SEPTEMBER 18, 1989

Business Insurance®

Reporting weekly for corporate risk, employee benefit and financial executives / $1.75 a copy; $70 a year

© Entire contents copyright 1989 by Crain Communications Inc. All rights reserved

Update

Attorneys general don't expect change in proposed antitrust ruling

SAN FRANCISCO—A federal judge is not likely to make substantive changes in his proposed order dismissing the massive antitrust litigation against insurance industry defendants, state attorneys general conceded Friday after a hearing in the case.

"The court had made up its mind," New York Assistant Attorney General George Sampson said after the hearing before U.S. District Judge William Schwarzer.

Continued on next page

California courts split on issue of cleanup cover

By STACY ADLER

SAN JOSE, Calif.—Policyholders are looking to California as the state Supreme Court is expected to rule on the insurability of government-mandated hazardous waste cleanups.

A decision by the California Supreme Court would have profound impact nationwide, attorneys say.

This scenario is likely because of the state 6th District Court of Appeal's ruling earlier this month that would prevent Chicago-based FMC Corp. from tapping any of its 174 primary and excess liability insurance policies to pay tens of millions of dollars to clean up 46 polluted sites nationwide (*BI*, Sept. 11; Jan. 9).

FMC says it will ask the California Supreme Court to review this issue if the appellate court upholds its decision.

The appellate court's decision in the FMC case conflicts with the opinion issued by the 1st District Court of Appeal in April in litigation involving La Jolla, Calif.-based Aerojet-General Corp., a unit of GenCorp Inc.

The 1st District ruled Aerojet was entitled to coverage for a multimillion-dollar hazardous waste cleanup (*BI*, May 1). The California Supreme Court declined to review that decision.

Because the Aerojet and FMC decisions conflict, there is no clear statement of the law in California, said attorney Deborah Pitts of Buchalter, Nemer, Fields & Younger in Los Angeles, who represented insurers in the FMC case.

Continued on page 19

House panel OKs Section 89 repeal

By JERRY GEISEL

WASHINGTON—Legislation that would virtually repeal Section 89 is on its way to the House floor.

Next week, the full House could vote on a budget reconciliation bill —passed Thursday evening by the House Ways and Means Committee —that would effectively repeal Section 89 and replace the detested, complex law with a truly simplified non-discrimination standard for employer-provided health care plans.

That standard, proposed last week by Ways and Means Committee Chairman Daniel Rostenkowski, D-Ill., is aimed at precluding so-called executive-only medical plans and is not intended to burden the vast majority of group health care programs.

If an employer's health care plans pass two simple safe harbor tests laid down by the legislation, which would be effective Jan. 1, 1990, they would be considered non-discriminatory.

To satisfy the safe harbors:

- Fifty percent of employees—defined as those employees working at least 30 hours a week—eligible for a health care plan would have to be non-highly compensated.
- A health care plan would have to be available to at least 25% of an employer's non-highly compensated employees or the employer would have to make core health care coverage available to a "significant portion" of its non-highly compensated employees.

A congressional committee staffer said the "significant portion" rule is intended to make it easier for health care plans to satisfy the safe harbor rather than impose some hidden obstacle.

For example, a large employer may have dozens of different health care plans, none of which is available to as many as 25% of its non-highly compensated employees. But because the plans, in the aggregate, are available to a significant portion of non-highly compensated employees, they would satisfy the safe harbor.

Benefit experts are hailing the new non-discrimination rules as a vast improvement over Section 89 and over several so-called simplification packages that have been proposed this year by Rep. Rostenkowski and Senate Finance Committee Chairman Lloyd Bentsen, D-Texas.

Under Rep. Rostenkowski's latest proposal, "Section 89 as we know it is gone," said Eric Grossman, a consultant in the Stamford, Conn., office of The Wyatt Co.

"I'd be surprised if any mainstream employer health care plan does not satisfy the safe harbors with ease," Mr. Grossman added.

"This is a tremendous breakthrough. It means employers will have more flexibility and less cost in complying with the rules. They will be delighted," said Henry Saveth, a principal with A. Foster Higgins & Co. Inc. in New York.

Continued on page 63

Competition to continue

Reinsurance experts see little change in rates, terms

By KATHRYN J. McINTYRE and STACY SHAPIRO

MONTE CARLO, Monaco—Commercial insurance buyers and reinsurance buyers worldwide can expect another easy year-end renewal season if predictions at the 33rd Rendez-Vous de Septembre earlier this month hold true.

Property/casualty insurance and reinsurance rates will hold steady or drop slightly again as they did last renewal season, and terms and conditions may be further liberalized, most reinsurance experts expect.

Only a major storm—such as Hurricane Gabrielle was threatening to become while the Rendez-Vous was in progress—could change the soft market scenario going into next year, according to dozens of participants at this year's gathering of reinsurers from around the world.

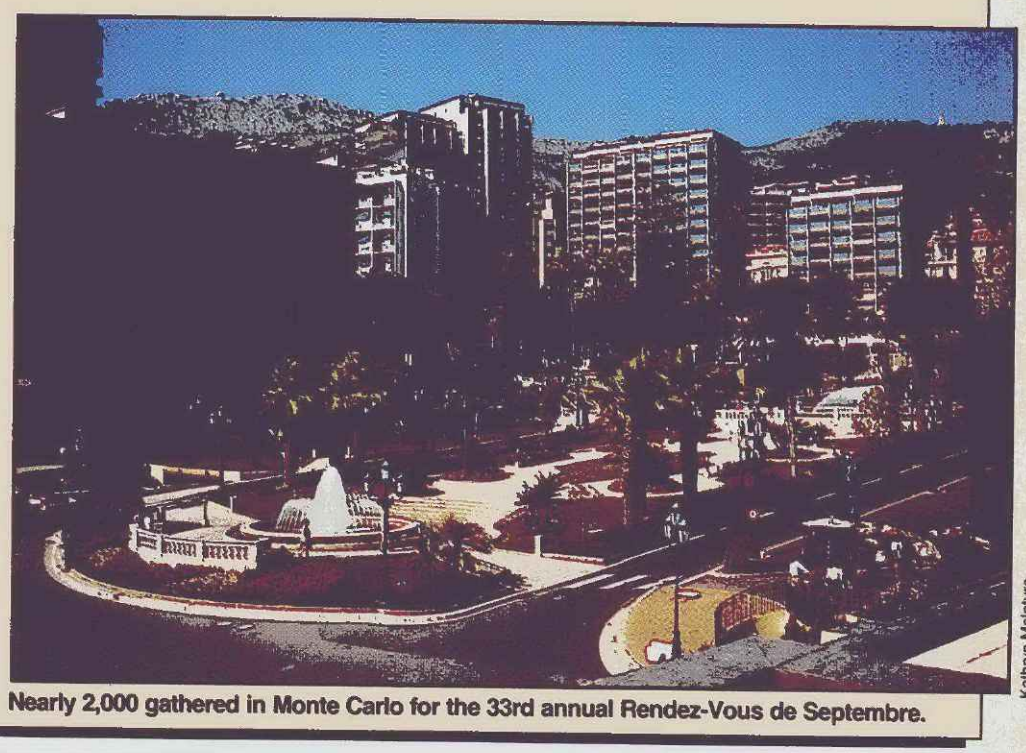
And a few market leaders view the current European emphasis on market share and U.S. reinsurers' concerns about rising expense ratios to be setting the stage for competition at year-end as cutthroat as during the early 1980s.

Profits reported for 1988 are still fresh in reinsurance company managements' minds, providing no encouragement for them to change their underwriting strategies, participants agreed.

However, London market insurance underwriters will pay more for less retrocessional coverage at year-end 1989 because more than $4.5 billion in claims currently are spiralling around the retrocessional market, including claims from the October 1987 windstorm in Europe and the July 1988 loss of the Piper Alpha oil platform in the North Sea.

But rather than passing the extra cost of their retrocessions on to ceding companies

Continued on page 44



Nearly 2,000 gathered in Monte Carlo for the 33rd annual Rendez-Vous de Septembre.

Kathryn McIntyre

PHICO must pay $4.2 million to doctors in renewal dispute Page 2

Outhwaite names prepare to file litigation over losses Page 3

Majority of HMO executives foresee profits in 1989 Page 3

Update

States fear antitrust ruling

Continued from previous page

While Mr. Sampson said he hopes Judge Schwarzer will reconsider some of the factual issues, "I don't have a lot of hope."

California Assistant Attorney General Jesse Markham also said he expected the judge to basically stick with his proposed decision, adding there were "no surprises" at the hearing.

California Deputy Attorney General Thomas Greene noted that the hearing, during which attorneys general argued that the proposed order did not reflect the facts in the case, was an "unprecedented opportunity" to try to change the judge's thinking.

Bentsen to seek IRA deduction

WASHINGTON—Senate Finance Committee Chairman Lloyd Bentsen, D-Texas, intends to introduce legislation that would partially restore tax breaks for contributions to Individual Retirement Accounts by employees covered by corporate pension plans.

Under the Bentsen proposal, all employees—regardless of income or whether they are covered by a corporate pension plan—could deduct up to 50% of up to $2,000 in contributions to an IRA.

The proposal also would allow individuals to make preretirement withdrawals from their IRAs to pay for college tuition or the down payment on a first-home purchase without incurring penalties.

Under the Tax Reform Act of 1986, employees covered by employer-sponsored pension plans are barred from taking the maximum $2,000 annual tax deduction for IRA contributions if they earn more than $25,000 as individual filers or $40,000 as joint filers.

Frito-Lay cover disputed

PLANO, Texas—A Frito-Lay Inc. insurer is disputing the food maker's contentions that it is covered for its $19 million portion of a $125 million patent infringement settlement.

Procter & Gamble Co. sued Frito-Lay, a division of Pepsico Inc., along with Nabisco Brands Inc. and Keebler Co. in 1984 for violating a P&G cookie patent. Nabisco and Keebler are contributing $53 million each to the settlement.

Insurer attorney Warren Kice of Haynes & Boone in Dallas, who represents one of Frito-Lay's insurers, confirmed that "the insurance dispute is still active." But, he would not disclose details of the policy in dispute nor identify the insurer involved.

The dispute "could become a matter of litigation," a Frito-Lay spokeswoman said. "We believe the way we read the policy, it's covered." She would not elaborate.

A Keebler spokesman said the company does not have insurance for its portion of the settlement. Nabisco would not comment.

Insurer exec cited for contempt

BATON ROUGE, La.—A state judge has hit former New England International Surety of America Inc. President Hendrik Rienstra with a contempt of court citation for failing to turn over millions of dollars of the defunct insurer's assets.

New England of America, a unit of New England International Surety Inc. of Panama, was ordered into rehabilitation April 21 after the insurer's management abandoned the company (*BI*, May 1). A court hearing on a Louisiana Insurance Department petition to liquidate New England of America is scheduled for Friday.

Mr. Rienstra, who also controls the Panamanian parent company, opposes the liquidation and has told Louisiana regulators that New England of Panama can produce assets and records of New England of America "if certain conditions were agreed to by the insurance commissioner," the contempt citation says.

In a July 7 court hearing, a lawyer for New England of Panama agreed to turn over to the court:

- $1.1 million of New England of America funds wired from a New Orleans bank to the Swiss bank account of Omne Re, a Belgian corporation that is 80% owned by New England of America.
- A $5 million certificate of deposit issued by Banco Agro-Industrial Commercial de Panama, or the equivalent in cash.
- An accounting of all other assets of New England of America.

However, Mr. Rienstra and New England of Panama did not comply with the agreement terms. The contempt order sentences Mr. Rienstra—who is based in Brussels, Belgium, and has not been present during the proceedings—to one year in jail and a $1,000 fine.

Jail term for OSHA violations

SIOUX FALLS, S.D.—The president of a South Dakota plumbing firm was sentenced to the maximum six months in jail for willful violations of federal trenching safety standards that led to the deaths of two workers in a 1988 accident.

But, a U.S. District Court judge in Sioux Falls, S.D., suspended all but 45 days of Howard Elliot's sentence, said Mr. Elliot's attorney, Dennis Duncan of Zimmer & Duncan in Parker, S.D.

The judge also sentenced Mr. Elliot, owner of Elliot Plumbing & Heating Co. in Avon, S.D., to three years' probation and prohibited him from engaging in any trenching activities during that time. Mr. Elliot also is required to pay more than $21,000 in restitution to the wife of one man killed in the accident.

Mr. Elliot pleaded guilty earlier this year to the Justice Department's criminal charges of willful violations of Occupational Safety and Health Administration trenching standards (*BI*, July 10).

Continued on page 63

Errors & omissions

- A story in the Sept. 11 issue incorrectly identified the name changes for Guardian Royal Assurance Exchange P.L.C.'s U.S. operation. The U.S. operation will be known for marketing purposes as GRE America, with regional marketing units similarly named. However, underwriting units, like Midwestern Indemnity Co., will retain their names for policy purposes.

PHICO ordered to pay $4.2 million to doctors

By DOUGLAS McLEOD

DENVER—PHICO Insurance Co. must pay $4.2 million to 105 independent Colorado physicians for refusing to renew their medical malpractice coverage, a state judge has ruled.

The judge awarded the damages earlier this month after finding that PHICO tried to impose unjustified premium increases and later discontinued writing medical malpractice coverage for independent physicians in the state after misrepresenting its financial condition and its intention to remain in the market.

The judge also found that PHICO had breached its duty of good faith to the Colorado doctors.

Arthur B. Becker, secretary and general counsel for Mechanicsburg, Pa.-based PHICO, said he is unaware of any other case in which a group of policyholders has successfully sued an insurer for refusing to renew policies.

"We are very disappointed in the holding, and we are studying the opinion to determine what our next move should be," he said.

PHICO withdrew from the medical malpractice insurance market for independent physicians in Colorado and six other states in 1986, according to Mr. Becker.

The insurer was sued by policyholders in one of the other six states—Virginia—but won that case in a trial court, Mr. Becker said. However, the plaintiffs in the Virginia case have appealed to the Virginia Supreme Court, he added.

PHICO continues to write malpractice insurance for hospitals and doctors employed by hospitals in Colorado and several other states and continues to cover independent physicians in two states, Mr. Becker pointed out.

Gerald McDermott, a lawyer with McDermott Hansen Anderson & Reilly in Denver representing the plaintiffs, could not be reached for comment.

PHICO—owned by the Hospital Assn. of Pennsylvania through a holding company—was formed in 1976 to insure Pennsylvania hospitals and doctors. It later expanded into other states.

The insurer was licensed in Colorado in 1980 and issued its first policy to an independent physician in the state in 1982, court documents say.

PHICO entered Colorado after learning that the state's medical society might withdraw its endorsement from a Hartford Insurance Group subsidiary that controlled a large segment of the medical malpractice insurance market in the state.

After becoming licensed in Colorado, though, PHICO failed to win the endorsement of the medical society, which decided instead to form its own doctor-owned malpractice insurer, court papers show.

In August 1986, PHICO announced that it would not renew policies for independent physicians after a series of rate increases apparently failed to reverse the insurer's deteriorating loss experience, court papers indicate.

A group of 105 independent doctors filed suit against PHICO in 1987, charging the insurer with breach of contract, misrepresentation and breach of its duty of

Continued on page 4

Judge voids Dupont Plaza defense pact

SAN JUAN, Puerto Rico—A federal judge has voided an agreement by 39 defendants in the Dupont Plaza hotel fire litigation to share the cost of up to $53 million in judgments or settlements, plus defense costs.

U.S. District Judge Raymond L. Acosta ruled the agreement's "main purpose and overall result has been to keep defendants from individually resolving their disputes with the plaintiffs under the guise of 'defense cooperation,' while discouraging the presentation of relevant and admissible evidence at trial."

The agreement precluded participants from presenting evidence or acting as witnesses supporting or opposing other parties to the agreement. It also prohibited participants from filing claims against any other members of the group (*BI*, Aug. 28).

Participants in the pact represent about half of the defendants in the current phase of the trial, which deals with firms that provided products or services to the hotel.

Changes sought in 401(k) loan rules

By JERRY GEISEL

WASHINGTON—Benefit consultants are urging the Labor Department to reconsider requiring employers with pension plan loan programs to extend those programs to all participants.

In letters to the Labor Department, benefit consultants are warning of major disruptions to pension plan loan programs if the department's recently published rule—set to take effect next month—is allowed to stand.

Employers currently limit their pension plan loan programs, typically offered as part of a 401(k) salary reduction plan, to active employees.

But, the Labor Department regulations would require employers to offer the loan programs to any plan participant—including former employees—with an active account balance.

"Requiring that plans make loans available to former employees will impose an enormous burden on plans," asserted Allen Steinberg, an attorney and consultant with Lincolnshire, Ill.-based Hewitt Associates, in his letter to the Labor Department.

"Many existing loan programs are designed to receive loan repayments only through payroll deductions. The implementation and maintenance of an alternative payment mechanism will be expensive and will serve to discourage the adoption of loan programs," Mr. Steinberg explained.

Consultants also are telling the Labor Department that it is off-base in interpreting that Section 408(b)(1)(a) of the Employee Retirement Income Security Act of 1974 requires extending the loan programs to all plan participants.

"We believe this interpretation is directly at odds with the actual language of ERISA," wrote Frederick Rumack, director of tax and legal services with Buck Consultants Inc. in New York.

Mr. Rumack and other benefit consultants say ERISA's rules on pension loan programs apply to "parties in interest," which does not include former employees.

The Labor Department regulations were published in July (*BI*, Aug. 7), but many employers still are not aware that after Oct. 18

Continued on page 20

Inside

- The proposed expansion of COBRA health care benefits is a bad idea, says this week's editorial. **PAGE 8**
- While the United States debates national health insurance, Canada's citizens are covered by a program that provides universal coverage. **PAGE 16**
- Health insurance premium increases are easing for federal employees. **PAGE 24**
- Risk managers should develop a 'corporate wellness' plan for their companies, says risk management consultant James E. Loeb in Speaking Out. **PAGE 37**
- In Perspectives, Steven A. LaShier of Argonaut Insurance Co. describes how a well-thought-out safety program can be integrated into a company's total management system. **PAGE 38**
- Analyst Leonard M. Wilson examines why insurance brokers have not been targets of acquisitions. **PAGE 65**

Departments

Advertiser index 46
Around the states 21
At issue 10
Benefit beat 6
Classifieds 60
Comings & goings: industry 40
Datebook 26
Insurance services guide 64
Legal briefs 37
Letters 8
Opinions 8
Perspectives 37
Speaking out 37
Ticker 65

Vol.23, No.38—*Business Insurance* (ISSN 0007-6864) is published weekly at 740 N. Rush St., Chicago, Ill. 60611-2590. Second-class postage is paid at Chicago, Ill., and at additional mailing offices. Postmaster: Send address changes to *Business Insurance*, Circulation Department, 965 E. Jefferson Ave., Detroit, Mich. 48207; 800-992-9970 or 313-446-1611. Copyright 1989 by Crain Communications Inc.

Outhwaite names ready to sue

Action expected by year-end

By CAROLYN ALDRED

LONDON—Hundreds of members of Lloyd's of London syndicate 317/661, managed by R.H.M. Outhwaite (Underwriting Agencies) Ltd., are ready to litigate over the massive losses they face, despite 11th-hour appeals by Lloyd's and the syndicate's managers to hold off such action.

Litigation against the members' agents, which placed the members with syndicate 317/661 in 1982, and against the Outhwaite agency likely will be filed by the end of the year, said Stuart Beare, senior partner of the London law firm Richards Butler, which is representing the members.

The 1,642 members of the syndicate during the 1982 underwriting year face at least 170 million pounds ($263.5 million) in losses, mainly stemming from dozens of runoff reinsurance policies written by Richard Outhwaite to cover liabilities from other Lloyd's syndicates' and insurers' past underwriting years.

And, members fear the losses could rise far higher because many of the policies contained no aggregate limits.

The members hope that by filing litigation they will persuade many of the parties involved—including the errors and omissions underwriters for the members' agencies and for the Outhwaite agency and the brokers who placed the runoff policies—to consider settlement talks, said Peter Nutting, chairman of the 1982 Outhwaite Names' Assn.

More than 800 of the syndicate members met in a packed hall Thursday in London to discuss whether they should fight the losses in court because of alleged negligent underwriting.

"There was not a dissenting voice there. We were told to stop talking about litigation and to get on with it," Mr. Nutting said at a Friday press conference.

Prior to the Thursday meeting, 415 members already had agreed to file suit and dozens more pledged to do the same at the meeting, though no vote was taken, Mr. Nutting said.

If more than 500 members agree before Oct. 31 to litigate, the names' association will proceed at once. If fewer than 500 members agree by then, the association will review the situation but "will probably still go ahead," said Mr. Nutting, who expects more than 1,000 members will decide to litigate.

The association plans to file suit as soon as possible despite the fact that syndicate members may be able to extend standstill agreements, which will allow them to file suit after Dec. 31 without fear of statutes of limitations expiring, said Mr. Nutting.

The Outhwaite agency issued a statement Sept. 8, almost a week before the members' meeting, expressing "its willingness in principle to extend the standstill agreement, which at present is due to expire at the end of December, in order to provide more time to allow a solution to crystallize."

On the same day Lloyd's Chairman Murray Lawrence wrote to all members of the syndicate, pointing out that members' agents and Outhwaite had agreed to extend standstill arrangements and warning them that the commencement of litigation "at this time" could stall settlement negotiations between Mr. Outhwaite and many of the ceding underwriters that purchased runoff reinsurance from the Outhwaite syndicate.

Mr. Outhwaite for several years has disputed claims filed against the runoff policies by ceding underwriters, claiming the cedants failed to disclose and misrepresented the nature of the risks (*BI*, Aug. 28; June 5).

In several settlements, Mr. Outhwaite has been able to cap previously unlimited liability under certain policies. And, earlier this year Lloyd's appointed a senior British trial lawyer to help further conciliation.

"It is not for Lloyd's to judge or comment on the case for (the members' proposed) liti-

Continued on page 63

Medicare cuts in doctor fees could increase cost shifting

By ADRIENNE C. LOCKE

WASHINGTON—A proposal to lower Medicare reimbursements to physicians for many types of services will likely prompt physicians to shift costs to insured and self-insured employer health care plans, benefit experts say.

In addition, the proposed fee schedule would allow higher physician fees for some services, which may encourage physicians to increase their fees for those services for all patients, experts say.

However, some insurers and large employers that self-insure their health care plans may be able to contain health care costs by setting up preferred provider networks in which physicians agree to reimbursement based on the proposed Medicare fee schedule.

In addition, those insurers and self-insured employers without enough clout to set up PPOs in which physicians agree to reimbursement based on the schedule could base their usual and customary payment of health care costs on the schedule, according to experts.

Under the proposed physician reimbursement system, approved last week by the House Ways and Means Committee, physicians would be paid predetermined amounts for specified services provided to Medicare recipients, similar to the rates set for specific hospital care procedures under the diagnostic related group system established in legislation enacted in 1983.

The physician reimbursement system, contained in budget reconciliation legislation that the Ways and Means Committee was expected to vote on late last week, would be phased in by 1996 beginning in 1991.

The reimbursement system, which uses a resource-based relative value scale that is based on a Harvard University study developed by medical economist William C. Hsiao and internist Peter Braun, determines allowable fees by first establishing a numerical value for each type of service provided by physicians. The value is based on the actual work of the physician, the expenses related to his or her practice, and malpractice insurance costs.

The monetary value of the service would be determined by multiplying the numerical factor by a dollar conversion factor that Congress would determine every year, which may be adjusted to account for inflation or changes in the Medicare population.

Another multiplier is included in the formula to adjust the reimbursement for physicians in urban and rural areas to account for such factors as the size of the community, and therefore the number of patients a physician has an opportunity to treat, and the cost of repairing equipment.

The result would be the Medicare Medical Fee Schedule.

Whereas previous physician reimbursement schedules were determined by medical industry consensus, this scale is the first to be based on time, effort and expenses, explained Carol Ann Lockhart, the director of the Greater Phoenix Affordable Health Care Foundation in Arizona, a community information organization composed of employers, health care providers, insurers and consumers.

Ms. Lockhart also was a member of the Physicians Pay Review Commission, a congressional advisory panel that reviewed the RBRVS and made recommendations to Congress.

The schedule would be phased in in each locality by first determining the prevailing fee in that area for each service covered by the schedule. If the prevailing charge is within 15% of the fee established in the schedule, physicians would be reimbursed according to the schedule.

Continued on page 14

Most HMO execs expect profitable 1989: Survey

By DONNA DiBLASE

Executives of health maintenance organizations believe the prognosis is good for the continued financial recuperation of the HMO industry, a new survey reports.

Seventy-three percent of the executives responding to the survey say they expect their HMOs to be profitable in 1989, compared with only 36% who said their organization were profitable in 1988.

The study, titled "The Bottom Line: HMO Premiums and Profitability in 1988-1989," was prepared by InterStudy, an Excelsior, Minn.-based HMO research organization.

Older and larger HMOs were more likely than younger and smaller HMOs to report a profit in 1988, according to the survey.

The survey also found that HMO premiums increased an average of 17.2% from Jan. 1, 1988, to Jan. 1, 1989, with about half of the responding HMOs reporting increases in the range of 10% to 20%.

Along with increasing premiums, about 40% of the HMOs also increased copayments in 1988 for some services, most commonly for prescription drugs.

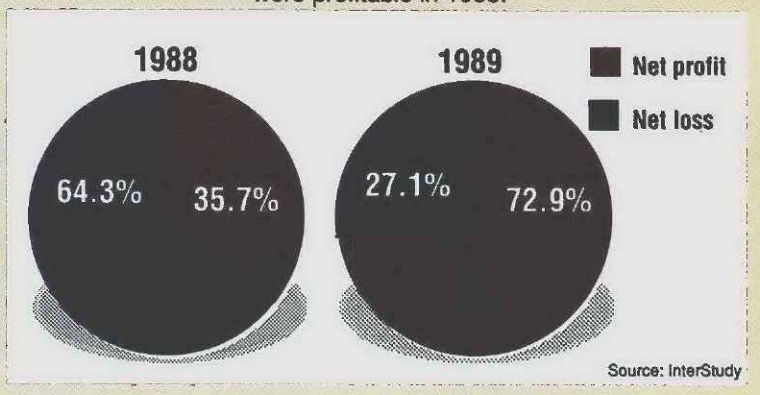
While InterStudy's survey does not directly analyze the effects of increased HMO premiums or copayments on profitability, "I think the premium increases had a lot to do with the HMO industry's financial turnaround," noted Lynn Gruber, InterStudy's vp of managed care research.

"I am optimistic about the continued improvement in the financial condition of the industry," she said. But, she stressed that HMOs

Continued on page 15

HMO's profitability looking up

Nearly three-quarters of HMO executives expect their HMOs to post a profit in 1989, while only 36% said their organizations were profitable in 1988.



John Heiland

Workers comp expenses outstrip rates: Insurers

By MEG FLETCHER

PHILADELPHIA—Workers compensation systems in many states face serious problems because the costs of the systems have increased more quickly than insurance rates, insurer experts say.

"As the nation's oldest form of no-fault insurance, workers compensation traditionally has involved a partnership in which employers agree to pay premiums, promote safety and see that employees are reimbursed for lost expenses and wages incurred because of injuries or illnesses, regardless of who is at fault," said Kevin Ryan, president of the National Council on Compensation Insurance, at the NCCI's Workers Compensation Congress held Sept. 8-9 in Philadelphia.

However, legislators and judges increasingly have broadened the scope of the workers comp system by improving benefits, expanding types of workers covered by the system and removing limitations on coverage for some types of occupational diseases, insurers say.

The American public looks more and more to workers compensation to pay benefits that were seldom considered when the original system was formed, Mr. Ryan said. These include "payments to cover expensive and long-term health care, occupational diseases that occur many years after exposure, stress-related illnesses, occupational rehabilitation, repetitive stress syndrome and exposure to computer terminal emissions," he said.

In addition, observers say system costs are continuing to escalate due to:

- Increases in medical care costs.

Health care inflation is "the most significant generator" of workers compensation costs, said Wilson Taylor, president and chief executive officer of Philadelphia-based CIGNA Corp.

Increases in medical costs have outpaced workers compensation indemnity costs and now compose about 40% of all work comp payouts, according to a draft report by the NCCI's cost containment committee.

Continued on page 28

PHICO award

Continued from page 2

good faith toward its policyholders.

In a 294-page decision handed down Sept. 5, Denver District Court Judge Nancy E. Rice sided with the doctors on most of their claims.

Specifically, Judge Rice found that PHICO had breached its agreement to provide the doctors with extended reporting period coverage on their claims-made policies for a premium that was fixed at the time the coverage was written.

PHICO policies issued between 1982 and 1985 carried an endorsement in which the insurer agreed to provide tail coverage for 118% of the fourth-year claims-made premium in effect at the time the policies were first written, Judge Rice's ruling says.

However, in early 1985, PHICO changed the endorsement on renewal policies to charge a premium equal to 140% of the fourth-year claims-made premium.

The insurer also changed the policy wording to base the 140% charge on the fourth-year claims-made premium in effect at the inception of the most recent claims-made policy period rather than basing it on the premium in effect at the time the coverage was first written, the ruling says.

PHICO later changed this wording again to apply the 140% charge to the fourth-year premium in effect at the inception of the tail policy period.

PHICO argued that by continuing to renew their coverage with the changed language, the doctors had accepted the new terms and should be bound by them.

However, Judge Rice ruled that "the necessity to buy a tail policy at the termination of the relationship between the insurer and the insured. . .necessitates a meeting of the minds at the inception of the contractual relationship as to the terms of the eventual termination of the relationship."

Judge Rice concluded that PHICO's policies clearly provided that the price of the tail coverage was to be fixed at the outset of the contractual relationship and that this reading of the policies is supported by PHICO's own advertising and by the impression of the tail provisions that PHICO created in the minds of its policyholders.

Thus, Judge Rice found that PHICO breached the terms of its policies by trying to amend the tail coverage provisions on renewal.

The doctors also charged that PHICO breached provisions in the policies relating to tail coverage for retiring physicians and breached provisions in a dividend plan first offered in 1984 that would return interest income to policyholders starting three years after inception of coverage.

However, Judge Rice dismissed these claims, noting that none of the plaintiffs met the conditions of the tail coverage for retirees and that PHICO withdrew from the market for independent physicians before the dividend program was supposed to start paying off.

In addition, Judge Rice concluded that the insurer had engaged in numerous acts of deceit and misrepresentation. Among other things, the judge found that PHICO:

- Misrepresented that it was in the Colorado malpractice insurance market for the "long haul."

"It is extraordinary to note. . .that (29) of the plaintiff doctors were specifically reassured in the several months prior to the PHICO withdrawal that PHICO would stay in the Colorado market," the judge observed.

- Failed to disclose that it was "running off" independent physicians. As early as October 1984, PHICO set a goal of raising rates "so high that doctors would deem them unreasonable and leave the company," Judge Rice found.
- Misrepresented its financial position. PHICO claimed financial strength when it was soliciting business but later cited severe financial difficulties to justify "astronomical rate increases" in 1985 and 1986 and—ultimately—to justify complete withdrawal from the market for independent doctors.

"PHICO seemed to choose to be financially strong when it suited their purpose (such as in advertising materials and annual reports) and to be financially less stable when other interests were involved (such as pulling out of Colorado)," Judge Rice wrote.

- Concealed its intent to not renew Colorado physicians at the same time it was accepting renewal premiums from the doctors through July 1986.

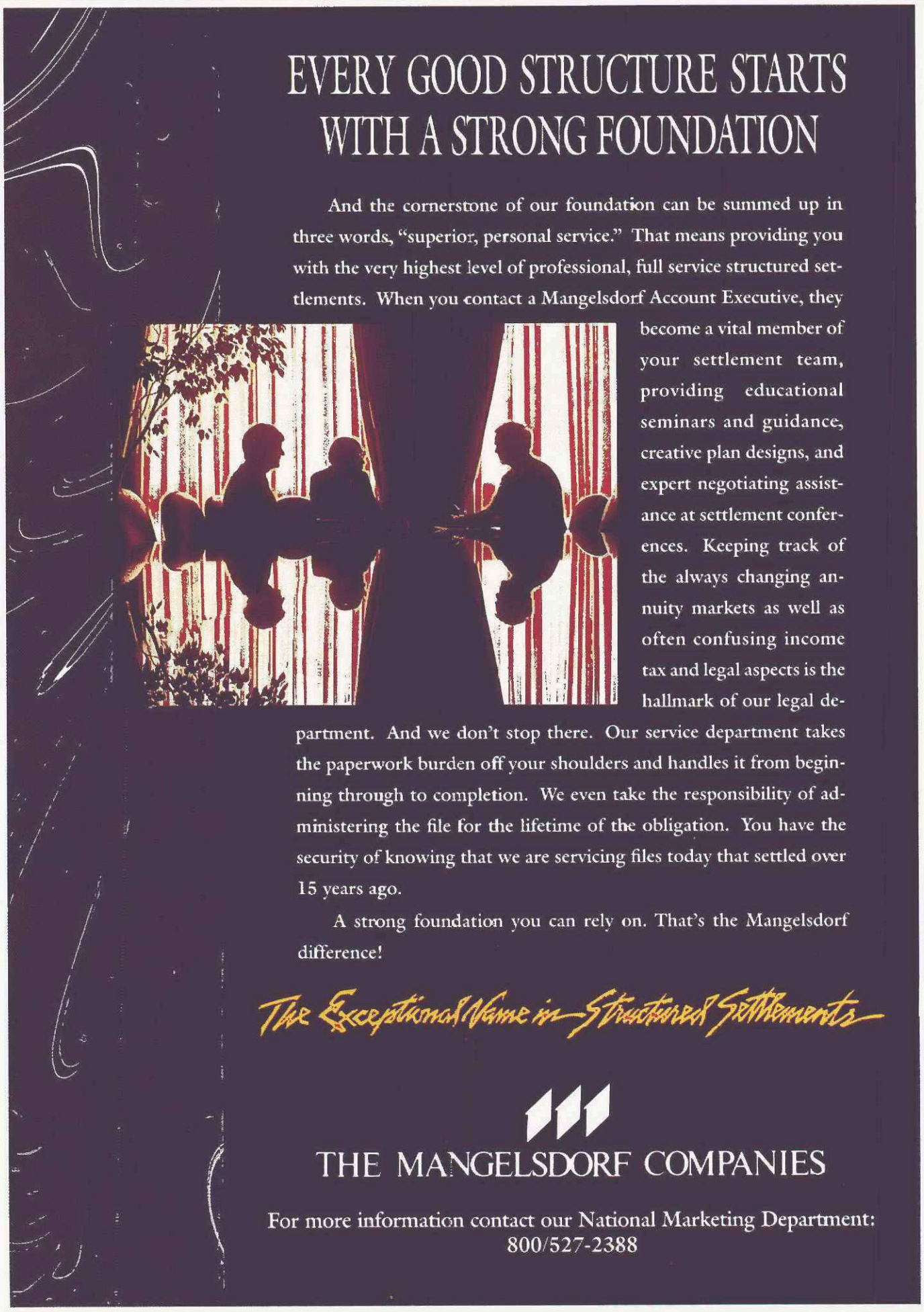
In addition to these and other misrepresentations, Judge Rice found that PHICO breached its duty of good faith to its Colorado policyholders.

While accusations of bad faith usually arise in the context of an insurer's failure to pay claims, Judge Rice found that under Colorado law, insurers owe a general duty of good faith to policyholders regardless of whether an actual claims dispute is involved.

PHICO breached its duty of good faith by—among other things—altering the terms and conditions of the tail coverage and concealing its plan to not renew independent physicians, the judge ruled.

The $4.2 million award consisted of $3.1 million in actual damages, including compensation for the increased cost of PHICO tail coverage and damages for emotional distress to some of the doctors.

The judgment also included a total of $1.1 million in punitive damages awarded to 29 doctors who were personally assured by PHICO after May 15, 1986, that the company would not withdraw from the Colorado market. ■



Judge says spill award should be cut

CHICAGO—A judge in the Amoco Cadiz oil spill litigation last week cut approximately 70 million francs ($10.8 million) from the damages and interest he recommends that Amoco Corp. pay the French government and scores of other claimants.

The recommendation would reduce the total amount that former U.S. District Judge Frank J. McGarr recommends awarding the claimants to between $104.6 million and $109.6 million.

Judge McGarr, acting as "special master" in the litigation, determined in January 1988 that Amoco should pay the claimants $85.4 million in damages and earlier this year increased the award by $30 million to $35 million (*BI*, Feb. 27). The claimants had sought hundreds of millions of dollars.

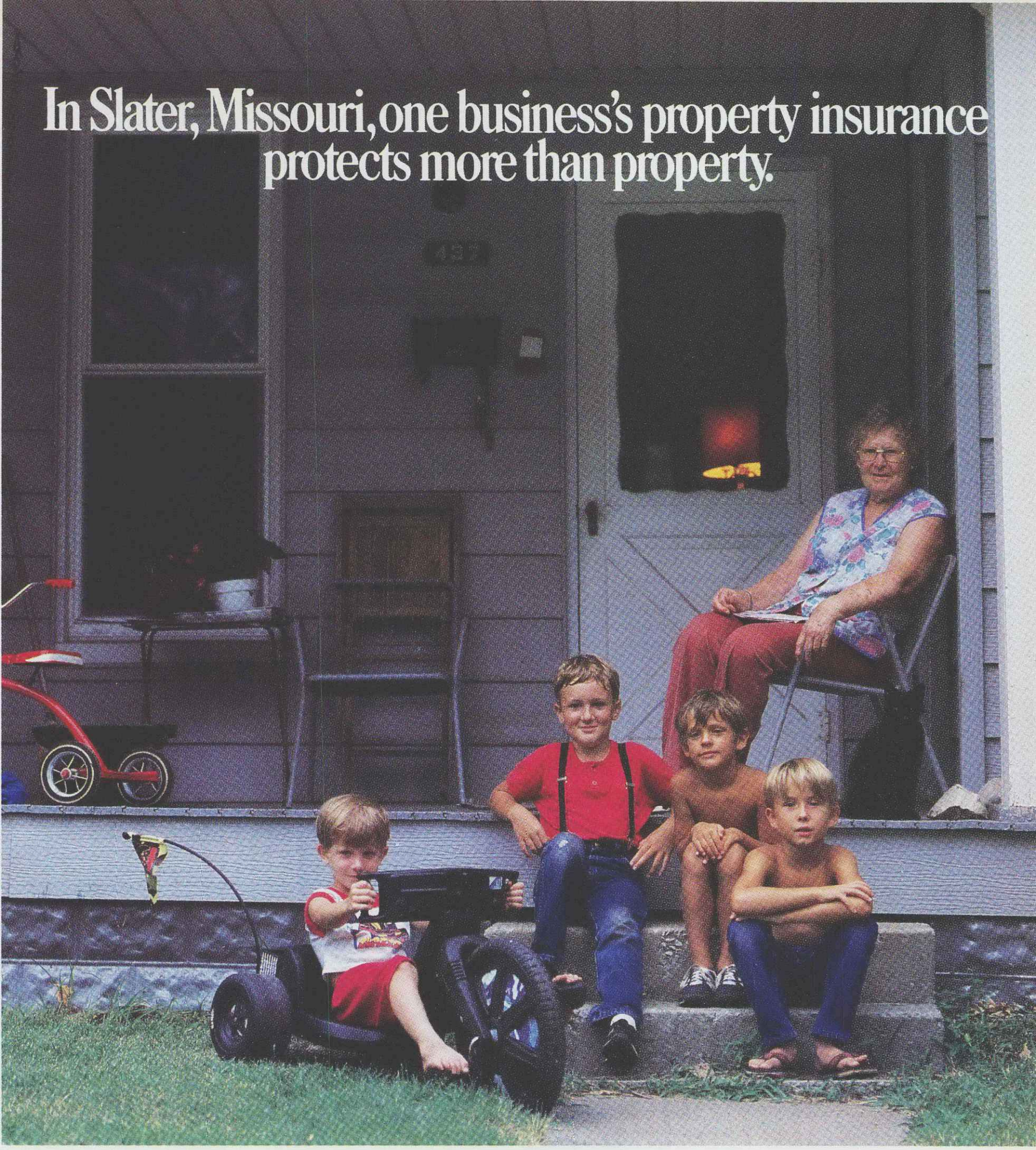
Judge McGarr revised his recommendation last week after re-examining earlier testimony and determining that a shellfish expert did not disclose the fact that the French government already has compensated oyster fishermen for damages sustained when the supertanker Amoco Cadiz dumped 68 million gallons of oil into the Atlantic Ocean off France's Brittany coast in 1978.

The revised award must be approved by U.S. District Judge Charles Norgle in Chicago.

Amoco attorney Frank Cicero of Kirkland & Ellis in Chicago, said Amoco would appeal the final award and Judge McGarr's earlier ruling of liability.

Many of the plaintiffs also plan to appeal the final decision when it is entered by the court, said Barry Kingham of Curtis, Mallet-Prevost, Colt & Mosle. in New York. ■

In Slater, Missouri, one business's property insurance protects more than property.



As a leading supplier of accessories and replacement parts for the air pollution control industry, BHA Group Inc. employs roughly one in ten residents of Slater, Missouri. Here, if a fire shuts down the plant, it could shut down the town.

"We have just one U.S. manufacturing facility, and we put $40 million of our products through that plant. If something happens to it, we'd be a long time recovering," says James King, Treasurer of BHA Group, Inc. "It would be disastrous for us and for Slater."

With Wausau's help, BHA and Slater joined forces in building a reservoir and a 1000-gallon-per-minute water pump. Now, the company has lower insurance rates with its Highly Protected Risk (HPR) designation, and the risk of the town losing its biggest employer is reduced.

And that's why companies who want to do everything they can to protect against hazards like fire, should start by coming to Wausau.

WAUSAU INSURANCE

Wausau Insurance Companies, 2000 Westwood Drive, Wausau, Wisconsin 54401 Telephone (715) 845-5211 A Member of the Nationwide® Group.

UAW workers strike over cost shifting

By MICHAEL SCHACHNER

Citing unacceptable health care cost-shifting proposals by management, 2,200 members of a United Auto Workers local union in Indiana continued their strike late last week against a Borg-Warner Corp. unit that makes parts for the Ford Motor Co.

The walkout began Sept. 7 after UAW Local 287 in Muncie failed to reach an agreement on a new contract with Borg-Warner, which had proposed raising deductibles and copayments for health care benefits in an effort to curb what a Borg-Warner spokesman termed as "rising health care costs that are eroding the value of the business."

The union's previous three-year contract expired Sept. 6.

The Borg-Warner spokesman said the company's health care costs have increased during recent years to the point that the company was forced to initiate some sort of cost-sharing methods.

Since 1983, health care costs for the entire company, which employs more than 86,000 people nationwide, have increased 47%, he said. Total health care expenditures at the Chicago-based manufacturer leaped 12% in 1988 to $28 million from $25 million in 1987.

If health care costs continue to rise as Borg-Warner expects, the company's health care costs will total about $32 million in 1989, a 14% annual increase.

"We must have employees share some of the cost. Everyone must share the burden," he said.

Borg-Warner proposed raising the deductible for major medical and hospitalization benefits under its indemnity health care plan to $350 per household, regardless of the number of covered lives, from the $125 deductible per person with no family cap under the expired contract.

In addition, the company proposed increased employee copayments to 20% from 10%, as well as raising the out-of-pocket maximum employees must pay to $1,370 from $600.

The company also proposed that employees pay a $5 deductible per prescription, as well as a 30% copayment on prescriptions exceeding $5.

Under the expired contract, employees paid $3 per prescription with no copayment.

Borg-Warner's average cost per prescription has increased nearly 120% since 1983 to $17.50 from $8, the spokesman said.

In addition to proposing increased health care cost shifting, the company offered to create an employee stock ownership plan that could give the employees as much as 50% ownership in the company at an undetermined point in the future.

However, the spokesman added that the UAW did not consider the ESOP a sufficient trade-off for the increased health care cost responsibilities.

Benefit beat

Travelers plan

As part of an overhaul of its benefits program for its own employees, Travelers Corp. will begin offering a flexible benefits package that includes company-paid subsidies for dependent care expenses.

The plan, called "Passport" and which takes effect Jan. 1, will establish flexible spending accounts for employees to use to finance child and elder care expenses; extend family care leaves of absence with full benefits for one year; and provide a national information and referral network for child and elder care.

The new cafeteria plan will provide Travelers employees with a specified number of credits that can be applied toward several health care plans, including health maintenance organization; two dental plan options; enhanced short- and long-term disability benefits; and a new life insurance option.

Employees enrolled in Passport can choose the coverages and deductibles they wish based on available credits. For example, less comprehensive medical coverages with higher deductibles will require fewer credits than a medical plan with a low deductible. Theoretically, choosing a less expensive medical benefit would leave more credits to be applied to other benefits such as dental or life.

Employees who do not use their entire allotment of credits can receive cash payments, which will be taxed as income.

In addition to restructuring its health care benefits, Travelers will increase the company match to an existing 401(k) savings plan to 100% on the first 5% of salary an employee contributes to the plan from 50% on the first 5% of salary contributed under the current formula. A newly formed employee stock ownership plan will prefund the 401(k) contributions. Preferred shares controlled by the ESOP will be used to match employee contributions (*BI*, July 10).

The benefit changes will be available to about 36,000 full-time and part-time employees and retirees at Hartford, Conn.-based Travelers and its subsidiaries.

Under the new program, Travelers will make health care, retirement and savings options benefits available to employees working at least 17.5 hours per week. Currently employees must work 30 hours per week to be eligible for benefits.

The new family care benefit program features an employer-paid subsidy for employees' child and elder care expenses that is weighted to aid lower-salaried employees the most. To qualify for the subsidy, an employee must set up a flex account, in which up to $5,000 per year in pretax salary may be set aside.

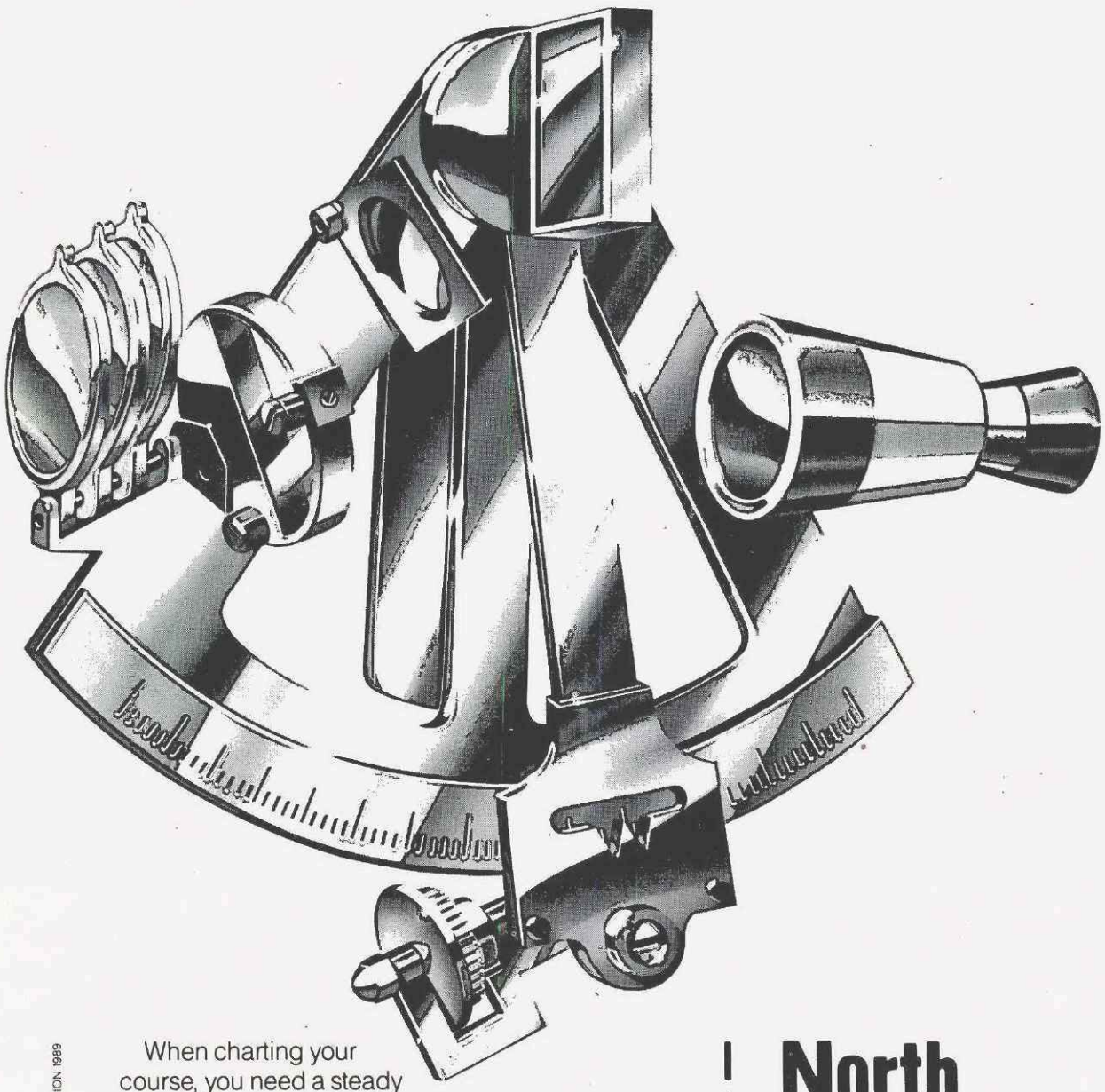
Under the subsidization plan, employees earning less than $20,000 can receive up to 30%, or a maximum of $1,200, of their dependent care costs from Travelers; those earning between $20,000 and $29,999 may receive up to 20%, or up to $800, of incurred expenses; employees earning between $30,000 and $39,999 are eligible to receive 15%, up to $600, of expenses; and employees making $40,000 or more can receive 10%, up to a $400 maximum, of expenses.

Under Passport, Travelers will permit up to a one-year unpaid leave of absence to care for family members during which the company will provide full medical, dental and life insurance benefits.

The company also will establish

Continued on page 10

SET YOUR SIGHTS ON THE LEADER



When charting your course, you need a steady star to lead the way.

That's why reinsurance brokers look to North Star. Experienced underwriters, responsiveness, integrity and A+ security all the way.

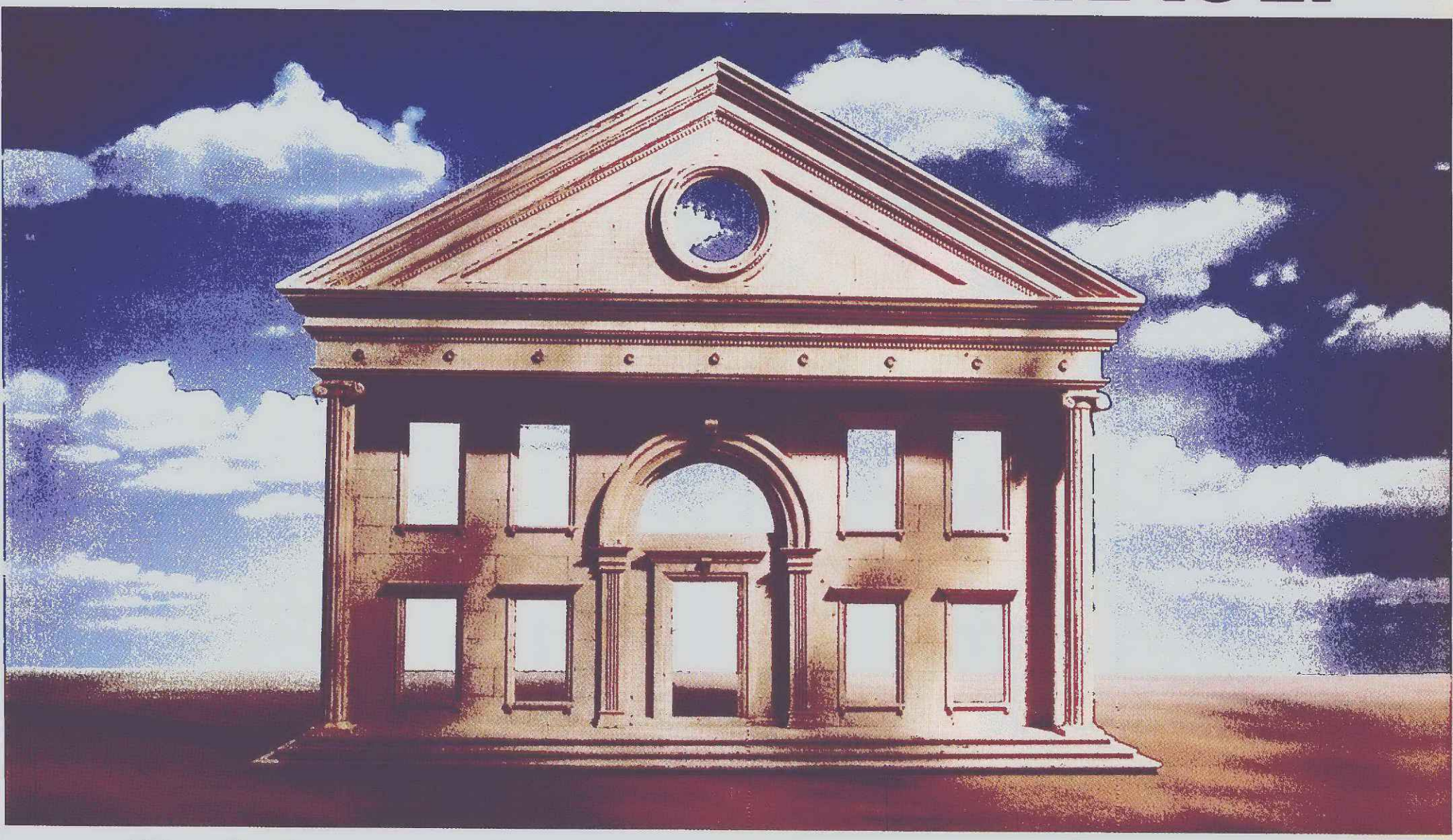
Set your course with the leader. Follow the Star.

