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Updates

Bill would increase firms' freedom to withdraw surplus pension assets

WASHINGTON—Employers would be allowed to withdraw excess pension assets at their discretion after paying appropriate taxes on the withdrawals, House Republicans proposed in a revenue package unveiled last week.

Debate on the package, which was released by House Ways and Means Chairman Bill Archer, R-Texas, is expected this week. The pension provision, which the Clinton administration opposes, would override congressional limitations on pension asset with-

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Rendez-Vous de Septembre



Cat cover rates apt to continue downward trend

Barring major hurricane, capacity abundant

By STACY SHAPIRO and GAVIN SOUTER

MONTE CARLO, Monaco—Property catastrophe rates will ease again at year-end renewals, continuing a trend that began about a year ago after several years of a hard market.

Unless a major hurricane strikes before the season ends in November, property catastrophe reinsurance rates worldwide probably will drop 10% to 15% at year end, and a general softening will continue.

Capacity will be more readily available for non-U.S. catastrophe programs than American coastline risks, however. And some U.S. regions may not see much price reduction in their cat reinsurance programs.

For other property/casualty reinsurance programs, coverage and pricing will be the same as before at year end. Only in the French market do underwriters call for a change in liability insurance policy wordings, which may give rise to less coverage and higher prices.

Despite a softening market, however, some ceding companies are looking to increase their retentions to reduce price still further at year-end renewals. Some cedants instead are considering alternative risk financing methods to retain more of their risk.

These are just some of the main observations of the brokers, insurers, reinsurers and service providers who attended the 39th Rendez-Vous de Septembre in Monte Carlo earlier this month at the unofficial beginning of the year-end renewal season.

The week once again was dominated by talk about the property catastrophe market and what rates will do at year end.

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Who's next? High-profile mergers fueled speculation about future insurer and reinsurer deals .....**Page 68**

What's the point? As always, opinions differ on the value of the Rendez-Vous.....**Page 71**

Looking ahead Nearly everyone at Monte Carlo sees a future for Lloyd's, but as what?.....**Page 76**

Risk Capital off ground

With M&M boost, offerings could net reinsurer $334 million

By JUDY GREENWALD

NEW YORK—New reinsurance holding company Risk Capital Holdings Inc. is now trading publicly—but only with a little help from its friends.

Organized by Marsh & McLennan Cos. Inc.'s Risk Capital Corp. unit, the company started trading over the counter after raising $240 million in a revised initial public offering last week. But 3.5 million of the 12 million shares offered were sold to M&M affiliate EXEL Ltd., for $70 million. Separately, other M&M-related entities also invested $146 million.

Some observers actually see the participation of M&M affiliates as an indication of their faith in the company, and say it may have been a factor in the success of the IPO.

Stock market observers also are generally optimistic about the prospects for an IPO for Prudential Reinsurance Co. Its latest filings do not set a date for the offering.

Risk Capital Holdings' stock closed at $21.25 a share after its first day of trading, up 6.3% from its offering price of $20. On Friday, the shares closed at $21.

Risk Capital had originally planned an IPO in August, but postponed and revised the offering soon after the failed IPO attempt by Normandy America Inc. (*BI*, Aug. 21). Though the two

See **IPOs** *on page 82*

Roth benefits interest limited

By JERRY GEISEL

WASHINGTON—Sen. William Roth, R-Del., the new chairman of the Senate Finance Committee, has displayed only a narrow interest in employee benefit issues, which contrasts sharply with his predecessor, Sen. Bob Packwood, R-Ore., who zealously protected employee benefit programs from waves of congressional assaults over the last decade.

Aside from supporting legislation to lower tax rates, Sen. Roth's best-known initiative has been championing legislation to expand individual retirement accounts. He is, for example, the lead supporter of a bill that would let individuals make pre-retirement, penalty-free withdrawals from IRAs for certain purposes.

Expanding IRAs "is a policy issue to which Sen. Roth has devoted considerable time and effort," says Stuart J. Brahs, vp-federal government relations in the Washington office of The Principal Financial Group.

Sen. Roth's interest in expanded IRAs has philosophical and practical roots, benefit lobbyists say.

As a conservative Republican, expanded IRAs mesh with Sen. Roth's belief that individuals need to save more, Mr. Brahs said.

Pragmatically, Sen. Roth's support for expanded IRAs is a politically astute move given the concentration of banks in Delaware, which would benefit financially if more individuals set up IRAs.

His belief in individual responsibility also has a health care implication: he strongly supports approaches to give new tax breaks to medical savings accounts. Under a typical MSA arrangement, an employer sharply increases its group health care plan deductible and returns some of its premium savings to employees in the form of company contributions to MSAs (*BI*, May 22; April 3). Employees can use MSA contributions, which are now taxed, to pay for uncovered health care expenses, or they can take unused contributions at the end of the

See **Roth** *on page 57*



Sen. William Roth brings a new legislative philosophy to guide the Finance Committee.

Scandals plaguing risk managers

By ROBERTO CENICEROS and JOANNE WOJCIK

Despite a recent wave of criminal charges against public risk managers, professionals in the public sector say they are no more likely than their private-sector colleagues to be led astray when large sums of money are at stake.

During the last several months, a handful of risk managers working in the public sector have been charged with financial improprieties, including embezzlement and accepting bribes.

However, private-sector professionals are just as vulnerable to possible criminal and ethical missteps, public risk managers say.

In fact, public risk managers contend they often are subject to greater oversight and have less budgetary discretion than private risk managers.

Meanwhile, motivation for this sort of illegal activity may be increasing. That is because budget cuts, downsizing and the resulting increased workloads can lead professionals—both in the public and private sectors—to question whether they are being adequately compensated, some risk managers say.

"I'm convinced that this kind of thing goes on just as much, if not more, in the private sector," said Tom Vance, risk manager for the city of Anaheim, Calif. "It's just that no one finds out about it."

"If it happened at XYZ Corp. and it did somehow get out, it would probably only be in *Business Insurance*," he suggested. "It wouldn't be in the L.A. Times. And even the chance of its getting in *Business Insurance* is very low because corporations keep these things to themselves."

Among the most recently publicized risk management scandals:

- A Los Angeles city workers compensation analyst was charged with bilking the city's self-funded program out of more than $1.1 million over a two-year period (*BI*, July 24).
- An employee in the University of California's risk management department is being sued for allegedly taking more than $900,000 from the university's self-insurance trust fund by fabricating liability claims over the last nine years (*BI*, Aug. 7).
- An audit of the Chicago Housing Authority's workers compen-

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Updates

Excess pension withdrawals

Continued from previous page

drawals imposed in the 1980s after such withdrawals were used to finance takeovers and leveraged buyouts. Excess assets currently are defined as those over 125% of a plan's current liability.

The package also contains dozens of pension simplification measures, including enticements for small businesses to set up retirement plans and allowing tax-exempt organizations to set up 401(k) plans. But it would wipe out favorable tax treatment—known as five-year forward averaging—for lump-sum pension distributions.

The package also addresses medical savings accounts, which Rep. Archer supports. In general, people covered only by catastrophic insurance plans could maintain an MSA. Contributions would be tax-deductible if made by the employee or excludable from an employee's income if made by the employer. The aggregate amount that could be deducted or excluded would be the lesser of the catastrophic health plan's deductible or $2,500 for single catastrophic coverage and $5,000 for family coverage.

The House revenue package also would reinstate a tax exclusion for employer-provided educational assistance, but after this year the exclusion would apply only to undergraduate courses. The package also would coordinate provisions of the Uniformed Services Employment and Reemployment Rights Act of 1994 with the Internal Revenue Code to ensure benefit plans retain their qualified status.

The revenue proposals also would disallow interest deductions on corporate-owned life insurance policy loans and subject certain punitive damage awards to taxation.

Retiree formula change OK'd

CAMDEN, N.J.—Simply changing the formula by which an employer determines retiree medical benefits does not violate federal law, a judge has ruled.

But, U.S. District Court Judge Stanley S. Brotman last month refused to dismiss a portion of the suit brought against Camden, N.J.-based Campbell Soup Co. by retirees who charged the soup maker did not adequately communicate the changes as required by ERISA.

The suit stemmed from Campbell's 1991 decision to change its retiree benefit formula. Before the change occurred, the soup maker paid 80% of the eligible medical costs incurred by a retiree or covered benefit that exceeded the Medicare benefit. Campbell changed the formula so it would cover only 80% of all eligible medical costs rather than 80% of the costs remaining after the Medicare benefit was exhausted. The new benefit significantly increased retirees' out-of-pocket costs, the judge noted.

Several groups of retirees and their dependents sued, charging that Campbell reduced benefits without having properly reserved the right to amend the plan, failed to give retirees adequate notice of the change, denied contractually guaranteed benefits and other breaches of ERISA and other federal laws. The suits were consolidated into a single action brought before the U.S. District Court in Camden.

Judge Brotman dismissed most of the suit. The company had adequately reserved its rights to change the plan, he said. He also said none of the collective bargaining agreements between Campbell and its unions "conferred a vested specific benefit upon retirees for the duration of their lives."

And, "during a time of rising medical costs and increasing numbers of deserving and dependent retirees, a company must retain its ability to control costs of existing benefits plans so as to ensure such plans' economic viability," he wrote.

He refused to dismiss, however, the suit's contention that Campbell had not adequately communicated the changes to its retirees. "The disclosure requirements of ERISA are not empty suggestions for fiduciaries," he wrote, ordering that portion of the suit to continue.

Medicare details expected

WASHINGTON—The House Republican leadership is expected to release legislative details on its Medicare reform agenda and clarify employers' responsibilities under the proposed reforms this week.

An outline of the Republican leadership's plan unveiled last week left many questions unanswered regarding what benefits employers could provide to Medicare-eligible retirees and active workers. For example, while the four-page outline calls for a class of medical savings accounts for retirees, it does not specify whether employer contributions could be used to fund the MSAs.

The outline calls for allowing Medicare-eligible people to choose annually among Medicare-approved plans in their area, ranging from traditional fee-for-service plans to managed care organizations. It also advocates "significant penalties" for Medicare fraud.

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Errors & omissions

- The Sept. 11 directory of wholesalers incorrectly listed American Excess Insurance Assn. as a Lloyd's of London coverholder.
- The Sept. 11 chart of surplus lines premiums and taxes by state contained several errors due to miscalculation. The total 1993 surplus lines premium volume for all states is $8,066,075,621, not the total shown in the chart. Colorado's surplus lines premium volume grew 1.5% in 1994 compared with 1993, and 7.8% from 1992 to 1994. Pennsylvania's surplus lines premium volume grew 6.2% in 1994 over 1993, and 6.2% from 1992 to 1994. While the premium volume listed for the states is correct, the chart incorrectly showed a percent decline in both those states.
- Tokio Marine & Fire Insurance Co. Ltd. failed to submit a questionnaire for the annual directory of international reinsurers Aug. 28. A complete listing for the company, which ranks as No. 14, appears on page 80.

Kraft loses age bias suit

Using litigation waivers requires age disclosures to workers

By DAVE LENCKUS

ATLANTA—Employers that require laid-off workers to waive their age-discrimination claim rights in exchange for enhanced severance benefits must disclose the ages of similar workers at all company sites who will not lose their jobs, a federal appeals court has ruled.

In a first-of-its-kind decision, a panel of the 11th U.S. Circuit Court of Appeals unanimously ruled that Kraft General Foods Inc. should have provided such information about workers in four of its plants to the 386 workers it laid off from a fifth plant in 1993.

Without that information, the laid-off employees could not determine whether the company was discriminating against them.

Therefore, they could not make a "knowing and voluntary" decision to waive their rights under Age Discrimination in Employment Act, the 11th Circuit ruled, overturning a federal district court.

The 11th Circuit has remanded the case to the district court. If the laid-off workers succeed there, then the 309 workers in that group who are protected by the ADEA will press their companion class-action age-discrimination lawsuit against Glenview, Ill.-based Kraft.

The plaintiffs likely would seek far more than the $5.2 million worth of severance benefits Kraft already has paid the entire group, according to plaintiffs attorney Kristofer Schleicher of Johnson & Montgomery of Atlanta.

That $5.2 million, though, would apply toward the workers' age-discrimination damages, he said.

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A&A buys U.S. offices of Jardine

By SALLY ROBERTS

NEW YORK—After shoring up its financial base, Alexander & Alexander Services Inc. is entering the expansion phase of its restructuring effort by acquiring most of Jardine Insurance Brokers Inc.

A&A, the world's fourth-largest broker, has signed a definitive agreement with London-based JIB Group P.L.C. to acquire 12 of its 16 U.S. offices for no more than $54 million.

Under terms of the deal, which is subject to regulatory approval, A&A will pay half of the acquiring price in cash upon closing and will pay the remaining cash balance over the next 12 months. The deal, which should bring about $60 million in additional revenues for A&A, is expected to close sometime next month.

Through the acquisition, A&A has moved into a new phase of its restructuring effort, said Michael A. Smith, senior vp at Lehman Bros. in New York. "Its first phase was to fund the future," and now it is "buying the future," he said. "It's a nice, straightforward deal."

"It's really a win-win situation," said Frank G. Zarb, A&A's chairman, president and chief executive officer.

A&A has worked on its balance sheet and is focusing on building the franchise, said Mr. Zarb. "We are keen on strategic acquisitions if it fits our strategic profile. (The JIB deal) fits our overall program just like a glove."

For JIB, the deal allows it to shed less profitable business and to focus on its core lines, includ-

See **A&A deal** *on page 61*

State captive idea meets indifference

Risk managers question New York as domicile

By RODD ZOLKOS

NEW YORK—Risk managers are unlikely to move their captive insurers to New York if the state ultimately enacts captive legislation that state regulators plan to begin drafting soon.

Regulators say their idea to make the state a captive domicile—and to target the captives for Fortune 500 companies based in New York—would fit in well with Gov. George E. Pataki's overall economic development plan.

But unless the state offers concrete advantages over other domestic or offshore domiciles, several risk managers at major companies say they would not consider moving.

"We're already domiciled in Vermont and Bermuda. For people beginning to set up captives, they may want to look at it," said the risk manager of a New York-based company who, like several colleagues, would not speak on the record. "I don't see anybody just picking up and moving from an existing domicile to this one."

State insurance regulators apparently do, though.

"Gov. Pataki is trying to encourage business to come back to New York State," a New York Insurance Department spokesman said. "What we're trying to do is encourage captives to be formed in New York State."

See **New York** *on page 12*

HMO stocks shake out

Best-run plans to leave stragglers behind

By JUDY GREENWALD

Despite lackluster performance so far this year, stocks of well-run HMOs may have a bright future as the market is expected to begin distinguishing between these companies and their lower-quality brethren.



The days of five years ago, "when everybody did very well" are over, explained Thomas Snow, a health maintenance organization analyst with Buckingham Research Group in New York.

Among the companies that analysts are high on are: Norwalk, Conn.-based Oxford Health Plans; United HealthCare Corp. of Minnetonka, Minn.; Healthsource Inc. of Hooksett, N.H.; and Pacificare Health Systems of Cypress, Calif.

