happen," he said.

Despite the low participation, NCR managed to gain some control over health costs, which were rising about 13% per year before the network was set up.

In 1989, network utilization resulted in a 1.3% decline in the pace of overall health care spending for the year, Mr. Bartlett said.

That trend continued. In 1990, increases in total health spend-

ing dropped another 2.1%, and in 1991 dropped 3.1%. Other interventions enabled NCR to level annual increases in its health care spending to about 6% this year, he noted.

medical services and procedures by their own five-digit code. The coded procedures fall into five categories: office procedures, surgical procedures, laboratory services, X-ray and radiology services and chiropractic services.

NCR's fee schedule does not assign fees to hospital charges or prescription drugs.

NCR implemented the schedule in January, and it is now up and running in regions covering 70% of employees. Network providers in those regions have agreed to bill NCR according to the fixed dollar amounts the company assigned to specific medical services and procedures.

Employees that seek care from a non-network provider will have to pay any charges above the set fees, Mr. Bartlett explained.

To establish the schedule of

fees, NCR determined the average charges for certain procedures over a two-year period and compared those costs to a list of average charges published by the Health Insurance Assn. of America, a Washington-based trade group.

NCR also looked at price variations in different parts of the country and found, among other things, that the highest medical charges occur in New York City, Long Island, N.Y., and Southern California.

NCR designed the fee schedule so that "within the six different geographic areas where the schedule was devised, there is only about a plus or minus 5% dollar difference in procedures," Mr. Bartlett pointed out.

After comparing network providers' charges to NCR's allowable fees, the company found out that on average about 30% of all

medical services delivered to NCR employees were above the fee schedule. As a result, NCR revised the schedule so that about 80% of provider charges fall within the fee schedule maximums.

The program appears to be working. Network utilization jumped to 23% in the first half of 1992.

"Employees now understand that even if they seek care outside the network, there won't be a penalty if their physician follows our fee schedule," Mr. Bartlett said.

"And knowledge helps. Now that employees know about CPT codes, they can ask providers about them and providers can speak to them in CPT code language," he said.

The company's fee schedule has been welcomed by some non-network providers. "Physicians

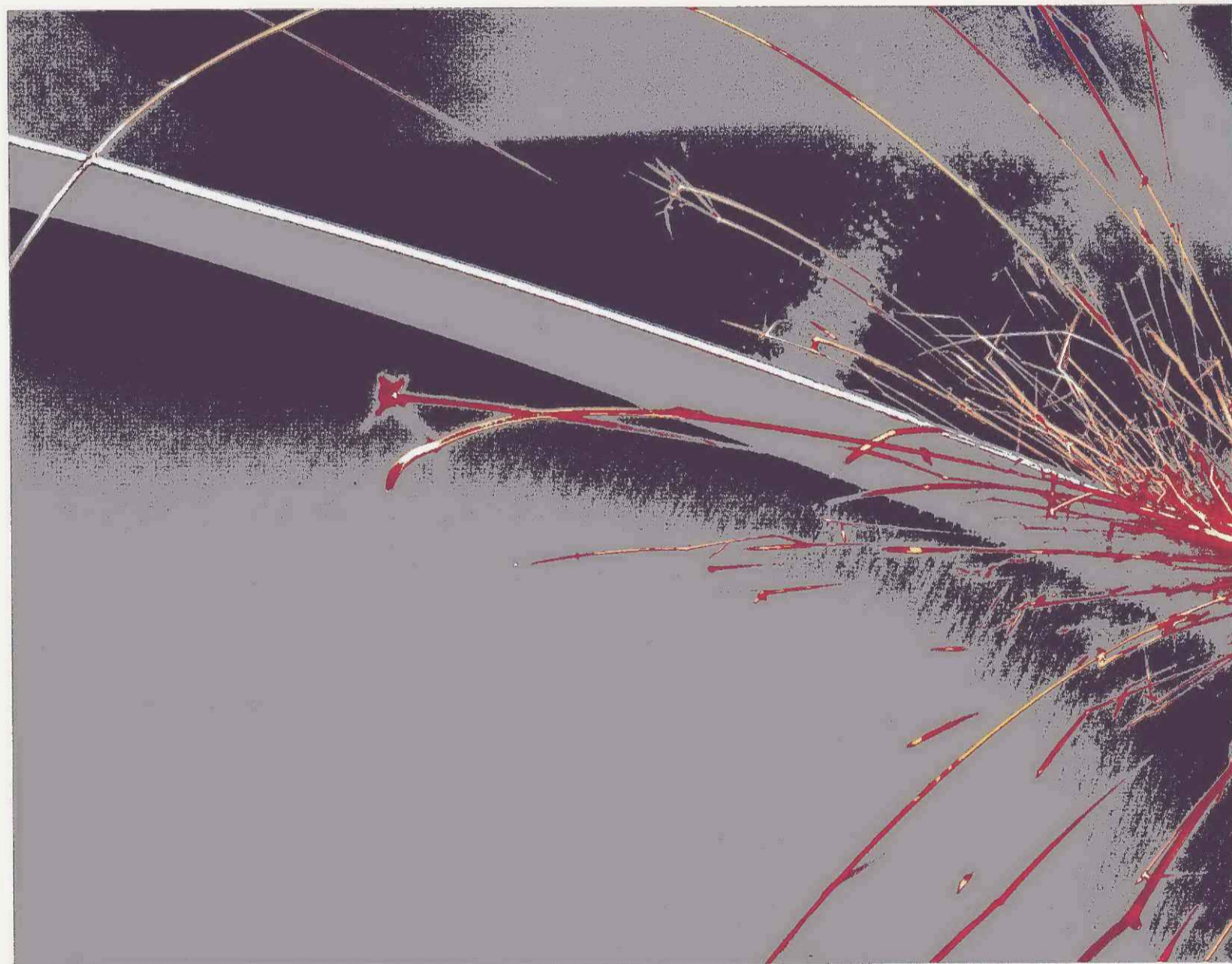
are showing signs of change. Some have called wanting to join our network and others—after they understand how the schedule was developed—have said they will retroactively change their fees to match our scheduled amount for the rest of the year."

Health care cost increases have tapered off as a result of the new fee schedule, Mr. Bartlett said. NCR had forecast that its total health care costs would rise about 11.5% for 1992, but now expects the increase to be only about 6%.

"This fee schedule is a tool. We don't need to improve it (and) it doesn't need to go up" just because the rate of increase in physician billing is going up each year, Mr. Bartlett said. However, NCR will conduct a regular review of the schedule to make sure the fees are in line with ac-

*Continued on next page*

# Sharpen your edge.



**'Physicians are showing signs of change,' says NCR Corp.'s Douglas M. Bartlett.**

ing dropped another 2.1%, and in 1991 dropped 3.1%. Other interventions enabled NCR to level annual increases in its health care spending to about 6% this year, he noted.

"We felt that if those decreases were obtained with only 10% network utilization, we really had the potential to reduce annual health care increases to 0% and possibly reduce the dollars spent on health care" if participation could be increased, Mr. Bartlett said.

The challenge, however, was to find an incentive that would motivate employees to increase their use of network providers without using a system of penalties or rewards, he explained.

Currently, NCR pays 90% of network medical expenses and 80% of non-network expenses. The company did not feel it should pay more for people who purchase health care wisely or should penalize those who don't, Mr. Bartlett said. "We just wanted to give employees options to encourage them to use the network."

That encouragement took the form of a "maximum reimbursement health care schedule" developed by NCR.

The schedule sets a maximum payment limit for approximately 7,500 CPT-coded medical procedures. CPT stands for physicians' Current Procedural Technology, which is a system of identifying

## IBM imaging systems can

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Continued from previous page  
tual medical expenses, he said.

Employee reaction has been favorable, according to Mr. Bartlett. "They were concerned about the availability of physicians who would abide by the schedule. But we've managed to put together a list of 670,000 doctors who will," which are the providers in NCR's point-of-service plan.

Consistent communication with employees is an important part of any successful cost containment strategy, Mr. Bartlett added. "Employees want to know what the road map for cost control is. They want to know what we are doing."

Arthur G. Dobbelaere, associate professor and director of the Institute for Human Resource and Industrial Relations at Loyola University in Chicago, moderated the session. ■

## Hershey's network

Continued from page 3  
different health care plans, including indemnity and managed care plans.

Pennsylvania employees, however, will now have another option—the new point-of-service network. Financial incentives will help direct employees to use the network's providers, Mr. Dreyfuss said.

Rising health costs left the company with two choices, he said: Ask employees to pay more for their health benefits or buy health care differently. The company chose the latter approach.

"We realize that managed care and health care are much bigger than we are. Our health care costs have been (increasing) about 15% per year," he said. The company's goal is to hold those increases to about 10%.

Hershey also wanted better value for its health care dollar, Mr. Dreyfuss added.

"We look at health care as having two domains—the provider domain and the public domain," he said. "The expertise and responsibility for providing health care lies in the provider domain" with physicians and hospitals.

But many in the public domain are demanding accountability from providers.

But to ensure that measure of accountability, "you need a measurement system, data and the ability to profile hospitals and doctors so purchasers can compare providers in the marketplace," Mr. Dreyfuss pointed out.

"Once you have a measurement system, the public can give feedback to providers for quality improvement. Doctors and hospitals are quite interested in this. And, quality improvement is what vali-

dates the expertise and responsibility of the providers," said Mr. Dreyfuss.

Hospitals in Pennsylvania are required by law to provide standardized data about their mortality and morbidity rates. This data is collected and disseminated to pur-

chased by the Pennsylvania Health Care Cost Containment Council.

chased by the Pennsylvania Health Care Cost Containment Council. "We are fortunate to have (a council) so we can get data," Mr. Dreyfuss said. Hershey relied heavily on data from the council when designing its new provider network, he noted.

"Our basic theme is that health care needs to be purchased differently than it is today," he said. "We have to pay for measurable and quantifiable results as mea-

**'The hospitals we selected are pleased, but the others are shocked and dismayed. We want those hospitals to improve, but they can't complain about the data (we used) because it's their data,' says Richard C. Dreyfuss of Hershey Foods Corp.**

sured by health outcomes."

Because there is such "tremendous variability" in cost among different hospitals, "we feel buying based on quality is the best cost containment strategy," Mr. Dreyfuss said.

Hershey looked at the mortality, morbidity and cost data for 23 hospitals in Pennsylvania and, based on patient outcomes, contracted with 10 hospitals to participate in its network.

The company's hospital selection process is "based 70% on quality and 30% on cost because we didn't want the plan to be perceived as just 'buying cheap,'" said Mr. Dreyfuss.

"The hospitals we selected are pleased, but the others are shocked and dismayed. We want those hospitals to improve, but they can't complain about the data (used to make selections) because it's their data," said the Hershey executive.

"We want hospitals in the network to meet our standard of quality. Basically, we want someone who goes into the hospital emergency room with pneumonia Sunday night to have the same outcome as someone who goes in Monday morning," said Mr. Dreyfuss. "We want to optimize access, cost and quality—it's nothing profound."

In addition to looking at mortality and morbidity statistics, Hershey developed its own definition of quality, he noted.

Among the quality indicators Hershey examined are staffing levels, accreditation status, services, clinical outcomes, clinical efficiency and cost, said Mr. Dreyfuss.

Hershey also stresses the importance of the primary care physician and his or her ability to manage patients' health.

Like in an HMO, an individual opting for network care in a point-of-service plan must see a primary care physician, who will then direct his or her medical treatment.

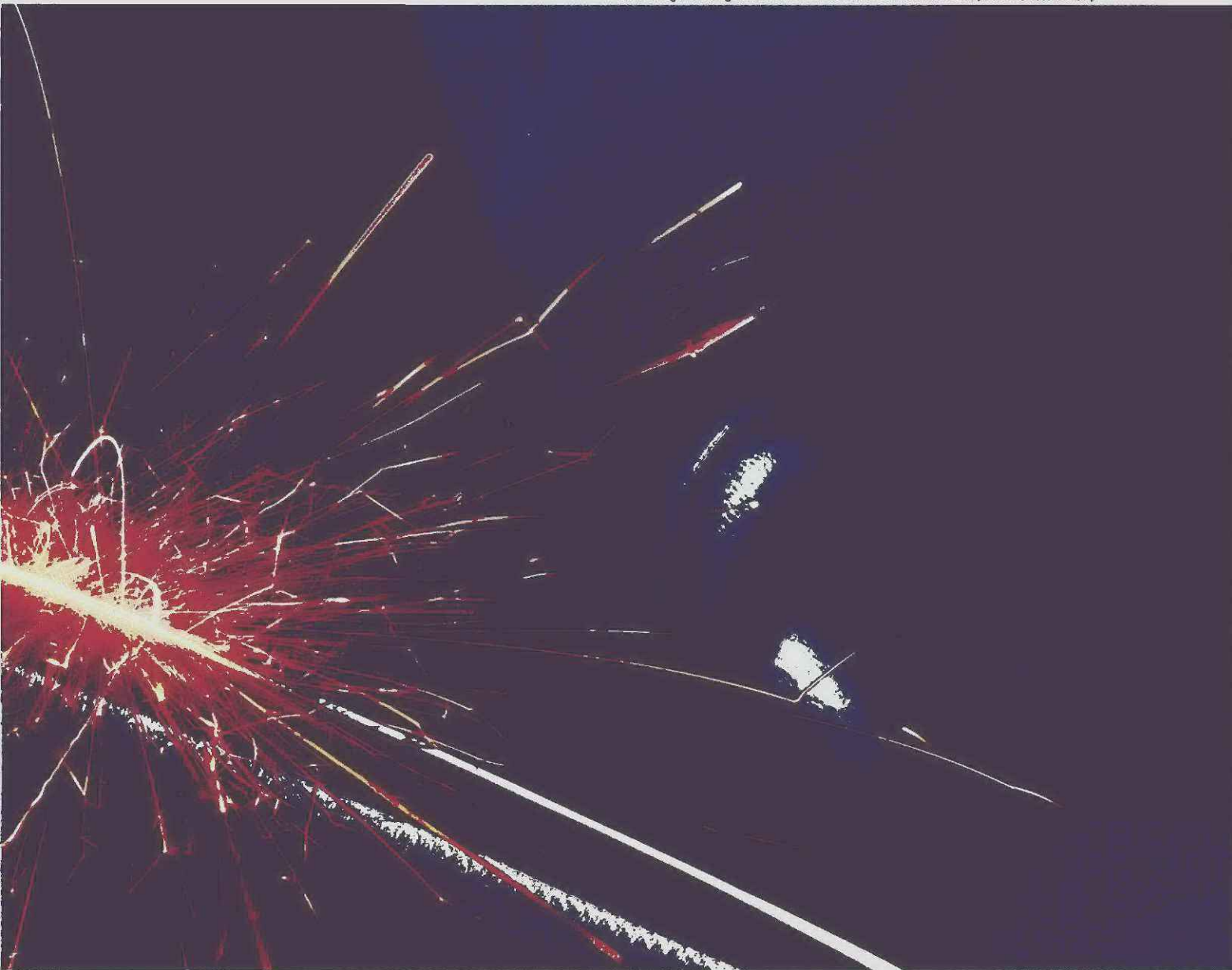
"Our vision of managed care is similar to an HMO, which has capitated vs. fee-for-service billing. And, we want to build better relationships with primary care physicians, especially since we are going to hold physicians accountable for outcomes," said Mr. Dreyfuss.

Involving employees should be an integral part of any managed care program, the benefits manager added. "We found through surveys that our employees don't understand the health care system or why health care costs are increasing."

To help improve workers' understanding of its new program, Hershey held focus group meetings and produced a video employees could take home and view with their families.

Moderating the conference session was Arthur G. Dobbelaere, who is associate professor and director of the Institute for Human Resource and Industrial Relations at Loyola University in Chicago. ■

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# Education and training benefits

## RJR Nabisco plan aims to create a skilled workforce to ensure future success

By **CHRISTINE WOOLSEY**

**BOSTON**—The decline in the quality of American education could hurt U.S. employers, warns a corporate executive.

When forced to choose workers from a labor pool that lacks the skills to perform in an increasingly high-technology workplace, companies will lose their competitive edge, he says.

Companies should take an active role in improving the pro-



ductivity of the nation's educational systems and in helping their employees' children pursue higher education, commented Charles Becker, vp of organization and management development for RJR Nabisco Inc. in New York.

The tobacco and snack foods giant is taking that step by providing its employees with a savings account specifically earmarked to help them pay for their children's post-secondary education, and also offering assistance in securing educational loans.

RJR Nabisco also will provide grants to schools in which em-

ployees are actively involved.

Mr. Becker discussed RJR Nabisco's corporate education initiatives during the International Foundation of Employee Benefit Plans' Corporate Benefits Conference in Boston Aug. 17-18.

"Education is the key to the continuing strength of our company and our nation," Mr. Becker said.

There may be a crisis in the making, he warned. The U.S. school dropout rate is 25%. "Functional illiteracy and remedial education are serious workforce issues. And, U.S. workforce productivity and global competitiveness are seriously threatened," Mr. Becker said.

To help assure that the workforce of the future is adequately educated, RJR Nabisco made a commitment that every employee "will have access, at no cost, to work skills training for today's job requirements and tomorrow's new demands," Mr. Becker said. The training includes help with reading, math and computers. "It comes down to providing on-site or nearby skills training so employees can move up in the labor pool," he explained.

RJR Nabisco also will give parents time-off so they can become more involved in their children's education by participating in school board meetings, the Parent Teacher Assn. and other activities.

And, the company will award a total of \$30 million in grants to schools in which an RJR Nabisco parent has taken a leadership role in pushing for educational

improvements, he said.

But the primary thrust of the company's education plan promises that "no child of an RJR Nabisco employee will be denied post-secondary education by financial barriers," Mr. Becker said. To back up that promise, the company developed a tax-deferred savings plan and a loan assistance program.

RJR Nabisco designed its education plan to help finance programs other than a college or university education. It includes all Title IV schools, which provide training for careers like truck driving and cosmetology.

The program's goals include making post-secondary education affordable, encouraging children to stay in high school and pursue post-secondary education, encouraging earlier financial planning for educational expenses and encouraging parental support for academic achievement.

"We want to remove barriers that make kids give up on pursuing post-secondary education, and we want to make sure they know they'll have the money," Mr. Becker said.

Three programs are central to meeting these goals. The programs, which went into effect in July for the company's 35,000 active employees, are:

- The Scholastic Savings Plan, which is available to employees with children entering high school.

Both salaried and union employees are eligible to participate in the savings plan, although

union employees' participation is covered by collective bargaining agreements. The company's top 150 executives—all of whom earn in excess of \$150,000 and typically have richer employee benefits, are not eligible.

The plan allows parents to save up to \$1,000 per year in a tax-deferred savings plan similar to a 401(k) plan. Participation in the savings plan begins in the freshman year of high school and continues for four years. RJR Nabisco will match parents' savings dollar for dollar up to \$1,000 per year per child.

Employees make their contributions on a pretax basis through payroll deductions. However, company contributions and interest are subject to federal, state and local income taxes and FICA taxes.

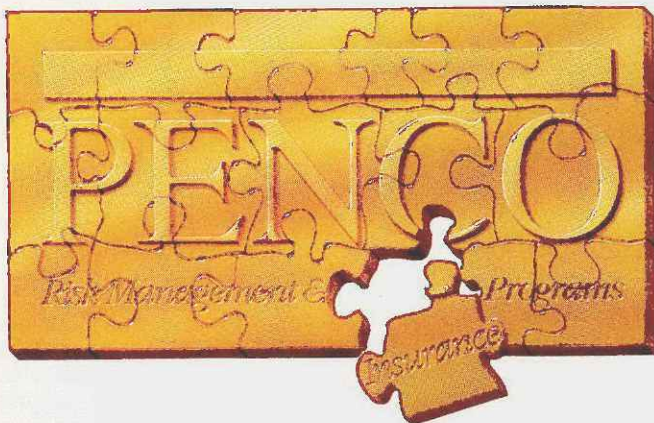
The funds will earn interest at the one-year U.S. Treasury bill rate in effect June 1, fixed for the year and compounding monthly.

With interest, the fund typically amounts to about \$8,800 for a family that makes the full \$1,000 per year contribution for four years, Mr. Becker said. "We realize this doesn't buy much of a four-year education—we found out that the typical state college costs at least \$7,500 per year," he said. "But our main objective was to make sure parents had enough money in the bank at the end of four years of high school to pay for at least one year of state college."

The funds can be used for educational expenses, including tuition, fees, room and board. The money is distributed directly to eligible schools and employee and company accounts are drawn down equally, Mr. Becker said.

The company set the child's

*Continued on page 14*



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## IFEBP conference draws 150 to Boston

**BOSTON**—Historic Boston was the site of the International Foundation of Employee Benefit Plans' fourth annual Corporate Benefits Conference.

Roughly 150 benefits and human resource professionals attended the Aug. 17-18 conference.

Meeting the needs of a changing workforce was the theme of the conference, and more than 15 speakers discussed how employers can control health care costs and design programs that help employees balance work and family responsibilities, among other things.

The IFEBP is a Brookfield, Wis.-based nonprofit association that sponsors a number of educational conferences and workshops on employee benefit management issues throughout the year. The association also offers research re-

ports and information services and co-sponsors the Certified Employee Benefits Specialists program along with the Wharton School of the University of Pennsylvania. A Canadian CEBS program is co-sponsored with Dalhousie University in Halifax, Nova Scotia.

The association's membership includes 34,000 individuals representing 7,500 multiemployer trusts, corporations, public employee groups and consulting firms.

Next year's benefits conference will be held in Chicago Sept. 19-21.

For more information, contact the International Foundation of Employee Benefit Plans, 18700 W. Bluemound Road, P.O. Box 69, Brookfield, Wis. 53008; 414-786-6700.

—By Christine Woolsey

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# Continued growth seen in work-family benefits

By CHRISTINE WOOLSEY

BOSTON—More companies are adding work-family benefit programs to meet the growing demand from employees, according to a new survey.



Sixty-four percent of 111 employee benefit managers surveyed said that during the last two years their company has added or modified existing benefits specifically to help employees balance work and family responsibilities.

Employers are adding programs like long-term care benefits and flexible work schedules.