North Star
Reinsurance Corporation
A Broker's Guide to Quality Reinsurance

Morris Corporate Center 1, 300 Interpace Parkway, Parsippany, NJ 07054 (201) 299-6200

© NORTH STAR REINSURANCE CORPORATION 1989

YOU MAY BE SURPRISED WHAT'S BEHIND YOUR REINSURANCE COVERAGE.



All too often the answer is—not enough.

Because while a company may claim to possess all the necessary property and casualty reinsurance capabilities, it may lack the most important one of all: the resources to sustain a lasting relationship.

Truth is, not having the right reinsurer can lead to some unfortunate consequences. Like claims payment delays. Uncollectible reinsurance. Inconsistent underwriting. And very unhappy clients.

As part of a worldwide professional reinsurance network, CIGNA Reinsurance Company is responsive to both the treaty and facultative marketplace.

Our underwriting staff is committed to the highest standards of excellence. And, our knowledge and extensive experience in both the reinsurance and primary markets enables us to respond appropriately to the needs of intermediaries and client companies.

Our underwriters are supported by a dedicated staff of claims, actuarial and financial professionals. Plus, our technical services group provides timely and valuable information which allows the underwriters to identify and resolve issues, before they become problems.

Finally, we have the capacity and technical expertise to assume substantial risk. And more importantly, financial stability, which translates into real staying power.

After all, if there's nothing behind your reinsurance coverage, there's probably no future in front of it.

Building long term relationships. One more example of CIGNA's commitment to personalized service to business around the world.

CIGNA

CIGNA Property & Casualty Reinsurance Companies: Philadelphia • Toronto • London • Brussels • Paris • The Hague • Vienna • Bermuda • Tokyo • Sydney • Singapore • Panama City

Opinions

Leave COBRA alone

EXPANDING COBRA health care continuation coverage is a bad idea that some congressional committee staffers will not let die.

A provision buried in a budget reconciliation bill approved by the House Education and Labor Committee would allow employees to continue COBRA coverage with their former employers even when they begin a new job and receive health care coverage from their new employers (*BI*, Sept. 11).

That would reverse current rules under the Consolidated Omnibus Budget Reconciliation Act of 1985 that allow an employer to terminate coverage when COBRA beneficiaries receive coverage from another employer's health care plan.

If this all sounds familiar it is because last year an identical COBRA expansion provision was inserted in a technical corrections bill.

Wisely, though, legislators stripped the COBRA expansion provision from the technical corrections measure before approving that bill.

Despite last year's rejection, congressional staffers, for unexplained reasons, are resurrecting the COBRA expansion provision.

We thought the COBRA expansion proposal was a bad idea when it was first unveiled, and we continue to believe it should be rejected.

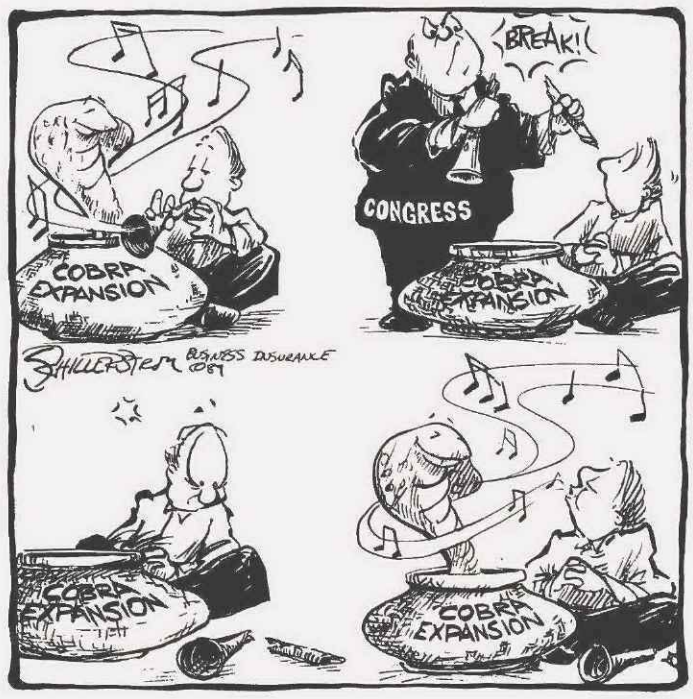
The proposal, in essence, would allow employees leaving a company to obtain double health care coverage. For example, employees anticipating major dental work could pay a COBRA premium for one month, exhaust the plan's coverage limit, then drop the COBRA coverage and still have subsequent dental work covered under their new employer's plan.

What justification can there be for this expansion of COBRA coverage?

It certainly would not be fair to other employees staying with an employer. Their health care coverage actually would be inferior to that of COBRA beneficiaries, who could tap benefits and exhaust limits under two different health care plans.

And, it wouldn't be fair to employers offering COBRA coverage. The COBRA premium paid by beneficiaries wouldn't even begin to cover costs because those choosing coverage would be those racking up big medical bills. As a result, adverse selection, already a problem with COBRA, would be exacerbated.

And, double coverage could lead to big coordination



of benefits problems. In cases in which an individual would be covered by two plans, the legislation does not make clear which plan would be primary and which would be secondary.

Certainly, there are gaps in COBRA coverage that can leave employees exposed to major health care expenses.

For example, when employees join a new company, they might not receive health care coverage for pre-existing medical conditions. At the same time, those employees would lose COBRA benefits from their former employer that would cover those conditions.

That is a real shortcoming of COBRA, but it is a problem that can be readily fixed.

In fact, the House Ways and Means Committee, in its version of budget reconciliation legislation, has proposed a solution that makes a lot more sense than the Education and Labor proposal: Allow employees to keep their COBRA coverage from their former employers—even when they become covered under a new employer's health care plan—but limit the coverage to their pre-existing medical conditions.

If Congress does expand COBRA, we hope legislators follow the path laid down by the Ways and Means Committee.

Letters

West Virgina to benefit from Brown's exit

To the editor: The state of West Virginia can use more national respect and it will probably gain some with the resignation of its attorney general, Charlie Brown (*BI*, Aug. 28).

Mr. Brown was one of the leaders in the massive antitrust suit filed by state attorneys general, which now appears to be headed for dismissal. He also was an outspoken proponent for repeal of the McCarran-Ferguson Act. But at a recent House Judiciary Subcommittee meeting, he could not produce any evidence of insurers' abuse of the limited antitrust immunity granted by the act.

These shortcomings do not lend credibility to a state already riddled with negative stereotypes and pervasive economic problems. Charlie Brown carried a big gun into the court room and the Congress, but he didn't bring along any bullets.

Del Beard
Account Analyst
Caperton Special Risks
Atlanta

Business Insurance welcomes letters from its readers. Please keep your comments as brief as possible. We reserve the right to edit letters for clarity or space. We will not publish unsigned letters. Send your comments to Letters to the Editor, Business Insurance, 740 N. Rush St., Chicago, Ill., 60611.

Regulator must look at his own actions

To the editor: It looks like New Mexico Insurance Superintendent Fabian Chavez Jr. is intentionally fulfilling a self-proclaimed prophecy. He is complaining about the federal Risk Retention Act by stating that "there are still large areas of uncertainty as to the states' authority to regulate under the act."

According to the article, "1st Insolvency of Risk Group Stirs Concerns" (*BI*, Aug. 21), Rent Rite RRG was not formed and operated for the direct benefit of its policyholders. Mr. Chavez adds that "this is typical and is probably an unintended consequence of the act." It is *not* typical!

It was Mr. Chavez's department that chartered Rent Rite RRG. This probably would not have happened to a well-regulated captive in a state like Vermont.

Unquestionably, Mr. Chavez should look to his own department's actions and not his predisposed biases.

Donn P. McVeigh
Managing Director
Creative Risk Concepts International
Oakland, Calif.

Elderly can afford cost of Medicare

To the editor: With an aging population and a declining birth rate, the United States must decide how it is going to pay for the medical care of its senior citizens. There are now 60 million people over the age of 50 in the United States.

Rep. Daniel Rostenkowski, D-Ill., deserves plaudits for suggesting that the elderly, who represent the wealthiest demographic segment of the population, pick up more of the cost (*BI*, Sept. 4).

Business Insurance should instead be asking, "Who is going to pay for the Social Security and Medicare benefits of the Baby Boomers?"

Thomas P. Callahan
Meritor Savings Bank
Philadelphia

Business Insurance®
Reporting weekly for corporate risk, employee benefit and financial executives

Publisher: Alfred Malecki *(New York)*

Associate Publisher/Editor: Kathryn J. McIntyre, A.R.M. *(Chicago)*
Managing Editor: James M. Burcke *(Chicago)*
Senior Editor: Jerry Geisel *(Washington)*
Assistant Managing Editor: Dave Lenckus *(Chicago)*
CHICAGO: Stacy Adler *(Associate Editor)*, Jeanne M. Bartels *(Graphics Editor)*, Karen Brown *(Assistant to the Editor)*, Linda J. Collins *(Agent/Broker Editor)*, Meg Fletcher, A.R.M. *(Associate Editor)*, Sara J. Harty *(Editorial Assistant)*, Mark A. Hofmann *(Associate Editor)*, Karen Huelsman *(Copy Editor)*, Marilou Jones *(Directory Editor)*, Jacqueline LaSota *(Assistant Copy Editor)*, Laura Mazzuca *(Agent/Broker Topics Associate Editor)*, Amy Palmer *(Graphic Artist)*, Roger Schillerstrom *(Editorial Cartoonist)*, Paul Winston *(Copy Editor)*, Joanne Wojcik *(Copy Desk Chief)*, Christine Woolsey *(Associate Editor)*
DALLAS: Michael Bradford *(Associate Editor)*
LONDON: Stacy Shapiro *(International Editor)*, Carolyn Aldred *(Associate Editor)*
LOS ANGELES: Donna DiBlase *(Bureau Chief)*, Glenn Huntley *(Associate Editor)*
NEW YORK: Douglas McLeod *(Bureau Chief)*, Judy Greenwald *(Associate Editor)*, Collin Nash *(Editorial Assistant)*, Michael Schachner *(Associate Editor)*
WASHINGTON: Adrienne C. Locke *(Associate Editor)*, Deborah Shalowitz *(Associate Editor)*

Advertising Director: Donald A. Walsh *(New York)*
Midwest Sales Manager: Robert L. Niesse *(Chicago)*
CHICAGO: Deborah D. Neale *(District Manager)*, Margaret Hikido *(District Manager/ Classified Sales)*, Elmer Kerstowske *(Production Manager)*
Eastern Advertising Manager: Martin J. Ross *(New York)*
NEW YORK: Charles A. Horvath *(District Manager)*, Jack Forrest *(District Manager)*, Kathryn Premetz *(District Manager)*, Cynthia Bykowski *(District Manager)*
LOS ANGELES: Michael J. Sharpe *(Western Advertising Manager)*

Director of Communications: Ronnie I. Drachman *(New York)*

EDITORIAL: Chicago: 312-649-5398; Dallas: 214-363-1066; London: 01-404-4228; Los Angeles: 213-651-3710; New York: 212-210-0140; Washington: 202-662-7200
ADVERTISING: New York: 212-210-0133; Chicago: 312-649-5276; Los Angeles: 213-651-3710
COMMUNICATIONS: New York: 212-210-0132
CIRCULATION: Detroit: 313-446-1611

Published by Crain Communications Inc., Chicago

G.D. CRAIN JR.
Founder (1885-1973)

MRS. G.D. CRAIN Chairman
MERRILEE P. CRAIN Secretary
S.R. BERNSTEIN Chairman-executive committee
WILLIAM A. MORROW Senior Vp-operations
RANCE CRAIN President
ROBERT C. ADAMS Vice president-production
KEITH E. CRAIN Vice chairman
H.L. STEVENSON Corporate editor
MARY KAY CRAIN Treasurer
PENELOPE A. GEISMAR Corporate communications mgr.

Published weekly at 740 Rush St., Chicago, Ill. 60611, Telex 6871241, Fax 312/280-3174, Cable CRAINCOM. Offices: 220 E. 42nd St., New York, N.Y. 10017, Telex 640207, Fax 212/210-0704, CRAIN COM NYK; 1 Northpark, East Suite 114, 8950 N. Central Expressway, Dallas, Texas, 75231, Fax 214/696-1936; Suite 814, National Press Building, Washington, D.C. 20045, Fax 202/638-3155; 6404 Wilshire Blvd., Los Angeles, Calif. 90048, Fax 213/655-8157; 20-22 Bedford Row, London WC1R 4EB, England, Fax 01/430-2176. $1.75 a copy. $70 a year in U.S. Canada and all other foreign add $32 for surface mail. Europe and Middle East only add $72 for air delivery. First-class mail to U. S., add $77; to Canada add $87. Bermuda only, $152 per year expedited delivery. WILLIAM STRONG, vp-circulation. SHEILA GORMLEY, circulation manager. JOHN HUFFMAN, fulfillment director. Four weeks' notice required for change of address. Send subscription correspondence to Circulation Department, Business Insurance, 965 E. Jefferson Ave., Detroit, Mich., 48207, or phone 800-992-9970 or 313-446-1611, Fax 313/446-1650. Microfilm copies are available from University Microfilms, 300 Zeeb Road, Ann Arbor, Mich. 48013. Microfiche copies available: Bell & Howell, Micro Photo Division, Old Mansfield Road, Wooster, Ohio 44691. Portions of the editorial content of this issue are available for reprint or reproduction in other media. For information and rates to reproduce in general circulation media, contact: ART MERTZ, The Crain Syndicate, 740 Rush St., Chicago, Ill. 60611, 312-649-5303. For reprints or reprint permission contact: Reprint Department, Business Insurance, 220 E. 42nd St., New York, N.Y. 10017, 212-210-0229, Fax 212/210-0704.

VBPA Member of Business Publications Audit of Circulation ABP

Our global economics deliver
world-class experience



Reliance Insurance Company

At issue

Do second surgical opinions produce significant savings for employers?



Powell Woods
Vp-human resources/ corporate relations
Nestle Enterprises Inc.,
Solon, Ohio

It is one example of the many process interventions we try, but it's nothing that will work in the long term. The real solution to rising costs lies in making quality of care a primary focus of our health care purchasing system. We need to replace our current reimbursement system with one that will steer our employees toward high-quality, cost-efficient providers.



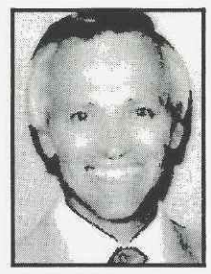
David M. Soden
benefits manager
Katy Industries Inc.
Elgin, Ill.,

I think second surgical opinions are very good programs. As a personal choice, logic tells us it's a good idea to get a second opinion on medical matters. However, I would prefer a voluntary program over a mandatory program. The plans I've worked with haven't shown me any proof that mandatory programs save more money than voluntary programs do.



Alka Jain
Vp & manager-employee insurance plans
Bank of America,
San Francisco

From a purely financial viewpoint, our second surgical opinion program does not pay for itself. In a recent 12-month period, original surgical opinions were confirmed in 93% of reviewed surgeries. We, nevertheless, suspect that our reasonable results are due in part to the influential presence of an independent reviewer.



James E. Crockett
manager-risk/ benefits
Denver Water Department,
Denver

From a practical standpoint, the second opinion process doesn't save employers money; 99% of second opinions confirm the need for surgery. From a preventive standpoint, requiring a second opinion may influence doctors to consider other treatments, which may indirectly save an employer money—either by lower premiums or lower self-insured claims.

Compiled by Christine Woolsey



The ultimate cost container.

There are a lot of prescription drug programs out there that claim to cut costs without compromising quality. But few can actually substantiate those claims with bottom line results.

Revco Can.

Cost efficiency is at the heart of every one of our prescription drug plans. We've streamlined operations by working with our third party customers directly, so unnecessary layers of administration are eliminated.

Revco dispenses prescriptions with generic drugs whenever permissible, further reducing costs.

On-line eligibility verification and adjudication of claims, along with updating patient profiles for screening drug interactions and allergies, can be handled electronically. Accurate usage tracking reveals inappropriate prescribing and purchasing patterns. And our new on-line computer system, which will soon link all of Revco's nearly 1900 stores together, provides a more comprehensive, efficient network of pharmacy services.

Revco's size and scope also allow third party customers the benefits of consolidated contract management. A variety of procedural choices. And a team of pharmacists to assist you with drug utilization reporting.

Participants in our programs benefit from flexible co-pay arrangements, mail order pharmacy services and nearly 1,900 retail locations for easy and immediate access.

Put the ultimate cost container to work for you. For more information, simply write or call:

Director of Third Party Marketing
Revco D.S., Inc.
1925 Enterprise Parkway
Twinsburg, Ohio 44087
(216) 425-9811 Ext.3190

A Friend For Life.® REVCO DRUG STORES

Benefit beat

Continued from page 6

a national referral network through which employees and the company's 7,000 retirees can obtain information on how to care for sick and elderly family members as well as offering seminars and support groups on family care issues.

Under Passport, employees can select from one of three health care indemnity plans. The deductible varies from plan to plan, but each requires a 20% copayment up to an out-of-pocket maximum.

- The lowest-cost option requires a $200 individual deductible and and a $600 family deductible. Out-of-pocket costs are capped at $1,000 per individual and $2,000 per family.
- A second plan requires a $400 per-person deductible and a $1,200 family deductible. Out-of-pocket costs are capped at $1,500 per person and $3,000 per family.
- The final option requires a $750 individual deductible and a $2,250 family deductible. Out-of-pocket costs are capped at $2,000 per individual and $4,000 per family.

The coverage is underwritten by Travelers units.

Passport provides two dental plan options. In one case, individuals pay a $50 annual deductible while families pay a $150 deductible and preventive care, like checkups, are covered at 100%.

The dental plan, known as Dental 50, will have a $1,500 family maximum compared with the $1,000 maximum under the existing plan, which carries a similar deductible as Dental 50. And, the orthodontic benefit under Dental 50 will be increased to $1,500 over a covered individual's lifetime, up from the current $1,000.

A second, lower-cost dental plan pays similar benefits with similar maximums, but deductibles are $100 per person and $300 per family.

Passport will provide short-term disability benefits up to 26 weeks, after which all employees will be eligible for long-term disability payments. Currently, employees with fewer than 10 years of service are not eligible for long-term benefits.

Benefits payable under the short-term disability plan vary according to the employee's length of service. For example, employees with one to five months of service will receive three weeks of disability leave at full compensation and 23 weeks at 60% compensation. Benefits gradually increase until an employee reaches 10 years of service, at which time he or she receives all 26 weeks of short-term disability at full compensation.

Passport will offer long-term benefits equal to 40% of salary to employees with fewer than 10 years of service and 50% of salary to those with more than 10 years of service. And, employees may buy additional LTD coverage with benefits of up to 60% of their salary. The coverage rates are based on the employee's age.

Currently, employees who have been with Travelers for 90 days receive $5,000 in term life insurance at no cost, and may buy additional coverage equal to three times their annual salary. Under Passport, employees will receive life coverage equal to their salary at their hire date. They will be given an option to buy coverage equal to up to five times their salary at age-banded rates through a universal life program.

Separate from Passport, Travelers will change its defined benefit pension plan formula to provide benefits based on an employee's highest three-year average salary during an employee's final 10 years of employment, based on 30 years of service.

Currently, pension benefits are calculated based on the highest five years of salary during an employee's final 10 years, based on 40 years of service.

Also, employees age 55 with at least 10 years of service will be eligible for early retirement, rather than the current 20-year requirement. ■

YOUR MAJOR MEDICAL DRUG PLAN IS HEADED FOR EXTINCTION.

To satisfy our clients' demand for a better managed major medical drug claims solution, PCS developed RECAP.℠ RECAP is a nationwide, on-line, claims adjudication system which does what our previous system could not.

FOR EXAMPLE:

- Annual Deductibles
- Coinsurance
- Annual Maximums
- Concurrent Drug Utilization Review
- Plan Design Flexibility

and more can be effectively managed with RECAP.

THE RESULT IS AN OPPORTUNITY FOR YOU TO:

- Lower Utilization
- Lower Claim Handling Expenses
- Better Control Benefit Costs
- Improve Benefits Visibility
- Save Money

PCS is commited to innovative cost management solutions to help you control your prescription drug plan. RECAP is an example; there are many others.

For more information, please write or call toll-free 1-800-223-7745
In Arizona call (1) 391-4770

PCS, Inc.

Corporate Headquarters
9501 East Shea Blvd.
Scottsdale, Arizona 85260-6719

Let us design a solution for you.



Only one PPO saves you money in all these important places.

pital

It's called Preferred Care-USA. You'll find it has no shortage of good hospitals. Many are recognized as being among the best in the country. Some are household words.

EIVED
NIVERSITY
AL
L.M.

In fact, no other PPO system begins to give you the selection of hospitals it does. Or of physicians for that matter. Perhaps because every one of them was selected by an organization that's in a unique position to negotiate for their services. One that knows them better than anyone—a local Blue Cross and Blue Shield Plan.

Something else you may find reassuring. Preferred Care-USA isn't just good in theory. The system already takes care of 10 million people in over 200 cities coast to coast.

So even if you have employees in more than one state, you can give them a freedom of choice approaching that of traditional coverage. At a cost of up to 15 percent less. With every expectation of them receiving good medical care.

RECEIVED
BAPTIST MEDICAL
CENTER

In other words, Preferred Care-USA lets you offer employees the kind of PPO they'll actually use. Which is the only kind that can really reduce costs.

E OREGON
ENCES UNIVERSITY
EIVED

If your company has a thousand or more employees, and a desire to make health care a company benefit instead of a detriment, call 1-800-426-2583. You'll find there are a number of places we can be of help.

Blue Cross®
Blue Shield®

Registered marks Blue Cross & Blue Shield Association

Medicare fees

Continued from page 3

If the prevailing charge in a locality for a particular service is 15% more than the fee established in the schedule, Medicare would reimburse physicians in that area 15% less than the prevailing charge in the first year the schedule becomes effective. In subsequent years, Medicare would pay another 15% less than the amount it reimbursed physicians in that locality for that service until either the reimbursement is within the schedule or until 1996, whichever comes first.

The reimbursement system would establish ceilings for covered fees for many technical procedures—such as surgery—that are lower than physicians generally charge.

And, to discourage physicians from providing Medicare patients with unnecessary services to compensate for lower fees, Congress is also looking at including Medicare expenditure targets.

Then, if Medicare payments exceed the expenditure target one year, Congress will likely decrease the monetary factor for physician reimbursement the following year, Ms. Lockhart explained.

As a result, doctors may be prompted to charge more for services provided patients covered by insured and self-insured plans to make up for the lower fees they would receive for services provided to Medicare recipients, benefit experts speculate.

"The impact of reducing the amount paid for surgical procedures and of expenditure targets that may reduce further the billing to Medicare that physicians do is quite worrisome," said Richard Wright, manager of the human resources information division at Caterpillar Inc. of Peoria, Ill., and a former member of the PPRC.

However, the schedule also would establish fee ceilings for such services as office visits that generally are higher than physicians usually charge, benefit experts note.

As a result, physicians may raise their fees for all patients for those services, contending that the reimbursement schedule shows the services are worth those higher fees, Mr. Wright said.

Mr. Wright noted that there were "significant increases in what a physician could charge in certain areas."

These factors would combine to create a "double whammy" of cost increases for insurers and self-insured employers, according to Mr. Wright.

Merrill C. Horine, human resources special programs director at Hershey Foods Corp. of Hershey, Pa., agrees.

"I would say without a question that we will anticipate some sort of cost shift to make-up for lost fees. I don't mean to say that medical practitioners are greedy, but they are going to attempt to protect their income," Mr. Horine said.

Whether physicians would shift costs to the privately insured will ultimately depend on how fair the reimbursement schedule is, said Ms. Lockhart of the Greater Phoenix Foundation.

"The idea behind the RBRVS is that the payments being offered are fair payments. If they are, then there shouldn't be a shift. The question is whether the final budget will allow for it to be a fair payment in the opinion of physicians who must use the fee schedule," she said.

The reimbursement schedule, though, could also greatly benefit some insured and self-insured employers, some benefit experts contend.

Some large insurers and self-insured employers may have enough clout to establish physician PPOs in which physicians are compensated according to the reimbursement schedule, experts said.

"To the extent that anything that uncovers the cost of (medical) procedures to the public is good, knowing cost is an incentive to be cost conscious," said Helen Darling, a consultant in the Stamford, Conn., office of William M. Mercer Meidinger Hansen Inc.

But whether an insurer or self-insured employer would be successful in this effort would depend on the number of covered lives and how much leverage they have with physicians in their communities, she pointed out.

Large insurers, such as Blue Cross/Blue Shield plans, carry enough weight to implement such a policy, according to Ms. Darling.

Large self-insured employers or other self-insured employers in small communities also may have enough clout to implement such a schedule, benefit experts said.

William Mayer, a medical consultant in the Washington, D.C., office of The Wyatt Co., agrees that insurers will try to follow Congress' lead.

However, he believes that even large insurers may not have enough clout to form PPOs with such a physician reimbursement schedule.

"The federal government has purchasing power that puts it on a different scale," he observed.

In addition, small insurers or small self-insured employers in large communities would have difficulties trying to implement such a reimbursement schedule in a PPO, experts said.

However, those insurers and self-insured employers could use the physician reimbursement schedule to determine what constitutes usual and customary fees for covered procedures, experts said.

'The impact of reducing the amount paid for surgical procedures and of expenditure targets that may reduce further the billing to Medicare that physicians do is quite worrisome,' says Richard Wright of Caterpillar Inc.

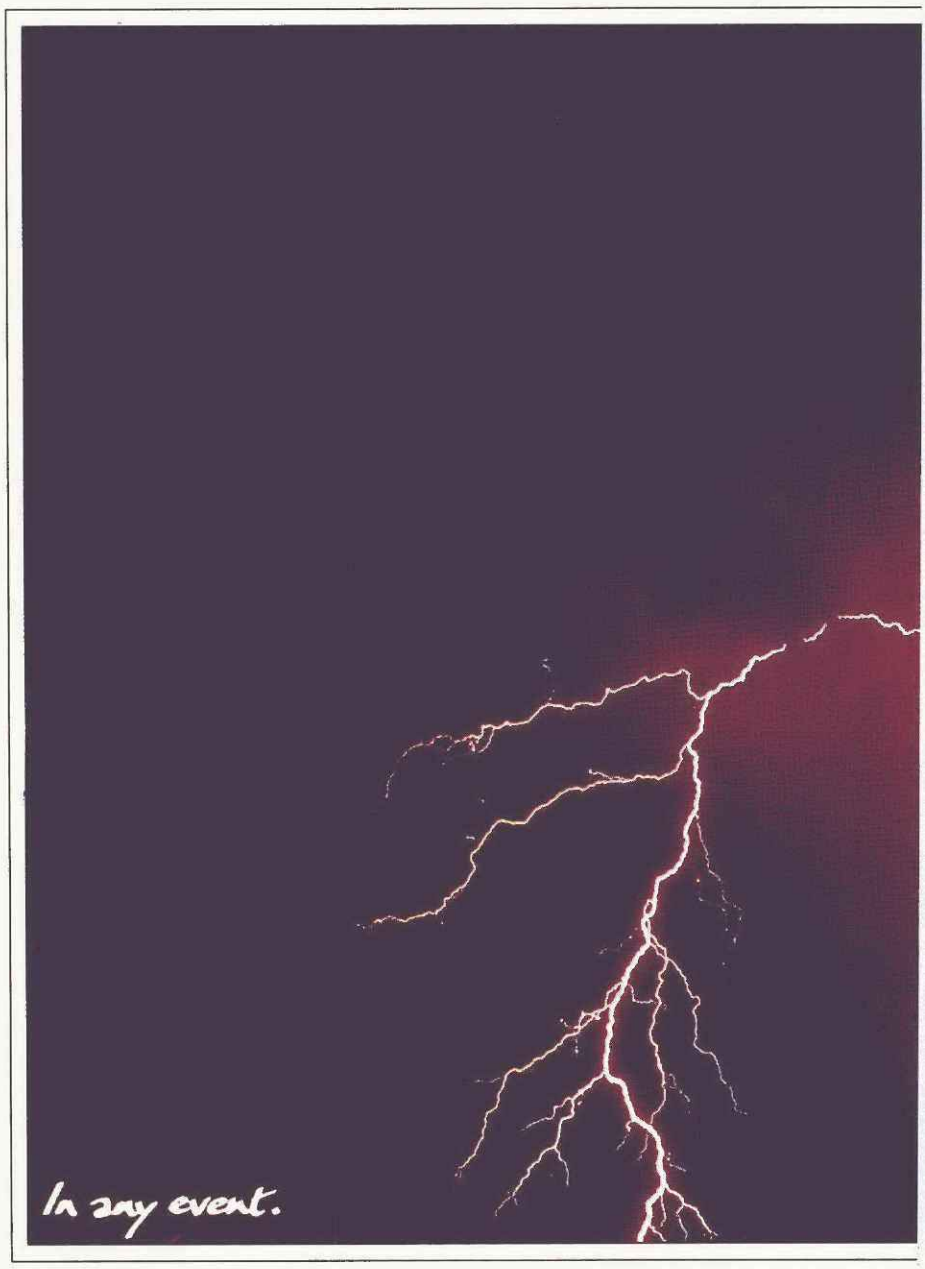
"I think they would want to look at it. It's the latest research, and many people believe it's better than what they've been using," said Ms. Lockhart of the Greater Phoenix Foundation.

The result, though, may be more cost shifting to the covered lives, Mr. Mayer said.

"Balanced billing is a potential pitfall" because insurers cannot force controls on physicians as the federal government can, he said.

"The best opportunity for employers to take advantage of the relative value scale as a way of reducing costs is through a preferred provider organization arrangement where the employer could negotiate price for a RVS-based fee scale that might represent lower overall cost than with a discounted usual and customary schedule," Mr. Mayer said.

"To avoid the possibility of cost shifting, employers are going to have to make contracts with efficient physicians with whom they have negotiated special financial arrangements, and direct their employees to these providers," agreed Lawrence Leisure, a principal in the New York office of TPF&C, the benefits and actuarial consulting division of Towers, Perrin, Forster & Crosby Inc. ■



HMO survey

Continued from page 3

now are going to have to take a variety of actions to ensure continued profitability.

"HMO executives knew the day was coming when they would have to raise premiums" that had been kept artificially low to better compete with other HMOs and group health indemnity plans, Ms. Gruber said.

"But, HMOs also know that health care purchasers won't stand for continued high premium increases. So, now, HMOs know that they are going to have to manage health care and trim the fat from their systems," which in the long run will increase their cost-efficiency and help HMOs to continue to improve their financial conditions, she predicted.

Also putting pressure on HMO profitability is a declining rate of growth in HMO enrollment, according to a study released earlier this year by InterStudy (*BI*, May 29).

For its survey on HMO profitability, InterStudy surveyed in February the executive directors of 607 HMOs operating in the United States and Guam. Executives from 407 HMOs, or 67.1%, responded to the survey, which requested information on 1988 profitability and premium and copayment changes between Jan. 1, 1988, and Jan. 1, 1989.

The survey respondents enroll 81.4% of all HMO members nationwide, or about 26 million individuals, according to InterStudy.

The survey analyzed the profitability, premium and copayment information of the HMOs according to their age; size; model type; geographic location; whether the HMO was federally qualified or not federally qualified; and whether it was for-profit or non-profit.

In the area of profitability, executives were asked whether the HMO reported a net profit—or surplus if they are a non-profit entity—from HMO operations for the fiscal year 1988. Of the 401 HMOs answering this question, 143—or 35.7%—said they were profitable in 1988.

Of the 258 HMOs that reported a net loss in 1988, many blamed higher outpatient costs, higher inpatient costs and increased utilization of outpatient services for the loss.

However, despite lackluster performance in 1988, HMO executives generally are optimistic about their organizations' future profitability. Of 387 executives responding, 72.9% predicted their HMO would be profitable in 1989, or double the percentage of HMO executives reporting a profit for 1988.

The survey also found that older and larger HMOs were much more likely to report a profit in 1988 than HMOs that had only been in operation for only a few years or that had small numbers of enrollees.

For example, of the 143 HMOs that were profitable in 1988, 37.1% were 10 years old or older; 29.4% were between 3 and 5 years old; 16.8% were between 6 and 9 years old; 16.1% were between 1 and 2 years old; and less than 1% were less than a year old.

And, of the HMOs that were profitable in 1988: 23.8% had 100,000 or more enrollees; 18.9% had 50,000 to 99,999 members; 18.2% had 5,000 to 14,999 members; 16.1% had 25,000-49,999 members; 14.7% had 15,000-24,999 members; and 7.7% had 4,999 or fewer enrollees.

By model type, 46.9% of the profitable HMOs were individual practice associations; 21.7%, network model HMOs; 18.2%, staff models; and 13.3%, group models.

In addition, 61.5% of the profitable HMOs were federally qualified under the federal HMO Act of 1973, while the remaining 38.5% were not federally qualified, InterStudy reports.

More than half, 53.8%, of the HMOs reporting a profit or surplus in 1988 have a for-profit legal status, while 46.2% were non-profit organizations.

By geographic region, 34.3% of the profitable HMOs were located in the Midwest; 23.1% were in the South; 21.7% were in the Northeast; and 18.1% were in the West.

To help ensure their profitability, many HMOs increased premiums and copayments during 1988.

The survey found that most HMOs imposed premium increases between Jan. 1, 1988, to Jan. 1, 1989. Of the 407 HMOs surveyed, 358, or 88%, responded to questions related to premium increases.

Among those respondents, the average premium increase was 17.2% in 1988. Almost half—45.4%—said they increased premiums between 10% and 20%; 26.6%, between 20% and 30%; 18.6%, by 10% or less; and 9.4% by 30% or more.

Staff and group model HMOs reported lower average premium increases than network or individual practice association models in 1988, the survey found. For example, staff model HMOs increased premiums an average of 15%, and group models had average increases of 14.8%. IPA model HMOs reported the highest average premium increase—18.3%—while network model HMOs increased premiums an average of 16.6%.

InterStudy also found that the average premium increase declined as the age of the HMO increased. The average increase for HMOs that were 10 years or older was 14.7%, while HMOs 1 to 2 years old increased premiums an average of 18.5%.

And, in terms of size of the HMO, the survey found that medium-sized to large organizations had the highest average premium increases in 1988. For example, HMOs with fewer than 5,000 members imposed average rate increases of 15%, while HMOs with 50,000 to 99,999 members reported average increases of 18.8%. However, the largest HMOs—those with more than 100,000 members—reported 16% average premium increases.

By region, HMOs in the Western United States had the smallest average premium increases, about 13.5%, according to the study. HMOs in the Northeast reported the highest average increases, about 21%. And HMOs in the South and Midwest each reported average premium increases of about 17%.

In the only correlation InterStudy ventured between HMO premium increases and profitability, the survey reported that HMOs that reported a profit in 1988 also reported a lower average increase in premiums—14.5%—than HMOs that did not report a profit—19.2%.

InterStudy also received responses from 92% of the 407 HMOs about changes to or the addition of copayments for office visits, prescription drugs, emergency room visits, urgent care visits and mental health inpatient services.

Of those answering these questions, 37.9% of the HMOs reported they increased copayments for one or more of the services during 1988.

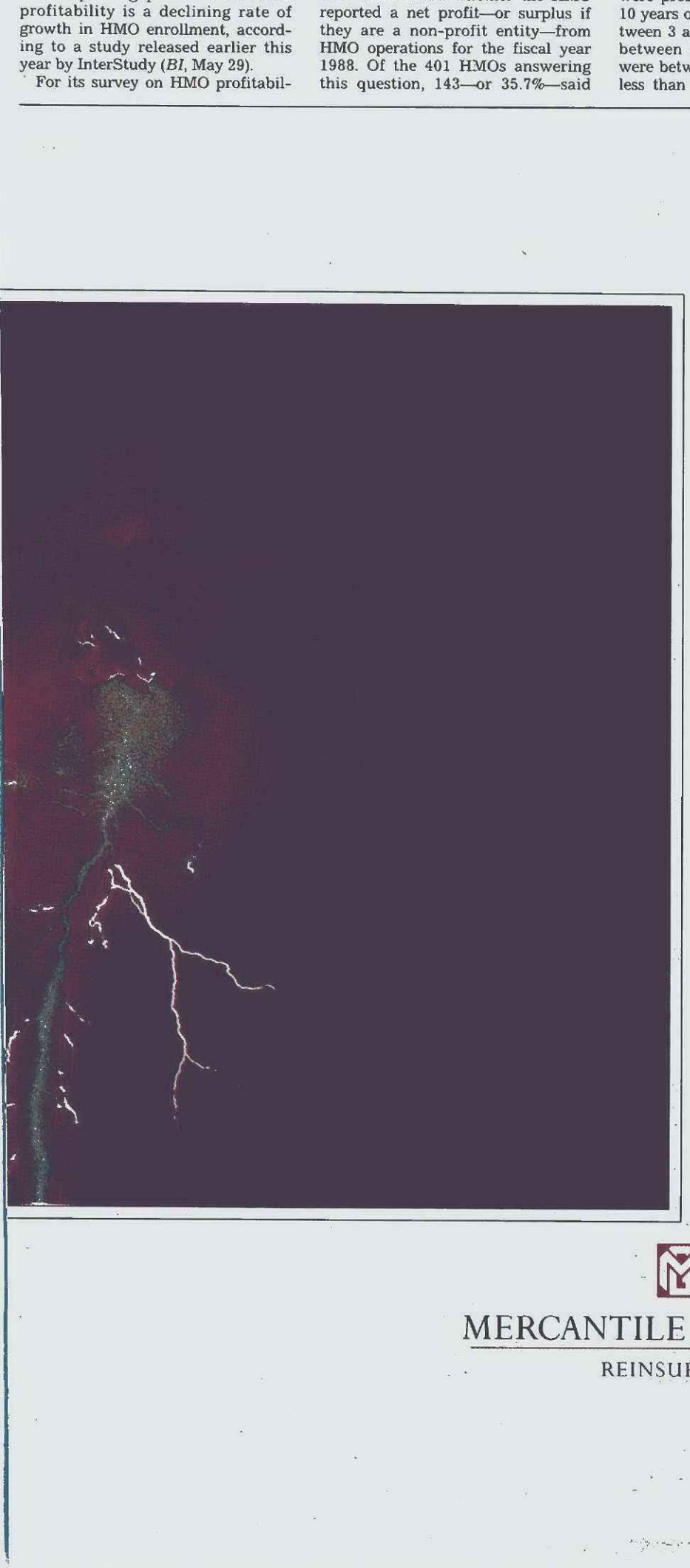
Of those reporting an increase, 22.9% increased prescription drug copayments; 17.9% increased copayments for office visits; and 17.3% increased copayments for emergency room visits. And, 6.7% increased copayments for urgent care services and 6.1% increased copayments for mental health services.

The average rate of increase in a copayment was highest for emergency room services. Copayments for this service increased 19.5% to an average of $33.31 in January 1989 from $13.96 in January 1988.

Among other HMO services, mental health copayments increased 14% to an average of $21.91 in 1989 from an average of $7.90 in 1988; copayments for urgent care services increased 13.1% to $18.58 from $5.49; office visit copayments increased 4.5% to $7.22 from $2.73; and prescription drug copayments increased 2.0% to $4.83 from $2.80.

•

Copies of "The Bottom Line: HMO Premiums and Profitability in 1988-1989," are available for $95 each from InterStudy, 5715 Christmas Lake Road, P.O. Box 458, Excelsior, Minn. 55331-0458; 612-474-1176.



MERCANTILE & GENERAL
REINSURANCE

Canadian health plan rated a success

By JERRY GEISEL

ST. PAUL, Minn.—While the United States debates national health insurance, Canada's 25 million citizens are reaping the benefits of a program that provides universal coverage, a Canadian health official notes.

In Canada, "you don't have to worry about mortgaging the house to pay for health care. Health care is like water that comes out of the tap," observed Dr. Robert MacMillan, executive director of the Health Insurance Division for the Ontario Province Ministry of Health.

Dr. MacMillan and other Canadian health care experts explained the virtues and problems with Canada's 18-year-old universal health care program during the Minnesota Coalition on Health's ninth annual conference in St. Paul, Minn., this month.



Under the program, all Canadians have access to comprehensive health care coverage. While supplementary benefits vary somewhat from province to province, there are no deductibles or coinsurance for basic hospital and physician services.

Unlike Great Britain's national health insurance program, physicians in Canada have their own private practices and are not employed by the state.

About 40% of the cost of the Canadian program is paid for by the federal government, while individual provincial governments pick up the remaining 60% and administer the program.

With the cost of health care much lower in Canada than in the United States—where between 31 million and 37 million people are without health care coverage—all Canadians have comprehensive coverage.

Health care costs account for less than 9% of the Canadian gross national product, compared with more than 11% of the U.S. GNP, according to Morris Barer, director of the Division of Health Services Research and Development at the University of British Columbia in Vancouver.

In fact, if the Canadian population were equal to the U.S population, its health care costs would be more than $100 billion less than the $500 billion the United States spends on health care, he said.

The reason for the lower costs in Canada, despite universal coverage, is clear: Canadian physicians and hospitals receive much lower reimbursement for services than their U.S. counterparts.

In Canada, provincial officials and medical societies negotiate fees for specific services, and the provinces also tightly control how much they pay hospitals.

In the United States, "the medical profession sets the fees. In Canada, that was stopped over 20 years ago," Dr. MacMillan said.

As a result, "over a 16-year period, Canada's medical care costs (as a percentage of GNP) have been remarkably stable," Mr. Barer said.

Indeed, the physician and hospital reimbursement controls have resulted in charges that seem almost impossibly low by U.S. standards.

For example, in Ontario, the province will reimburse a physician about $32 for conducting a comprehensive medical examination on a patient, Dr. MacMillan pointed out.

There are other reasons why health care costs are much lower in Canada.

For example, because physicians and hospitals are reimbursed by the province, health care providers are assured of payments and not being stuck with bad debts.

In addition, administrative costs are much lower in Canada because, among other reasons, health care providers must deal with only one health care payer.

And, the cost of medical malpractice insurance is much lower in Canada than in the United States because Canada's civil justice system makes it much more difficult for plaintiffs to win huge personal injury awards.

Other favorable aspects of Canada's universal health care system include the freedom to choose any physician.

For example, while an American enrolled in a health maintenance organization has to use HMO-affiliated providers, Canadians can choose their own doctors, Mr. Barer pointed out.

And, in the United States, the ability to receive the best health care services is dependent on whether a citizen has good health insurance.

By contrast, all Canadians, rich and poor, have access to the same health care services.

"Everyone is treated equally. It doesn't matter if you are a millionaire or a bum on the street," Dr. MacMillan said.

While the advantages of Canada's universal health care program are striking, it is not a utopian program.

"We are proud of our system, but it is not without problems," Dr. MacMillan said.

While Americans expect and demand almost instant medical care, Canadians may have to wait up to several months if they want elective surgery at a specific hospital, Dr. MacMillan noted.

And, some Canadian patients have had to be flown across the border to U.S. hospitals because Canadian facilities were not available for urgent services, Dr. MacMillan said. In such cases, the universal provinces still pays all covered costs.

In addition, U.S. hospitals and medical clinics unquestionably have much more technologically advanced medical equipment than their Canadian counterparts, Canadian health care experts say.

And, Canadians, especially those in remote areas, may have to travel long distances to receive health care services.

"Access to health care means you don't have to pay for it—not that you don't have to travel for it," noted Janet Braunstein, director of community health nursing for the Nova Scotia Department of Health and Fitness in Halifax.

While Canada has achieved universal health care coverage, there is no evidence that Canadians are significantly healthier than Americans are.

"Neither nation is very healthy," Ms. Braunstein said.

"We die from the same things at pretty much the same rate," she pointed out.

While there may be problems with the Canadian program, it would be inconceivable for Canadians to shed their universal health care program, she said.

"Health care is a right, not a privilege," Ms. Braunstein asserted.

John Iglehart, national correspondent for the New England Journal of Medicine, moderated the panel discussion. ■

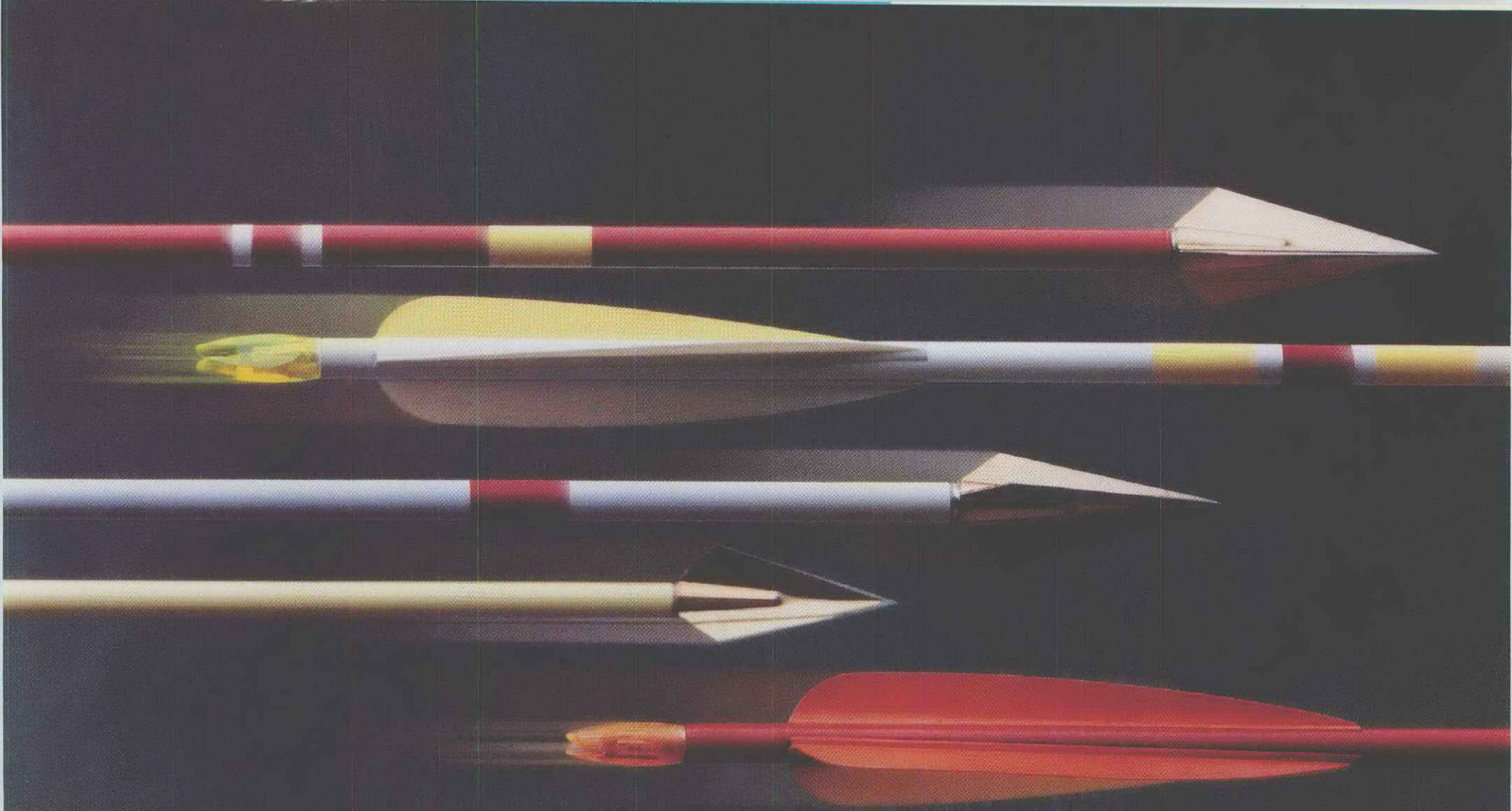
300 attend Minnesota meeting

ST. PAUL, Minn.—Some 300 people attended the ninth annual Meeting of the Minnesota Coalition on Health.

The meeting, which was titled, "Balancing Health Care Access, Cost and Quality: What Can We Learn from Canada?" was held Sept. 7 in St. Paul, Minn.

More information about the coalition is available from the Minnesota Coalition on Health, 2550 University Ave. W., Suite 347 North, St. Paul, Minn. 55114-1052; 612-645-0733.

US International Re
Reinsurance Worldwide
♦ New York ♦ Chicago ♦ Los Angeles ♦ Hong Kong ♦ London ♦ Toronto ♦
US International Reinsurance Co.
59 Maiden Lane, New York, New York 10038
A subsidiary of AMBASE CORPORATION



How Many Hits Can Your Excess Liability Carrier Take?

Even a handful of claim settlements can have fatal consequences for a carrier when policies are worth $75 million apiece.

Unless the carrier is the American Excess Insurance Association.

Unlike other carriers, AEIA is not separately capitalized.* Claims "pass through" the Association to member companies, which are among the nation's largest and strongest insurance institutions.

We offer a single policy of $75 million over $25 million.* Member companies are domestically admitted and have the underwriting skill, and the reserves, to offer you outstanding stability and security.

Stability and security are just the beginning of our story. To learn more, ask your broker or member company agent to call this number: (203) 528-1931.

American Excess Insurance Association

*Note: A few classes are restricted to $50 million in excess of $50 million.

Each member is severally and not jointly liable for its share, as specified in the policy, of any assumed risk. Terms and conditions of coverage are as stated in the policy.

Ætna Life & Casualty; American International Group; CNA Insurance Companies; Chubb Group of Insurance Companies; The Continental Corp.; Crum and Forster Insurance Organizations; General Accident Insurance; The Home Insurance Company; Insurance Company of North America, a CIGNA company; Maryland Casualty Company; NAC Reinsurance Corporation; Royal Insurance Company of America, a member company of Royal Insurance group; The Travelers; Zurich-American Insurance Group.

(Underwriting member companies: The Ætna Casualty and Surety Company; American Home Assurance Company; Continental Casualty Company; Federal Insurance Company; The Continental Insurance Company; United States Fire Insurance Company; General Accident Insurance Company of America; The Home Insurance Company; Insurance Company of North America; Maryland Casualty Company; NAC Reinsurance Corporation; Royal Insurance Company of America; The Travelers Indemnity Company; Zurich Insurance Company, U.S. Branch.)

National health care likely in '90s: Expert

By JERRY GEISEL

ST. PAUL, Minn.—The time may be ripe for enactment of a national health insurance program, a consultant says.

Employers, insurers and health care providers may find a common ground that could result in the passage of a national program during the 1990s, contends Lynn Etheredge, a former analyst with the federal Office of Management and Budget and now an independent health care consultant in Washington, D.C.

Speaking this month in St. Paul, Minn., before the ninth annual Meeting of the Minnesota Coalition on Health, Mr. Etheredge said the major interest groups may find that they will have something to gain from enactment of a national health care plan, such as legislation proposed this year by Sen. Edward Kennedy, D-Mass.

The Kennedy legislation would require all employers to offer a health care plan that meets certain federal standards (*BI*, July 17).

For some employers, enactment of a national health insurance plan, which Mr. Etheredge defines as a system in which citizens are assured of access to health insurance, could bring advantages.

For example, if all employers were required to offer a health care plan—thus increasing the net of coverage—the problem of hospitals inflating the bills of insured patients to cover the costs of charity cases would be reduced.

In addition, if employers that currently do not offer health care coverage were required to do so under a federal mandate, their health care costs would increase and they would no longer have a competitive advantage over companies not providing coverage, Mr. Etheredge said.

"What could employers gain from national health insurance? Less cost shifting. . .and a raising of competitors' costs," Mr. Etheredge said.

Insurers also could gain from enactment of a national health insurance program. For example, a federal health care coverage mandate could give insurers a new market generating more than $20 billion in annual premiums, Mr. Etheredge said.

This flow of new health insurance premiums would come at a time when insurers have lost significant market share as more and more companies have turned to self-insurance, Mr. Etheredge said.

For example, a 1988 survey by The Wyatt Co. found that 66% of employers self-insured their health care benefits, up from 56% in 1984 (*BI*, Jan. 30).

And, for physicians, enactment of a Kennedy-type plan would mean no interference in the prices they charge, Mr. Etheredge said.

Enactment of a national health insurance plan in the 1990s also is possible under what Mr. Etheredge describes as a "pessimistic/optimistic" scenario.

Under this scenario, the current problems in the nation's health care delivery system—soaring costs and a growing number of uninsureds—will get worse.

Finally, in this deteriorating situation, employers, insurers and health care providers will begin to have discussions and will reach a consensus that will lead to enactment of national health insurance, Mr. Etheredge said.

Still, it is possible that national health insurance never may become a reality in the United States, he said.

Under the most negative scenario, the problems in the health care delivery system may get so bad that it will become impossible to agree on a solution, Mr. Etheredge said.

Regardless of the future of national health insurance in the United States, a lot has changed since major discussions about national health insurance began in the 1970s.

Back in the 1970s, the initiative for national health insurance came largely from the executive branch, with former Presidents Richard M. Nixon, Gerald Ford and Jimmy Carter all backing proposals, Mr. Etheredge said.

Today, the executive branch is taking a back seat to Congress, where Sen. Kennedy is leading the charge for national health insurance. In addition, Massachusetts last year enacted legislation to require most employers to offer health care coverage—or pay a stiff, special tax—while more states are certain to explore employer health care mandates.

"In the 1970s, the (national health insurance) lead was presidential," Mr. Etheredge said.

And, in an unusual flip-flop, the political parties have changed their positions in their support of approaches to improve access to health care coverage, he continued.

For example, former President Nixon backed a plan that would have required employers to offer health care coverage, while Sen. Kennedy once wanted a huge federal program that would have offered "womb to tomb coverage" with little role for employers or insurers.

Today, though, President Bush has endorsed expanding the Medicaid program, which is funded by federal and state contributions, to improve access to health care, while Sen. Kennedy would compel employers to offer health care coverage, Mr. Etheredge said.