"The HMO stocks have been largely sort of treading water, reflective of the fact that there's a cost-price squeeze going on with medical costs going up faster than premiums," which has produced some disappointing earnings for some companies, said Michael LeConey, of Coleman & Co. in New York.

"The group is probably off 5% this year," said Todd Richter, of Dean Witter Reynolds Inc. in New York. He pointed to a "fair number of modest earnings disappointments" as well as the stock market's focus on high-tech and

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Inside

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- Self-insured health plans may disappear in Australia under a new law. **PAGE 17**
- U.S. regulators are taking a close look at Lloyd's trust fund for U.S. policyholders. **PAGE 45**

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Remaking Royal: An insider's view

Mendelsohn focuses revitalization on service to customers, producers

Robert V. Mendelsohn a year ago took over as CEO of the U.S. operations of 150-year-old Royal Insurance P.L.C., with a mission to create an industry leader for the next century.

At the time, Royal Group Inc.'s performance was mediocre at best, despite restructuring and outside consultants' efforts to turn things around. Profits were weak and it generally was seen as an also-ran in the American market.

After spending months in the field, the 49-year-old Harvard-trained lawyer devised a new restructuring and revitalization plan—one that is starting to pay dividends.

Some underwriting powers have been delegated to branch offices from Charlotte, N.C., headquarters. Indeed, corporate headquarters has been renamed the "corporate support office." Accompanying that decentralization was a commitment to technology, including local area networks throughout the branch offices and heavy reliance on teleconferencing.

Before joining Royal, Mr. Mendelsohn was president and chief operating officer of W.R. Berkley Corp. He recently spoke with Business Insurance *Associate Editor Mark A. Hofmann about how changes at Royal came about and how his program is progressing.*

What major changes have you instituted since you came to Royal?

The company looks totally different today than it did two years

See **Royal** *on page 22*

Entrepreneur, attorney charged in insurer fraud

Offshore insurer scam left millions in unpaid claims

By DOUGLAS McLEOD

MOBILE, Ala.—A Mobile, Ala., insurance entrepreneur and his attorney are facing charges that they used a fraudulent offshore insurer to bilk California policyholders, leaving millions of dollars of unpaid claims.

A federal grand jury has returned multiple fraud, money laundering and tax evasion charges against Gary T. Ledbetter, former owner of Southern Continental Insurance Co. Ltd. of the Turks & Caicos Islands and former president of SAMCO Investments Inc., its U.S. managing general agent.

Also named in the indictment is Lynn C. Miller, a Mobile attorney who allegedly helped operate Southern Continental and was legal counsel for SAMCO.

Prosecutors charge that Southern Continental was little more than a shell corporation that Mr. Ledbetter and Ms. Miller used in a kind of Ponzi scheme, paying some claims with incoming premiums while diverting large sums of cash for their personal benefit.

The insurer, which collapsed in 1992, continued to collect premiums after it had been ordered by California regulators to cease and desist and after Turks & Caicos regulators had struck it from the domicile's register of companies, the indictment says.

Both defendants pleaded not

See **Fraud** *on page 60*

Coalition gains new allies in dependent care efforts

Potential new funding could aid drive for increased quality

By ROBERT KAZEL

In a planned $100 million expansion of a cooperative program begun three years ago, 21 large corporations say they will help to develop more than 1,000 community-oriented dependent care projects during the next six years.

The enlargement of the American Business Collaboration for Quality Dependent Care program will mean significant new funding could be made available as seed money for programs such as infant care, child care and elder care, usually in cities where participating companies have large concentrations of employees.

The coalition also wants to use training and standards evaluation to upgrade the quality of dependent care services that are already available.

The projects, ranging from basic day care to after-school camps to telephone voice mail systems that will allow teachers to communicate easily with parents, will target 56 communities nationwide during the next three years. More sites will be decided on later for the second three years.

The 21 employers, as well as several hundred smaller companies that are expected to participate but contribute less money, have the same hope that the original 11 major participants had in September 1992, when the collaboration was formed: to offer employees and surrounding communities new options in affordable dependent care while creating a happier, more productive workforce.

Eight more large corporations entered the collaboration's ranks last week. They are: Aetna Life & Casualty Co., Bank of America, Chevron Corp., Citibank N.A., GE Capital Services Inc., Mobil Corp., Price Waterhouse L.L.P. and Texas Instruments Inc.

Those companies join the existing coalition members: Allstate Insurance Co., American Express Co., Amoco Corp., AT&T Corp., Deloitte & Touche L.L.P., Eastman Kodak Co., Exxon Corp., Hewlett-Packard Co., IBM Corp., Johnson & Johnson, NYNEX Corp., Texaco Inc. and Xerox Corp.

The collaboration's work will continue to be coordinated by Work/Family Directions, a Boston consulting firm that provides needs assessment, designs

See **Child care** *on next page*

Meeting highlights NAIC flexibility

Accreditation review opened for comment

By MEG FLETCHER

PHILADELPHIA—The end to the Vermont insurance department's long battle to win accreditation is not only a victory for the state, but also signals an increased willingness by the National Assn. of Insurance Commissioners to accept diversity, regulators say.

"This has been a long road for the NAIC and Vermont," Vermont Insurance Commissioner Elizabeth Costle said in accepting the accreditation certificate. "If this is a good day for Vermont, it is a good day for the NAIC."

NAIC

The Vermont department, which becomes the 46th to be accredited, received its accreditation during the NAIC's quarterly meeting last week. At the same meeting, the NAIC continued a comprehensive review of its 5-year-old accreditation program, which aims to enhance solvency regulation by increasing regulatory authority and performance capabilities.

During the meeting, the NAIC also:

• Gave states a six-month extension—until July 1, 1996—to adopt several additional accreditation requirements. However, an NAIC staff report found that most states are "generally on track" to meet the original deadline.

• Appointed a group to develop a proposed process for appealing decisions of the NAIC's Financial Regulation Standards and Accreditation Subcommit-

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Lloyd's regulation Most active syndicates agree to follow tighter U.S. trust fund rules **Page 17**

Top family friendly firms offer child care options

Programs aim to win employee satisfaction and boost productivity

By LEE VELKER

What benefits separate today's most family friendly companies from the rest of the pack?

According to Working Mother magazine's 10th annual "100 Best Companies for Working Mothers" report, the answer is: investment in community child and elder care centers, onsite child care centers, and generous paid paternity leave.

In addition to work/family benefits, the report, which was issued last week, also factors into the rankings the number of women in corporate management and the availability of women's support groups.

Though the magazine's Top 10 list included Fel-Pro Inc., a small manufacturer in Skokie, Ill., and Ventura, Calif.-based outdoor apparel maker Patagonia Inc., the top tier is dominated by very large companies in several sectors—financial services, consumer products and pharmaceuticals.

Several of the leaders in family friendly benefits are in the financial services sector because of the role of customer satisfaction in the competititve industry, said Kathleen Lingle, a senior consultant at Watson Wyatt Worldwide in New York.

"The problem with banks is there is one on every corner and as far as products go, they offer pretty much the same thing," she said, adding that customer service becomes the key issue in getting business. "The only way to get service is if the employees themselves are satisfied. Unless you nourish your employees' needs, you are not going to get that."

As in past surveys, onsite child care centers were one of the benefits that separate the 100 best companies from many others.

Eleven of the 100 companies opened an onsite or near-site child care center this past year.

Northbrook, Ill.-based Allstate Insurance Co. started near-site child care centers in Dallas and in New York this year in conjunction with other companies. The centers handle 51 children of Allstate employees.

The centers not only address the needs of Allstate's and other collaborating companies' employees but also help the community by providing high-quality care, said Peter Estev, an employee benefits manager with Allstate in Northbrook, Ill.

Johnson & Johnson continues to operate onsite day care centers not only at its New Brunswick, N.J.,

See **Family** *on page 80*



GRAPHIC BY JERRY PARKS

Child care

Continued from previous page
programs, and chooses and evaluates dependent care service providers.

Since 1992, companies in the collaboration—along with allied non-profit groups and government agencies—have spent more than $27 million on dependent care projects, according to the collaboration's planners. These projects most commonly have been in the form of seed money for starting new services, such as day care centers, but the companies in the collaboration have not been operating those facilities directly. Employees' dependents receive priority in getting into the programs aided by collaboration dollars.

Projects that were launched successfully during the collaboration's first phase include such ventures as a high-quality child-care center in Dallas, backed by Allstate, IBM and Xerox in conjunction with a local developer; the training of a network of 110 child-care providers in Washington by AT&T, Allstate and IBM; and an emergency backup care program for children and elderly dependents in Rochester, N.Y., supported by nine collaboration members.

Benefit administrators at participating major companies say that the coalition has succeeded in its first three years by opening up new options in dependent care to employees. A new priority for the next six years will be establishing backup services to care for babies, small children and the elderly when traditional day care is interrupted.

"We know that backup care is definitely a need," said Patti Arthur, who manages special programs at Mobil in Fairfax, Va., which joined the collaboration as a major sponsor last week.

"Almost everywhere we turn, our employees say something interferes with getting to work and staying focused while at work," she said.

Ms. Arthur sees teaming up with other collaboration members to fund the creation of on-call, short-notice babysitting services as a way to leverage each company's funds more effectively over a metropolitan area.

In the long run, increased productivity and attendance for workers is the goal all participants, including Mobil, seek. For every $1 spent on dependent care, Mobil estimates a return of $1.25 in increased productivity, Ms. Arthur said.

GE Capital joined the collaboration last week because its workforce is dispersed across 200 cities and building company-owned care facilities for children, babies or the elderly would be impossible, said Wiley Harris, manager of compensation and benefits of the Stamford, Conn.-based company.

"We've had considerable concern about the kind of pressures our employees face," he said. "Very simply, we could not do it alone."

With the addition of several large corporations to its cooperative stable, the collaboration organizers have branded the next six years as Phase II, and are spotlighting "championship model" programs to be funded as demonstrations for the nation. One such project will be a voice mail system by which teachers can communicate information about school work to parents via a recorded message. Each selected school district will get $100,000 to $150 000 for the project, according to plans.

Other pilots planned include the development of national quality standards for afterschool and summer programs, and the creation of afterschool and summer programs for middle-school children. All programs supported by the collaboration generally are fee-based, although the cost often is subsidized for employees.

Advocates of dependent care reform say the expansion of the collaboration's ranks, and its scaled-up plans, are more proof that despite tough economic times, corporations see the long-range, bottom-line value of innovative employee benefits policies.

"Its purpose is to help the employees of these companies, but it's done more than that, in my opinion," said Ellen Galinsky, co-president of the New York-based Families & Work Institute. "What it does say is these are serious business issues." BI

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1995 California workers comp claims show improvement

SAN FRANCISCO—Workers compensation claim frequency could be flattening out after plunging to a record low over the last three quarters of 1994, a new survey by the California Workers Compensation Institute reports.

Insured employers in California logged 97.1 workers compensation claims per $1 million of earned premium in the first quarter of 1995, up 7.6% from the previous quarter, but 2.2% below the rate from the first quarter of 1994, the CWCI found.

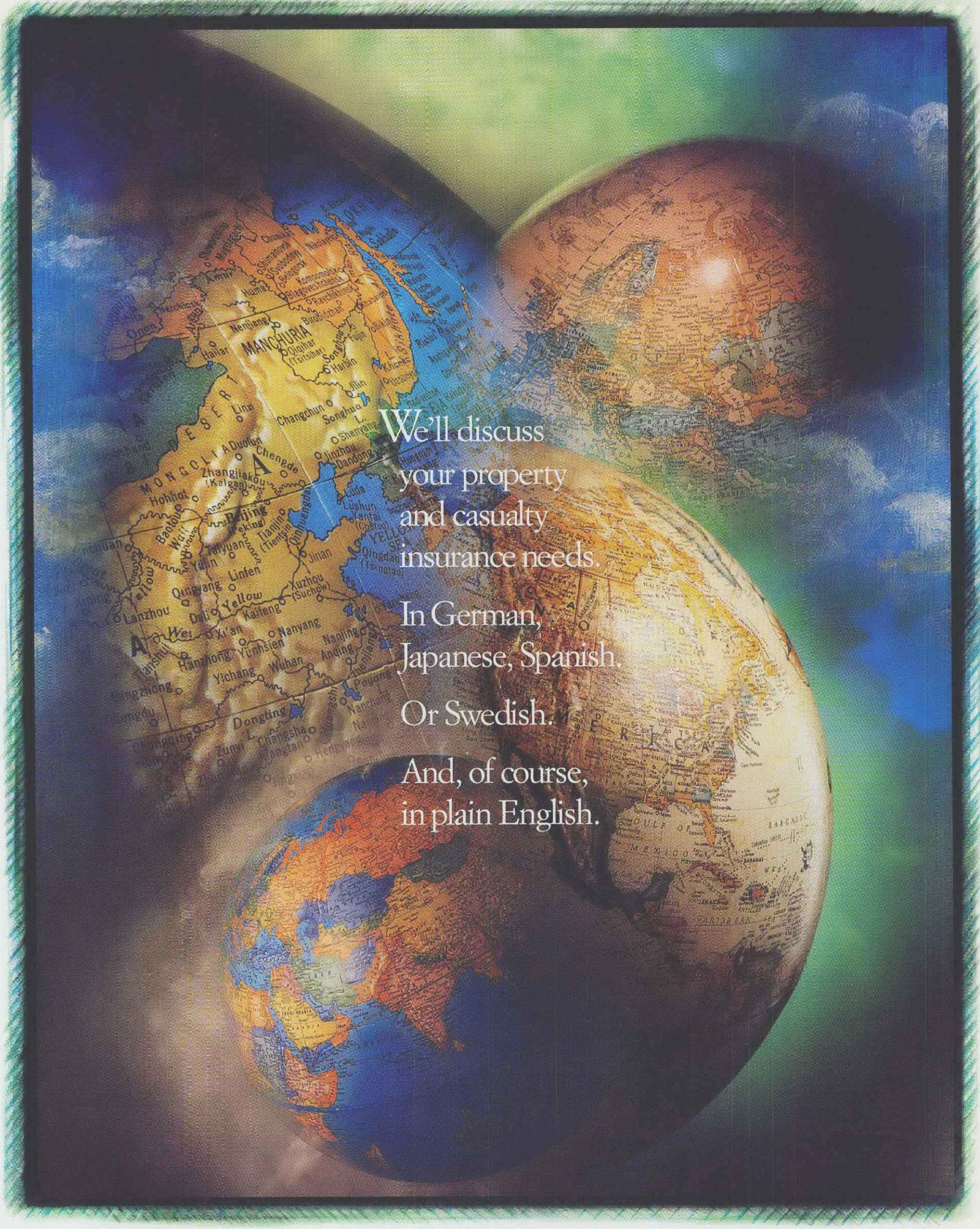
The increase over the fourth-quarter rate for insured employers was due almost entirely to a 12.7% jump in medical-only claims, which climbed to 59.4 per $1 million of earned premium, the CWCI said.