The survey, taken during the International Foundation of Employee Benefit Plans' Corporate Benefits Conference in Boston last month, indicated that the trend toward "family friendly" benefits will continue.

For example, 86% of the benefit managers surveyed said work-family benefits will be-

come more important over the next five years. Fourteen percent said such benefits will not change in importance over the next five years.

The survey also found that employees are increasingly demanding some type of work-family benefit: 87% of those surveyed said they have observed increased demand from employees for work-family benefits over the last two years.

Employers are adding or modifying work-family benefits primarily in order to recruit and retain employees, the survey found. Nearly half—47%—of the 70 people who answered this question said this was the primary reason for changing benefits.

Fourteen percent said they added work-family benefits to reduce absenteeism and 7% said they did so to increase productivity. Twelve percent said they did so for a combination of those reasons, and the remaining 20% did not know or attributed a change in work-family benefits to "other" reasons.

Among senior management, at-

titudes about work-family benefits may be changing, the survey found. Half of those surveyed indicated that their company's senior-level executives view work-family benefits as "more impor-

tant" than two years ago; 36% said such benefits are "equally important" and 4% said they are less important. Ten percent did not know.

Many senior executives, though, still see other benefits as more important, the survey found.

Almost half of those surveyed—48%—said senior management viewed work-family benefits as "equally important." But nearly as many—43%—said senior man-

agement viewed such benefits as "less important" than other benefits. Only 1% of respondents indicated that senior management in their company view such benefits as more important. Eight percent did not know.

Few companies—only 11%—said they have a full-time staff member whose sole function is to help employees balance work and family responsibilities. And, more than half—56%—said they

Continued on page 16

## SEPTEMBER CLOSINGS

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closing:  
editorial feature:  
demographic section:

issue:  
closing:  
editorial feature:

issue:  
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September 21 — Bonus Distribution: NAPSLO — Ad Study  
**September 8**

Reinsurance: Rendez-Vous Report  
Insurer Topics: Trade Shows/Exhibits/Special Events

September 28 — Reader Service — Bonus Distribution: RIMS Singapore

**September 15**

Workers Compensation — Directory: Safety Consultants & Rehabilitation Services

October 5 — Bonus Distribution: NACSA/NACSE

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October 12 — Bonus Distribution: CPCU

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### Education benefits

*Continued from page 12*  
21st birthday as the deadline for using the funds—after which time the company's contribution is withdrawn if the child does not enter a school. Employees

matching contributions are returned to RJR Nabisco. The parents' unused portion with interest is subject to taxes.

Employees can change the size of their deferrals to the plan any time during the plan year, Mr.

**About 35% of eligible employees have signed up for RJR Nabisco's education savings plan so far, says Mr. Becker. 'That's low and I'm disappointed. We wanted 90% enrollment on Day 1. But I'm told by my 401(k) people that is unrealistic.'**

can request a deferral of the deadline until the child's 25th birthday.

If a child's education costs less than what the savings plan accrues, any unused company

Becker noted. The fund also is similar to a 401(k) savings account in that there are provisions for hardship withdrawals of employee contributions and earnings, he said.

RJR Nabisco has a 401(k) plan as well, but the company wants employees to use the money they accrue in that plan for retirement expenses, not their child's education, he said.

However, a child's education expenses would still be an eligible reason for a hardship withdrawal from the retirement savings plan.

About 35% of eligible employees have signed up for the education savings plan so far, Mr. Becker said. "That's low and I'm disappointed. We wanted 90% enrollment on Day 1. But I'm told by my 401(k) people that is unrealistic."

Mr. Becker estimates that if 35% of the workforce utilizes the savings plan, it will cost RJR Nabisco, after taxes, about \$5 million to \$6 million per year after year nine.

• The RJRN Scholastic Loan Plan, which is designed to help fund employees' children's education. The program provides workers with access to loans for all students who qualify.

There are three different types of loans available under the program. The Stafford loan is a federal government loan of \$2,400 per year to low-income families. Not many RJR Nabisco employees qualify for this loan, Mr. Becker noted.

The RJRN Plus loan offers \$4,000 per year up to \$20,000. The company does not lend employees the money itself but arranges the loans through independent lenders. If an employee should be unable to repay his loans, it is up to the lender to secure payment, Mr. Becker explained.

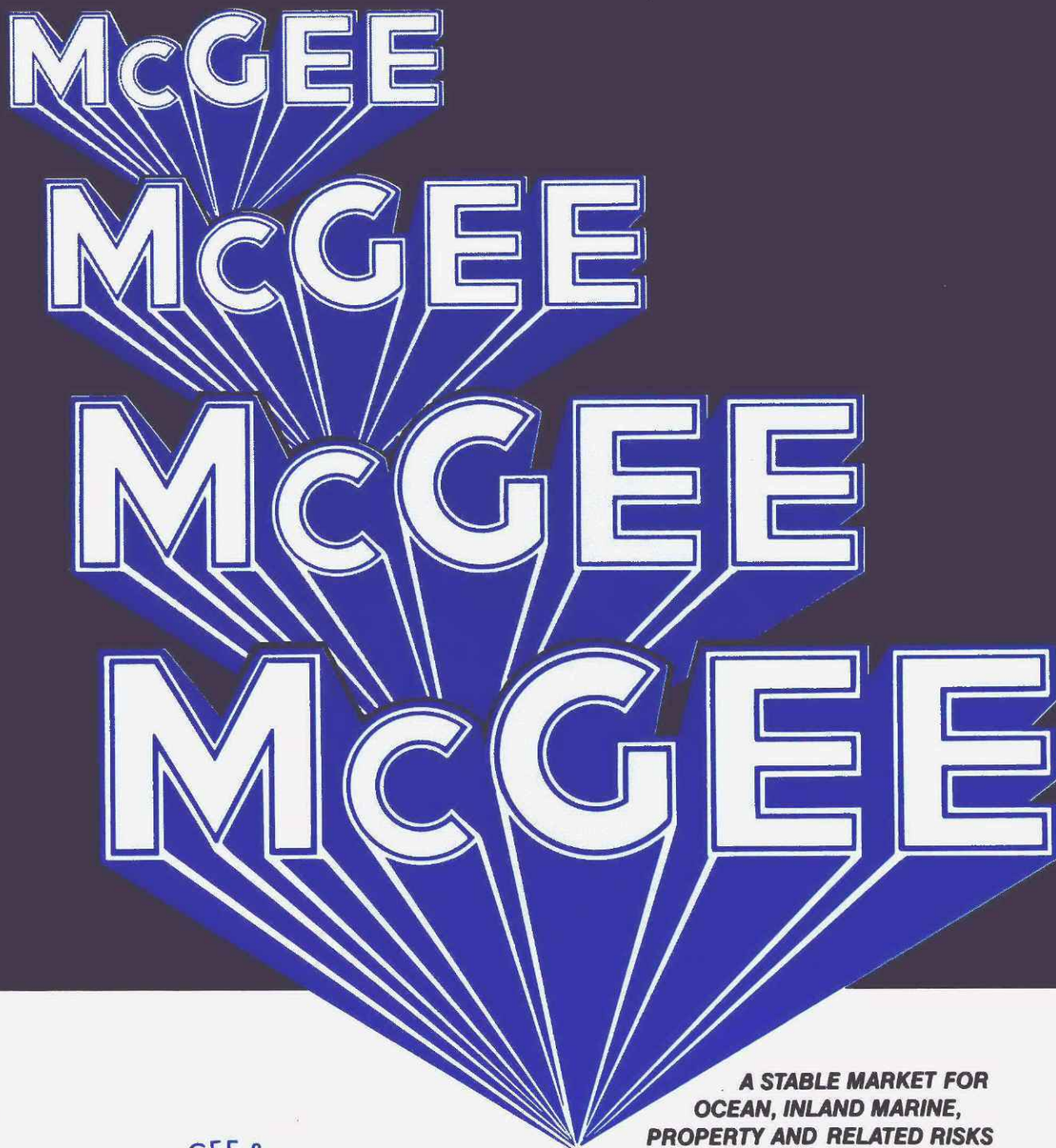
"This is not a loan on our own books. We didn't want to be in a position to" hassle employees who fall behind on their repayment, he said.

The Extra Credit Loan is designed for employees whose children pursue an education at very expensive schools like Ivy League institutions. RJR Nabisco helps parents arrange a privately sponsored line of credit, which they can pay off in fixed monthly payments.

The first two loans require repayment upon the child's graduation. The Extra Credit loan payments begin as soon as the funds are used.

"The programs are not designed to educate a workforce to work for RJR Nabisco only, but to provide an educated workforce for all employers," Mr. Becker said.

Patricia Nazemetz, director of benefits for Xerox Corp. in Stamford, Conn., moderated the session.



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## Family benefits

Continued from page 13  
do not foresee their company having such a position within the next five years.

Group long-term care coverage is one of the benefits employers are adding to help employees cope with family responsibilities.

For example, Allstate Insurance Co. plans to offer its employees an employee-pay-all long-term care policy as a flexible benefits option beginning in January, said Sandra Hamilton, employee benefits division director for the Northbrook, Ill.-based insurer.

Ms. Hamilton participated in a panel discussion on family benefits, "Addressing Benefit Issues for the Changing Workforce," during the IFEBP conference.

"Just this year we've started working on a life cycle concept of employee benefits. The ink is not yet dry, and we can already see some things need to be changed," Ms. Hamilton said.

The life cycle approach requires that the employer assess and coordinate the benefits it offers with the different issues that emerge at each stage of an employee's life.

"We truly believe dedicated and motivated employees who balance work and personal lives will give us a competitive advantage. And we believe companies will need to create a work environment that helps employees come to work" without worrying about sacrificing family needs, Ms. Hamilton said.

Allstate expects about 12% of its 52,000 employees to sign up for the group long-term care program, she said.

The company has been offering some type of work-family benefits since 1986, when it began offering employees child care referral assistance. In 1988, the company implemented a flexible spending account employees could use to pay for child care services, and other programs were added in the following years.

"Be sure you survey employees before moving ahead" with any type of work-family benefits program, Ms. Hamilton advised. Most employers don't know what their employees' needs are or what expectations those workers have, she noted.

San Francisco-based Levi Strauss & Co. also is developing programs to help its employees balance their personal and professional lives, pointed out Reese Smith, director of employee benefits.

Among other things, the apparel manufacturer offers employees time off with pay so they can take care of family responsibilities and flexible working arrangements.

Some employees are able, with the approval of their supervisor, to work whatever hours they want, Mr. Smith said. "If you want to come in at 3 a.m. and work until 10 a.m., that's OK."

Levi Strauss is perhaps best known for its efforts to meet the needs of different types of families, for example by extending medical coverage to employees' domestic partners.

Charles Becker, vp of organization and management development for RJR Nabisco Inc. in New York, also spoke during the session (see story, page 12).

Patricia Nazemetz, director of benefits for Xerox Corp. in Stamford, Conn., was the session moderator. ■

# American National Can promoting Buras to director-risk management

**John N. Buras**, 40, has been promoted to director of risk management at American National Can Co. in Chicago. Mr. Buras is responsible for evaluating the company's worldwide risks, administering loss control programs, implementing property/casualty insurance coverage and managing all workers compensation and liability claims. He reports to William A. Fran-

## Comings & goings: Buyers

cois, vp, deputy general counsel and secretary. Mr. Buras joined American can as administrator, risk management in 1988 and was named manager of risk management in 1991 before being promoted to replace **John R. Brouch**, who retired. Prior to

joining American National Can, Mr. Buras served as manager of the Rolling Meadows, Ill., branch of risk management consulting firm Gallagher Basset Services Inc. He is a deputy member of the Risk & Insurance Management Society Inc. and holds the

Chartered Property & Casualty Underwriter designation. In addition, Mr. Buras earned a bachelor of arts degree from the University of Notre Dame in Notre Dame, Ind.

\*\*\*

**James Stenstrom**, 34, has been promoted to director of risk management for Lettuce Entertain You Enterprises Inc., a Chicago-based restaurant chain. He was previously director of risk management for Lettuce Entertain You Enterprises Inc. *Continued on next page*

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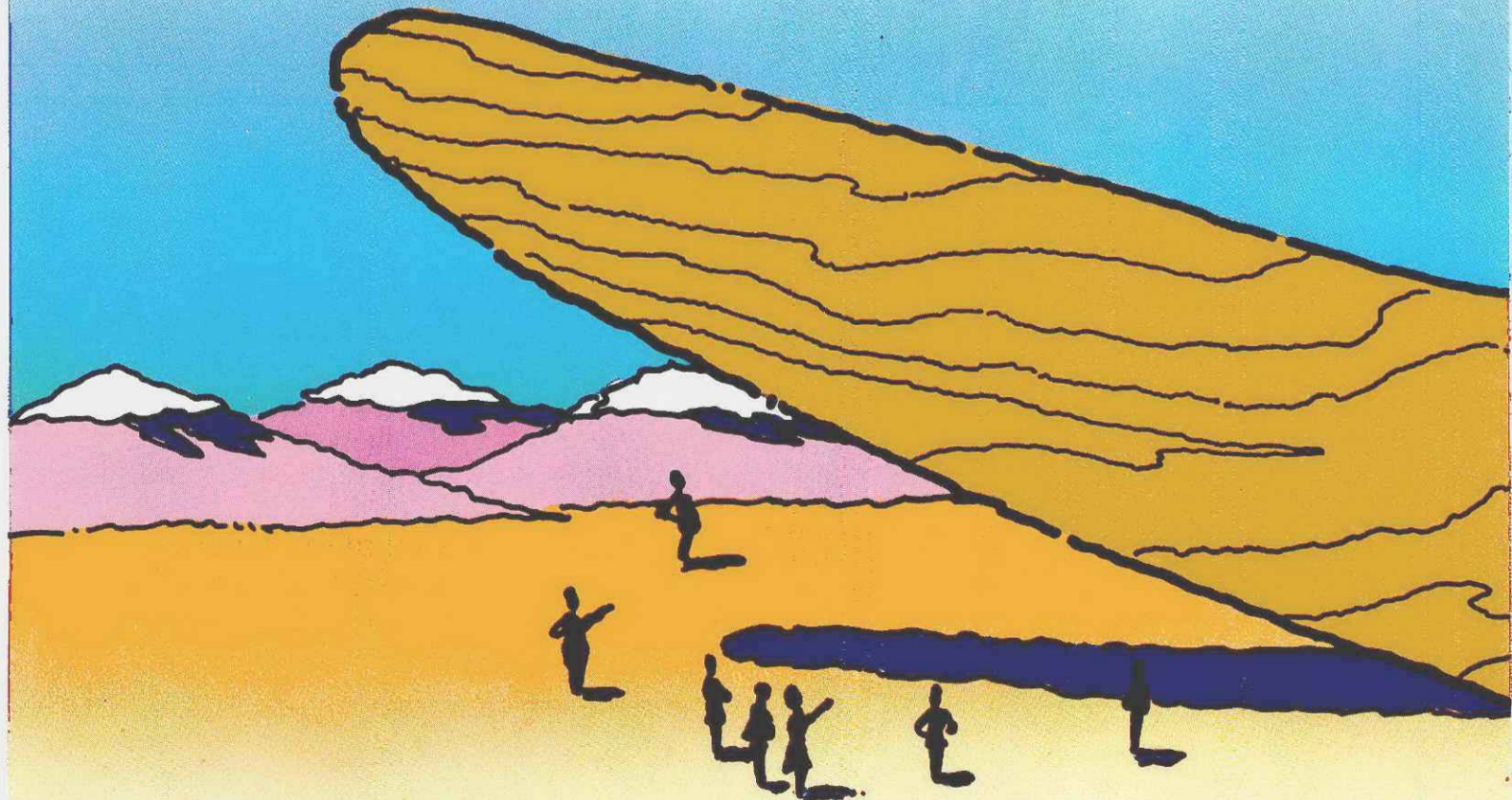
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Continued from previous page  
 cago-based restaurant group. In this newly created position, Mr. Stenstrom is responsible for all risk management functions, including the safety program, property and casualty insurance, and employee benefits. He reports to Charles Haskeil, executive vp-finance and legal. Prior to joining the restaurant group in



Mr. Stenstrom

1985 as corporate risk manager, Mr. Stenstrom held a similar position with the former Interstate United, a vending company that was merged into Canteen Corp. Mr. Stenstrom is treasurer of the Chicago chapter of the Risk & Insurance Management Society and is president of the Illinois Restaurant Risk Management Assn., a workers compensation self-insurance pool for Illinois Restaurant Assn. members. He holds the Associate in Risk Management designation and is working toward the Chartered Property & Casualty Underwriter designation. Mr. Sten-

strom earned a bachelor's degree in political science from Northeastern Illinois University in Chicago.

\*\*\*

Hillhaven Corp., A Tacoma, Wash.-based company that owns and operates nursing homes and also operates a retail and institutional pharmacy division, has announced the following risk management promotions:

**David Mettler**, 45, has been promoted to vp-risk management. Mr. Mettler is responsible for all of the company's risk management and commercial insurance programs. He reports to

Kris Scoumperdis, senior vp-human resources and support services. Mr. Mettler joined the company in 1986 as director of risk management. Prior to joining Hillhaven, Mr. Mettler was director of risk management for Care Enterprises, a Tustin, Calif.-based provider of inpatient nursing services.

He is a deputy member of the Risk & Insurance Management Society and holds the Certified Safety Professional designation. Mr. Mettler received a bachelor of science degree in aeronautical engineering from California Polytechnic State University in

San Luis Obispo.

**Keith Terrano**, 36, has been promoted to director of risk management at Hillhaven from assistant director. Mr. Terrano is responsible for workers compensation and general and professional liability insurance programs. He reports to Mr. Mettler. Mr. Terrano joined the company in 1987 as workers comp coordinator and was promoted to assistant director of risk management earlier this year. Prior to joining Hillhaven, he was an account administrator in Seattle for Crawford & Co., a third-party administrator. Mr. Terrano is a deputy member of the Risk & Insurance Management Society. He earned a bachelor's degree in history from the University of Buffalo in Buffalo, N.Y.

**Sandra Fitzler**, 44, has been promoted to director, loss prevention at Hillhaven. She is responsible for the development, implementation and monitoring of loss prevention and safety programs, as well as supporting regional loss prevention consultants. She reports to Mr. Mettler. Ms. Fitzler joined the company in 1987 as regional safety coordinator and had served as divisional loss prevention director since 1990. Prior to joining Hillhaven, Ms. Fitzler was coordinator of occupational health services at Beverly Hospital in Beverly, Mass. She is a member of the American Society of Health Care Risk Managers and earned a bachelor's degree in nursing from Salem State College in Salem, Mass.

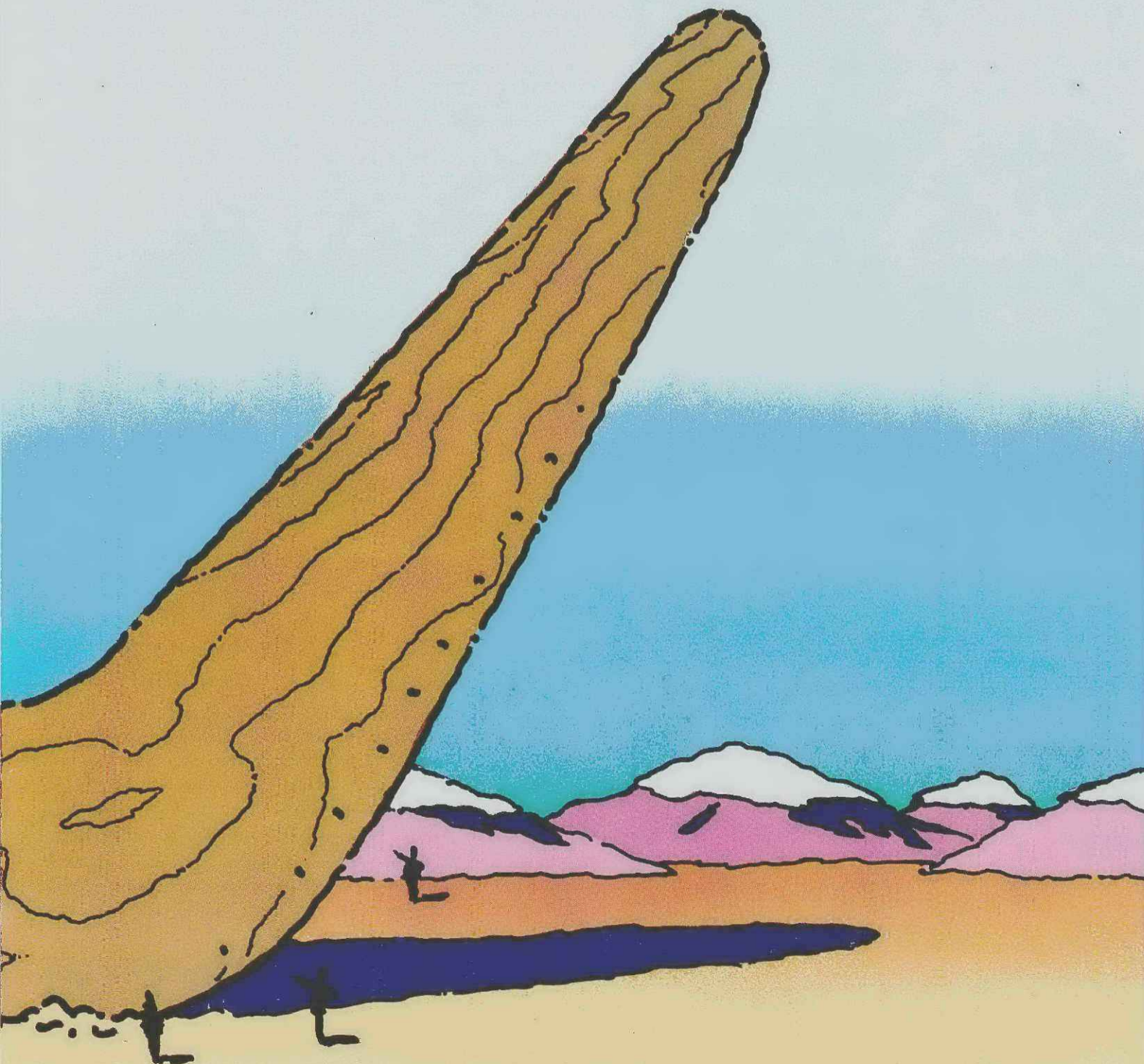
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**Muriel Fontugne**, 38, has been named risk manager of Euro Disney in Paris. In this newly created position, Ms. Fontugne is responsible for all risk management activities, including insurance coverage, coordination of safety prevention programs and assisting other divisions with claims settlements. Ms. Fontugne reports to Gerard Degonfe, vp/treasurer of Euro Disney, and to Stephen M. Wilder, assistant treasurer-risk management for The Walt Disney Co. in Burbank, Calif. Prior to joining Euro Disney, Ms. Fontugne was manager of CIGNA Corp.'s global risk management department in Paris. Prior to that, she was with UAP Group in France and Africa as an underwriter specializing in international liability and property programs. Ms. Fontugne, who holds a degree in economics from the University of Paris at Dauphine, is a member of Gaci Acadef, the French risk management society.