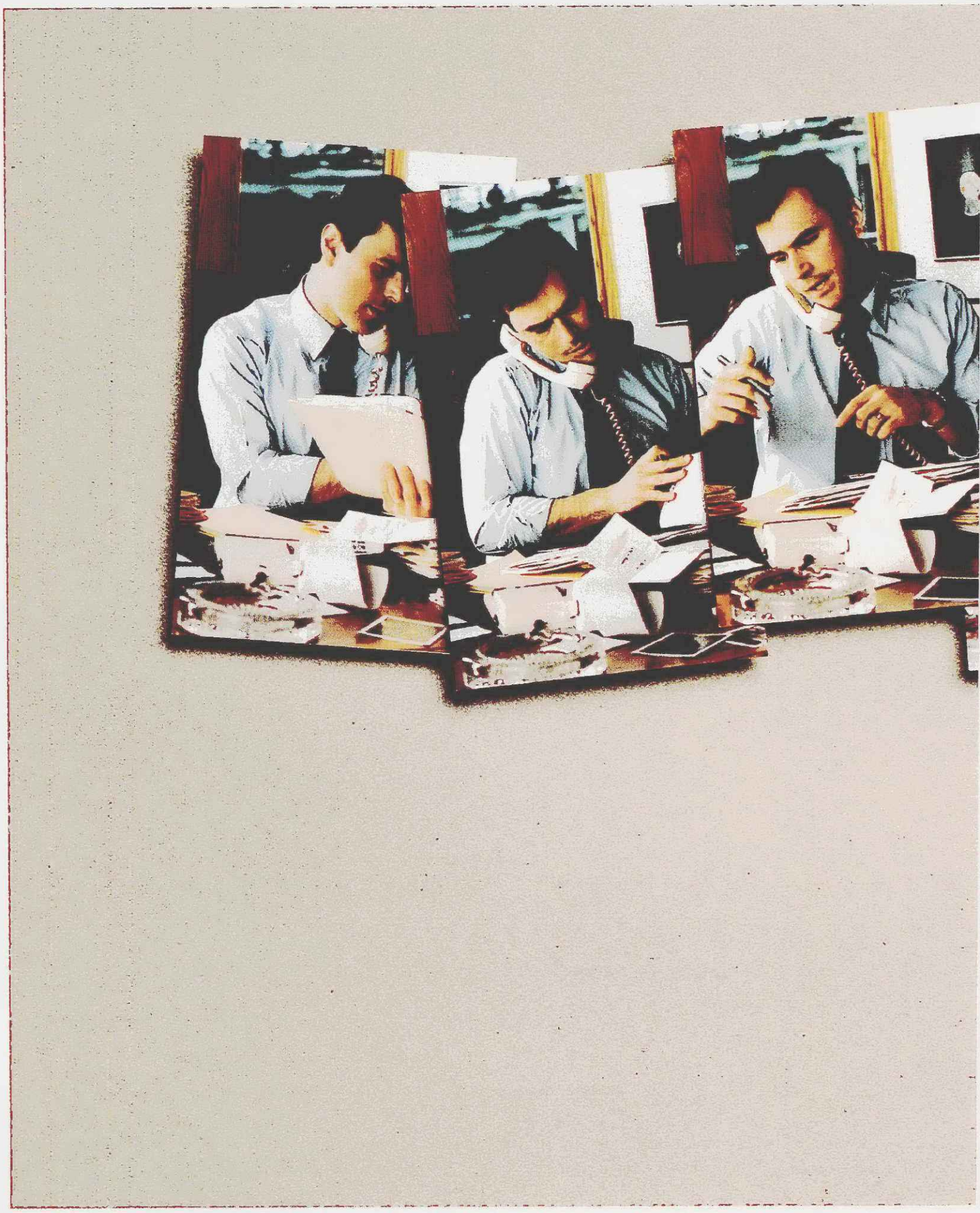
For now, the high point in the debate over national health insurance was reached in the mid-1970s when then-President Ford and former House Ways and Means Committee Chairman Wilbur Mills, D-Ark., reached an agreement on the outlines of national health insurance legislation, he said.

The legislation, though, failed to clear Congress, a victim of too many political compromises and insufficient public support, Mr. Etheredge said.

For example, employers then didn't believe they would gain much from a national health insurance program, he said. Health insurance costs at the time were comparatively low and hospital cost shifting had not yet emerged as a major problem.

In addition, health insurers were winning more business as more companies added new health care programs, while few companies then self-insured their group health care programs.

But, the situation is different today, Mr. Etheredge said, and employers and insurers face serious and growing problems with the current delivery system. ■



FMC ruling

Continued from page 1

As a result, "the California Supreme Court is quite likely to review the FMC case," Ms. Pitts said.

"The Supreme Court will be virtually forced to review the FMC case," said insurer attorney Richard L. Seabolt of Hancock, Rothert & Bunshoft in San Francisco, who represented Lloyd's of London underwriters in the Aerojet case.

"One of the important criteria for review (by the Supreme Court) is a conflict within the circuits," agreed insurer attorney Victor Rabinowitz, also of Buchalter, Nemer, Fields & Younger.

"Another criteria is the magnitude of the issue," he pointed out. Because the FMC case both conflicts with another circuit and addresses a very important issue, the Supreme Court is "very likely" to review the decision, Mr. Rabinowitz asserted.

And, a ruling by the California Supreme Court on the insurability of the costs of government-mandated hazardous waste cleanups could "turn the tide" in favor of insurers or policyholders, because the decision would have widespread influence on courts nationwide grappling with the issue, attorneys say.

Six state supreme courts and the 9th U.S. Circuit Court of Appeals are studying this issue.

A California Supreme Court ruling also could help resolve the current split on the insurability of the costs of government-mandated hazardous waste cleanups between lower state courts and federal courts.

While the majority of state courts have found government-mandated hazardous waste cleanup costs are insurable, the only two federal courts of appeals to look at the issue have barred coverage (*BI*, March 7, 1988; July 27, 1987).

Central to the 6th District Court of Appeal's Sept. 7 ruling in the FMC case is the court's determination that the government's authority under the Comprehensive Environmental Response, Compensation and Liability Act, better known as the Superfund Act, to order hazardous waste cleanups constitutes a police power.

'The Supreme Court will be virtually forced to review the FMC case,' says Richard L. Seabolt.

FMC's comprehensive general liability policies say insurers "will pay on behalf of the insured all costs which the insured shall become legally obligated to pay as damages."

But, the appellate court ruled that the term "damages" does not encompass costs resulting from the government's exercise of police power under CERCLA.

"When the government seeks to exert its police powers under CERCLA to compel remediation of toxic pollution, the costs of compliance with such directive. . .is not covered by liability insurance," the court ruled.

"There is no precedent for interpreting liability insurance policies to cover exercise of police power," the court said. In fact, "the majority of decisions hold that liability insurance does not cover the costs of compliance with a mandatory injunction," the court said.

Furthermore, allowing companies to insure against government orders could lead to absurd results, the court observed.

Such a principle "could render liability insurers responsible for the costs of doing business, such as mandatory compliance with a local zoning ordinance," the court concluded.

However, the court did indicate that if the government were to sue a company for damage to natural resources over which the government has a proprietary interest in seeing cleaned, such costs may be insurable.

"It is certainly possible that some of the pollution (at the FMC waste sites) may have invaded groundwaters, in which. . .the government may have a proprietary usufructuary interest," the court said. "We express no opinion on any costs assessed against FMC, which may turn out to represent mitigation of damages to property interests rather than costs of compliance with a governmental mandate."

Policyholders nationwide are calling the FMC decision flawed and hope the California Supreme Court will reverse it.

"The FMC court was misguided," said FMC General Counsel Bowen Tucker.

"The court lost sight of what was at issue in the case," he said. By focusing solely on the fact that the government has ordered FMC to clean up the hazardous waste sites, the court failed to realize that the pollution at those sites is causing imminent danger, Mr. Tucker explained.

"The court treated this case as if we were putting waste into wastebaskets and the government ordered us not to put our wastes into wastebaskets," Mr. Tucker said. The court failed to realize there is "real property damage" at all of the FMC sites, he said.

Outside attorneys for FMC were barred from discussing the case.

Policyholder attorney Robert Sayler of Covington & Burling in Washington, D.C., which does not represent FMC, called the appellate court decision "novel."

"Some 81 state and federal courts have looked at this issue and not one has ever come to this conclusion," he said.

"This is a more sweeping proposition" than any reached by any other court, Mr. Sayler said.

He criticized the decision as "flawed" because the court "created the notion that nothing emanating from a government action is insurable."

The court's line of reasoning was not advanced by the insurers in the case, Mr. Sayler pointed out. "To my knowledge, to date, no insurer has written a brief stating that government exercise of police power is not covered."

Mr. Sayler also criticized the court for ignoring a principle of California law under which policyholders are deemed to be covered unless their insurance policies clearly state that a specified risk is not covered.

"The words of the (FMC) contracts do not say or remotely suggest that there is a hole for anything emanating from the government exercise of police power," Mr. Sayler said.

Similarly, the drafting history of the CGL form does not suggest that costs resulting from the government's exercise of police power was intended to be excluded, according to Mr. Sayler.

"In fact, the drafting history is diametrically opposed to that proposition."

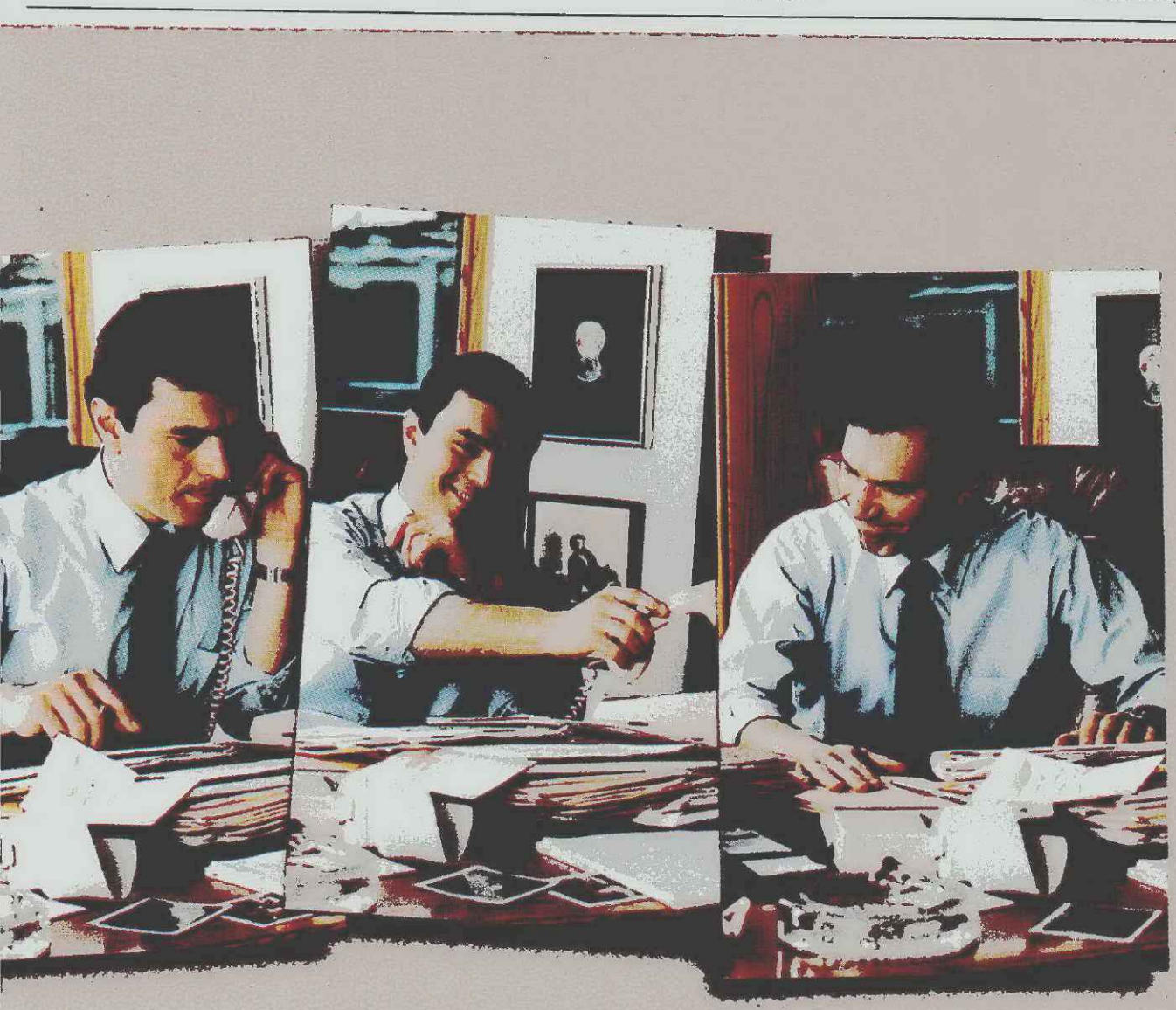
The 6th District Appellate Court also erred in ruling that costs resulting from government-mandated cleanups do not constitute traditional tort liability, Mr. Sayler said.

"Liability arising out of CERCLA and other environmental laws are tort-based liabilities," he maintained.

Mr. Sayler contends that the FMC decision may not have any lasting significance for several reasons.

For example, the California Su-

Continued on next page



There's nothing like knowing you just came through in the clutch.

You're the one who worked and re-worked the problem, even while some other people seemed to be backing away. But you wouldn't let go, and when the deal came together, the winner's circle was all yours.

Nice going.

And thanks for letting us help.

NEW ENGLAND RE

New blood, new spirit, and a new determination to be the best, while we serve the best.

THE HARTFORD
The Insurance People of ITT

60 Batterymarch St., Boston, MA 02110 617-357-8400 Telex 94-0013

FMC ruling

Continued from previous page
preme Court might reverse the decision, he said.

In addition, six California trial court decisions, two federal court decisions interpreting California law and another California appellate court decision all conflict with the FMC ruling, according to Mr. Sayler.

"The FMC decision stands out—even in California—in splendid isolation," he said.

And, because the 6th District Appellate Court indicated there could be coverage for government-mandated cleanup costs when there is contamination of the groundwater, the decision may be a red herring, according to Mr. Sayler.

"Virtually all of these cases involve groundwater contamination," Mr. Sayler pointed out. "A lot of coverage could go out under this exception."

Even if the FMC decision stands, FMC can obtain coverage under its property insurance policies, FMC General Counsel Mr. Tucker said. "There is property damage at all of the FMC sites."

"I don't think what the court said was correct, but it is not necessarily harmful" for FMC, he said.

However, insurer attorneys think the decision is a sweeping victory in their battle to deny coverage to policyholders for pollution cleanups.

"This is one of the most important decisions in recent years for the insurance industry," said insurer attorney Ms. Pitts.

"The result, if the logic and reasoning of the FMC decision are upheld, would be to eliminate virtually all of the environmental coverage disputes in California," she said, noting that "99%" of these cases involve government-mandated cleanups.

'This decision articulates better and more thoroughly that the government's recovery under CERCLA is an exercise of police power,' says insurer attorney Ms. Pitts. 'Its reasoning will be persuasive to other courts nationwide.'

"This decision articulates better and more thoroughly that the government's recovery under CERCLA is an exercise of police power," Ms. Pitts said. "Its reasoning will be persuasive to other courts nationwide."

Insurer attorney Mr. Rabinowitz agreed: "Clearly, the FMC decision will have an effect in California; it will also be cited outside of California."

"Because the decision is well-reasoned and unanimous, it will be influential," Mr. Rabinowitz asserted.

"To the extent that the FMC decision focuses on the inter-relationship between liability insurance and the government exercise of police power, it is a clearer statement of the law than we had before," said insurer attorney Thomas Brunner of Wiley, Rein & Fielding in Washington, D.C.

He predicted the decision "will have a profound impact both in California and nationwide."

•

AIU Insurance Co. et al. vs. The Superior Court of Santa Clara County; California Court of Appeal, No. MOO5467.

Loan program

Continued from page 2
their pension plan loan programs will no longer be limited to active employees, according to consultants.

"Some companies will be shell-shocked," said Hewitt Associates' Mr. Steinberg.

"This requirement has come out of left field. It has amazed everyone," said Kevin Meehan, an attorney and consultant in the Washington, D.C., office of The Wyatt Co.

Mr. Meehan noted that the loan extension requirement was not included in proposed loan rules the Labor Department published last year.

Experts warn that the final rules will enormously complicate the administration of pension plan loan programs.

Currently, employers offering loan programs typically require employees to repay loans through payroll deduction, which is relatively hassle-free, said Jim Geld, a principal with William M. Mercer Meidinger Hansen Inc. in New York.

Such loan programs would not be possible for former employees.

As a result, employers will face the task of collecting what could be hundreds of loan payment checks from former employees.

Some employers are likely to offer direct deposit programs, similar to electronic fund transfer programs lenders offer on home mortgages, to reduce administrative complications.

But some consultants say employers may not be able to require direct deposits as a condition to receive a loan.

The new administrative complications could prompt some employers to decide against offering a loan program, consultants say.

"Employers do not want to get into the banking business," Mercer's Mr. Geld pointed out.

Still, consultants say, it is unlikely that employers with existing loan programs will scrap those programs even if they are required to extend them to former employees.

They note that loan programs can be crucial to boost participation and contributions by non-highly compensated employees. Contributions by the lower-paid are essential for 401(k) plans, for example, to pass the tough nondiscrimination tests that are laid down by the Tax Reform Act of 1986.

"Employers will not get rid of loan programs. Loans are essential to increase participation by the lower-paid," said Wyatt's Mr. Meehan.

And, loans have assumed an even greater importance since the enactment of the 1986 tax law.

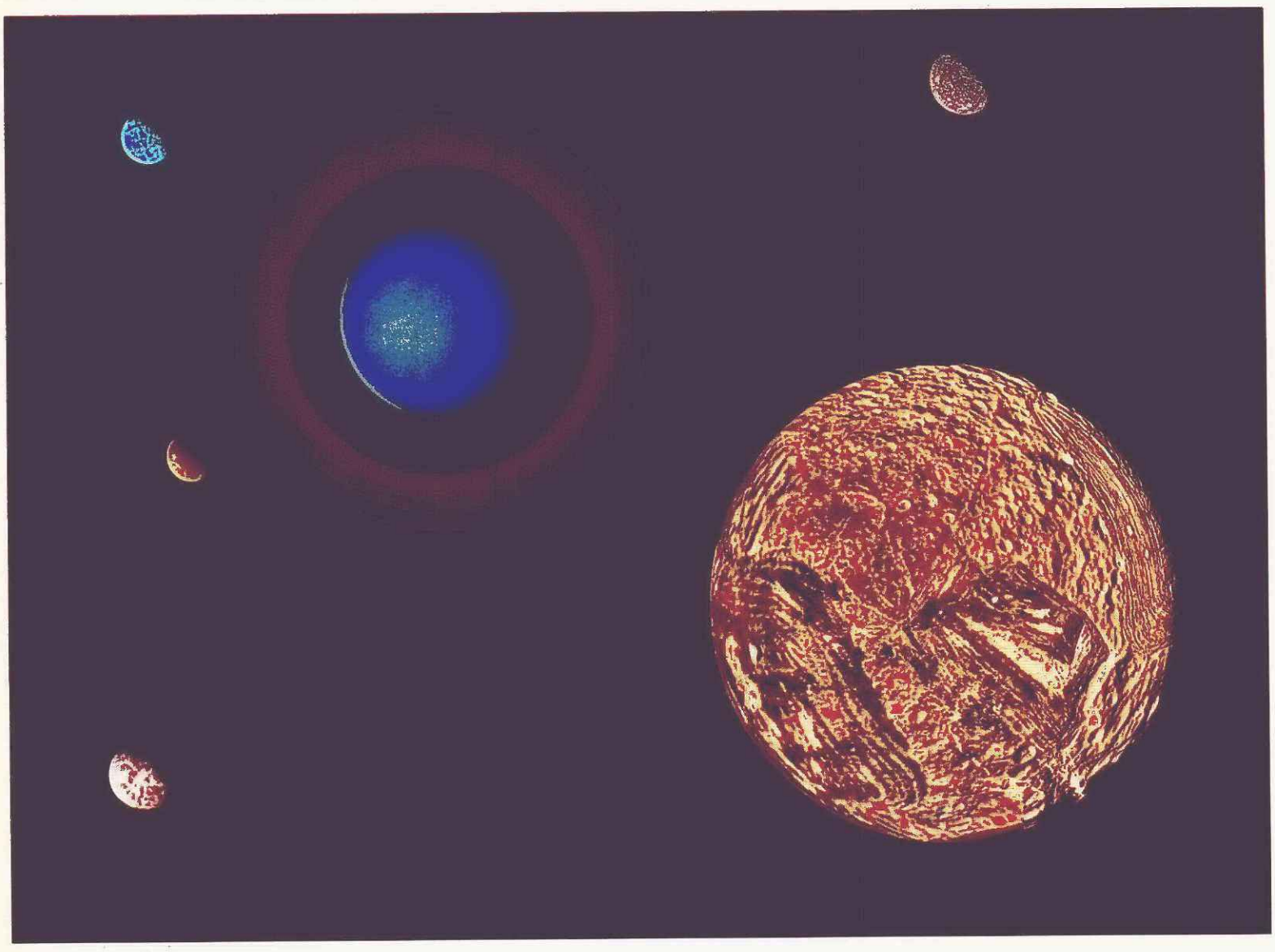
That law makes it much more difficult to make pre-retirement withdrawals from 401(k) plans and imposes a 10% excise tax on most preretirement withdrawals.

Indeed, some employers have noticed an increase in the number of employees who do not take their 401(k) account balances when they terminate employment.

For example, at Playboy Enterprises Inc. in Chicago, between 10% and 15% of terminating employees keep their account balances in the company's 401(k) plan compared with between 5% and 7% a few years ago, said Gail Bentivegna, Playboy's administrative systems director.

"We provide a lot of administrative support, no management fees, while participants have earned good investment returns on their contributions," Ms. Bentivegna said.

Ms. Bentivegna projects that eventually as many as 25% of terminating employees could keep their account balances in the company's 401(k) plan. ■



CELESTIAL VISIONS



What an awe-inspiring view of Uranus and five of its moons shot by Voyager II in 1986. What breathtaking scientific progress, considering that Uranus was only discovered in 1781. Who accomplished this remarkable feat? It was a son of Hannover, Friedrich Wilhelm Herschel, who detected the 7th planet. Mankind's unquenchable thirst for knowledge propels us on. We endeavour to recapture his spirit of determination, ingenuity and professionalism in our worldly universe of Reinsurance. May your Reinsurance protection always be under a lucky star.

HANNOVER RE · EISEN UND STAHL RE
Karl-Wiechert-Allee 50 · D-3000 Hannover 61 · West Germany
Telephone 49-511-5604-0 · Telex 922599 hres

Illinois names Stamp director of insurance

SPRINGFIELD, Ill.—Zack Stamp was named Illinois Insurance Director last week, succeeding longtime regulator John Washburn, who has become deputy governor.

Mr. Stamp, 35, previously served as Gov. James Thompson's director of legislative affairs. Mr. Stamp gained insurance experience from his monitoring of such issues pending before the Illinois Legislature in his previous post and, earlier, as a member of state legislative staffs.

Mr. Stamp is an attorney licensed to practice in Illinois.

Gov. Thompson made the appointments 16 months before he leaves office. The governor has announced that he will not seek re-election.

—By Meg Fletcher

Around the states

N.Y. health plan

ALBANY, N.Y.—Employers in New York that do not offer $25,000 in both hospitalization and major medical benefits would have to pay a surcharge on their state unemployment insurance premiums under a proposed universal health care program.

The program, proposed by New York Health Commissioner Dr. David Axelrod, would guarantee the same level of health care coverage for all New York residents.

The unemployment insurance surcharge would finance health services for the working uninsured.

However, under the program, which could cost as much as $700 million to implement, the state would subsidize the cost of health care insurance premiums for four years for those employers that offer health care coverage to workers for the first time.

In addition, the state would provide for improved health care benefits for the non-working uninsured who already are eligible for health care benefits through public programs.

A cornerstone of the program is the "single payer authority," which would set providers' rates and administer all claims and payments between providers and third-party payers.

The single-payer authority is intended to improve the diagnosis related group method of reimbursement that payers currently must use in the state (*BI*, March 6).

A panel of health experts in will now be asked to study the proposal, said a Health Department spokesman. He added that it is hoped the proposal would lead to "serious discussions" with the state Legislature.

—By Judy Greenwald

Prop. 65 ruling

SACRAMENTO, Calif.—A grocery industry group will appeal a California trial court ruling that a toll-free telephone hot line does not meet state requirements for warning the public about toxic products.

Sacramento Superior Court Judge Eugene Gualco ruled last month that the informational telephone line is "not reasonably calculated to convey the warning message to consumers prior to exposure," as required under Proposition 65.

Proposition 65, approved by California voters in November 1986, requires businesses to issue warnings if they expose their employees or the public to certain substances that pose a significant risk of cancer or birth defects (*BI*, April 4, 1988; Feb. 29, 1988).

The judge ordered the grocery industry's Ingredient Communication Council to notify its participants that the telephone hot line system does not meet the law's "clear and reasonable warning" standard.

Consumer groups had lodged complaints that manufacturers should be required to place warnings directly on product containers.

However, the grocery group maintains that the system "meets or exceeds the warning requirements of Proposition 65." The telephone system offers consumers information about the chemical content of hundreds of products that are found on grocery store shelves.

The judge's decision applies only to non-food items because the

Continued on next page

Excellence In Full Service Management for Captives/Risk Retention Groups

TOLL FREE 800-USA-RISK
State's Largest Independent

Get the advantages of Vermont's largest and most experienced independent captive manager. Full service from formation to operation, regulatory reporting, accounting, reinsurance, investment. Exclusive providers of the most comprehensive and timely financial reporting available. Plus the choices and cost savings available only through an independent.

H. Lincoln Miller, CEO Michael T. Rogers, COO
Experts in alternative market mechanisms. Prime Movers of Law.
Vermont Insurance Management
P.O. Box 306, Montpelier, Vermont 05601

McGEE
McGEE
McGEE
McGEE

A STABLE MARKET FOR
OCEAN, INLAND MARINE,
PROPERTY AND RELATED RISKS

WM. H. McGEE & CO., INC. SINCE 1887 UNDERWRITING MANAGERS

WORLDWIDE INSURANCE COVERAGE FROM
wm. h. mcgee & co., inc.
UNDERWRITING MANAGERS SINCE 1887
Four World Trade Center, New York, N.Y. 10048
Telephone: 212-775-1300 • Telex: 12-9249 • Fax: 212-524-6805
Atlanta • Baltimore • Boston • Charlotte • Chicago • Clifton • Columbus • Dallas • Detroit
Hamilton, Bermuda • Hato Rey, P.R. • Houston • Los Angeles • Melville, L.I. • New Orleans
New York Regional • Philadelphia • Pittsburgh • San Francisco • Seattle • Syracuse
Montreal • Toronto • Vancouver
Correspondents throughout the world

RUSSELL REINSURANCE SERVICES, INC.

THE AMERICAN CENTER
27777 FRANKLIN ROAD
SUITE 420
SOUTHFIELD, MI 48034

TELEPHONE (313) 353-6040
RAPIFAX: (313) 353-3568
TELEX: 23-0453
("RUSS RE SOFD")

AN EXPERIENCED AND STABLE TREATY REINSURANCE MANAGEMENT COMPANY

REPRESENTING
THE FIRST REINSURANCE CO. OF HARTFORD

Around the states

Continued from previous page
state's Health and Welfare Agency, which monitors compliance with Proposition 65, has issued an exemption for all foods, drugs and cosmetics that meet Food and Drug Administration standards.

—By Glenn Huntley

HMO in bankruptcy

WASHINGTON—Beacon Health Inc., a Greenland, N.H.-based health maintenance organization, has filed for bankruptcy in an attempt to avoid liquidation by the state Insurance Department.

Prior to its Aug. 1 filing for protection under Chapter 11 of the Federal Bankruptcy Act, Beacon Health had been informed by the New Hampshire Insurance Department that if it did not either increase its capital or find a buyer by Aug. 1, the insurance commissioner would begin liquidation proceedings in state court, said David Nichols, assistant insurance commissioner.

The Insurance Department estimates that Beacon Health has liabilities totaling $1.8 million and assets of $278,000, making it insolvent by approximately $1.5 million.

Just hours after Beacon Health filed its bankruptcy petition, the department launched proceedings in state court asserting that because the HMO is technically an insurer, the state has jurisdiction over liquidation of its assets.

The federal bankruptcy court is expected to rule on the jurisdictional issue sometime this month, said a Beacon Health spokeswoman.

Until then, Beacon Health's roughly 4,000 members—which include some 65 employer groups—may be left without coverage for some of their claims.

"Any claims filed for services rendered before Aug. 1 are on hold pending the bankruptcy court's decision on jurisdiction," said Robert Vaccaro, Beacon Health executive vp. "However any claims made for services rendered after the filing would be paid immediately."

And, the HMO is continuing to collect premiums, he added.

There is also a question over whether hospitals can bill Beacon Health subscribers directly to recover money from unpaid bills.

According to Mr. Vaccaro, the authorization form signed by providers contains a clause that prevents them from seeking payment directly from HMO members. Any attempts made by area hospitals to do so will result in Beacon Health seeking a restraining order against them, he said.

In addition, HMO subscribers must give Beacon Health 30 days notice if they wish to cancel their contracts, said Mr. Nichols.

While federal bankruptcy law precludes subscribers from using bankruptcy as grounds for terminating their contracts, the HMO will consider any other reasons for cancellation, Mr. Vaccaro said.

Meanwhile, Beacon Health is encouraging its subscribers to wait out the difficulties.

And although the Insurance Department is not encouraging members to leave the troubled HMO, it has arranged for open enrollment with other HMOs in New Hampshire for Beacon Health members released from their contracts, said Mr. Nichols.

In addition, Pilgrim Health Care of Norwall, Mass., an HMO, currently is talking with Beacon Health about buying its membership rolls, although no formal agreement has been made.

Mr. Vaccaro declined to comment on the Pilgrim offer.

—By Adrienne C. Locke

School reciprocal

NEW YORK—The first insurance reciprocal for school districts in the United States is now in operation in New York, according to the New York Insurance Department.

The New York School Insurance Reciprocal has 54 members, and more are expected to join, according to Bill Fishlinger, president of Garden City, N.Y.-based Wright Risk Management Corp., which is managing the reciprocal.

The reciprocal, which has $2.8 million in surplus, offers its subscribers $1 million per occurrence in general liability and automobile liability coverage limits.

It also offers up to $156 million in property and building contents coverage, which is the value of the single largest location covered by the reciprocal.

There are no deductibles for the liability coverage, Mr. Fishlinger said.

There are deductibles for property coverage, with the most common being $5,000.

The reciprocal will absorb up to $250,000 of any liability loss and $100,000 of any property loss, with the remainder reinsured by numerous reinsurers.

The Tillinghast division of Towers, Perrin, Forster & Crosby Inc. is providing actuarial services, and Continental Insurance Co., a unit of New York-based Continental Corp., is conducting claims investigation, according to Mr. Fishlinger.

Wright is handling claims administration in-house, he said.

Participating districts are in five downstate New York counties: Rockland, Westchester, Putnam, Nassau and Suffolk.

—By Judy Greenwald



Can one non-direct writer really be different from the rest?

Maybe you thought all non-direct writers were pretty much the same.

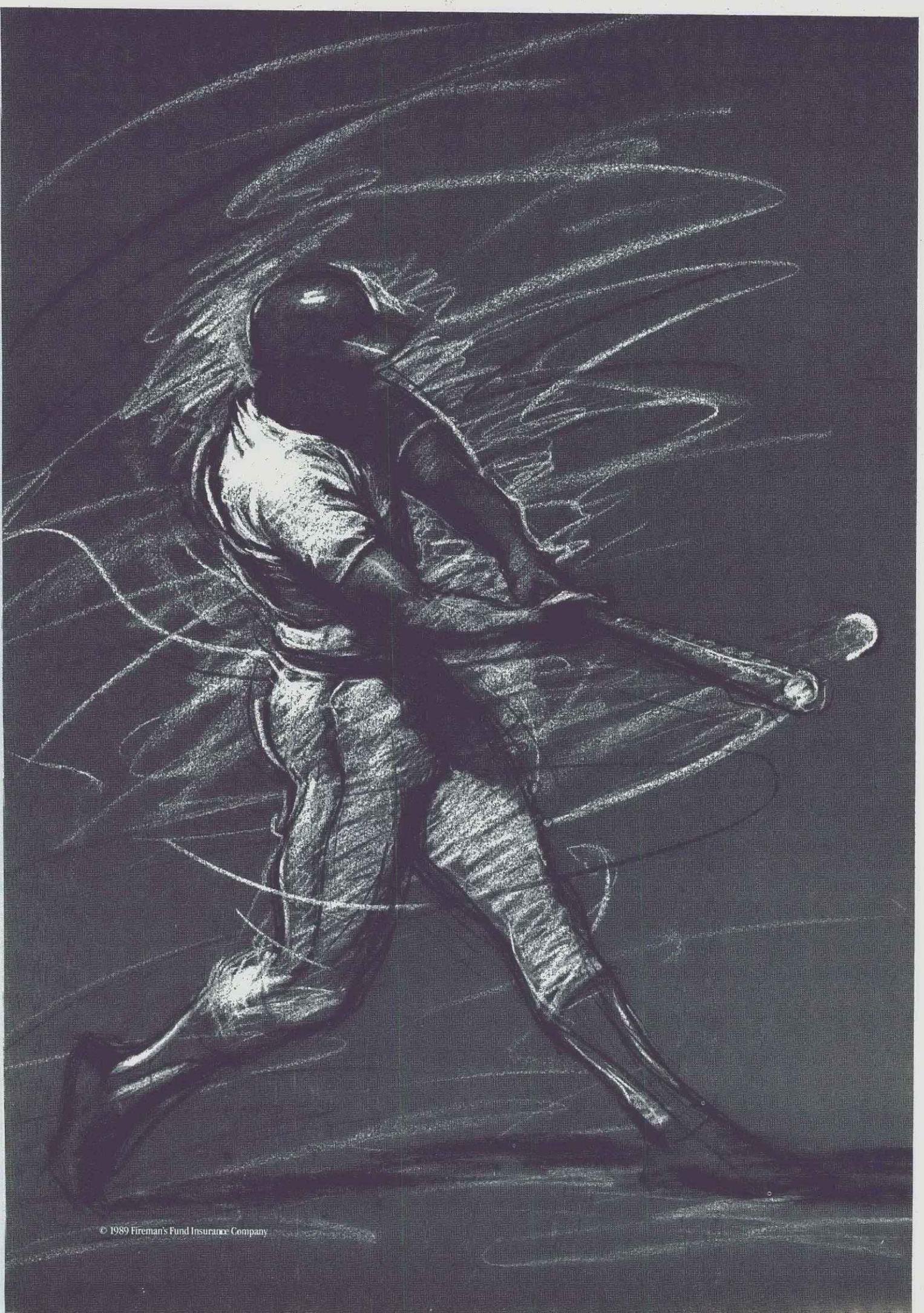
Yet one delivers valuable, state-of-the-art technical services — the kind only direct writers usually offer.

It's Allstate Re. Select us and you select more than a quarter-century of expertise: Our team of highly experienced claims consultants, able to expedite claims payments via wire transfer direct to your account. Our sophisticated actuarial services, supported by our unique statistical database. Our expert loss control analysis. Each provides precisely the information required for creative, comprehensive underwriting. And, all are accessible to intermediaries and their ceding companies. So when it comes time to review your reinsurance programs — remember. One non-direct writer brings superior technical services to the job. And that makes all the difference in the world.

Allstate®
Allstate Insurance Company,
Northbrook, Illinois

©1989 Allstate Reinsurance Division, 2 Allstate Commercial Plaza, 51 West Higgins Road, South Barrington, Illinois 60010 (312) 551-2500 Telex: 283513 or 253177 Fax: (312) 551-2844

Let every man practice the art that he knows best.
—Cicero



© 1989 Fireman's Fund Insurance Company

CAPABILITY

Excess & Special Risk

Going all out is the only way to succeed in a high stakes business like Excess and Special Risk. Players that hold back don't win.

That's why Fireman's Fund offers exceptional limits in their Excess and Special Risk operations. In fact, we've increased our excess liability to $30 million. And our underwriters have local authority to close your deal.

It's all part of our ongoing commitment to be the best in the business. Unlike some insurers, we don't fade away during industry cycles. Fireman's Fund has provided consistent Excess Casualty and Special Risk capacity and service to our clients for over 30 years.

That's a record no other insurance company can match. And it makes Fireman's Fund the most valuable player in the field.

Fireman's Fund

126 years of tomorrows.

Federal health insurance cost hikes ease

By JERRY GEISEL

WASHINGTON—Health insurance premium increases are easing for federal employees.

For example, the Jan. 1, 1990, premium increases for the Federal Employees Health Benefits Program—the nation's largest with 9 million participants—will be substantially less than the hikes effective at the start of this year, according to the Office of Personnel Management, which administers the program.

Premiums paid by employees covered by the Federal Employees Health Benefits Program will rise an average of 13.3% next year, about half of the 26% increase imposed at the beginning of this year.

In addition, federal government contributions to employees' health care coverage will increase an average of 14.2% next year, down considerably from the 24% increase the government paid at the beginning of 1989, according to the OPM.

The government pays up to 60% of non-postal employees' health insurance premiums and up to 75% of postal employees' premiums.

The moderation in premium increases for government employees follows a recent leveling off of premium hikes for private health care plans (*BI*, Aug. 21).

Premium increases in some of the other health insurance plans available to federal employees also will be much lower next year.

For example, at the start of the year, federal employees covered by the Blue Cross/Blue Shield high-option family plan were socked with a 65.9% increase in their monthly health insurance premium.

Next year, though, monthly premiums paid by employees covered by the BC/BS high option family plan will rise just 3.5% to $391.97 from $378.67 this year.

With the federal government contributing $243.84 per month—a 13.1% increase from $215.54 this year—the total monthly premium for the BC/BS high-option family coverage will come to $635.81, a 7% increase from $594.21 this year.

The total monthly premium for individual coverage under the BC/BS plan high-option plan also will increase 7% next year to $301.19 from $281.49 this year.

Employees will contribute $187.81 toward the coverage, up 2.6% from this year's $183.03 contribution, while the government will pay $113.38, up 15.2% from $98.46 this year.

The premium increases next year for the standard BC/BS family and individual plans also will be modest when compared with this year's premium increases of 19.4% for participants and 22.9% for the federal government.

For example, participants' monthly contribution for family coverage under the standard BC/BS plan will amount to $77.03, up 12% from this year's $68.77 contribution, while the federal government will pay monthly premiums of $231.09, up 12% from $206.33.

Overall, the total monthly premium for BC/BS standard family coverage next year will increase 12% to $308.12 from $275.10.

The total monthly premium for individual coverage under the standard BC/BS plan also will increase 12% next year to $146.64 from $130.89.

Employees will make monthly contributions of $36.66 to the coverage—up 12% from $32.72 this year—while the federal government will pay monthly premiums of $109.98, also up 12% from $98.17.

Participants in the self-insured National Assn. of Letter Carriers' plan will pay less-than-average premium increases.

For example, monthly employee contributions for family coverage under the letter carriers' plan will increase 6.6% to $109.89, from $103.13, while the federal government will pay $243.84, up 13.1% from $215.54.

As a result, the total monthly premium for family coverage under the plan will climb 11% to $353.73 from $318.67.

Employees will pay just 4.3% more for individual coverage under the letter carriers' plan, with next year's participant contribution coming to $64.18 per month compared with $61.51 this year.

When the government's contribution of $113.38—up 15.2% from $98.46 this year—is added in, the total monthly premium comes to $177.56 up 11% from $159.97.

Premiums also will increase modestly for other government employee health care plans.

For example, the total monthly premium for federal employees who opt for individual coverage under the Foreign Service Benefit Plan, underwritten by Mutual of Omaha Insurance Co., will amount to $161.98, up 11% from $145.93.

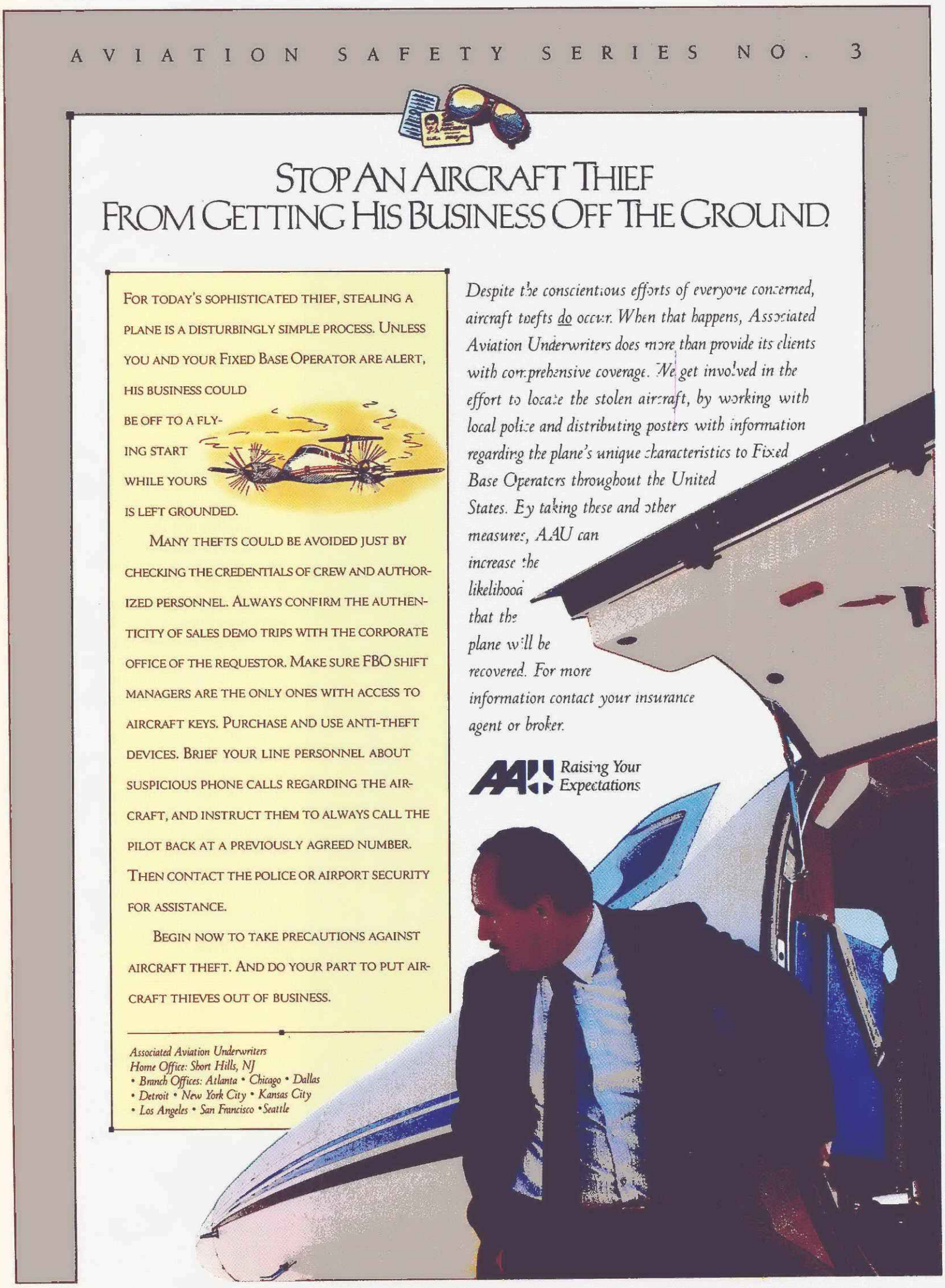
Employees' monthly contribution for the individual coverage will grow just 2.4% to $48.60 from $47.47 this year, while the government will pay $113.38, up 15.2% from $98.46 this year.

However, premium hikes will be higher than average for employees who opt for coverage through the Kaiser Foundation Health Plan of Northern California, a major health maintenance organization.

For example, the total monthly premium for family coverage under the Kaiser plan will amount to $283.49, up 22.8% from $230.92 this year.

As a result, employees who opt for family coverage through the Kaiser plan will pay a monthly premium next year of $70.87, up 22.8% from $57.73 this year, while the government contribution will rise to $212.62, also up 22.8% from $173.19.

Government employees will be permitted to change health care plans between Nov. 13 and Dec. 8 during the federal government's annual "open season." ■





St Paul Re port

The port you drink. Or the port it comes from. Or on the oceans it's portaged over. Among our more than 2,000 active treaties and more than 7,000 facultative certificates, there is much proof of our expertise in all aspects of marine and international reinsurance. Now a word about reporting. Ours is among the most sophisticated in the industry. Our state-of-the-art systems facilitate every step of the reinsurance process. Ask your broker to have a rapport with us. It could be important to your entire reinsurance program. Take the risk out of your risk. StPaulRe

ST PAUL REINSURANCE MANAGEMENT CORPORATION • 195 BROADWAY, NEW YORK, NY 10007 • 212-238-9200

Datebook

SEPT. 25. 10th Annual Compensation Conference: Practical Approaches to Compensation Issues of the '90s in Seattle, sponsored by the Hay Group; $375 for the first participant from an organization; $275 for each additional participant from the same organization. **Also Sept. 25** in Seattle, **Sept. 26** in Philadelphia and San Francisco, and **Sept. 27** in Long Beach, Calif. The Hay Group Seminar Center; 215-875-2338.

SEPT. 25-26. Employee Welfare Benefit seminar in Chicago, sponsored by the Practising Law Institute; $475. **Also Oct. 19-20** in San Francisco. Ann Tracy, Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5700, Ext. 232.

SEPT. 25-26. How to Audit and Check Insurance Policy Costs and Coverages meeting in Minneapolis, sponsored by the American Management Assn.; $750 for AMA members; $850 for non-members. Stewart Veale, AMA, 135 W. 50th St., New York, N.Y. 10020; 212-903-8214.

SEPT. 25-26. The Employee Benefits Course in Newark, N.J., sponsored by Personnel Research Associates; $375. **Also Oct. 4-5** in Stamford, Conn. Personnel Research Associates, 49 Oakridge Road, Verona, N.J. 07044; 201-239-6154.

SEPT. 25-26. The Insurance Arbitration Institute: Resolving Insurance and Reinsurance Disputes conference in New York City, sponsored by Executive Enterprises Inc.; $990. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

SEPT. 25-26. How to Audit Your Insurance Program: Getting Your Money's Worth course in Minneapolis, sponsored by the American Management Assn.; $750 for AMA members; $850 for non-members. **Also Oct. 12-13** in Chicago, **Oct. 16-17** in East Hanover, N.J., **Oct. 23-24** in Boston and **Oct. 30-31** in Atlanta. AMA, P.O. Box 319, Saranac Lake, N.Y. 12983; 518-891-0065.

SEPT. 25-27. Reinsurance Accounting & Auditing Course in Chicago, sponsored by The College of Insurance; $795 for College sponsors; $895 for non-sponsors. **Also Nov. 1-3** in San Francisco. Professional Programs, The College of Insurance, 101 Murray St., New York, N.Y. 10007-2132; 212-962-4111, ext. 201.

SEPT. 26-27. 1989 Washington Conference on Risk Assessment in Arlington, Va., sponsored by the Center for Energy and Environmental Management; $650. CEEM, Box 200, Fairfax Station, Va. 22039; 703-250-5900.

SEPT. 27-28. Fourth Annual Commitment to Wellness conference in Cleveland, sponsored by the Northeastern Ohio Wellness Committee; $275 for full conference; $175 for one day; $25 per day for students. SCHCC-Wellness, 220 Market Ave. S., Suite 1190, Canton, Ohio 44702; 216-430-3508.

SEPT. 27-28. Designing and Marketing Long-Term Care Insurance conference in New York City, sponsored by Executive Enterprises Inc.; $990. **Also Oct. 23-24** in San Francisco. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

SEPT. 27-29. Fundamentals of Risk Financing course in Denver, sponsored by the Risk & Insurance Management Society Inc.; $540 for RIMS members; $640 for non-members. RIMS, 205 E. 42nd St., Suite 1504, New York, N.Y. 10017; 212-286-9292.

SEPT. 28. Anatomy of Art Insurance seminar in New York City, sponsored by The College of Insurance; $95. The College of Insurance, Professional Programs, 101 Murray St., New York, N.Y. 10007-2132; 212-962-4111, ext. 201.

SEPT. 28. Workers' Compensation—Issues Into The '90s seminar in New Cumberland, Pa., co-sponsored by The Society of Chartered Property & Casualty Underwriters and the Central Pennsylvania Chapter of the Society of CPCU; $125 for Society of CPCU members; $185 for non-members. Mari Jennings, Continuing Education Coordinator, The Society of CPCU, 720 Providence Road, CB#9, Malvern, Pa. 19355-0709; 215-251-2741.

OCT. 2. Insurance Coverage and Bad Faith Claims conference in Boston, sponsored by the American Arbitration Assn.; $150 for AAA members; $180 for non-members. **Also Dec. 2** in New York City. Allen Silberman, Director of Education and Training, AAA, 140 W. 51st St., New York, N.Y. 10020; 212-484-3233.

OCT. 2-3. Management of Claims in Clinical High-Risk Areas seminar in Philadelphia, sponsored by the American Society for Healthcare Risk Management, $345 for ASHRM members; $465 for non-members. Trudy Goldman, ASHRM, 840 N. Lake Shore Drive, Chicago, Ill. 60611; 312-280-6430.

OCT. 2-5. 18th Annual Managed Care Conference and Exhibition in San Antonio, Texas, sponsored by the American Medical Care & Review Assn.; $475 for AMCRA members; $600 for non-members. AMCRA, 5410 Grosvenor Lane, Suite 210, Bethesda, Md. 20814.

OCT. 2-5. Insurer Solvency Assessment conference in London, sponsored by the Insurance & Reinsurance Research Group Ltd.; 630 pounds ($999.18). Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

OCT. 2-6. Fundamentals of Employee Benefits Management course in Brookfield, Wis., sponsored by the International Foundation of Employee Benefit Plans; $1,000 for the five-day Fundamentals Course, $500 for the three-day Intermediate Course. Registration Department, IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

OCT. 3. 10th Annual Compensation Conference in Washington, D.C., sponsored by The Hay Group; $375; $275 for each additional attendee from the same organization. **Also Oct. 4** in Greenwich Conn.; **Oct. 5** in Atlanta and Boston; **Oct. 6** in Dallas; **Oct. 11** in Minneapolis; **Oct. 12** in Kansas City, Mo.; and **Oct. 13** in Pittsburgh. The Hay Seminar Center, 215-875-2338.

OCT. 3. Claims—The Critical Service conference in London, sponsored by the Insurance & Reinsurance Research Group Ltd.; 240 pounds ($380.64). Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

OCT. 3-5. National Risk Retention Assn.'s Second Annual Conference in Washington, D.C.; $350 for NRRA members; $450 for non-members. Nick Garnett, National Risk Retention Assn., P.O. Box 32257, Washington, D.C. 20007; 800-999-4505.

OCT. 4-5. Understanding Property/Casualty Loss Reserving course in Boston, sponsored by Executive Enterprises Inc.; $990. **Also Nov. 9-10** in Chicago. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

OCT. 5. Employers Council on Flexible Compensation Conference in Newton, Mass.; $185 for ECFC members, $195 for non-members. **Also Oct. 10** in Washington, D.C.; **Oct. 12** in Los Angeles; **Oct. 24** in Seattle; **Nov. 1** in Houston; and **Nov. 7** in Whippany, N.J. ECFC, 927 15th St. N.W., Suite 1040, Washington, D.C. 20005; 202-659-4300.

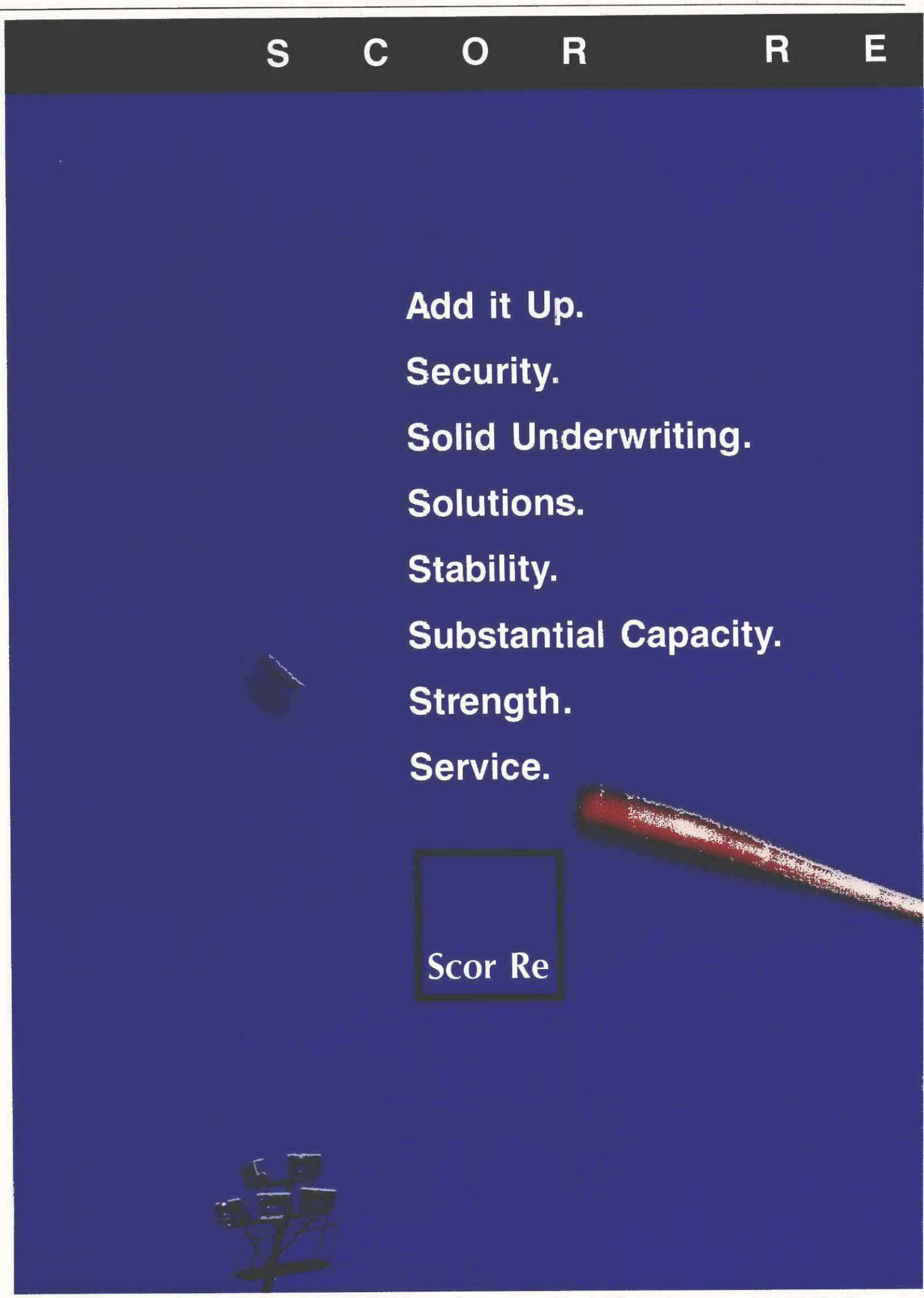
OCT. 5. Private Health Insurance—Where Do We Go From Here? conference in London, sponsored by the Insurance & Reinsurance Research Group Ltd.; 230 pounds ($364.78). Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

OCT. 9-13. Reinsurance Practice conference in London, sponsored by the Insurance & Reinsurance Research Group Ltd.; 775 pounds ($1,229). Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

OCT. 11. Inland Marine Underwriters Assn.'s Annual Fall Meeting in New York City; $40. **Also Oct. 18** in Worcester, Mass. Tracey O'Donnell, Inland Marine Underwriters Assn., 14 Wall St., New York, N.Y. 10005; 212-233-7958.