Indemnity claims for insured employers also rose a scant 0.5% during the first quarter, hitting 37.7 claims per $1 million of earned premium.

As a result, lost-time cases accounted for a dwindling share of insured workers compensation claims in the first quarter of 1995—38.6% of new reportings vs. 41.6% in the first quarter of 1994

The CWCI included in its tally data from 46 insurer groups writing 81% of the statewide workers compensation premium.

—By Joanne Wojcik



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Two firms offer benefits to partners

Benefit Beat

Drug manufacturer Glaxo Wellcome Inc. and a large Florida-based law firm are joining the ranks of companies offering health and dental benefits to same-sex domestic partners.

"We are developing the plan in response to a request by our employees," said a spokeswoman for Research Triangle Park, N.C.-based Glaxo Wellcome Inc.

As part of a new benefit package available in January 1996, eligible employees involved in same-sex domestic relationships will have access to the same coverage as heterosexual couples in legal marriages.

Employees and their domestic partners must sign an affidavit confirming they share a residence, long-term commitment and financial responsibility to be eligible for the company's flexible benefit plan, which includes three different self-insured indemnity plans and an HMO for North Carolina residents.

The coverage also will apply to dependents of either of the partners.

A spokeswoman said the company, a unit of London-based Glaxo Wellcome P.L.C., does not expect a large increase in claims when the new coverage begins.

Holland & Knight, a law firm with more than 1,000 attorneys and employees in Florida and Georgia, also does not expect an increase in claims, said Bill McBride, managing partner based in the firm's Tampa, Fla., office.

"It is just an issue of fairness," he said. "One of our partners asked me why we did not offer the same coverage for domestic partners as for spouses and I did not know," Mr. McBride said, adding it prompted the firm to research the issue a year ago.

The self-insured company made its Blue Cross of Florida-administered indemnity plan available Sept. 1 to same-sex domestic partners who sign an affidavit about their relationship.

The affidavit states that the employees and their partners live together, share financial responsibilities, are not involved with other partners, are over 18 years old and are not related on a level closer than a legal marriage would allow.

While some companies frequently require documentation like a joint checking account as proof, the affidavit is enough for the firm, said Miami-based partner Greg Baldwin.

"When a member of our firm marries, they simply report it and we accept that," said Mr. Baldwin.

The medical and dental coverage has also been extended to dependents of same-sex domestic partners.

—By Lee Velker

Midsize managed care

NEW YORK—Midsize employers, like their larger counterparts, are dropping traditional indemnity health care plans in favor of managed care, according to a recently released report.

In 1994, 46% of the surveyed employers with between 10 and 999 employees offered indemnity plans, compared to 57% in 1993. At the same time, 58% of all covered employees of midsize employers were enrolled in some form of managed care plan in 1994, up from 46% from 1993.

Specifically, 15% offered point-of-service plans last year vs. only 4% in 1993, and 30% offered preferred provider organizations in 1994, up from 24% in 1993.

The survey, conducted by A. Foster Higgins & Co. Inc., is based on 1,187 midsize employers that participated in Foster Higgins' national survey of employer-sponsored health plans released earlier this year (*BI*, Feb. 13, 1994).

Midsize employers found their average total health care cost per employee rise only 3.4% in 1994 to $3,421 from $3,308 the year before. 1993 levels rose 6.2% over 1992.

Traditional indemnity plans remain the most costly form of coverage for midsize employers, averaging $3,503 per employee, up 13.6% over 1993.

Of managed care plans, health maintenance organizations are the most expensive, averaging $3,288 per employee. PPOs averaged $3,106 per employee and POS plans average $2,939 per employee.

Copies of "Mid-Sized Employer Health Plans" are available for $150 by contacting Lisa Gilleeny at Foster Higgins, 125 Broad Street, New York, N.Y. 10004; 212-574-9025.

—By Sally Roberts

401(k) loans

NEW YORK—Borrowing from a 401(k) plan or other defined contribution savings plans is becoming a popular option with employees, according to a recent survey.

Of 260 defined contribution sponsors questioned, 196 allow employees to borrow. In 97% of these cases, employers reported present loans, William M. Mercer Inc. found.

"The loan feature is clearly popular with employees. After all, who at age 25 or 30 is willing to put their money someplace where they can't touch it until age 59½?" asked Melvin W. Borleis, a Mercer managing partner in Chicago.

The survey reports that 61% of employees find the loan provision very important and 33% find it somewhat important in participating in the plan.

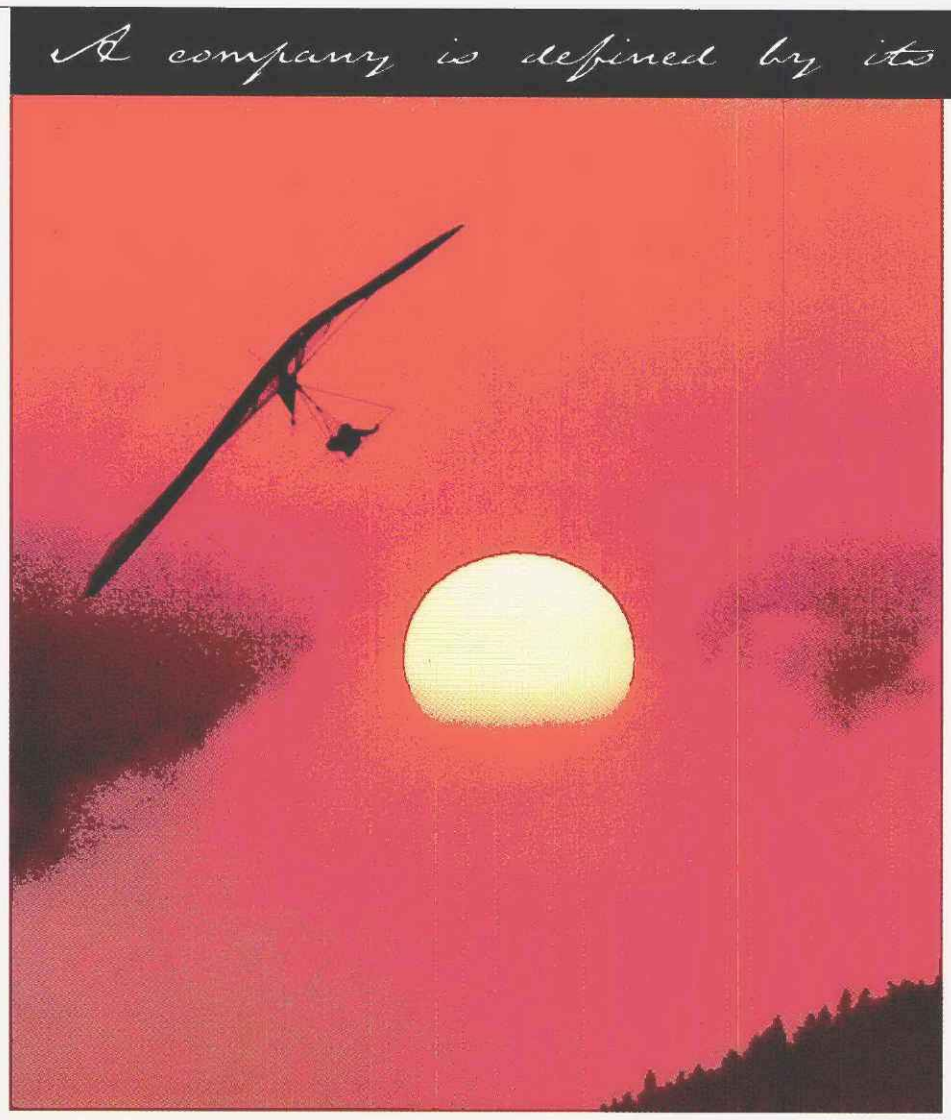
Non-highly compensated employees were found to be more likely to borrow from the plan than high paid employees.

Of the plans surveyed, minimum amounts for the loans range from $100 to $2,500. Nearly two-thirds only allow each participant one loan at a time.

Of the companies surveyed that do not offer loans, 33% say they are somewhat or very likely to make loans available in the near future. Reasons for not offering borrowing include administrative burden, lack of employee interest and being contrary to plan philosophy.

For a free copy of the survey, contact Mercer's public relations department at 212-345-4109.

—By Lee Velker



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Opinions

Closing a plan window

ON THE LIST OF court decisions that ought to be overturned, a recent 9th U.S. Circuit Court ruling involving a Lockheed Corp. early retirement window plan deserves a prominent spot.

As we report this week on page 54, the appeals court said Lockheed, in designing the plan, violated federal pension law by requiring employees who wanted the enhanced benefits to sign releases waiving their right to sue on employment-related claims.

In so doing, the court said, Lockheed violated a central tenet of the Employee Retirement Income Security Act—that plan assets be used for the exclusive benefit of plan participants.

In a bizarre reasoning, the court said Lockheed, which funded the enhanced benefits through existing surplus assets, derived a significant benefit by requiring employees to waive their right to sue. Thus plan assets were used, so to speak, to benefit Lockheed, violating the law.

To that we say: Huh? First, there is no question that federal law—in this case the Older Workers Benefit Protection Act of 1990—allows employers to require employees to waive their rights to file employment discrimination claims as a condition of receiving early retirement benefits.

Secondly, and most important, this quid pro quo—employees giving up rights to sue in order to receive enriched pension benefits—is really no different than other benefit arrangements that courts never have questioned.

Indeed, the absurdity of the court's arguments is made clear in an example provided in a friend-of-the-court brief filed by the ERISA Industry Committee and the Assn. of Private Pension & Welfare Plans.

Consider, the two trade groups say, a real-world situation in which an employer, as part of collective bargaining with unions, agrees to offer a rich pension plan but below-average wage increases. The employer clearly benefits from such an arrangement because its compensation costs would be lower than without the pension plan.

Would that arrangement violate ERISA because plan assets benefit the employer? Of course not. The agreement benefits both employers and employees.

The same can be said of window plans. Employees who voluntarily accept the package receive richer benefits and avoid the risk of later being fired, such as through corporate downsizing, without such a package. Employers, in turn, can reduce their payroll expenses. And letting employers require a litigation waiver as part of a window plan is clearly permitted by federal law.

We hope other courts recognize the mutual interest of window plans to employers and employees and that the 9th Circuit decision is an aberration and perhaps one day will be overturned.

Keep IRAs out of plans' pockets

WHICH ARE BETTER savings vehicles and deserve more favorable tax treatment: Enriched individual retirement accounts or employer-sponsored defined contribution and defined benefit plans?

Benefit consultants and lobbyists fear that type of comparison and competition for tax dollars could become a reality since staunch IRA backer Sen. William Roth, R-Del., was named Senate Finance Committee chairman.

The worry is that Sen. Roth might propose cutbacks in tax breaks for group pension plans as a way of at least partially offsetting the tax dollars lost if eligibility requirements to make tax-deductible contributions to IRAs are, as Sen. Roth wants, loosened.

First, we hope such a comparison is never made. The United States, which has one of the lowest personal savings rate of any industrial country, should do all it can to encourage workers to save for retirement. That's a role that both group plans and IRAs can fulfill.

We do recognize, though, that in an era of high budget deficits, there are limits to the tax breaks that government can provide, including those to benefit plans.

But the last thing policymakers should want to do is trim tax incentives for group pension plans as a way of paying for enriched IRAs.

We think group plans are far superior to IRAs. While in theory, everyone would be eligible to contribute to IRAs, the reality is that only a relatively small percentage of those eligible would do so. Experience suggests that millions of employees would not establish accounts.

By contrast, employers routinely have been able to get 60% to 75% participation—in some cases much higher—in their 401(k) plans through such features as matching contributions and payroll deductions, features that IRAs, by their very nature, cannot provide.

And, in defined benefit plans, of course, 100% of eligible employees participate and have the protection of federal pension insurance, another advantage over IRAs.

Perhaps revenue can be found to pay for expanded IRAs. But that revenue ought not to come out of group pension plans, a far better retirement savings vehicle.

Letters

Rely on more than LTD rates

To the editor: As someone who has followed disability benefits closely over the years, I found Judy Greenwald's Aug. 14 article, "Buyers' Market for LTD Cover," to be interesting.

For years, LTD has been a competitive purchase, and new entrants to this marketplace have "invested" in gaining a share of the market. Sales have been made on the basis of rates, contractual provisions and benefit calculations. "Bells and whistles," as the article mentioned, have been included by many insurers to boost sales.

But, buying LTD and STD programs should be seen as a reflection of a company's personnel goals and policies, not as the best deal. The focus of these benefits should be to reimburse employees for time lost due to disabling illnesses and, very importantly, to bring resources to each employee—at the earliest states of their disability—to return them to work every time it is possible to do so. The results of this attitude are not only benefit dollars saved, but also the reduction of other associated impacts of disabilities.

Disability is a medical event. Proper treatment plans tailored to the individual who is disabled will be the method by which costs are managed and individuals truly will receive the greatest benefit. Medical treatment plans should be a coordinated effort between the attending physician and payers/administrators.

Disability also is a human resource event. When a worker is absent, someone either picks up the load or replaces that disabled individual. There are both short-term and long-term impacts on the loss of a worker. Returning any worker to a productive environment and how quickly and efficiently this is accomplished are issues more important than the rate being charged.

Often, the emphasis and efforts made toward this end reap rewards and lower overall costs associated with disabilities. Workers are treated for their illnesses and encouraged back to work whenever possible. Human resource departments benefit in many ways from this focus.

I urge your readers to purchase the services from LTD vendors who work to lessen incidence and duration and medical treatment costs, and not to simply focus on the rates charged by those trying to win market share.

I also urge purchasers to judge vendors by their processes and results. Remember that a vendor's rates are the result of covering losses and expenses. Costs are the result of much more than that narrow view. Disability cost can be—and is being—managed. As our industry continues to mature, we will continue to improve our ability to impact the costs.