Also at Euro Disney, **Nadine Le Jean**, 29, has been named guest claims coordinator. Ms. Le Jean handles bodily injury and property damages claims made by guests of the theme park, among other responsibilities. She also conducts risk exposure awareness programs for Euro Disney employees. Ms. Le Jean reports to Ms. Fontugne. Prior to joining Euro Disney, Ms. Le Jean was a general liability and products liability accounts executive with UAP Group in Paris. Ms. Le Jean holds a degree from Paris 10 University.

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# ick year endorsement.



## HMO growth

Continued from page 1

because many companies, like CIGNA and Aetna, are introducing point-of-service products," she said.

"HMO companies are trying to offer more products that are attractive and flexible to employer groups. Point-of-service offers a little more flexibility in the network; an employer doesn't have to have quite the benefit structure as with an HMO," she explained.

InterStudy defines point-of-service plans as those that allow the employees and dependents to choose either network or non-network providers. With a network provider, health care delivery resembles that of a traditional HMO, with prepaid comprehensive coverage. If they choose a non-network provider, coverage is less comprehensive and carries deductibles and coinsurance.

The prevalence of point-of-service plans nearly doubled from 1989 to 1991; offered by 11% of employers last year, up from 6% in 1989, according to

research by A. Foster Higgins & Co. Inc. (BI, April 6).

The real difference between open-ended HMOs and point-of-service plans is that an open-ended HMO is a prepaid arrangement, while a point-of-service plan is often a self-insured arrangement, which goes against the HMO philosophy that the provider takes the risk, explained John Erb, a principal with Foster Higgins in New York.

A point-of-service plan is slightly more attractive to employers because it "looks, smells and tastes like an indemnity plan," he added. The employer "isn't really turning the financial risk over to the HMO."

Despite point-of-service plan growth, the slowdown of open-ended HMO enrollment in the second half was "somewhat surprising," said Patricia Ball, a research associate at InterStudy. "This is the first time we had a single-digit growth rate since open-ended products were introduced in 1987. We have no idea if it will remain low in the first half of 1992."

Among open-ended HMOs,

Minnetonka, Minn.-based Medica reported the highest enrollment in 1992—227,832, up from 215,146 last year. This was followed by Rockville, Md.-based Mid-Atlantic Medical Services Inc., with 169,589 members, up from 75,000; and Oxford Health Plans of New York, with 61,263 members, up from 30,800.

The 1992 enrollment figures for Mid-Atlantic Medical Services Inc. include enrollment of an affiliate which was not reported in 1991.

Of the 25 largest open-ended HMOs, nine plans are headquartered in the Midwest and nine in the South.

"In the West, where traditional HMO products are widely accepted, it may have been difficult to introduce open-ended HMO products," Ms. Ball explained. "But in the Midwest, which is an immature market for HMOs, there is a greater acceptance for open-ended HMOs."

Of the 25 largest pure, or traditional, HMOs, 12 are headquartered in the West, nine in California alone.

The largest pure HMO was  
*Continued on page 20*

## Study sees HMO growth

By LOUISE KERTESZ

Open-ended HMOs are luring more large employers to sign up major segments of their workforce, contributing to a 7.6% jump in HMO enrollment in 1991.

And, HMO growth is projected to continue at 6% to 10% a year for the next five years, largely due to gains by the hybrid plans, according to the 1992 HMO edition of the "Marion Merrell Dow Managed Care Digest," sponsored by the Kansas City, Mo.-based pharmaceutical company.

HMOs continued to curb members' use of hospital services, with inpatient days per 1,000 non-Medicare enrollees falling 2% to 333.5 days.

But at the same time, hospital admissions rose 3% to 76.8 per 1,000 members, including both Medicare and non-Medicare enrollees, and average hospital length of stay crept up to 4.8 days per admission from 4.7 in 1990, according to the study.

"Neither of these statistics bodes well for HMOs in controlling health care costs," the report warns.

Nevertheless, some statistics were less troubling for HMOs:

- The number of visits to HMO clinics or doctors' offices dropped slightly last year to 4.8 visits per member from 4.9 in 1990.

- The number of visits during which the patient actually sees a physician has remained steady at 3.3 per member for the past two years.

- And, average HMO premiums rose far less in 1991 than did indemnity insurance premiums. Rates for individual coverage rose 8%, while premiums for family coverage rose 7% over 1990 levels.

By comparison, average indemnity plan premiums for employers rose 19% over 1990 levels, the study notes.

"Employers have told national pollsters... that they view HMOs more positively because of their effective cost-control measures and more moderate premium increases," the report says.

In 1991, 86% of all HMOs offered carve-out programs, which were available for purchase apart from the HMOs' medical-surgical coverage.

The most common carve-out plans in 1991 were dental and prescription drug plans. Seventeen percent of all HMOs offered both these programs, up from 15% in 1990.

The newest carve-out options are occupational health and workers compensation, and availability stayed steady at 3% in 1991, the report says.

Specialty plans, offering supplemental coverage for an added premium on top of basic coverage, also grew in 1991. Mental health benefits were offered at an added premium by 88% of HMOs last year, up from 78%.

Supplemental drug benefits were offered by 80% of all plans, up from 74% in 1990, and 70% offered specialty vision care plans in 1991, up from 63%.

Drugs represented one of the fastest-growing expenses for HMOs, according to the study. Drug expenditures rose to 10% of total HMO operating budgets from 7% in 1990.

Single copies of "Marion Merrell Dow Managed Care Digest" are available without charge. Contact Marion Merrell Dow Inc., Managed Health Care Markets Department, 9300 Ward Parkway, Kansas City, Mo. 64114, or call 800-362-7466.

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Tom Collicott

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## HMO growth

*Continued from page 18*  
Oakland, Calif.-based Kaiser Foundation Health Plan Inc.—Northern California Region with 2.439 million people enrolled in 1992, up slightly from 2.436 million in 1991. The next largest were Pasadena, Calif.-based Kaiser Foundation Health Plan Inc.—Southern California Region, with enrollment of 2.3 million, up from 2.27 million; and Health Insurance Plan of Greater New York, with 872,501, down from 872,619.

According to InterStudy, the maturing of health maintenance organizations has contributed to improved profitability for HMOs and stabilizing premiums.

HMOs' profitability has risen dramatically in the past three years. In 1989, only 36% of those surveyed reported a net profit/

surplus for fiscal year 1988. But nearly 83% of HMOs reported a net profit/surplus for fiscal 1991.

Due to a maturing market, HMOs now have claims experience on which to more accurately base pricing, Ms. Porter commented.

HMO premiums are close to those of conventional indemnity plans, according to the survey. As of Jan. 1, the average monthly HMO premiums were \$131.21 for single coverage and \$360.18 for family coverage. In contrast, the average monthly premiums for conventional indemnity plans were \$167 and \$351, respectively, according to the Health Insurance Assn. of America.

Meanwhile, the overall number of HMOs remains flat compared with last year, despite a number of mergers and acquisitions. The number of HMOs peaked at 653 in January 1988 and has since

declined, InterStudy found.

Among mergers last year, Fort Wayne, Ind.-based Lincoln National Administrative Services was purchased by Concord, Calif.-based Take Care Corp.; four Blue Cross & Blue Shield Assn. plans in Massachusetts merged operations under Framingham-based HMO Blue; and two BC/BS plans merged into Philadelphia-based Keystone Health Plan East, Ms. Ball noted.

The net number of HMOs operating in the United States and Guam increased by two to 558 from 1991 to 1992. Among these were 13 HMOs that were not reported previously or are newly operating; one—Miami Beach, Fla.-based Mount Sinai Health Maintenance Organization Inc.—that terminated; one that previously only reported open-ended enrollment; six that merged operations resulting in

two new HMOs; and seven that consolidated their operations into other HMOs.

"It is interesting to note the continuing consolidation among HMO companies. This is attributable to the strength of the larger companies that are going after market share. But there are some very strong smaller companies, too," said Ms. Porter.

For example, of the 36.1 million people enrolled in traditional HMOs in 1992, 23.2 million, or 64.3%, were in the largest HMOs—those with at least 100,000 members. Those figures are up slightly from 1991, when the biggest HMOs had 21.4 million enrollees, or 62.9% of the 34.1 million enrolled in traditional HMOs.

Meanwhile, the share of the traditional market held by the very small HMOs—those with fewer than 5,000 enrollees—re-

mained steady at 0.4%. At the start of the year, the smallest HMOs had an aggregate total of 151,770 members, up from 143,132 last year.

The oldest traditional HMOs also continued to hold the lion's share of enrollment.

Plans that are 10 years old or older have 24.3 million members, or 67.1% of the total membership of 36.1 million. Traditional HMOs age 6 to 9 years have 24.1% of the total; plans age 3 to 5 years have 7.8%; plans age 1 to 2 years have 1%; and those less than 1 year old have 0.01% of the total.

Similarly, among open-ended HMOs, plans that are 10 years old or older have 54.4% of the total 1.49 million members. Plans that are 6 to 9 years old have 37.9%; plans that are 3 to 5 years old have 7%; and plans

*Continued on next page*

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Continued from previous page that are 1 to 2 years old have 0.8%. There were no open-ended HMOs less than 1 year old.

The percentage of the population enrolled last year in all HMOs increased slightly.

As of Jan. 1, combined enrollment of traditional and open-ended HMOs is 37.6 million, or 15.1% of the U.S. population. In 1991, it was 35.3 million, or 14.2% of the population.

"Enrollment will continue to rise. There is a continual interest and concern in managing costs," Ms. Porter said.

California continues to lead the states in actual number of residents enrolled in traditional HMOs as well as the percentage of state population in HMOs.

As of Jan. 1, enrollment in California HMOs was 9.6 million, or 32.4% of the state population—up from 9.1 million in 1991.

Other states with large traditional HMO enrollments as of Jan. 1 include:

- New York, with 2.9 million enrollees, or 16.1% of the population, up from 2.8 million in January 1991.

- Massachusetts, with 1.8 million enrollees, or 29.9% of the population, up from 1.7 million.

- Florida, with 1.7 million enrollees, or 12.8% of the population, up from 1.2 million.

- Pennsylvania, with 1.6 million enrollees, or 13.5% of the population, up from 1.5 million.

- Illinois, with 1.5 million enrollees, or 12.6% of the population, unchanged from last year.

Copies of "InterStudy Competitive Edge," Volume 2, No. 1, are available for \$100 each from InterStudy, 5715 Christmas Lake Road, P.O. Box 458, Excelsior, Minn. 55331-0458; 612-474-1176.

## Labor Department issues amendment to notice on 'top hat' filing penalties

WASHINGTON—Employers that failed to file required reports for "top hat" pension plans can avoid stiff penalties if they file a registration statement by Sept. 30 and pay a maximum of \$1,000—not \$1,000 per plan as earlier reported—the Labor Department says.

The Labor Department acknowledged making a mistake in a notice that was published in the July 24 issue of the Federal Register.

That notice told how employers that are currently offering top hat pension plans could avoid paying tough penalties for not filing federally required registration statements.

A top hat plan is an unfunded pension plan that provides benefits to top executives. Most Fortune 500 companies offer such plans, according to benefit consultants.

According to the notice published in the Federal Register, employers who never have filed registration statements could avoid penalties—up to \$300 a day—if they file a statement by Sept. 30 and pay \$1,000 for each top hat plan they sponsor.

A registration statement includes such basic information as the employer's address, telephone, tax identification number of top hat plans and the number of employees in each plan. By

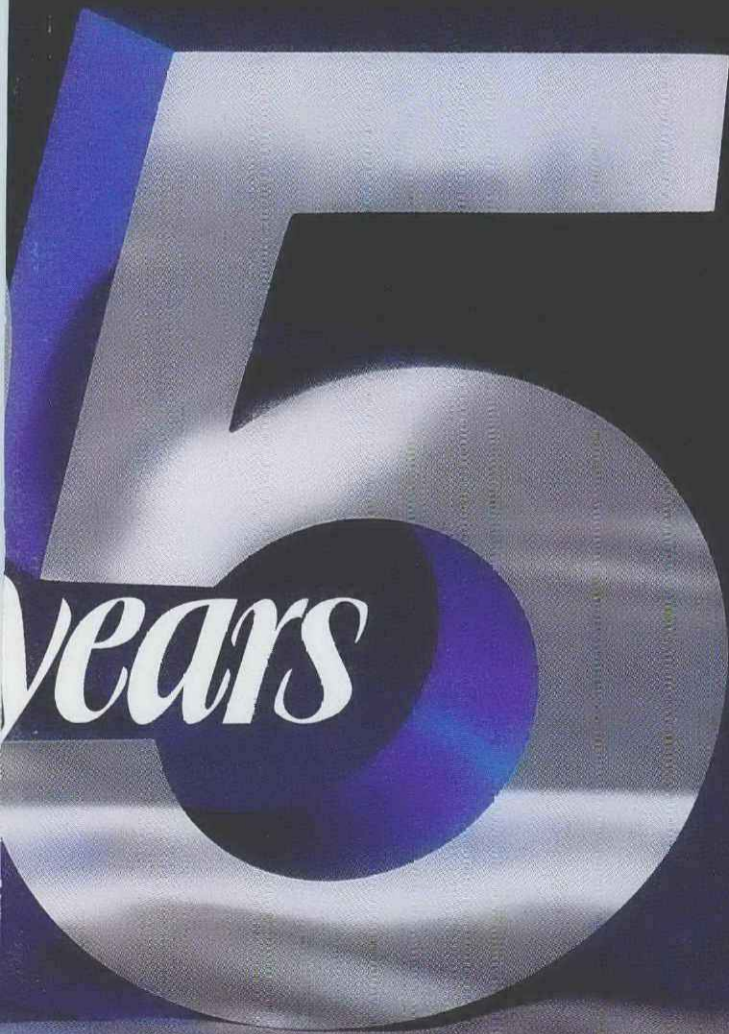
filing a one-time registration statement for a top hat plan, an employer is exempted from filing the annual Form 5500, a financial statement.

That notice was in fact mistaken, according to the IRS. Employers can file one registration statement with information on all their top hat plans, pay \$1,000 by Sept. 30 and be exempt from the higher penalties.

"This is a welcome response to employer concerns. Some employers may have a couple of dozen top hat plans," commented Seth Tievsky, who is a principal with Ernst & Young in Washington.

—By Judy Greenwald

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# ASK A CASUALTY ACTUARY

## How to pick the right casualty actuarial firm

**Q**

Which firms are the largest in terms of providing casualty actuarial consulting services and where are the offices providing those services? What are the biggest differences among those firms?

**A**

I believe the best way to answer your question is to provide a compilation of consulting firms according to the number of the Casualty Actuarial Society members they employ. The chart on this page is based on that and includes all firms with at least

four members of the CAS.

Although there are other firms that provide actuarial services, most notably brokerage or risk management consulting firms, it would be difficult to reasonably gauge the volume, extent and quality of these services.

Membership in the CAS is restricted to those who have passed at least the first seven of the 10 exams administered by the society.

It generally takes about 400 hours of study to be able to pass each of these exams, and only about 35% to 40% of those taking each exam pass at any one time.

Because of these stringent requirements, membership in the CAS provides a tangible level of assurance that the services provided meet current standards of practice.

Because it is easy for people who have not had sufficient training to misinterpret or misuse claims information and possibly arrive at invalid or misleading conclusions, it is advisable to be well-assured of the quality of the actuarial services being provided.

With regard to the differences between the firms, it would be inaccurate and misleading to make statements comparing how different casualty actuarial consulting firms would approach standard reserving or ratemaking assignments, like funding for a captive or self-insurance program.

In the first place, these firms are not monolithic organizations with tightly defined procedures on how to approach any standard actuarial engagement.

They each consist of many professionals who are likely to differ in their way of analyzing and completing any assignment. After all, actuarial analysis is an art, not a science.

It is true, however, that some firms have general philosophies or guidelines, which, in some cases, have resulted in much less variation internally than found in other firms.

I would offer only two generalizations, with the understanding that exceptions abound.

First, consulting actuaries tend to differ less in how they approach ratemaking analysis than in how they would complete a reserving analysis.

Second, the larger the consulting firm, the more likely it is that the consultant will give more weight to industry or outside patterns and statistics, and, correspondingly, less weight to indications based on the data of the client.

I believe this tendency is in part due to the fact that larger firms are more likely to have extensive data banks of outside information. Clients who have small volumes of claims data (or who are fairly typical in their exposures or claims environment) may well be better served by consultants who rely heavily on outside data, because their own data has little credibility.

By credibility I mean the reliability of the data in

### Largest casualty actuarial consulting firms

By number of Casualty Actuarial Society members, as of April 1, 1992

Firm	Number of CAS members	Offices (CAS Members)
Tillinghast/Towers Perrin	101	Weatogue, Conn. (16); Atlanta (15); Philadelphia (9); St. Louis (8); Boston (6); Arlington, Va. (5); New York City (5); Dallas (4); London (4); Toronto (4); Chicago (3); Hamilton, Bermuda (3); Irvine, Calif. (3); San Francisco (3); Bloomington, Ill. (2); Jacksonville, Fla. (2); Montreal (2); Paris (2); Carlock, Ill. (1); Denver (1); San Antonio, Texas (2); Sydney, Australia (1); Tokyo (1)
Milliman & Robertson Inc.	49	New York City (12); Brookfield, Wis. (9); Pasadena, Calif. (8); Wakefield, Mass. (5); Irvine, Calif. (3); Radnor, Pa. (3); Atlanta (2); Seattle (2); Denver (1); Mason, Ohio (1); Minneapolis (1); San Francisco (1); West Paterson, N.J. (1)
Ernst & Young	28	Philadelphia (10); Chicago (9); New York City (4); Atlanta (3); Boston (1); Hamilton, Bermuda (1)
Coopers & Lybrand	27	Atlanta (5); Chicago (5); New York City (5); Seattle (3); Toronto (3); Boston (2); Philadelphia (2); Catonsville, Md. (1); Dallas (1)
The Wyatt Co.	23	Chicago (6); Montreal (3); San Francisco (3); Toronto (3); Washington (3); Dallas (1); Detroit (1); London (1); San Diego (1); Wellesley Hills, Mass. (1)
Mercer & affiliates	21	New York City (10); Columbus, Ohio (3); Chicago/Deerfield, Ill. (4); Philadelphia (2); Irvine, Calif. (1); Montreal (1)
KPMG Peat Marwick	10	New York City (4); Hartford, Conn. (2); Atlanta (1); Hamilton, Bermuda (1); Los Angeles (1); Malvern, Pa. (1);
Deloitte & Touche	9	Hartford, Conn. (6); Chicago (2); Washington (1)
Price Waterhouse	5	Hartford, Conn. (2); Atlanta (1); Chicago (1); Miami (1)
Arthur Andersen & Co.	4	Hartford, Conn. (1); New York City (1); Philadelphia (1); San Francisco (1)
INS Consultants Inc.	4	Philadelphia (4)
Johnson & Higgins	4	New York (2); Chicago (1); Los Angeles (1)
Willis Corroon	4	Nashville, Tenn. (4)

Source: Casualty Actuarial Society

GRAPHIC BY A. TRANCHITA

yielding an accurate indication because it is based on a significant number of claims.

In contrast, clients with larger volumes of claims in their experience (or who differ from the average in the nature of their exposures, claims environment, or their procedures for claims management or loss control) might be better served by a consultant who will primarily base the analysis on the client's own data.

The best way to determine what type of consultant might be serving you is to ask a firm questions such as the following:

- To what extent do you anticipate relying on our own claims data vs. industry (outside) data in performing your analysis?

Please explain why your proposed approach to this is the most appropriate. Include in your comments reference to the number of claims in your history and the degree to which you believe our own exposures, operating procedures and claims environment are typical or atypical.

- Suppose we advised you that there had been major changes in the adequacy level of our case reserves or in the rate at which our claims are settled during the historical period of the data you are analyzing.

How would you go about verifying or denying our assertion? If that assertion were validated, how would you modify your analysis to reflect the impact of such changes on your incurred loss projections?

- Suppose you had done a comparable analysis last year and your projection of ultimate losses for accident (or policy) year 1990 was \$5 million, and that this year's analysis indicated an ultimate loss of \$4 million for 1990.

How much would you revise last year's indication to reflect your best estimate for this year? Explain your reasoning.

- Are you intending to present estimates at different confidence levels or one set of estimates? In either case, indicate at which confidence level(s) your estimates will be stated. State why you believe that a particular confidence level is appropriate.

If you compare the answers of different consultants to the above questions, you will most likely get a better feel for where they stand on the issues that, in my experience, involve the greatest degree of variation among actuaries today. ■

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*Ask A Casualty Actuary, Ask A Benefit Actuary, Ask A Risk Manager and Ask A Risk Manager answer written questions from readers on risk and benefit management issues and actuarial problems.*

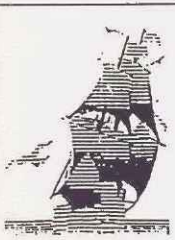
*This month's column on actuarial issues in the casualty field is written by Richard E. Sherman, president of Pacific Actuarial Resources (PAR) Excellence in Ashland, Ore. William J. Miner, an actuary with The Wyatt Co. in Chicago, answers actuarial questions in the benefits field. Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C., answers risk management questions. And Dennis J. Nirtaut, manager of*



Mr. Sherman

*employee benefits at Continental Bank Corp. in Chicago, answers questions on employee benefit plans. Ms. Werner's and Mr. Nirtaut's columns appear on the second Monday of alternate months. Mr. Miner's and Mr. Sherman's columns appear alternately on the first Monday of each month.*

*Mr. Sherman's next column will appear in November. Address your questions to ASK, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.*



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**Workplace safety**

*Continued from page 3*

Accident reporting requirements also were tightened. Rather than allowing units to set their own reporting standards, the company now requires them to report all incidents, no matter how minor.