OCT. 11. Insurance Claims Dispute Resolution seminar in St. Paul, Minn., sponsored by the American Arbitration Assn.; $150 for AAA members; $180 for non-members. **Also Oct. 30** in Cleveland; and **Nov. 16** in Long Island, N.Y. Allen Silberman, Director of Education and Training, AAA, 140 W. 51st St., New York, N.Y. 10020; 212-484-3233.

Continued on next page



Continued from previous page

OCT. 11-12. Managing Risk Communications seminar in San Francisco, sponsored by E.I. du Pont de Nemours & Co.; $925; $795 for two or more attendees from the same organization attending the same session. **Also Nov. 8-9** in Dallas. Du Pont, Suite A, Attn. CAK, 1300 First State Blvd., Wilmington, Del. 19804; 800-248-7020.

OCT. 11-13. 18th Annual AMA Compensation and Benefits Update: Issues in Employee Benefits conference in Chicago, sponsored by the American Management Assn.; $725 for AMA members; $835 for non-members. AMA, P.O. Box 319, Saranac Lake, N.Y. 12983; 518-891-0065.

OCT. 11-13. Managing Health Care Costs seminar in New York City, sponsored by the American Management Assn.; $795 for AMA members; $915 for non-members; $675 each for groups of three or more members from the same organization: $780 each for groups of non-members. **Also Dec. 11-13** in San Francisco. AMA, P.O. Box 319, Saranac Lake, N.Y. 12983; 518-891-0065.

OCT. 11-13. 43rd Annual Council on Employee Benefits Fall Conference in St. Louis; $325 for each registrant from CEB member company; $375 for non-member company registrants. C.S. Lazaroff, Secretary-Treasurer, c/o Goodyear Relief Assn., 1144 E. Market St., Akron, Ohio 44316; 216-796-4008.

OCT. 12. Third Professional Indemnity Conference—The Expanding Market in London, sponsored by the Insurance & Reinsurance Research Group Ltd.; 240 pounds ($380.64). Insurance & Reinsurance Research Group Ltd., Bridge House 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

OCT. 14-22. American Assn. of Managing General Agents Foreign Seminar in Vancouver, British Columbia, and Banff, Alberta; seminar fee: $175 for AAMGA members, $125 for spouses and guests; tour fee (includes accommodations, air fare from Vancouver to Calgary, guided tours): $969 double occupancy, $1,319 single occupancy. American Assn. of Managing General Agents, 9140 Ward Parkway, Kansas City, Mo. 64114.

OCT. 15. The Society of Chartered Property & Casualty Underwriters 1989 Annual Meeting and Seminars: Managing Now for the '90s in Anaheim, Calif.; $295 for Society of CPCU members; $395 after Sept. 15. Society of CPCU, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355-0709; 215-251-2728.

OCT. 15-17. Assn. of Lloyd's Members North American Conference in Chicago; $275 for ALM members; $350 for non-members; $125 for spouses/guests. Assn. of Lloyd's Members, 1510 11th St., Santa Monica, Calif. 90401; 800-421-6607; 213-458-3222 within California

OCT. 15-18. 1989 Risk Management Forum in Monte Carlo, co-sponsored by the European Risk Management Assn. and the Risk & Insurance Management Society Inc.; 4,900 French francs ($745 at current exchange rate) for risk managers; 2,500 French francs ($380) for academicians and students; 6,900 French francs ($1,049) for all others. Payment must be in French francs. Sally Greene, RIMS/Monte Carlo Conference, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

OCT. 15-18. Annual Society of Chartered Property & Casualty Underwriters Seminar: Developing the Agent/Broker Niche in Soft Markets in Anaheim, Calif.; $395. The Society of CPCU, Kahler Hall, 720 Providence Road, CB#9, Malvern, Pa. 19355-0709; 215-251-2728.

OCT. 16-17. Environmental Insurance Law Institute in Chicago, sponsored by Executive Enterprises Inc.; $990. **Also Nov. 9-10** in New York City and **Dec. 11-12** in San Francisco. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

OCT. 16-17. The Fundamentals of Statutory Insurance Accounting course in Chicago, sponsored by Executive Enterprises Inc.; $990. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

OCT. 16-18. 1989 Benefit Communication Institute in Boston, sponsored by the International Foundation of Employee Benefit Plans; $570 for IFEBP members; $645 for non-members. Registration Dept., IFEBP, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6700.

OCT. 17. Mergers and Acquisitions of Insurance Organizations in Europe conference in London, sponsored by the Insurance & Reinsurance Research Group Ltd.; 240 pounds ($380.64). Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

OCT. 17-19. 1989 Risk Sciences Group Users' Conference in Oakland, Calif., $475; $425 for each additional attendee from the same organization. Risk Sciences Group, 5620 Glenridge Drive, Atlanta, Ga. 30342; 404-847-4512.

OCT. 18-19. Quantitative Techniques for Risk Management seminar in Philadelphia, sponsored by the Tillinghast division of Towers, Perrin, Forster & Crosby Inc.; $750. Eileen B. Callahan, Conference Director, Tillinghast, 695 E. Main St., Suite 600, Stamford, Conn. 06901; 203-326-5400.

OCT. 18-19. Understanding Property and Casualty Reinsurance conference in New York City, sponsored by Executive Enterprises Inc.; $990. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

OCT. 18-20. Property/Casualty Statutory Financial Statements course in Chicago, sponsored by Executive Enterprises Inc.; $895 plus $95 non-refundable registration fee per organization. **Also Nov. 13-15** in New York City, **Nov. 29-Dec. 1** in Los Angeles and **Dec. 11-13** in Orlando, Fla. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 212-645-8689; 800-831-8333.

OCT. 22-25. Annual Society of Actuaries Meeting and Exhibit in New York City; $325 for TSA members; $350 for members of other actuarial associations; $400 for non-members. The Society of Actuaries, 312-706-3500.

OCT. 23-24. Understanding Life Insurance Statutory Financial Statements conference in New York City, sponsored by Executive Enterprises Inc.; $990. **Also Nov. 8-9** in Boston. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6904; 800-831-8333; 212-645-7880.

OCT. 23-24. Handling Occupational Injury and Illness: OSHA Recordkeeping and Workers' Compensation Claims Management workshop in Atlanta, sponsored by the Georgia Institute of Technology; $125 per day; $200 both days. Education Extension-R, Georgia Institute of Technology, Atlanta, Ga. 31332-0385; 404-894-2400; 800-325-5007.

OCT. 23-24. Third Annual National Disability Management Conference and Trade Show in Miami, co-sponsored by the Washington Business Group on Health-Institute For Rehabilitation and Disability Management and Thomas L. Jacobs & Associates; $300 for WBGH members; $375 for non-members. Sheri Farris, WBGH, 229 Pennsylvania Ave. S.E., Washington, D.C. 20003; 202-547-6644.

OCT. 23-27. Advanced Reinsurance Practice conference in London, sponsored by the Insurance & Reinsurance Research Group Ltd.; 775 pounds ($1,229). Insurance & Reinsurance Research Group Ltd., Bridge House, 181 Queen Victoria St., London, England EC4V 4DD; phone: 01-236-2175; fax: 01-489-1487.

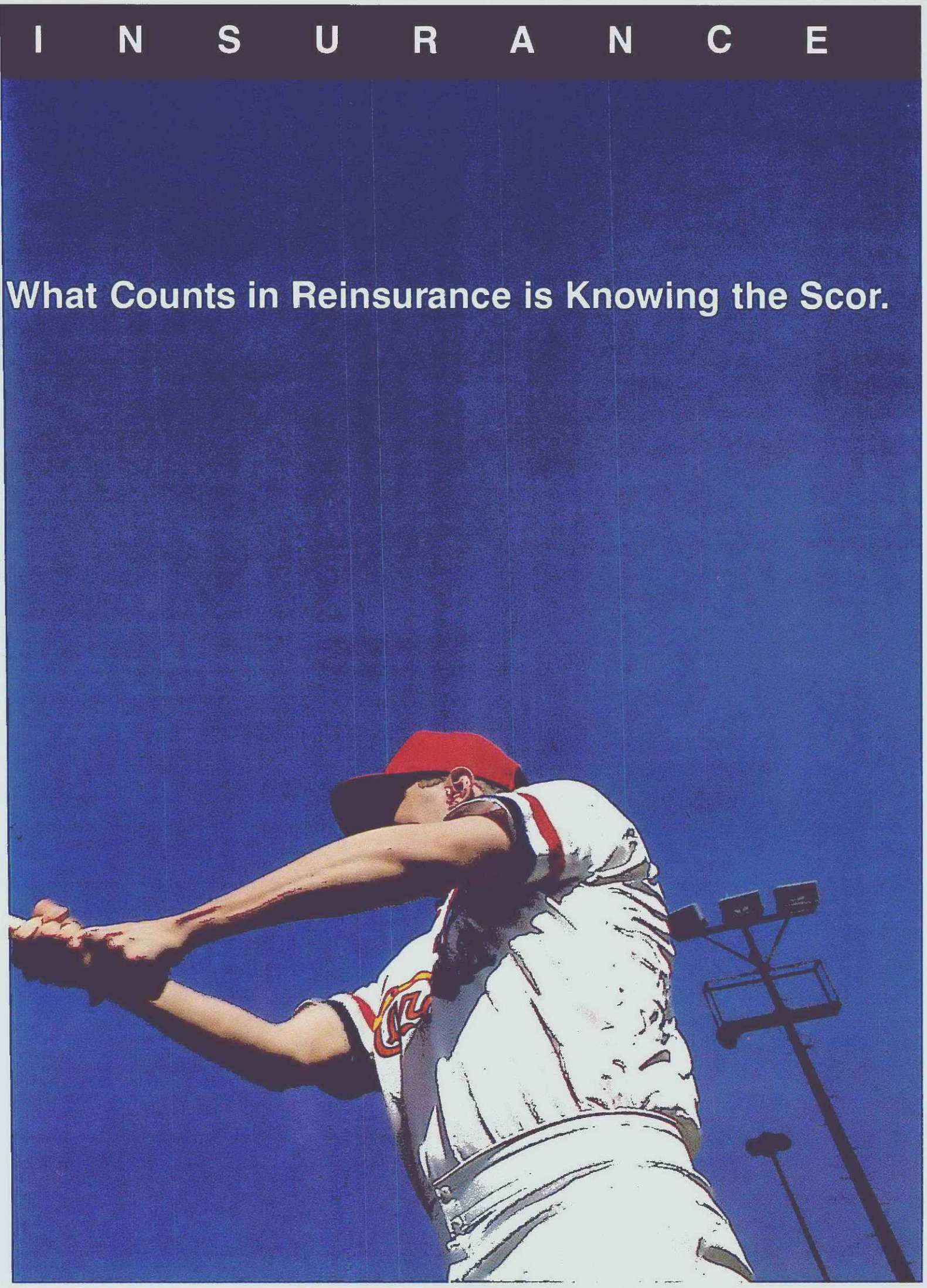
OCT. 24-25. Reinsurance Systems course in Chicago, sponsored by The College of Insurance; $595 for College sponsors; $695 for non-sponsors. Professional Programs, The College of Insurance, 101 Murray St., New York, N.Y. 10007-2132; 212-962-4111, ext. 201.

OCT. 24-25. Crisis Communication Management seminar in Washington, D.C., sponsored by E.I. du Pont de Nemours & Co. Management Services; $1,045 including seminar materials, luncheon and refreshments. **Also Nov. 14-15** in Atlanta. Du Pont, Attn. CAK, 1300 First State Blvd., Suite A, Wilmington, Del. 19804; 800-248-7020.

OCT. 25. Superfund Amendments and Reauthorization Act Title III Workshop in Atlanta, sponsored by the Georgia Institute of Technology; $125. Education Extension-R, Georgia Institute of Technology, Atlanta, Ga. 31332-0385; 404-894-2400; 800-325-5007.

•

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



DENTAFITS, INC.
Can Provide
STOP LOSS COVERAGE FOR
►Dental ►Vision
►Prescription Drug
GROUP BENEFIT PLANS
For quotes or information call or write:
Debbie Boucher
P.O. Box 3209, 527 E. Rowland Ave.
Covina, CA 91722 (818) 967-2878
FAX (818) 332-5778

Comp costs

Continued from page 3

While workers compensation-related medical costs per employee have increased at about the same rate as overall health care inflation, it is likely that work comp medical care expenditures will begin to grow more rapidly in the future, the report says (see story, page 31).

- Changes in the workforce.

Increasing illiteracy rates as less-qualified workers join the workforce may lead to increased claims from workers who cannot follow directions, said Ann McLaughlin, former secretary of labor in the Reagan administration and chairwoman of a blue-ribbon panel that organized the congress.

Workers also are raising issues related to the quality of life, including environmental safety, said Franklin Nutter, president of the Alliance of American Insurers.

The aging of the workforce is expected to reduce the frequency of claims but increase their severity, NCCI researchers previously reported.

- Litigation.

The principle of workers compensation being the exclusive remedy to compensate an injured worker is being eroded as litigation increasingly becomes a part of the system, the NCCI's Mr. Ryan said. This is increasing employers work comp premiums while resulting in injured workers receiving a smaller percentage of premium dollars, he added.

The combination of these factors are increasing workers compensation costs and are causing insurers and others to seek reforms in the system.

Gary Countryman, chairman and chief executive officer of Liberty Mutual Insurance Co., said he is "very concerned" about the future of privately administered workers compensation because of the "pernicious pattern" that has emerged in many states.

According to the scenario outlined by Mr. Countryman, the NCCI responds to insurers' rising costs "with an eye-catching rate filing. Regulation responds somewhere in between what the numbers seem to say and what good, short-term politics would suggest. After all, the observed rate of cost increase is temporary, and there's time to catch up later."

However, cost increases turn out not to be temporary "and after several years, the inadequacy in rates begins to grow quite large—beyond the reach of the industry for sure, and maybe beyond the political reach of the most well-intended regulator," Mr. Countryman said.

"In the meantime, efforts to enact legislative reforms to eliminate or control costs get under way, but they, too, are politically difficult," he said. "The result is either reform that has little cost impact or no reform at all.

"In response to the compelling economics of price inadequacy and the absence of reform, there has been a slow but accelerating shrinkage in the voluntary insurance supply," he said, referring to the voluntary workers compensation insurance market.

For instance, the workers compensation residual market, which covers those employers that are not able to purchase insurance in the voluntary market, has grown to about 20% of the overall marketplace in 1988 from about 5% in 1984, according to the NCCI (*BI,* May 22).

Mr. Countryman noted that Liberty Mutual's workers compensation losses in Maine alone totaled nearly $130 million, after investment income, between 1981 and 1986. Liberty Mutual withdrew from the Maine work comp market in 1987 and has not returned because the climate has not improved sufficiently, despite benefit reforms and modest rate relief, he said (*BI,* Nov. 30, 1987).

Unless balance is returned to the workers compensation system, the insurance industry—or individual companies—will take action to recover losses through lawsuits or pull out of poor markets and use their capital elsewhere, said Maurice R. Greenberg, chairman, president and chief executive officer of American International Group Inc.

For example, a group of AIG units currently is suing Maine's insurance regulator for $50 million to recover losses in the residual market that the insurers say were caused by inadequate rates (*BI,* Sept. 4).

In addition, AIG is reviewing whether one of its units should continue writing workers compensation insurance in the northern section of Maine through a special program, Mr. Greenberg said in an interview.

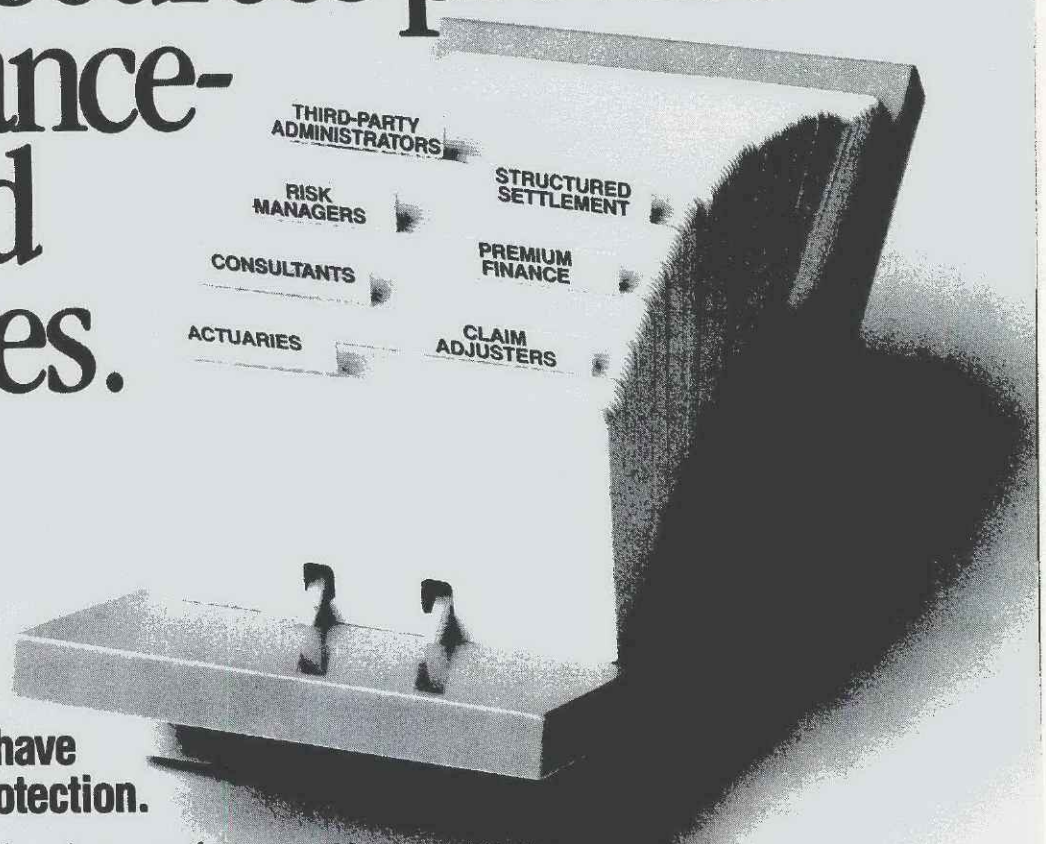
Clamping a lid on work comp rate increases won't secure a healthy market, agrees Robert Vagley, president of the American Insurance Assn., a trade association whose 170 insurer members write about 36% of the workers compensation premium volume in the United States.

And, some significant work comp reform legislation can backfire, as did Florida's much heralded wage-loss approach that makes up some of the difference between wages earned before an injury and those earned afterward. The Florida Legislature was prompted to adopt more reforms earlier this year to combat the increasing litigation in the wage-loss system and injured workers' reluctance to conduct adequate job searches, said Florida state Rep. Bruce McEwan.

The imbalance among higher workers compensation costs, inadequate premium rates and the inadequacy of some reform efforts prompted the NCCI to call the work comp congress to develop a new con-

Continued on page 31

Many sources provide insurance-related services.



Now they can all have their own E&O protection.

Shand Morahan has long been known as the liability experts for insurance professionals. Our programs include coverages for insurance companies, their involvement in financial services, their directors and officers, and agents and brokers.

So who is better qualified or experienced to offer a plan specifically geared to all insurance-related service providers in between?

Insurance-Related Services E&O insures actuaries, risk managers, consultants, third-party administrators, claim adjusters, structured settlement firms, and premium finance firms as well as others.

More and more, risk managers are requiring that their various insurance service providers be covered in the event of litigation. This coverage provides the perfect solution. It can be customized to individual needs or combined with another Shand Morahan program to broaden existing coverage.

Best of all, the rate is right. For more details, agents and brokers should call Bob McDonald, Product Manager Miscellaneous E&O, at (312)866-0738.

Shand Morahan
A member of the Shand Morahan Group
Shand Morahan & Company Inc.
Shand Morahan Plaza
Evanston IL 60201 312 866-2800
Professional Liability and Specialty Insurance

Continued from page 28

sensus on workers compensation issues.

But because the gathering also served as a forum for other parties in the system to air their views and opinions, even broader issues were raised that touched the NCCI directly.

Earl Pomercy, North Dakota's insurance commissioner and vice president of the National Assn. of Insurance Commissioners, pointed out during his speech that one issue not discussed in the approximately three-inch thick binder of committee drafts on general and state-specific work comp issues was the role of the NCCI itself as a ratemaking organization.

The NAIC has held two hearings to discuss the role of the NCCI, with a third meeting scheduled for Oct. 19 in Washington, D.C. At the October meeting, consumers will be able to air their views.

The NAIC launched the inquiry in the wake of criticism that allowing ratemaking organizations to issue advisory rates that include allowances for profits and expenses hurts consumers by reducing competition.

The ongoing inquiry into the proper role of the NCCI follows an earlier study about the proper role of other property/casualty rating organizations that dealt with lines of insurance outside workers compensation.

That earlier study resulted in the NAIC urging that loss-cost only data be released, and the Insurance Services Office Inc. subsequently said it would adopt that policy on a voluntary basis (*BI*, April 10).

In addition, ISO is taking steps to diversify its board of directors to increase consumer participation. ■

Cutting comp medical costs difficult

By MEG FLETCHER

PHILADELPHIA—Developing strategies to control medical costs is the most critical issue facing the workers compensation system, many experts agree.

And, while several strategies can be implemented to help reduce workers comp medical costs, many others are unworkable because state laws discourage employee cost sharing.

"In the past decade, for example, paid medical costs per covered worker have nearly tripled, a rate of growth roughly equal to that of per capita medical expenditures generally," says the 61-page draft report of a committee studying workers comp medical cost containment in conjunction with the National Council on Compensation Insurance's Workers Compensation Congress. The congress was held Sept. 8-9 in Philadelphia.

Between 1980 and 1988, "the average incurred medical cost per lost-time claim has nearly doubled, from $1,590 to $3,150, while the average indemnity cost has increased only 31%," the report said.

"But despite the dramatic increase in average medical costs, there is little evidence that health outcomes of injured workers have improved substantially in recent years," it said.

For example, the average length of a temporary total disability case has been virtually unchanged through the 1980s. In addition, the proportion of claims resulting in permanent disability has been constant during the same period, the report said.

To help solve the problem of rising workers comp medical costs, committee members—who primarily were insurers but also included academicians and a risk manager—agreed as a group on nine recommendations:

- Immediately implement and/or enhance utilization review, case management and medical bill audits.
- Make use of alternative delivery mechanisms, like health maintenance organizations and preferred provider organizations, as well as contract directly for medical services wherever practical and permitted by law or administrative rule.

However, the effectiveness of such programs will be limited if the employer or insurer has no control over the injured employee's choice of a health care provider, which is the case in about half the states, observers say.

In addition, at least one study found that HMOs do not always result in workers compensation cost savings, pointed out Richard Victor, executive director of the Workers Compensation Research Institute.

A WCRI study found that some employers that had larger percentages of their employees enrolled in HMOs also had higher workers comp costs. The inference is that the HMO officials may be inclined to categorize an injury like back pain as work-related because of a financial incentive to do so, Mr. Victor said, explaining that an HMO can bill services for work-related injuries on a fee-for-service basis while still collecting the per-capita payments it receives to provide the employee with general services under an employer-sponsored health care plan.

In addition, insurers often lack sufficient market share to entice alternative providers to agree to an attractive fee arrangement, several sources said.

The best way for an insurer to overcome that obstacle is to work through a vendor of cost management services, because banding together with other insurers directly may expose the insurers to allegations of antitrust violations, said David Appel, a former NCCI staff member who wrote the committee's report before he joined Milliman & Robertson Inc. in New York as a consulting economist.

- Develop data systems that capture diagnostic and service-related information to permit monitoring of programs.
- Establish prompt claimant contact after an injury to minimize disputes and enhance positive employer-employee relationships.
- Support establishment of medical fee schedules.

States that implement fee schedules should also have a panel designated to settle disputes with providers, said Jerry LeCompte, president of the Arizona State Workers Compensation Insurance Fund in Phoenix.

Otherwise, physicians may respond to the implementation of a fee schedule by having the employee make more office visits than needed or by simply refusing to treat injured workers, which can be a big problem in rural areas where other providers are not available, he said.

- Support employer choice of physicians.
- Coordinate benefits with group health care plans and other forms of coverage to ensure duplicate or excessive payments are not made.
- Promote the use of diagnostic related groups for hospital reimbursement.
- Establish bulk purchase of drugs and other medical supplies.

Individual committee members made other recommendations that were not adopted by the group as a whole. These included imposing employee cost sharing through deductibles and/or coinsurance.

However, it is unlikely that such approaches will be adopted on a widespread basis, the committee agreed.

"Medical care in the (workers comp) system is an entitlement to the employee and an obligation of the employer," the report said.

A survey by the Alliance of American Insurers found that many insurers have adopted cost containment strategies like those recommended by the committee.

CIGNA Corp. has saved money by applying such measures to 84% of the workers comp bills it handles in California, Wilson Taylor, president and chief executive officer of the Philadelphia-based insurer, said during an earlier panel discussion.

He endorsed the committee's report and urged the insurance industry to support demonstration projects and pilot programs outside the regular workers compensation structure as a way to test cost containment strategies that are not currently allowed by state law or regulation. ■



INTERNATIONAL

Benefits & Risk Management

Publishing: October 9

With 1992 around the corner, corporations and insurers are gearing up for new opportunities presented by the relaxation of trade barriers in Europe. Businesses with global operations will rely even more heavily on the commercial insurance market for the protection they need.

Every influential corporate insurance buyer will turn to BI's October 9th International feature for news and trends. Editors will report on global property and liability insurance programs and risks that companies face when operating overseas; and, foreign employee benefits programs and international benefit networks. They'll also examine other factors that impact risk and employee benefits management overseas.

Directory: International Insurers & Benefit Networks
Issue Distribution: RIMS/AEAI Conference, Monte Carlo
SIIA Conference, San Diego, California

Business Insurance

Reach the readers who have special information needs about developments at home and abroad — multi-national decision makers who turn to BI first. They won't miss this issue. Reserve space today!

Ad Closing: September 26

New York: 212-210-0228 Chicago: 312-649-5276
Los Angeles: 213-651-3710

Do you have to return it?

If you're racing through this issue of Business Insurance because you have to return it soon,
why not have your own personal subscription?
Use the card in this issue or the coupon to
SUBSCRIBE TODAY.
Business Insurance
Circulation Dept. 965 E. Jefferson Detroit, MI 48207



Business Insurance gives you total news coverage of loss prevention, risk financing and benefit management. Every week. Annual subscription (52 issues) in U.S. dollars.

(Check here:)	Surface Mail	By Air
USA	☐ $70	☐ $147
Canada	☐ $102	☐ $157
Bermuda (air only)		☐ $152
United Kingdom		☐ $150 or £83
Europe/Middle East		☐ $150
All other foreign	☐ $102	Rates on request

☐ new subscription. ☐ renewal. ☐ payment enclosed.
☐ bill me. ☐ bill company.
☐ Please send information on your special 20%-off group rate for five or more subscriptions.

name (please print)
title telephone
company
nature of business
☐ business or ☐ home address
city state/country zip/postal code
☐ I prefer not to receive information or advertising by mail from companies not affiliated with Crain Communications.

Mail to: Business Insurance, Circulation Dept., 965 E. Jefferson Ave., Detroit, MI 48207 4COL9

Insurers dominate work comp congress

By MEG FLETCHER

PHILADELPHIA—The difficulty in achieving a consensus about how best to solve workers compensation system problems was underscored by who did—and did not—attend the Workers Compensation Congress hosted by the National Council on Compensation Insurance.

A capacity crowd of about 500 persons attended the congress, held Sept. 7-8 in Philadelphia, but they overwhelmingly were representatives from the insurance industry.

Although labor representatives participated in the broad-based groups that have worked since the spring to draft position papers on several issues, few—if any—attended the two-day gathering.

In addition, attendees from the insurance industry also far outnumbered state and federal legislators and regulators, as well as the relatively few employer representatives and academics who attended.

"We all agree that no one group has a monopoly on good ideas," said NCCI President Kevin Ryan.

Attendees commented on drafts of position papers analyzing key issues and discussed solutions to problems related to workers compensation cost containment, benefit utilization, loss control and prevention, rehabilitation, and alternative programs like so-called 24-hour coverage, which would merge group health care and workers comp coverage.

In addition, drafts were aired analyzing workers comp issues in nine states: Colorado, Connecticut, Florida, Illinois, Louisiana, New Mexico, Rhode Island, Oregon and Texas.

Congress attendees also heard panel discussions featuring speakers ranging from top insurance industry executives to speakers who aired some of labors' traditional concerns, including an Occupational Safety and Health Administration official and U.S. Rep. William Coyne, D-Pa., who is co-sponsor of the high-risk notification bill pending in Congress.

"I'm sorry labor is not more represented in this congress," Gary Countryman, president and chief executive officer of Liberty Mutual Insurance Co. of Boston, said from the podium during a panel discussion.

The NCCI's Mr. Ryan said he understood that labor representatives' absence stemmed from dissatisfaction with the latest drafts of some NCCI position papers.

Jim Ellenberger, assistant director of the AFL-CIO's department of occupational safety, health and social security and a member of the congress' benefit utilization committee, said he did not attend because he was "unhappy" with an earlier draft of his committee's report and had not had time to review a subsequent one.

In an interview after the congress, Mr. Ellenberger noted he had told the NCCI of his concerns. "Building consensus" is a good idea, but it was not properly implemented, he said.

Comments aired at the meeting, and those mailed to the NCCI by Sept. 22, will be considered for inclusion in the final papers.

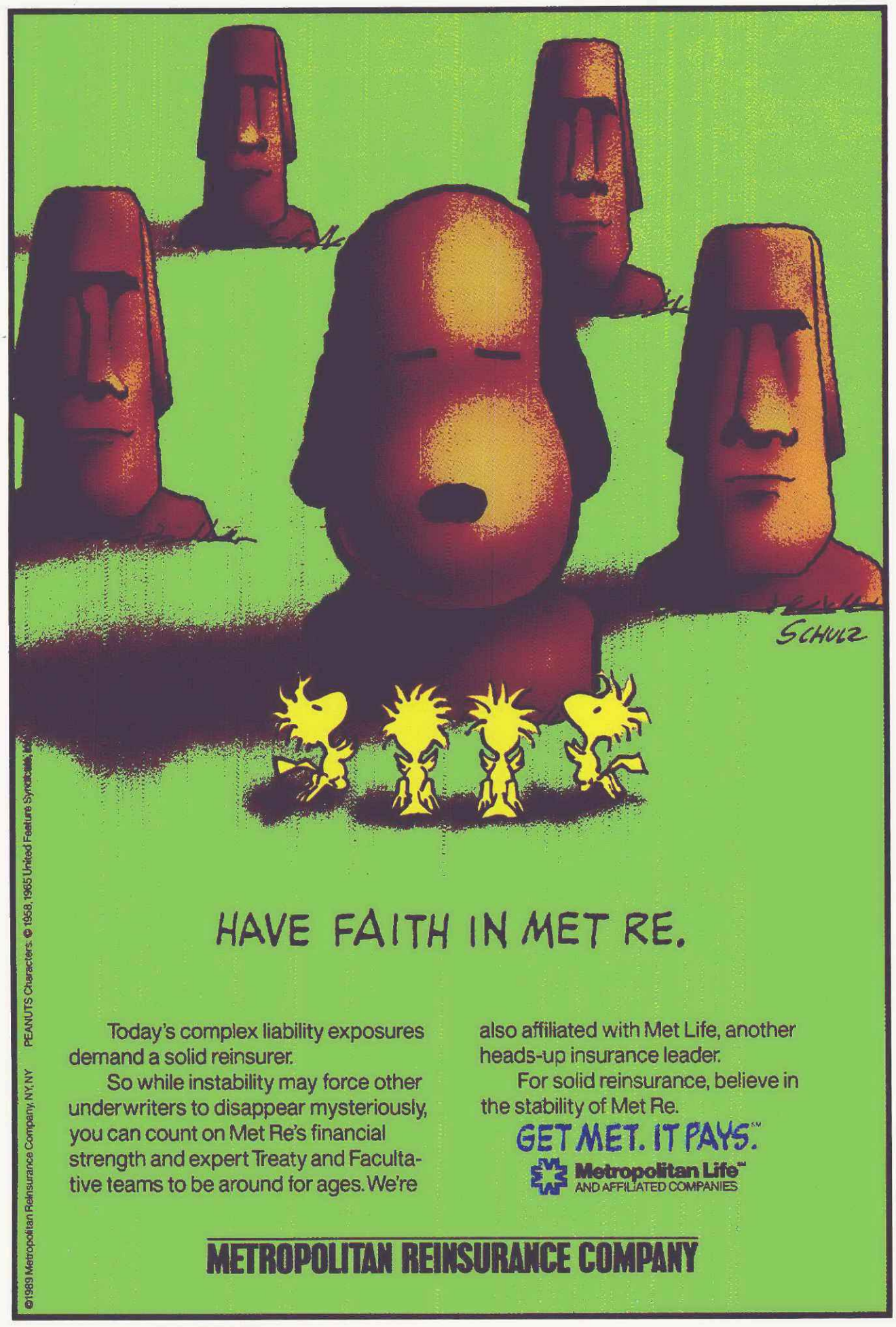
The NCCI hopes the final papers "will serve as valuable blueprints for rebuilding workers compensation into a system that will benefit everyone concerned," Mr. Ryan said.

In addition, he said the broad-based panel assembled by the NCCI to organize the meeting may help establish a smaller and more diverse group—including labor representatives—that can serve as a national advocacy organization for constructive changes in individual state workers compensation systems.

Liberty Mutual's Mr. Countryman recommended formation of such a group during his presentation.

Comments on the issues should be mailed to the National Council on Compensation Insurance, 1 Penn Plaza, New York, N.Y., 10119.

The NCCI is a workers compensation statistical, research and ratemaking organization. The NCCI prepares and administers rates, rating plans and systems for workers compensation insurance in 32 states and provides similar assistance in about half of the remaining states. ■



HAVE FAITH IN MET RE.

Today's complex liability exposures demand a solid reinsurer.

So while instability may force other underwriters to disappear mysteriously, you can count on Met Re's financial strength and expert Treaty and Facultative teams to be around for ages. We're also affiliated with Met Life, another heads-up insurance leader.

For solid reinsurance, believe in the stability of Met Re.

GET MET. IT PAYS.℠
Metropolitan Life℠
AND AFFILIATED COMPANIES

METROPOLITAN REINSURANCE COMPANY

©1989 Metropolitan Reinsurance Company, NY, NY PEANUTS Characters: © 1958, 1965 United Feature Syndicate, Inc.

We're so committed to meeting the diverse needs of insurance companies, we make an issue of it.

Again and again and again.

Corporate Strategy

First Capital Holdings Corp.

has sold 6,188,119 newly-issued shares of its Common Stock to
and
exchanged 3,712,871 newly-issued shares of its Common Stock
for $30,000,000 liquidation preference of the
Series A Cumulative Preferred Stock
of its subsidiary First Capital Life Insurance Group Inc. held by

Shearson Lehman Hutton Holdings Inc.

We acted as financial advisor to the
Independent Committee of the Board of Directors
of First Capital Holdings Corp. in this transaction.

The Home Group, Inc.

through its wholly owned subsidiary

Home Acquisition Company

has acquired

Gruntal Financial Corp.

We acted as dealer manager for the tender offer
on behalf of The Home Group, Inc.
in this transaction.

Liberty Mutual Insurance Company

has acquired

Keystone Provident Life Insurance Company

from

The Travelers Corporation

We initiated this transaction, acted as
financial advisor to Liberty Mutual Insurance Company
and assisted in the negotiations.

Access to Capital

$200,000,000

AMERICAN GENERAL

American General Corporation

9⅝% Notes due 2000

$375,000,000

ENHANCE

Enhance Financial Services Inc.

Common Stock

$46,000,000

ASSET GUARANTY

Asset Guaranty Inc.

Common Stock

We arranged for the private placement
of these securities.

John Hancock
CAPITAL CORPORATION

Private Medium-Term Notes

Due from 1 Year to 10 Years from Date of Issue

Redeployment of Assets

$220,050,000

Aetna

Aetna Life Insurance Company

Bond Option Program

Bonds representing obligations of 43 state
and local governments and authorities were
sold accompanied by Put Options.

21,500,000 Shares

CIGNA

Cigna Investments, Inc.

CIGNA High Income Shares

Price $10 Per Share

Closed End Fund

Equitable Capital Management Corporation

a subsidiary of

EQUITABLE LIFE

Asset Related Swap Transactions

Our ability to structure solutions for insurance companies results from the unique integration of services provided by Merrill Lynch Capital Markets: defining and implementing corporate strategy, accessing capital and redeploying assets.

We number among our clients firms from nearly every sector of the industry throughout the world. And of virtually every size.

We've put together one of the largest teams of investment bankers dedicated to insurance.

©1989 Merrill Lynch Capital Markets

The National Mutual Life Association of Australasia Limited

through its subsidiary

N.M. U.S. Limited

has acquired

Integrity Life Insurance Company

and

National Integrity Life Insurance Company

from

The Equitable Life Assurance Society of the United States

We acted as financial advisor to
The National Mutual Life Association
of Australasia Limited in this transaction.

NEW YORK LIFE

NEW YORK LIFE
INSURANCE COMPANY

Financial Advisory

NWNL

The NWNL Companies, Inc.

We acted as financial advisor to the NWNL Companies, Inc. in its demutualization and reorganization.

Hartford Fire Insurance

Class D Preferred Stock

675 Shares
Short Term Auction Rate, Series 1
675 Shares
Short Term Auction Rate, Series 2
("STAR+Preferred")

MetLife Funding, Inc.

A wholly-owned subsidiary of

Metropolitan Life Insurance Company

Commercial Paper Program

3,400,000 Shares

20th Century Industries

Common Stock

51,000,000 Shares

Liberty All-Star Equity Fund

Price $10 Per Share

Closed End Fund

The Prudential Insurance Company of America

has sold

Skyline Tower

We acted as financial advisor to
The Prudential Insurance Company of America
and arranged the private sale of this property

$81,000,000

The Travelers
Mortgage Services

Mortgage Pass-Through Certificates, Series 1987-6
10% Pass-Through Rate

By drawing on the strengths of our vast global resources, they combine insurance expertise with the most comprehensive services in the industry.

To explore the various solutions Merrill Lynch Capital Markets can structure to meet any of your financial needs, call John G. Crosby, Managing Director of our Investment Banking Insurance Group at (212) 449-7744.

Merrill Lynch

A tradition of trust.



Special Problems Require Creative Solutions

There's one place you can get all the answers—and coverage—you need to run a successful alternative risk program.

GENESIS.

Beyond unparal eled security and capacity in Excess Workers Compensation, General Liability, Auto Liability and Property Coverage...you'll find creative solutions and assistance in every area to achieve your goals.

For more information, call for our free brochure.

GENESIS
CREATIVE SOLUTIONS

Genesis Underwriting Management Company

Atlanta (404) 365-6800, Chicago (312) 207-8100, New York (212) 770-0270, San Francisco (415) 393-8400, Stamford (203) 328-6660

A member of General Re Group

©1989 Genesis Underwriting Management Company

Corporate wellness

Risk managers can play a greater role in steering their firms

IN RECENT YEARS we have seen and experienced a greater awareness of the importance of corporate resources and the preservation of those assets within the organization.

For instance, the advent of employee wellness programs has been stimulated by escalating medical costs, unfunded liabilities for retiree health care coverages, federal regulations like COBRA, and restrictions on screening out handicapped individuals—like those with cancer, AIDS, mental problems, etc.—in hiring practices.

The focus of wellness programs identifies high-risk employee profiles and offers programs for behavior modification (like diet, smoking cessation, exercise, etc.) to reduce risk and to increase productivity and longevity. These programs were stimulated by the high cost of providing benefits to employees. It is recognized that society pays the price for unhealthy personal shortfalls either within the organization or through the citizen-funded welfare systems.

Corporate wellness programs now have the active support and promotion of top management. Ironically, top management has had perks for many years promoting physical fitness and wellness. Now these perks are being extended on a larger scale to more employees.

In the risk management field, we as risk managers seem to be preoccupied with risk financing, premium costs, breadth of coverage, policy limits, claims-made coverage and responding to losses. Many of these functions can be performed either from the risk manager's own office—with assistance from brokers, insurers and attorneys—or through other external resources.

Risk managers generally utilize the tool of risk transfer to insurers and focus on risk reduction primarily in the areas of workers compensation and motor vehicle accidents. This is a natural reaction since we feel most comfortable in this setting.

It is also apparent we utilize risk reduction in our professional careers as well by not taking a pro-active position in risk management to the "total organization." When is the last time you took a pro-active stance toward product development, operations systems and procedures within the organization or externally with the onset of a merger, acquisition, quality of a supplier's products or substitution of a slightly higher-priced component possessing greater overall product integrity? It is more comfortable to not go out on a limb in connection with these types of issues if taking a stand may mean taking an adversary position within the organization.

With this defensive attitude, how can we expect or earn greater responsibility, recognition, compensation and status within the organization?

Speaking out

For the risk manager willing to take personal risk within the organization, gain greater credibility, influence management decisions and advance personally and professionally, he or she must become more pro-active and visible within the company. Find out what is happening, how products and services are produced or generated, analyze procedures and practices, and finally influence the form in which they are provided.

After the risk manager understands the total organization, an action plan can be developed and presented to the chief executive officer that outlines both findings and offers solutions. Solutions are a must as no CEO cares to hear complaints that offer no solutions. The CEO's attention can then be directed toward overall "corporate wellness" of all assets with a focus toward market position, integrity, ethics, product stability, and overall consumer and employee satisfaction.

The result of this effort will undoubtedly result in enhanced stability and lower cost of risk and position the company to have "staying power" within the industry and as a going concern.

It is time to act to regain America's reputation as a leader in the world marketplace. To think risk managers cannot affect the quality of products and services provided by U.S. corporations is a cop-out and indictment of the risk management profession. Is it possible that risk managers should shoulder at least part of the responsibility for the downfall of the quality of American products? Are we not responsible for loss prevention and loss control? Isn't loss control part of the overall function of product integrity and quality assurance?

There appears to be no one department either assigned the responsibility and/or willing to assume the responsibility of coordinating overall corporate asset wellness. The human resources, research and development, production, marketing, and other departments in an organization each handle segments of the corporate plan of universal corporate wellness.

If the risk manager is willing to develop an action plan for development and implementation of universal corporate wellness through the institution of programs to enhance the utility of all assets, top management surely will provide the support and resources to fulfill that goal. What CEO would not listen to such an innovative plan of action? Wouldn't it be a more effective and efficient utilization of resources? Top management is interested in such an important corporatewide program and would be hard-pressed to not support such an approach that would place it in a more powerful position in the world marketplace and enhance the company's future. Such an action plan would bring the risk manager into the 21st century in dealing with risk while creating greater career opportunities in the organization and in the field of risk management.

There is not a better time than now to address this issue. There is not a better department to coordinate the plan than the risk management department.

How does the risk manager formulate such a plan?

- First, obtain the mission statement of the organization and identify its goals.
- Identify the various key organizational contributors that determine the actions and the thrust of the organization.
- Analyze how, what, in what order and with what authority the contributors respond to both internal and external factors.
- Compose a plan of action that utilizes and maximizes the various resources available to the organization to ensure that systematic and appropriate decisions are made that address all concerns of the organization before assets are committed.
- Implement the program.
- Monitor the success or failure of the action plan, making modification to anticipate and respond in a positive manner to the needs and requirements of the organization.

Such a plan requires cooperation and contribution from the various departments and a focal point from which to coordinate such an activity.

One can expect the road to be bumpy and there to be many obstacles. There will be moments of anxiety and frustration. The concept and action plan may take years to formulate and institute. However, the long-term positive results will be both rewarding and gratifying to the risk manager as he or she is able to contribute in a more pro-active capacity, both professionally and personally, to the betterment of the organization and society.

This is what risk management, American competitiveness, ethics and life are all about.

Until risk managers assume such an organizational role, we are doomed to be only extensions of the insurance industry, reacting to internal and external influences and destined to be procurers of insurance and adjusters of losses. There are greater aspirations for our profession should we be willing to risk short-term setbacks, take on new responsibilities, risk personal criticism, and work harder and smarter. For the risk manager willing to take on this mission, he or she will be rewarded handsomely—personally, professionally, socially and monetarily.

James E. Loeb, A.R.M., is the principal of Independent Risk & Insurance Management Services Inc., a risk management consulting firm in Phoenix, Ariz.

Discharge of pollution not sudden: Court

Under Kentucky law, the focus is not on the damages caused by pollution but on the discharge of the pollutants by the policyholder, the U.S. Court of Appeals for the 6th Circuit said in determining whether a discharge of pollution was sudden and accidental within the meaning of a pollution exclusion clause in a general liability insurance policy.

This suit arose out of a suit brought against Star Fire Coals Inc. by Angus Rouse. Mr. Rouse lived near a coal tipple operated by Star Fire and alleged that he sustained personal bodily injury and damage to his property by the emission of excessive amounts of coal dust from the tipple during the course of its operation. According to Mr. Rouse, the situation had worsened during the past seven to eight years.

Legal briefs

Star Fire was covered under a general liability policy issued by United States Fidelity & Guaranty Co. that was effective from Feb. 1, 1984, to Oct. 3, 1984, when it was canceled. The policy covered Star Fire's liability for bodily injury or property damage caused by an "occurrence." The policy also contained a clause excluding coverage for pollution. Star Fire sought USF&G's defense of Mr. Rouse's suit. The insurer brought this action seeking to determine its duty to defend. The trial court found for Star Fire.

The appellate court said the core provisions of the policy defined an "occurrence" as those accidents or conditions that result in damage that was neither expected nor anticipated by the policyholder. The court concluded there was an "occurrence" here. But, the exclusion provision clearly called off any obligation to provide coverage in cases such as this, unless such discharge was sudden and accidental, which it was not, according to the court.

Thus, the court said the exclusion clause did apply and USF&G had no duty to defend Star Fire. *United States Fidelity & Guaranty Co. vs. Star Fire Coals Inc.*, U.S. Court of Appeals for the 6th Circuit, Aug. 31, 1988 (*BI*/05/May—$10).

These abstracts were prepared by Cases Unlimited Inc. Copies of these decisions are available by sending a $10 check payable to Cases Unlimited to Business Insurance, *740 N. Rush St., Chicago, Ill. 60611-2590. List the number for each opinion.*

Safety management

New view of loss prevention pays increased dividends

By Steven A. LaShier

THE INSURANCE industry evolved in response to merchants wanting to protect their commodities. Since insurance premiums were viewed as a necessary but unwanted expense, commercial insurance buyers worked at devising a multitude of financial schemes to minimize the cost of "spreading their risks." Hence, the traditional insurance buyer was financially oriented, concentrating efforts on ways of financing risk rather than focusing on effective management of the entire insurance and safety package.

That view has been significantly altered in recent years as more and more companies acknowledge and experience the important role of safety management in achieving a successful insurance program.

It was the Industrial Revolution and the introduction of workers compensation laws at the beginning of this century that gave rise to the safety profession. The insurance industry principally was responsible for developing the concept of "loss control."

Unfortunately, just as traditional risk managers concentrated solely on financing rather than controlling their risks, traditional loss control was inspection-oriented and provided only limited, tactical help to the policyholder. Moreover, the work of loss control specialists is often oriented toward providing information to underwriters, not reducing the policyholder's costs.

Statistics of the past decade support the contention that the traditional concept of loss control has outlived its effectiveness. Although we today have more laws, more regulations and more safety professionals than ever, too many industries continue to incur unacceptably high accident frequencies.

The latest available five-year review of incidence rates compiled by the Bureau of Labor Statistics for some key Standard Industrial Classifications bears this out:

- General building contractors: In 1981, an incidence rate of 15.1 recordable injuries/illnesses per 100 full-time workers; in 1986, an I.R. of 14.9.
- Manufacturing, lumber and wood: In 1981, a 17.6 I.R.; in 1986, an 18.9 I.R.
- Transportation equipment: A 9.8 I.R. in 1981; a 9.6 I.R. in 1986.
- Retail trade: In 1981, an I.R. of 7.1; in 1986, a 7.8 I.R.

Compounding the continuing high incidence of injury, the 1980s experienced skyrocketing medical costs. Inevitably, insurance costs have risen apace. The National Forum on Construction Safety and Health Priorities estimates that direct losses in the construction industry alone will be $11.6 billion in 1989, which is equivalent to the cost of 7,730 miles of newly constructed two-lane highway. That's a pretty grim situation.

However, looking ahead to the 1990s, there is light on the horizon as we enter the new frontier of "pro-active safety management" or, simply, safety management.

Safety management can be defined as the integration of a well-thought-out safety program into a company's total management system. As simple as this sounds, it is no easy task to instill these principles into an organization. It requires progressive thinking and executive action, but the payoff is huge. Effective safety management will lead to fewer losses, lower operating costs, increased production and higher profits.

Traditional safety programs consist of a policy statement, a list of responsibilities and numerous work rules and procedures. They essentially are negative and restrictive in their orientation. Safety management, in contrast, focuses on establishing accountability and setting practical performance goals and measures for safety performance throughout all levels of management.

Losses can be prevented only after each manager realizes that *every* accident is the result of a weakness or flaw in their management system. Management must accept responsibility for each loss and manage safety as diligently and aggressively as any other company function. To accomplish this, accountability for safety must be established for all levels of management.

Losses can be prevented only after each manager realizes that *every* accident is the result of a weakness or flaw in their management system. Management must accept responsibility for each loss and manage safety as diligently and aggressively as any other company function.

Safety management is sensitive to the management psychology of supervisor/worker relationships. It is based on positive reinforcement principles. The research of Dan Peters, a leading consultant in the field of safety and organizational behavior, has shown that positive recognition for safe performance has a positive effect on workers and, ultimately, safety program success. In safety management, as in most other areas of management, positive reinforcement by managers has shown to be far more productive than criticism of employees. There exists a direct positive reinforcing relationship between employee behavior, production and safety.

Although training has been a buzzword in the safety profession for at least the past two decades, too often the training has been misdirected and not aimed at the root of the problem. Past training approaches have been oriented toward broad-based awareness and skill enhancement. These training approaches have relied on the issuance of citations or violations as a "training" medium, supported by a general weekly safety meeting. While both of these practices have their place, they often miss the real causes of industrial accidents and they frequently have been directed at the wrong audience.

Safety management takes a direct approach to training. For example, at a nuclear power plant construction project with more than 8,000 union craftsmen, the project safety staff had been writing almost 100 scaffolding safety violations every month for two years, not to mention that scaffolding had been a repeated topic in weekly safety meetings. Each time a contractor was cited, that particular scaffold was fixed to settle the citation. But the same violations would reoccur elsewhere again and again.

The real cause for these repetitive violations had never been addressed. The solution: Conducting a training class for the 20 foremen responsible for scaffold construction on the project as to what constituted a safe, properly constructed scaffold. Additionally, the foremen were held accountable for the safety of the scaffolds their crews erected and a single superintendent was made responsible for the entire operation.

The result was a virtual elimination of scaffolding violations and a marked reduction in scaffolding-related injuries. Safety management understands that problems must be addressed directly and positively. Handing out citations is never a very effective problem-solver or motivator.

Safety management also is sensitive both to the psychology and the physiology of the interrelationships between the work environment and the worker.

An example that illustrates this involves a large, well-known bottler of a popular soft drink in the Southwest. Using the principles outlined in this article—including accountability, effective use of positive reinforcement and incentives, together with ergonomic changes—had an immediate impact. The result, in just one quarter of last year, was a savings of more than $500,000 of direct loss control costs compared with the same quarter of the previous year.

Ergonomics—the principles of designing workstations, tools and tasks to match the workers—plays a valuable role in controlling costs. Safety management realizes that a workers physical and mental capabilities and limitations can no longer be ignored. In fact, they must be considered first.

Ergonomics is a relatively new and advanced applied science, yet it can be simple, too. Traditionally, job tasks were designed and the worker had to conform to the task. Safety management understands that there is real value in designing the task to fit the worker.

The payoff is that not only do worker injuries decline but productivity and quality increases. The automotive industry has enjoyed major financial success with the redesign of its assembly lines. On one body line, simply tilting the auto outward toward the worker has allowed the workers to maintain a more erect posture, reducing fatigue and back injuries while increasing production.