David Lake
Senior Sales Executive
John Hancock Mutual
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New York

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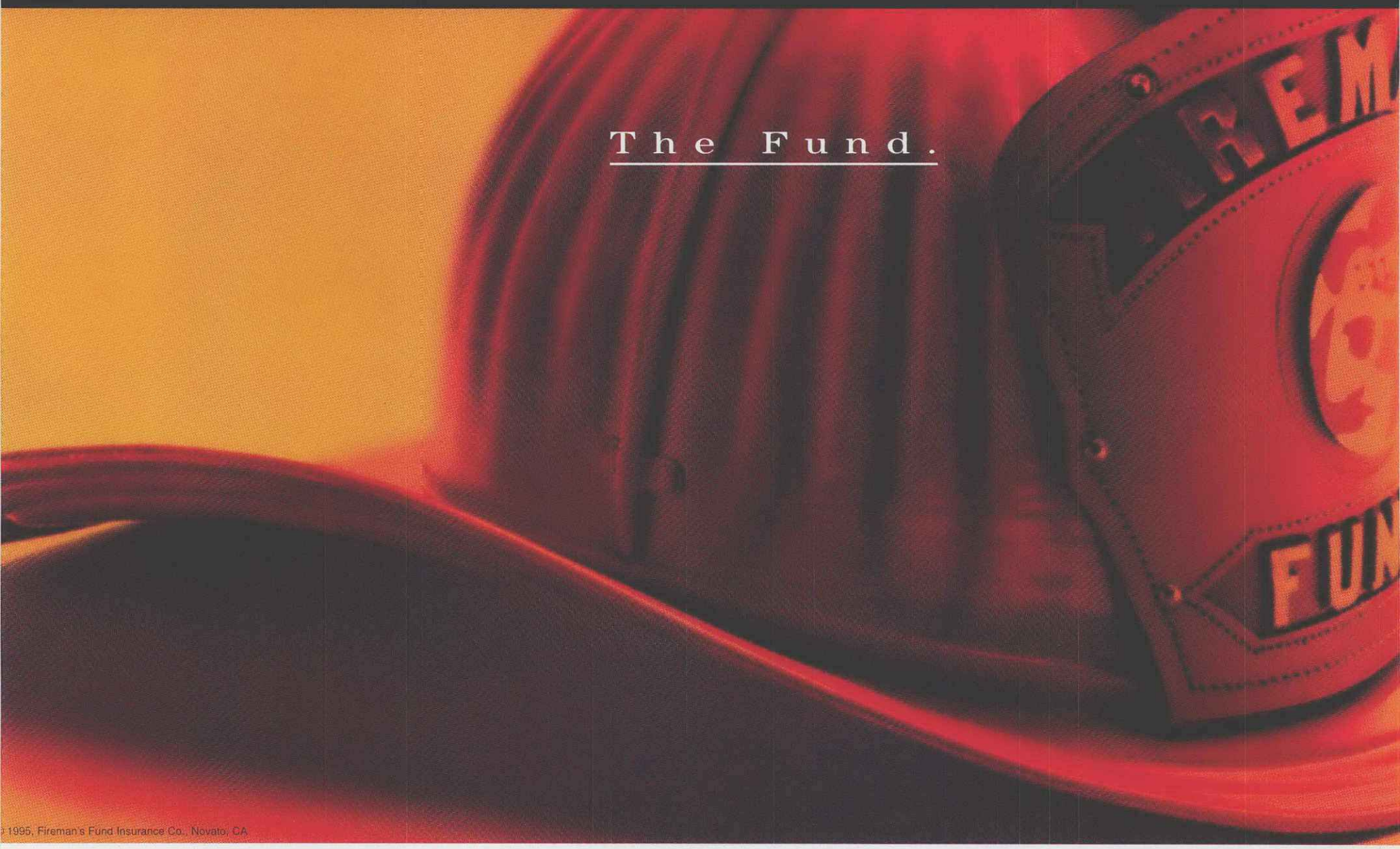
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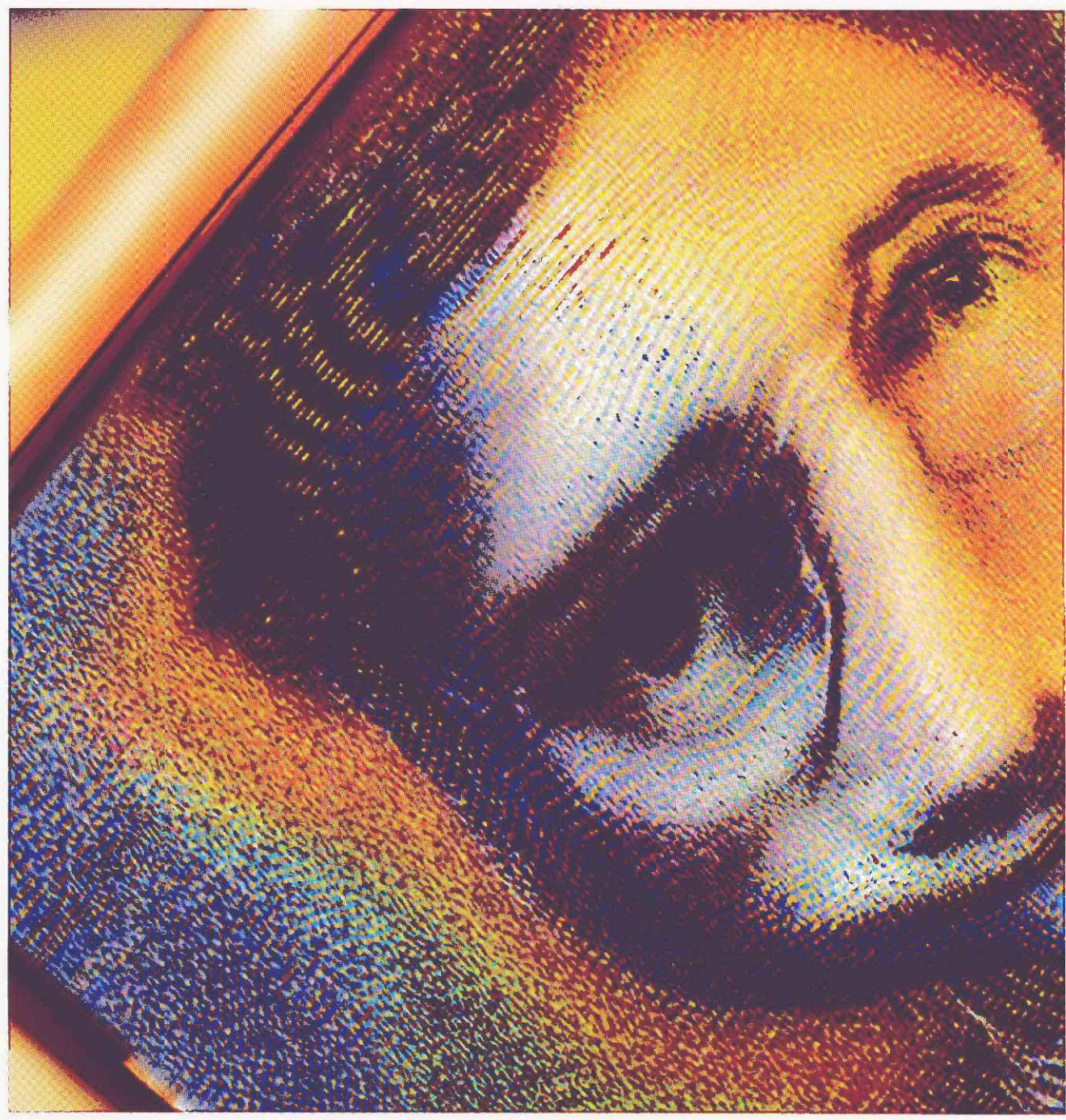
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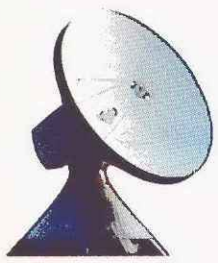
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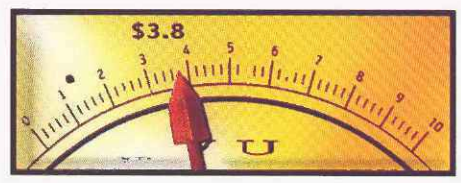
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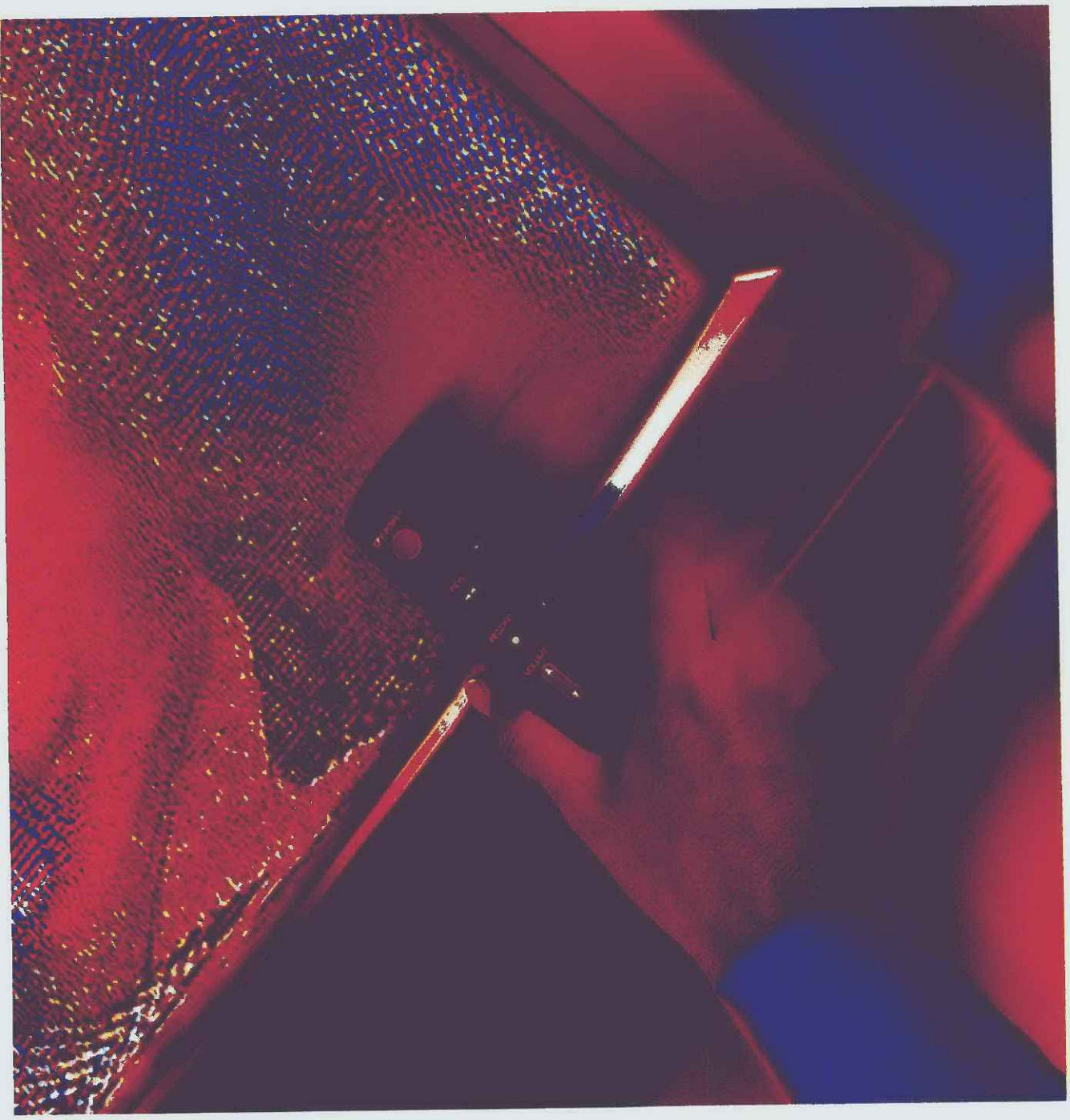
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New York

Continued from page 2

"We're looking at allowing captives to be set up for larger players—Fortune 500 kind of companies—and groups who might want to set up a captive," the spokesman said. "If large companies are using them we want them to have them set up in New York State."

"There are captives, that's a fact of life," the spokesman said. "They're being set up in various states, they've been in Bermuda for a long time and we'd like to create an atmosphere that's favorable to setting them up in New York State."

Regulators hope to have a bill introduced in the General Assembly this fall.

People in the captive industry in other domiciles—including Vermont, which with 264 licensed captives in 1994 is the nation's largest domicile—say they would consider a New York captive law a significant development.

"Certainly New York is home to a lot of organizations that might be inclined to form captives and certainly it's a major insurance center," said George A. Chaffee, president of Skandia International (Vermont) Inc., in Burlington, Vt.

He's not sure that passage of any captive bill there is a given, however.

"I think New York being New York there will be a lot of opposition to any legislation. Traditional insurers tend to resist the alternative markets," Mr. Chaffee said. "I expect opposition. But if it goes through, certainly it will present competition to us."

While a captive law in New York would present additional competition to existing domiciles, Leta C. Finch, president of the Vermont Captive Insurance Assn. in Stowe finds reasons to see New York's action as good news for Vermont and other domiciles.

"I do think in the positive that if New York is contemplating a captive law they must have some information that this would be successful for the state and be an income producer and I think this speaks highly for the alternative market," Ms. Finch said. "I think there's a lot of room for growth in the alternative market."

New York being New York, there will be a lot of opposition to any captive legislation. But if it goes through, certainly it will present competition, says George A. Chaffee.

As they draft a bill, regulators are expected to consult the laws in other states as well as the Risk & Insurance Management Society Inc.

Regulators have not said yet whether the New York proposal would more closely resemble state laws that are thought to allow captives a measure of flexibility—such as Vermont's Special Insurer Act of 1981—or those considered more restrictive—such as the Tennessee Captive Insurance Company Act of 1978.

New York legislators are scheduled to return to work in January, though there may be a special session in September or October "and if that's the case we'd like to have something ready then," the insurance department spokesman said.

He said New York officials believe the fact that many companies are based in New York naturally makes the state an attractive domicile for those companies' captives.

"A lot of the large Fortune 500 companies are here in the state," he said.

But risk managers at New York-based companies with existing captives don't see proximity alone as a sufficient reason for changing domiciles.

"Every day you read about new domiciles and everybody's trying to get in the act," said the New York risk manager. "I wish them well but I don't see us moving."

"I think it just comes down to what is the difference between them and Vermont and Bermuda and if the conditions are better we'd go there," said the risk manager of another major company with a Vermont-domiciled captive.

"Obviously geography, assuming there's nothing else different, won't be enough," he said. "Maybe there are some risk managers who wouldn't want to travel as far. Of course, traveling to Albany would be like traveling to Vermont."

Another factor some might consider in weighing New York as a captive domicile is its perception as an expensive state where operating a captive might be costly.

"Bermuda is expensive but there are certain things there that work better," one New York-based company's risk manager said. "We're up in Vermont and we're very happy there. I don't know that New York is going to have any cost advantage over Vermont."

But Ms. Finch said she's not convinced New York would be an expensive place to do business, and doesn't believe high costs would keep captives away in any case.

"Even if they were (a high-cost location) it may not be a deciding issue," Ms. Finch said. "Risk managers have a long list of reasons why they choose one domicile over another."

"I think what the risk managers are going to look for is how well the regulations match up with what they want to do," she said.

"It will be very interesting to see what New York does differently legislation-wise and regulatory-wise," said Laura A. Taylor, vp captive operations-domestic for Aon Risk Services Inc. in Burlington.

But legislation alone won't make New York a successful domicile Mr. Chaffee said, noting there is more to the business than simply passing a law. "It does take some effort to produce a viable domicile," he said. "Delaware essentially did a 'me too' on Vermont's legislation and that hasn't gone anywhere."