"There are lots of accidents where no one is hurt, but the potential is there," Mr. Gipson said. Weyerhaeuser's goal is that all units and employees understand that potential exists, he said.

The company also introduced a safety program—called Action-

based Weyerhaeuser Accident Reduction Education—for supervisors. AWARE covers a broad range of accident prevention and investigation basics, including proper investigation of accidents, inspections with an eye toward safety, housekeeping standards and hazardous substance control, Mr. Gipson said.

Weyerhaeuser's approach is broad-based, with an emphasis on controlling all elements involved in workplace safety.

"We are focusing on events that incur property damage, minor injuries and serious injuries," Mr. Gipson said.

Weyerhaeuser also has been

participating in a safety exchange program for the last six years in which hourly and salaried employees visit other companies' pulp paper mills annually. The employees audit the other companies' safety programs so they can come away with new ideas on safety. They also share their own ideas with other companies.

Weyerhaeuser is about to get involved in a similar exchange with wood products companies.

Weyerhaeuser is one of several companies identified by the National Assn. of Manufacturers as taking steps to control workers comp costs.

Other companies also are taking steps to improve workplace safety—though some approaches are not uniform like Weyerhaeuser's.

For example, the tailored approach worked for CR Industries of Elgin, Ill., a manufacturer of oil-sealing devices.

Workers comp losses had been significantly higher at its Hobart, Okla., plant than at any of its eight other U.S. plants, said Larry Shoemaker, who has been the Hobart plant manager for the past year.

The better loss results at the other plants were due to better safety communication efforts, Mr. Shoemaker said. As a result,

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**'There are lots of accidents where no one is hurt, but the potential is there,' Mr. Gipson says.**

the company about a year ago created a safety education program specifically targeted to the Hobart plant.

Results have been encouraging so far. Workers comp costs related to the Hobart plant are now down more than 50% from costs at this time last year, Mr. Shoemaker said. But costs must be cut another 50% over the next two years for the plant to be viable over the long term, he added.

The communications program started by "blitzing" employees with information on the Hobart plant's workers comp costs and the potential toll they could take on its ability to be a "competitor in the marketplace," Mr. Shoemaker said.

In addition, the company asked employees on each of the plant's three shifts to volunteer for safety teams that watch for unsafe conditions or practices in their work areas. Employees are encouraged to report safety violations by co-workers.

Employees initially resisted reporting on others. But when it became clear that plant managers were not looking to get rid of workers but rather to educate them about safer practices, that reticence disappeared, Mr. Shoemaker said.

CR Industries already has acted on several suggestions by the safety teams to reduce safety risks. For example:

- Air hoses had been run to certain pieces of machinery on the floor, presenting a trip hazard. The safety teams devised and implemented a plan that suspended the hoses well out of the way of workers' feet.

- Workers have to lift heavy metal equipment, using trays, more than 60 times an hour. To

*Continued on page 26*



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## Workplace safety

*Continued from page 24*  
lighten the trays, the company agreed to cut holes in the trays and replace metal bolts and screws in the trays with plastic fasteners.

- Employees had to lift containers weighing 70 pounds on average, some as heavy as 100 pounds.

Individual containers now weigh no more than 40 pounds.

- After visiting other plants and interviewing doctors—often on their own time—some safety teams recommended the use of back supports for employees with heavy lifting duties. Now back belts are a requirement at the plant.

- Razor blades used to be left lying around the work area when not in use. They now are stored in special stations the safety

teams devised. This has prevented many minor cuts and nicks, according to Mr. Shoemaker.

Safety teams in each work area are supplemented by four-member committees from various areas of the plant. These teams tour the entire plant each month. Safety problems that may escape workers' attention because workers have been desensitized to the problems may be more obvious to someone from a different area of the plant, Mr. Shoemaker explained.

When accidents do occur, they are investigated by workers to determine what happened and how similar accidents can be prevented, he said.

In addition, the plant has implemented surprise quarterly fire drills and drills for rescue teams to practice techniques used to free a worker caught in machinery, according to Mr. Shoemaker.

All employees attend quarterly meetings where equal time is devoted to safety, quality and productivity, he pointed out.

"The big thing is to keep employees aware, to have them 'think safety,'" Mr. Shoemaker said.

A decentralized safety program also has worked for McJunkin.

Each of its 85 offices is encouraged to create an individual safety program with guidance from headquarters, Mr. Board said.

"Our branches are empowered to implement their own safety ideas," Mr. Board said.

For instance, one branch recently built a safety booth on location. The booth houses first aid information and equipment, Occupational Safety and Health Administration policies and other health and safety policies for employee referral.

The branch also produced a video depicting the safety booth and sent it to other branches so they could consider putting together a similar resource.

McJunkin also encourages its units to emphasize driver safety, because trucking accidents account for a significant portion of its losses.

As a result, McJunkin's liability premium for its fleet of trucks was decreased significantly in 1991 because of its improved claims record.

To get its message through to workers, the company aims at their pocketbooks. A new communications campaign tells workers that money either spent on workers comp injuries or lost due to decreased productivity from missed work days is money that will not go into the company's profit-sharing plan, Mr. Board said.

Because employees are now more aware of the costs, they are more likely to take steps to prevent accidents, he said.

For example, broken stair railings, wet floors and icy walkways are taken care of more quickly.

In addition, McJunkin now provides back support belts on request for use when lifting, but the belts are not mandatory.

McJunkin's insurer, Kemper National Insurance Cos. of Long Grove, Ill., also has been an important part of the safety program, Mr. Board said.

Kemper performs loss prevention surveys for the company and occasionally recommends safety-related changes. The insurer also provides videos on safe truck driving.

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# Judges

Continued from page 3

• John A. Kohler, chairman of Brandow Howard Kohler & Rosenbloom Inc. in Minneapolis. Mr. Kohler, who is serving on the panel for a second year, represents regional insurance broker-

nounced in the April 26, 1993, issue of *Business Insurance*, which will coincide with the annual Risk & Insurance Management Society Inc. conference in Orlando, Fla.

Candidates need not handle risk management functions full time, but they must be full-time

**The judges score each of the candidates on 10 criteria. The candidate with the highest score after the judging is completed is named Risk Manager of the Year. The remaining nominees are eligible for the Risk Management Honor Roll.**

ages.

• Jerry Newsom, risk management administrator for the state of Georgia. Based in Atlanta, Mr. Newsom was named to the 1992 Risk Management Honor Roll, representing government entities.

• William D. O'Connell, partner and national director of business insurance consulting for Deloitte & Touche in Dallas. Mr. O'Connell is serving on the panel for the first time, representing risk management consultants.

• James I. Taylor, president of Pennsylvania National Insurance Cos. in Harrisburg, Pa. Mr. Taylor, who also is serving for the first time, represents mutual insurance companies.

• Judith Tornese, vp-risk management for Transamerica Corp. in San Francisco. Ms. Tornese was named to the 1992 Risk Management Honor Roll, representing financial institutions.

• J. Bransford Wallace, executive chairman of the Willis Corroon division of Willis Corroon Group P.L.C. in Nashville, Tenn. Mr. Wallace is serving on the panel for the second time, representing national insurance brokerages.

• Millicent W. Workman, director of corporate risk management for Belz Enterprises in Memphis, Tenn. Ms. Workman was the 1992 Risk Manager of the Year.

"We're pleased that such a distinguished panel of experts will select the 1993 Risk Manager of the Year and the Risk Management Honor Roll," said James M. Burke, *Business Insurance's* editor.

"The four honorees serving on the panel bring first-hand knowledge of risk management excellence to the judging process. And the other panelists bring a variety of viewpoints to the competition," he said.

The judges score each of the candidates on 10 criteria (see story, page 28). The candidate with the highest score after the judging is completed is named Risk Manager of the Year. The remaining nominees are eligible for the Risk Management Honor Roll 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.
- Financial institutions.
- Self-insurance funds and pools.

The highest-scoring candidate in each category 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 people can be named to the Risk Management Honor Roll.

The 1993 honorees will be an-

employees of the organization for which they direct the risk management program.

A candidate can be nominated  
*Continued on page 28*

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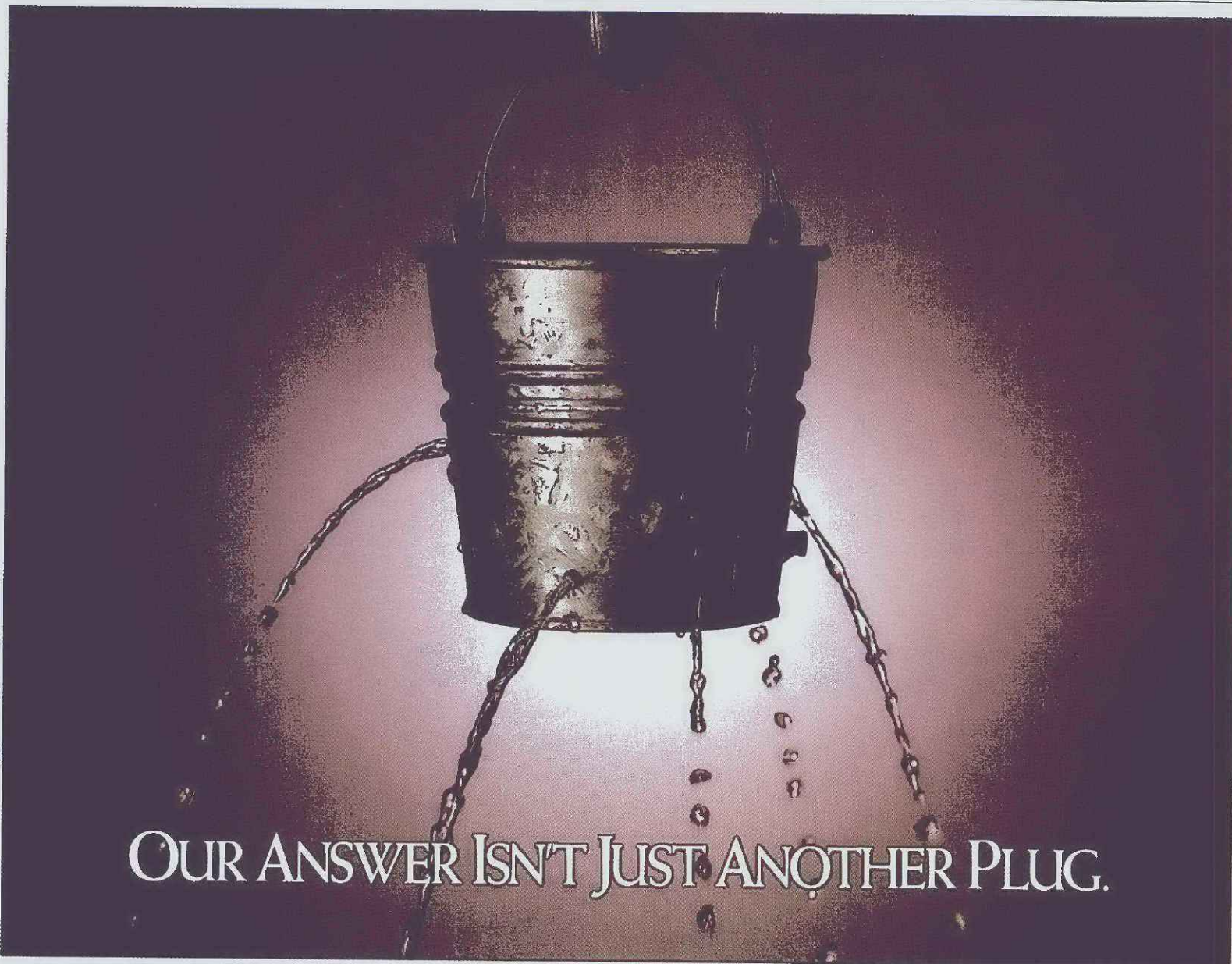
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## Risk Managers of the Year

1	<b>Millicent W. Workman</b> Director of Corporate Risk Management Belz Enterprises	2
1	<b>Arnold L. Davenport</b> Vp-Risk Management Marriott Corp.	1
1	<b>Stephen M. Wilder</b> Director of Corporate Risk Management The Walt Disney Co.	0
1	<b>Jeffrey W. Pettegrew</b> Risk Manager and Chief Administrative Officer Contra Costa County Municipal Risk Management Insurance Authority	0
1	<b>William L. Mather</b> Administrator of Risk Management The Gillette Co.	8
1	<b>Edith F. Lichota</b> Senior Vp Irving Trust Co.	37
1	<b>Donald Nelson</b> Director of Risk Management ARA Services Inc.	6
1	<b>Harold C. Lang</b> Director of Insurance and Risk Management Leaseway-Transportation Corp.	5
1	<b>Richard M. Inserra</b> Director of Insurance and Risk Management American Can Co.	4
1	<b>John A. O'Connell</b> Executive Director and Risk Manager Holy Cross Shared Services Inc.	3
1	<b>Eckart Russell</b> Risk and Insurance Manager Alcan Aluminium Ltd.	2
1	<b>Duane E. Allen</b> Assistant Treasurer Hanna Mining Co.	1
1	<b>Thomas V. Hallett</b> Risk Manager General Motors Corp.	0
1	<b>Edward L. Erickson</b> Director of Insurance American Broadcasting Cos. Inc.	9
1	<b>Howard T. Weber</b> Director of Insurance Minnesota Mining & Manufacturing Co.	8

GRAPHIC BY JOHN HALL

## Judging criteria for 1993 Risk Manager of the Year

Ten criteria will be used to score the nominations submitted for the 1993 *Business Insurance* Risk Manager of the Year Award and Risk Management Honor Roll.

The 10 independent judges of the nominations will score each candidate according to how well he or she:

- Established and implemented an effective risk management program within the organization.
- Tackled 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.
- 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.
- Skillfully performs the functions of management in the over-

all organization and within the risk management/insurance department.

- 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 risk management.
- Develops in his or her career.

## Judges

Continued from page 27 by anyone familiar with the candidate's work. For example, any employee or group of employees may nominate the organization's risk manager. A broker, insurer, consultant or some other service supplier can nominate a client. And, a risk manager can nominate a colleague. 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 its 10th anniversary of publication, to recognize out-

standing achievement in the field.

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

To request a nomination form for the 1993 competition, contact Karen Brown, Assistant to the Publisher, *Business Insurance*, 740 N. Rush St., Chicago, Ill. 60611-2590; 312-649-5319.

## Risk Management Honor Rolls

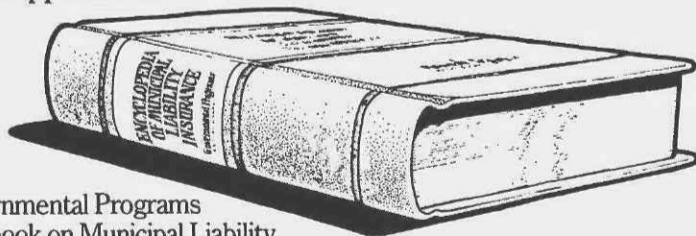
<b>Jerry Newsom</b> State of Georgia Government Entity	<b>Marc Darby</b> Bombardier Inc. Large Corporation	<b>Judith Tornese</b> Transamerica Corp. Financial Institution
<b>Mary L. DeCampi-Stewart</b> Metropolitan Washington Airports Authority Government Entity	<b>Donald D. Batchelor</b> Union Planters Corp. Financial Institution	<b>Rod Umscheid</b> University of California Not-for-Profit Entity
<b>Roger D. Oaks</b> Tennessee Farmers Cooperative Small Corporation	<b>Josephine Goode Johnson</b> University of Maryland Medical Service System Self-insured Fund	<b>M. Michael Zuckerman</b> Thomas Jefferson University Not-for-Profit Entity
<b>John A. Lindquist</b> Browning-Ferris Industries Inc. Large Corporation	<b>J. Douglas Higley</b> State of Louisiana Government Entity	
<b>Gregory L. Daniels</b> American National Red Cross Not-for-Profit Entity	<b>Stephen A. Finley</b> City of Lakewood, Colo. Government Entity	
<b>Timothy G. Galaryk</b> Lunda Construction Co./ Phoenix Steel Inc. Small Corporation	<b>Edward G. Weiss</b> First of America Bank Corp. Financial Institution	
<b>Susan M. Werner</b> Hardee's Food Systems Inc. Large Corporation	<b>Mark F. Wilson</b> First Mississippi Corp. Small Corporation	
<b>Delmer Ison</b> Washington Metropolitan Area Transit Authority Government Entity	<b>William E. Rogers</b> Conemaugh Valley Memorial Hospital Not-for-Profit Entity	
<b>Susan N. Weiner</b> Dade County, Public Schools Government Entity	<b>Eva F. Goodrich</b> Cincinnati Electronics Corp. Small Corporation	
<b>Sidney D. Blatt</b> Holloway Cos. Small Corporation	<b>Gene Snyder</b> State of Oregon Government Entity	
<b>Jerri Nelson MacMillan</b> Aetna Life & Casualty Cos. Real Estate Investment Department Large Corporation	<b>Robert L. Sinclair</b> Metropolitan Government of Nashville and Davidson County Government Entity	
<b>Spencer J. Traver</b> BF Goodrich Co. Runner-up	<b>Paul B. Harvey</b> Ponderosa Homes Small Corporation	
<b>George N. Pierce</b> Orange County, Fla. Government Entity	<b>Gene M. Marsh</b> General Conference of Seventh-day Adventists Not-for-Profit Entity	
<b>Robert Bieber</b> Westchester County Government Entity	<b>William Ryan</b> University of Michigan Not-for-Profit Entity	

GRAPHIC BY JOHN HALL

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## Datebook

### SEPTEMBER

**SEPT. 29. Pollution Liability: The Law and Available Insurance** symposium in St. Louis, sponsored by the Society of Chartered Property & Casualty Underwriters; \$85 for Society members; \$95 for non-members. Bonnie Kinsley, Continuing Education Coordinator, The Society of CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 215-251-2735.

**SEPT. 29-30. Improving Quality to Reduce Costs Through Employer-Provider Partnerships** conference in Rosemont, Ill., sponsored by the Midwest Business Group on Health; \$385 for MBGH members; \$595 for non-members; some discounts are available. Midwest Business Group on Health, 8303 W. Higgins Road, Suite 200, Chicago, Ill. 60631; 312-380-9090.

**SEPT. 29-30. Superfund Reform: Accelerating Settlements and Cleanups, Expediting Enforcement and Claims Management** conference in Washington, sponsored by Risk Management Technologies Inc.; \$700; \$750 at the door. RTM Inc., 1020 N. Fairfax St., Suite 201, Alexandria, Va. 22314; 703-549-0977.

**SEPT. 29-OCT. 2. Risk & Insurance Management Society Western Regional Conference** in Coeur d'Alene, Idaho, \$350. Steve Anderson, 206-467-3659.

**SEPT. 30. Where are the Changes? In-Depth Review of the Commercial Property Policy** workshop in Timonium, Md., co-sponsored by the Society of Chartered Property & Casualty Underwriters and the Maryland Chapter; \$105 for Society members; \$115 for non-members. Bonnie Kinsley, Continuing Education Coordinator, The Society of CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 215-251-2735.

**SEPT. 30. Risk & Insurance Management Society I-Day** in Houston, sponsored by the Houston RIMS chapter; \$60 RIMS members; \$75 non-members. Patti Carroll, Total Minatome Corp., P.O. Box 4326, Houston, Texas 77210-4326; 713-739-3029.

**SEPT. 30-OCT. 2. Council on Employee Benefits' 46th Annual Conference** in Boston; \$400 for CEB member companies; \$450 for non-members. Carl S. Lazaroff, 1144 E. Market St., Akron, Ohio 44316; 216-796-4008.

### OCTOBER

**OCT. 1-2. Life, Health and Disability Law: ERISA Developments and Defense Tactics** seminar in Chicago, sponsored by the Defense Research Institute; \$375 for DRI members; \$425 for non-members. Defense Research Institute, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

**OCT. 2. Advanced Claims Technique to Promote Early File Resolution** workshop in Atlanta, co-sponsored by the Society of Chartered Property & Casualty Underwriters and the Claims Section; \$95 for Society members; \$110 for non-members. Mari Stambaugh, Sections Coordinator, The Society of CPCU, 720 Providence Road, P.O. Box 3009, Malvern, Pa. 19355-0709; 215-251-2741.

**OCT. 2. Solving the Puzzle: Control Costs While Improving Workplace Benefits & Policies** conference in Boston, sponsored by the Employers Coalition for Healthcare Solutions of Eastern Massachusetts and the U.S. Small Business Administration; \$30. Lauren Tucker, Workplace Solutions, 34 1/2 Beacon St., Boston, Mass. 02108; 617-573-0810.

**OCT. 4-7. Third Asia-Pacific Risk Management Conference and Trade Exhibition** in Singapore, co-sponsored by the Risk & Insurance Management Society Inc. and the Risk & Insurance Management Assn. of Singapore; \$1,200 Singapore (\$744 U.S.) for risk and insurance managers; \$1,500 Singapore

(\$930 U.S.); group discounts are available. RIMAS, Conference Secretariat, Associated Conventions & Exhibitions Pte. Ltd., 204 Bukit Timah Road, 04-00 Boon Liew Building, Singapore 0922; 65-733-6839.

**OCT. 4-7. Canadian Risk Management Conference** in Ottawa, sponsored by the Risk & Insurance Management Society Inc.; \$400 Canadian (\$337 U.S.) for RIMS members; \$450 Canadian (\$379 U.S.) for non-members. Conference Coll Inc., 1138 Sherman Drive, Ottawa, Ontario K2C 2M4; 613-224-1741.

**OCT. 5. Cafeteria Plan Seminar** in Framingham, Mass., sponsored by Corbel & Co.; \$175. Also Oct. 6 in Baltimore. Corbel's Educational Services Department, 800-326-7235.