Many examples could be cited where ergonomic changes have reaped huge dividends: suspending tools overhead in electronic assembly lines; foam-covered handles on grinders; knife handles angled to reduce stress on the wrist; typing tables and chairs angled and positioned at the proper height, etc. No amount of training, positive reinforcement or supervision can make up for a task with an injury designed into it. Safety management realizes that there must be ergonomic changes in the workplace if there are to be fewer injuries.

Regardless of the mechanism used—traditional insurance, a risk management program, self-insurance or some hybrid—the bottom line today is that one way or another large employers pay their own compensation losses.

The only way to control costs is to prevent losses from happening in the first place. That is the essence of safety management.

Practical experience indicates that the opportunity for loss reduction is far greater than most managers think possible. Numerous examples exist of real world clients that have used safety management to cut losses; in some cases, from literally millions of dollars to a few thousand dollars in remarkably short time periods. Investments in safety management probably represent a higher return on investment for most companies than just about any other marginal expenditures they could make.

Safety management is an approach to a national problem that holds great promise to meet the needs of American industry in the 1990s. No injury is acceptable.

The only objective we should be willing to accept is industry without injury.

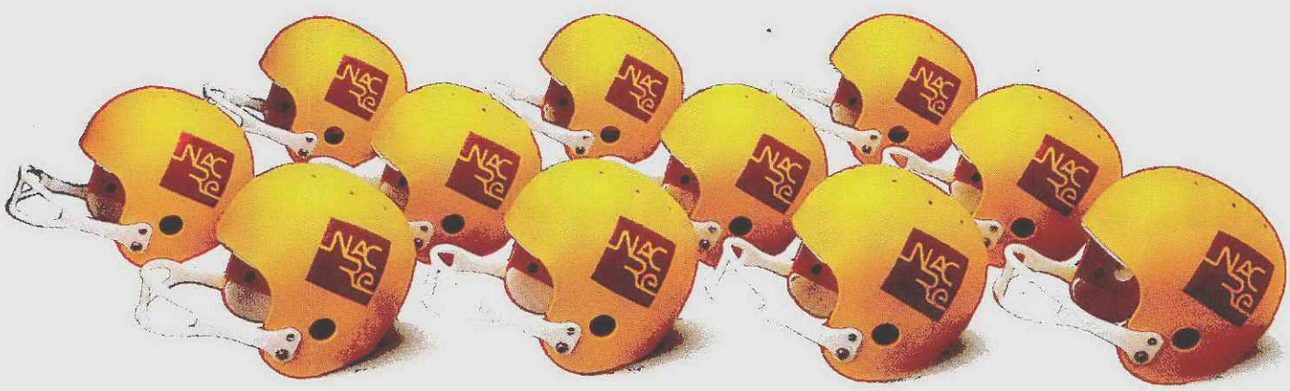


Steven A. LaShier is vp of safety management for Argonaut Insurance Co. of Menlo Park, Calif.

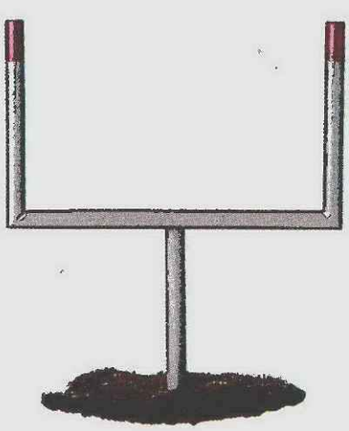
NAC RE'S FACULTATIVE GAME PLAN



The coach's strategy: Develop a facultative team committed to being a strong contender every season. The game plan: Use NAC Re's solid base of reinsurance experience, its Best's rating of "A" and over $175 million in statutory surplus to deliver superior service.



The execution: Veteran underwriters, with over ten years of experience on average, are tackling facultative reinsurance. We have established direct relationships with many of the leading property/casualty insurers. Limits capacity of $15 million for property and $5 million for casualty makes us a good choice for your first call.



Our facultative team is committed to helping you meet your goals. We'll listen carefully to your proposals. Then respond consistently regardless of market conditions. And we won't keep you waiting. Though some opportunities involve more lengthy review, 80% of clients' submissions over the last year received answers within a day. Contact us, and see how NAC Re's game plan can help you extend your winning streak.

GREENWICH
(203) 622-5200
FAX: (203) 622-1494

HARTFORD
(203) 293-6200
FAX: (203) 247-3734

CHICAGO
(312) 876-7200
FAX: (312) 876-1399

We'll be there when you need us.

NAC Reinsurance Corporation

New from Brownyard

We've just taken the "bugs" out of insurance for exterminators!

...AND WE INVITE AGENTS AND BROKERS TO WORK WITH US TO COMPETE FOR THIS BUSINESS WITH THIS UNIQUE BROWNYARD PLAN!



It features:
- Liability written on an Occurrence basis
- Warranty Coverage
- Sudden & Accidental Pollution Liability
- Care, Custody & Control Coverage
- No deductibles
- Contractual Coverage (For Assumed Liability)
- Personal Injury (Invasion of Privacy, etc.)
- Advertising Liability
- Medical Payments
- Umbrella Liability to $4 million

Plus—you gain the professionalism of The Brownyard Group. For full information and applications, call or write today.

We Take On The Tough Ones

BROWNYARD BROTHERS

20 Fourth Avenue, Bay Shore, N.Y. 11706-9838
800-645-5820 (In NY 516-666-5050) · Fax: (516) 666-5723

Comings & goings: industry

Continued from page 40

Other suppliers

Michael Champ, Jerry Lanoux and **Larry Schumer** named partners of the Actuarial, Benefits & Compensation Group of Coopers & Lybrand's Northeast region in Boston.

David M. Banet joined Malvern, Pa.-based Consulting Group Inc., a benefits consulting firm, as senior vp and partner. Prior to his new position, Mr. Banet was vp-group sales with Independence Blue Cross of Philadelphia.



Mr. Morello

Laird M. Post joined the group benefits practice of TPF&C, a division of Towers, Perrin, Forster & Crosby Inc., as a senior consultant in Seattle. In his previously held position, Mr. Post was group benefits practice leader for The Wyatt Co.

Jack Keating joined National Insurance Advisory Services of Braintree, Mass., as president. Most recently, Mr. Keating was chief financial officer of Index Group Inc.

Carl J. Giffin named president of National Insurance Services Inc. of Tampa, Fla.

Sheila P. Roberts joined Paretzky Information Network Inc. in Bethesda, Md., as executive vp. In her most recent position, Ms. Roberts was director-risk management and insurance for Time Warner Inc.

W. Dale Montgomery joined Robert Hughes Associates Inc. of Dallas as vp-actuarial services. In his most recent position, Mr. Montgomery was a consulting actuary with Tillinghast, a division of Towers, Perrin, Forster & Crosby Inc.



Ms. Roberts



Mr. Dullnig

Thomas F. Filling joined Yaffe & Co. Inc. of Baltimore as a principal. Mr. Filling, in his most recently held position, was vp-human resources of St. Joseph Hospital in Baltimore.

Judy L. Peery promoted to managing consultant at Noble Lowndes in Chicago.

ALTA Health Strategies Inc. of Salt Lake City announced the following additions to its staff: **Linda M. Gerbig** to senior vp-managed care; and **Jeffrey M. Folick** to senior vp-provider networks. Most recently Ms. Gerbig was vp of PARTNERS National Health Plans. Mr. Folick, in his previously held position, was president of Peak Health Plan

Marjorie E. Zwick joined William M. Mercer Meidinger Hansen Inc. of New York as director of its GIC/annuity practice. Previously, Ms. Zwick was vp of the Equitable Life Assurance Society of the United States.

Jon F. Dullnig joined Booke & Co. of Winston-Salem, N.C., as vp and compensation consultant.



Mr. Montgomery

William A. Reimert and **Thomas G. Nelson** named principals of Milliman & Robertson Inc. of New York

John C. Pfeiffer appointed president and chief executive officer of PCS Inc. of Scottsdale, Ariz. Mr. Pfeiffer succeeds Donald B. Dahlin, who resigned, until a permanent replacement is named.

Kathleen Shrader joined the New York office of Buck Consultants Inc. as an associate consulting actuary. Previously, Ms. Shrader was an actuary with Mobil Oil Corp.

Andrew J. Oliver promoted to president of Conning International Inc. of Hartford, Conn. ■

Constitution Re

Professional Reinsurance, Personal Service...

Since 1940

Constitution Reinsurance Corporation

A XERCX Financial Services Company

New York • Chicago
Los Angeles • Brussels

A.M. Best Rating: A+



A mission into space is a challenge unmatched since the days of Magellan. Only the most dedicated and disciplined are selected. But without the technical support of hundreds of people on earth, they could be light-years off target.

Businesses that attempt to track and plan for actual and potential losses without support are also likely to find themselves drifting aimlessly. Timely and accurate information is critical to the success of any risk management program. Which is why so many companies have come to rely on Scott Wetzel Services.

Our information systems provide the clearest records to measure the financial impact of risk avoidance, assumption, transfer and reduction programs. We track information with one of the most sophisticated data systems in the industry. It allows us to generate the most comprehensive and readable risk management reports available.

One more thing: our way isn't "our way." We have the flexibility to provide reports in the format and quantity to meet your most exacting requirements.

Information systems are one part of SWS risk management planning and support that can help your company successfully navigate in a hostile environment.

Learn more by calling our local representative. Or contact our home office at 1-800-426-5990. (In Washington, call 206-479-0200.) Ask for our president, John Harrold. He'll show you how to be one of the brightest stars in the galaxy.

EXPERIENCE WITH VISION.

SCOTTWETZEL
SERVICES, INC.

Risk Management Planning and Support

Rendez-Vous

Continued from page 1

by increasing insurance and reinsurance rates, the London market underwriters are expected to retain more risk to control their retrocession costs (see story, page 50).

Everywhere in Monte Carlo during the Rendez-Vous one heard discussion of "1992," the shorthand phrase for the removal of trade barriers among members of the European Community in 1992, although trade barriers for most commercial insurance buyers drop next year.

This historic change in the EC market and its importance for reinsurance also was the topic of the annual Rendez-Vous panel discussion.

"It's more of a European business meeting than in the past," observed Ward Gordon, chairman of Intere Intermediaries Inc. in New York, referring to all the discussion of mergers and acquisitions among European insurers and reinsurers that are positioning themselves for more open trading. Mr. Gordon recalled that in the last nine years he has attended the meeting, discussions focused more often on the U.S. market or on underwriting results.

"What is surprising to me is that (the soft market) is becoming a universal trend," said Theo Dielmann, executive vp of Hannover Reinsurance A.G.-Eisen & Stahl Reinsurance A.G. of Hannover, West Germany, which share underwriting agreements and rank together among the world's 10 largest reinsurers.

"Our economies have become more and more global. It's competitive in the States. It's competitive in Europe and it is competitive, though less so, in Japan," he said.

"I'm only hearing about the need for premium income and no concern for underwriting losses," observed Edward B. Jobe, president and chief executive officer of American Re-Insurance Co. in Princeton, N.J., which derives 20% of its premiums from outside the United States. "That means there's a ton of reinsurance support for underpriced primary programs," he said.

While commenting that "I haven't seen irresponsible competition yet," Mr. Jobe added: "I'm getting uneasy about it. I worry about too much capacity chasing a decreasing pool of business."

However, Mr. Jobe also notes that while "there's going to be a ton of reinsurance capacity, I'm not sure to what extent that will translate into done deals because reinsurance buyers are more circumspect about who their reinsurers are than in the early 1980s."

Mr. Jobe recalled that in the early 1980s some chief executive officers of insurance companies could only tell him who their reinsurance broker was and not who their reinsurers were. "Today they can (name their reinsurers), and that will make a positive difference," he predicted.

American Re, the world's eighth-largest reinsurer, deals directly with ceding companies without reinsurance broker involvement.

This year's Rendez-Vous, held Sept. 3-8, attracted 1,940 participants from 76 countries and colonies to the elegant setting of Prince Rainier's city of Monte Carlo, which covers most of his small principality of Monaco on the Mediterranean.

The conference registrar reported that actual attendance was 40 to 50 people more than last year, but less than the number that preregistered.

As in the past, Rendez-Vous participants gathered in small groups in hotel suites and lobbies, restaurants and bars, by the beach and swimming pools and on yachts to talk about specific programs and what is happening in the world's reinsurance markets that could affect year-end renewals.

Most participants arrive with their meeting schedules complete, though a few openings usually are available for last-minute opportunities.

At first, it seemed to many participants that fewer people were in attendance because the Loews hotel piano bar lounge and the Hotel de Paris lobby and bar—all popular meeting places—didn't seem as crowded as in previous years. However, as the week wore on, many registrants said the numbers were not down but were spilling into the newly renovated Cafe de Paris, which reopened in full this year after two years of renovation. The outdoor cafe next to the Old Casino provided scores of new tables, many of which were covered by umbrellas to keep out the sun but allow fresh air to breeze through. As one participant put it, "the Cafe de Paris was this year's meeting place."

Also, the new posh Metropole Hotel, which has taken at least seven years to build, opened two weeks before the Rendez-Vous. However, those who stayed in the hotel complained that it wasn't quite ready for occupancy as the rooms still were being decorated and only half of the hotel was open.

Some Europeans say that merger mania has taken on a life of its own, becoming a 'feeding frenzy.'

Participants as usual enjoyed meeting people they hadn't seen for awhile and attending the daily and nightly round of receptions and dinner parties.

However, this year's Rendez-Vous was marred by the deaths of at least four people attending the meeting. One woman was hit by a car as she crossed a street in Nice on the French Riviera, and three men died of heart attacks, participants said.

Many participants saw Rudolf Woltersdorf of Rheinland Reinsurance Co. in Cologne, West Germany, stand up at the Cafe de Paris to wave good-bye to the person he had met when he collapsed of a heart attack. Despite mouth-to-mouth resuscitation and emergency paramedic care, Mr. Woltersdorf died later in a hospital.

Mr. Woltersdorf was in his mid-50s and had just moved to Rheinland Re in January after 25 years with Cologne Reinsurance Co. as marine manager, a friend said. It was his first Rendez-Vous.

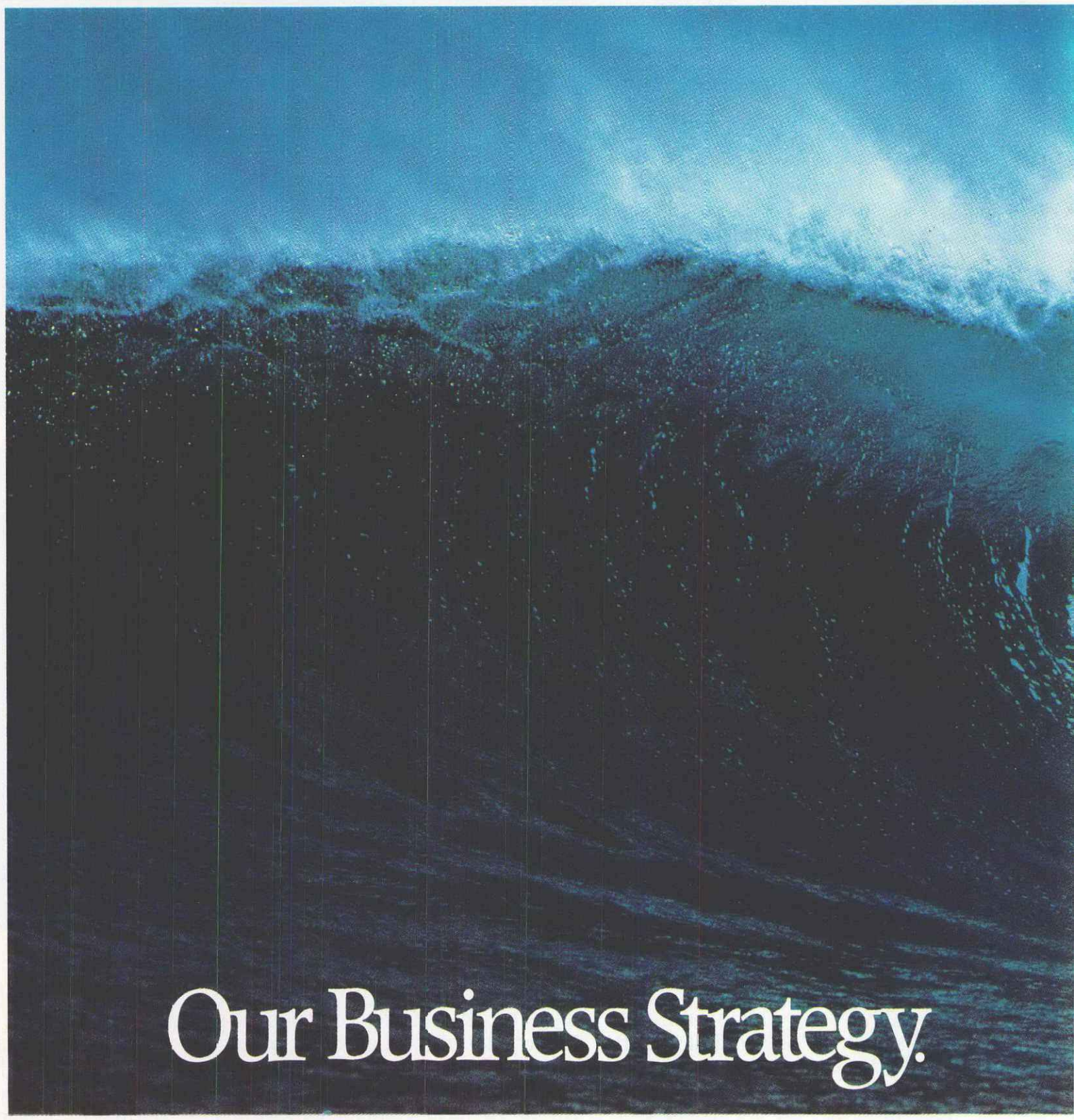
Aside from the somber discussions of the tragedies, topics of conversation throughout the week varied with people from country to country and continent to continent.

The Continental Europeans, who dominate the Rendez-Vous with about one-third of the registrants, talked about the frenzied mergers and acquisitions taking place across the continent. These will create fewer and larger insurance conglomerates that could retain more risk and need less reinsurance, thereby decreasing the amount of reinsurance written in Europe.

While everyone cites the need to position for 1992, some Europeans suggest that the merger mania has taken on a life of its own, turning into a "feeding frenzy."

The U.S. contingent of more than 200 reinsurers, brokers, consultants and lawyers were caught up in discussing the fallout of the many mergers and acquisitions among European insurance and reinsurance companies. And, they questioned if U.S. insurance regu-

Continued on next page



It's based on a simple truth.

In reinsurance, reliability is everything. You must be there when a client needs you. To assume part of the risk, or absorb part of the loss.

So, before you choose a reinsurer, look beyond the tempting terms and conditions you may find today. Look at strength. Stability. Dependability. And ERC. For almost 75 years, we've been a con-

Continued from previous page
lators would approve the acquisition of Farmers Group Inc. by the giant French insurance group Axa-Midi as planned if Sir James Goldsmith succeeds in taking over B.A.T. Industries P.L.C., which currently owns Farmers.

The huge London market contingent of nearly 250 underwriting, brokerage accounting, runoff and legal firms chatted about the outcome of the trial of former Lloyd's underwriter Ian Posgate and former Alexander Howden Group P.L.C. Chairman Kenneth V. Grob. Both were found innocent last month of stealing or conspiring to steal Howden underwriting funds for their own benefit (*BI*, Aug. 21).

Many of the London market representatives were astonished by the verdict, although some said that they were pleased that the two men had not been jailed.

Conversations at the Rendez-Vous, however, inevitably returned to the state of the $45 billion worldwide reinsurance market and predictions for the year-end renewal season that begins in October for Dec. 31 and Jan. 1 renewals.

Taking the pulse of the market is a dominant reason for attending the Rendez-Vous, although some observers say early September is too soon to accurately predict the year-end renewal season because the London market excess-of-loss reinsurance negotiations do not begin until October.

However, given what they know and heard during the meeting, most everyone was analyzing the market today and making predictions for the year-end.

"The state of the reinsurance market is generally healthy," commented Brian Prevost, chairman of the London-based Reinsurance Offices Assn. and general manager of Swiss Reinsurance Co. (U.K.) Ltd.

"And market leaders are expressing the view that the market will not return to stupid practices. There is a great consciousness that they have got to do all they can to provide a more consistent level of service. Our job is to iron out the bumps, not to cause them," Mr. Prevost said.

The ROA represents most of the London reinsurance company market and about 200 companies that are affiliate members.

Market leaders believe 'the market will not return to stupid practices,' says Mr. Prevost of the ROA.

Overall, Rendez-Vous participants were neither euphoric nor glum about upcoming year-end renewals, said Victor Blake, chairman and chief executive officer of CNA Reinsurance of London Ltd.

"Reinsurance is available and there is no shortage of cover. There isn't a capacity problem as there (has been). But everyone is being sensible, so maybe the (soft) cycle won't be as long or as deep."

The world's insurance and reinsurance markets still are feeling the benefits of the "bumper year" in 1986 when the markets hardened and underwriters saw huge premium increases, Mr. Blake noted. And 1987 to a lesser extent was a good year for underwriters, too, he said.

"It is too close to those years" to know if underwriting decisions that are made today are sensible or blinded by those two good years, according to Mr. Blake.

"I hope we don't go back to the early 1980s" when rates plummeted during the year-end renewals, said Tony Taylor, managing director of English & American Group P.L.C. in London. "But we haven't had a major windstorm in the U.S. If I could predict when there would be that windstorm, I'd get out of the business before it blew.

"When will the market turn? When will there be a substantial U.S. windstorm? Then it will be the renewal season after that. Or in two or three years," said Mr. Taylor.

"I haven't come to grips yet with how renewals will be this year (end)," said Jurgen Zech, general manager of Cologne Reinsurance Co. in Cologne, West Germany, the seventh-largest reinsurer in the world. "The market is soft and there is lots of capacity and no trouble placing the business. But reinsurers have held their line on rates and conditions this year. I hope this will persist.

"The big losses haven't affected the rate structure," added Mr. Zech, referring to the 1987 European windstorm known as "87J" and the Piper Alpha loss last year. "Piper Alpha had some effect on the oil market (rates), but not drastically. So I see a continuously soft market for years to come unless there is a major disaster."

Michel H. Angelil, executive vp of Union Reinsurance Co. in Zurich, Switzerland, predicts that reinsurance prices will not fall at year-end. "If they do, it will be unhealthy underwriting," he warned.

James Hall, managing partner of casualty actuarial and risk management in Coopers & Lybrand's Boston office, observed that the current competition is "not suicidal." But, he added, "I haven't heard anyone say that 'Prices have hit the point we aren't going to allow our people to underwrite more than this.' "

While one reinsurer told Mr. Hall that his company is not looking for new client companies, generally "reinsurers are digging in their heels but are willing to be dragged a little further down."

Coopers & Lybrand executive consultant LeRoy J. Simon observed that this will be "a critical year in testing the backbone of underwriters. One has to follow a hard line in soft times, and that tests the strength of the underwriter."

Mr. Simon, retired senior vp of Prudential Reinsurance Co. in Newark, N.J., also agreed with Mr. Jobe on the security issue. "Everyone is seeking better security and this is good."

Ceding companies generally want reinsurers with at least $100 million in capital and surplus, up from $50 million, Mr. Simon said.

While commenting that the demand for higher policyholder surplus has "some nice advantages," he also questioned how long investors of such large amounts of capital will be satisfied with reduced returns on their capital.

The "poor outcome" of lower returns could be that "management will finally crumble under the pressure and write as much premium as they can in a vain attempt to produce a satisfactory rate of return," he said. That would lead to another round of rate cutting similar to the early 1980s, he said.

Or, smaller reinsurers will be "squeezed out of the market by takeover or untimely demise," Mr. Simon continued. That would result in a reinsurance market increasingly concentrated among fewer companies.

Commenting on current market conditions, Mr. Simon said that "everyone agrees that property rates are at the bottom and should not go down. Casualty rates are still working their way down and entering the zone of uncertainty. One can't be sure that casualty is still profitable today."

Most of those interviewed agree that the U.S. liability insurance and reinsurance market will remain steady during year-end renewals, although there will be pressure to ease restrictions and

Continued on next page



stant in the industry. And we'll continue to be.

Because we believe the true measure of a reinsurer isn't what they can do for your premiums today.

It's whether they'll be there to pay recoverables tomorrow. And the day after. And the day after that.

EMPLOYERS REINSURANCE

5200 Metcalf, Overland Park, Kansas 66201

A General Electric Financial Services company.

Employers Reinsurance Corporation and its subsidiaries, with offices located in: Atlanta / Boston / Chicago / Columbus / Copenhagen / Houston / London / Los Angeles / New York / Philadelphia / San Francisco / Toronto

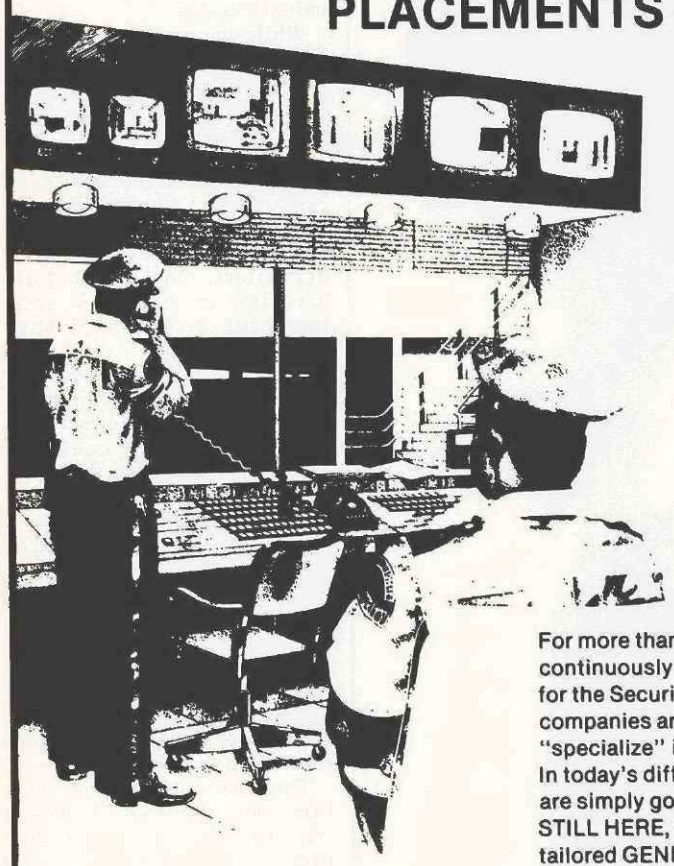
California Earthquake

Sherwood Insurance Services is the leading wholesale broker of California Earthquake and D.I.C. coverage, specializing in the placement of California properties since 1978. Capacity up to $100,000,000 representing 100 companies and reinsurers. Call Jim Barnes today for competitive quotations on "All Risk" and D.I.C. coverage at **(415) 956-3236.**

SHERWOOD INSURANCE SERVICES

201 California St., Suite 900 • San Francisco, CA 94111 • (415) 956-3236 • Telex 171719 • SHERINSUR SFO
3435 Wilshire Blvd., Suite 2930 • Los Angeles, CA 90010 • (213) 487-3260 • Telex 71275568 • SILAUR

A BRIEF MESSAGE ABOUT INSURANCE PLACEMENTS FOR



- Security Guards,
- Patrol Services,
- Detective Agencies,
- Armored Car Service,
- Alarm Monitoring and
- Alarm Installation

For more than a decade CoverX Corporation has continuously provided a stable insurance product for the Security Industry. During that time many companies and agencies professing to "specialize" in this industry have come and gone. In today's difficult insurance marketplace most are simply gone. COVERX CORPORATION IS STILL HERE, providing that industry with custom tailored GENERAL LIABILITY AND PROFESSIONAL LIABILITY.

If you have current or potential clients in the security industry whose long range interests lie in obtaining a quality insurance product in a stable market then you owe them a CoverX quotation.

For further information or applications call or write . . .

COVERX CORPORATION

P.O. Box 5096, Southfield, Michigan 48086
Telephone: (313) 358-4010
Facsimile: (313) 358-2459

Rendez-Vous

Continued from previous page

reduce rates.

Reinsurers, for example, may continue to ease some restrictions like sunset clauses, which limit the amount of time a ceding company can file a claim after the policy expires, noted Mr. Dielmann of Hannover Re.

However, "the shock of the early 1980s is still there and reductions are less marked and reinsurers are cautious in making concessions," he said. "It is a question if they will be able to hold the line in the next few years. There will be pressure (to make concessions)."

Some ceding companies and reinsurers that write U.S. casualty business are also reviewing the value of the claims-made liability policy, commented Mr. Blake of CNA Re of London.

"Some are saying that maybe the claims-made policy wasn't the answer for everything. They used it to throw on the fire of the moment (when it was introduced in 1985). Some are now writing losses occurring again," he said, referring to occurrence-based policies.

However, the risks that caused the problems—such as pollution and other "nasties"—are not being readily written back into liability policies, Mr. Blake added. "What caused the problem isn't being swept under the carpet."

Meanwhile, casualty retrocessionaires are requiring ceding companies to retain more risk via coinsurance or higher retentions, said Mr. Blake. Retrocessionaires are only too aware "that to allow the original reinsurer to pass on unbalanced cover to another reinsurer is no longer on. The days of laying off 90% of the risk are over. We are looking at a more equitable share of the risk," said Mr. Blake.

Underwriters noted, however, that if the U.S. legal system issues more verdicts in favor of the policyholder in pollution-related coverage disputes, the situation could change. "There would be a lot more underwriters hit by losses because they don't know what is in their books," said one London underwriter.

In Europe, too, the increasing awareness of pollution-related claims could cause an otherwise placid market to turn hard, according to Mr. Dielmann. "Terms in the European liability market are less stringent because losses haven't been as big," he said. "But currently the pollution situation in Europe is something that is worrying people, but it is not as big a problem as in the U.S. because of the differences in the court systems."

There is not, however, any renewed interest among non-U.S. reinsurers that quit reinsuring U.S. liability business in the mid-1980s to return to the market, participants agreed.

Meanwhile, the U.S. property insurance and reinsurance market will remain very competitive at year-end renewals, but premium reductions will not be dramatic,

Continued on page 48

Advertiser Index

Issue of September 18

Advertiser	Page #
Aetna Life and Casualty	17
Allstate Insurance Companies	22
American Re-Insurance	47
AON Reinsurance Agency Inc.	48
Assoc. Aviation Underwriters	24
Blue Cross Blue Shield Assoc.	12-13
Brownyard Brothers	42
Capital Re	58
CIGNA	7
Constitution Reinsurance Corp.	42
Cover X	46
Dentafits Inc.	28
Employers Reinsurance	44-45
Fidelity & Deposit of MD	29-30
Fireman's Fund Amer. Life Ins.	23, 41
Forum Management Svcs. Ltd.	54
General Rehabilitation Serv.	57
General Reinsurance	49
Genesis	36
Hannover Reinsurance	20
Johnson & Higgins	50
Industrial Risk Insurers	59
Int'l Foundation of Employee	58
IOA Re.	56
Kernan & Assoc. Re Inc. Co.	55
Lockwood Dipple & Green Inc.	54
Mangelsdorf Companies	4
Wm. H. McGee	21
Media/Professional Ins.	40
Menta Group	55
Mercantile & General	14-15
Merrill Lynch	33, 34-35
Metropolitan Life Ins. Co.	32
NAC Reinsurance Company	39
National Reinsurance	51
New England Re	18-19
North Star	6
Pharmaceutical Card System	11
Pinnacle Reinsurance	52
Prudential	53
Reliance National Risk	9
Revco Drug Plans	10
Russell Reinsurance Serv. Inc.	22
Scor Reinsurance	26-27
Seguros America	57
Shand Morahan & Company	28
Sherwood Insurance Service	46
St. Paul Re.	25
U.S. Int'l Re Ins.	16
Vermont Insurance Management	21
Vista Hill Foundation	20A-D
Wausau Insurance Company	5
Scott Wetzel Services	43
Zurich-American Insurance Co.	66

Business Insurance

InsurerTopics

A special editorial section sent exclusively to insurers and reinsurers

Fighting insurance fraud

Perpetrators keeping pace with improved investigation efforts

By MARK A. HOFMANN

The high-stakes battle against insurance fraud waged by both property/casualty and health insurers will never end as perpetrators of fraud and insurers play a never-ending game of one-upmanship in sophistication, experts say.

"Investigation is reactive—we're reacting to their sophistication," said Joseph M. Callahan, superintendent of the arson-fraud unit of Hartford, Conn.-based Aetna Life & Casualty Co. and a former Scotland Yard inspector.

However, like a game of leapfrog, "as the insurance industry becomes more sophisticated in its methods of fighting them, the professional fraud perpetrators become more sophisticated," said Wayne Browne, senior vp-claims for Seattle-based SAFECO Insurance Co. and immediate past chairman of the Westport, Conn.-based Insurance Crime Prevention Institute.

Anti-fraud experts say they are better able to fight fraud today than they were just a few years ago because of several developments: the formation of in-house special investigation units—better known as SIUs—by insurers; greater sophistication of fraud-detection techniques; enhanced cooperation with law enforcement agencies and signs of growing public awareness that insurance fraud hurts every policyholder (see story, page 46D).

But, the diversity of insurance fraud underscores the increasing sophistication of the perpetrators, observed Jerry Hoffman, senior claim officer-property for The St. Paul Cos. Inc. in St. Paul, Minn.

When perpetrators begin feeling heat, they seek greener pastures, he explained. "What happens is the problem just moves from one area to another," he said.

Insurance fraud experts point out that fraud has become an increasingly organized activity.

One of the most significant changes in insurance fraud during the past few years has been the growth of professionalism among its perpetrators, said Marvin Kay, national claim quality controller for Charlotte, N.C.-based Royal Group Inc.

For example, fraud is being perpetrated by rings that stage auto accidents, theft rings that collect insurance for cars that were never stolen and property owners that hire professional arsonists, experts noted.

In addition, corrupt physicians certify non-existent injuries or bill for treatment they never administered, while individuals try to collect workers comp benefits to which they are not entitled, fraud experts noted.

And, when a claim legitimately occurs, there are the individuals who inflate their losses, the experts said.

But fraud experts disagree about whether fraud is more widespread than in the past or whether they are more successful in detecting fraud.

"From our standpoint, we're probably doing a better job of identifying fraud," said Patrick Mihm, senior vp-claims for Los Angeles-based Transamerica Insurance Co. "It could be giving us a false sense of increase."

"I can't tell you there's an increase in fraud, but there is an increased awareness of fraud," said Jay Williams, manager of the SIU at Chicago-based CNA Financial Corp.

And, no one can give more than the roughest estimate of how much fraud costs insurers.

"Really, insurance fraud is the second most pervasive crime perpetrated in the United States, second only to income tax evasion," said Wendall C. Harness, director of the Insurance Crime Prevention Institute. "There's no one exempt from it."

Mr. Harness estimates that "inflated or outright fraudulent claims" cost insurers approximately $16 billion annually. He termed the estimate "conservative" because it amounts to 10% of the total claims paid in a year by insurers.

"We know it's big. But is it 10%? Is it 20%? I don't know that we can be definitive about it," said Royal's Mr. Kay. He added that if an insurer pays $1 billion a year in claims, 10% lost to fraud—or $100 million—is a significant amount of money.

Investigators, though, are able to estimate the cost of certain types of insurance fraud even though they cannot say how much of that cost ultimately is reflected in claims. For example, 99,500 suspicious fires caused nearly $1.6 billion in property damage and resulted in 740 deaths last year, said Rick Gilman, executive director of the New York-based Insurance Committee on Arson Control.

Last year's total represented a decrease in the number of suspicious fires from 105,000 in 1987 but virtually no change in the cost, Mr. Gilman said. And, the 1988 death toll was 10 higher than the toll a year earlier.

In 1986, there were 111,000 suspicious fires causing slightly less than $1.7 billion in damage and resulting in 705 deaths, he said.

Yet, "regardless of what seems to be happening, the percentage of suspicious fires in relation to all fires remains the same: 13% to 15%," Mr. Gilman pointed out.

Automobile-related insurance fraud, which insurance company investigators cited as the most common source of bogus claims, appears to be on the upswing, said Paul W. Gilliland, president of the Palos Hills, Ill.-based National Automobile Theft Bureau.

Mr. Gilliland said that car owners who make monthly payments on vehicles that have little or no resale value sometimes commit "owner give-up" fraud. The owner might drive the car into a stream or lake and report it as stolen, or burn it beyond repair to collect insurance that exceeds the car's value.

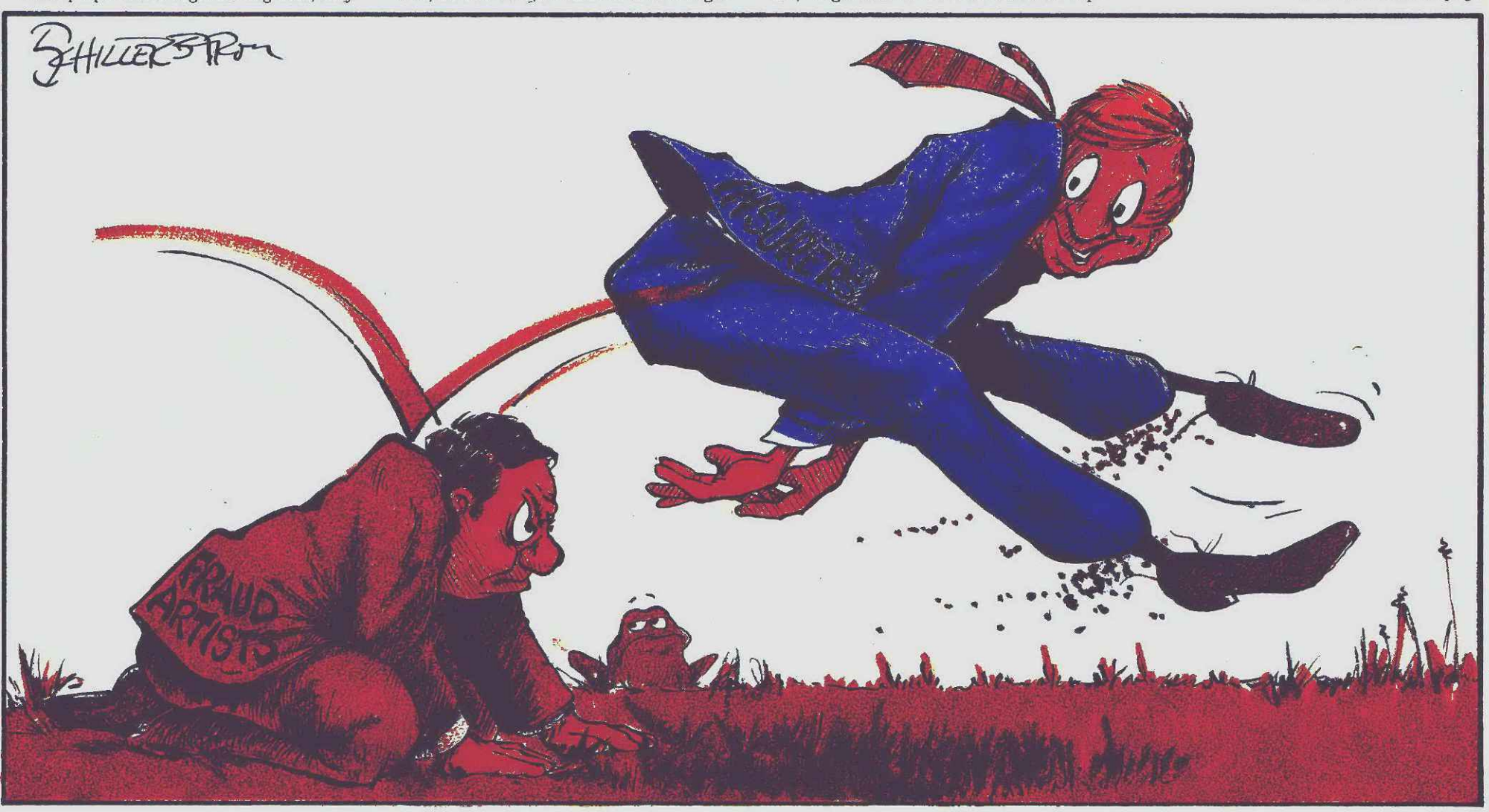
In addition, in some cases, the perpetrator will sell a car to a "chop shop" and report it stolen in an attempt to collect insurance as well as the money paid by the chop shop operator, Mr. Gilliland said.

Another common automobile-related insurance fraud is export fraud, Mr. Gilliland said. This crime involves a buyer who purchases a car with little or no down payment and then insures the vehicle. The car is then shipped out of the country for resale and reported stolen. The cars generally are shipped in containers marked as household goods or other items not likely to raise suspicions.

Mr. Gilliland said the auto theft bureau recently participated in an investigation that led to West Germany, where it uncovered more than 30 Mercedes Benz and BMW automobiles stolen from the U.S. East Coast. The cars were destined for Poland.

Mr. Gilliland pointed out that these cars apparently were chosen because they would

Continued on next page



Insurer Topics

Fighting fraud

Continued from previous page

not look out of place on a European street.

Another growing area of fraud involves product liability, according to Alfred K. Kenyon, senior vp-claims for the national property/casualty insurance companies of Long Grove, Ill.-based Kemper Group and chairman of the Insurance Crime Prevention Institute.

For example, Mr. Kenyon cited a recent case in which a man stuffed a mouse into a beer can and then attempted to collect damages from the brewery by claiming that the dead rodent was in the can when he bought it.

Mr. Kenyon said there also is "a mounting trend of medical fraud" involving physicians, pharmacists, chiropractors and other health care providers, which he says is one of the biggest challenges facing insurers (see story, page 46H).

Insurance company investigators point out that the incidence of fraud is not spread evenly across the country.

Indeed, six areas of the country are the hotbeds of fraud, according to Rowena Bishop, director of the special investigation unit at Novato, Calif.-based Fireman's Fund Insurance Co.

The worst area is Southern California, she said.

"We get a high incidence of fraud in Southern California," agreed SAFECO's Mr. Browne.

Northern California, the New York-New Jersey metropolitan area, Chicago, Florida and Texas are the other problem areas, according to Ms. Bishop.

But the type of fraud varies from area to area, she said. For example, staged accidents seem to be the fraud of choice in the Los Angeles area, while fraudulent automobile physical damage reports appeal to Northern New Jersey perpetrators.

CNA's Mr. Williams said that Boston is a hotbed of automobile theft and auto arson.

And, arson, in general, is declining somewhat in cities but increasing in rural areas, he said.

When a local economy sours, incidents of arson increase, Mr. Williams noted.

Despite the prevalence of fraud, insurer SIU professionals take pains to remind both claims examiners and their own staffs that their purpose is not to deny claims, but rather to validate them.

For example, Aetna's Mr. Callahan gives occasional talks on ethics during which he stresses the need for claims representatives to treat even suspicious claims like legitimate claims until there is proof of fraud.

This point is not unique to Aetna or to insurance company investigators; private firms that provide surveillance services to insurers also emphasize that a subject under investigation must be treated ethically throughout the inquiry.

"It's a very touchy kind of business," said Bill Kizorek, president of Naperville, Ill.-based InPhoto Surveillance and author of three books on investigating insurance claims.

He agreed that investigators, like insurance company claims personnel, cannot enter an investigation believing a claimant has committed fraud.

The insurance investigation firm president ticked also off several areas in which investigators must tread carefully.

"You don't want to harass the subject, and you don't want to set them up," Mr. Kizorek said. For example, he said his firm would never flatten a tire of someone suspected of filing a fraudulent disability claim to determine whether the subject is capable of changing the tire.

However, some small private investigators are not as ethical, Mr. Kizorek warned.

"I admonish investigators, 'You must be objective,' " he said.

Investigators have to report what they see, not what the client wants to hear, even though what they see might not please clients, he added.

But, what insurers see from the vantage point of their SIU offices does not please them.

"Every facet of the business has an opportunity for fraud," said Jim Gallagher, home office director of claims for Colonial Penn Insurance Co. of Philadelphia.

And, one characteristic marks every fraudulent claim, Mr. Gallagher observed: "There's always one common denominator, and that's greed," he said. ■

$ $ $ $ $

Two hundred billion dollars

says we're in the Custody and Pension business.

It's no drop in the bucket.

But it really is no surprise, either. After all, for over 80 years, our clients have relied on us for complete, accurate and timely information on all kinds of investments. From the expected to the exotic. (Remember, Chemical Bank was the first full service agent for GNMA, so we have unparalleled experience in the increasingly complex securities business.)

We keep our clients informed through powerful communications facilities. Including our PC-based ChemLink Safekeeping Access System (CSAS). Of course, you will also receive daily transaction summaries and monthly asset reports. And our Global Custody accounts are reported in U.S. dollars or on a multi-currency basis.

One of our teams of account administrators, with no less than a combined 30 years professional experience, will be assigned to your account. And will constantly monitor the market for any corporate actions that may affect your position.

So call William Cataldi, Vice President, Securities and Trust Services, today at the number below. Or call your Financial Services Marketing Officer. Once you talk with us you'll realize that while it may be our size that says we are in the business, it's our service and innovation that keeps us there.

212 820-5314

CHEMICAL BANK

The bottom line is excellence.®

©1988 Chemical Bank

Insurers use many tools to discover fraud artists

By MARK A. HOFMANN

There are as many tools for insurers to use to ferret out fraud as there are types of fraud.

Insurance fraud investigators still rely on old-fashioned legwork when examining cases of possible fraud, but they also can turn to sophisticated analytical equipment.

In addition, insurance fraud experts say they are receiving more support for their efforts from both law enforcement agencies and the general public than they have in the past.

"Prosecutors will prosecute good cases," observed Wendall C. Harness, director of the Insurance Crime Prevention Institute, a Westpost, Conn.-based organization that aids law enforcement agencies in cases of suspected insurance fraud.

"If we can prove a good prima facie case in any venue, it generally gets prompt attention," he said.

However, the catch is putting good cases together, many fraud experts said.

At the heart of most insurers' efforts is the special investigation units—or SIUs—attached to claims departments.

The structure of SIUs vary by company, but the units tend to consist of a core of experienced investigators, usually with law enforcement backgrounds, who investigate cases referred by claims examiners (see story, page 46F).

However, SIUs are not a private-sector replacement for legal authorities.

"We're not policemen," said Patrick Mihm, senior vp-claims for Los Angeles-based Transamerica Insurance Co. "If a claim is suspicious, we'll take it to the proper authorities," he said.

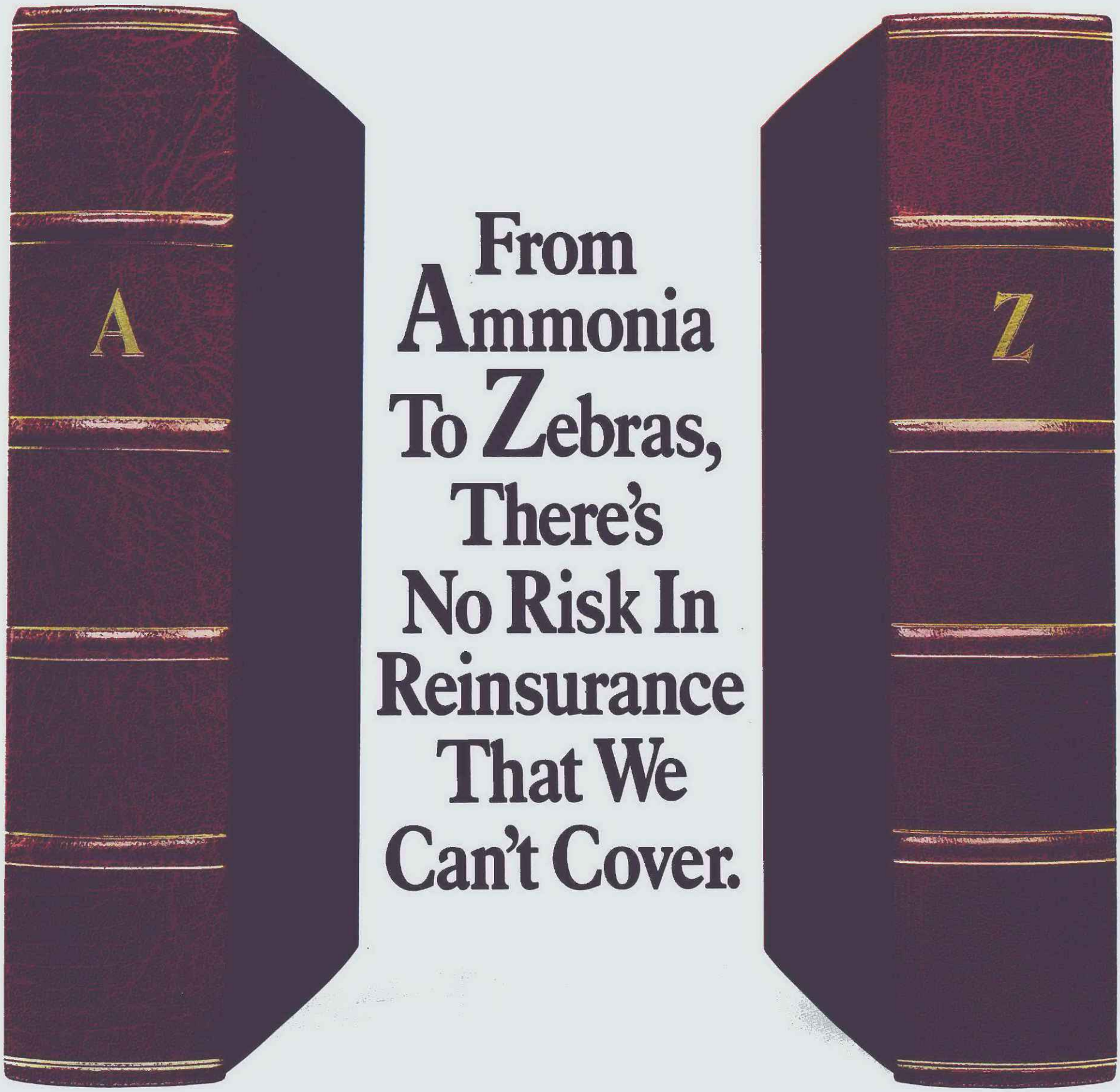
Another method insurers use to determine whether a claim is fraudulent is to refer the case to the ICPI.

The ICPI has been instrumental in uncovering numerous staged-accident rings.

It also played a key role in uncovering car rental giant Hertz Corp.'s improper car repair practices. Hertz has admitted overcharging customers for several years prior to 1985 for repairs, but it says it has been refunding the overcharges (*BI*, Feb. 1, 1988).

Among the most valuable of new

Continued on page 46D



From Ammonia To Zebras, There's No Risk In Reinsurance That We Can't Cover.

From Ammonia Plants to Zebra Mortality Programs, we can handle any reinsurance risk from A to Z.

We have the capacity to handle major risks, and we can provide the kind of personal service that has become increasingly important.

Even for such unusual risks as Sausage Casings and Xylophone manufacturers.

Our encyclopedic range of services and reinsurance skills keeps us at the forefront of the reinsurance industry.

So the next time you open up the reinsurance book, look for North American Re.

We cover the alphabet.

NORTH AMERICAN RE

Choosing A Reinsurer Shouldn't Be A Risk

NORTH AMERICAN REINSURANCE CORPORATION 237 PARK AVENUE, NEW YORK, NY 10017 (212) 907-8000
ATLANTA BOSTON CHICAGO DALLAS LOS ANGELES NEW YORK PHILADELPHIA SAN FRANCISCO

Prevention

Continued from page 46B

tools that insurance fraud investigators have at their disposal is a document analyzer, according to Joseph M. Callahan, superintendent of the arson-fraud unit of Hartford, Conn.-based Aetna Life & Casualty Co. and a former Scotland Yard inspector.

The analyzer detects changes in ink composition, carefully masked correction fluid and other document tampering that might indicate a fraud, Mr. Callahan said.

By recognizing different ink compounds, for example, the analyzer can help determine whether portions of a form were filled out at different times, which could indicate form tampering.

A less spectacular, but among insurers' most potent weapons against fraud, is automated claims record keeping, said Alfred K. Kenyon, senior vp-claims for the national property/casualty insurance companies of Long Grove, Ill.-based Kemper Group and chairman of the ICPI.

This helps insurers identify claimants who have filed multiple and possibly suspicious claims with other insurers.

"We cross-index by prior claims history," Mr. Kenyon explained.

"Automation is the key because of cross-referencing," agreed Wayne Browne, senior vp-claims for Seattle-based SAFECO Insurance Co. of America and immediate past chairman of the ICPI.

"As we've become more sophisticated in our automation, there's no question we're in a better position" to combat fraud, Mr. Browne said.

But even with the best in-house cross-reference system, an insurer has access only to its own data, Messrs. Kenyon and Browne pointed out.

Truly effective cross-referencing requires using industrywide data bases, such as the data bases maintained by the New York-based American Insurance Services Group, a unit of the Washington, D.C.-based American Insurance Assn.

The AIA maintains the Central Index Bureau, a repository of more than 30 million bodily injury claims.

The claims, which are drawn from more than 2,500 insurance companies, are purged every five years, according to a spokesman for the AIA.

The AIA also maintains a Property Insurance Loss Register to help insurers track multiple fire claims submitted by a single entity that may be arson-related.

In addition, Palos Hills, Ill.-based National Automobile Theft Bureau maintains a similar data base on automobile theft fraud, Messrs. Kenyon and Browne noted.

"Any company that doesn't belong to the ICPI or to the NATB isn't doing its part to combat fraud," asserted Mr. Kenyon, who is also immediate past chairman of the NATB.

Insurance fraud experts also are increasingly turning to video technology and away from still photos during surveillance.

"The use of videos has been very helpful," said Alan Sklar, president of Creative Services Inc., a Mansfield, Mass.-based investigative and security consulting firm that specializes in insurance fraud. "Video has become increasingly helpful" to insurance company counsel, he said.

Insurer attorneys armed with videos can reach favorable settlements before a case goes to trial, Mr. Sklar said. "It's very tough to dispute a video."