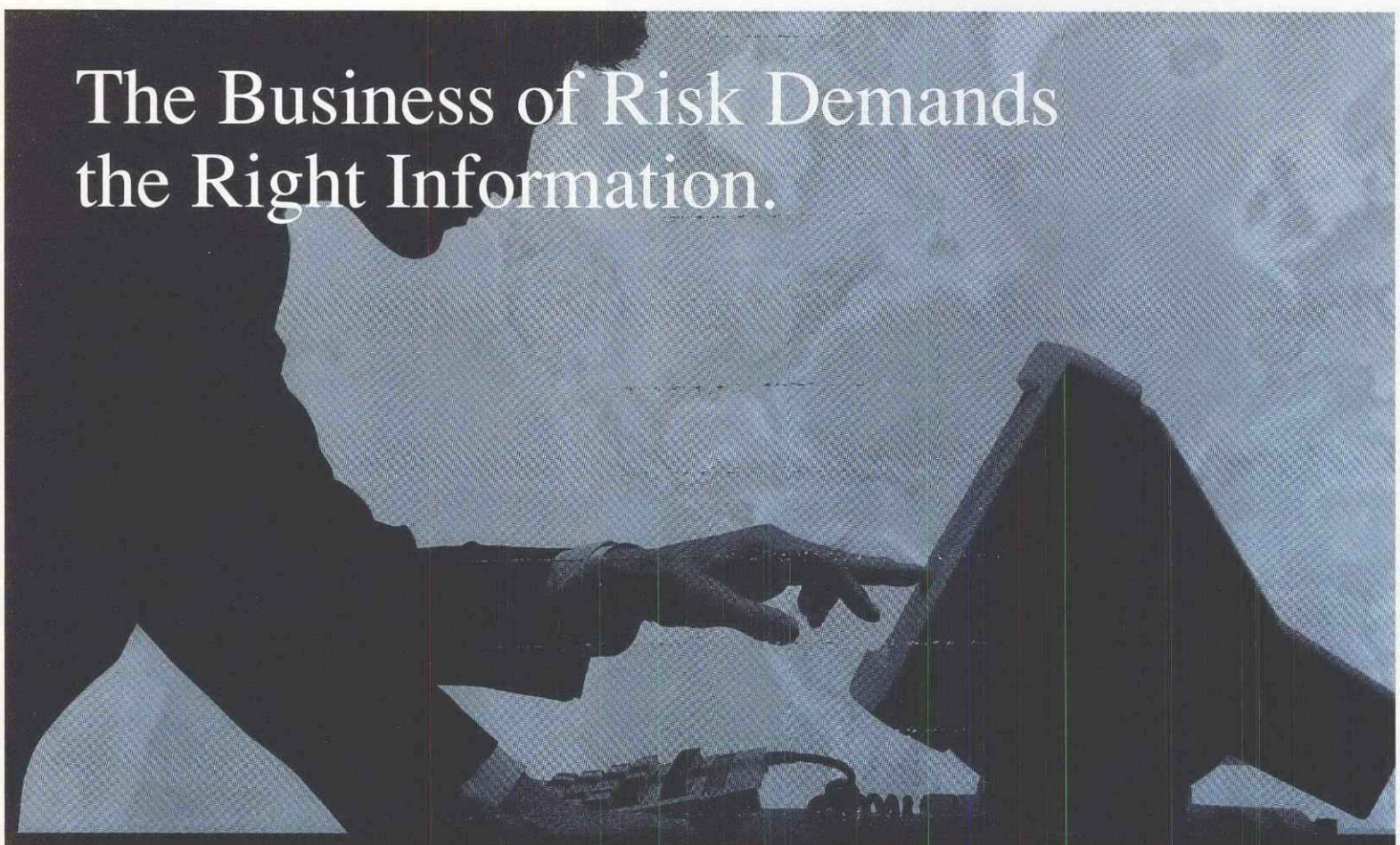
Another hurdle New York will have to overcome is that it "has a history of being somewhat contentious in the insurance department," one of the risk managers questioned said. "That might be something people would look at."

Mr. Chaffee noted that one of Vermont's strengths as a captive domicile is the state's track record "of welcome, flexibility, lack of bureaucracy and I'm not sure New York knows how to operate that way."

However New York officials craft the state's captive law, one area in which New York will find it difficult to compete initially with mature domiciles is in the area of industry infrastructure.

"Any new domicile will evolve over time like the long-standing existing domiciles have like Vermont," Ms. Finch said.

"The question is can they catch up, but that's hard to speculate as well," she said. BI

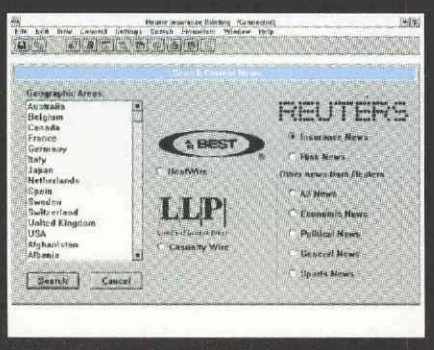


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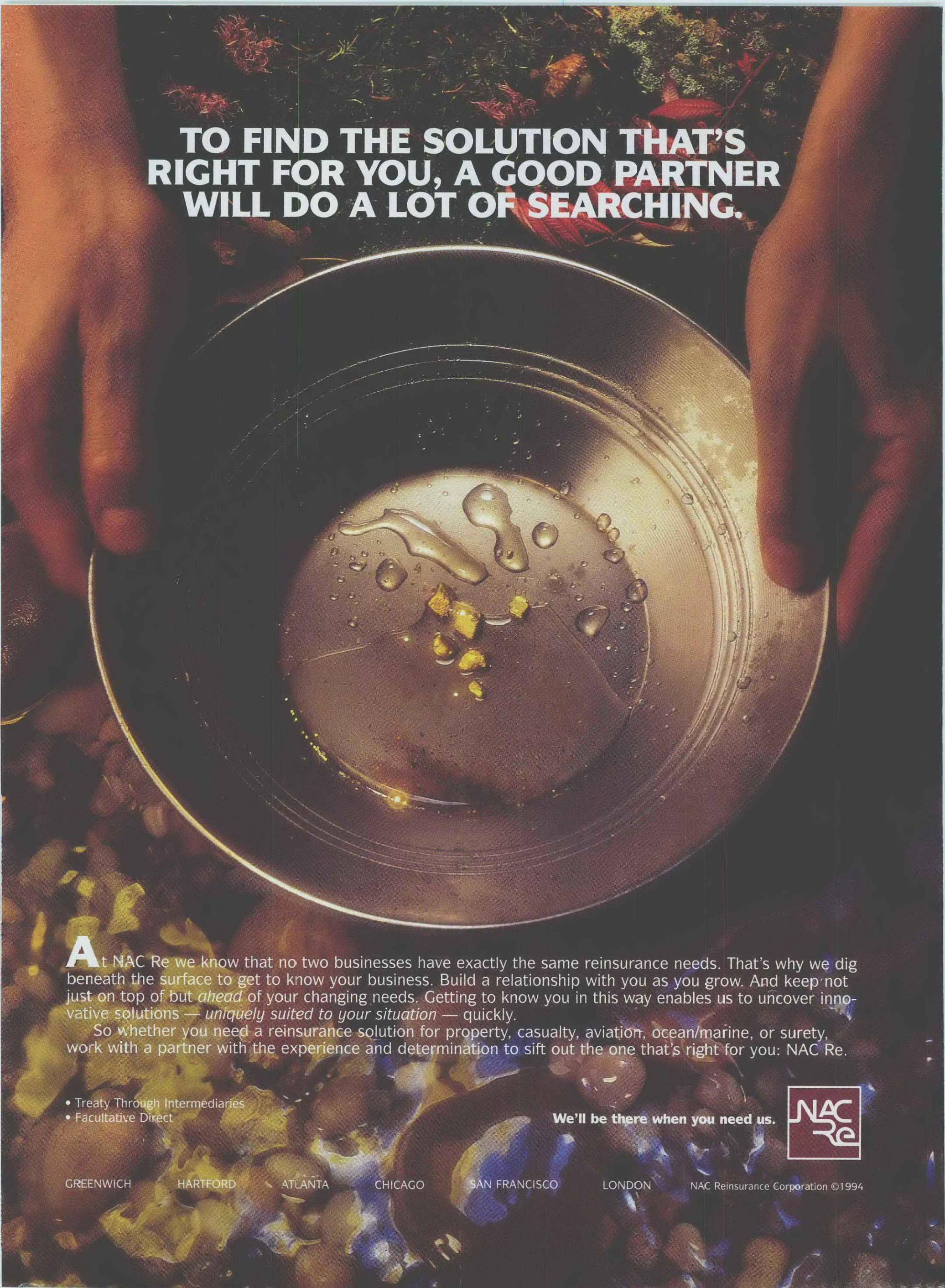
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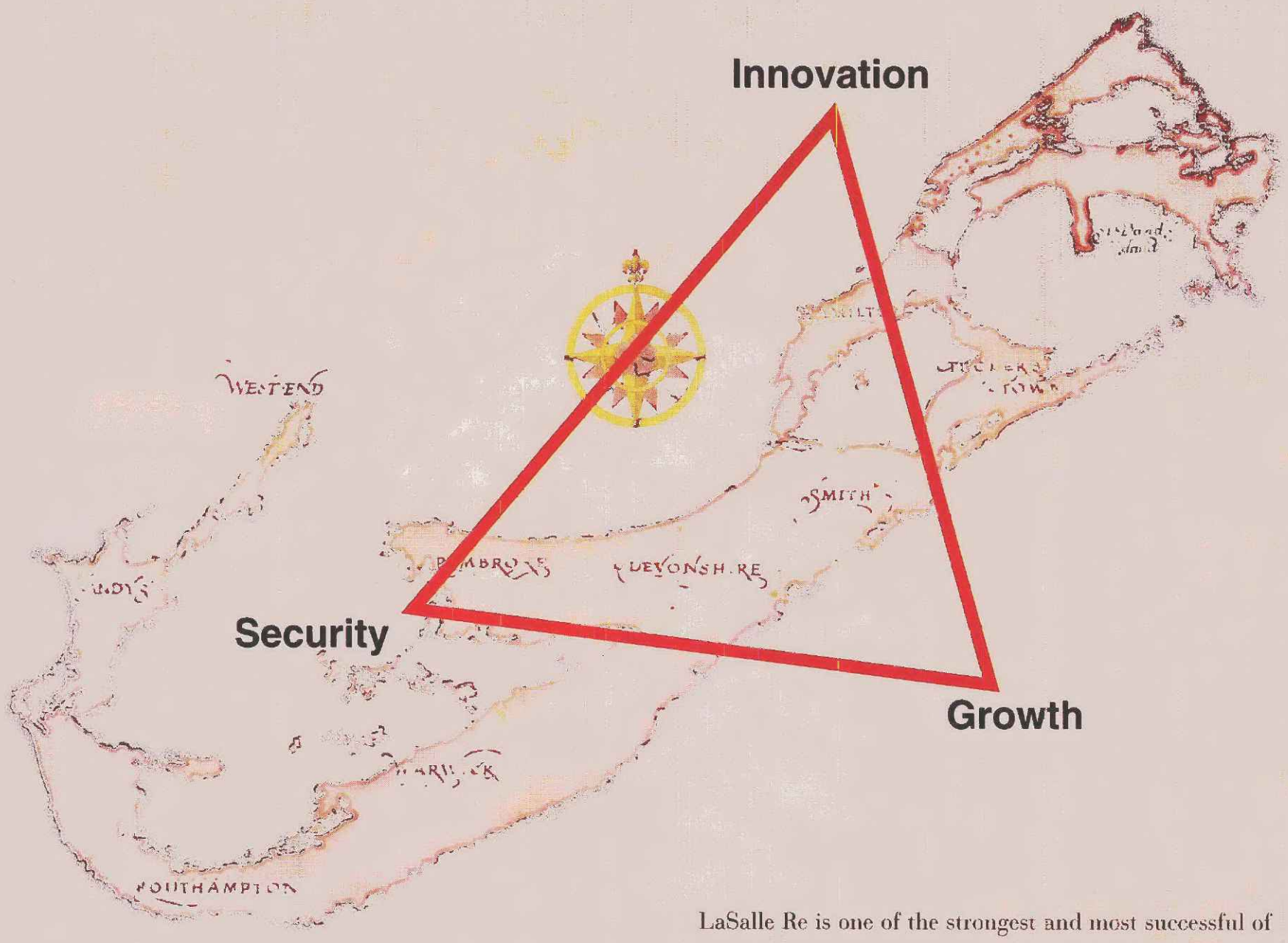
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INTERNATIONAL

Zurich turns to buyers in quest for quality

Policyholders demand security and service from insurers

By SARAH GODDARD

LUCERNE, Switzerland—In buying coverage, risk managers say the most important factor is the security of the insurer, followed closely by protection of their own balance sheets.

At an international symposium for Zurich Insurance Co. policyholders last week in Lucerne, Switzerland, risk managers from around the world consistently ranked security as the uppermost issue. In many straw polls conducted at the symposium, the opinion was unanimous.

But, Zurich's symposium, "Driving in Quality, Driving out Cost," dug deeper than insurer security.

As part of its strategic development over the next five to 10 years, Zurich will focus both on the "soft" factors that influence customers' decisions—such as flexibility and responsiveness—and on identifying the future products and services that insurance buyers don't even realize they need yet.

"Customers are our reason for being," William H. Bolinder, member of the corporate executive board of Zurich Insurance Co. in Zurich, Switzerland. "This is not a slogan; it's a fact."

Many of Zurich's customers had told the insurer that it needed to improve its quality, said Mr. Bolinder, adding that Zurich needed to be a quality leader that is more competitive in its cost structure.

The intangible nature of quality creates problems in its own right, pointed out Nigel Barlow, a founding director of Tom Peters Partners, a business consulting firm based in Hornchurch, England.

However, businesses are five times more likely to lose customers because of poor service than due to poor products, so it is vital that quality in its intangible sense be properly managed.

"Reputation, quality, the brand, innovation and service are the areas in which companies need to focus to stay ahead of the competition," said Mr. Barlow. "It's not that the product—the hard, tangible, business output—is not important. The quality is assumed and buying decisions are made increasingly on the basis of these soft issues."

In the past, quality had been addressed in terms of adhering to a standard: for example, a measurement of defect. However, a recent survey showed that "quality" is the base an organization must be at to compete globally, he said.

Customers' perception of a company increasingly is becoming a factor in the buying decision.

So perceptions should be a priority for financial services companies in general and insurers in particular, Mr. Barlow said. "We are beyond the age of the information era and into an imagination era." It is intangibles like imagination and creativity that now differentiate companies, he said.

And this has led to the paradox of large organizations aiming for the innovation and responsiveness of a small company, but trying to retain their traditional advantages such as economies of scale and global capabilities.

"People want something that works. . .and they want to feel that they are individual and important," asserted Mr. Barlow.

Zurich has been trying to take this approach, according to Rolf F. Hueppi, chairman and CEO, although he acknowledged that some of the quality management programs that Zurich had previously implemented had not seemed "to reach the soul of the people." The programs had lost some of their focus, he said, leading to redoubled efforts but with less direction.