**OCT. 8-9. Introduction to Insurance** seminar in New York, sponsored by The College of Insurance; \$395 for college sponsors; \$425 for others. The College of  
*Continued on next page*

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## Datebook

*Continued from previous page*  
Insurance, 101 Murray St., New York, N.Y. 10007; 212-732-6175.

**OCT. 11-14. American Society of CLU and ChFC National Conference** in Orlando, Fla.; \$414 for Society members; \$389 for student members; \$514 for non-members. American Society of CLU and ChFC's Records Processing Department, 215-526-2500.

**OCT. 12-16. The Fundamentals of International Employee Benefits** conference in Brookfield, Wis., sponsored by the International Foundation of Employee Benefits; \$1,050 for IFEBP members; \$1,175 for non-members. IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

**OCT. 12-16. 1992 Fall Governmental Risk Management Seminar** in Newport, R.I., sponsored by the Pub-

lic Risk Management Assn.; \$525 for members; \$625 for non-members. PRIMA, 1117 N. 19th St., Suite 900, Arlington, Va. 22209; 703-528-7701.

**OCT. 14. Workers Compensation, Specific Solutions for Your Crisis** seminar in Squaw Peak, Ariz., sponsored by the Arizona Central Chapter of the Risk & Insurance Management Society; \$30. 602-864-4267.

**OCT. 14-16. Pool Trustees Seminar** in Newport, R.I., sponsored by the Public Risk Management Assn.; \$250; \$375 for non-members. PRIMA, 1117 N. 19th St., Suite 900, Arlington, Va. 22209; 703-528-7701.

**OCT. 14-16. Professional Liability Underwriting Society International Conference** in New York; \$395 for members; \$475 for non-members. PLUS International Conference, 4248 Park Glen Road, Minneapolis, Minn. 55416; 612-927-9220.

**OCT. 14-16. Environmental Regula-**

**tion Course** in Scottsdale, Ariz., and Louisville, Ky., sponsored by Executive Enterprises Inc.; \$1,090. **Also Oct. 19-21** in Los Angeles, New Orleans and Nashville, Tenn.; **Oct. 20-22** in Kansas City, Mo.; **Oct. 21-23** in Seattle, Wash.; Charleston, S.C.; **Oct. 26-28** in Anchorage; **Oct. 28-30** in New York City. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

**OCT. 14-17. Southern Employee Benefits Conference** in Asheville, N.C., sponsored by the SEBC; \$500 for members; \$550 for member applicants; \$650 for non-members. SEBC, P.O. Drawer 47309, Atlanta, Ga. 30362; 404-458-6233.

**OCT. 15-16. Minimizing and Resolving Natural Resource Damage Claims** conference in Washington, sponsored by Executive Enterprises Inc.; \$1,090. **Also Nov. 18-19** in San Francisco. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

**OCT. 15-16. Defense and Evaluation of Psychological and Neuropsychological Injury Claims Seminar** in Boston, sponsored by the Defense Research Institute; \$375 for DRI members; \$425 for non-members. DRI, 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

**OCT. 18-21. The Alternative Market, Our Key to the Future** conference in Boca Raton, Fla., sponsored by the National Risk Retention Assn.; \$650 for members; \$800 for non-members. NRRRA, 4505 S. Wasatch Blvd., Suite 310, Salt Lake City, Utah 84124; 800-999-4505.

*The Datebook is compiled from notices sent to Business Insurance. Notices should be sent at least eight weeks in advance to Datebook, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611-2590. Please include the price, if any, of the meeting and information on registration for interested readers. Business Insurance cannot guarantee that notices will be printed.*

## MEWA probe

*Continued from page 2*  
exempt from state regulation and seeking an injunction against Florida regulators.

At the request of a federal judge hearing the lawsuit, the Labor Department last year agreed to issue an opinion on whether the fund operates pursuant to collective bargaining agreements.

In a tentative opinion issued Aug. 31, the Labor Department says it chose 30 companies as a representative sample of the plan's participants and interviewed officials at 27 of them about their relationship to the union.

Eighteen of the 27 companies indicated they participated without an agreement that was the product of good-faith bargaining or without any actual employee representation by Local 355 or both, the letter says.

Fourteen of the companies said they had no collective bargaining agreement with the union—or could not recall entering one—and viewed themselves merely as buyers of employee medical coverage from the United Welfare Fund.

Three companies said they entered agreements with the union but did so only to obtain medical coverage.

And, the president of a company with two employees said he negotiated an agreement with the union. But he said he also serves as the company's shop steward. That "raises serious questions as to the bona fides of the agreement," the letter says.

Several employers also reported the coverage was marketed by insurance agents, though the agents may have described themselves as "labor consultants," the letter says.

"This type of activity is indicative of a MEWA-insurance enterprise, which Congress intended to be subject to state insurance regulation," the letter says.

"Given the extensive documentation of clearly non-bona fide arrangements revealed by our sample, we have concluded that the entire enterprise is sufficiently tainted by evidence of systematic fraud that the secretary will decline to find any of the agreements entered into by Local Union 355 to be a bona fide collective bargaining agreement.

"To find such an arrangement to be excepted from MEWA status would, in the department's view, not only invite improper exploitation of the collectively bargained plan exception... but also encourage the exploitation of bona fide collectively bargained plans," the letter says.

The union and the Florida department have until Sept. 30 to respond to the tentative letter before the Labor Department issues a final opinion.

Stephen Kahn, a Fort Lee, N.J., lawyer representing Local 355, called the letter's conclusions "mistaken and wrong."

The 18 employers cited in the letter are not representative of the union plan's roughly 1,500 participating companies, Mr. Kahn said. The participants, mainly in the New York metropolitan area, employ roughly 10,000 covered workers, he said.

"They are saying that 18 apples in the barrel may be tainted, (and) we're not going to look at any other apples in the barrel," he said, arguing that other participants have legitimate collective bargaining agreements. Local 355 "is not attempting to evade regulation," said Mr. Kahn, who is with the firm of Kahn, Opton, Handler, Gottlieb & Feiler. ■

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# INTERNATIONAL

## Scandinavian financial crisis deepens

STOCKHOLM, Sweden—Swedish insurers Skandia Holding A.B. and Trygg-Hansa SPP Holding A.B. are batten down the hatches to weather a financial storm on two fronts in Scandinavia.

Turmoil on the Scandinavian financial markets last week was followed by the collapse of credit insurer Svenska Kreditforsakringaktiebolaget, in which both companies are shareholders.

The latest developments are yet one more jolt to Scandinavia's financial sector, a crisis now centering on Swedish insurers.

Skandia executives tried to put on a brave face publicly. Vp Johannes Norby told *Business Insurance* the financial market's turmoil was only a temporary

"blip" that will hardly affect the insurer, while the credit insurance losses were mostly accounted for in the 1990-1991 financial accounts.

Some insurance analysts think otherwise.

"Skandia could lose a lot of credibility," said Jonathan Walker, insurance analyst at Baring Securities in London.

Financial markets were shaken on Sept. 8, when Finland's central bank announced it would abandon its policy of linking the Finnish markka to fluctuations in the European Currency Unit. The Finnish bank said the cost of defending its currency against recent tension within the exchange rate mechanism of the European Monetary System had taken too great a toll on its reserves.

### GLOBAL BRIEFS

On free flotation, the Finnish markka's market value immediately fell almost 15%.

Currency outflows from Sweden as a result of the Finnish devaluation, on the heels of an ongoing crisis in the Scandinavian financial markets, forced the Bank of Sweden to raise interest rates drastically to defend the Swedish krona. Three-month interbank rates rose eight percentage points to 24%, while overnight rates rose to 75%.

According to Mike Wheelhouse, insurance analyst at London stockbroker Hoare Govett Ltd., Skandia has current liabilities of 8 billion krona (\$1.57 billion) and a long-term debt of

15 billion krona (\$2.94 billion).

The hike in interest rates could have an effect on Skandia's debt position, but it is more likely to have a positive effect on the company's liquidity since income from invested premiums will be greater, he said.

Skandia's Mr. Norby says the insurer will not be greatly affected by the fluctuating financial market because 70% of the company's premiums, 80% of its assets and 80% of its long-term debt are outside the country.

The day after Finland's announcement, Skandia announced that the collapse of Svenska Kredit and its affiliate, International Credit Insurance, would cost it at most 450 million krona (\$88.2 million at current exchange rates).

But Baring's Mr. Walker con-

tends that a more realistic loss could be "at least" 900 million krona (\$176.4 million).

Trading in Skandia shares was suspended the morning of Sept. 9 after Svenska Kredit published a first-half loss of 426 million krona (\$77.1 million at the applicable exchange rate).

Skandia said that of its estimated 450 million krona maximum loss from the credit insurer's collapse, 340 million krona (\$22.7 million) is attributable to loans guaranteed by Svenska Kredit for its short-term financing, and noted that part of these loans may be recovered.

However, Mr. Walker does not believe that Skandia will be able to recover much of the loss. "Maybe 2 million krona

*Continued on page 32*

## Lloyd's eyes new ways to attract small risks

By CAROLYN ALDRED

LONDON—Lloyd's of London syndicates are extending farther and farther beyond the market's famous underwriting room in an attempt to attract new business.

Several underwriting agencies have formed service companies that enable their syndicates to write personal and small commercial lines business placed by non-Lloyd's brokers, both overseas and in the United Kingdom.

Many underwriters remain skeptical about the long-term prospects for such ventures, which first appeared in the late 1980s. At least one of the pioneers of this so-called direct dealing has been forced to close his syndicate following three years of losses.

But the syndicates' efforts to extend their marketing reach have been supported by the Corporation of Lloyd's, which has applied for new licenses in various European countries.

Lloyd's has obtained new licenses to write business directly in France, Germany and Italy.

Lloyd's central marketing department has also organized six regional seminars in the United Kingdom over the past year in an attempt to help underwriters in the market attract business from regional non-Lloyd's brokers. The department has also published material to explain to these regional brokers how Lloyd's works.

Although about 30% of Lloyd's business is now generated from the United Kingdom, the percentage of domestic business "is not as high as we would like it to be," said Andrew Duguid, head of market services at Lloyd's.

*Continued on page 34*

## Underwriting agents to merge

Cox Group capacity will reach over \$200 million with acquisition of C.W. Rome

By GAVIN SOUTER

LONDON—The merger of underwriting agents in London continues with the Cox Group Ltd.'s acquisition of C.W. Rome (Underwriting Agency) Ltd.

The acquisition will boost the combined capacity of syndicates managed by Cox and its associated companies to more than 100 million pounds (\$200.7 million at current exchange rates).

C.W. Rome manages marine syndicate 662, underwritten by Christopher Rome, who was chairman of the Lloyd's Underwriter's Assn. in 1987 and 1988.

Syndicate 662 specializes in energy, marine liability and war risk business. The syndicate's 1988 loss of 4.1 million pounds (\$7.8 million at the applicable exchange rate) was followed in

### LONDON

1989 by a loss of 18.1 million pounds (\$33.8 million).

After the 1988 loss was declared in July 1992 under Lloyd's three-year accounting system, the syndicate's capacity plummeted by nearly two-thirds to 27.5 million pounds (\$55.2 million at the current exchange rate) from 77.9 million pounds (\$145.7 million) in 1991.

Cox and its associated companies manage: marine syndicate 590, aviation syndicate 734, non-marine syndicate 1027 and nuclear syndicate 1176. The combined 1992 capacity of the syndicates is 75 million pounds (\$150.5 million).

"We are delighted to be able to provide Christopher Rome with

our marine underwriting and management backup, as we feel that his experience and the respect he commands within the market make him the right man to support in a rising marine market," said Hugh Shuttleworth, finance director of the Cox Group.

### Electronic placing

The London market's use of electronic support for placing risks is now accelerating after getting off to a slow start.

The testing phase of EPS—a computer system implemented in March using the London Market Insurance Network—is now over, and participating brokers will make much greater use of the system during the year-end renewal season, said Max Taylor, chairman of the LIMNET board.

During the first six months, 132 risks had been placed using EPS, 57 of those placed in August alone.

"This excludes risks that are not accepted or canceled, so there is a lot more traffic on the system than these figures indicate," said Michael Burton, a LIMNET director.

EPS enables brokers to send to London underwriters information on risks the broker has already discussed with the underwriter. The underwriter can then accept the risk electronically rather than use the traditional rubber stamp and "scratch" or signature.

EPS was launched March 31, and selected divisions of nine brokers currently use the system. Mr. Taylor said 17 brokers should be using it by year end.

So far about 850 underwriters are connected to the LIMNET system, he said.

Mr. Taylor concedes that relatively few risks have been placed using the EPS system, but this is understandable, he said.

"People can sometimes forget just how significant LIMNET is. It's the largest live network covering an insurance marketplace, so the implementation of all its facilities is bound to be gradual," he said (*BI*, Sept. 2, 1991).

LIMNET officials knew that EPS implementation would be slow, but enough risks have now been placed to prove that the system works, he said.

"We have now shown that the system works, and now it is in the hands of the business people," Mr. Taylor said. "We will see significant use of EPS by the end of the year."

So far, EPS has saved little time for brokers and underwriters, because during the early stages of the system's operation, manual checks have to be run on all of the risks placed using it, he said.

However, system users eventually will have significant commercial advantages over those underwriters and brokers who do not use the system, Mr. Taylor said.

*Continued on page 34*

## Australian law may prompt hike in product liability rates

By KATE McILWAINE

SYDNEY, Australia—With the recent enactment of a new Australian product liability law, risk managers must reassess their policies to ensure potential new exposures are covered, insurers say.

Underwriters, brokers, risk managers and insurance attorneys agree that product liability rates are likely to rise and policy wording will be tightened under the new law, which introduces strict liability, among other things.

Specialty coverages, such as product guarantee and recall insurance, which are available only to a restricted market, are likely to become more restricted and more expensive, underwriters say.

Experts say the new law—coupled with a March law that could increase the number of class-action suits—provides greater op-

portunities for more consumers to take action against manufacturers, retailers and suppliers.

But insurance attorney Tony Cotter, a partner in the Brisbane law firm Feez Ruthning, said businesses could "live comfortably" with the new law, providing they use common-sense.

A different sentiment was offered by Stuart Bassett, manager, development and risk management services for Melbourne-based broker Alexander Stenhouse Ltd. "People are saying we shouldn't be perturbed, but I reserve judgment," Mr. Bassett said.

He said the product liability law will result in greater claims against policies, and subsequent premium increases.

"In professional liability, we have seen claims increase by 200% to 300% in recent years, and the same thing could happen with product liability," he commented (*BI*, March 26, 1990).

Michael J. Freeman, casualty underwriter for Sydney-based Zurich Insurance Ltd., said insurers could only make "guesstimates" about the effect of the new law on product liability claims experience. But, he explained, insurers cannot afford to adopt a "wait-and-see" attitude about premium increases, because liability underwriting is long-tail business.

"Claims do not come out of the woodwork until some years down the track, by which time it will be too late to increase premiums on those years which have incurred the claims," he said.

Brian Peele, national manager, mining and energy, for Melbourne-based broker Marsh & McLennan Pty. Ltd., said the new law will prompt premium increases because lawsuits will increase. He predicted the new law would create "an interesting future."

*Continued on page 33*

**GLOBAL BRIEFS**

*Continued from page 31*  
 (\$392,000) if there is anything in the safe," he said.  
 Meanwhile, Trygg-Hansa said in a statement that in view of the suspension of payments by Svenska Kredit and the bankruptcy of International Credit, its remaining risk exposure in the two companies, after the write-downs and allowances, is estimated at about 900 million krona gross. The insurer said parts of this commitment were being recovered.  
 Trading in Trygg-Hansa shares also was temporarily suspended the morning of Sept. 9.  
 Following the release of its results, Svenska Kredit directors announced at a press conference in Stockholm that the company would go into administration and that it expected gross losses of 6.2 billion krona (\$1.21 billion) on guarantees written for building contractors.  
 Skandia and Trygg-Hansa each have 6% of the reinsured portion of Svenska Kredit's total portfolio. The amount of the reinsured portion was not disclosed. The remainder is reinsured by 65 other reinsurers.

Svenska Kredit was jointly owned by Skandia and Trygg-Hansa from 1969-1982. In 1982, about 38% of its stock was issued on the Stockholm Stock Exchange and the company has since operated independently.  
 As a result of bankruptcies and the suspensions of payments in the Scandinavian market in 1991, Svenska Kredit's results deteriorated dramatically and a new share offering was necessary, Skandia says.  
 Skandia and Trygg-Hansa were forced to absorb almost the entire offering, and their holdings in Svenska Kredit rose to 47% apiece from 31% each.  
 The IC subsidiary was spun off from Svenska Kredit in 1987, with Skandia and Trygg-Hansa each holding 16% of its shares and Svenska Kredit retaining a 48% stake. Last fall, IC had to be rescued by its three main owners and seven banks.  
 Stop-loss coverage for 200 million krona (\$36.14 million at the applicable exchange rate) was used to reinsure its book, of which Skandia was liable for 70 million krona (\$12.6 million). It was the three companies' intention that IC would be liquidated under strict control, Skandia said.

Despite the effort to buoy IC, the heart of the problem with the credit insurers may lie in inadequate reinsurance, said Mr. Wheelhouse of Hoare Govett. "When you think about it, there is no reason for a credit insurer in Europe to go bankrupt unless it reinsured too little or badly," he argued.  
 In addition to the turmoil generated by Svenska Kredit's collapse, Trygg-Hansa last week postponed a scheduled 3.1 billion krona share offering because of the problems on the Scandinavian financial markets. It also announced that it would no longer provide funds to rescue Gota Bank, of which it owns 96%. The bank so far this year has accumulated 25 billion krona (\$4.9 billion) of bad loans on a total loan portfolio of 75 billion krona (\$13.72 billion).  
 —By Maria Kielmas

**New Victoire chief**

PARIS—The chairman of French insurer Compagnie de Suez, Gerard Worms, has been appointed chairman of its affiliate, Victoire Financiere du Groupe, Victoire.  
 Mr. Worms, who takes on his new job in addition to keeping his present one, was appointed after Victoire's board sacked Jean Arvis,

the insurer's chairman.  
 Insurers say Mr. Arvis was terminated because of his strong opposition to Union des Assurances de Paris taking a greater say in the running of Victoire, of which it owns 35%. Mr. Arvis also was opposed to UAP's efforts to acquire Colonia Versicherung A.G., Germany's third-largest insurer.  
 Suez has a 27.1% direct stake in Victoire as well as an indirect stake through its 51% ownership of Compagnie Industrielle, which holds 51% of Victoire. As a result, Suez has control of Victoire. And Victoire's Dutch affiliate owns 55% of Germany's Colonia.  
 Under an earlier agreement between Suez and UAP, UAP helped to finance Suez acquisitions in Victoire in return for UAP acquiring the pick of Victoire's assets. UAP has been eyeing Colonia since then.  
 Colonia controls about 5% of the German domestic market.  
 —By Maria Kielmas

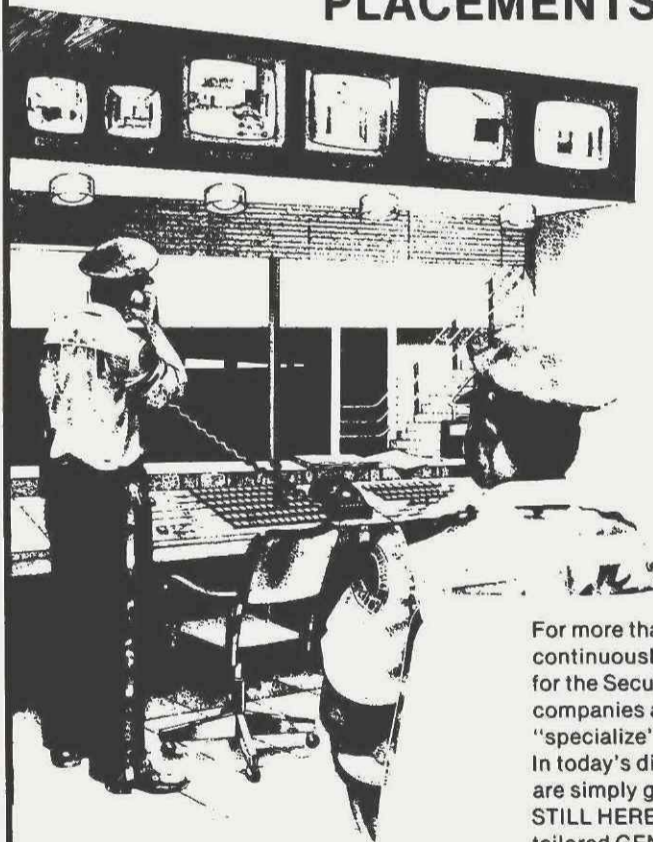
pany of \$1.3 million Australian (\$927,000), and a settlement is likely to be reached.  
 However, Terminals Pty. Ltd. will contest a \$1.4 million Australian (\$999,000) claim from the Victorian Fire Brigade for costs it incurred fighting the blaze. The Terminals spokesman said a settlement offer had been rejected, so the claim would be contested in court. No date has been set for a hearing.  
 Terminals Pty. Ltd. also will face court action Nov. 24 in the Melbourne Magistrates' Court. The company has been charged with 35 offenses under environmental protection laws. The claims allege that the company failed to handle toxic and flammable chemicals properly, failed to take reasonable precautions to prevent a fire, stored chemicals in such a manner as to create an environmental hazard, and polluted the atmosphere.  
 The spokesman said all claims would be contested.