For example, InPhoto Surveillance, which conducts both domestic and international insurance fraud investigations, produced a videotape of a supposedly disabled man at work. As a result, the insurer, which had reserved $280,000 to settle the case, was able to dispose of the case for $28,000, said Bill Kizorek, president of the Naperville, Ill.-based firm.

Video represents a great improvement over still photos because it shows the subject in action over a period of time, Mr. Sklar explained. "We show a consistent pattern," he said. "A pattern of employment or activity becomes critical over a period of time" in proving that a disability claim is fraudulent, he said.

"There's no question (video) has revolutionized the industry," Mr. Kizorek said.

But good video surveillance does not come cheaply, he pointed out.

Every InPhoto investigator assigned to surveillance "walks out the door with $25,000 worth of equipment" and commands a fee of $60 per hour for a U.S. operation and more for a foreign job, he said.

And video surveillance does have its limitations, Mr. Kizorek pointed out.

For example, when gathering evidence, investigators are prohibited by law from climbing a tree to peer into a bedroom window or taping over a privacy fence, he said. People under surveillance are entitled to "a reasonable expectation of privacy," he said.

Indeed, insurance fraud experts point out that illegally obtained evidence cannot be submitted as evidence in court.

Mr. Kizorek explained that to assure a subject's privacy, investigators conducting surveillance must adhere to this rule: "If you see activity that's visible to a passer-by, that activity can be filmed," he explained.

Despite its cost and limitations, surveillance—whether conducted by an outside contractor or in-house specialist—pays off, according to Gary Black, executive vp-claims, for Novato, Calif.-based Fireman's Fund Insurance Co.

During the first 11 months of 1987, Fireman's Fund saved nearly $3.3 million by conducting 701 undercover investigations into possible workers compensation fraud, Mr. Black said.

In 1988, the insurer saved nearly $3.1 million by conducting 575 such investigations during the same 11-month period, he said.

As word spreads among insurers about the savings video surveillance can produce, demand for the service increases, said Messrs. Kizorek and Sklar.

One area where insurers' use of video surveillance has markedly increased is challenging the veracity of long-term disability claims, particularly those filed by highly compensated claimants.

"If you have someone who's making $100,000 a year and he says he's disabled, that's a very expensive exposure," Mr. Kizorek said.

In arson detection, investigation units have made advances that include one that might seem like a "step backward" technically, said Rick Gilman, executive director of the New York-based Insurance Committee for Arson Control.

Investigators are turning to fire accelerant-sniffing dogs to help determine the cause of fires, Mr. Gilman said. So far, the dogs have proved more reliable than chemical testing processes, he said.

In addition to attacking fraud

Continued on page 46F

SICS

THE PROVEN, IBM-BASED REINSURANCE SYSTEM WITH 100 + YEARS OF PRODUCTION EXPERIENCE

55 + CLIENT COMPANIES (As of July 1, 1989)

...AND NOW TWO NEW PRODUCTS FROM THE SICS FAMILY

SICS-PC

The Mainframe System is now on a PC Network

— No DP Staff Needed

— Low Costs, Easy Installation

— Easy Migration to Mainframe At Your Option

SICS-CEDE

The Professional Reinsurance System for Primary Insurers

— Developed by Professional Reinsurance Specialists

— Full, On-Line Reinsurance Accounting

— Multiple Layers, Pro Rata and Excess of Loss

Leadership and Innovation in Reinsurance Systems

SICS WORLD-WIDE

Insurance Software & Systems, Inc.
An Affiliate Company of the Swiss Re Group

For information, please contact:
Vice President, Marketing
Insurance Software and Systems, Inc.
120 White Plains Road
Tarrytown, NY 10591
Telephone (914) 333-9270
Telefax (914) 631-3780

WHAT PROFESSIONAL ASSET MANAGEMENT CAN DO FOR YOUR COMPANY'S TAX BILL.

Professional asset mangement can bring a smile to your company's balance sheet.

At The Insurance Group of Alliance Capital, we design investment plans to benefit your total business. By combining proven investment expertise with an in-depth understanding of the insurance industry, we can custom tailor a plan to suit your company's needs.

Alliance is one of America's premier money managers with nearly two decades of experience. To find out more about how Alliance Capital can maximize your company's profit potential, call Allan Keith, Vice-President, at 212-969-1433.

AllianceCapital®
THE ASSET MANAGEMENT PROFESSIONALS.

Fraud detection

Continued from page 46D

from the outside, insurers also are attempting to short-circuit some in-house fraud by prescreening applicants for claims handling jobs.

"We've tried to provide a preventive type of program, because the amount of money that goes through an adjuster's hands in a year is phenomenal," explained Mr. Sklar.

The investigation of a claims handler's background usually includes checks of motor vehicle and criminal records, as well as verification of education and employment history for a period of at least 10 years, Mr. Sklar said.

The firm also tracks all business licenses that the applicant, the applicant's spouse and immediate family have received to uncover possible conflicts of interest. For example, such a background check may uncover that a spouse of aclaims handling applicant owns a body shop.

The company also attempts—through record checks and interviews with neighbors—to determine the applicant's financial stability, because "there may be a problem hiring somebody with a long history of financial problems," he explained.

Before the background check even begins, Mr. Sklar advises insurers to tell applicants that they will be investigated, which sometimes may prompt applicants to divulge information that might have a bearing on their suitability as claims handlers.

Insurance fraud experts concur that these advances in detection of insurance fraud would not have been as effective without the law enforcement officials' support.

For example, the existence of SIUs has fostered better relations between insurance company investigators and law enforcement authorities, SIU chiefs say.

SIUs have allowed insurers to build better relationships with law enforcement authorities because many SIU investigators are former police officers, said Jerry Hoffman, senior claims officer-property for The St. Paul Cos. Inc. of St. Paul, Minn.

Staffing insurer investigation departments with former law enforcement officers has enhanced communication between public and private anti-fraud units, agreed Jay Williams, manager of the SIU at Chicago-based CNA Financial Corp.

Twelve of the 13 investigators in CNA's SIU have law enforcement backgrounds, he said. And, because of their experience, the investigators have built a rapport with law enforcement officials, he said.

"There's a lot more cooperation with law enforcement officers, especially when you have former criminal investigators on your SIU staff," Mr. Williams said.

However, insurance fraud is not always high on a prosecutor's list.

Cases involving violence or drugs are more likely to get attention than fraud involving property, explained Paul Gilliland, president of the NATB.

But, several insurance fraud experts noted that former Cook County, Ill., State's Attorney Richard M. Daley, now mayor of Chicago, did place a high emphasis on prosecuting insurance fraud cases.

And, some insurance anti-fraud experts say that the public is showing signs of frustration with insurance fraud and may no longer be willing to tolerate it.

"I sense there's a change in the country," said Kemper's Mr. Kenyon. Citizens are getting fed up with crime of all sorts, he said.

"I think more people are concerned about the bottom line," said CNA's Mr. Williams, noting that the insurer receives calls from agents and policyholders about suspicious claims filed by neighbors or co-workers.

"The perception of this as a problem is getting people's attention right now," agreed SAFECO's Mr. Browne.

"This is one thing that impacts the cost of insurance," he said.

"I think you'll see a greater pressure put on the political arena by consumer groups," Mr. Browne predicted.

Indeed, many states have established their own insurance fraud investigation units, with some within the insurance department and others within police agencies.

Among the states that insurance fraud experts believe have made the greatest strides in curbing insurance fraud are California, Florida, New Jersey and New York. ■

Insurers educating policyholders on preventing fraud

By MARK A. HOFMANN

Insurers are expanding their fight against fraud beyond their claims departments by directly educating policyholders about the cost of fraud.

Some insurers individually attempt to inform policyholders about the cost of claims fraud through such methods as premium notice stuffers. And, members of insurance companies' special investigation units have their own educational association that holds fraud seminars for policyholders as well as SIU professionals.

Meanwhile, SIU staff members increasingly are assuming the responsibility of educating claims department personnel about fraud detection.

Insurers' emphasis on rooting out fraud is understandable: While no one knows exactly how much fraud costs the property/casualty insurance industry, the Westport, Conn.-based Insurance Crime Prevention Institute considers $16 billion annually a conservative estimate, said Wendall Harness, director.

Hartford, Conn.-based Aetna Life & Casualty Co. attempts to educate the public about the ramifications of claims fraud in many ways, said Joseph M. Callahan, superintendent of the company's arson-fraud unit and a former Scotland Yard inspector.

For example, Aetna SIU staffers talk to private groups, such as Rotary clubs, about how claims fraud forces insurers to increase the cost of many lines of property/casualty insurance, Mr. Callahan said.

The insurer believes that its anti-fraud efforts help convince policyholders that insurers care about them and sympathize with their concerns that the cost of insurance must be held to a reasonable level.

Other insurers are spreading the word about fraud to policyholders and insurer employees.

Los Angeles-based Transamerica Insurance Co. uses premium notice stuffers the explain the cost of fraud as a means of raising public awareness of the problem, according to Patrick Mihm, senior vp-claims.

And, Seattle-based SAFECO Insurance Co. of America is pursuing a multifaceted strategy to make customers aware of the cost of claims fraud, noted Wayne Browne, senior vp-claims and a former ICPI chairman.

This strategy includes including with premium notices an explanation of how much claims fraud costs all policyholders, distributing information on fraud costs to SAFECO agents and printing articles on fraud and insurance crime in company newsletters, he said.

Meanwhile, SIU professionals in-

Continued on next page

DECISIONS, DECISIONS...

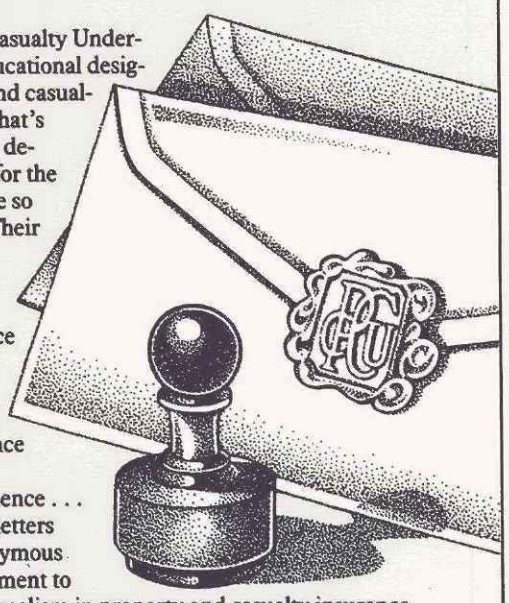
Having problems deciding on a software package for your reinsurance business? We'll make it easy for you. Consider these key decision points:

- **Ease of use**... Forget long, involved training schedules and complicated manuals. RSG is designed for reinsurers, not computer whizzes.
- **Flexibility**... Unlike other reinsurance systems, RSG can be easily tailored to your particular needs. And there's a built-in report generator to process your spontaneous requests quickly—without help from your DP staff.
- **Statistical displays**... Our on-line statistical displays are so powerful we call them the "Reinsurance Defense Initiative."
- **Reliability**... RSG is a proven system with the benefit of thousands of hours of terminal operations. You can count on it to perform well for you on a daily basis.
- **Freedom of choice**... With the RSG system, you're not limited to a single computer from one manufacturer. You have a choice of models from PCs to main-frames from most leading vendors, including IBM.

The RSG system scores on all these points. It is working successfully now for reinsurance companies of all sizes and it can do the same for you. So call today to find out more. We'll be glad to send you a brochure or to arrange for a demo. And you'll be glad you did. It just might be the best business decision you'll ever make.

RE Systems Group
229 East 79th Street #1D, New York, NY 10021
212/517/1807

CPCU... Letters of Recommendation



Chartered Property Casualty Underwriter is the premier educational designation in the property and casualty insurance industry. That's why those who meet the demanding requirements for the CPCU designation come so highly recommended. Their credentials include ten college-level courses. A series of national essay examinations. Adherence to an enforceable Code of Professional Ethics, and at least three years of demonstrable insurance industry experience.

Education . . . Experience . . . Ethics. Since 1943, the letters CPCU have been synonymous with a personal commitment to excellence and professionalism in property and casualty insurance. CPCU . . . a tradition continued by those with the letters of recommendation.

The Society of CPCU

There is no substitute for CPCU.

Insurer Topics

Continued from previous page

both the property/casualty insurance and health insurance fields have their own educational association that hopes to educate all interested parties—in addition to members—about insurance fraud.

Tony Ciprian, president of the Madison, Wis.-based International Assn. of Special Investigation Units and assistant vp-special investigations for Philadelphia-based Keystone Insurance Co., cited several topics to be covered at the IASIU's annual meeting this week in Atlanta to demonstrate how wide a net the group casts in its educational efforts.

Stressing that "anyone can come to the seminars," Mr. Ciprian said that session topics will range from general interest, such as "The Impact of Insurance Fraud on the Economic System," to special-interest, such as "SIU Structures and Record Keeping."

Other topics include "Scams and Schemes in the Health-Care Area," "Boat Theft Fraud" and "International Relations Among SIUs," Mr. Ciprian said.

The IASIU was formed in 1984, when only a few insurers had established formal SIUs.

The range of seminar topics available underscores the fact that the IASIU's "primary function is to educate the insurance industry and the public about insurance fraud and what can be done to fight it."

The role of SIU staff members as educators is particularly emphasized at The St. Paul Cos. Inc., according to Jerry Hoffman, senior claim officer-property for the St. Paul, Minn.-based insurer.

SIU personnel meet with claims handlers at both the home and branch offices to discuss patterns of fraud and how to detect them, Mr. Hoffman said.

"Without a front-line claim handler spotting something, the claim investigator doesn't have anything to work with," he said.

Aetna's Mr. Callahan also stressed the role of fraud investigators in education. "We're doing 10 training sessions this month for Aetna people," he said.

These sessions, held at Aetna's home office, are complemented by sessions in branch offices, he said.

At Novato, Calif.-based Fireman's Fund Insurance Co., a unit of Fireman's Fund Corp., SIU personnel conduct monthly meetings in branch offices to keep claims representatives apprised of "current scams," said Rowena Bishop, director of the insurer's SIU. "It's an ongoing educational process."

"We call these recognition and referral training sessions," said Assistant Vp and Counsel Doug Martin.

At Chicago-based CNA Financial Corp., SIU staffers also train claims personnel on how to detect suspicious claims, said Jay Williams, SIU manager.

SIU staffers at CNA also can rely on a company-produced videotape on workers compensation fraud.

One of the most common methods of detecting suspected fraud is the creation of a system of "red flags" to identify questionable claims.

Like most insurers, Colonial Penn Insurance Co. of Philadelphia, a unit of FPL Group Inc., has separate lists of flags for specific categories of claims to help claims representatives detect trouble, noted Jim Gallagher, home office director of claims.

For example, some of the flags of a possible fraudulent homeowners' insurance claim include a neat theft with little or no damage to the residence; a theft just before the policyholder is about to move; no evidence of forced entry; no police report; and policyholder resistance to a visit from a claims adjuster, Mr. Gallagher said.

Scott Lewis, a Colonial Penn home office claims examiner who works with Mr. Gallagher, cited similar flags for possible personal auto fraud.

Some of the warning signs of fraudulent auto claims include: the insurer receives a claim before it receives the policy application; the loss is reported to the insurer before being reported to the police; the loss occurred shortly before the policy expires; the policyholder does not produce the auto for a damage inspection; the policyholder requests that correspondence be sent to him or her in care of another person; and the policyholder demands an immediate settlement.

But, "even when you come up with these flags, they're nothing more than flags. You've got to have the human follow-up," said Marvin Kay, national claim quality controller for Charlotte, N.C.-based Royal Group Inc.

"Their job is to validate a claim. We don't want our claims people to be policemen," Transamerica's Mr. Mihn said. ■

WE CAN HELP YOU MANAGE THE

MEDICAL COST CRISIS.

A Comprehensive Managed Care Approach

- Hospital Preadmission Review
- Hospital Bill Audits
- Continued Stay Review
- Medical Peer Review/Fee Review
- Presurgical Review
- Case Management
- Outpatient Review
- Long-Term Care Review

For complete information and a competitive quotation contact:

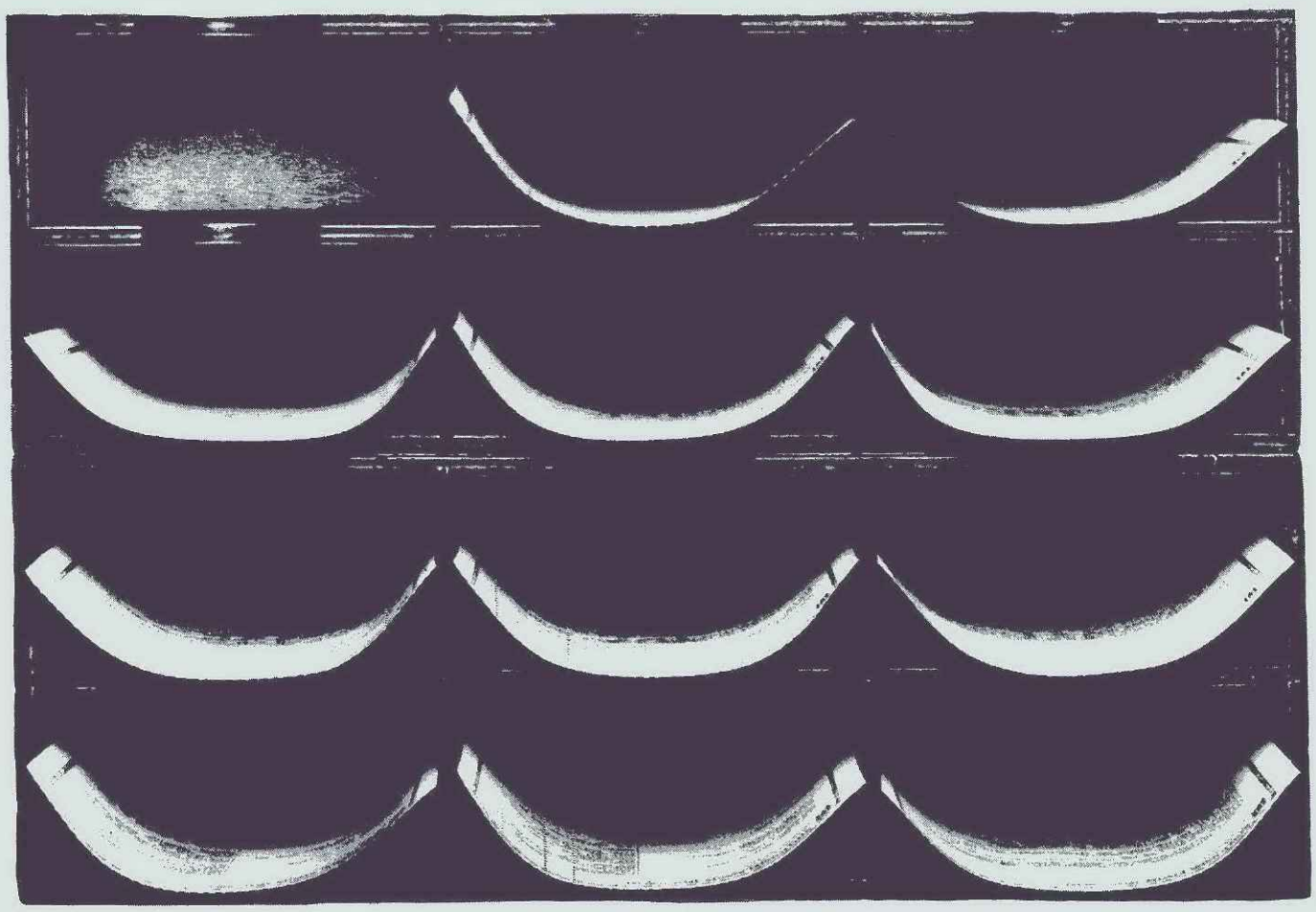
Medical Cost Management

CALL TOLL-FREE 1-800/367-9938

In Chicago 312/341-0217

MANUFACTURERS HANOVER

Pacesetter



Letters of Credit have their place, but reinsurance is no longer one of them.

The Reinsurance Trust®— from Manufacturers Hanover Trust Company deserves a slot all its own.

As an alternative for unauthorized reinsurers and companies with self-insurance programs, it offers participation at a fraction of the cost of L/Cs. No annual renewal required, either. Furthermore, the trust fund not only protects the interests of all parties but also satisfies regulatory requirements.

Select our Reinsurance Trust, and other benefits fall neatly into place. Customization, for one. By effectively creating one fund out of many, we are able to provide each beneficiary with its own fund to claim, while offering the cost-effectiveness of a single fund. Personal service, for another. We service your account on a one-on-one basis, assigning an administrator to handle all aspects of the relationship. Accessibility, for still another benefit. A local phone call directly to our quality GEOPAC® reporting system allows you to generate your own reports.

Also, consider the track record we've established in the field of trusts. For decades, our staff has been known for its professionalism in servicing collateralized trust arrangements. In fact, the excellence of our performance over the years has made Manufacturers Hanover one of the world's largest providers of these complex, specialized services.

The Reinsurance Trust from Manufacturers Hanover. Now, you're no longer boxed in by the rising costs of reinsurance L/Cs.

For more information, contact John Hogan in New York at (212) 971-3316 or contact David Zell in London at (01)-315-6000.

© 1989 Manufacturers Hanover. All Rights Reserved.

Insurer Topics

Health insurers not immune from fraud

By MARK A. HOFMANN

Like their property/casualty insurance counterparts, health insurance fraud fighters have been increasing their efforts during the past few years.

"I think we're becoming more involved with fraud (prevention)," said John Malloy, cost management director for DePere, Wis.-based Employers Health Insurance Co., which is owned by Fort Wayne, Ind.-based Lincoln National Life Insurance Co. Putting a relatively low emphasis on reducing fraud, Mr. Malloy said, "is just not a way of doing business."

One group devoted to raising awareness of the costs of health insurance fraud is the National Health Care Anti-Fraud Assn. The Washington, D.C.-based group was founded by eight insurers and one Blue Shield organization in 1985.

In addition to its founding members, the NHCAA now has more than 350 individual members, including government and Medicare anti-fraud representatives.

The group allows insurers and law enforcement agencies to swap information that promotes the detection and deterrence of insurance fraud, said R. James Guzzi, NHCAA chairman and director of security for employee benefits claims for The Travelers Insurance Co. in Hartford, Conn.

But Mr. Guzzi cautioned that a distinction must be drawn between outright fraud and abuse. While abuse remains a nagging health insurance problem and while insurers administer their own internal audits to cut back abuse, the NHCAA targets fraud rather than garden-variety abuse, he said.

Mr. Guzzi explained the difference by comparing two otherwise identical five-day hospital stays. If a claims examiner found that the insurer received a bill for five days of treatment, two of which may have been unnecessary, the matter would be considered abuse rather than fraud. But if the insurer received a bill for five days of treatment, two days of which never occurred, the matter would be fraud, he said.

"There's really nothing illegal about charging what the market will bear," even though billing for questionable services can be unethical, agreed Richard H. Ekfeld, executive director of the NHCAA. "But if we had better systems of weeding out the defrauders, it would save the country billions of dollars a year."

Mr. Ekfeld noted that estimates of the financial impact of health insurance fraud vary widely, with the Federal Trade Commission estimating health insurance fraud costs $10 billion annually, while some insurers estimate the cost is more than $20 billion. He also said that some insurers have estimated that every dollar spent on fraud control efforts has saved them $15 in fraudulent claims.

Health insurers look for their own set of red flags when detecting fraud, Mr. Guzzi said. These include bills for services not rendered; bills for brand-name drugs when generics are readily available; bills from providers with fraudulent or suspended credentials; and bills marked with false procedure codes to increase costs, he said.

Mr. Guzzi said that false procedure codes can be filed accidentally, and an occasional miscoded claim does not signal fraud.

"But if you record 75 of 100 claims with a false coding," the insurer has reason to be vigilant, he said.

There's "no question" that deliberate miscoding is a major problem for health insurers, said John M. Festa, director of Metropolitan Life Insurance Co.'s fraud detection unit. Mr. Festa, who is also the NHCAA's treasurer, said false coding is part of what he sees as the most serious challenge now facing insurers.

"The biggest thing right now is 'no out-of-pocket expense,' what we call NOOPE. A lot of doctors advertise this," Mr. Festa explained.

These doctors tell patients they'll accept whatever an insurer offers as payment for service, he said. By telling patients that they won't try to recover deductibles or copayments from patients, individuals flock to their waiting rooms.

"The truth is, they make up for it with innovative coding," Mr. Festa said. Insurers are billed for services that were never provided. In other cases, insurers are hit for services that filled no need, the veteran investigator said.

"I'd say greed knows no boundaries," Mr. Festa added, explaining that all types of medical care providers have attempted to defraud insurers.

For example, Mr. Festa recently examined the case of a patient who had undergone 27 root canals at the recommendation of his dentist. An investigation showed that a maximum of three of the procedures actually were justified, he said.

Employers Health's Mr. Malloy also cited dental care as an area in which fraud appears to be on the increase. Mr. Malloy, who is on the board of governors of the NHCAA, said that dental fraud often consists of double billing for services rendered as well as billing for services never rendered.

Mr. Malloy also said his company has experienced an increase in chiropractic care-related fraud.

Overall, though, Employers Health hasn't suffered as great a problem with deliberate miscoding than larger insurers have, he said.

Mr. Malloy said his company is trying to involve its policyholders in the fight against fraud through education. Correspondence with policyholders includes information stressing the existence of the company's investigative unit. "Explanation of benefits" statements contain the company's toll-free anti-fraud hot line number as well as encourage the reporting of possible fraud, he said.

Explanation of benefits statements from insurers can have a "sentinel effect," agreed Mr. Guzzi. Claimants who note a discrepancy between the services listed on the explanation statement and those actually rendered will call insurers, he said.

To spur more claimant participation in fraud prevention efforts, Travelers also is implementing a toll-free fraud hot line, the number of which will be printed on explanation of benefits statements, he said.

Travelers also is improving its electronic barriers to fraud, Mr. Guzzi said. The insurer plans to implement a pilot anti-fraud program using artificial intelligence. The system will use a series of triggers to detect possible fraud.

For example, the system will flag claims filed for services provided on holidays like Christmas, Mr. Guzzi said. Among the more sophisticated applications of the system will be correlating the ZIP codes of patients and providers, he said.

If the ZIP codes are more than 40 miles apart, the system will alert examiners, he said.

"The dishonest providers seem to know which companies" have sophisticated fraud detection systems, said Metropolitan's Mr. Festa, who declined to detail the triggers his company looks for in its anti-fraud efforts. But, he pointed out, most health insurers only "have minimal fraud detection systems" in place.

Even with enhanced detection systems, health insurers can't relax their efforts to persuade the public that health insurance fraud hits everyone in the wallet, said Mr. Festa.

"We've got to do a tremendous amount of education out there," he said.

Further information about the NHCAA is available by writing to the association at 1255 23rd St. N.W., Washington, D.C. 20037. ■

Insurer Topics

Reaching a top level audience of 38,212*, Insurer Topics provides specialized information for insurance and reinsurance company executives.

Publishing the third Monday of every month as an integral part of Business Insurance — Insurer Topics gives readers and advertisers a quality environment they can rely on. Our increased publishing cycle affords advertisers additional frequency discounts, more flexibility with our combination rate structure, and the availability of new ad sizes.

To reach insurance and reinsurance company executives there is no better media buy in the industry than BI's Insurer Topics Demographic Section — ensuring the greatest impact for your advertising dollars. Call today to reserve space in upcoming issues:

*Includes pass-along

OCTOBER 16, 1989
Automation: Claims
Ad close: October 4

NOVEMBER 20, 1989
Reinsurance Issues and Relations with Intermediaries
Ad close: November 7

DECEMBER 18
Mergers/Acquisitions/Divestitures
Ad Close: December 5

Business Insurance

New York: 212/210-0228 Chicago: 312/649-5276 Los Angeles: 213/651-3710

Advertiser Index
Insurer Topics

Issue of September 18

ADVERTISER	PAGE #
Alliance Capital Mangement	46E
Chemical Bank	46B
Insurance Software & Systems	46D
Manufacturers Hanover Trust	46G
Medical Cost Management	46G
North American Reinsurance	46C
Re Systems Group	46F
Society of CPCU.	46F

Business Insurance

If you would like a part of our talent show

AM-RE MANAGERS makes the top talent in the industry, and all the services of American Re, available on a consulting basis —for traditional and non-traditional clients, too.

Services like:

Actuarial: Internal Operations

Actuarial: Reserving Procedures

Actuarial: Pricing/Ratemaking Processes

Actuarial: Results Analyses/Financial Covers

Actuarial: Corporate Financial Analyses

Fire Investigation and Fraud Management

Property Excess Rating System: Auto Fac℠

Balance Sheet Protection:℠ Financial Reinsurance

Organizational Culture Profile

Medical Management of Catastrophic Injuries

Extended Occurrence/Product Liability and Pollution and Hazardous Waste Claim Management

Claims Settlement Management

Underwriting Management Services

Compensation Consulting

Litigation and Product Claim Management

Merger and Acquisition Analysis

Miror:℠ Management Insights Reflecting on Results

Reinsurance Portfolio Analysis

Value of Teamwork Workshop

AM-RE BROKERS, Inc.

Planning Table®

Tax Consulting Service

Call us.

Ken LeStrange (609) 275-2000

AM·RE MANAGERS INC
The American Re·Source
A subsidiary of American Re-Insurance Company.

American Re Plaza, 555 College Road East, Princeton, NJ 08543-5241, Telephone: 609 275-2000

Rendez-Vous

Continued from page 48

ance, Mr. Ingrey said.

F&G Re's international reinsurance volume also will increase this year as U.S. business shrinks, Mr. Ingrey noted. About 12% of F&G Re's conventional risk reinsurance business of $139 million in 1989 was international reinsurance.

Mr. Hall of Coopers & Lybrand also expressed concern that the supposedly non-risk financial reinsurance transactions written recently could result in major losses for some underwriters due to overlooked details. "There hasn't been enough time for all the people doing finite risk reinsurance" to learn all they need to know, he observed.

Many experts interviewed suggested that only a major hurricane striking the United States between now and year-end will tighten the soft property market. And many were closely monitoring Hurricane Gabrielle, which threatened to head toward the U.S. East Coast while the Rendez-Vous was in progress.

Projections of damages that could be caused by a hurricane slamming the East Coast of the United States ranged from $6 billion to $15 billion.

But, Hurricane Gabrielle veered away into the Atlantic, sparing a major property loss for insurers and reinsurers.

Aneco Reinsurance Underwriting Ltd. President Jonathan J. Crawley, however, advised "we should remember not to be complacent" even if no hurricanes strike in September or October because they can hit as late as November.

"While one hates to see property damage and lives put at risk, underwriters of U.S. catastrophe covers need a big U.S. loss" to increase rates, said Mr. Crawley of Bermuda.

The last major East Coast hurricanes were Carol in 1953 that caused $129 million in damage and Hazel in 1954 that caused $122 million, according to Mr. Crawley.

Inflation and increased development along the East Coast resulting in increased applicable insurance would magnify those losses to $6 billion to $8 billion today, he said.

Looking at conditions in the U.S. and European markets, Mr. Ingrey commented that "it is significant that Europeans look at their business differently. They really think that they can deliver profit to their reinsurers and therefore say reinsurers should not let market share go. We say no to market share.

"Their longer-term approach might be justified because they can turn their markets more quickly than we can," Mr. Ingrey said, referring to the strength of larger European reinsurers to lead market conditions.

Gerhard Niebuhr, executive board member at Gerling-Konzern Globale Reinsurance Group in Cologne, West Germany, predicts that "next year we will see change—less retrocessions, less capacity," after reinsurers report losses for 1989 in 1990.

But, he quickly added: "We'll see next September." ■

Tight LMX market is not affecting primary coverage

By STACY SHAPIRO

MONTE CARLO, Monaco—A tight London excess-of-loss reinsurance market usually signals the hardening of world insurance and reinsurance markets.

But the continuing tight LMX market in 1990 will not stop the softening trend in property/casualty and marine coverages next year, London brokers and underwriters at the 33rd annual Rendez-Vous de Septembre agreed.

Theoretically the reduction in LMX capacity and the increase in rates and retentions in the LMX market should be passed on to the ceding companies that are dependent on London for their insurance and reinsurance programs.

However, London underwriters instead are expected to retain more risk rather than retrocede as much as they have in the past. By doing that, London underwriters will reduce their own expensive LMX protections and not be forced to pass on any increase in price to their clients.

"The year-end renewals will be very hard" in the London excess-of-loss reinsurance and retrocession market, summed up Robert G. Stone, director of specialist LMX broker Winchester Bowring Ltd. in London. "One thing is for sure. We will have capacity problems and people (in London) are becoming more and more security conscious. So most of our clients will tell us who to use."

However, "ceding companies (to the London market) will see rates going down, and the London underwriters will be in a squeeze situation," said Mr. Stone.

Others agree that the LMX market will be tight for 1990.

The LMX market "will get tougher," said John C. Condon, director of underwriting for River Thames Insurance Co. Ltd. in London.

The term "LMX" encompasses excess-of-loss reinsurance or retrocessions placed by London underwriters with other London underwriters. Most LMX business is property catastrophe coverage, which since the mid-1980s has included a casualty exclusion clause barring coverage for long-tail liability losses. There are LMX marine and non-marine property catastrophe markets.

33rd Rendez-Vous de Septembre

In addition, although there is an LMX liability market in London, it shrank dramatically during the hard market of the mid-1980s and was barely discussed at the recent Rendez-Vous de Septembre gathering of reinsurance underwriters from around the world.

At the moment, the LMX market is swamped with losses from the July 1988 $1.4 billion Piper Alpha North Sea oil platform disaster; the severe windstorm that swept across Europe in October 1987 costing more than $3 billion; and the estimated $725 million in losses from Hurricane Gilbert, which devastated Jamaica and resort areas on Mexico's Yucatan Peninsula in September 1988.

In addition, older losses, including 1983's Hurricane Alicia, still are being paid by London reinsurers.

As the losses "spiral" through the LMX market, bouncing from one reinsurer to another, they grow from their original value to phenomenal proportions. To counteract this "spiral," LMX underwriters continue to increase prices, tighten terms and reduce capacity.

For example, throughout the year LMX underwriters have been increasing the minimum rate on line (or limits) to 7.5% currently from 3%-4%, according to participants at the Rendez-Vous.

"But that is expected to increase to 10%" for 1990 renewals, said Jonathan Goff, director at Winchester Bowring.

Also, LMX underwriters throughout the year have insisted that all cedants coinsure between 5% and 10%

Continued on page 52

"There's another 'Common Market' stirring on the other side of the world."



Martin Rayner, Senior Vice President and Director, on Pacific Rim vitality:

A lot of eyes are focused on Western Europe and 1992.

But look eastward and you'll see why Europe has no monopoly on Common Market thinking.

That's why we opened a Tokyo office two decades ago, leading the way to the Pacific Rim for major insurance brokers. Next year we'll open in our eleventh Asian country, broadening what is already the strongest network in the Far East.

We've seen a lot of changes out there. At first, we served American and European multinationals almost exclusively. Now Asia is developing its own global stance.

The investment environment creates a need for sophisticated insurance and risk management services. Japan is finding these services more and more useful as it taps other Pacific Rim markets. Malaysian conglomerates are looking at them to facilitate expansion. And projects like China's first nuclear plant wouldn't get done without them.

The world of business is going global. And we're there to meet it.

JOHNSON & HIGGINS

Innovation Driven by Experience.

RISK AND INSURANCE MANAGEMENT SERVICES; EMPLOYEE BENEFIT CONSULTING WORLDWIDE.

STRENGTH

National Reinsurance Corporation
Responsive Reinsurance

- One of the nation's top ten reinsurance companies.
- Assets exceeding $1 billion; more than $200 million in surplus.
- Capacity and security to guarantee your loss payments. (Send or call for our Financial Highlights booklet.)

Rated "A" by A.M. Best Company.

777 Long Ridge Road, P.O. Box 10167, Stamford, CT 06904 203-329-7700 Fax: 203-329-9027 Atlanta • Chicago • Dallas • Hartford • Los Angeles • New York

LMX market

Continued from page 50

of the limits being covered by the LMX underwriter, said Mr. Goff. "The rumor this year is that at year-end there will be a minimum 10% coinsurance requirement."

However, Mr. Condon of River Thames thinks that coinsurance levels will remain at around 5% of the limits but that bigger retentions will be required, forcing the cedants to bear the first layer of loss rather than sharing a percentage of all layers of loss.

"I think retentions should increase, particularly for LMX," said Mr. Condon. "They are very low at the moment. If you can warrant coinsurance, then I don't see why you can't have retentions."

However, although LMX coverages will cost more and underwriters will have to retain more risk during 1990, the underwriters are not passing on those costs to their clients (see story, page 1).

'I think retentions should increase, particularly for LMX,' says Mr. Condon of River Thames.

In particular, rate reductions are expected to continue in the property insurance market in 1990, forcing property catastrophe reinsurers to receive less premium as a result.

"But if you have a direct underwriter asking for less, and a retrocessionaire asking for more, then who pays the difference?" asked Mr. Goff.

The London market underwriters "may have to run more self-retentions" than pay the increased LMX prices, he said.

Normally, the tightening of the LMX market signals that insurance rates will be increased in order for underwriters to pay for the extra costs of their own reinsurance and retrocessions.

In 1985, for example, LMX underwriters started to feel the pinch of Hurricane Alicia's losses and forced the rates up, which hardened most of the world markets.

The losses in the market at the moment, however, are not having the same effect on the primary insurance market for specific reasons, Rendez-Vous participants say.

Unlike 1985, "we are not seeing anyone losing money," said Paul G. Philo, director of non-marine underwriting for Sphere Drake Insurance Group P.L.C. in London. The last time the LMX market hardened, underwriters increased their own rates because Hurricane Alicia was the last of a long line of troubles in the world insurance markets, said Mr. Philo.

But those conditions don't exist today, he added. The 1987 windstorm and the Piper Alpha explosion hit after the market had received huge premium increases in 1986 and the beginning of 1987, he said. With these losses coming in, "the market thought that if it raised rates again it would be the straw to break the camel's back," said Mr. Philo. "So this year, whether the market softens or hardens, there won't be as big a swing."

Also, although the windstorm—called 87J in the London market—was the largest single loss event ever for the world's insurance industry, it was not a U.S. storm and the U.S. insurance market has not been hit as dramatically by the loss, said David Long, senior treaty underwriter for Sphere Drake.

"In my view, absent of any windstorm, I don't think there will be a dramatic difference (in primary insurance rates and conditions) at year-end," said Mr. Philo. "U.S. insurance company results are looking poor, but they're still making money. . . .It wasn't until the tail end of 1984 that we saw a difference in the market from Alicia."

Likewise, the Piper Alpha loss, which has increased LMX marine rates and decreased capacity, is not expected to have much effect on the soft primary marine insurance market, added Robert Barclay, associate director of English & American Group P.L.C.

The amount of marine risks is steadily declining in the world, but marine insurance capacity continues to increase, he said. "So even a catastrophe like Piper Alpha may not be sufficient enough to reduce the (excessive) amount of capacity in the market" and tighten rates and conditions, he added. ■

Rendez-Vous sets stage for renewals later in year

By KATHRYN J. McINTYRE and STACY SHAPIRO

MONTE CARLO, Monaco—The Rendez-Vous de Septembre "is like life," summed up one British participant.

"You get out of it what you put in," said Tony Taylor, managing director of English & American Group P.L.C. in London. "There are people who have lots of appointments and negotiate and get a lot of work done. But if you want to play, then it's fun too."

For the last 33 years, reinsurance experts have congregated in Monte Carlo for a "rendez-vous" to meet new business contacts, greet old ones, catch up on market gossip, try to solve a few problems and also have a good time before the year-end renewal season starts in October.

For six days, Sept. 3 through Sept. 8 this year, registrants conducted meetings ranging from 15 minutes to one hour or more, generally beginning at 8:30 a.m. and lasting until the cocktail parties began in the evening. Business dinners follow the cocktail parties and late night dances are held some evenings (see story, page 54).

Market gossip also can be heard at the casino bars or discos until the early hours of the morning.

"At the end of the week I hate it" because of the lack of sleep and the constant rushing around to meet people, summed up Gerard Jansen, general manager of European American Underwriters in Vienna, Austria, a subsidiary of American International Group Inc. "But I'd hate to give it up. You go to lunches, parties and meet people. It's grueling work. But it's also good for business for those who are working."

The Rendez-Vous in 1963 consisted of 260 senior reinsurance executives who came to Monte Carlo on vacation and some business, said one registrant who remembers the old days. At that time, participants worked hard and could get decisions made by these senior executives.

Nowadays, however, almost 2,000 people from 76 countries and colonies invade all the hotels in Monte Carlo during the Rendez-Vous. In addition to reinsurance company executives are reinsurance brokers, accountants, executives from runoff companies and lawyers.

And, hardly any decisions are made in Monte Carlo, though information is gathered that might affect year-end negotiations, say participants.

"This year as last year, Monte Carlo is a paperless Rendez-Vous," said Henri Chaloub, chairman of French insurance conglomerate MEPA Group Holding S.A. in Paris. "Nobody is looking at statistics. Look at the people walking around here and you will see fewer people holding paper in their hands. Two years ago (when capacity was scarcer), they came with a lorry of documents."

However, the Rendez-Vous still is a very important meeting because "you can meet here 1,000 people and if you meet them in their own countries, then you need 1,000 days," he said.

"Monte Carlo is sociable rather than nitty-gritty work," added Theo Dielmann, executive vp of Hannover Reinsurance A.G.-Eisen & Stahl Reinsurance A.G. in Hannover, West Germany. Serious work on year-end renewals will take place at the reinsurance market's next gathering in the West German spa town of Baden-Baden in late October, he said.

33rd Rendez-Vous de Septembre

"But Monte Carlo is the preliminary for renewal business. And when you have bad news, it's good to tell people here and give the details later," said Mr. Dielmann.

Few pieces of paper were evident among participants at meetings held in public, but behind the doors of hotel suites more topic-specific negotiations were conducted, some said.

The Rendez-Vous is different for different people, added Mr. Taylor of E&A Group. "There is a lot of detail business which the English-speaking delegates aren't involved in. The non-English speaking crowd have detailed meetings and talk business," he said.

Continental Europeans that write large books of proportional reinsurance want to discuss results to date before the year-end renewal season, participants agree.

"The U.K. and U.S. people come here to gossip," Mr. Taylor added. There also are more accountants, journalists, brokers and lawyers attending the meeting, he noted.

"We have one underwriter down here," he said. "Otherwise, we're here to gossip and market the company."

For the 10 Japanese companies that were represented this year, the Rendez-Vous "is a great opportunity to see people from all over the world, even North Korea, within a very short period," said Isao Kuzuhara, director and general manager of the reinsurance and international department of The Dai-Tokyo Fire & Marine Insurance Co. Ltd. of Tokyo.

"Also, the Far East is far from the action, so to prepare for the renewal season, we see how the markets are operating while we are here," he said.

Jonathan Goff, a director of Winchester Bowring Ltd. in London, said he attends the Rendez-Vous to "get the gossip and see our markets," including overseas markets, and set up meetings between London clients and reinsurers.

Mr. Goff also attends the Rendez-Vous with his colleague Robert G. Stone "to entertain our clients." He noted that "as someone said on the plane, 'If we don't do it, another broker will.' "

David Seifer of Donaldson, Lufkin & Jenrette is the only U.S. stock analyst who attends the meeting regularly to conduct his own research. This year, however, his firm was listed as "David Seifer Donaldson, Lufkin & Jenrette," to which he quipped, "It took a career, but someone finally got it right."

A few typographical errors in the registration book were not, however, as important to most Rendez-Vous registrants as the new badges issued this year.

Instead of the small, discreet name badges measuring only about 1 inch by 2 inches issued in prior years, this year's badge was about four times the prior size, with the registrants last name printed in letters about the size of the entire old badge. The registrant's first name was printed in smaller letters, and registrants' badges were branded with an even larger letter than their last names were printed in, designating their status at the conference. Among the designations were "P" for participant and "J" for journalist.

Many registrants rebelled against the new badges, resurrecting last year's badge, inserting their business card in the new plastic badge holder or even sporting a badge from a previous function.

Some type of badge is a necessity, however, since often one is meeting a person for the first time and must search for the appropriate name among a sea of people milling about the Loews hotel lobby or the bar of the Hotel de Paris.

As one Rendez-Vous participant observed, there are basically three groups of people that attend the Rendez-Vous each year:

- A small group of newcomers who are not sure of the etiquette. They walk around with a glazed look on their faces desperately looking for people they know.
- Those who arrive with a distinct agenda that includes meeting a small group of people and selling something.
- The 30-year veterans who gossip, drink a lot of Perrier, champagne or beer and reconfirm the brotherhood of reinsurers. ■

The Specialists for

- Run-off & Loss Portfolio Reinsurance
- Prospective Aggregate Covers
- Financial Reinsurance

Pinnacle

Pinnacle Reinsurance Company Limited
Barclays International Building
Church Street, P.O. Box HM1801
Hamilton HMHX, Bermuda.
Tel: 809-292-8600 Fax: 809-295-5019
Telex: 3572 ASSUR BA

Total Capital and Surplus in excess of US$50 million

Airline rates in holding pattern until 1991

By STACY SHAPIRO

MONTE CARLO, Monaco—Aviation hull and liability insurance underwriters won't have a chance to boost rates for airlines next year, though they may increase prices in 1991, predicts a managing director of a London-based insurance group.

Most major airlines are buying 18-month hull and liability insurance policies this year that will not expire until at least January 1991, pointed out Tony Taylor, managing director of English & American Group P.L.C.

So 1990 will be a "fallow" year for airline renewals, he said. "The first opportunity for underwriters to boost rates will be in 1991."

By that time, aviation underwriters will be ready to hike rates because the continued soft aviation insurance market is reducing the amount of premium underwriters have to pay and increasing the number of losses, Mr. Taylor said.

"Since the underwriters already have $700 million in losses this year and only $350 million in premiums to pay for them. . .then someone will have to pay the piper," said Mr. Taylor. "So the aviation market will get harder in 1991."

Speaking at the 33rd Rendez-Vous de Septembre, Mr. Taylor and other aviation insurance market observers noted that the market continues to be very competitive. For instance, some Oct. 1 and Nov. 1 airline insurance program renewals already have been completed at rock-bottom prices.

33rd Rendez-Vous de Septembre

For example, one of the world's largest insurance-buying groups of airlines, known as the KSSAF group, negotiated the lowest rate ever for hull insurance when it completed its Oct. 1 renewal on Aug. 3.

The coverage will attach Oct. 1 for 12 months, though the program includes a provision to extend the coverage for another six months, the sources said.

The group of airlines, which owns an aviation captive insurer called Polygon Insurance Co. Ltd. in Guernsey, is led by KLM Royal Dutch Airlines, Scandinavian Airline System and Swiss Air Transport Co. Ltd. and includes Austrian Airlines and Finnair.

The KSSAF group, with a combined fleet valued at $14.2 billion, will pay a rate of 0.035% of the insured value of its hulls, which are insured up to a maximum value of $175 million, according to London aviation sources.

The combined group also will pay a rate of 0.065% per 1,000 revenue passenger kilometers for liability insurance under the renewal, the sources said.

Mr. Taylor could only confirm the hull rate. Transglobe Underwriting (Guernsey) Ltd., a subsidiary of British & American, manages Polygon.

Both the hull and liability insurance are placed with Polygon and reinsured with the world market through London-based brokers Nicholson Chamberlain Colls Ltd. and Bowring Aviation Ltd.

The reinsurance is led in London by The Orion Insurance Co. P.L.C.

Meanwhile, registrants at the Rendez-Vous believe that at least one other airline, whose aviation insurance program renews Nov. 1, will pay a total premium that is less than the $10 million hull loss of the Varig airlines Boeing 737-200 that crashed earlier this month in the Amazon jungle in Brazil.

Forty-three of the 54 passengers and crew miraculously survived the disaster, which occurred during the Rendez-Vous.

Varig's hull insurance is placed with the Instituto de Resseguros do Brasil and $3 million of the $10 million hull loss is ceded to the London market through broker Frank B. Hall & Co. Inc., London sources say. The reinsurance is led in London by Aviation & General Insurance Co. Ltd.

Varig also has $1 billion of liability insurance with the IRB, whose reinsurance is led in London by British Aviation Insurance Co. Ltd.

In the meantime, Qantas Airways and London-based broker C.E. Heath P.L.C. have designed a new arrangement to handle the airline's aviation and non-aviation insurance programs.

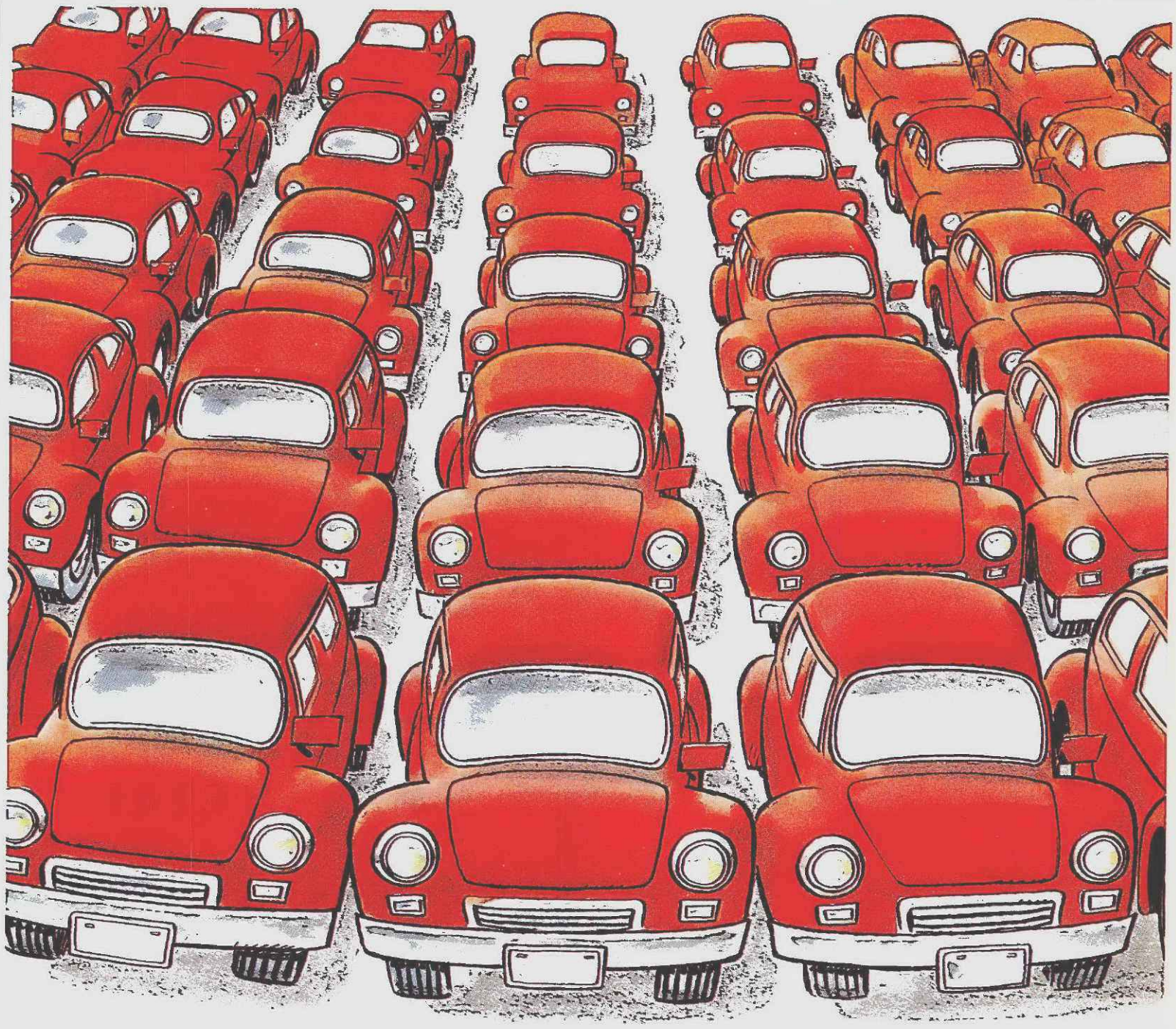
Sources at the Rendez-Vous said that Qantas is setting up a joint venture company with Heath and moving its insurance department to the joint venture company so that the insurance department will become a profit center rather than a cost center for the company.

Heath will own 51% and Qantas will own 49% of the joint venture company, sources said. As a result, Qantas last month moved its account during the middle of its policy term to Heath from Alexander Howden Group Ltd., though the management of Qantas' captive remains with Sedgwick Group P.L.C. in Singapore.

Qantas renews its aviation insurance programs Oct. 1.

Meanwhile, as Rendez-Vous registrants flew back to their various homes on the weekend of Sept. 8, a chartered plane carrying 55 people who were mostly officials of a Norwegian shipping company called Partnair crashed into the Skagerrak channel between Norway and Denmark, killing all on board. The passengers were believed to all be employees of Partnair.

London sources believe that the hull and liability insurance coverages are solely placed with the Nordic Aviation Pool. ■



Many reinsurance companies offer you two options: take it or leave it.

That's because they view all of their customers alike.

Prudential Re knows better. So we come up with unique solutions, by tailoring our plans to fit your unique business needs.

We know about those needs because we also believe in close communication with clients, no matter how large or small.

So if you think your reinsurance company is overlooking some of your most important features, find another one. Prudential Re.

Prudential Re

Available directly or through an intermediary.

© 1989 Prudential Reinsurance Company, a subsidiary of The Prudential Insurance Company of America, Newark, New Jersey.

Rendez-Vous social scene not dampened by weather

By STACY SHAPIRO

MONTE CARLO, Monaco—Rain and rough seas interrupted some party plans during the 33rd Rendez-Vous de Septembre.

But at a conference where socializing is as important as gathering market information, many of the formal meetings, luncheons and receptions hosted by brokers, underwriters, accountants and lawyers got off without a hitch.

One of the first social events, a Sunday evening reception hosted by the New York-based law firm Kroll & Tract at the Hotel Hermitage, was moved inside off the terrace that overlooks Monte Carlo's harbor because of rain.