Now, the company had started with the vision of where it wanted to be in five to 10 years. "The first point of vision is that Zurich will at that time be seen to create value for customers in its four core businesses: non-life direct, life direct, asset management and reinsurance," explained Mr. Hueppi.

"We want to be perceived as that organization which creates the best value—although we are unlikely to be the cheapest," he added.

See **Zurich** *on next page*

Most syndicates agree to U.S. rules

By MEG FLETCHER

PHILADELPHIA—The overwhelming majority of Lloyd's of London's active syndicates are agreeing to follow tighter U.S. trust fund rules so they can write U.S.-located risks.

However, it remains to be seen whether Lloyd's underwriters will choose to actually use that capacity, because heightened trust fund requirements make it more expensive for syndicates to write U.S.-business.

Lloyd's oversight

Under the New York agreement:

- U.S. located risks can be covered only by syndicates that meet the New York rules.
- Lloyd's has transferred $500 million into the Central Fund United States Trust from the separate Central Fund in London.
- Lloyd's continues to maintain $100 million in each of two joint and several liability funds to help secure U.S. obligations for surplus lines business and reinsurance, respectively.
- Lloyd's will hold individual members ultimately responsible for all claims by "American policyholders" from 1992 and prior years.

GRAPHIC BY JOHN HALL

Lloyd's now has 170 syndicates. Of those, 162, or 95%, have signed trust deeds to write U.S. reinsurance, while 156, or 92%, have signed similar deeds to write U.S. surplus lines coverages, according to John Spencer, Lloyd's head of development and operations for the Americas.

Previously, all Lloyd's syndicates technically were eligible to write risks in the United States, though no specific statistics are available on how many did so, Mr. Spence said.

"There is still a strong commitment by Lloyd's underwriters to the U.S. market, in principal," said Peter Lane, Lloyd's director of marketing.

"But we will only be able to tell in a year's time whether, in fact, the business is economic because of the too stringent requirements we have to write under," he said.

For example, syndicates writing on a non-admitted basis had to increase a joint asset trust fund to $100 million from $50 million, and also had to establish individual, syndicate-specific trusts equal to 100% of anticipated liabilities, with no reduction for reinsurance purchased.

The two Lloyd's representatives discussed the U.S. issues in an inter

See **NAIC** *on page 20*

Captives lose appeal in Germany

Collapse of KOKO gives smaller companies fewer incentives to fund them

By DON LEWIS KIRK

HAMBURG, Germany—A market shift is muting German euphoria for captives, according to a group of leading brokers.

With German commercial insurers charging rates that are more sensitive to industrial risk, buyers are less likely to choose captives, said Dieter Spielberger, a member of the Assn. of German Insurance Brokers, or BDVM, at a recent meeting of the group in Hamburg.

"The initial captive euphoria resulted from an attempt by insurers to harden industrial fire insurance rates and limit coverage of environmental liability risks," said Mr. Spielberger, who is a broker with Gradmann & Holler in Stuttgart, a Marsh & McLennan Cos. unit.

But such capacity problems remained short-lived; other problems, including a lack of tax incentives, worked to limit the growth of captives, he said. Captives are also unable to circumvent a 15% insurance tax on premiums, even if they are located outside of Germany.

Nevertheless, captives will remain a solution for large companies. "We can expect more German companies to form captives, but no boom," Mr. Spielberger said.

"Captives give companies the possibility for tighter risk management, direct access to the international reinsurance market and a share in underwriting profits," he said.

The demise of the KOKO (*BI*, July 10), a quasi-monopoly of German insurers and reinsurers, has been a major factor in creating a more favorable market for buyers in Germany, suggested Jochen Scheele, BDVM president and a partner in Hamburg with Germany's leading broker, Jauch & Huebener.

"The insurer's position softened by the end of 1993; in 1994, the number of German companies insured by foreign—predominantly American—insurers increased to 20, all of them very large risks," Mr. Scheele said.

As a result, leading German insurers, including Allianz Versicherungs A.G. and Gerling-Konzern Allgemeine Versicherungs A.G., have announced rates which are free of the KOKO rate-setting system (*BI*, July 10; June 5). Mr. Scheele expects both insurers to make their new rating system public by Jan. 1, 1996.

'We can expect more German companies to form captives, but no boom,' says Dieter Spielberger.

"A consequence is the premium hike in other poorer risks," he said. "In 1994 and likely 1995, insurance results will be negative in commercial insurance, industrial fire and business interruption—mostly because of the losses in other sectors than large risks."

The advance of foreign insurers on the German market has changed the attitude of German commercial buyers. More companies are willing to retain risk and accept deductibles, and loss control and risk management are more prevalent (*BI*, May 1). BI

Australia virtually bars self-insured benefits

By KATE TILLEY

BRISBANE, Australia—Never very popular in Australia, self-insured health plans may all but disappear under a law that takes effect Oct. 1.

Under the Health Insurance Legislation (Private Health Insurance Reform) Amendment Act, which was passed this summer, any employer self-insuring a health plan will have to be registered as a health benefits organization. That means the employer must be a fully registered health insurance fund and participate in a community rating scheme and a reinsurance pool (*BI*, March 26, 1993).

Exemptions will be available only to plans provided under contracts between employers and employees, and even then, only until July 1, 1996.

Most employers are not interested in these exemptions since the are no tax incentives. If employers provide health benefits, the must pay a benefits tax.

In a country where all citizens are covered by a government health plan that covers most costs, Australian companies generally do not offer health benefits.

"We're not in the business of providing health insurance," explained Brian Crews, risk manager for Unilever Australia Ltd., a Sydney-based unit of the

See **Health** *on next page*

U.S. bond insurers in Europe venture

NEW YORK—MBIA Insurance Corp. and AMBAC Indemnity Corp., the two largest U.S. writers of municipal bond insurance, last week formed an international joint venture to market and underwrite financial guarantee coverage throughout the European Union.

The new entity, MBIA/AMBAC International, will allow each company to issue its own policies, with the non-issuing company having the opportunity to reinsure up to 50% of the other's business.

"The joint venture will expand the use of financial guarantee insurance throughout the European Union.

"It will help reduce the cost of financing and promote development by allowing issuers to access competitive sources of financing," said Richard Weill, president of MBIA.

Armonk, N.Y.-based MBIA, through its Paris-based European unit, MBIA Assurance S.A., has insured bonds with par value of $4.1 billion since 1991.

New York-based AMBAC has insured bonds with par value of $1.8 billion since entering the European market last year.

MBIA/AMBAC International will be led by Managing Directors John Uhlein of AMBAC and Michael Maguire of MBIA.

The new venture's operations are effective immediately, and it will have offices in London, Paris and Madrid.

—*By Michael Schachner*

Zurich

Continued from previous page

In order to identify what customers' perception of an organization truly is, suppliers need to change their focus from looking inward with the aim of identifying what they think customers want to taking the customers' perspective.

This is not so easy, said Mr. Barlow, citing the saying "one month in a job and you go blind" by becoming used to seeing things in one way. How can you really see the world through the customers' eyes? he asked.

Customer complaints are a good source of information, providing, as they do, opportunities for feedback. Also, customer listening, user groups and customer information systems are all designed to provide more information about the customers' experiences with the organization.

Many of the people at the symposium felt that this is what Zurich was trying to achieve, particularly through the workshop sessions. But they also agreed that it was vital to have direct communication with their insurer, without broker intervention. This stops the problem of messages between policyholder and insurer being diluted by the broker.

As one delegate described it, there is now a triangular relationship between policyholder, broker and insurer. But the broker still has a role to play, particularly in difficult claims, in helping the policyholder.

However, another delegate pointed out that the most difficult claims, particularly large liability claims, often do not involve the broker at all but instead fall on the legal system to resolve.

Zurich's Mr. Bolinder agreed that brokers will have a role to play in the marketplace of the future, but said it is up to brokers to determine what their role will be.

The competitive landscape is changing very rapidly, he said, and the traditional broker role—someone placing insurance with an insurance company on behalf of a client—is not necessarily something that customers will value. "They will be willing to pay for a tangible service such as risk transfer and advice," he said, referring to policyholders' increasing interest in alternative risk transfer mechanisms such as sophisticated financial instruments.

One customer at the symposium agreed with this opinion, warning that brokers would have to review their roles and see what they are bringing to the future party.

As to the factors that make up a "quality" insurer, the risk managers at the symposium identified a myriad. But the most important, apart from financial security and balance sheet protection, focused on items like efficient claims handling, closer communication and global capabilities.

What was obvious was that quality had a slightly different meaning for each person.

Mr. Hueppi acknowledged that the Zurich of the future would not only have to recognize and react to this but would itself have to transform into an organization of up to 400 specialized operating units to address its customers' needs. BI

Health

Continued from previous page

Dutch consumer products giant Unilever N.V.

But risk managers contend that companies should be free to do so if they wish.

"If an employer is prepared to offer health insurance, I can't see a problem," said Mr. Crews, who is national vp of the Assn. of Risk & Insurance Managers of Australasia.

The new health care law ratifies the decision of a federal appeals court in a suit involving Esso Australia Ltd. of Sydney, an Exxon Corp. unit that was one of the first companies in Australia to offer a self-insured health plan.

In a 1993 decision, which Australia's High Court later declined to review, the appeals court found that the plan violated the National Health Act. Under that 1953 law, insurers must register with the government, set premiums on a community rating basis, and contribute to a common reinsurance pool.

Esso had argued that it was not governed by the national health care law because it was not a health insurance company.

But the court found that Esso was "carrying on the business of insurance" and therefore had to be registered. Esso's legal counsel had argued that because benefits paid outweighed premium collected, the scheme was not true insurance.

The initial suit against Esso was brought by the Australian Health Insurance Assn., a Canberra-based organization representing 34 insurers which combined cover 66% of the Australians who are privately insured.

Besides wanting to protect the market, the insurers were concerned about a potential threat to the reinsurance pool, said Russell Schneider, AHIA chief executive. Health plans that could not spread risks widely enough could run into major problems and possibly bankrupt the pool, he said.

By not contributing to the reinsurance pool, the insurer group argued, self-insured plans were increasing the cost of private health insurance overall because they reduced the number of people participating in the pool, thus reducing the spread of risk.

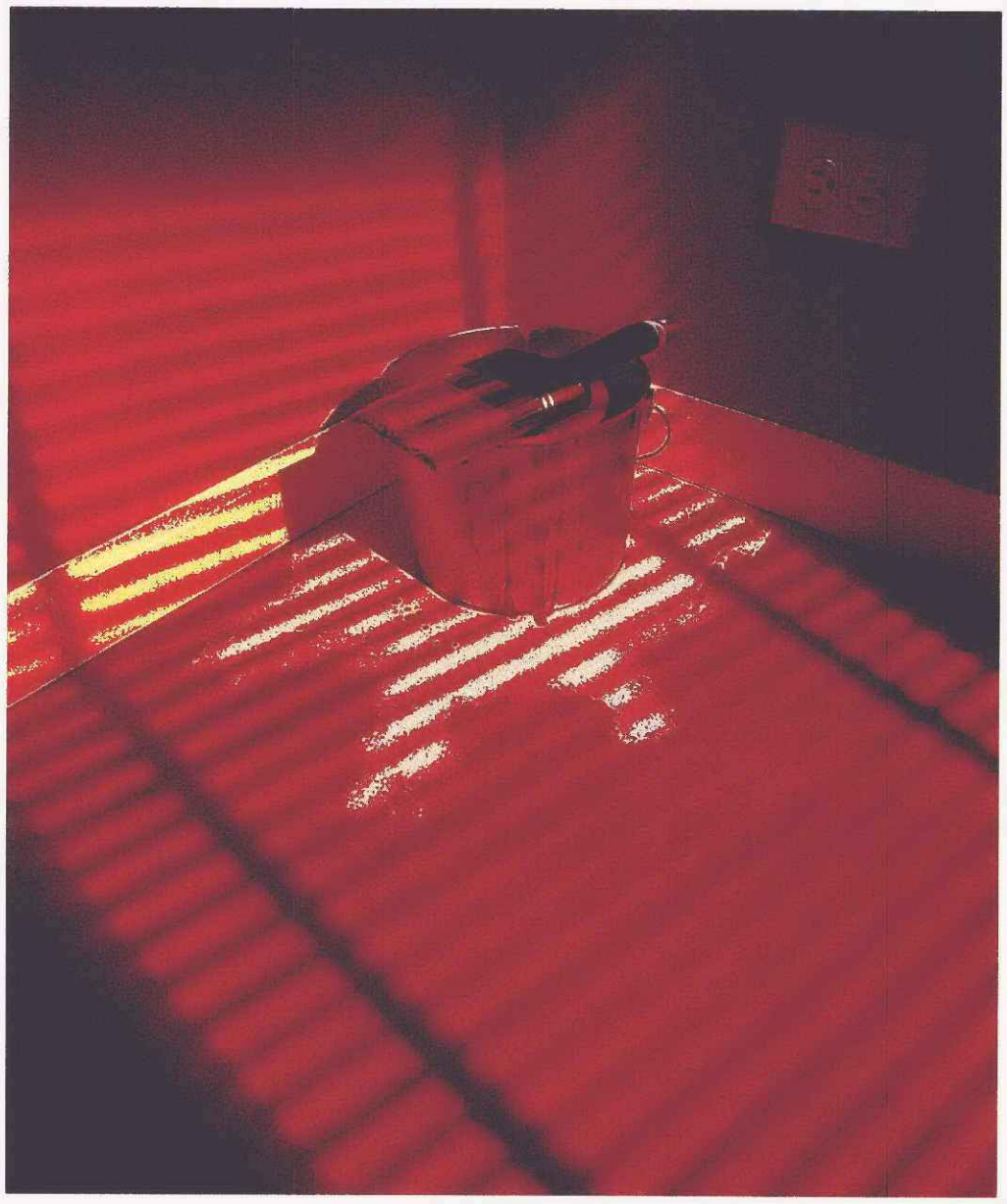
Mr. Schneider also pointed to what he said was a potential conflict between the company's future prosperity and payouts to employees. "The schemes offer no protection for employees. If a company goes broke it can leave employees who have put money in a scheme with no cover."

Under the new law, employers that operate self-insurance funds either have to register and be regulated as insurers or transfer employees' coverage to a registered insurer.

In Australia, private health insurance is voluntary, and less than 40% of the population has private cover. The federal program, Medicare, funds a portion of all Australians' medical costs.

Like Esso, many of the nation's other self-insured companies are local units of U.S. multinationals.

The Federal Department of Health has asked employers which operate funds to notify it. "The department is seeking to assist those companies which may be in breach of the Act, not to prosecute them," said Gayle Ginnane, who is director of the department's industry reform section in Canberra. BI



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NAIC

Continued from page 17

view following their appearance before a joint working group meeting at the National Assn. of Insurance Commissioners fall quarterly meeting last week.

Regulators say that the new, syndicate-specific requirements will provide greater security to U.S.-located risks, compared with previous arrangements that focused on individual names' accounts and U.S. dollar-denominated risks regardless of location (*BI*, Aug. 28).