**Australian fire claim**

MELBOURNE, Australia—Insurers and reinsurers are still negotiating the settlement of a claim from an August 1991 fire that destroyed part of a chemical storage depot at Coode Island, south of Melbourne.  
 The property/casualty claim could reach \$50 million Australian (\$35.7 million at current exchange rates), sources say. Removal of debris has been estimated at \$5 million Australian (\$3.6 million), relocation of the plant at \$20 million Australian (\$14.3 million) and business interruption losses at \$10 million (\$7.1 million).  
 The fire destroyed 16 chemical storage tanks and damaged another 21 owned by Sydney-based Terminals Pty. Ltd., one of six storage companies that used the Coode Island site to store chemicals.  
 A spokesman for Terminals Pty. Ltd. said it is negotiating with the Melbourne Water Board over a clean-up claim against the com-

pany of \$1.3 million Australian (\$927,000), and a settlement is likely to be reached.  
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 The spokesman said all claims would be contested.  
 Helen Hardy, claims manager for Sydney-based QBE Insurance Group. Ltd., which has underwritten the company's coverage, said Terminals Pty. Ltd. has so far filed only a preliminary claim for material damage, which was "still very much in general terms."  
 In addition, 15 third-party claims for clean-up costs on surrounding properties and prevention of access also have been filed in the case.  
 Ms. Hardy would not disclose the limits or details of Terminals Pty. Ltd.'s property or liability coverage.  
 No cause of the fire has been determined, although initial reports said a lightning strike was to blame. More than 8.6 million liters of chemicals was destroyed in the fire, which started after a 600,000-liter tank exploded, sending a huge fireball into the air. It took 350 firefighters three hours to control the blaze, but it flared up again the next morning and took a day to extinguish.  
 —By Kate McLwaine

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## Product liability

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Mr. Peele noted that the law meets the Australian government's goal of broadening the range of people that can take action over injury caused by defective products.

Risk managers must consider the potential for multidimensional risks—like legal, political, operational and financial risks from one product liability claim, Mr. Bassett said.

The new law, the Trade Practices Amendment Act 1992, was passed June 24 after many redrafts and changes. The act went into effect July 9.

Proposals for new product liability laws began six years ago when the government asked the Australian Law Reform Commission, a government body which examines proposed legal changes, to examine the product liability laws and recommend changes.

The key feature of the new law—based on the 1985 European Community Directive on Product Liability (BI, Aug. 5, 1985)—introduces strict liability.

Mr. Cotter, the Brisbane attorney, said the general thrust of the Trade Practices Amendment Act 1992 is that "a person who is injured or whose property is damaged as a result of a defective product has a right to compensation against the manufacturer, without the need to prove negligence on the manufacturer's part."

The amendments to the earlier law apply only to goods supplied by a manufacturer after July 9, and it is not possible for manufacturers to "contract out" of their liabilities.

Mr. Cotter said the 1992 act broadens the definition of manufacturer to include "own branders," a term used for a corporation that is considered a manufacturer because it affixes its name or trademark to goods or has goods made under license by another manufacturer. Importers also are covered under the act, he noted.

The new law extends the time limit for notification of defects to 10 years from the supply of the product, thus an insurer has to "keep the books open" for longer, according to Zurich's Mr. Freeman.

Mr. Cotter said standard broad-form liability policies and specific product liability coverages may not need amending in light of the tougher laws, but he said risk managers should review their policies to ensure that sufficient coverage is in place.

"Underwriters will more closely scrutinize measures such as quality control and testing and monitoring procedures when determining whether to write the risk, on what terms and for what premium," he said.

Intermediate parties in distribution chains—like wholesalers, retailers, importers or own branders—should thoroughly review contractual arrangements to ensure they reflect potential liability under the 1992 act, Mr. Cotter said.

Mr. Freeman said although E.C. insurers did not increase rates, and damages in product liability suits there have not been higher since the legislation was introduced, Australia has to be cautious about "taking any degree of comfort from the EC experience."

Some EC countries impose a monetary limit to claims, but in Australia "the sky's the limit," he pointed out.

M&M's Mr. Peele said one possible reason that there was no noticeable increase in litigation in Europe since stricter product liability laws were introduced is that underwriters are settling claims out of court.

"The overseas experience is not a reliable indicator of what's going to happen here," he added. "We need to wait and see."

Mr. Peele said most Australian underwriters would not automatically refuse to write coverage for the manufacturers of potentially hazardous products, but insurers will charge a premium according to the higher risk.

Many high-risk manufacturers, like drug firms, are foreign-owned and are self-insured for product liability, he noted.

The more complex or innovative a product, the more chance a defect could cause injury or damage. So underwriting guidelines will be tightened in industries like food and beverage, pharmaceutical, medical goods, chemicals, domestic appliances, motor vehicle, marine and aviation, construction and toy manufacturing, said Mr. Freeman.

"Claim numbers will increase, and it could be that individual claim amounts also increase due to protracted defense costs," he said. "The law of the deepest pocket is alive and well in our litigious society. An insurer will, in the majority of cases, be held liable to pay and, even if it wins a court case, it is a rarity that an insurer will actually get costs back."

Mr. Freeman also noted that underwriters would want more upfront information before quoting and would quote conservatively.

Kevin Dillon, a partner in the Melbourne office of law firm Phillips Fox, said some companies could be inadequately protected.

He also warned that brokers who failed to adequately advise their clients that coverage did not extend to liabilities under the new law could be liable if, when a claim was made, the insured was found to be unprotected.

Alex Ninis, legal counsel to the Australian Chamber of Manufacturers, a Melbourne-based trade group for big manufacturing concerns, said Australia's product lia-

bility laws were in need of "an overhaul." The revamp is necessary, he said, particularly because the previous legislation did not allow claims by injured "innocent bystanders," that is people who did not actually buy the defective product.

Mr. Ninis said now any individual can make a claim for compensation against a manufacturer where a defective product had caused loss or damage through death or injury.

Under the law, available defenses to a manufacturer include:

- The defect did not exist when the goods were supplied.
- The goods were defective because they were complying with a mandatory, federal government-imposed standard.

- The defect could not be discovered using the scientific and technical knowledge available at the time of supply, known as a state-of-the-art defense.

- The defect applied to a finished product, not to a component which a manufacturer supplied to become part of the finished product.

Mr. Ninis said all manufacturers should review their present coverage, product labeling, quality control and methods of operation. Record retention practices also must be reviewed because of the 10-year statute of limitations, he added.

Meanwhile, the class action law, an amendment to the Federal Court of Australia Act 1991, came into effect in March. The amendment makes it easier for plaintiffs to take action as a class against a corporation.

David Miller, senior partner at law firm Feez Ruthning in Brisbane, said he did not think the class action law would create "major problems" for insurers, nor would it "open the floodgates to vast numbers of claims we would not otherwise have seen."

But Geoff Taperell, a solicitor with the law firm Baker & McKenzie in Sydney, said all Australian companies should review their coverage, examine product recall procedures, and minimize risks of misleading information, which is "one of the main grounds for a class action." ■

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**Marketing efforts**

*Continued from page 31*

Trying to reach potential policyholders through intermediaries other than Lloyd's brokers is one way to increase that business.

"Lloyd's is mysterious, looking at it from a distance," which is why the marketing department has published the new material, Mr. Duguid said.

"This is taking the (Underwriting) Room on the road," he commented.

These moves to bypass Lloyd's brokers—which for centuries have been Lloyd's marketing arm—remain controversial in the market, with some underwriters stressing their continued commitment to Lloyd's brokers.

"In the last 12 months, several Lloyd's syndicates have started their own service companies, and others have purchased non-Lloyd's brokers," noted D.J. White, underwriter for syndicate 322, managed by Cater Allen Syndicate Management Ltd.

"We have not gone down this route, as we have misgivings about the advantage to our Names," Mr. White writes in the syndicate's annual report. "We remain strongly supportive of the Lloyd's broker and believe they continue to be the best producer of business for our syndicate."

Not that Mr. White rules out a new path in the future.

"We must keep an open mind on future developments in Lloyd's and may feel it necessary to add another string to our bow at some later stage," Mr. White says.

Other underwriters argue that Lloyd's must tap new sources for income.

In 1991 "competition was again severe in all areas of the liability account, and it was impossible to generate profitable income at a sufficient level from

the usual sources," said underwriter A.M. Macleod.

So Mr. Macleod's syndicate 962, managed by Holman Macleod Ltd., began to develop a service facility to directly access non-Lloyd's brokers.

The service company, Charrington (962) Ltd., acts as "a channel for business emanating from non-Lloyd's brokers," writes Mr. Macleod in the syndicate's annual report.

In 1991, syndicate 794, managed by Castle Syndicate Management Ltd., also began to accept small to medium-sized commercial risks from non-Lloyd's brokers.

"We significantly increased our dealings with non-Lloyd's brokers," said underwriter J.M. Ing.

Syndicate 990, managed by Morgan, Fentim & Barber, is expanding its "specialist and small-premium business in conjunction with Lloyd's brokers through facilities that allow us to deal direct with some producing brokers, and to this end (it is) establishing a service company," according to underwriter M.J. Cox.

Meanwhile, agencies with established service companies are reporting mixed results.

One pioneer has already been forced out. Eddie Simner, underwriter for syndicate 1104, managed by Merrett Underwriting Agency Management Ltd., was forced to close the syndicate for 1992.

Mr. Simner had believed that establishing regional offices and ties to non-Lloyd's brokers would bring in small to mid-sized commercial business that Lloyd's would otherwise never see.

As he later wrote in the syndicate's annual report, the returns did not materialize.

"The measure of success of a syndicate is the return of a positive result to the Names. In this I

have failed and I apologize."

Syndicate 1104 reported a loss of 1.6 million pounds in 1989 (\$2.59 million at the applicable exchange rate), or 15% of its allocated capacity; it predicted a loss of 15% to 25% of allocated capacity for 1990 and warned of a further loss for 1991.

In the past two years, Wellington Underwriting Agencies Ltd. has established two regional underwriting units—one in Oxford, England, and one in Italy.

While the U.K. venture, which writes personal lines business, "has developed promisingly after a slow start," the Italian under-

start to contribute significantly to members' results in upcoming years, said G.D. Gilchrist, underwriter for syndicate 510/511, which is managed by Kiln.

In September 1990, syndicate 1156, managed by Bankside Syndicates Ltd., set up a service company in Bristol, England.

The aim of the syndicate, which specializes in liability coverages like employers and public liability, products liability and professional indemnity insurance, was to attract business usually placed with regional insurers.

"The quality of business that has been produced after such a relatively short time is extremely pleasing, and the amount of business... continues to grow," writes underwriter John Murphy in the syndicate's annual report.

Similarly, Janson Green Ltd.'s underwriting offices in Manchester and Dublin "are now well established and are performing well in difficult conditions," said Robert Wallace, underwriter for syndicate 386.

"Further opportunities to establish a local presence, either in the U.K. or abroad, will be considered," he added.

Indeed, many syndicates are reaching far beyond London's Lime Street to set up underwriting operations.

Last October, Christopherson Heath Group established a new underwriting operation in Australia.

Underwriter David Lowe estimates that the Australian office will account for 2% of syndicate 1154's income in its first year of operation.

Bankside Syndicates Ltd. also has "been successful in generating business which (we) otherwise would not (have) seen" through its service companies set up in the United States and France to write reinsurance, according to underwriter Peter Grove.

R.F. Bailey (Underwriting Agencies) Ltd., which last year bought into John Linneman & Co., a California lanning general agency (BI, Sept. 2, 1991), more recently took a small share in ENAM Management Co. Inc. of Chicago.

The firm was set up "as a facilitating entity to enhance the flow of business to the Lloyd's market," according to R.F. Bailey.

*International Editor Stacy Shapiro contributed to this report.*

**LONDON**

*Continued from page 31*

Underwriters and brokers using the EPS will be able to establish labor and time-saving systems which will provide cost savings that can be passed on to clients, he said.

"Brokers and underwriters will still be in face-to-face negotiations, but that is not the expensive part of the business. The expensive part is the shoe leather—securing endorsements, making arrangements to policies and data transfer," Mr. Taylor said.

EPS will enable brokers to carry out these additional functions without walking around the London market to speak to underwriters in person, he said.

Greater use of the network will cut the number of brokerage jobs in the London market, he acknowledged.

"But people are losing their jobs anyway due to other financial pressures. EPS will add to the job losses, but it will also change the job of brokers, and they will not just be paid to go and see underwriters all day," Mr. Taylor said.

Brokers will become more involved in the production of policies and develop more expertise in their fields, he said. ■

**Lloyd's new marketing effort is 'taking the (Underwriting) Room on the road,' Mr. Duguid says.**

writing operation "has not made the same progress," reports Bill Petzold, underwriter for syndicate 1095.

"With so many new European companies coming into this scene in the past few years, the market is still far too competitive for us to make much headway," he notes in syndicate 1095's annual report.

Other syndicate managers appear more optimistic.

After a few difficult years, R.J. Kiln & Co. Ltd.'s direct writing operation—Link Insurance Services Ltd.—hopes to reach a critical volume of 7.5 million pounds (\$15.1 million at the current exchange rate) in net premiums this year, making the business viable.

"We are convinced that the confidence that has been shown in this operation is about to bear fruit" and that the Maidstone, England-based company will

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**Commercial Consumers**

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Vice-Presidents, General Managers and Other Administrative Personnel	4,160
<b>Financial:</b> Chief Financial Officers and Vice-presidents of Finance	2,637
Secretaries, Treasurers, Controllers and other Financial Personnel	3,822
<b>Risk/Employee Benefits:</b> Vice-presidents, directors, managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations	14,998
<b>Sub-total</b>	<b>28,089</b>
Government, Unions and Educational Institutions	1,148
<b>Commercial Consumers</b>	<b>29,653</b>
Insurance Agents and Brokers	8,947
Insurance Companies	8,080
Accountants, Actuaries, Attorneys & Consultants	3,449
Adjusters, Appraisers, TPA's, Captive Managers & Health Care Providers	1,748
Others Allocated to the Field	904
Single Copies	4
<b>TOTAL</b>	<b>52,785</b>

\* Source Business/Occupational breakdown of qualified circulation, May 25, 1992 issue, as submitted to BPA for June 1992 BPA Publisher's Statement.

## Executive Life

Continued from page 2

Subcommittee. The committee's chairman, Rep. John Dingell, D-Mich., has introduced legislation to give the federal government a new role in solvency regulation.

"The desire to take action—that is crucial," Mr. Garamendi said, adding that "without such a will," regulation—regardless of whether it is at the federal or state level—will not succeed.

"New York was very aggressive in protecting policyholders. California was lax and the game went on. The department in New York chose to act. In California, we have a huge hole that was due to a lack of will," he said.

Currently, ELNY policyholders are receiving all promised benefits while the company is under conservatorship by the New York Insurance Department.

ELIC policyholders are receiving only 70% of promised benefits. Under a court-approved rehabilitation plan, most eventually will receive their benefits, but only with significant backing from state guaranty funds.

Much of last week's hearing centered on an extended debate between Rep. Dingell and the New York Insurance Department's Mr. Lennon over Mr. Lennon's testimony in 1990. At that time, less than a year before New York regulators would seize ELNY, the regulator responded positively when asked if the insurer was well-run and well-funded.

Mr. Lennon said he hadn't meant to say that it was well-run, noting that his department had levied massive fines for various infractions and ordered certain company officials removed.

But he defended his characterization of ELNY as well-funded. He said the department on April 17, 1991, was forced to seize ELNY—not because of a funding deficiency—but to avert a run on the company's assets. That run was triggered by California's seizure of ELIC on April 11. Even though the condition of the two First Executive Corp. units was entirely different, the public did not make such a distinction, Mr. Lennon said.

No financial institution, not even a triple A-rated insurance company, is liquid enough to meet all obligations at once on demand, Mr. Lennon said.

By taking over ELNY, the department hoped to ensure that all policyholders would receive full benefits, plus promised interest, Mr. Lennon said. This is now expected to occur.

"There is no hole in the com-

pany. We do not expect to tap guaranty funds," said New York Superintendent of Insurance Salvatore Curiale.

Without a seizure of ELNY, those policyholders who had the right to immediately cash in policies would have done so, forcing the insurer to sell off its most liquid assets. That would have depleted the assets it needed to honor contracts to policyholders, like holders of structured settlement annuities, who weren't entitled to benefits immediately, Mr. Lennon said.

Mr. Garamendi contrasted aggressive regulation in New York—including kicking ELNY out of the reinsurance business and ordering a \$151 million capital infusion in 1986—with "lax" oversight in California.

During the 1980s, top California regulators were aware of many ELIC problems, the commissioner said.

In fact, the department had been aware of those problems for more than a decade before the company failed, according to a report, "Executive Life Insurance Co.: A View From the Regulator's Chair," which Mr. Garamendi released at the hearing.

"ELIC did not mysteriously fall into trouble in 1989 when the junk bond market collapsed; the California Department was well aware of problems with ELIC that began as early as 1979 and continued virtually unabated

through the 1980s," according to the report prepared by R.L. Clements & Associates, an accounting firm in Austin, Texas.

According to the report, lax regulation in California allowed Executive Life:

- To use "sham" reinsurance agreements to produce "bogus" capital of between \$150 million and \$300 million throughout the 1980s.

- To remove \$750 million of junk bonds from ELIC's portfolio in a complicated "repackaging" to inject \$110 million of "bogus" capital.

- To continue to buy junk bonds of especially poor quality in 1988 and 1989 during the "final feeding frenzy" before the junk bond market collapsed.

"ELIC was a major purchaser in this market of poor quality bonds, some of which defaulted shortly after issue," according to the report.

Reflecting the atmosphere of the 1980s, California regulators had taken a laissez-faire attitude and would not tell insurers how to run their business, Mr. Garamendi said.

The failure of ELIC with its massive liabilities was the disastrous consequence of that attitude, he said.

Had California cracked down sooner, the company still might have failed, but the ultimate costs would have been much lower, Mr. Garamendi said. ■

## Dependent care collaboration

Continued from page 3

plained Mike Snipes, director of compensation and benefits for Allstate Insurance Co. in Northbrook, Ill.

It was necessary to band together with companies in the same locations that have similar dependent care needs, because one employer could not have developed such a comprehensive program on its own, he said.

The group would not reveal the dollar amounts that each company and organization have contributed. Some companies donated money from corporate operating funds, while others used corporate charitable foundation funds.

Employees of companies and organizations involved in the project will receive priority enrollment for the programs their employers support, unless a program was funded with corporate charitable foundation funds.

That does not mean that these organizations are paying for their employees' dependent care needs. Some may subsidize certain services for workers' dependents, but most often employees will pay regular fees.

The companies and organizations involved in the project will determine what kind of dependent programs to support based on their employees' needs and the needs of each community, explained a spokesman for International Business Machines Corp. of Armonk, N.Y. IBM was instrumental in spearheading the project.

In addition, Work/Family Directions, a national dependent care consulting firm, will help direct the project participants' investments in dependent care services in specific communities. The consulting firm also will assist the participants with program design and management, provider selection and evaluation and quality control.

The 11 companies that coordinated the effort are Allstate, American Express Co., Amoco Corp., AT&T, Eastman Kodak Co., Exxon Corp., IBM, Johnson & Johnson, Motorola Inc., Travelers Corp. and Xerox Corp.

Companies and organizations interested in joining the project can call Work/Family Directions at 800-253-5264, ext. 4283, for more information. ■

## For the Record

### Massachusetts Blues revise Bay State status

BOSTON—Blue Cross & Blue Shield of Massachusetts' takeover of Bay State Health Care Inc. could fall through if providers do not accept the Blues' proposed recovery plan for the ailing health maintenance organization.

In June, BC/BS announced it would take over Cambridge, Mass.-based Bay State, which provides health insurance to about 380,000 people, and honor the HMO's outstanding debts to hospitals and physicians. But, BC/BS officials now say Bay

State's losses—estimated at \$108 million—are too much for the Blues plan to absorb alone and are asking providers to forgive or defer some of that debt.

"Hospitals must give up a little, doctors must give up a little, and rates will have to be raised for Bay State members," a BC/BS spokeswoman said.

State regulators are due to receive a final recovery plan by Oct. 1.

BC/BS is expected to give hospitals two choices: Remain in the Bay State network, settle existing debt immediately for 80 cents on the dollar and accept a new four-year contract giving major discounts to Bay State clients; or

drop out of the network and be paid over an undetermined period of years. BC/BS also will ask physicians to forgive part of their debt or to accept deferred payments over several years.

### Sales performance bill vetoed in California

SACRAMENTO, Calif.—Legislation that would have barred insurers from using loss-ratio experience in evaluating the performance of their salespeople was vetoed last month by California Gov. Pete Wilson.

The governor said he vetoed A.B. 2909 out of concern that it would "invite litigation by employees who are terminated for good cause but who contend in-

Continued on next page

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## For the Record

Continued from page 35  
stead that termination resulted from loss-ratio experience."

The Assn. of California Insurance Cos. also opposed the bill, which was sponsored by Assemblyman Robert Campbell, D-Richmond.

### Insurer's challenge to CERCLA advances

WILMINGTON, Del.—A Delaware court has cleared the way for a Travelers Corp. unit to provide evidence backing a new legal argument

for why insurers should not have to pay Superfund cleanup costs.

Called the "reformation argument," the new argument asserts that the 1980 Superfund law imposes "novel" coverage responsibilities that weren't foreseen when many liability insurance policies were written.

Vice Chancellor Carolyn Berber of the Delaware Court of Chancery last month said she would hear evidence on the issue in a dispute between Travelers Indemnity Co. and North American Phillips Corp.

That evidence will not be heard until other more routine arguments are resolved in the case, which involves coverage for cleaning up sites around the country, she said.

### NCCI to appeal denial of two rate requests

NEW YORK—The National Council on Compensation Insurance plans to appeal the rejection of workers compensation rate requests in two states.

Rate requests were granted in two other states, though for amounts less than the New York-based rate-making organization had sought.

Georgia's insurance commissioner

rejected a 25.6% request, as well as an earlier 33% increase request on the grounds that insurers are not losing money in the state. The NCCI will appeal at a hearing later this month.

The Department of Business Regulation in Rhode Island turned down a request for a 54.9% increase in workers comp rates, contending the hike is not necessary in light of a workers comp reform package that went into effect June 1. The NCCI is asking the department to reconsider, arguing the reforms do not meet insurer's immediate needs.

An average 14.7% workers comp rate increase was approved by Virginia regulators, slightly more than

half of the increase the NCCI sought. And Missouri regulators approved a 12.5% hike instead of the 23.8% requested.

### Study shows measures to curb stress illnesses

Businesses that take 10 specific stress-relieving actions are less likely to have employees with stress-related illnesses, resignations, job burnout and absenteeism, a study contends.

Greater communication among employees and managers, adequate employee control of their work and management support and recognition of employees' efforts are the three best ways to reduce stress, said Peggy Lawless, research project director at Northwestern National Life Insurance Co. in Minneapolis, which did the survey.

According to the study, one-third of American workers either want to quit their jobs, experience stress-related illnesses or are close to burning out.