33rd Rendez-Vous de Septembre

On Monday evening, the official cocktail party of the Organization Committee of the Rendez-Vous also was held indoors because of rain that had drenched the terrace that afternoon.

The party was moved to the Winter Sporting Club from its regular site on the terrace of the Old Casino. Although the skies had cleared by the party's 6:30 p.m. start, it was too late to move the party back outside.

On Wednesday night, although the sky was clear, a huge swell from the Mediterranean Sea rocked the yacht M.Y. Moonmaiden II in Monte Carlo's harbor where London reinsurance broker Kinnmonth Lambert Ltd. held its annual cocktail party. Those prone to seasickness stayed off the boat and were served drinks and hors d'oeuvres on the pier, while many of those who were brave enough to board the yacht swayed on her top deck.

Some women aboard the Moonmaiden II were seen barefoot, discarding high heels to not only protect the yacht's teak decks but also to avoid falling from the unpredictable rocking of the yacht.

Richard Shaw, chairman of London broker Lowndes Lambert Ltd. and owner of Moonmaiden II, recalled that it was only the second time in seven years that the reception was marred by rough seas.

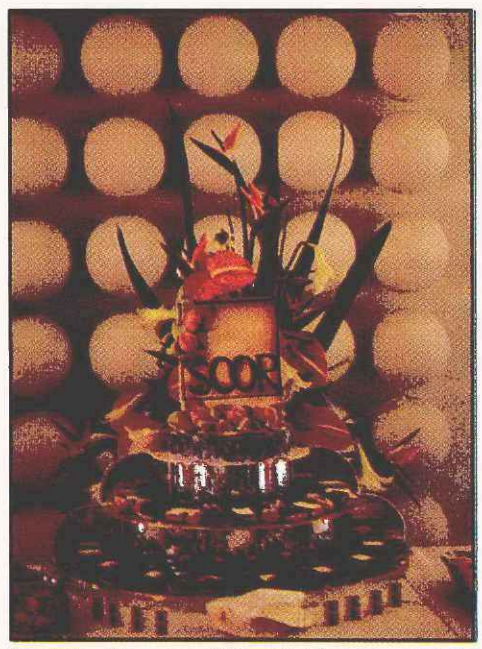
Nonetheless, most of the parties during Rendez-Vous week enjoyed warm, sunny weather

The traditional reception by London broker PWS Holdings P.L.C. was happily protected in the lobby outside the Grand Salon of the Loews Hotel on Sunday night. The party celebrated PWS's 25th anniversary and the announcement that Ronnie Ben-Zur's family trust's shares in the company had been purchased by other PWS investors (*BI*, Sept. 11).

On Monday afternoon, reinsurance broker William F. Delaney hosted his extremely private traditional luncheon in the Churchill Room at the Hotel de Paris, where guests also could gather on the adjoining terrace and view the harbor, protected from the sun by a canopy.

Many of the guests at Paris-based MEPA Group's traditional Tuesday luncheon at the Hotel Beach Plaza Sea Club pool took cover from the bright sun under trees and umbrellas. Henri Chaloub, MEPA chairman, and his family hosted a lavish elegant lunch with a tempting dessert table.

Tuesday evening receptions included Ernst & Young International's party in the new Metropole Hotel, which opened just two weeks before the Rendez-Vous invaded Monte Carlo.



Societe Commerciale de Reassurance's reception featured a tempting pastry table.

Kathryn McIntyre

And guests danced under a starry sky between 11 p.m. and 1 a.m. on the pool terrace of the Hotel de Paris and Hotel Hermitage for the annual late-night party thrown by the management of Copenhagen Reinsurance Co. Ltd. in Denmark.

Wednesday afternoon, Societe Commerciale de Reassurance hosted a reception in the recently opened second-floor salon and deck of the Cafe de Paris, providing guests with a new vantage point for viewing Monte Carlo and the Mediterranean. Strong breezes whipped the deck, knocking over a few table centerpieces while providing relief from the heat.

Also Wednesday afternoon, 16 Bermuda-based reinsurance companies, reinsurance brokers, banks, management consultants, and barristers and attorneys hosted their traditional reception at the Monte Carlo Sporting Club.

Although only a taxicab ride away from the center of action at Loews and the Hotel de Paris, the annual party attracts a packed house of U.S., U.K. and Bermuda market members.

Although the sun was shining brightly on the deck of the club, Bermudians were busy talking about the possibility of Hurricane Gabrielle striking their island (see story, page 1).

London law firm Barlow, Lyde & Gilbert hosted its reception Wednesday evening atop the Cafe de Paris.

A warm starry night also blessed the traditional Thursday night black-tie gala dinner hosted by the Organization Committee at the Monte Carlo Sporting Club. Guests were greeted by a Caribbean steel drum band and relished a delicious four-course dinner of salmon, pasta, capons and "mousseline de marron glaces chocolat," or chocolate mousse served in the shape of a butterfly.

An exotic "Sporting on Ice Show" followed dinner. The evening concluded with a spectacular fireworks display and late night dancing to the Big Band of the Monte Carlo Sporting Club. ■

THE ANSWER TO YOUR MOST CHALLENGING REINSURANCE PROBLEM IS

HERE

Reinsurance Underwriting Managers and Intermediaries specializing in Accident and Health, Special Risk and Workers Compensation Reinsurance.

LDG

Lockwood, Dipple & Green Incorporated

Woburn, Mass., (617) 938-9010 • New York, N.Y., (212) 921-5689
Minneapolis, Minn., (612) 870-9284

FINANCIAL FORUM REINSURANCE

FORUM REINSURANCE COMPANY LIMITED

PO Box HM 2504
Continental Building, Church Street
Hamilton HM GX, Bermuda

Tel. (809) 292-2779 Fax (809) 292-4477

Insurer mergers name of the game throughout Europe

By STACY SHAPIRO

MONTE CARLO, Monaco—Merger fever is dominating the European insurance industry, creating concern among some reinsurers that their business will shrink as the larger insurance companies retain more risk.

But one pending merger could reflect anticipated increasing demand for more highly capitalized reinsurers: the merger of France's two largest reinsurance companies, Societe Commerciale de Reassurance and UAP Reassurances (see story, page 56).

At least 45 transactions have taken place in the last three years in the European market, with many of the targets in France, Spain and Italy and many of the purchasers hailing from Switzerland, West Germany and Scandinavian nations.

The flurry of activity in Europe is partly spurred by the opening of trade barriers across European Community borders for commercial insurance in July 1990 and at the end of 1992 for all trade in the EC, said registrants of the 33rd Rendez-Vous de Septembre.

However, others say that 1992 only focused attention on consolidations that would have occurred anyway, while others say that the personalities that dominate the European insurance industry also play a role in the heightened action.

33rd Rendez-Vous de Septembre

"There are some fundamental changes going on. . .where the companies in Europe are getting bigger and there is less reinsurance needs," said Theo Dielmann of Hannover Reinsurance A.G.-Eisen & Stahl Reinsurance A.G. The move "may be good for the insurance business, but I'm not so sure it is for the reinsurance business."

Hannover Re itself merged its management with Eisen & Stahl Reinsurance A.G. two years ago, and together reported $1.3 billion in gross premium income last year. But the move was not defensive; rather it was one of convenience because the two companies have similar main shareholders, said Mr. Dielmann.

The company, however, has no intention of joining the flurry of merger activity and grow bigger in the run up to 1992 because of the state of the market, he said.

"The Common Market is on our doorstep and if you are a foreigner, then you have to buy into the EC countries. This helps the insurance business," said Mr. Dielmann. "But far too much money is being paid for the companies, and reinsurance has always been international. As far as 1992 is concerned, what is there to cope with? We're already free to trade in the reinsurance market."

Because of the mergers and acquisitions, "the business for the reinsurance market is shrinking," said John C. Condon, director of underwriting for River Thames Insurance Co. Ltd. in London. "The volume of business isn't there because, say, instead of reinsuring 75% of their business, the insurers get bigger and bigger and reinsure only 50% of their business and retain more because they are larger."

"With all these mergers and acquisitions and joint ventures forming giant companies, one group of primary companies has reinsurance assumed capacity of five times what it was, plus the group will buy less proportional reinsurance and will will buy excess-of-loss," commented Edward B. Jobe, president and chief executive officer of American Re-Insurance Co. in Princeton, N.J.

"Put that all together and you have more companies assuming reinsurance and a smaller pool to assume from," he observed.

"1992 might be the worst time in the world to get into Europe," Mr. Jobe speculated. "The best time may be seven to eight years later when all this get sorted out."

"People are worried about how the market will evolve," observed John Lock, general manager of Mercantile & General Reinsurance Co. P.L.C. "Within Europe, there is a belief that to be a major international insurance group, you need to be in the major markets. So people are looking at some sort of alliance—a takeover or a share exchange. Individuals are trying to build something for themselves."

But Mr. Lock, unlike many participants at the Rendez-Vous de Septembre, thinks that the building of larger insurance companies has not reduced the reinsurance premium pool in Europe.

"Regardless of the mergers, all evidence shows that there is less reinsurance premiums in Europe," said Mr. Lock. "It's partly to do with the mergers. But, in any case, insurers have had a few profitable years and, as a result, have increased their capital and can therefore retain more risk. And the fact that reinsurance isn't cheap" may be another reason European insurers retain more risk, said Mr. Lock.

There is also a move away from the big proportional reinsurance treaties to non-proportional reinsurance, which generates smaller premiums, he said.

"On the mergers, my feeling is that there is some evidence that if you have huge organizations, you break them down internally into different profit centers," Mr. Lock said. "Then, it is likely that each profit center will arrange its own reinsurance protections. A lot of big groups find that it's better to set up, for example, eight profit centers and let them arrange their own reinsurances. We saw this in the U.K."

This will either maintain or increase the amount of reinsurance business in Europe, he added.

European insurers buy more reinsurance than U.S. insurers, according to Willi Schurpf, general manager of Union Reinsurance Co. in Zurich, Switzerland. Reinsurance cessions account for about 18% of the premiums in Europe compared with about 12% in the United States, he said during a panel discussion at the Rendez-Vous.

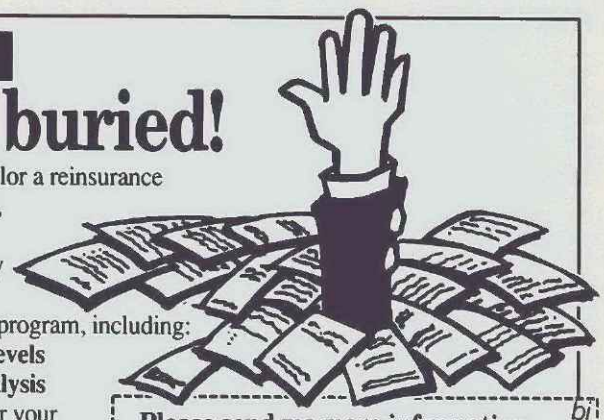
The trend toward mergers, however, misses the point of 1992, which is to allow branch offices of foreign insurance companies to trade across all borders, said Mr. Lock. Therefore, M&G has just set up its first Continental European branch office in Milan, Italy, and may open branch offices elsewhere, he said.

The merger mania is happening "because of 1992 most likely," said Jacques Dard, assistant director of Abeille Reassurances, a subsidiary of Groupe Victoire, which is being

Continued on next page

REINSURANCE:

Get covered, not buried!



Kernan Associates' senior managers will custom tailor a reinsurance program for you that provides the coverage you need, without burying your bottom line.

We're independent consultants, working exclusively on a fee basis - so, we're not biased by high margins or commission. We'll help manage your reinsurance program, including:

- **Needs Analysis • Setting Proper Retention Levels**
- **Development of Action Plans • Contract Analysis**

We'll even help clear up the reinsurance mystique for your staff and line.

Return this coupon today for a free brochure and let Kernan Associates help keep your reinsurance plan above board.

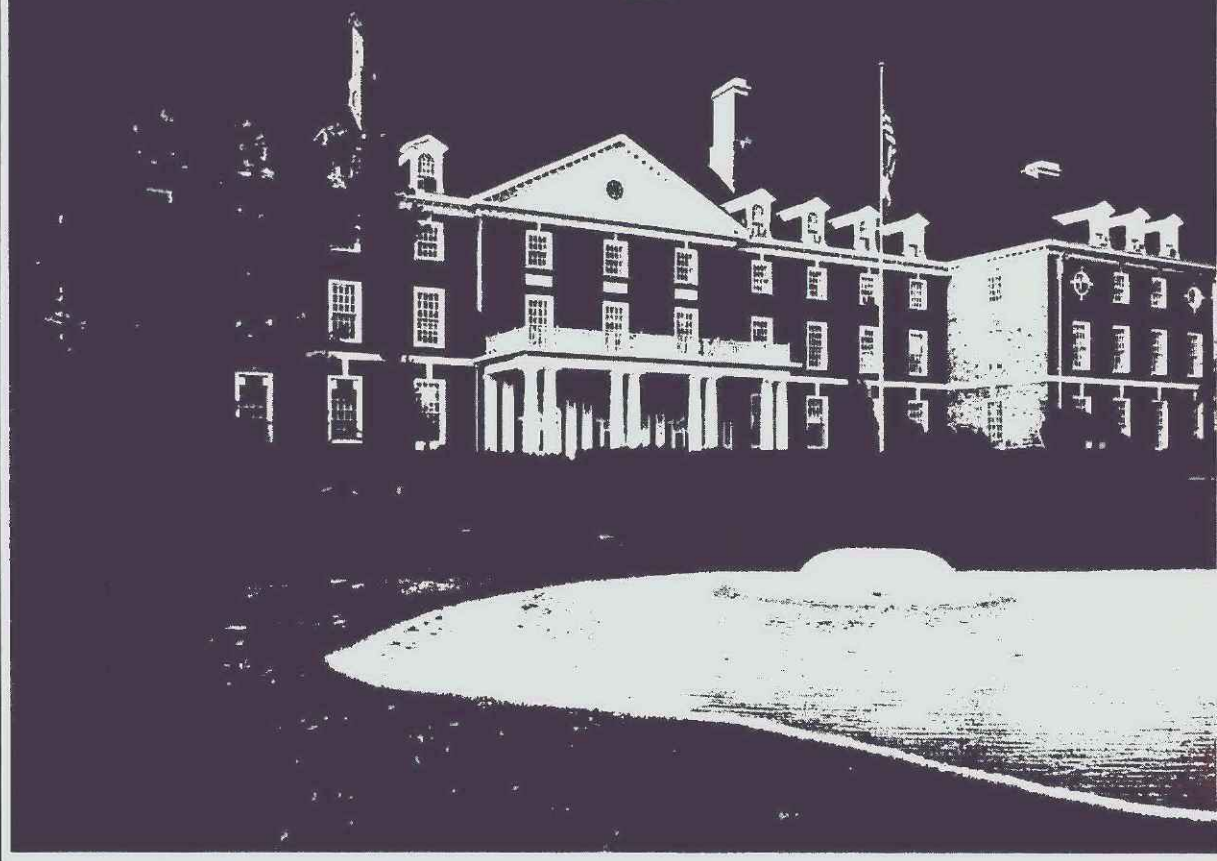
Kernan Associates, Inc.
Insurance & Reinsurance Consultants
P.O. Box 128 • Gillette, NJ 07933-0128 • (201) 665-0757

Please send me more information about Kernan Associates.

Name_____
Company_____
Address_____
City_____ State_____ Zip_____
Phone_____

bi

Edifice Complex



An obsession with buildings—big, expensive buildings in grandiose settings. The classic case is characterized by a preoccupation with superficial "premiums" like atriums, rolling meadows, ponds.

Edifice Complex is especially common among providers of mental health and chemical dependency treatment, who tend to emphasize the *whereabouts* of treatment instead of the treatment.

What all this equals is extravagant extras that don't enhance or even contribute to treatment. What they do is increase costs. Your costs. Unfortunately, your employees aren't guaranteed effective treatment, nor is their recovery accelerated. Instead you're footing the bill for fluff.

There is an alternative. We're a company that doesn't tolerate Edifice Complex or its costly implications. Why should you?

Call 1-800-44 MENTA

THE MENTA GROUP
Managed Mental Health Alternatives
900 Jorie Boulevard, Suite 59
Oak Brook, Illinois 60521
312.990.7767
FAX 312.990.1726

September, 1989

$50,000,000

CAPITAL RE CORPORATION

is pleased to announce that it has entered into a Credit Agreement providing for a liquidity facility in the amount of $50 million with

SWISS BANK CORPORATION

CAPITAL RE

What do the benefits departments of these companies have in common?

AT&T Allied-Signal **American Airlines** Atlantic Richfield
Boise Cascade CBS **Coca-Cola** Colgate-Palmolive
Federal Express **General Motors** General Signal Corp.
Heinz USA Honeywell **ITT** Kraft Mead Corporation
Miller Brewing PPG Pitney Bowes **Polaroid**
Proctor & Gamble Sara Lee Upjohn **Westinghouse Electric**

They all have CEBS Graduates on their staffs!

A.

Times have changed.

Benefits have moved onto the balance sheet and now play a major role in the economic viability of corporations.

Today's benefits manager needs a solid background in the economic, demographic and regulatory issues that are changing the industry.

That is why many corporations encourage participation in the Certified Employee Benefit Specialist (CEBS) program. Cosponsored by the International Foundation of Employee Benefit Plans and the Wharton School of the University of Pennsylvania, CEBS is a ten course program covering areas essential to effective plan management.

To find out how CEBS can impact your company's bottom line, call or write:

CEBS

CEBS Department
International Foundation
of Employee Benefit Plans
18700 W. Bluemound Road
P.O. Box 69
Brookfield, Wisconsin 53008-0069
(414) 786-6700

New strategies

Continued from previous page

said.

"If an idea of this type could be made a reality, there is no doubt that it would contribute to the avoidance of serious mistakes" by smaller insurers underpricing European business to obtain it, he said.

In addition, such an arrangement would "provide the possibility of producing a well-balanced actuarial result for underwriting individual risks," he said.

However, reinsurers that decide to support such a concept would have to restrict the capacity provided such insurers to "precisely that capacity which they require to protect their existing interests and not a capacity which would lead to these companies putting themselves at risk through excessive competition," Mr. Biagosch cautioned.

Reinsurers also would have to offer these ceding companies "very good actuarial support which would take the form more of direct insurance than reinsurance," he said.

In contrast to Mr. Biagosch's suggestion that coverages be packaged cautiously, Generali's Mr. Giussani said "packages will become increasingly complex as they will also have to be spread over a number of geographical areas. It will be up to the insurer to harmonize the various coverages and countries into a single package without overlooking, at least to a reasonable extent, sound technical principals."

Reinsurers' support will be needed to accomplish this, but to provide the needed services, reinsurers will have to "strengthen their position as to know-how and technical knowledge of the different markets, he said.

The consolidation of insurance programs across national boundaries will be combined with the "creation of risk management units better qualified to handle insurance efficiently and in an internationally coordinated way," Mr. Giussani pointed out.

Mr. Schurpf of Union Re—who in January will join Winthertur Swiss Insurance Co. Ltd. in Winthertur, Switzerland, as general manager in charge of reinsurance and the international division—agreed that the issuance of what he dubbed "Europolicies" will "probably result in a demand for reinsurance contracts with extensive geographical coverage for the entire EC or even the whole world."

In addition, "services which support the expansion of the direct insurers into new markets will also be in demand, specifically in the form of information on markets, coverage and rates," he added.

Mr. Schurpf also expects that small and medium-sized insurance companies will have to merge in order to compete in the new, expanded market.

"Pure cooperation agreements will probably prove too weak an instrument to withstand the tough competition," he said.

However, "small insurers can also try to safeguard their existence by concentrating on niches in the market," including geographical, customer-oriented and service-related niches, he said.

Reinsurers also can expect the volume of business they write to decrease, at least initially, and to change, Mr. Giussani and Mr. Schurpf agreed.

"Insurers will have to increase their underwriting capacity in order to cope with the growing size of risks as well as the ensuing accumulations," Mr. Giussani said. As a result, insurers will need to increase their capital base through mergers and acquisitions or shareholders' direct contributions and will increase their net retentions.

But, while an increase in net retentions will decrease insurers' demand for reinsurance, there will be "a growing need for reinsurance beyond the net retention in respect of very high exposures," Mr. Giussani pointed out. Therefore, while premiums ceded to reinsurers may at first decrease due to larger net retentions, the increase in the sums insured will result in a larger amount of premiums ceded, he said.

Reinsurers capable of handling the larger risks, like primary insurers, will consolidate and grow in size, Mr. Giussani predicted. But, while ceding companies will "reward the financially stronger reinsurers capable of providing the most efficient technical service, it is just as true that cedants will still try to avoid reducing beyond certain limits the number of their reinsurers," he said.

Ceding companies will not want to concentrate their reinsurance placements with a few large reinsurers out of concern for needing more capacity in a hard market and fear of being "compelled to accept heavy technical and financial conditions," he explained.

Mr. Schurpf also expects larger insurance groups to increase their retentions and reduce the amount of reinsurance purchased. Unlike Mr. Giussani, Mr. Schurpf said he believes that "the reduction in demand for reinsurance. . .will only be partly offset by the increased need for reinsurance protection which will probably arise from the greater fluctuations in technical results expected among direct insurers and from the growing size, novelty and complexity of the risks."

Mr. Schurpf also pointed out that "in addition to the volume, the function demanded of reinsurance can also be expected to change. It will increasingly serve to offset major losses on individual risks and accumulation losses resulting from natural hazards, while balance sheet protection and solvency relief will more likely fade into the background."



Mr. Biagosch



Mr. Schurpf

The panelists also expressed concern that the new single European market could ignite pricing wars among insurers.

The new negotiating freedoms between buyers and sellers of insurance in Europe could lead to "a situation where the most elementary rules of a rating system with actuarial integrity are no longer applicable," Mr. Biagosch said.

However, he rejected this result, citing the "quite healthy" British market, which operates under such competitive pressures, and the extent to which insurers and buyers of insurance in Europe already have negotiated policies that satisfied clients' needs while "not solely in accordance with the provisions of national supervisory authorities."

Mr. Biagosch also chided Lloyd's of London for announcing that it hopes to take over 2% of the West German insurance market within three years. Colonia, which has been in the German market for 150 years, has just less than 4% of the market, he pointed out.

"So, *bonne chance* to our friends at Lloyd's," he said, drawing laughter from the audience.

Mr. Giussani, in contrast, suggested that the immediate result of the coming single European market "will no doubt be an increase in competition and hence the necessity, at least in principle, to design new products better tailored to new requirements and possibly at a lower price than the ones in use."

He cautioned, however, that "such price reduction should be obtained through the reductions of overheads rather than technical rates," which he said can be accomplished "mostly by means of agreements, consolidations, mergers and the like to optimize companies' size and rationalize administrative structures."

Mr. Schurpf suggested that pricing cycles will become more dramatic in a single European market. "I expect price fluctuations to occur more rapidly and more markedly, as well as being more closely synchronized between the EC insurance markets," he said.

This will occur because of "the abolition or slackening of government price monitoring and the increased competition," as well as due to more uniform economic and monetary developments, "resulting in increasingly similar incentives for cash-flow underwriting," he explained.

Both primary and reinsurance brokers will be confronted with change in the new marketplace, Mr. Giussani and Mr. Schurpf said.

A single European market will enhance the role played by the big direct brokers, which will have "new possibilities to further their activities," Mr. Giussani said.

"Let us only hope that this does not bring about a flare-up of unreasonable competition," he added. Such a development "would be detrimental to all parties involved, be they insurers, reinsurers and, all things considered, to the brokers as well," he said.

Mr. Schurpf agreed that "it is generally expected that direct insurance brokers will be the ones to benefit from the freedom of services. . . .However, this presupposes a profound knowledge of the different markets and their products."

As a result, he expects brokers to enter as many markets as possible, forming "even larger international broker groups."

However, reinsurance brokers will have to work hard to maintain their positions and grow, Mr. Giussani and Mr. Schurpf agreed.

While reinsurance brokers will continue to serve small and medium-sized insurers that lack in-house expertise, large ceding companies with in-house reinsurance services could establish direct contacts with reinsurers, Mr. Giussani predicted. In order to discourage this, reinsurance brokers will have to "offer a real service and not purely act as a mere intermediary," he advised.

Mr. Schurpf agreed that larger insurers' "greater know-how reduces their dependence on the advice of brokers."

Furthermore, the creation of electronic networks for placing business "is more likely to weaken the role of the reinsurance broker," he said.

However, "a greater demand for non-proportional forms of reinsurance could have a positive effect," since brokers are stronger in non-proportional than proportional reinsurance, he noted.

"The decisive feature here will probably not be an extensive geographical presence of the reinsurance broker, in contrast with the direct broker, but his capacity to devise comprehensive problem solutions in the form of optimum reinsurance programs," Mr. Schurpf said.

That, he pointed out, is "a challenge which the reinsurers themselves must also face." ■

New facility in London questioned

By STACY SHAPIRO

MONTE CARLO, Monaco—Not everyone thinks that the proposed underwriting center for insurance and reinsurance companies in London will be good for business.

Some leading reinsurers in the market, like the London branch of Munich Reinsurance Co. of West Germany, are not planning to move into the new building despite the intentions of 89 other companies to rent office space.

And critics of the center who attended the 33rd annual Rendez-Vous de Septembre questioned the importance of the center and the motivation behind some of the companies' decisions to move to the new offices.

They say that some of the companies, like Commercial Union Assurance Co. P.L.C., are moving into the center as a defensive move rather than for business reasons.

But, Victor Blake, the driving force behind the London underwriting center and chairman and chief executive officer of CNA Reinsurance of London Ltd., thinks that critics are missing the point (*BI*, Aug. 28).

"People's motivation to move into the center is for many different reasons," he said at the Rendez-Vous. "Some people may have come in for a defensive reason. Commercial Union, for example, admits that. Commercial Union has said that it can't sit in its own underwriting room if the people will be elsewhere.

"But doubters are missing the point. Look at the offices where we are in at the moment," said Mr. Blake. Some of them, like CNA Re's

33rd Rendez-Vous de Septembre

office, don't have air conditioning or elevators that work properly, which discourages broker access, he said.

And the new underwriting center is being designed to service the underwriters' needs and be attractive to brokers and clients alike, said Mr. Blake.

The new center—for which underwriters are contemplating an appropriate name—will be just down the road at 3 Minster Court from Lloyd's of London at 1 Lime St. and the Institute of London Underwriters on Leadenhall Road. Eighteen reinsurers and insurers have formed Market Building Ltd. to sign a 25-year lease this fall for the office complex of seven floors and 295,000 square feet now under construction.

To make sure that the center is "broker-friendly," Market Building Ltd. has hired marketing pollsters MORI in London to assess what brokers and underwriters need in a building, said Ian Dean, group chairman and a founding member of Sphere Drake Insurance Group P.L.C., which is a founding member of the center.

The MORI poll questionnaires are expected to be tallied by the end of September, said Mr. Dean.

Rendez-Vous participants say that some of the questions include:

- How many telephone lines will be needed for calls inside and outside the center and for computers?
- How many people will be in each underwriting room?
- How many visitors are expected at the building, especially brokers?
- How many elevators and escalators will be needed?
- What communication systems will brokers need?

"The building has to be broker-friendly," said Mr. Dean. "We have to move people quickly. . .so there are no queues at lifts. ■

U.S. mutuals invited to join group

MONTE CARLO, Monaco—The International Assn. of Mutual Insurance Companies wants more U.S. mutual insurers to join its ranks, says Secretary Robert Choplin.

Founded in 1963, the association seeks to establish links between its members and promote the interests of mutual insurance companies.

With 220 members from 27 countries, AISAM monitors legal, fiscal, economic and political developments affecting its members in their countries.

The association also maintains contacts with international associations including the Commission of the European Communities and the United Nations Conference for Trade and Development.

Although the largest mutual insurance market is in the United States, only two U.S. mutual insurers are members of AISAM: Guilderland Mutual Reinsurance Co. in Delmar, N.Y., and Lumbermens Mutual Casualty Co. in Long Grove, Ill.

Many European, Japanese and Australian mutuals belong to the organization, said Mr. Choplin, who spent a day at the 33rd Rendez-Vous de Septembre earlier this month. "What's missing is a representative sample of the American market."

Mr. Choplin speculates that mutuals based in the United States have been reluctant to participate in the organization because "they don't feel they need anyone for public relations and they are so concerned with American problems they are not interested in looking elsewhere."

AISAM would like more U.S. members "because the American mutuals are a great success and the American insurance market has a greater and greater influence in the world," Mr. Choplin said.

"More U.S. members would give us a greater strength in our relationship with international organizations and with governments of the various countries," he added.

AISAM counts among its successes defending mutual life insurers in the Philippines against a government ban.

"The economic world is changing," commented Mr. Choplin. "International trade is growing. If mutuals want to continue to play a role, they cannot stay on the sidelines. All mutuals should be interested in what happens abroad," he said.

Among AISAM publications are "Mutuality," a review of the operations of mutual insurance companies, a lexicon in six languages covering the main terms used in mutual insurance and a newsletter.

AISAM brings its members together for a general meeting every two years.

AISAM has four official languages: English, French, German and Spanish.

For more information on AISAM, contact Mr. Choplin, 114 rue La Boetie, 75008 Paris, France.

IRI: WORLDWIDE

IRI Insures Some 66,000 Properties in More Than 70 Countries throughout all continents, except Antarctica. In short, Industrial Risk Insurers is ready to handle your property insurance requirements just about anywhere in the free world. And, working with agents and brokers of your choice, we can offer you a wide range of coverages. These include: Fire. Lightning. Wind and hail. Leakage from fire protective equipment. Explosion. Smoke. Aircraft and vehicles. Molten material. Sonic shock wave. Riot and civil commotion. Vandalism. Business Interruption. Builder's risk. Difference in Conditions. Boiler/Machinery. All-Risk.

Property Insurance, However, Is More Than Just The Policy. That's why it makes sense to take a careful look at the financial stability of the property underwriter. (IRI is backed by more than 40 of the world's leading insurance companies, and we'd like to send you the list.) Also, be sure to determine how much underwriting capacity is available at any one time. And, most important, try to evaluate the people and their experience. Since 1890, IRI has offered underwriting, claim handling and loss prevention services to business and industry throughout the United States and more recently overseas. These services are provided by IRI Account Teams who work with you to help protect your property, production and profits.

IRI Account Teams Are Available to Help You from more than two dozen regional and district offices in the United States. Also, we offer the assistance of loss prevention consultants from four locations outside the U.S.: London, England; Frankfurt, West Germany; Sydney, Australia; and San Juan, Puerto Rico. These offices are staffed with nationals who are familiar with their country's loss prevention regulations, and who know local customs, currency and business practices. In addition, they are trained in IRI's OVERVIEW philosophy, which is a total management program for loss prevention and control, and which has been introduced into numerous countries around the world. Our affiliate in Toronto, Ontario—Canadian Industrial Risks Insurers—provides insurance coverage for Canadian properties, as well as for ancillary overseas facilities of Canadian-based companies.

For a complimentary copy of "Worldwide Property Insurance," the "OVERVIEW" 6-page brochure, and a list of Member Companies, call or write Mrs. P. A. Sasso, Industrial Risk Insurers, 85 Woodland Street, Hartford, Connecticut 06102 (203) 520-7412.

Industrial Risk Insurers

66,000 properties insured worldwide

The professional marketplace

RATES AND CLOSING TIME:

Rates: *Display classified is $101.50 per column inch, minimum of one inch. Straight classified is $8.25 per line, minimum of 5 lines. Count 34 characters per line (include each space and punctuation as a character). Additional $17.50 charge for all blind box ads. Only those reponses which fit into a business size envelope will be forwarded. Responses are forwarded daily.*

Closing: *Published every Monday. Copy must be in typewritten form by noon Tuesday, 6 days preceding publishing date. No verbal phone copy accepted. Prepayment required for straight advertisements. Mail ads to Margaret Hikido, Classified Advertising, 740 N. Rush St. Chicago, IL 60611. For more information call 312-649-5340. FAX 312-280-3189.*

MAXIMIZE YOUR CAPABILITIES, MINIMIZE YOUR RISKS.

Professionals Serving Professionals
In Risk & Insurance Management Recruiting.

RICHARD MEYERS & ASSOCIATES, INC.

EXECUTIVE SEARCH CONSULTANTS

573 Springfield Avenue,
Summit, NJ 07901
201 — 522-9444
Fax 201 — 273-5630

Looking for a candidate to fill the Job?

Advertise in The Professional Marketplace and reach 155,023 Top Professionals!

☎

Call 312/649-5340 for details.

WINNER'S CIRCLE PROFESSIONAL RESUME SERVICE

Winning Resumes

Composed by insurance professionals. Designed and laserset to convince potential employers to invite you for an interview. Call Winner's Circle today for more information.

1-800-476-3963
24 HOUR SERVICE

SURETY BOND MANAGER

Old large Southern Ohio contractor oriented independent agency seeks person w/management, underwriting & sales skills. Salary, fringes, bonus, car, move included, plus ownership potential. Need degree, at least 5 yrs. surety exper. Send resume, references & salary history to:

Box 2486
Business Insurance
740 Rush St.
Chicago, IL 60611-2590

E&S BRANCH MANAGERS

Expanding national Managing General Agency operation is seeking Branch Managers for several different locations. Candidates should have strong property and casualty underwriting skills and proven management experience. This is an excellent opportunity for aggressive self-starters. Subsidiary of a major insurance organization offers extensive benefit and compensation package. Send resume with salay history to:

Box 2558,
Business Insurance,
740 Rush St.,
Chicago, IL 60611-2590

Business Insurance

Circulation Breakdown*

Commercial Consumers

Administrative:
CEO's Presidents and Owners 2,659
Vice-Presidents, General Managers and Other Administrative Personnel 4,006

Financial:
Chief Financial Officers and Vice-presidents of Finance 2,795
Secretaries, Treasurers, controllers and other Financial Personnel 3,842

Risk/Employee Benefits:
Vice-presidents, directors, managers, and other related department personnel of: insurance, risk, employee benefits, personnel, compensation, pension, safety, security, industrial relations, human resources and employee/labor relations 10,719
Sub-total 24,021

Associations 554
Government, Unions and Educational Institutions 1,417
Commercial Consumers
Sub-total 25,992

Insurance Agents and Brokers 10,515
Insurance Companies 7,673
Actuaries, Consultants, Attorneys, Adjusters, Appraisers and Third Party Administrators 3,800
Others Allied to the Field . . . 2,771
TOTAL 50,751

* Source Business/Occupational breakdown of qualified circulation, November 28, 1988 issue, as submitted to BPA for December 1988 BPA Publisher's Statement.

ACCOUNT EXECUTIVE

Agricultural Trade Association seeks Workers' Comp Account Executive for our Bakersfield, California office.

Individual should have 4-5 years experience in Workers' Compensation, dealing in medium to large programs, including retention, sliding scale, Cal-Retro, etc. Will solicit and service existing agricultural members. Send resume to:

Diana De Wees
WESTERN GROWERS ASSOCIATION
P.O. Box 2130
Newport Beach, CA 92658

STRUCTURED SETTLEMENT SPECIALISTS

Respected national firm seeks to expand operations in existing and new markets.

- **established clientele and territories**
- **all major annuity markets**
- **training development and support services**
- **attractive compensation and benefits**

Respond in confidence to:

Lorrie Miller
(800) 354-4096
(800) 759-3557

Kenneth H. Wells & Associates, Inc.
3300 South Parker Road
Suite 200
Aurora, Colorado 80014

RETAIL PRODUCERS WANTED

SPECIALTY PROGRAMS ARE NOW AVAILABLE

Target States

AL. IN. MS. TX. DE. KS. NE. WA. GA. LA.
OH. WI. ID. MI. OK. WV. IL. MO. SD. WY.

Target classes for Liability Coverage

Campgrounds
Contractors' Bonds
Day Care Centers
Go Kart Tracks
Insurance Agents
Limousines
Min Golf Courses
Real Estate Agents
Refuse Haulers
Restaurants & Bars (Liquors)
Riding Academies & Stables
Roofers
Service Stations (Pollution)
Rental Car Agencies
Special Events
Strategy Games
Taxi Cabs
Trade Contractors
Water Parks & Water Slides

For more information regarding these Programs call:

Toll Free 1-800-272-7230
In Missouri 1-314-997-3666

Or Write To:
A. B. Carter Inc.
10420 Old Olive Rd., P.O. Box 66842
St Louis, MO 63166

LEADERSHIP IN PROFESSIONAL INDEMNITY

INSURANCE PROFESSIONALS

Unique New Program

We are Minet International Professional Indemnity, a leading broker for Lawyers, Accountants and other professionals worldwide. An essential component of our growth strategy is this unique development program designed to attract high potential insurance professionals. We will train you in all aspects of the business, relocating you to Montreal to learn from and work alongside our cutting edge experts in professional indemnity. Your concentrated familiarization in this specialized market sphere will include advanced technical training and may last from 12 to 24 months. You will then return to one of our offices in the U.S. and move into account management reponsibility. This is a ground floor opportunity to accelerate your career by joining a team where professionalism and performance are recognized and highly rewarded.

You will have at least three to five years' insurance industry experience, either brokerage or underwriting. While knowledge of professional indemnity would be helpful, we are more interested in the person than the specific experience. To qualify for our program, you must combine intelligence with the technical aptitude to master a highly complex subject. You will thrive as a hands-on, detail oriented team player and have professional bearing and communication skills to deal with senior executives in the professions. Some supervisory experience will be a real plus.

We look forward to meeting the qualified few prepared to make a career commitment in return for our investment in your development. Please send your resume and/or a brief letter outlining your accomplishments, along with compensation history, to: **Box DDBI 915, 485 Madison Avenue, Suite 1900, New York, NY 10022.** We are an equal opportunity employer.

Minet

Insurance

JOIN OUR EXPANDING OPERATIONS!

CUMBERLAND CASUALTY & SURETY COMPANY is a treasury listed specialty contract surety company on the cutting edge of the asbestos/environmental contract surety industry. Due to the tremendous growth in our home office in Tampa, Florida, we have the following opportunities available:

MANAGER, SURETY UNDERWRITING

Exceptional opportunity for a stable, people-oriented Contract Bond Underwriter to manage the underwriting operations. 5+ years contract surety underwriting experience required.

SURETY UNDERWRITERS

We seek aggressive, goal-oriented Underwriters capable of interacting with other professionals. A college degree in Finance or Accounting required; non-standard environmental experience helpful.

REINSURANCE UNDERWRITERS

These individuals must have experience in reinsurance underwriting with a background in treaty as well as facultative. Must also be capable of understanding individual risks and analyzing underwriting teams. College degree coupled with minimum 3 years experience required; background in non-standard market preferred.

SURETY BOND PRODUCERS

Surety Specialists, Inc. is seeking several experienced Bond Producers with the ability to deal with standard and non-standard accounts. These producers will be based in several locations throughout the country.

At CUMBERLAND, the level of compensation is NOT an issue, as salaries are commensurate with experience. For immediate and confidential consideration, please call or send resume with salary history to:

Mr. Joseph M. Williams • 1-800-533-3447
CUMBERLAND CASUALTY & SURETY COMPANY
1501 Second Avenue, Tampa, FL 33650
Equal Opportunity Employer

Business plans discussed at Rendez-Vous

By KATHRYN J. McINTYRE and STACY SHAPIRO

MONTE CARLO, Monaco—New business ventures, expansion of current operations and strategies for the future dominated business conversations among reinsurers at the annual Rendez-Vous de September.

In addition to the spate of merger activity in Europe, including the merger of France's two largest reinsurers, Societe Commerciale de Reassurance and UAP Reassurances (see story, page 55), other news about individual companies and their plans was discussed in private meetings at the Rendez-Vous earlier this month:

• UNISTRADT is a new joint venture based in Amsterdam, Netherlands, founded to "develop a worldwide network of specialized entities in political risk insurance," said Louis Habib-DeLoncle, chairman of UNISTRADT and president and founder of P.A.R.I.S. Pool, a European pool writing political risk insurance.

UNISTRADT now owns P.A.R.I.S. Pool and UIC Ltd., a Miami, Fla.-based underwriting manager of political risk insurance.

A new pool to write political risk insurance in North America and South America with capacity of at least $5 million is being formed, for which UIC will underwrite.

UNISTRADT is owned one-third by two French banks, one-third by insurance interests, including SCOR, and one-third by Mr. Habib-DeLoncle and David D. Avasthi, vice chairman of UNISTRADT and president of UIC.

P.A.R.I.S. Pool underwrites political risk insurance in Europe on behalf of a group of European insurance companies with the support of worldwide reinsurers. It wrote $7.5 million in premiums in its second year, ended June 30, 1989, with capacity of $9 million per risk.

Among the companies participating as co-insurers of the political risk insurance issued are Reunion Francaise-UAP, Preservatrice-Fonciere Assurances, M.G.F.A., C.A.M.A.T., Groupe Assurances Nationale, La Concorde Compagnie d'Assurances and Assurances Generales de France. Most recently, AXA-Midi of France and Trade Indemnity P.L.C. of London also joined the group.

Reinsurers supporting the program include Societe Commerciale de Assurance, Caissse Centrale de Reassurance, Kemper Re Europe and underwriters at Lloyd's of London.

Alexander & Alexander Services Inc. is the broker assisting in organizing the pool to write political risks in North America and South America through UIC, which in the past has written political risk insurance in the Americas only on behalf of Reunion Francaise.

UIC will continue to underwrite on behalf of Reunion Francaise, which provides $6 million in capacity. It is expected that the U.S. pool, called The Americas Pool, will be launched Nov. 1.

33rd Rendez-Vous de Septembre

Mr. Habib-DeLoncle wants to see a structured private market to reinforce the image of stability of the private market as an alternative to government-operated political risk insurance programs.

"The private market can be a credible alternative to public schemes," he said. "There is room for both."

Mr. Avasthi declined to yet name the U.S. insurers that will be members of the pool, but noted that three of the five members of the pool each write more than $1 billion in annual premiums.

UIC will market its products in North America and South America, while P.A.R.I.S. Pool will continue to market its products in Europe.

UNISTRADT will provide financial, data base management, claims handling and recovery and research and development services to the two pools.

P.A.R.I.S. Pool and the U.S. pool also intend to cooperate on underwriting when needed.

However, Mr. Habib-DeLoncle noted that generally P.A.R.I.S. Pool's average insured contract is $1.5 million to $2 million.

Mr. Habib-DeLoncle and Mr. Avasthi contend that political risk insurance should be written by private insurers for all political risks except long-term projects in which governments have a national interest and therefore would be willing to take larger risks than private insurers would be able to accept.

Of the $3 trillion in international trade each year, only 15% is covered by insurance, and of that only 1% is written by private insurers, notes Mr. Habib-DeLoncle.

"We need to convince insurers and reinsurers that it can be underwritten profitably," Mr. Habib-DeLoncle said.

P.A.R.I.S. Pool, which has written $10 million in premiums, paid its first claim in July. The claim was for $50,000 for a delay in payment on a contract, half of which has since been recovered.

In addition to joining UNISTRADT this year, UIC opened its first branch office, in Chicago. Peter Rukavina, formerly with Marsh & McLennan Inc., is the executive vp for marketing running the office.

UIC, which employs seven people, is recruiting to expand its staff. P.A.R.I.S. Pool employs 16 people.

• Executives of Centre Reinsurance Holdings Ltd. attended their first Rendez-Vous to meet with reinsurers and brokers worldwide to discuss the company's finite risk reinsurance products (*BI*, April 10).

"The market outside the United States for the products we sell is enormous," said Steven M. Gluckstern, president and chief executive officer.

Centre Re's contracts, called finite

Continued on next page

The professional marketplace

BUSINESS OPPORTUNITIES

INSURANCE COMPANY WANTED
Agency seeks established property and casualty carrier interested in expanding volume. Emphasis on auto coverage. High quota volume guaranteed. Concept new to market. Nationwide appeal. Reply to: **Box 2557, Business Insurance, 740 Rush St., Chicago, IL 60611-2590**

PROGRAMS WANTED
We are a large Property/Casualty insurance brokerage with several programs in excess of $20 million. We have licenses and sales personnel to cover all 50 states with rating, policy issuing and statistical coding capability. We are seeking additional programs to market. If you currently have a program which you are looking to improve or expand or a concept and the connection to begin one, please contact us at **WRIMS, Corp., P.O. Box 5090, San Clemente, CA 92672**

REQUEST FOR PROPOSAL
CITY OF NEW YORK GROUP UNIVERSAL LIFE INSURANCE BENEFITS
The Management Benefits Fund of the City of New York provides supplemental benefits for 20,700 active and retired managers, officials and confidential employees. The Fund is soliciting proposals from qualified vendors interested in submitting a competitive proposal for a Group Universal Life Insurance program for Fund members. Final proposals are due no later than October 2, 1989. Details can be obtained from **Mr. James A. Paul, Director, Management Benefits Fund, 100 Church Street, Room 1620, New York, NY 10007, (212) 566-6701.** Interested bidders must submit an original plus ten (10) copies of bid proposals by the due date.

HELP WANTED

RISK MANAGER
The City of Portland, OR. Annual salary $45,530 to $52,707 plus standard benefits including full, City paid, retirement contribution. Administers the City's liability, property insurance, employee benefits, loss contol and health fitness programs. Supervises 22 employees and FY 89-90 budget of $15.8 million including claims costs. Requires documentable success in administering risk programs in comparable organizations. Send resumes to **Neil B. Davidson, Bureau of Personnel Services, City of Portland, 1220 SW 5th Avenue, Room 100, Portland, OR 97204, Phone No. (503) 243-7967, by October 20, 1989.** EEO/AA Employer.

PRODUCERS WANTED
of
Private Passenger & Commercial Physical Damage Policies
A Rated Carrier avail.
most states
Call (201) 273-6910

ACCOUNT EXECUTIVES
Kansas City, Seattle, Chicago & Ohio P&C brokerages are seeking 4th quarter additions to their large commercial accounts depts. Base salaries in the range of $60-$70,000 PLUS BONUS incentives. DIRECT writing bckgs acceptable.
GILBERT-HAFNER & CO.
Insurance Staffing Consultants
6060 N. Central, #470
Dallas, TX 75206 - AC214 361-9341

TRUCK AGENTS
Stop Wasting Your Time
Improve Your Hit Ratio
Increase Your Market Share
We Sell Truckers X-Dates
"NATIONWIDE"
800-288-XDATES (9328)
Not Available In All States

INFORMATION SPECIALIST
Insurance info specialist/librarian seeks challenging position organizing/managing a corporate info center to provide research support. NY/NJ metro area preferred. Reply: **Box 2556, Business Insurance, 740 Rush St., Chicago, IL 60611-2590**

WANTED
Experienced E&S Underwriting Executive to develop book of business for A+ rated company. Apply to: **Box 2555, Business Insurance, 740 Rush St., Chicago, IL 60611-2590**

CAROLYN DAVIS ASSOCIATES, INC.
STAFFING CONSULTANTS TO THE INSURANCE INDUSTRY
701 Westchester Avenue
Suite 317W
White Plains, NY 10604
914-682-7040

LOSS CONTROL OFFICER
$40,358-49,817 per year (pending negotiations)
Under administrative supervision of Risk Manager, develops, coordinates, and implements safety, health, and environmental compliance policies and programs on a City-wide basis. Monitors departmental safety program activities & coordinates City-wide safety training and awareness program. Analyzes and monitors incident/accident statistics and trends. Requires B.A. in occupational safety, safety administration or related field & 3 yrs. exper. in administering a loss control program. Exp. working in public agency setting is highly desirable. File City application immediately. Apply at:
City of Santa Monica
1685 Main Street, Santa Monica, CA 90401
(213) 458-8697
EOE

THE FACT THAT YOU'RE READING THIS DEMONSTRATES THE POWER OF ADVERTISING IN BUSINESS INSURANCE.

SAFETY FIRST

It's an important element of our management philosophy at Core-Mark International. Our success as a multi-billion dollar distributor depends on the respect and care we show for our more than 2,700 employees...beginning with their occupational safety. That's why we're currently expanding our safety programs at various locations around the U.S., creating these opportunities for top professionals.

CORPORATE SAFETY MANAGER

You will manage a team of 20 individuals in the Safety Department located throughout our system. This will include working with all facets of OSHA and DOT compliance and programs. To qualify you must have 7-10 years' experience in OSHA/DOT administration and a Bachelors Degree (advanced degree preferred). Salary range is $45K-$55K. You will be located in our South San Francisco Headquarters. Dept. CSM

FIELD SAFETY MANAGERS

You will be responsible for the safety, OSHA, DOT and Workers Compensation programs for 10 distribution centers. As a field safety expert, you will supervise 6-7 Safety Supervisors ensuring distribution center safety. These positions are located in Corona, California and Chicago, Illinois. To qualify you must have 3-7 years' experience in safety administration and a Bachelors Degree or the equivalent. Salary range is $35K-$45K. Dept. FSM

SAFETY SUPERVISORS

Working directly in the distribution center, you will have complete responsibility for implementing OSHA/DOT and Workers Compensation programs. You will manage the daily functions of the program including drivers logs, drivers qualifications, vehicle inspections, physical inspections, log reporting and training. To qualify you must have 1-3 years' experience in OSHA/DOT safety compliance. Bachelors Degree is preferred. Salary range is $25K-$35K. Dept.SS

We have Safety Supervisor openings at the following locations.

CALIFORNIA
Corona
Los Angeles
Bakersfield
Hayward
Sacramento
Fresno

OREGON
Portland
Grants Pass

NEVADA
Las Vegas
Reno

ARKANSAS
Fort Smith

OHIO
Cincinnati
Columbus

WISCONSIN
Milwaukee

ILLINOIS
Chicago

UTAH
Salt Lake City

COLORADO
Pueblo

WASHINGTON
Spokane

We offer a competitive salary, benefits and relocation package, and the opportunity to work with one of the largest and progressive companies in the industry. For immediate consideration please forward your resume indicating your desired position through appropriate department code to: Core-Mark International, Attn: Director of Risk Management, 395 Oyster Point Boulevard, Suite 415, South San Francisco, CA 94080. We're an Equal Opportunity Employer.

CORE•MARK International

Business plans

Continued from previous page
risk reinsurance, involve limiting the ultimate risk, and ultimate profit, for Centre Re.

"In the next five years, a greater proportion of our business will come from outside the United States," Mr. Gluckstern predicted. Currently, less than 20% of Centre Re's business is generated by non-U.S. sources.

Centre Re, whose assets have grown to $814 million as of June 1989 from $250 million in January 1988 when it was launched, has written about $300 million in business so far this year. In 1988, Centre Re wrote $290 million in business.

Michael D. Palm, executive vp of Centre Re, and Mr. Gluckstern held up to 20 meetings a day between the two of them during the Rendez-Vous to explain their products.

While attending the Rendez-Vous to discuss Centre Re's reinsurance products, Mr. Gluckstern noted that Centre Re also is writing finite risk insurance policies for corporate insurance buyers to finance working layers of coverage.

Although Centre Re has written "only a handful of these" policies, which generate far less in premiums than reinsurance transactions, "we consider it a budding marketplace," Mr. Gluckstern said.

So far, Zurich Insurance Co., a 40% shareholder in Centre Re, has been the only primary company working with Centre Re on these insurance programs. However, Centre Re would work with any primary company to coordinate programs for risk managers, Mr. Gluckstern said.

• Employers Reinsurance Corp. of Overland Park, Kan., the fifth-largest reinsurer in the world according to *Business Insurance* rankings (*BI*, Aug. 28), is expanding its international reinsurance underwriting.

Employers Re earlier this month opened a branch in Munich, West Germany, of Nordisk Reinsurance Co. A.S., a Copenhagen, Denmark-based company that Employers Re purchased in January 1988.

Nordisk Re Correduria was opened in Madrid in mid-1988.

Employers Re also owns Employers Reinsurance Ltd. in London, which was opened in March 1987.

"Obviously we hope these will be vehicles for us to grow," commented Ray Olsen, vp-international department of Employers Re. "Our corporate goal is to increase our international business to 40% of our business."

International reinsurance now generates less than 20% of Employers Re's $1.3 billion in 1988 net reinsurance premiums.

"Our philosophy is to be close to local markets," he added, referring to the new offices.

• Sorema North America Reinsurance Co., capitalized at $95 million recently after the purchase of Copenhagen Reinsurance Co. of America by Sorema N.A. Holding Corp., will build its business slowly.

Sorema N.A. is owned 85% by Groupama, a major French insurance group, which contributed $85 million in surplus, and 15% by Denmark-based Copenhagen Reinsurance Co. Ltd., which sold its U.S. subsidiary to the group.

Sorema will develop specialty reinsurance products, including facultative property insurance for large industrial risks, said Sorema President Pierre D. Croizat.

Sorema is a broker market for treaty business and a direct market for facultative business.

While Sorema plans to open facultative branch offices in New York, Chicago, Dallas, Los Angeles and Hartford, Conn., within the next six months, its underwriting plans for the next three years are "modest," said Mr. Croizat. "We recognize that times are more difficult," he said, referring to intense competition in the U.S. reinsurance market.

"We have not seen the end of the cycle at all," he said. "It will take some time. Our three-year plan gives an indication of our expectations."

While declining to project written premiums, Mr. Croizat said that the company initially will write little premium compared with its surplus until market conditions change.

However, Mr. Croizat pointed out that current reinsurance market conditions in the United States are not as bad for reinsurers as they were in 1983 and 1984. For example, even though "large property risks are quite competitive, overall the situation is not as bad as '83 or '84 in terms of rates or conditions," he said.

Despite modest plans for the next three years, Sorema will increase its surplus to $100 million by year-end because "while size is not a guarantee of success, it is a condition of success to attract quality business from quality ceding companies," he said.

With $100 million in policyholder surplus, Sorema will rank among the 25 largest professional reinsurers in the United States, based on first-quarter 1989 policyholder surplus.

Sorema, which is already underwriting, employs 30 people, including 18 from the former Copenhagen Re. Mr. Croizat projects that Sorema will employ 40 people by January.

Mr. Croizat formerly was president of SCOR U.S. Corp., which he left last year. Other senior executives of Sorema include Francois Chavel, executive vp, also formerly of SCOR; Sergio B. Tobia, senior vp of operations, formerly president of Copenhagen Re of America; and Daniel Schmidt, general counsel, formerly general counsel of SCOR U.S.