The tighter requirements were imposed, effective Aug. 1, following a first-ever examination of Lloyd's by the New York Insurance Department, which found net deficiencies of $7.75 billion, or more than $18 billion before reinsurance recoveries, at the end of 1993. While several other factors point to Lloyd's continued ability to pay all valid claims, questions continue about the resolution of long-tail liability claims from 1992 and earlier (*BI*, May 29).

Several key U.S. regulators predicted recently that Lloyd's syndicates would probably continue to write U.S.-located risks.

When told of the new numbers, NAIC Vp Brian Atchinson said, "That's a lot higher than I—or any of the regulators— had been led to believe. I'm gratified." It could be seen as an endorsement of efforts by New York and all U.S. regulators to resolve the issue with Lloyd's, he said.

To implement the new Lloyd's-related changes, the NAIC's International Insurance Department Plan of Operation Review Group last week recommended the NAIC adopt changes to its procedures to enable a syndicate-by-syndicate listing of qualified surplus insurers and adoption of a new filing format, effective Jan. 1, 1996. For example, the group agreed that the syndicates should be allowed to file their audited financial statements supplemented by a solvency return in pounds sterling in lieu of the IID filing in U.S. currency, but only initially.

However, plans may be modified in the future to reflect the outcome of discussions between Lloyd's and the New York department, which is acting as lead negotiator for state insurance regulators.

Lloyd's is generally very satisfied with the forms that have been developed, Mr. Spence said, though Lloyd's spokesmen want more time to review the new draft of the IID's operation plan, which was released at the meeting.

However, Lloyd's and regulators still are discussing other issues, including the need to calculate incurred-but-not-reported losses on a gross basis, rather than net of reinsurance; complete a schedule of ceded reinsurance; provide actuarial certification of loss reserves according to U.S. standards; and require each syndicate to pay an application and annual listing fee.

Overall, discussions between U.S. regulators and Lloyd's representatives have been "very cooperative and professional," with movement on both sides to resolve issues, said Mr. Lane.

"I was very pleased that so many syndicates sought to be included on the (upcoming) IID list," said Stan Garlington, an Alaska Insurance Department insurance analyst, who chairs the review committee. "That seemed to indicate a smooth transition." BI

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Deep-rooted Strength

Merger talks fail

Key SBJ staff defect

By MARIA KIELMAS

LONDON—Discussions about a possible takeover of troubled Steel Burrill Jones Group P.L.C. and an unknown number of potential buyers have been terminated, according to a statement by the broker.

The news came with the earlier-than-expected publication of the London-based broker's first-half results and an announcement that a leading SBJ executive is leaving to join reinsurance broker Alexander Howden Group, a division of rival Alexander & Alexander Services Inc.

Stock market analysts were not surprised by the failure of the prospective merger talks.

"There are a lot of smaller brokers open to offers," said Tony Silverman, insurance analyst at NatWest Markets P.L.C. in London, referring to the ongoing consolidation among U.K. insurance brokers and the difficulty faced by small to medium-size brokers to work in a more competitive though mature market.

SBJ's finance director, Christopher Burrill, declined to say whether his company or the potential buyer had broken off the talks. He did confirm that the company had been talking with more than one prospective buyer (*BI*, Aug. 7).

In the future, SBJ plans to go it alone. "We will go forward as an independent and a viable business," Mr. Burrill said, though he added that it would consider future offers if they came along.

SBJ reported a pretax group profit for the first half of 1995 of £3.8 million ($6.1 million), compared with £3.8 million ($5.9 million) for the same period in 1994. First-half gross revenues fell 6% to £21.9 million ($34.9 million) from £22.9 million ($35.9 million) for the first six months of 1994.

Mr. Silverman of NatWest said that the market had expected first-half profits to be £4.5 million to £5 million ($7.2 million to $8 million).

SBJ's ongoing London market marine and non-marine businesses increased their brokerage by 4%, excluding the reinsurance brokerage operations of SBJ subsidiary Meacock Samuelson & Devitt Ltd.

This entity saw brokerage reduced by 29%. The drop stemmed from a contraction of motor business, the unit's specialty, due to the consolidation of Lloyd's motor syndicates, according to Mr. Burrill.

SBJ also announced that David Forcey, a director of the company, chairman of Meacock Samuelson & Devitt and a specialist in the motor market, is leaving to join Alexander Howden.

Insurance market sources suggested that Mr. Forcey will be taking the bulk of SBJ's specialist motor business with him.

Mr. Burrill confirmed that a total of 10 other members of the Forcey team will be leaving SBJ with Mr. Forcey, but it was unclear as yet how many members of this team will be working for Howden.

A spokesman for Alexander Howden in London said discussions with Mr. Forcey were still under way. BI

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Royal sizes up global market

Middle market, international lines will be main focus: Mendelsohn

By MARK A. HOFMANN

CHARLOTTE, N.C.—The global marketplace, where Chief Executive Officer Robert V. Mendelsohn aims to make Royal Group Inc. into a leader, is consolidating rapidly.

Soon it will be dominated by fewer major players, companies that will have to work harder and smarter, said Mr. Mendelsohn, who took the top post at the ailing U.S. operations of Royal Insurance P.L.C. early last year. And customers will be more demanding and diverse, meaning the workforce will have to be more flexible and reflective of the population as a whole.

He predicts that insurers that are unable to distinguish themselves in the marketplace will be squeezed "by the specialists at the bottom, because there's always going to be room for that small, well-capitalized, highly focused specialty company, and also squeezed by the well-capitalized, global operations of whom there will be a handful of survivors."

To avoid that fate, Royal is trying to become a leading company for middle-market commercial business, as well as maintaining its roles as a personal lines and specialty commercial insurer, Mr. Mendelsohn said.

It is also trying to build on its international connections as a way of differentiating itself in a crowded marketplace.

"The companies that are the leaders in the 21st century have to have their operating house in order. You've got to get your expense ratio down, have to operate efficiently, have to deliver fast and accurate service for your producers and customers," he added.

Doing so requires a new type of workforce, one with two key characteristics, he said.

"One is, for want of a better word, flexibility. The old insurance industry had a lot of people who were specialists in a particular narrow function—they just did their job and nothing else. In the new world, where cross-functional skills become very important, you have to have people who are extremely flexible, adaptable to change and customer-focused. People who will identify what the job is and get it done, whether it's their job or someone else's," Mr. Mendelsohn said.

The ever-expanding role of automation also means that employees will have to maintain high skill levels, he said.

"Skill level in terms of not only your insurance skills but technology skills. You're going to have to be conversant with new technology and deal with it because your customers are. Your customers are going to demand a much higher level of skill than they have in the past."

The second characteristic is diversity. "Your customers are a very diverse lot and you better have a workforce that is comfortable with dealing with diverse clients," said Mr. Mendelsohn.

One thing that's likely to remain constant, at least for the foreseeable future, is the soft property/casualty insurance market, said Mr. Mendelsohn. Although individual lines may harden for a period, and some types of coverage may become harder in certain regions of the country or world in response to local conditions, Mr. Mendelsohn does not see any industrywide hardening, such as happened more than 10 years ago, occurring again.

"You have to manage on the assumption that this is the market. Every insurance CEO would love to see a market like we saw in the mid-80s. I don't see that happening again and we have to construct our business on the assumption that we're always going to be in this highly competitive marketplace. If you can't make money in this marketplace, you're not going to be here," he said.

"We're operating on the assumption that we're going to be in an incredibly competitive market for the duration of our working lives." BI

Royal

Continued from page 3

ago. We changed everything from the way we do business with our producers to where the underwriting authority resides to even the organization of the company.

When I came in, Royal's operating performance had been subpar over many, many years. There had been steady improvements made from the late 1980s to the early 1990s, but very incremental improvements, such as coming down from a 127% combined ratio to a 119% combined ratio. Good progress, but not nearly fast enough progress for today's insurance market.

I spent the first four months traveling around the country visiting each of our field offices, visiting our producers, visiting our customers to see how well we were delivering at the front line, and making an assessment of how good our people were and whether they were capable of doing business differently or whether we'd have to go in and replace a large number of the people who were dealing with our producers.

I came back convinced that in the field, we had the talent we needed, but we just weren't going about the business of insurance in a way that would deliver profits for the company and good service for the producers.

I came back to Charlotte and did the same kind of analysis and was really very surprised by the level of talent we had at Royal. We had good people, they just weren't organized in a way to use the skills that they had.

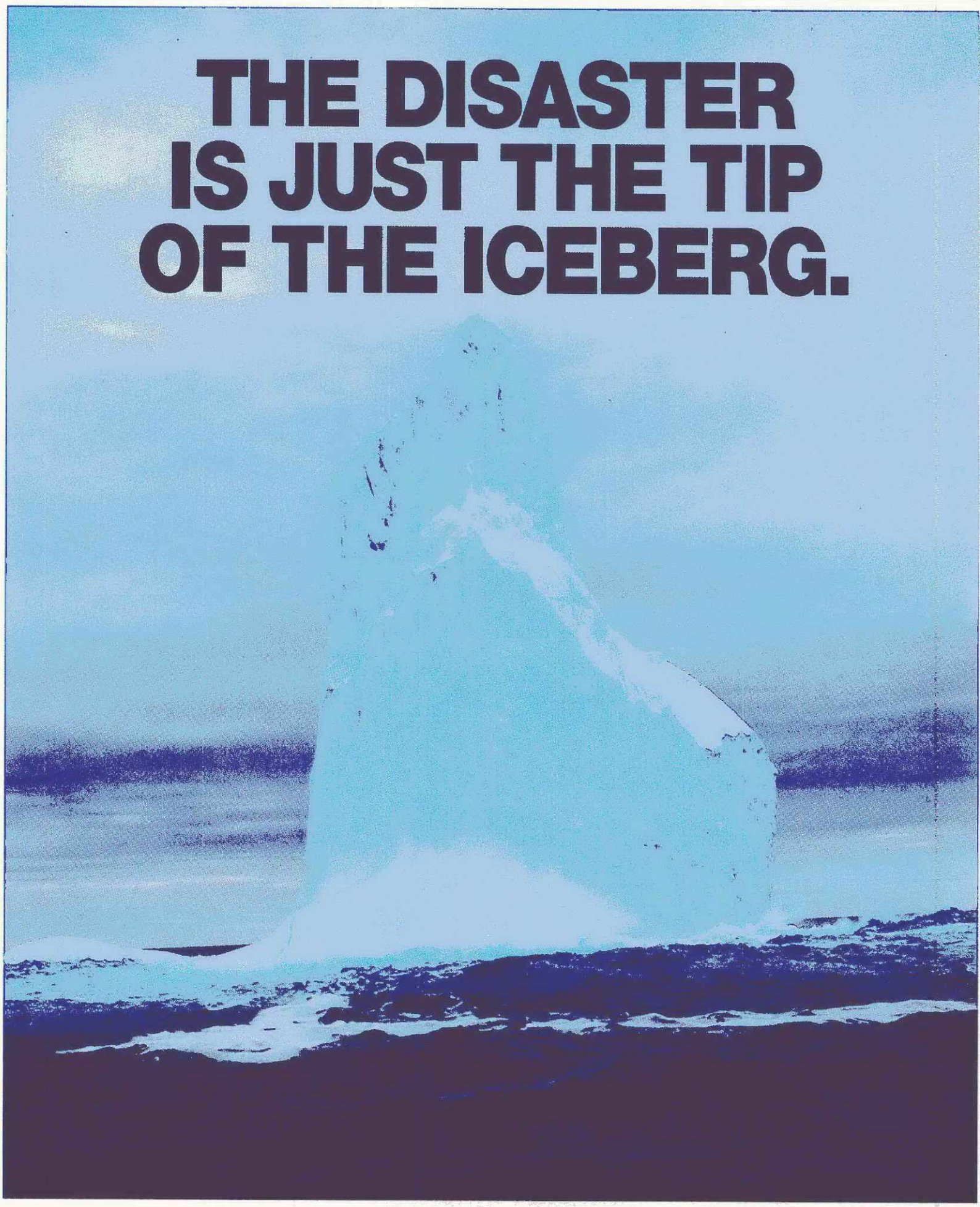
What was the old organization? Was it a pyramid?

It was traditional, hierarchical like so much of American business. Everybody (in corporate America) looked at what (General Motors) did in the 1920s and everybody organized their company that way, and it stayed that way for 60 years—and Royal was no exception.

It was very controlled from the center, one-size fits all. Policies would be adopted on the national level and applied all across the country without really giving adequate reflection of the fact that the U.S. is composed of many different regional marketplaces.

As a result, the people who were really dealing with our customers really didn't have the authority or the ability to design products or deliver service because they had to come back to headquarters to check on almost everything. Royal was no better or any worse than many of

See **Royal** *on next page*



Royal

Continued from previous page

our competitors. But that's yesterday's organization, that just doesn't cut it in today's world.

Once I concluded we had the raw materials—which is the people—instead of going and hiring a consultant to do a reorganization, I took 14 of the people who I felt were really problem solvers in the organization. . .stuck them in a room for a month and said let's design the corporation of the 21st century. How will we make this work? We spent a month at it and looked at about seven different alternative structures and came up with one that really didn't exist anywhere else.

What do you call it?

We don't have a name for it. It's just our organization. But if you look at our organization charts, they're all in big circles (according to function). We're not into catchy names or slogans because basically what we wanted to do was design a system that would deliver for the customer and the producer very quick service and innovative products. To do that, we designed our organization chart with the customer and the producer in the center and then the closer you are to the center of that circle, the more authority you have to design products, control pricing and to tailor services to what that customer needs.

So the new organization was really designed by Royal employees. As a result, the organization accepted it much more willingly than they would have if we had brought in consultants from the outside to come up with some new way of doing business.

When did you put this new organization in place?

'What we wanted to do was design a system that would deliver for the customer and the producer very quick service and innovative products.'



We kicked it off in the summer of 1994.

It's been in place just over a year because we just had our first tinkering. One of the things we said was that speed is a competitive advantage in today's world, so we're going to move fast, we're going to make decisions and if we're wrong, we'll go back and fix them.

But we're not going to shoot the people who make mistakes anymore. In many hierarchical organizations, you pay a pretty stiff penalty if you make mistakes. Here, we want people to make mistakes and we want them to move fast. We put the organization in place Aug. 1, 1994, and this summer we went back and did a formal review.

What turned out to work very well?

In the new system, each of our underwriters still has underwriting authority as they did in the old system. The difference is when they come across a risk that is in excess of their underwriting authority, they still have to call back to the experts. But now, the expert underwriters here say 'Well, this is what worries me about this risk. This is what I'd be charging more for, this is how I'd be restructuring the program if it were mine.' They're functioning in a coaching role rather than a decision-making role. The decision still resides out in the field. If the field underwriter disagrees with the consultant here in Charlotte, the tiebreak is now in the field, the tiebreak is the general manager of the local office. That's the biggest single change.

The dismantling of corporate headquarters and the replacement of corporate headquarters with a series of cross-functional support teams is what gives the field the resources to make those decisions. So we broke up the underwriting department and the marketing department, and we took underwriters, actuaries, claims people, marketing people and product development people, and we put them all on a team, We said, 'You are going to support these branches,' and we assigned them to certain branches.