Other ways employers can manage job stress include ensuring adequate staffing and expense budgets, providing competitive personal leave and vacation benefits, reducing personal conflicts on the job, maintaining current levels of employee benefits and reducing the amount of red tape for employees, the survey said.

### CIGNA transplant network is formed

HARTFORD, Conn.—CIGNA Healthplan Inc. has set up a network of 13 facilities to handle organ and tissue transplants for its health maintenance organization and managed care plan members.

Called the CIGNA Lifesource Organ Transplant Network, the program is designed to provide access to heart, heart/lung, lung, liver, pancreas, kidney/pancreas and bone marrow transplants.

The 13 facilities currently included in the Lifesource network are: The Johns Hopkins Oncology Center in Baltimore; the University of North Carolina Hospitals in Chapel Hill, N.C.; Emory University Hospital in Atlanta; Barnes Hospital/Washington University and St. Louis Childrens Hospital in St. Louis; the Cleveland Clinic Foundation in Cleveland; and the University of Minnesota Hospital and Clinic in Minneapolis.

Other facilities are: the University of Nebraska Hospital in Omaha; City of Hope National Medical Center in Duarte, Calif.; the Fred Hutchinson Cancer Research Center in Seattle; Loma Linda University Medical Center in Loma Linda, Calif.; California Pacific Medical Center (formerly Pacific Presbyterian Medical Center) in San Francisco; the University of California at Los Angeles Medical Center; and University Medical Center in Tucson, Ariz.

The network will be available later this year to CIGNA's PPO subscribers and Intracorp's UR clients.

### Insurance department budgets increase 57%

State insurance department budgets increased an average of 57% between 1986 and 1991, a new report shows.

The report, by the Consumer Insurance Interest Group and the National Assn. of Professional Insurance Agents, examined budgets in 44 states for which comparable figures were available.

The percentage of premium taxes allocated to insurance departments also rose to 6.9% on average in 1991, from 5.4% on average in 1988. ■

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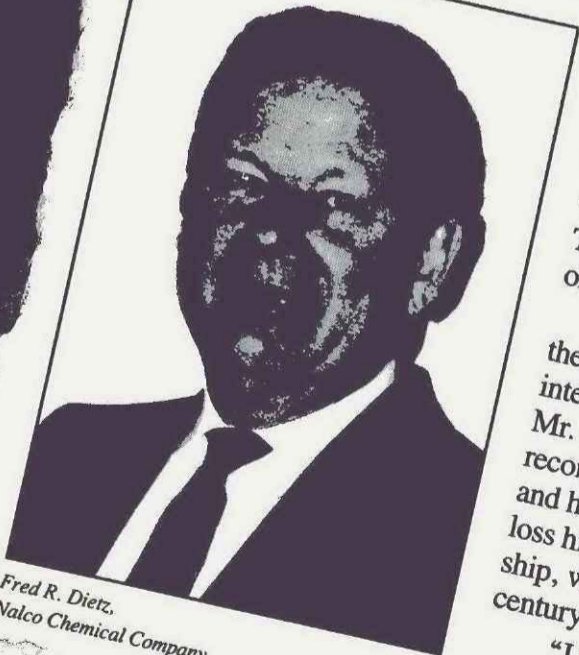
"During these decades, our people and IRI's have worked together on hundreds of underwriting and loss prevention matters, large and small," he

said. "For example, a few years ago, IRI's account team helped to put together an all risk policy and program that was designed specifically to meet our needs as a specialty chemical company. At that time, the program included more than 50 locations in the U.S. and Canada."

"As IRI's account team reviewed the insurance plans for the various properties and occupancies, its willingness to be flexible made all the difference," he said. "Too often, insurance companies operate strictly by the book and resist alternative points of view. That's not the case with IRI. They're willing to listen." That's part of The IRI Difference.

"Our people, especially those on the safety and engineering staff, welcome interaction with IRI's representatives," Mr. Dietz said. "Their loss prevention recommendations have been invaluable and have helped Nalco achieve a low loss history over our business relationship, which spans more than half a century."

"I wish all my programs worked as smoothly as the one with IRI," Mr. Dietz said.



Fred R. Dietz,  
Nalco Chemical Company

# IRI

can make a difference

## Memo response

Continued from page 1

of a storm and use them as a vehicle to get higher rates is nothing less than repulsive," said James H. Brown, the Louisiana commissioner.

"I find it unbelievable that it would even cross someone's mind," he said.

Several other regulators said they would now be especially wary of rate hike requests.

The memo creates problems for the entire industry, suggested New York Insurance Superintendent Salvatore Curiale.

"Now if they want to do something legitimate, it's going to be second-guessed," Mr. Curiale observed.

"Any kind of public capital they have gotten from what they did well in the hurricane is all kind of soured in the public mind because of the memo."

Some states also will look into whether the memo violates antitrust law.

To some observers, though, the regulators' response to the memo appears politically motivated. Many insurance commissioners are elected officials.

The memo, written by Jeffrey W. Greenberg, executive vp-domestic general-brokerage, tells AIG company presidents and regional vps that the insurance industry cannot absorb hurricane losses and the cash hit without increasing rates (see related story).

Total insured damages in the United States and the Bahamas could hit \$8.6 billion (BI, Sept. 7). AIG has said its net losses from Andrew and Typhoon Omar, which recently struck Guam, will have a pretax impact of \$75 million to \$100 million on third-quarter results.

Mr. Greenberg goes on to say in the memo, dated the day the

hurricane battered South Florida, that underwriters must understand the significance of the hurricane and that AIG "must be the first" to increase prices.

After learning of the memo, Tom Gallagher, the Florida insurance commissioner and state treasurer, last Tuesday froze AIG rates and premiums for 60 days.

He earlier had imposed on all insurers a 60-day moratorium on mailing cancellation and non-renewal notices to policyholders in specific affected areas.

The moratorium on AIG rate requests will give state officials time to investigate the insurer's rate-setting practices, including whether it has violated Florida laws against unfair trade practices or antitrust activities, the commissioner said.

"AIG and all of the other companies that sell commercial property and auto insurance in Florida better get this message now: We won't tolerate any company trying to take advantage of our citizens in the aftermath of this tragedy," Mr. Gallagher said.

The state order calls the AIG memo a "transparent attempt to use the damage to manipulate their producing brokers and AIG customers statewide into believing that property/casualty rates must be increased immediately."

In addition, "the practical effect... would be to create a false climate in which competing insurance companies could also attempt to prematurely and unjustifiably increase rates statewide," according to Mr. Gallagher.

He also has warned the chief executives of all 780 licensed property/casualty insurers in Florida. Regulators, he said in a letter, will reject any industry effort "to capitalize on the misfortune of Hurricane Andrew's victims" through unjustified rate

increases and "will take legal action against any company that attempts to do so."

Mr. Gallagher asked in the letter that all property/casualty insurers advise his department "well in advance" of any planned rate increases.

Florida's use-and-file law lets property/casualty insurers change rates and then take up to 30 days to file them with state regulators. Unless the department specifically rejects the rates, they can be used.

A spokeswoman admits the department has not explored whether Mr. Gallagher has legal authority to ask insurers for advance notice of rate increases.

In response to the Florida action, AIG Chairman Maurice R. Greenberg has called for a hearing with the department to clear up what he contends is a "misunderstanding of AIG's intentions."

He said the insurer is confident "the facts will show that the order was based on a misunderstanding of AIG's intentions, that it attributes motives to AIG that are inaccurate, and that it paints a grossly distorted picture."

While Maurice Greenberg said he would not comment on the Florida order in detail before a meeting with regulators, he did contend that insurance rates remain inadequate and that the memo simply restates an "internal discussion" over rates that has gone on for some time.

The inadequacy of rates "is not a new phenomenon and is not related to any specific disaster such as Hurricane Andrew. Every analyst who follows our industry is well aware of this situation," he said.

"Insurance rates are not set in response to any single event, even a disaster as unprecedented as Hurricane Andrew. They are

set by the marketplace. Any informed observer of our industry knows that. However, the size of the insured losses from Andrew will surely add pressures on many insurers," he said.

It is "unfortunate and unfair that an internal memorandum, taken completely out of context, should form the basis for such a legal order or otherwise be used to imply that AIG intends to take certain actions to take advantage of Hurricane Andrew. This is pure speculation," he said.

AIG's strategy has always been to write only business that will produce an adequate return, he added. "If our industry does not remain financially strong, it will be unable to respond to future disasters and serve our policyholders' needs."

One insurer, American Reliance Group Inc., already has informed the Securities and Exchange Commission that it will suffer heavy losses related to the storm (see story, page 37).

Insurers that belong to the Alliance of American Insurers are expected to abide by the 60-day moratorium on the mailing of cancellation and non-renewal notices to policyholders in specific affected areas, said an Alliance spokesman.

Insurers also are expected to abide by another request to give policyholders a \$100 allowance for food spoilage, though individual policies may not require them to do so, said Don Preston, the Alliance's government affairs representative for the southeastern region.

In light of all this, "I would be surprised if any of our companies would have any major objections—at least in the near term—to Mr. Gallagher's request that he be given prior notification of rate increases," said another Alliance spokesman.

Meanwhile, insurance regulators and consumer advocates are railing against AIG and any other insurers considering raising rates in Andrew's wake.

"I think all regulators are concerned," said William McCartney, president of the National Assn. of Insurance Commissioners.

The memo was "almost stupid," given the likelihood that it would eventually be made public, said Mr. McCartney, director of the Nebraska Insurance Department.

"Even if there is no legal violation, it's outrageous to point to the storm and attempt to use it to raise rates" now without a quantifiable justification for an increase, Mr. McCartney said.

No insurer warnings will be issued in Nebraska, unless the Florida pricing investigation turns up something "smelly," he said.

"The costs that companies must bear from catastrophic events are already supposed to be figured into the prices they charge," said Mr. Brown, Louisiana's insurance commissioner.

"I will not tolerate any company trying to exploit the misery brought on by Hurricane Andrew and use it as a sole and independent reason for a rate increase," he asserted. Insurance rates in Louisiana must be approved in advance by regulators.

The commissioner said he will ask the Louisiana Rating Commission to call for a hearing into the past and present rate practices of AIG when the commission meets on Oct. 16.

At that meeting, Mr. Brown said he will ask for a moratorium on any rate filings by AIG until

## Internal memo sent by AIG after storm

Jeffrey W. Greenberg, executive vp-domestic general-brokerage for American International Group Inc., sent the following memo regarding rate hikes to AIG company presidents and regional VPs on Aug. 24.

This storm will cause extensive damage in southern Florida and, if it also strikes a populated area after picking up speed in the Gulf, may cause the insurance industry the biggest storm loss ever. The industry cannot absorb the loss and the cash hit without increasing rates. We have opportunities from this and everyone must probe with brokers and clients.

Begin by calling your underwriters together and explaining the significance of the hurricane. This is an opportunity to get price increases now. We must be the first and it begins by establishing the psychology with our own people. Please get it moving today.

JWG

the state investigation is completed.

In the meantime, Louisiana Attorney General Richard Ieyoub has agreed to investigate possible antitrust and unfair trade practice violations by AIG.

Missouri Insurance Director Lewis E. Melahn, who chairs the NAIC's Market Conduct and Consumer Affairs Subcommittee, said insurers should wait to see the impact of the storm on their catastrophic reinsurance premiums and surplus before considering changing rates.

AIG's memo indicates insurers' eagerness to use any event as a means of hoisting themselves out of the current soft market, Mr. Melahn said.

"The memo was ill-advised. To suggest that this is a good opportunity to raise rates... is sort of a silly thing to do," said Mr. Curiale of New York.

Eventually, insurers affected by Andrew will factor the losses into their rates, though the impact on business written outside Florida and Louisiana should be minor, Mr. Curiale said.

"That, of course, is a lot different from saying, 'Hey, this is a good pretext to raise rates. Let's raise them,'" he said.

New York authorities are not planning hearings or other action regarding AIG but will monitor the expected Florida hearing and keep an eye on future AIG rate filings in New York, Mr. Curiale said.

Asked whether the memo raises antitrust concerns, Mr. Curiale said Maurice Greenberg told him the memo was intended for internal use only.

"The response of raising rates because of a catastrophe where thousands of people are suffering is further evidence of the callousness of some insurance companies and typical of the insurance industry," said Georgia Insurance Commissioner Tim Ryles.

It will take insurers nine months to a year to assess the effect of the hurricane, a Georgia

Continued on page 38

## American Reliance fears gaps in reinsurance

By DOUGLAS McLEOD and SARA MARLEY

LAWRENCEVILLE, N.J.—American Reliance Group Inc., a publicly traded property/casualty insurer, reports heavy losses from Hurricane Andrew and holes in the upper layers of its catastrophe program.

Other insurers have had trouble filling out high layers of catastrophe coverage, but most companies' lower layers are in good shape, says one analyst who has studied documents insurers have filed with the Securities and Exchange Commission.

As a result, losses from Hurricane Andrew should not imperil most insurers' financial condition, he says.

American Reliance of Lawrenceville, N.J., filed an 8-K form with the SEC Sept. 2 reporting that it will suffer "substantial" direct insurance losses from the hurricane.

American Reliance President Bruce W. Herrick said last week that the insurer had not yet determined its total losses from the storm. He declined to comment on the hurricane's financial impact on the company "until we have a handle on the numbers."

Florida property/casualty risks accounted for 16%, or \$23.9 million, of American Reliance's 1991 direct written premiums of \$149.4 million, and 18%, or \$15.4 million, of first-half direct written premiums of \$85.3 million, according to the 8-K filing and figures from A.M. Best Co.

The group's surplus stood at \$77.1 million June 30.

In addition to quota share and proportional reinsurance treaties, American Reliance has property catastrophe reinsurance that covers:

- 95% of losses in a first layer of \$12.25 million excess of \$1.75 million per occurrence.
- 100% of losses in a second layer of \$27 million excess of \$14 million.
- Between 46% and 82% of losses in layers excess of \$41 million up to \$100 million.

The 8-K also reports that "there can be no assurance" that American Reliance will be able to renew its reinsurance protection "on acceptable terms."

Many large insurers do not have holes in their lower layers of catastrophe coverage, said Michael

Smith, senior vp of Lehman Brothers Inc. in New York.

"Low layers of (catastrophe) coverage were available and reasonably easy to get in the past few years," said Mr. Smith, who has studied many insurers' 10-K filings with the SEC. "The critical shortage was in the high excess layers, above \$150 million to \$200 million," he said.

The high-layer catastrophe capacity crunch is "the fallout of the collapse of the LMX market in London," Mr. Smith said.

Despite the difficulty in obtaining high layers of catastrophe coverage, large insurers and reinsurers "will be unperiled by the losses chalked up in Hurricane Andrew," Mr. Smith said.

"If anything, the effects of Andrew will ultimately benefit larger (reinsurance) companies," he said. Because of concerns about the stability of smaller reinsurers, which have written much of the catastrophe coverage, "insurance companies will be going to the big players and asking them to write more complete reinsurance."

"Whether the big players want to write traditional cat coverage is another matter," he added.

A few insurers, though, were able to obtain high-layer catastrophe coverage, Mr. Smith said.

For example, Aetna Life & Casualty Co. has \$235 million in catastrophe limits excess of \$100 million, and CIGNA Corp. purchased \$300 million excess of \$50 million.

ITT/Hartford Group Inc. made headlines last year while trying to expand its catastrophe coverage to \$250 million excess of \$50 million from \$250 million excess of \$35 million (BI, Nov. 18, 1991). While the insurer initially was able to obtain only \$175 million excess of \$50 million, eventually it filled the excess layers, Mr. Smith said. But, it was "very difficult," he added.

Mr. Smith described the basic structure of insurers' catastrophe programs: "Very typically you see a retention, on top of which there is a fairly significant layer of coverage."

That catastrophe coverage usually contains a 5% coinsurance clause above a retention of \$20 million to \$100 million, he said.

But, some companies are subject to higher coinsurance requirements, including Travelers Corp., with 20%, and SCOR U.S., with 32%, he added. ■



## Memo response

Continued from page 37

Insurance Department spokesman said.

Meanwhile, the nation's property/casualty insurers have \$160 billion in surplus to help absorb losses and keep rates at current levels, Mr. Ryles said.

Harvey Rosenfield, head of the consumer group Voter Revolt and author of Proposition 103, has requested an investigation of whether the memo violates California antitrust laws.

Voter Revolt also asked California Insurance Commissioner John Garamendi to step up monitoring of property/casualty insurers and "to reject any future (rate) increase requests based on Andrew." Rates must be approved in advance in California.

"The commissioner intends to be vigilant with respect to any company using the catastrophe as subterfuge for raising rates," said a spokesman.

"Hurricane Andrew should have no impact on rates," he said. "Companies reserve against such catastrophes over a 50-year period." Any move by AIG to hike rates after the hurricane would have little impact in California since the insurer writes less than 1% of the market, he pointed out.

The department, though, will closely follow the Florida antitrust investigation, he said.

Another consumer advocate said that AIG had no reason to seek increases in the wake of Andrew.

"They're super profitable, and they don't need a rate increase and neither does the rest of the industry in general," said J. Robert Hunter, president of the Alexandria, Va.-based National Insurance Consumer Organization.

That assessment differs markedly from a 1990 report by consumer group Public Citizen, which classified AIG as one of five major insurers that would be "at risk" in a severe economic downturn (*BI*, Oct. 22, 1990). After the insurer threatened a libel suit, the report's contention was partially retracted (*BI*, Nov. 19, 1990). The report itself was widely discredited when certain of its calculations were found to be faulty.

Mr. Hunter said the AIG memo should encourage the House of Representatives to move on H.R. 9, a bill that would remove several of insurers' key exemptions from federal antitrust law. The bill passed the House Judiciary Committee last fall but went no further (*BI*, Sept. 7).

In a Sept. 4 letter to House Judiciary Chairman Jack Brooks, D-Texas, the bill's chief sponsor, Mr.

Hunter wrote:

"There is nothing illegal about such price leadership and arm-twisting, as you know. Since federal antitrust law allows price fixing, I suppose this is legal (moral, not).

"Your bill, H.R. 9, would help end this sort of abusive corporate behavior. I doubt very much that Mr. Greenberg would engage in such blatant, us-first pricing strategy with attendant market signaling if the price-fixing prohibitions of H.R. 9 were law."

During a joint Labor Day news conference with Mr. Hunter, Ralph Nader urged the NAIC and the Florida Insurance Department to resist insurers' attempts to raise rates in the wake of Hurricane Andrew. Like Mr. Hunter, Mr. Nader urged quick approval of H.R. 9.

Some, though, say insurance commissioners' responses may be motivated in large part by politics and will have little impact on insurers. Messrs. Gallagher, Brown, Ryles and Garamendi are elected officials.

"It's a nice sound bite on the local news or even the national news," one analyst said. But "give it six hours and no one is going to see any significant action on these insurance commissioners' part."

Even some state regulators agreed with this assessment.

"If I were an elected commissioner with political ambitions, I would have done the same thing," said one regulatory official who requested anonymity, referring to Commissioner Gallagher's action against AIG.

Even without the regulatory pressure, AIG and other insurers would have a tough time making rate hikes stick, analysts say.

For the first half of the year, AIG posted a 100.4% combined ratio, better than many other property/casualty insurers, one analyst said. This will make it difficult to convince brokers and commercial policyholders that higher rates are needed, he suggested.

"When you are writing at a 100% combined ratio, (the memo) doesn't appear to be an especially smart move on Jeff Greenberg's part," he observed.

While the industry should have been raising rates even before Hurricane Andrew, it probably won't be able to in commercial lines for a variety of reasons, according to Gloria Vogel, first vp with Shearson Lehman Bros. in New York.

Andrew's impact on industry surplus is minor and it is largely a paper loss, making it difficult to use as a justification for raising commercial liability rates, for example.

Many companies feel their re-

serves are adequate and will continue pushing for premium volume, Ms. Vogel said.

The industry shows no urgent signs of needing rate increases, given its strong capital position and combined ratios that are "not great but not devastating either," said Harry Fong, a Conning & Co. analyst in Hartford, Conn.

"There's too much capital in the marketplace. The returns are low, but they are low because there's too much capital rather than because the operating numbers are poor," he said.

Other industry analysts, though, say some higher rates may be justified.

The commercial market has become highly segmented, and a change in market conditions may now occur in given segments rather than broadly across the range of property and casualty coverages, noted Barbara Stewart, a principal with Stewart Economics in Atlanta.

The economic tide has already turned enough to justify higher prices in at least some segments of the market, including property catastrophe reinsurance and possibly direct commercial property insurance, according to Ms. Stewart.

Simple economics says that prices should go up in the catastrophe market, where capacity will dwindle and demand will rise, she said.

Facing a variety of forces including higher reinsurance costs, commercial property insurers may also have to raise rates, she suggested.

The same cannot be said for other segments of the industry, according to Ms. Stewart. "There is little chance of this spilling over into casualty."

Ms. Stewart also observed that any market turn will be driven by economic forces and not by directives like the AIG memo.

She pointed out that in 1981, former Aetna Casualty & Surety Co. President William O. Bailey similarly directed his underwriters to raise rates, and the move failed to take hold in the market at large (*BI*, March 30, 1981).

A turn in some market segments "is likely to happen despite (Jeffrey Greenberg's) memo, and it will happen because the market forces are in place," Ms. Stewart said. "These things do not happen just because some one wants them to happen."

Insurers were also assessing the impact of the storm on rates.

At Nationwide Mutual Insurance Co. in Columbus, Ohio, a spokesman said that any price increases stemming from Andrew would depend in large part on the impact of the storm on the company's reinsurance program and would probably be spread over several years.

SAFECO Corp. policy is not to raise rates "based on any one single incident," said a spokeswoman for the Seattle-based insurer. "We look at our balance sheet" before deciding to raise rates.

Based on known losses on Sept. 4, "SAFECO has not been hit very hard" she said. Hurricane-related losses are "going to be under \$10 million, which wouldn't rank among our worst losses."

SAFECO lost more as a result of hailstorms in Colorado and Montana in recent years, she said. Reinsurance kicks in at \$25 million for SAFECO and pays 95% of losses between \$25 million up to \$120 million.

Associate Editors Mark A. Hofmann, Michael Bradford and Louise Kertesz; Los Angeles Bureau Chief Joanne Wojcik; and Staff Reporter Sara Marley contributed to this report.