• American Re-Insurance Co. is bringing its products and services to

33rd Rendez-Vous de Septembre

the international market, says President Edward B. Jobe.

American Re last year opened an operation in London to market its products and services on a direct basis in Europe. The operation now employs 40 to 50 people in London, Mr. Jobe said.

"And, at the moment, we are considering where to open an office on the continent," he added.

American Re takes a team approach to underwriting reinsurance, Mr. Jobe said, involving its financial, tax, actuarial, underwriting and claims experts.

In addition, it provides its policyholders with more than capacity, he noted. American Re provides services like arson investigation and management, management of massive injury cases, actuarial services, electronic data processing consulting, underwriting consulting, litigation management and assistance with setting case reserves on complex claims.

American Re's goal is to assist its ceding companies in generating additional statutory surplus, Mr. Jobe stressed.

Currently, about 20% of American Re's business is international reinsurance. With $976 million in total net written premiums in 1988, American Re is the eighth-largest reinsurer in the world.

But while seeking to develop more international clients, American Re remains committed to servicing the alternative risk financing marketplace, Mr. Jobe said.

The departure of three executives from its alternative risk financing underwriting unit in no way reflects less interest in that marketplace, Mr. Jobe said (*BI*, Sept. 4).

"The alternative market is a big part of our strategy," said Mr. Jobe. "The services that captives and risk retention groups need are very compatible with our resources."

• Capital Reinsurance Co., a monoline financial guarantee reinsurance company domiciled in Maryland, expects by year-end to increase to five the number of non-U.S. reinsurance companies it has as retrocessionaires.

Currently, Capital Re has retrocessional arrangements with three international reinsurers, relationships that were initiated in discussions at the Rendez-Vous last year, said Chairman and Chief Executive Officer Michael Satz.

And, Capital Re expects to reinsure a large U.K. company soon, he said. "There are a dozen or so high-quality European insurance and reinsurance companies that have a serious interest in financial guarantees—albeit a cautious interest."

Capital Re wrote $74 million in gross premiums, $56 million net, last year, which was its first year of operation. Mr. Satz points out, however, that financial guarantee reinsurance premiums are not comparable to conventional reinsurance premiums because financial guarantee reinsurance premiums are cumulative. The unearned premium runs off at a very slow rate and therefore generates a large investment portfolio, he explained.

Capital Re produced net aftertax income of $8 million in 1988 and projects $13 million in profits in 1989.

With $108 million in policyholder surplus at year-end 1988, Capital Re expects to have more than $500 million in surplus in the next five to 10 years, Mr. Satz said. The additional surplus will be created by retained earnings and some additional capital investment.

While Mr. Satz continues to believe there are global opportunities for financial guarantee reinsurance, he acknowledges that the market will remain selective "until there is an acceptance of the difference between exposure and risk" in underwriting financial guarantee reinsurance.

While the exposure on a financial guarantee contract may be $20 million, due to the nature of the product and strict underwriting, the actual risk is much less, he explained. A $20 million line under a financial guarantee contract is comparable to a $500,000 to $2 million line in conventional reinsurance, he said.

The difference is that financial guarantee coverage "is not intended to be a redistribution of risk but a mechanism for the more efficient marketing of securities" through the increased credibility that financial guarantee insurance provides.

A lack of expertise in underwriting financial guarantee products also constricts the market, Mr. Satz said.

However, "companies such as my own are willing to share information and methods of analysis to develop a more in-depth understanding of the business," Mr. Satz said. Such sharing will "create a larger pool of available reinsurance capacity," he said.

• Bermuda-based Anchor Underwriting Managers Ltd., a unit of Aon Corp., is now underwriting treaty reinsurance for Aon's Virginia Surety Co. Inc. subsidiary.

Anchor is writing U.S. short-tail risks—but no U.S. casualty risks—for Virginia Surety, said Robin Spencer-Arscott, Anchor's chief executive officer.

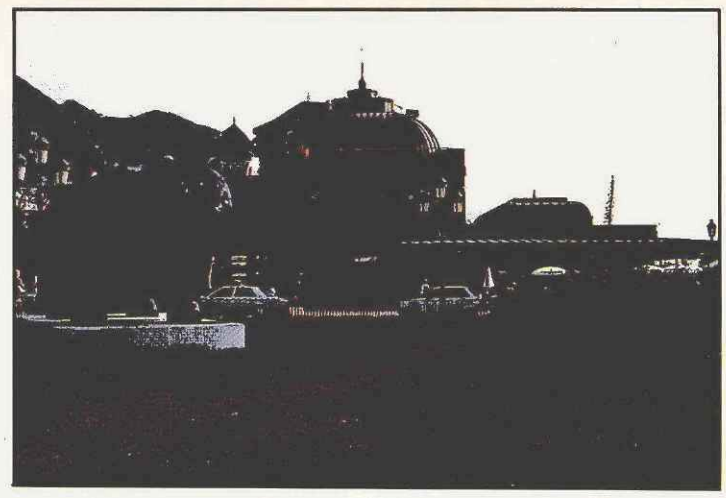
Anchor also underwrites reinsurance for Paumanock Insurance Co. Ltd., a subsidiary of Grumman Corp. However, Paumanock writes an international book of business, including London market excess-of-loss reinsurance.

Nigel Clark, formerly with River Thames Insurance Co. in London where he underwrote U.S. business, joined Anchor this month to underwrite for Virginia Surety. John Williams continues to underwrite for Paumanock.

Reinsurance accepted by Anchor is the only treaty reinsurance written by Virginia Surety. It is writing lines of $100,000 to $150,000.

• Aneco Reinsurance Underwriting President Jonathan J. Crawley spent the week discussing Aneco's June 30 financial statement, which shows $26.7 million in capital and surplus, up from $15.4 million at year-end 1988.

"People who wanted to do business with us are saying 'how nice we can do business with you, you've changed so much,' " he reported.



Cat's meow?

The second Biannual Sculpture Display in the gardens surrounding the Old Casino in Monte Carlo during the Rendez-Vous de Septembre included a huge smirking tomcat. The display was sponsored by the Galerie Marisa del re New York and Societe des Bains de Mer.

Aneco's specialty is reinsuring small captive insurance companies that write $2 million to $20 million in annual premiums. Aneco also underwrites a proportional book of excess-of-loss proportional property catastrophe reinsurance.

Aneco expects to write $20 million in premiums this year despite the competitive marketplace, Mr. Crawley said. "We're not following rates down; the company is just being shown business by a broader spectrum of clients," Mr. Crawley said.

At midyear, Aneco reported a combined ratio of 88.3%.

And, captive insurance company owners are showing "a remarkable loyalty," he said. "The captive owner who formed it for the right reasons who is solicited back by commercial market representatives at what the client thinks are ridiculous terms laughs at them to scorn," he said.

Mr. Crawley is the designated chief executive officer of the soon-to-be-merged Bermuda-based Forum Re Group (Bermuda) Ltd., which owns Aneco, and U.S.-based Forum Re Group Inc., which owns a majority of Forum Re Group (Bermuda). The new company will be renamed Aneco Group Inc.

"I'm looking forward to it," he said. "It will be very challenging. But the most important ingredient for success is what I inherit on taking over: first-class people."

• Pinnacle Reinsurance Co. Ltd. of Bermuda is opening its representative office in London under Managing Director W. Allen Taft, who most recently was with Heath Fielding Insurance Broking Ltd. in London.

Pinnacle, a pioneer in financial reinsurance underwriting, received a "very pleasing response" at the Rendez-Vous, said Marketing Director John Merrett.

• Bermuda-based Scandinavian Reinsurance Co. Ltd., a recent entrant to the financial reinsurance market, just doubled its capital to $50 million from $25 million, reported Managing Director Jens Juul.

Scandinavian Re, a unit of Sirius Insurance Co. Ltd. of Stockholm, specializes in writing surplus relief for life insurers, time-and-distance policies and loss portfolio transfers.

• Insurance Solvency International Ltd. of London took up residence in the Le Petit Salon of the Loews hotel to explain its solvency monitoring products to Rendez-Vous registrants.

Some reinsurers were surprised to find their 1988 results already compiled in a computerized data base dubbed "Classic" that ISI is marketing, said Managing Director John Gardner.

The data base includes financial and explanatory information on 1,500 property/casualty insurers and reinsurers from 66 countries. Included are a balance sheet and income statement, generally covering five years, eight key ratio tests and detailed ratio presentations using five years of data.

"Our ambition is to have all companies in the international business on it, including those in liquidation with the name of the liquidator," he said. The computerized data base is being sold for $8,500.

ISI also markets financial information in insurers and reinsurers in a book form at a cost of $4,500 for the worldwide marketplace and $1,800 for the U.S. market.

"The disk is the better buy because you don't have to file 1,500 bits of paper," Mr. Gardner says.

For those with limited budgets, ISI offers "International Insurance Profiles" for $595. Covering more than 1,000 non-U.S. companies, the book provides each company's balance sheet, income statement and descriptive information on ownership, lines of business and subsidiaries or associated companies.

More than 400 companies now purchase at least one of ISI's solvency monitoring products.

• John C. Condon has left New Zealand Reinsurance Co. (U.K.) Ltd. as its general manager to join River Thames Insurance Co. Ltd. as director of underwriting.

Mr. Condon said he left NZ Re because he was recruited by River Thames and liked the offer. Although he had been with NZ Re for 25 years, "River Thames is an interesting company," he said, noting that it's twice the size of NZ Re, which will write around 17 million pounds ($26.2 million) in gross premiums this year.

London brokers and underwriters speculated that Mr. Condon left NZ Re, which he started in London in 1985, because of his uncertain future after the purchase of parent company New Zealand Insurance Corp. in Auckland earlier this year by General Accident Group of Scotland.

The head of NZ Re's holding company in London, David White, has been laid off, leaving few people in the office and brokers wonder if General Accident is going to shut down the London-based operations.

Jason Frangoulis, a general manager of General Accident, said in London that the company was looking at the future of NZ Re operations in Hong Kong, the United Kingdom and the United States and no firm decisions had yet been made. However, he believed that the Hong Kong operation would remain as would the U.S. operation.

In the United Kingdom, however, NZ Re has six people and General Accident Reinsurance has 20 people, so "there is no sense to have two (operations)," he said. "But these matters take time."

Mr. Frangoulis said General Accident was just in the process of completing its purchase of NZI and many decisions still have to be made, such as whether to maintain the name NZI in New Zealand. ■

Rendez-Vous becoming setting for media events

By STACY SHAPIRO

MONTE CARLO, Monaco—The Rendez-Vous de Septembre is becoming a media/marketing event with many participants using the meeting to announce new ventures or the end of old ones.

From speeches at cocktail parties to press releases to press conferences, this year's registrants took advantage of so many journalists and clients being in one spot to disclose their new deals.

Traditionally, announcements of new business ventures have been discussed in private meetings, with news traveling throughout the meeting by word of mouth (see story, page 61).

The first of the public announcements this year was made by Lloyd's of London broker PWS Holdings P.L.C. at its traditional opening cocktail party on Sunday evening, Sept. 3, at the Loews hotel when it announced that the 40% shareholding in the group held by former chairman Ronnie Ben-Zur was being sold (*BI*, Sept. 11).

Deputy Chairman David Springbett greeted everyone in his usual fashion at the entrance to the party and whispered that an announcement would be made. Since PWS had never made speeches at its lavish party in at least the last eight years, it was surprising to see the microphone and stage prepared for the announcement.

33rd Rendez-Vous de Septembre

It was clear something big was going to happen when guests spotted PWS Executive Chairman Malcolm Pearson, who has never attended the Rendez-Vous. Just before being introduced to make his speech, Mr. Pearson searched the crowd and found that there was only one British lord present.

So when he was introduced by Mr. Springbett, Mr. Pearson began his speech, "My lord, ladies and gentlemen. . ."

Mr. Pearson announced that the next day, Monday, Sept. 4, the London Stock Exchange would be told that the shares held by Mr. Ben-Zur's family trust, Opticford Ltd., would be sold to British institutional investors. The announcement came exactly one year to the day after Mr. Pearson became PWS chairman to replace Ron Peet, who briefly took over for Mr. Ben-Zur when Mr. Ben-Zur resigned Aug. 4, 1988 (*BI*, Sept. 12, 1988).

Mr. Ben-Zur left the company as a result of his participation in the disastrous purchase of San Francisco-based Glenn Nyhan & Associates. which cost PWS 4.4 million pounds ($7.4 million at the applicable exchange rate) in debt that was written off from PWS' 1988 results.

Mr. Pearson's announcement coincided with PWS' 25th birthday, and deputy chairman Mr. Springbett called it a "most fabulous birthday present." Guests laughed and cheered as Mr. Pearson closed his speech by saying "so for PWS it's happy birthday, good-bye Ronnie, and we look forward to the next 25 years."

Mr. Springbett had hoped that the sale of Mr. Ben-Zur's shares would have taken place earlier so that he could have drawn up his usual Monte Carlo motto based on the letters PWS, a tradition he stopped a few years ago. However, he told *Business Insurance* that he may reintroduce it at next year's Rendez-Vous.

Nonetheless, a delighted Mr. Springbett improvised and said that with the departure of Mr. Ben-Zur, the initials PWS meant "Profits Will Soar" or "Pretty Worthwhile Stock."

After dinner Sunday evening, some reporters returned to their hotel rooms to find a press release under the door from Frank B. Hall (Reinsurance) Holdings Inc. to announce that the company had "passed a resolution agreeing" to the management buy-out of Hall's Brussels, Belgium-based reinsurance company "the 1976 Eagle Insurance Co. S.A." The announcement said that final negotiations would be completed shortly.

On Monday evening, invitations were pushed into journalists' hotel mail boxes to invite them to a "press meeting" at the Hermitage Hotel held by Jean Peyrelevade, president of France's largest insurance company, Union des Assurances de Paris, and Gerald L. Maatman, president of Kemper Group's national property and casualty companies.

The press conference, conducted primarily in French, announced that Kemper and U.A.P. had signed agreements only a few minutes before the conference to form a joint venture company in France to market and service highly protected risk insurance in Europe.

In deference to the English-speaking journalists in the room, questions in English were also sought and answered.

In addition, on Thursday, Sept. 7, major French insurance company Groupe AGF held a French-speaking press conference at the Hotel de Paris, where President Michel Albert announced that his company was buying 48% of the Italian auto insurance company MAA Assicurazioni. The price was undisclosed, but Mr. Albert said the sale would boost the net assets of MAA by $80 million.

After eight years, AGF has the option to buy the remaining 52% of the company, Mr. Albert said.

The meeting, in a room packed with journalists, was attended by MAA President Enrico Bonzano and other MAA and AGF executives. ■

Outhwaite members

Continued from page 3

gation, but there is no doubt that its commencement at this time would hardly be helpful to the conciliation initiative, with a real risk that it could divert attention and make it more difficult for the parties to achieve a conclusion to their disputes," Mr. Lawrence's letter said.

Meanwhile, in a statement issued Sept. 13, the day before the members' meeting, Outhwaite agency Chief Executive Edward Bloxham announced that four additional runoff reinsurance disputes have been settled, bringing to 10 the number of negotiated settlements.

The most recent settlements relate to contracts written for Lloyd's syndicates 15 and 16, managed by Stewart & Hughman Ltd.; English & American Insurance Co. Ltd.; and Bishopsgate Insurance Co. Ltd.

Under the settlements Outhwaite will pay no more than $80 million to $90 million, which has already been reserved, and all four policies will be capped, an Outhwaite spokesman said.

However, even if Mr. Outhwaite managed to reach settlements with and cap the liabilities of every runoff policy in dispute, syndicate members would continue to litigate, said Mr. Nutting.

"The present reported loss is utterly unacceptable," he said.

Meanwhile, Messrs. Beare and Nutting denied that litigation will either hamper negotiation between Mr. Outhwaite and the ceding underwriters or hinder any action being taken by Lloyd's or the Outhwaite agency to reduce members' losses.

Mr. Nutting said the members would be happy to reach a settlement whereby the members accept a "significant" proportion of the losses, together with contributions from E&O underwriters for the members' agents and the Outhwaite agency and from the brokers that placed the runoff policies.

Commencing litigation could accelerate such a settlement, he predicted.

"The issue of writs concentrates minds and makes it necessary to start talking," Mr. Nutting argued.

However, the Outhwaite agency in its Sept. 8 statement warned members that litigation "will be a long drawn-out and expensive affair. It is simplistic and erroneous of those advising names to suggest that all that is necessary to achieve a negotiated settlement or to reach our funds—and those of (E&O) underwriters for us or for members' agents—is to commence negligence proceedings. Proceedings of this nature cannot be in the interests of anyone."

The Outhwaite agency "would, of course, defend any such proceedings. Lawyers have already been retained and all necessary resources and commitment are available to undertake a resolute and vigorous defense, if required. The board and its legal advisers are confident that no case will be sustained against the Outhwaite agency," the statement said. ■

Section 89

Continued from page 1

Indeed, in a single stroke, the Rostenkowski proposal scraps the most detested and unfair provisions of Section 89. A health care plan, for example, generally no longer would be considered discriminatory just because a small percentage of non-highly compensated employees choose coverage.

And, employers would not have to make complex calculations as now required under Section 89, such as comparing the cost of benefits received by highly compensated employees with the benefits received by lower-paid workers.

Instead, whether a plan is considered discriminatory would be based on the availability of health care benefits to non-highly compensated employees.

"We call it a 'smell' test," said a congressional committee staffer. "Does the plan smell bad because it is restricted to top executives? Those plans, because they are not widely available, are abusive and should not receive favorable tax status," the staffer said.

Clearly, some employer health care plans would not pass this "smell" test and would be discriminatory. In those cases, the cost of the benefits would be added to participants' taxable income.

Examples of health care arrangements that would be consid-

Continued on next page

Update

Pre-employment test spurs suit

OAKLAND, Calif.—A Target Stores Inc. security guard is suing the retail chain for unspecified damages for requiring him to take a "humiliating" psychological test as a condition of employment.

The suit, which also seeks an injunction to prevent the store from conducting the tests and seeks class-action status, was filed Sept. 6 in Alameda County Superior Court by Sibi Soroka, who was hired in April at a Target store in Pleasanton, Calif.

As a condition of employment, Mr. Soroka was required to pass a 704-question psychological test known as the Minnesota Multiphasic Personality Inventory, according to the suit.

Mr. Soroka, who also filed a complaint about the test with the California Department of Fair Employment and Housing in August, says in the lawsuit that he was "embarrassed and humiliated about the very personal nature of the questions." The suit charges Target with invasion of privacy, fraud, intentional infliction of emotional distress and violations of state business practices codes.

The suit is being filed on behalf of anyone who submitted to the test, said plaintiff attorney Elaine B. Feingold with Saperstein & Seligman in Oakland, Calif.

The chain has no plans to stop conducting the test, said a spokeswoman for Minneapolis-based Target, a subsidiary of Dayton-Hudson Corp. She also noted that Target uses the psychological test in addition to interviews and reference checks in evaluating prospective security guards. "This is a demanding job, and we want to make sure that people are stable," she said.

Lloyd's mum on Becker cover

LONDON—Lloyd's of London can neither confirm nor deny reports that tennis star Boris Becker is covered by a $6.5 million kidnap and ransom insurance policy because such policies are voided if policyholders are identified.

A Lloyd's kidnap and ransom policy identifies policyholders with a code, and the name and address of the policyholder is kept separately, sources say. Whoever sees the policy would not know whether Mr. Becker was insured, sources agree.

But, other markets may have less stringent policy rules, which may mean that Mr. Becker was insured elsewhere. Mr. Becker's coverage was leaked to a West German newspaper, sources say.

Meanwhile, in a rare report on kidnappings released last week, leading Lloyd's kidnap and ransom underwriters at Cassidy Davis Ltd. and security analysts Control Risks Ltd. said that only 91, or 3%, of the 3,068 kidnappings recorded worldwide since 1975 were insured.

Of the five ransoms of more than $10 million known to have been paid during this period, only one was insured, the report said. This was paid as part of a police operation that led to the recovery of $8.5 million within 48 hours.

LUI boosts surplus

LONDON—London United Investments P.L.C. announced last week that it had boosted its capital and surplus 9.6% to 69.5 million pounds ($107.7 million at appropriate exchange rates) as of June 30 from 63.5 million pounds ($114.7 million) at year-end 1988.

It was the second time in six months that LUI increased its capital and surplus. It had been increased 63.4 million pounds from 58.2 million pounds ($105.3 million) at year-end 1988.

The group also is contributing 5.5 million pounds ($8.5 million) to the capital of five discontinued underwriting companies.

However, LUI says it is not paying a dividend for the first half of 1989. Although revenues nearly doubled to 111.8 million pounds ($173.3 million) from 63.3 million pounds ($119 million) in the first six months of 1988, LUI's pretax profits fell to 2.7 million pounds ($4.2 million) from 4.2 million pounds ($7.9 million) during the first half of 1988.

"The profits for the half year have been arrived at after a further thorough review of the reserves in the group's insurance companies, which have been strengthened as required in the normal course of this review," said LUI, which did not quantify the reserve increase.

However, no exceptional or specific provisions have been made to the half-year reserves.

LUI had boosted the reserves of its main subsidiary insurer, Walbrook Insurance Co. Ltd., 57% to 231 million pounds ($434.3 million) at year-end 1988 from 147 million pounds ($276.4 million) at year-end 1987 (*BI*, May 22; May 8).

"The half-year results indicate that there is an encouraging improvement in the underlying results of the group's activities when compared with the difficulties" of 1988, LUI stated.

Meanwhile, Peter Wilson, former managing director of LUI subsidiary H.S. Weavers (Underwriting) Agencies Ltd., has been appointed LUI's group chief executive. The appointment has to be approved by secretary of state of the Department of Trade and Industry. He replaces LUI Chairman Ronald Driver, who resigned as chief executive earlier this year.

Roger Borley, formerly responsible for group underwriting activities, has been appointed managing director of Weavers. And Stuart Hughes, former chief financial officer of New Zealand Reinsurance Co. Ltd., has been appointed group chief financial officer. All three are directors of LUI.

Briefly noted

A New Jersey state court will hear the massive pollution coverage litigation between **Westinghouse Electric Corp.** and more than 140 of its property and liability insurers, which sought to move the case to federal court (*BI*, May 29). . . .The California Department of Insurance has postponed public hearings for insurers seeking exemptions from the insurance "charge" rollback provisions of **Proposition 103** due to "procedural problems in conducting the hearings," a spokeswoman said. New dates have not been set. . . .The Asbestos Information Assn./North America and a group of eight Canadian asbestos companies have filed separate petitions in federal appellate courts seeking to stop the U.S. Environmental Protection Agency from banning the use of **asbestos-containing products**.

Insurance services guide

Paskins, Ragnes & Associates

Professional Insurance and Reinsurance Consultants

Call or write for our brochure.

Travelers Express Tower
1550 Utica Ave. So., Ste. 740
Minneapolis, Minn. 55416
Telephone 612/542-9350
Facsimile 612/542-9833

CASUALTY ACTUARIES, INC.
• Loss Reserve and Rate Evaluations for Insurance Companies and Self-Insureds.
• Statutory letters of opinion on loss and loss expense reserves.
12115 Lackland Road, Suite 370
St. Louis, Missouri 63146-4012
(314) 878-5002

InPhoto Surveillance
USA
800-822-8220
FAX: 800-752-0720

IF YOU INSURE TRUCKING COMPANIES...
D & A Consultants.
Truck safety and truck accident consultants. Hdqrs. Phoenix, AZ
P.O. Box 32675
Phoenix, AZ 85064
(602) 257-8824

RISKMASTER™ Software
by *Tillinghast*
a Towers Perrin company
ONSITE TRAINING
ONGOING SUPPORT
■ GENERAL CLAIMS
■ WORKERS' COMP
■ VEHICLE ACCIDENTS
■ CHECK WRITING
■ EXP. MODIFICATION FACTORS
■ ACTUARIAL REPORTING
FOR PC/MINI/MAINF
Installed in Over 38 States & Canada
For Marketing Questions or to Attend a Free Seminar, Call (313) 567-6616

WLT *Software of Florida, Inc.*
Insurance Software Specialists
• SOPHISTICATED SOFTWARE
• QUALITY SERVICE
• AFFORDABLE PRICING
■ HEALTH CLAIMS ADMINISTRATION AND BILLING
■ WORKERS' COMPENSATION CLAIMS ADMINISTRATION
■ FLEXIBLE BENEFITS ADMINISTRATION
■ COBRA ADMINISTRATION
MINI, MICRO AND NETWORK BASED SOFTWARE
CALL FOR MORE INFORMATION OR A FREE DEMONSTRATION
(813) 797-7814
2087 U.S. 19 NORTH / SUITE D, CLEARWATER, FLORIDA 34623

Temporary Claims Examiners

Qualified, experienced medical & dental claims examiners are available nationwide to assist you with claims processing.

On-site or off-site staff is available during regular hours, after hours and on weekends. Examiner skills are exactly matched to your requirements on manual or on-line systems.

As the leading national firm devoted exclusively to temporary assistance in claims processing, we have been the proven answer to claim backlog problems for over 500 companies. Call us to find out about how we can be a part of your solution.

Claim Services Resource Group, Inc.
800-331-5039

INSURANCE SOFTWARE PACKAGES, INC.
Value Leaders In Risk Management Software
Full Function Claims Management Systems
Ideal For Self Insureds, TPA's, Associations & Carriers
○ WORKERS' COMPENSATION
○ EMPLOYEE HEALTH BENEFITS
○ MEDICAL FEE SCHEDULE & BILL REVIEW
○ MULTI-LINE LIABILITY
○ GENERAL LIABILITY
○ COMMERCIAL AUTO
○ REINSURANCE REPORTING
○ LOSS FORECASTING
○ COBRA
Installations Coast To Coast
Call For A Free Demo Diskette
Micro & Network Versions Available
INSURANCE SOFTWARE PACKAGES, INC.
5118 N. 56th Street, Tampa, FL 33610
US (800) 237-8133 FL (813) 621-6069

For advertising information in the INSURANCE SERVICES GUIDE
Contact: Margaret Hikido. 740 Rush Street. Chicago. Illinois 60611.
Telephone (312) 649-5340

Section 89

Continued from previous page

ered discriminatory under the new legislation include:

• An employer maintains a health plan for all employees. It also offers an executive physical examination program available to only certain highly compensated employees. The executive physical exam program would be classified as discriminatory.

• An employer's health care plan requires a six-month waiting period. However, corporate executives are eligible to participate in a plan that offers immediate coverage. The executive plan would be considered discriminatory.

And, the legislation includes a special rule for professional service organizations, like law and accounting firms. These companies also would have to prove that their health care plans did not disproportionately benefit highly compensated employees based on actual participation in the plans.

A more detailed explanation of this special rule was not available last week.

However, in a further concession to small employers, which had most vociferously opposed Section 89, companies with fewer than 100 employees that are not considered professional service organizations would have to satisfy only the first safe harbor, which requires that 50% of employees eligible to join a health care plan be non-highly compensated.

The new Rostenkowski proposal would require employers to communicate and document their health care plans to employees. Such a requirement also is contained in the current Section 89(k) statute, but the current requirement covers a wide range of benefit programs, rather than just health care plans.

While benefit experts generally are exuberant over the new Rostenkowski proposal, some urge caution. They note that the proposal was described last week only in general terms, and benefit consultants are holding off on a full endorsement until the complete legislative language is published.

"Barring any surprises when the bill is published, this appears to be a major breakthrough," Mr. Saveth said.

The decision of Rep. Rostenkowski to back a virtual repeal of Section 89 stunned employer organizations. Earlier in the year, Rep. Rostenkowski, while agreeing that Section 89 reform was needed, vehemently opposed gutting the law's provisions.

Indeed, major benefit and big business trade groups had no inkling early last week of what Rep. Rostenkowski was about to unveil.

"The relentless pressure of small employers made the difference," said Frank McArdle, a consultant in the Washington, D.C., office of Hewitt Associates.

In fact, Rep. Rostenkowski selected three Washington, D.C.-based small business trade groups—the National Assn. of Wholesaler-Distributors, the Small Business Legislative Council and National Small Business United — as the first groups to receive details of his proposal.

"Big business was totally out of the loop, and they better not take credit for Rep. Rostenkowski's turnaround," one observer said.

In fact, small business groups—along with congressional supporters like House Small Business Committee Chairman John LaFalce, D-N.Y., and Sen. Robert Kasten, R-Wis.—spearheaded the drive to repeal Section 89.

Congressional sources said a key factor in Rep. Rostenkowski's decision to junk his earlier Section 89 reform proposals and draft a virtual repeal was to thwart moves to kill all health care plan non-discrimination standards.

Still, the Rostenkowski proposal has a number of hurdles to clear before it can become law.

The entire budget reconciliation package, H.R. 3150, still must be approved by the House. And, the Senate, which has approved a very complex Section 89 reform package, also would have to approve the Rostenkowski proposal.

But benefit experts doubt that there will be any congressional or administration opposition to stand in the way of the proposal.

"I can't imagine congressmen falling on their swords to preserve Section 89. Senators will want to get on board with similar changes," said Mr. McArdle.

"The road to Section 89 reform has been a long one, but the road is now a lot smoother," said Denise Georgemiller, a consultant with Hewitt Associates in Lincolnshire, Ill.

"With Section 89 out of the way, employers now will be able to concentrate on key benefit issues, such as controlling health care costs, rather than all the administrative problems imposed by Section 89," said Wyatt's Mr. Grossman. ■

Committee offers testing examples

By JERRY GEISEL

WASHINGTON—The congressional Joint Committee on Taxation is providing examples of how employer-provided health care plans would or would not satisfy the new safe harbor tests for non-discrimination (see story, page 1).

These examples include:

• An employer has 150 employees. It offers one health care plan, which is available to 15 highly compensated employees and 15 non-highly compensated employees.

The plan does not meet the safe harbor under the non-discrimination test because the plan is not offered to at least 25% of the employer's non-highly compensated employees.

• An employer has 215 employees, including 200 non-highly compensated employees and 15 highly compensated employees.

The employer offers five health plans that provide meaningful core health care coverage. A total of 101 non-highly compensated employees are eligible for coverage under one or more of these plans.

In addition, one plan is available to all highly compensated employees and 40 non-highly compensated employees.

That plan meets the safe harbor under the non-discrimination test because at least 50% of those to whom it is made available are non-highly compensated employees, and core health care benefits are available to a significant portion of non-highly compensated employees.

• An employer has 10 employees. It maintains a health care plan that is available to three non-highly compensated employees and three highly compensated employees on the same terms and conditions.

The plan meets the safe harbor under the non-discrimination test because at least 50% of those to whom it is available are non-highly compensated employees.

• A professional service organization—like a law firm—maintains a health care plan that is available to all employees.

Even though this plan meets the safe harbor tests, it may still be discriminatory if it is disproportionately elected by the employer's highly compensated employees.

Bill includes other changes

WASHINGTON—Aside from virtually repealing Section 89, the budget reconciliation bill approved last week by the House Ways and Means Committee makes several other changes affecting employee benefit programs.

Other provisions in the legislation, H.R. 3150, would:

• Reduce benefits and taxes set under a 1988 law that expanded the federal Medicare program.

For example, next year's cap on out-of-pocket physician expenses under the Medicare program would be raised to $1,500 from the scheduled $1,370.

In addition, the new Medicare prescription drug program, set to begin in 1991, would pay 50% of an individual's out-of-pocket expenses exceeding $800 rather than $500.

These changes are important to employers that coordinate their retiree health care plans with Medicare. To the extent that Medicare pays less, employer plans will pay more retiree health care costs.

The legislation also will increase the amount of income that middle- and upper-income retirees will have to earn before they are liable for the maximum $800 Medicare surtax (*BI*, July 24).

• Allow employers to make a one-time, tax-free transfer of surplus pension assets to a special retiree health care fund known as a 401(h) account.

The transfer could be used only to finance retiree health care expenditures paid or incurred in 1990 or 1991. And, the transfer would have to be completed by year-end 1991.

However, the legislation imposes so many restrictions on the transfers that benefit experts say that it will not be of any significant help to employers.

• Curb certain tax breaks banks and other lenders receive on loans made to employee stock ownership plans.

• Extend a soon-to-expire provision in the Internal Revenue Code that allows the self-employed to take a 25% tax deduction for their health insurance premiums.

• Retroactively extend through the end of 1991 Section 127 of the Internal Revenue Code, which had allowed employees to receive up to $5,250 in tax-free educational assistance benefits from their employers.

Section 127 expired on Dec. 31, 1988.

—*By Jerry Geisel*

Brokerage stock valuations make takeovers unprofitable

By LEONARD M. WILSON

Special to Business Insurance

MERGERS AND LEVERAGED buyouts are now commonplace in the financial world. Scarcely a day passes without news of yet another mega-deal. Few industries have been immune to the recent wave of takeovers.

Yet insurance brokerages thus far have remained outside the torrent of financial reconfigurations.

On the face of it, an insurance broker comes close to the ideal candidate for a leveraged buyout. Earnings are relatively stable, they grow moderately over the long term, fixed asset requirements are low and working capital needs are minimal.



Mr. Wilson

Admittedly, insurance brokerage is exposed to the vagaries of the underwriting cycle, but with appropriate initiatives, earning power in a soft market can be preserved.

In addition, insurance brokerage is not much affected by the general business cycle. These attributes add up to predictable and therefore bankable cash flow. This equates with an ability to service interest on borrowed capital with a high degree of confidence.

Most security analysts today routinely incorporate estimates of private market value in reports on companies they follow. Often, the private market value exceeds the current value of the company based on the existing stock market price.

This disparity is the motivation for a financial transaction. Why be publicly owned if there is a windfall gain to be realized in going private?

Our calculations of private market value for the publicly owned insurance brokerages, though, tell a different story and perhaps explain why the publicly held insurance brokers have not been engulfed by the going private wave.

A valuation exercise illuminates the situation. We utilize a simple formula for determining private value.

First, let's establish the operating parameters for a fictional, but representative, insurance brokerage firm.

Consolidated Brokers is a national insurance broker with annualized revenues of $1 billion and net aftertax income of $100 million. Earnings are likely to rise only modestly over the next year or so, but then resume their growth with a likely end to the soft market. Depreciation and capital spending are roughly equal, while the tax rate runs at 38%.

Consolidated Brokers has a stock market appraisal of 16 times current year earnings for an aggregate value of just about $1.6 billion. This is fairly generous when compared with the stock market averages but reflects good prospects and strong financial characteristics.

We doubt that the publicly owned brokers will come under attack from unfriendly potential acquirers.

If Consolidated Brokers were to be taken private, pretax earnings of around $160 million would be available to service debt. It is common for lenders to look for earnings to be 1.2 times interest. In the present environment for high-yield bonds, funding might be available at 13% or thereabouts.

In addition, equity equal to 10% to 15% of the total value of the transaction might also be necessary.

These are the ingredients of the typical analyst's estimate of private market value. They oversimplify but do provide a useful shortcut.

Based on our computations, Consolidated Brokers has a private market value of approximately $1.2 billion, far below its current public valuation.

Consolidated Brokers does have a modest amount of excess cash but there are no redundant assets or free-standing businesses that can be sold to finance a transaction. Insurance brokers are closely focused on integrated activities that are not readily separated.

This capsule analysis, though in the realm of the hypothetical, goes a long way toward explaining why insurance brokers have in fact remained publicly owned companies. In a word, stock market valuations exceed private market valuations.

We believe that much credit is due to the directors and managements of the publicly owned insurance brokers.

Current insurance brokerage stock market appraisals reflect a recognition of the need to enhance shareholder values. Share repurchases and generous dividend payout ratios are two measures of constructive attitudes toward raising values. Excess cash has been utilized on the shareholders' behalf.

We have not dealt with the issue of the corporate buyer, though. The corporate acquirer, wanting entry into insurance brokerage at the national level, might well be willing to pay more than the current stock market value.

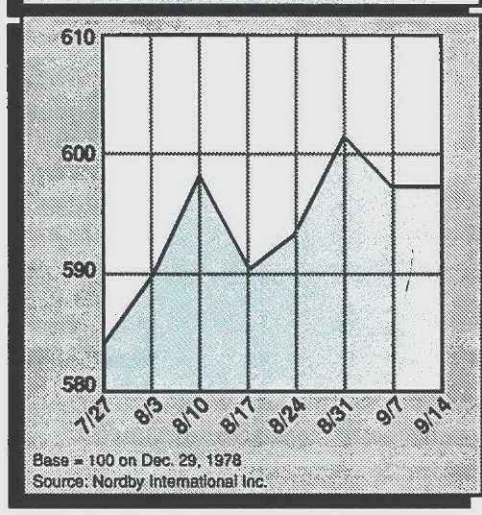
In the past, Fred S. James & Co., Rollins Burdick Hunter Co. and The Crump Cos. Inc. were acquired by larger corporate entities attracted by constructive long-term operating characteristics.

We doubt that publicly owned brokers will come under attack from unfriendly potential acquirers.

The people-intensive nature of insurance brokerages is a deterring factor. It also is appropriate to question whether significant benefits accrue to the acquired brokerage firm in a merger.

In any event, shareholders of the publicly held insurance brokers have benefited from rising values for a long time, based on solid operating progress. The additional carrot of the takeover, in our view, is not essential to rewarding shareholders in insurance brokerage stocks. ■

BI Insurance Index



Insurance industry stocks were flat last week, as the *Business Insurance Index* rose a slight 0.08 points to remain at 597.4 on Sept. 14, unchanged from Sept. 7. Advancing issues were led by United Medical Corp., up 10.1%; UNUM Corp., up 8.5%; and SCOR U.S. Corp., up 8.4%. Decliners followed CNA Financial Corp., down 7.5%; Pacificare Health Systems, down 6.3%; and Sierra Health Services, down 5.1%. The most active issue was ITT Corp. (Hartford Group), 1.9 million shares traded. The *BI Index* gained 0.01% for the period; the Dow Jones 30 Industrials fell 1.6%; and the Standard & Poor's 500 and the New York Stock Exchange Composite each lost 1.5%.

British Issues

Sept. 14 Companies	Price pence	P/E	Div. pence	Yield %	1 Week High—Low pence	pence
Comml Union	461	10.2	29.3	6.3	461—436	
Genl Accident	1100	10.9	68.0	6.2	1100—1070	
Gdn Royal Exch	242	15.4	15.7	6.5	242—225	
Royal	479	14.6	34.0	7.1	479—465	
Sun Alliance	322	9.4	17.0	5.3	322-314	
Brokers						
Bradstock	188	12.9	10.0	5.3	188—188	
CE Heath	466	13.3	34.5	7.4	470—466	
Hogg Robinson	150	12.5	9.3	6.2	152—150	
Lloyd Thompson	227	17.5	8.0	3.5	228—227	
PWS Holdings	53	13.2	3.3	6.2	56—53	
Sedgwick Grp	259	18.3	16.7	6.4	262—259	
Steel Brri Jones	241	15.3	15.3	6.3	241—239	
Willis Faber	228	16.8	15.3	6.7	228—225	

Source: Philip Olsen/Alan Clifton, Insurance Industry Specialists Kitcat & Aitken Stockbrokers, London

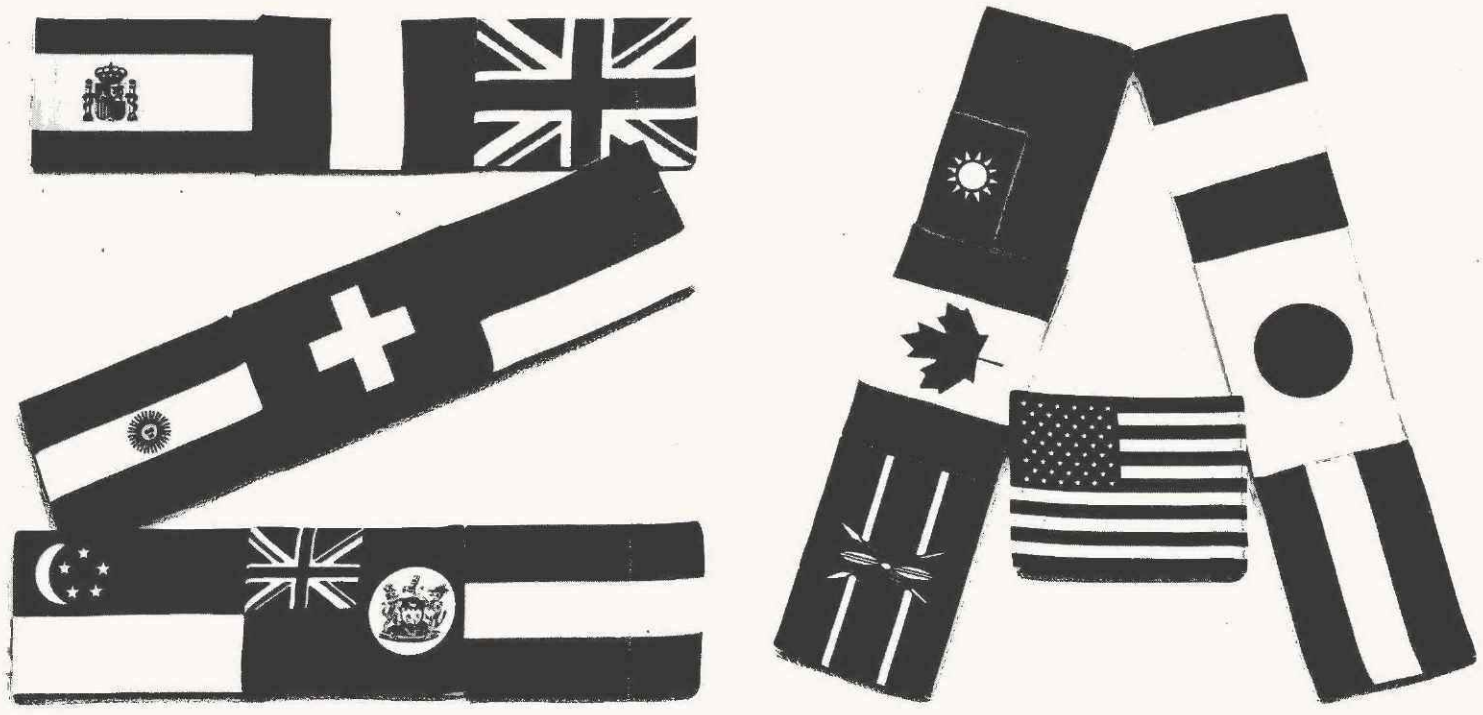
BI Industry Stock Report

SEPT. 14, 1989 **9/8/89 THROUGH 9/14/89**

		Price	Weekly % change	Year to Date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt/Bk. value
BROKERS												
Alexander & Alexander	NYS	28 13	-1.75	20.99	29 75	22 63	4045	1.00	3.55	17	2.90	9.70
Corroon & Black	NYS	35 75	-0 36	12 60	37 38	29 13	1144	1.24	3 47	15	7 62	4.69
Gallagher Arthur J. & Co	NYS	21 88	1 77	28 71	24 75	15 88	42	0 52	2.38	15	5.33	4 11
Frank B Hall	NYS	3.38	0.00	12.67	4 63	2.50	890	0.00	0.00	-1	N/A	N/A
Hilb, Rogal & Hamilton	OTC	20 25	0 60	46 08	21 00	10 25	301	0 20	0.99	18	4 60	4.40
Marsh & McLennan	NYS	67.88	-0 91	22.31	72.13	55.00	4667	2.50	3.68	17	6.48	10.48
Poe & Associates	OTC	8 25	0.00	-5 71	9 75	8 00	72	0 40	4 85	-	1 43	5.77
BROKERS	AVERAGE		-0 1	19 7					2 7	12		
CONGLOMERATES & HOLDING COMPANIES												
Berkley W R Corp	OTC	39 63	-1 86	33 77	40 75	27.38	1093	0 40	1.01	8	21 28	1.86
Berkshire Hathaway Inc.	NYS	8625 00										
			6 15	85 48	8725.00	4550.00	14	0.00	0.00	132	2468.63	3.49
ITT (Hartford Group)	NYS	60 38	-2 03	20 46	64 50	47 75	33912	1 48	2 45	10	56 33	1.07
Sears (Allstate)	NYS	44 38	-1 38	9 92	48 13	36 13	32277	2 00	4 51	15	36 09	1.23
CONGLOMERATES	AVERAGE		0 2	37 4					2 0	41		
INSURERS/REINSURERS												
Aetna Life & Casualty	NYS	56 38	-1 95	20 28	60 13	46 00	8270	2 76	4 90	8	58 11	0 97
Ambase Corp.	NYS	15 75	0 77	41 57	16 38	10 50	4843	0 20	1 27	6	18 66	0 84
American General	NYS	34 88	-2 10	16 27	38 50	29 50	15802	1 50	4 30	9	28 04	1 24
American Heritage	NYS	27 50	-1 79	7 84	28 50	25 00	83	1 20	4 36	10	22 47	1 22
American Indemnity/Fin'l	OTC	10 75	7 50	2 38	13 00	9 50	19	0 56	5 21	-13	17 38	0 62
American International	NYS	92 88	-0 67	39 40	97 00	61 75	11147	0 48	0 52	12	33 55	2 77
Aon Corp	NYS	34 25	-3 52	23 98	38 00	26 00	3730	1 40	4 09	11	16 67	2 05
Argonaut Group	OTC	65 00	-1 52	49 43	66 75	40 75	906	1 00	1 54	8	36 83	1 76
AVEMCO Corp.	NYS	26 75	-0 93	4 39	27 50	22 63	24	0 40	1 50	14	9 20	2 91
Baldwin & Lyons Inc.	OTC	20 25	-1 22	39 66	20 50	14 38	874	0 20	0 99	7	17 57	1 15
Belvedere Corp	ASE	4 75	5 56	5 56	6 50	4 25	35	0 04	0 84	7	8 43	0 56
Chandler Insurance	OTC	11 75	-1 09	56 67	12 25	5 80	1336	0 00	0 00	7	9 53	1 23
Chubb Corp	NYS	79 00	1 11	36 80	79 38	53 75	6138	2 32	2 94	9	53 50	1 48
CIGNA Corp	NYS	62 63	-0 19	35 42	63 88	45 75	7576	2 96	4 73	11	53 08	1 18
CNA Financial Corp	NYS	7 75	-7 52	-1 59	9 50	6 63	1637	1 30	16 77	43	54 52	0 14
Continental Corp	NYS	36 38	-2 34	13 69	45 00	31 50	4864	2 60	7 15	-76	42 10	0 86
Durham Corp	OTC	33 00	3 94	3 13	36 75	30 00	77	0 92	2 79	28	26 32	1 25
Fireman's Fund	NYS	38 75	1 31	33 05	39 25	28 38	4189	0 60	1 55	10	32 74	1 18
Fremont General Corp	OTC	16 00	2 37	28 00	18 25	10 50	1062	0 80	5 00	229	17 61	0 91
Frontier Insurance Group	NYS	20 00	1 27	79 61	21 75	9 50	715	0 00	0 00	10	7 53	2 66
General RE Corp	NYS	76 00	-1 78	38 18	79 50	53 13	5941	1 36	1 79	13	29 04	2 62
Hanover Insurance Co	OTC	29 13	1 75	9 92	30 25	25 50	4886	0 44	1 51	7	31 47	0 93
Harleysville Group	OTC	23 50	-2 08	32 39	24 13	14 88	426	0 60	2 55	8	18 94	1 24
Hartford Steam Boiler	OTC	50 00	0 50	35 14	55 75	29 75	1674	1 60	3 20	13	13 04	3 83
Kansas City Life Ins.	OTC	35 75	0 00	4 38	41 00	29 25	74	1 04	2 91	12	39 22	0 91
Kemper Corp.	NYS	43 50	-1 14	85 11	47 25	22 75	1238	0 84	1 93	8	28 91	1 50
Lawrence Insurance Group	ASE	7 75	1 57	-3 13	11 25	6 63	62	0 24	3 10	16	3 19	2 43
Liberty Corp.	NYS	36 75	1 02	1 03	40 50	32 50	250	0 80	2 18	21	21 17	1 74
Lincoln National	NYS	54 50	0 68	26 01	56 88	42 75	2093	2 48	4 55	14	39 21	1 39
NAC Re Corp.	OTC	32 63	-4 73	57 90	35 75	19 50	1038	0 20	0 61	15	22 81	1 43
Navigators Group	OTC	27 00	0 00	31 71	27 75	17 25	174	0 00	0 00	10	15 22	1 77
Nobel Insurance LTD.	OTC	2 25	0 00	-51 35	6 50	1 50	454	0 37	16 44	-2	7 76	0 29
NWNL Companies	OTC	37 38	3 12	21 56	40 63	26 88	6080	1 20	3 21	12	37 50	1 00
Ohio Casualty Corp	OTC	49 00	0 00	37 06	50 75	33 25	3624	2 08	4 24	7	33 30	1 47
Old Republic Int'l	OTC	27 88	-0 43	22 62	28 50	22 63	1019	0 74	2 65	13	26 60	1 05
Orion Capital Corp.	NYS	27 63	-0 90	72 69	28 25	13 88	725	0 84	3 04	7	12 93	2 14
Phoenix RE Corp.	OTC	10 00	2 56	2 56	11 00	8 75	1008	0 00	0 00	6	12 99	0 77
Protective Life Corp	OTC	15 25	-0 85	15 09	16 25	12 88	574	0 70	4 59	37	14 54	1 05
Provident Life	OTC	28 13	0 46	45 19	28 75	17 75	5834	0 68	2 42	10	12 60	2 23
Re Capital Corp	ASE	11 63	-1 02	25 73	12 88	7 88	811	0 00	0 00	10	10 71	1 09
RLI Corp	NYS	8 50	-2 86	11 48	9 38	7 13	114	0 40	4 71	8	23 24	0 37
St Paul Companies	OTC	59 00	0 00	37 21	60 25	40 50	7818	2 20	3 73	8	32 00	1 84
SAFECO Corp.	OTC	33 25	-1 48	42 25	34 75	23 13	7066	1 20	3 61	8	24 88	1 34
SCOR U.S. Corp.	NYS	11 25	8 38	30 43	11 50	6 88	2107	0 20	1 78	8	10 35	1 09
Seibels Bruce Group	OTC	11 38	-3 15	1 16	13 63	10 25	555	0 80	7 03	12	13 42	0 85
Selective Ins. Group	OTC	18 50	2 78	-19 57	18 75	14 50	3318	0 96	5 19	6	22 33	0 83
Statesman Group Inc.	OTC	2 88	-4 00	0 17	4 00	2 38	954	0 05	1 74	29	3 48	0 83
Tokio Marine & Fire	OTC	69 75	1 45	-23 98	98 00	65 88	142	0 23	0 33	42	N/A	N/A
Torchmark Corp	NYS	44 00	-0 86	44 26	49 00	29 38	3282	1 40	3 18	13	12 24	3 59
Transamerica	NYS	44 00	-0 56	31 84	45 75	30 38	6192	1 88	4 27	10	30 70	1 43
Trenwick Group Inc.	OTC	18 50	-0 70	29 82	19 50	13 13	1056	0 36	1 95	10	16 91	1 09
United Fire & Casualty	OTC	32 75	-0 76	7 38	33 50	26 00	10	1 20	3 66	6	22 56	1 45
USF&G Corp	NYS	31 38	-0 38	8 21	34 00	28 50	10549	2 80	8 92	17	22 57	1 39
UNUM Corp.	NYS	40 13	8 46	50 02	40 50	24 38	17651	0 60	1 50	12	30 64	1 31
USLIFE Corp.	NYS	46 25	0 26	34 55	48 13	32 88	1464	1 40	3 03	11	54 27	0 85
Washington National	NYS	26 88	-3 14	0 96	29 13	24 00	714	1 08	4 02	-26	32 33	0 83
Zenith National Ins.	NYS	19 50	-0 66	10 64	21 50	15 00	576	0 84	4 31	9	13 61	1 43
INSURERS/REINSURERS	AVERAGE		0.0	23 5					3 4	14		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	OTC	44 00	2 92	274 47	44 75	10 75	20904	0 00	0 00	21	3 54	12 43
HMO America Inc.	OTC	8 75	2 94	832 84	10 63	0 81	5730	0 00	0 00	-16	1 12	7 81
Pacificare Health Sys.	OTC	22 50	-6 25	80 00	26 25	5 63	981	0 00	0 00	27	6 35	3 54
Safeguard Health Enter	OTC	11 00	4 76	104 65	11 13	4 00	1448	0 00	0 00	17	2 99	3 68
Sierra Health Services	ASE	6 88	-5 10	323 38	8 25	1 25	834	0 00	0 00	-7	1 59	4 33
United Healthcare Corp	OTC	11 13	-4 30	161 88	12 63	3 88	2866	0 00	0 00	-5	0 31	35 90
United Medical Corp.	ASE	6 88	10 08	28 00	6 88	4 13	78	0 00	0 00	2	4 11	1 67
U.S. Healthcare	OTC	13 13	5 04	133 42	13 88	4 88	11280	0 20	1 52	66	2 87	4 57
Western Health Plans	ASE	0 13	0 00	-79 20	1 50	0 13	155	0 00	0 00		0 82	0 16
HMOs	AVERAGE		1 1	206 6					0 2	12		
ALL COMPANIES	AVERAGE		0 0	45 3					2 9	15		

System design: Nordby International Inc.

Who Covers International Service From A to Z?



Zurich-American. We're committed to providing unsurpassed international service.

In fact, as part of the worldwide Zurich Insurance Group, one of the largest property/casualty insurance organizations, we can offer you 550 offices in 37 countries, plus cooperating partners in 40 more.

And insurance is our only concern. So you're assured of in-depth understanding, commitment and professionalism, both for foreign branches of American firms and American subsidiaries of foreign corporations.

Make sure you're covered from A-Z. Just ask about Z-A. Zurich-American.

ZURICH-AMERICAN INSURANCE GROUP

American Creativity. Swiss Dependability.

Zurich Insurance Company • American Guarantee and Liability Insurance Company • Executive Offices, Schaumburg, IL 60196

A MEMBER OF THE WORLDWIDE ZURICH INSURANCE GROUP