## Update

### Family leave bill veto expected

Continued from page 2

two-thirds majority needed to override a veto. The Senate approved the bill last month on a voice vote. In 1990, President Bush, who favors only voluntary leave programs, vetoed a similar measure. A veto override effort failed by a substantial margin.

Under the bill, employers with more than 50 workers would be required to provide up to 12 weeks of unpaid job-protected leave for family emergencies, like an employee's illness or to care for a newborn or a sick child. Workers on leave would still receive health care benefits.

If the measure dies, another family leave bill is expected to be introduced in the next session of Congress.

### \$34 million libel verdict upheld

PHILADELPHIA—The Philadelphia Inquirer will appeal a trial judge's decision to uphold a \$34 million libel judgment against the newspaper, believed to be the second-highest libel award ever.

A jury in 1990 awarded Richard A. Sprague \$2.5 million in compensatory damages and \$31.5 million in punitive damages, which generally are not insurable in Pennsylvania.

A 1973 series in the newspaper alleged that Mr. Sprague, formerly a chief assistant district attorney in Philadelphia, blocked a 1963 murder investigation to help a friend. The article was written one year after Mr. Sprague successfully prosecuted the reporter, Greg Walter, for illegally recording telephone calls.

The Knight-Ridder Inc.-owned paper had appealed a previous \$4.5 million award to Mr. Sprague. The case was remanded to the trial court, where the \$34 million verdict was reached.

The award is the second-highest libel award ever, says the media-supported Libel Defense Research Center. But, LDRC notes that three-fourths of all libel awards are ultimately reduced or dismissed.

## State Farm loss leads pack as Andrew claims flow in

Insurers last week continued to assess insured losses from Hurricane Andrew, although few yet have a firm handle on their ultimate losses.

The biggest loss is being reported by State Farm Group, the nation's largest property/casualty insurer. Bloomington, Ill.-based State Farm sustained \$1.5 billion of losses attributable to Andrew. The insurer does not buy reinsurance.

Nationwide Mutual Insurance Co. of Columbus, Ohio, and its affiliates Scottsdale Insurance Co. and Wausau Insurance Co. are estimating gross losses of just shy of \$83 million, with all but \$4.4 million attributable to Florida.

Nationwide estimates its claims payments will top \$55 million in Florida, while Scottsdale is projecting \$18 million in claims from the state and Wausau \$5.5 million.

Nationwide does not operate in Louisiana. But, Scottsdale will pay around \$4 million in claims and Wausau expects to pay \$400,000 in claims there.

ITT/Hartford Group Inc. has not released gross loss figures, but it estimates it will sustain around \$70 million of losses after reinsurance.

A spokeswoman for the Hartford, Conn.-based insurer said it is too soon to tell how the storm losses will impact Hartford's earnings.

She said claims from the hurricane will not come close to exhausting Hartford's reinsurance limits. She said the insurer has a \$50 million retention.

Hartford-based Travelers Corp. expects the net impact of Andrew to reach about \$70 million after taxes and reinsurance. The insurer had received approximately 14,000 claims by late last week from Florida and Louisiana.

Travelers said its reinsurance is "adequate for significant losses." The insurer has said its exposure to other 1992 catastrophes is limited

(*BI*, Aug. 31).

Aetna Life & Casualty Co. is estimating claims from the hurricane will reduce its third quarter net income by around \$65 million after taxes and reinsurance. The estimate includes around \$12 million in costs related to subsidiary American Reinsurance Co.

Continental Insurance Co. of New York will pay out \$55 million after taxes and reinsurance, a spokeswoman said.

CIGNA Corp. estimates that its aftertax losses from Hurricane Andrew will reach \$50 million net of reinsurance. The Philadelphia-based insurer has received more than 1,300 claims, the majority resulting from commercial property losses.

USF&G Corp. of Baltimore is reporting \$72 million in gross losses from Hurricane Andrew and \$40 million in net losses after reinsurance. A spokesman said all losses are being reported on an aftertax basis.

He said USF&G carries \$225 million in catastrophic reinsurance limits above a \$22.5 million retention. "Most layers are complete, but a few may have some small holes. There are no layers where we're completely exposed, but there are a few where we're slightly light."

He said the storm caused USF&G to reinstate its first three layers of reinsurance and a portion of its fourth layer of coverage.

Kemper Insurance Cos. of Long Grove, Ill., also expects to sustain a net loss of \$40 million from Hurricane Andrew claims.

Royal Insurance Co. of America reports a net aftertax loss of \$16.5 million.

"We do not expect our losses to reach into our catastrophe treaties," a spokesman for Charlotte, N.C.-based Royal said.

As of late last week the insurer had received 540 claims. One-third of the claims had been closed, the spokesman said.

Ohio Casualty Co. reported \$13 million of total property losses re-

Continued on next page

## Insurers' efforts beyond paying claims

Among the Hurricane Andrew relief efforts is a program by the National Council on Compensation Insurance.

After being closed for a day because of the storm, the Boca Raton-based NCCI resumed operations and began an in-house drive for relief supplies.

In the first three days, the voluntary, non-profit organization and ratemaking organization for workers compensation insurers collected four truckloads of canned and other non-perishable food items as well as disposable diapers and openers.

"People want to help out, and all too often it's difficult to know how or where to go about it," NCCI President William Hager said. "So, we

wanted to make it as simple and convenient as possible for our employees to make their donations count."

In addition, the NCCI donated \$1,000 to the Red Cross for the relief effort.

Among individual insurers, Liberty Mutual Insurance Co.'s Miami office established a free food pantry open to all policyholders and employees' families. In addition, Liberty offices from around the nation are collecting clothing to donate to the relief effort.

And Prudential Property & Casualty Co. of Holmdel, N.J., is soliciting contributions for the relief effort from employees and is providing an unspecified percentage match to employee contributions.

# Product liability reform

Continued from page 1

After an attempt to invoke cloture on a second roll-call vote failed, the Senate tabled S. 640, effectively killing it for the 102nd Congress.

Even the bill's supporters conceded that a successful Senate vote would have been unlikely to result in passage of a uniform product liability act because the House had taken no action at all on a similar bill, H.R. 3030.

The failure of the cloture vote came after two days of sometimes fiery debate.

"What we have here is a classic battle. On their side is Ralph Nader and his so-called consumer groups, 70,000 or so overpaid trial lawyers who are threatened with losing their cash cows," said the bill's chief sponsor and longtime advocate of product liability reform, Sen. Robert W. Kasten Jr., R-Wis.

"On our side are the small businesses of America," he said.

A leading opponent of S. 640, though, cast the battle in somewhat different terms.

"It is for the advantage of the manufacturer" against widows and orphans, said Sen. Howell Heflin, D-Ala.

Sen. Christopher Dodd, D-Conn., saw the bill in yet a different light. S. 640 would be a positive measure for the rights of both defendants and plaintiffs, said Sen. Dodd, who supported the bill.

The current "system doesn't work," he said, calling it "unfair" and "uneven." S. 640 would hasten payment to plaintiffs and protect manufacturers against unjustified actions, Sen. Dodd said.

But as far as Sen. Richard Shelby, D-Ala., was concerned, the bill was nothing more than "a butcher job" and a "travesty of justice" that would have barred ordinary citizens from the courtroom.

The object of such passionate rhetoric would, among other things:

- Make it harder to recover punitive damages in product liability cases.

- Eliminate joint and several liability for non-economic damages in product liability cases.

- Encourage the use of alternative dispute resolution mechanisms, such as arbitration and mediation.

- Eliminate product liability lawsuits involving workplace capital goods that are more than 25 years old.

- Provide that if a plaintiff declined a defendant's settlement offer, the plaintiff could be required to pay the defendant's legal fees if a court returns a judgment that is less than the settlement offer.

As the cloture vote grew closer, one of the bill's most influential co-sponsors—Sen. John D. Rockefeller IV, D-W.Va.—said that he had prepared a last-minute amendment in the form of a substitute. The amendment would have clarified the intent of the quick settlement clause to make sure that no plaintiff ended up worse off than under the present law.

But opponents of S. 640 were not moved by the Rockefeller proposal and managed to hold onto enough votes to block cloture and effectively kill the bill in the current Congress, which is scheduled to adjourn early next month.

Despite the defeat, proponents of the bill find encouragement in the closeness of the vote.

"You see a trend," said Victor Schwartz, counsel to The Product Liability Alliance and a partner in the Washington law firm Crowell & Moring. Mr. Schwartz noted that product liability reform bills have been introduced in each session of Congress since 1981, and each time the measure gains more support than its predecessor.

Every other major initiative opposed by the trial bar, such as no-fault automobile insurance, tends to lose supporters as time wears on, observed Mr. Schwartz. But the trend in product liability reform has been just the opposite, he said.

For example, in the mid-1980s, only about 30 senators supported a product liability reform bill. As late as 1990, only 40 or so senators supported an overhaul of the product liability system, he said.

"Now, at least 58 senators say publicly they'll at least consider it for a vote," said Mr. Schwartz.

Mr. Schwartz's assessment wasn't shared by Linda Lipsen, legislative director of the consumer advocacy group Consumers Union in Washington. Ms. Lipsen said that the vote shows that senators had begun realizing that product liability reform is not about lawyers, but about people who are harmed by unsafe products and who already have a difficult time recovering damages under present law.

Ms. Lipsen added, however, that she doesn't expect the proponents of reform to give up.

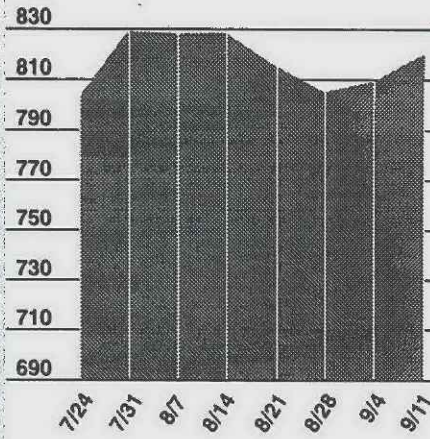
"I think that product liability reform legislation efforts have become a cottage industry for lobbyists. The paid lobbyists for the manufacturers have their hands out and want to spin their defeat in a way that allows this gravy train to keep going. They'll be back," she said.

According to both Mr. Schwartz and Mr. O'Day, proponents will indeed be back, and the sooner the better. "I hope the bills move to the floors of the House and Senate before the final days of the 103rd Congress," said Mr. O'Day.

"We know that the other side has always used the tactic that delay is denial," said Mr. Schwartz. But each skirmish has left the business community more educated and sophisticated in its arguments, he said.

"This leaves me with no doubt that this will become law" eventually, said Mr. Schwartz.

# BI Insurance Index



Base = 100 on Dec. 29, 1978  
Source: Nordby International Inc.

Insurance industry stocks continued to advance last week, as the *Business Insurance Index* climbed 10.5 points to 819.8 on Sept. 11 from 809.3 on Sept. 4. Advancing issues for the week were led by Sierra Health Services, up 11.8%; Pacificare Health System, up 11.8%; and Statesman Group Inc., up 10.9%. Declining issues for the week followed American Indemnity/Financial, down 9.1%; Frontier Insurance Group, down 9.1%; and Seibels Bruce Group, down 8.7%. The most active issue was U.S. Healthcare, 2.5 million shares traded. The *BI Index* was up 1.3%; the NYSE Composite was up 0.5%; the Standard & Poor's 500 rose 0.6%; and the Dow Jones 30 Industrials was up 0.7%.

# Andrew losses

Continued from previous page

lated to Hurricane Andrew. None of the losses were reinsured since claims failed to exceed the insurer's \$1 million per claim retention under its property reinsurance program, a spokesman said.

However, the Hamilton, Ohio-based property/casualty insurer does have 85% reinsurance protection in layers above \$13 million loss, according to the spokesman.

Ohio Casualty expects to take an after-tax loss of \$8.58 million for Hurricane Andrew losses.

Lloyd's of London also made an estimate of Hurricane Andrew losses last week.

Under the worst case scenario, Lloyd's will have to pay 10% to 15%—or \$600 million to \$900 million—of the estimated \$6 billion of likely worldwide gross reinsurance claims stemming from the hurricane, said George Lloyd-Roberts, chairman of Lloyd's Underwriters' Non-Marine Underwriters Assn.

Although total insured losses from Andrew are about double those from Hurricane Hugo in 1989, the impact on Lloyd's will be less because U.S. insurers now buy far less catastrophe insurance, Mr. Lloyd-Roberts said. ■

# British Issues

Sept. 10 Companies	Price pence	P/E	Div. pence	Yield %	1 Week	
					High	Low
Comm Union	475	N/M	31.5	6.6	478	474
Genl Accident	440	N/M	35.7	8.1	443	438
Gdn Royal Exch	127	N/M	10.0	7.9	127	124
Royal	140	N/M	7.0	5.0	148	137
Sun Alliance	242	N/M	19.0	7.8	254	241
<b>Brokers</b>						
Bradstock	93	10.4	6.3	6.8	93	91
CE Heath	257	14.9	34.5	13.4	260	239
Hogg Group	108	6.5	10.9	10.1	109	108
JIB Group	119	8.8	10.0	9.2	119	110
Lloyd Thompson	165	16.5	6.0	3.6	165	163
Lowndes Lombt	224	8.7	16.8	7.5	229	224
PWS Holdings	41	4.7	5.3	12.9	41	38
Sedgwick Grp	116	9.1	8.0	6.9	118	116
Steel Brl Jones	174	8.6	17.7	10.2	174	174
Willis Corroon	156	9.8	17.6	11.3	158	152

Source: Philip Olsen, London

\* Estimated

# BI Industry Stock Report

SEPTEMBER 8, 1992 THROUGH SEPTEMBER 11, 1992

	Weekly Price	% change	Year to Date % change	Annual High/Low		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value		Weekly Price	% change	Year to Date % change	Annual High/Low		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt/Bk. value		
				High	Low											High	Low								
<b>BROKERS</b>																									
Alexander & Alexander	NYS	25.13	0.50	22.56	25.50	18.00	193	1.00	3.98	105	13.10	1.92	Lincoln National	NYS	63.75	4.08	16.44	66.00	47.00	237	2.92	4.58	11	81.00	0.79
Gallagher Arthur J. & Co.	NYS	26.25	-3.67	17.32	26.25	19.00	84	0.64	2.44	21	5.88	4.46	Market Corp.	OTC	28.50	5.56	29.55	28.50	17.75	71	0.00	0.00	7	15.59	1.83
Frank B. Hall	NYS	3.38	0.00	-20.59	5.50	3.25	79	0.00	0.00	-3	1.95	1.73	Mutual Risk Mgmt. Ltd.	NYS	31.50	-0.40	-10.32	37.75	22.25	4	0.24	0.76	20	-	-
Hilb, Rogal & Hamilton	NYS	14.00	-0.88	5.66	15.25	11.00	68	0.40	2.86	22	3.56	3.93	NAC Re Corp.	OTC	29.75	-0.83	-5.56	33.00	21.75	12	0.16	0.54	13	18.90	1.57
Marsh & McLennan	NYS	83.25	-1.33	2.30	85.50	70.00	232	2.68	3.22	19	28.00	2.97	National Re Corp.	NYS	20.63	-0.60	N/A	23.63	17.00	14	0.12	0.58	11	N/A	N/A
Poe & Associates	OTC	12.00	-6.80	0.00	16.00	11.25	42	0.40	3.33	15	2.82	4.26	Navigator Group	OTC	31.25	9.17	-23.78	48.25	29.50	128	0.00	0.00	17	13.52	2.31
<b>BROKERS AVERAGE</b>																									
-2.0      4.5      2.3      26																									
<b>CONGLOMERATES &amp; HOLDING COMPANIES</b>																									
Berkley W.R. Corp.	OTC	36.25	2.11	18.85	36.25	23.50	210	0.36	0.99	13	36.95	0.98	Nobel Insurance LTD.	OTC	4.88	2.63	21.88	6.00	3.38	102	0.00	0.00	3	7.76	0.63
Berkshire Hathaway Inc.	NYS	9175.00	0.27	1.38	9175.00	254.69	0	0.00	0.00	31	7270.00	1.26	NWNL Companies	NYS	40.00	-1.23	28.51	43.75	25.25	66	1.48	3.70	12	62.65	0.64
ITT (Hartford Group)	NYS	64.63	-1.90	11.90	70.63	50.00	661	1.84	2.85	18	112.05	0.58	Ohio Casualty Corp.	OTC	63.25	0.80	27.78	63.50	43.50	56	2.68	4.24	10	18.00	3.51
Sears (Allstate)	NYS	41.63	0.60	9.90	48.00	32.50	2148	2.00	4.80	11	34.50	1.21	Old Republic Int'l	OTC	22.13	1.14	24.65	22.50	15.13	392	0.40	1.81	8	33.09	0.67
<b>CONGLOMERATES AVERAGE</b>																									
0.3      10.5      2.2      18																									
<b>INSURERS/REINSURERS</b>																									
AEGON N.V.	NYS	39.38	-3.08	12.50	39.50	28.69	34	2.68	6.81	7	N/A	N/A	Orion Capital Corp.	NYS	38.63	2.66	22.13	39.50	27.38	14	0.92	2.38	6	43.50	0.89
Aetna Life & Casualty	NYS	39.00	-0.32	-11.36	47.00	31.88	433	2.76	7.08	12	87.60	0.45	Phoenix RE Corp.	OTC	9.50	-5.00	-9.52	12.25	8.50	0	0.20	2.11	19	13.30	0.71
Allied Group Inc.	OTC	26.25	1.94	54.41	26.25	16.25	19	0.64	2.44	8	19.85	1.32	Provident Life	NYS	26.25	0.00	12.90	28.00	18.00	39	1.00	3.81	12	39.50	0.66
American General	NYS	48.75	2.09	9.55	50.38	39.00	379	2.08	4.27	11	60.00	0.81	Re Capital Corp.	ASE	13.00	1.96	-9.57	16.38	12.25	8	0.24	1.85	16	16.07	0.81
American Heritage Life Ins.	NYS	31.25	1.63	2.04	32.25	21.28	2	0.84	2.69	15	N/A	N/A	Reliance Group Holdings	NYS	5.75	-2.13	39.39	5.88	3.50	240	0.32	5.57	3	6.40	0.90
American Indemnity/Fin'l	OTC	5.00	-9.09	5.26	9.25	4.50	3	0.08	1.60	7	12.93	0.39	RLI Insurance Corp.	NYS	19.00	-2.56	15.15	21.38	14.63	48	0.52	2.74	8	14.41	1.32
American International	NYS	95.00	-0.91	-3.43	99.38	78.63	713	0.56	0.59	13	99.30	0.96	St. Paul Companies	NYS	70.88	-1.22	-2.74	80.75	57.13	132	2.72	3.84	7	86.60	0.82
Aon Corp.	NYS	44.38	-1.39	11.99	49.75	34.75	229	1.68	3.79	11	39.70	1.12	SAFECO Corp.	OTC	51.00	-0.73	4.62	53.38	36.13	301	1.64	3.22	13	51.65	0.99
Argonaut Group	OTC	28.50	0.00	20.00	30.25	21.75	11	0.84	2.95	8	20.96	1.36	SCOR U.S. Corp.	NYS	14.50	0.87	-5.69	18.88	13.13	16	0.28	1.93	8	11.19	1.30
AVEMCO Corp.	NYS	23.38	-0.53	-6.50	28.00	21.50	0	0.40	1.71	22	9.55	2.45	Seibels Bruce Group	OTC	2.63	-0.70	-52.27	8.75	2.13	49	0.36	13.71	-1	10.60	0.25
Baldwin & Lyons Inc.	OTC	32.00	-1.54	24.27	33.00	23.00	1	0.48	1.50	8	24.29	1.32	Selective Ins. Group	OTC	20.63	-5.17	23.13	23.50	15.25	82	1.12	5.43	8	30.75	0.67
Chandler Insurance	OTC	4.50	-7.69	38.46	7.63	2.13	0	0.00	0.00	35	5.95	0.76	Statesman Group Inc.	OTC	7.63	10.91	32.61	8.13	4.38	176	0.00	0.00	4	2.48	3.07
Chubb Corp.	NYS	75.38	-2.74	-2.11	78.63	60.75	315	1.60	2.12	12	42.67	1.77	Tokio Marine & Fire	OTC	50.25	-3.13	-2.43	55.25	32.25	15	0.00	0.00	-	70.93	0.71
CIGNA Corp.	NYS	49.63	-2.93	-18.81	61.75	42.00	1032	3.04	6.13	11	117.15	0.42	Transamerica	NYS	41.75	-0.80	4.70	46.75	35.63	194	2.00	4.79	21	55.00	0.76
CNA Financial Corp.	NYS	89.50	0.56	-8.67	104.50	78.50	24	0.00	0.00	9	70.23	1.27	Transatlantic Holdings	NYS	37.50	3.45	-3.54	39.63	29.00	448	0.24	0.64	11	18.38	2.04
Continental Corp.	NYS	32.25	1.98	16.74	34.75	23.25	226	2.60	8.06	22	40.00	0.81	Travelers Corp.	NYS	19.25	-3.75	-10.98	23.75	17.25	795	1.60	8.31	8	59.00	0.33
EXEL Ltd.	NYS	36.75	-0.68	-2.00	40.25	29.75	591	0.92	2.50	8	N/A	N/A	Trenwick Group Inc.	OTC	29.63	-1.25	3.95	30.75	23.00	142	0.80	2.70	10	21.71	1.36
Fund American Corp.	NYS	70.00	1.08	0.18	70.50	62.50	37	0.68	0.97	18	36.11	1.94	USLICO Corp.	OTC	40.00	1.27	33.33	42.25	26.66	1	1.00	2.50	8	35.39	1.13
Fremont General Corp.	OTC	24.38	1.56	0.00	26.00	17.00	20	1.00	4.10	6	45.55	0.54	United Fire & Casualty	OTC	37.00	1.37	3.50	38.50	31.00	247	1.20	3.24	13	37.23	0.99
Frontier Insurance Group	NYS	32.50	-9.09	20.37	40.50	21.91	88	0.80	1.85	12	26.65	1.22	Unirin	OTC	37.00	1.37	3.50	38.50	31.00	247	1.20				

*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.*



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