Before, to get anything done, you had to go up the chain of command in five different departments to get a decision. Today, you come right to the support team.

What didn't work?

We misallocated resources as we created those teams. We didn't always get the right number onto the team or the right skill into the team. In some cases, we might not have correctly assessed the local marketplace. The mistakes we tended to make were implementation mistakes rather than identifying flaws in the system.

The biggest thing we identified, and we heard this from our producers, was the product development process was too slow. So we've appointed what we're calling practice leaders so that one person on the team will have the responsibility for coordinating with the same area on all other teams. So we have a national workers comp practice leader, and they coordinate with all the other workers comp specialists on all the other teams. We have a national casualty practice leader, a property practice leader and indeed a business development practice leader.

How many teams do you have?

Five large teams and then cross-functional teams within those larger teams.

The other major change is that we put in a new results-sharing program in which every employee in this organization is now on an incentive plan that's tied to the results of his or her own particular unit. We have 43 profit centers that are participating in the results-sharing program.

As you went about these changes, was there significant downsizing at Charlotte?

No. Royal had gone through its period of downsizing, starting in the late 1980s. We came down from 6,500 employees to 4,000. So that process had been completed by the time I got to Royal.

One of the reasons I came to Royal is that what I'll call the balance sheet fix had already been done. The loss reserve issues had

See **Royal** *on page 26*

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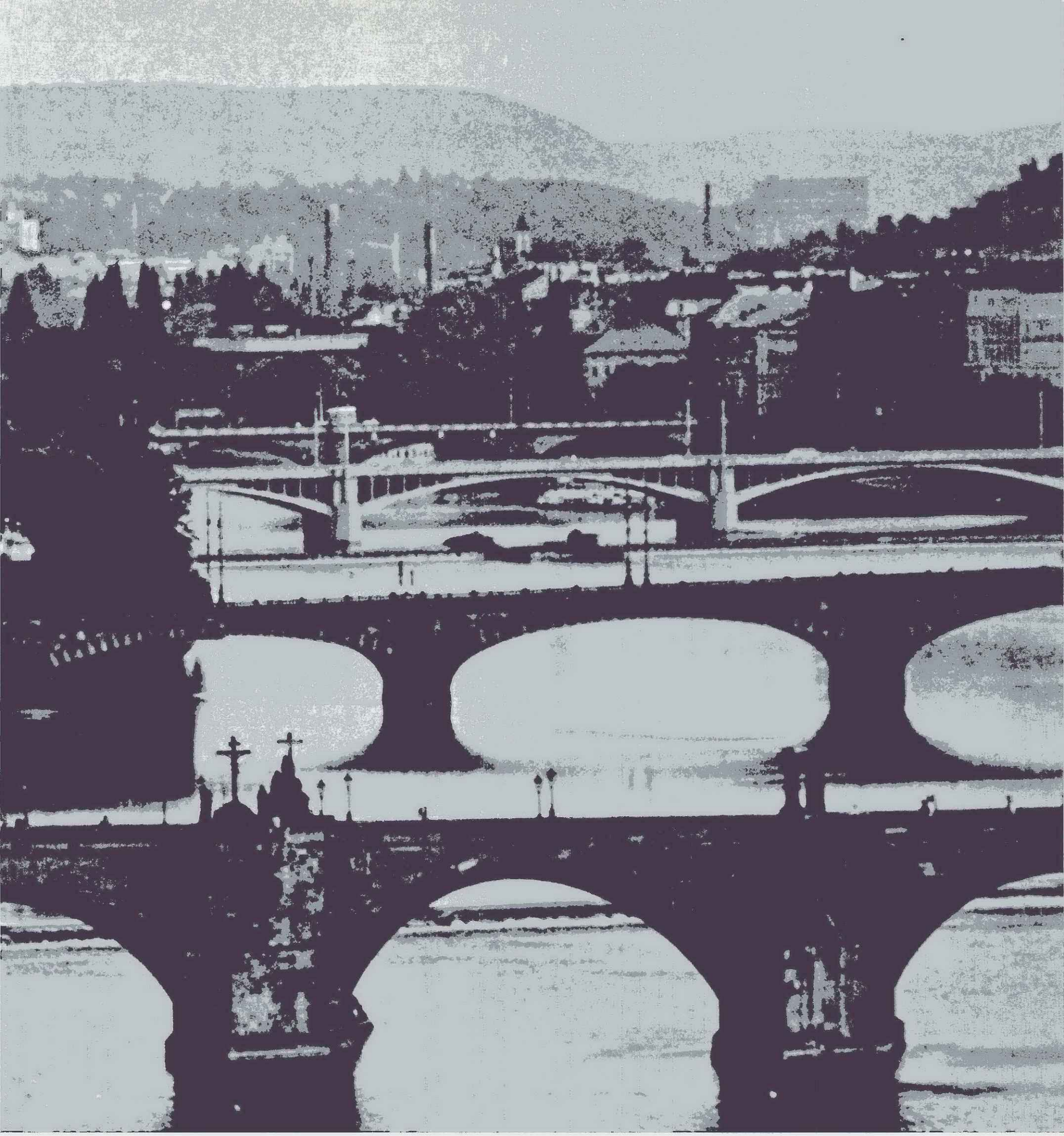
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Reigning supreme as catastrophe king

Royal has survived best amid worst

CHARLOTTE, N.C.—Robert V. Mendelsohn, chief executive officer of Royal Group Inc., has one word to describe the history of the insurer whose U.S. operations he's headed since early last year.

That word is "disaster."

He's referring not to combined ratios or returns on equity but to the many catastrophes, including the great San Francisco earthquake of 1906, to which Royal has responded since its founding in the English port of Liverpool 150 years ago.

"When Royal opened in the U.S. (in 1851), we opened in places like Savannah, Charleston and New Orleans," Mr. Mendelsohn explained.

Although Royal's first North American beachhead happened to be New York, the port cities of the South presented logical opportunities for the British insurer because Anglo-American trade consisted largely of a single commodity: cotton. The ocean marine operation arising from the cotton trade became and remains a major component of Royal's insurance activities.

"The history of Royal is really the history of disaster. Every major disaster in world history from 1845 on, we got to pay a piece of. Royal was there—we had a whole advertising campaign built around 'Royal was there.' And so much of the history of the company is defined by its response to these tragic and horrible events. The ability to survive all those events I think was key," Mr. Mendelsohn said.

In fact, Royal barely had opened shop in the United States when it had to pay claims resulting from a conflagration that struck New Orleans in 1853. Although Royal managed to escape relatively unscathed from the Great Chicago fire of 1871, a lesser-known conflagration in Boston in 1872 cost the insurer the then-astronomical sum of nearly £188,000.

But the real test was not to come for another 34 years. "The San Francisco earthquake of 1906 was the defining moment in the company's history in the U.S.," said Mr. Mendelsohn. Royal's losses from the quake and fires ultimately reached more than $6.7 million, which it paid promptly.

As Mr. Mendelsohn put it, "There were only a couple of companies that paid their losses in full and two of them ended up merging into what is today the Royal. Another enterprise that paid all its losses was Lloyd's of London. There's hardly anybody left in business other than us and Lloyd's who did that. And if you had to bet which would last another 150 years, I know how I'd bet."

'Every major disaster in world history from 1845 on, we got to pay a piece of,' says CEO Robert Mendelsohn.

Natural catastrophes continued to define Royal's role through the 20th century, and the company used examples of those disasters—along with shipwrecks and other losses insured by Royal—with the slogan "Royal Insurance Was There" in an advertising campaign.

In addition to notable natural disasters, the insurer also paid claims from the infamously daring "D.B. Cooper" skyjacking of the early 1970s, in which a skyjacker calling himself D.B. Cooper parachuted from a commercial jet with a briefcase full of ransom. The body of Mr. Cooper, who became a cult figure, was never found.

But some scraps of the ransom money were recovered and currently are on display at Royal's Charlotte corporate offices.

—By Mark A. Hofmann



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* Pending CFTC approval.

Royal

Continued from page 23

been dealt with, the investment portfolio was in great shape. What I had here was purely an operational fix. I didn't have to worry about the financial piece.

We had a company here that financially was in great shape but operationally hadn't been performing, so the challenge was to come up with a plan that would make this company start to move forward on the operational side.

Was there a role for new technology in this?

A dramatic one. We were really behind the curve pretty substantially in our technology investments. So we made two major initiatives.

We outsourced our data center, and we're now just buying time from a vendor, Genix Corp. The machines are still downstairs. They took over the machines, they took over a number of our employees who are still in that area.

We put in video-conferencing, connecting every Royal office in the country so that we can do the kind of intensive training that we need to do if we're going to be underwriters at the level we're targeting.

In the old days, nobody ever left headquarters. Now we've got the support teams both physically out there helping the branches and also via teleconferences.

Shifting gears, what's the relationship between Royal U.S. and Royal U.K., and how do you work together? Do you provide programs for international operations?

That is the largest single component of our future change. Royal operates in more countries around the world than just about any other company. In the past, Royal's been a collection of 60 separate colonial fiefdoms, just like the old British empire, with everyone pretty much worrying only about their own national interests. In the early 1990s, we formed a group called Royal Global, which was targeting the 1,000 largest multinational companies in the world.

That next step in that development will be to make that available to the middle market commercial business in the U.S. Royal will be able to service that middle-market customer just the same way as we would if they were one of the 1,000 biggest multinationals in the world.

What do you see as Royal's future in the United States, and where do you see it going internationally?

To me, the trend to globalization

See **Royal** *on page 28*

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Corruption

Continued from page 1

sation program revealed numerous improprieties and mismanagement, prompting the U.S. Department of Housing and Urban Development to take over the troubled agency (*BI*, July 24).

• The risk manager for construction of the Los Angeles subway project was indicted for accepting more than $100,000 in bribes and kickbacks from insurance consultants connected with the project (*BI*, July 31).

• The risk manager for Nevada County, Calif., was charged with embezzlement, grand theft and money laundering in the theft of nearly $1.2 million from a public entity pool (*BI*, Aug. 7).

"Power and autonomy create a breeding ground for abuse," said Jeffrey W. Pettegrew, vp of risk management and insurance for Western Staff Services Inc. in Walnut Creek, Calif. He previously worked in the public sector for 17 years but resigned as risk manager of the Contra Costa County Municipal Risk Management Insurance Authority after an independent audit criticized the authority's management and local press reports accused authority employees of ethical improprieties (*BI*, Feb. 25, 1991). "Public entity positions have more power. There is clearly more power," he said.

Autonomy and limited oversight likely created situations that allowed some of the recent scandals to continue.

Even so, Mr. Pettegrew agrees with Anaheim's Mr. Vance that risk managers in the public domain are subject to more scrutiny of their ethical decisions and associations with service providers than their counterparts in the private sector.

"If you are what I consider a victim or target of it, it's tough," said Mr. Pettegrew of the scrutiny.

Mr. Vance said he was particularly chagrined by the recent spate of corruption charges. He said public entity risk managers have long been regarded as "second-class citizens" by some of their private-sector peers, and these recent incidents do little to improve their stature.

"My frustration is, this type of thing gives the whole field of public entity risk management and claims handling a bad name," he said, even though "the frequency of this thing happening is probably less than in the private sector."

Theft and graft are more likely to occur in large private-sector organizations because budgets are larger and there is little or no outside scrutiny by the press and general public, Mr. Vance contends.

"You have people running programs with huge premium and claim payments—greater than most any public entity," he said.

Furthermore, many public-sector ethics laws either limit or prohibit public employees from accepting things of monetary value, such as gifts, rounds of golf and expensive dinners or outings, he pointed out. Public entities also have to follow government policies and procedures in procuring such things as insurance, brokerage, consulting and other professional services, he added.

"There are always opportunities to participate in corruption," said Richard J. Welch, city risk manager for Los Angeles. "It's just that in the public sector you are more likely to be found out."

Others agree that public-sector risk managers operate in a fish bowl of public scrutiny.

When banks, stock brokerage firms and other financial institutions "catch someone with their hand in the cookie jar, they're more likely to quietly dismiss that person rather than say, 'We're going to put it in the paper, we're going to arrest you, we're going to prosecute you,'" agreed Allen Iampaglia, risk manager for the city of Glendale, Ariz.

"I don't think the public sector is any worse than the private sector or any better," said H. Felix Kloman, a retired principal of Towers Perrin and editor of Risk Management Reports in Lyme, Conn.

And while many of the recent examples happened in California, they are just as likely to occur elsewhere, said Robert W. Esenberg, risk manager for the city of Virginia Beach, Va.

"We are a microcosm of our environment," he added. "If it is happening in the public sector, it is happening in the private sector and vice versa."

Mr. Esenberg said he knows of risk managers who left the public sector in part because of the additional scrutiny.

"Historically, the public sector because of sunshine laws, and right to know laws and public information acts, our information is on the table and a bit easier (to obtain)," he said.

The recent scandals are likely to increase scrutiny of all risk managers, said Mr. Welch of Los Angeles.

"That is the nature of our whole news media," he said. "Right now you pick up on one thing and everyone zeroes in on it. It will be in newspapers, magazines, television, all of it."

Many public entity risk managers are already accustomed to the additional scrutiny.

For example, Mr. Iampaglia said that he must jump through numerous bureaucratic hoops to receive a petty cash reimbursement.

"I had a business lunch today, and I have a receipt—$22.77. I'm going to have to fill out a form that explains where I went, who I was with, what we discussed, what file we talked about and that is to take out $22.77 in petty cash.

"If I started spending anything more than an occasional lunch, I would come under immediate scrutiny by our internal auditors. We've got such a system of checks and balances that make it very difficult," he said.

Furthermore, the risk management department for the city of Glendale, Ariz., is audited by an external auditor each year.

"And then we have occasionally unannounced internal audits from our internal auditing department," Mr. Iampaglia said. "And then we do an actuarial study every year."

As part of his responsibilities, Mr. Iampaglia oversees a $5 million self-insurance trust fund. But "it can't be used at my discretion," he insisted. "I pay claims with it."

And those claims must be justified, he added. In fact, depending on their size, some cases require the city attorney to sign off on a claim before funds can be disbursed.

Limits on settlement authority also have been established.

"My assistant can sign up to $1,000. If it goes to $5,000, I have to sign. If it goes up to $10,000, my boss has to sign. And, if it goes over $10,000 per claim, there'd be four signatures: the risk management claims analyst, the risk manager, the budget director and the deputy city manager," Mr. Iampaglia explained.

"To say that I handle a trust fund of $5 million sounds like, 'Wow, if you don't trust him he could really spend a lot of money,'" but in reality, "I've got to justify $22.77," he exclaimed.

As an illustration of how tough gift restrictions have become for public employees, Mr. Welch, the risk manager for the city of Los Angeles, said he couldn't accept a moderately priced lunch from a reporter without being required to purchase the equivalent amount in meal tickets for the city's homeless.

See **Corruption** *on page 32*

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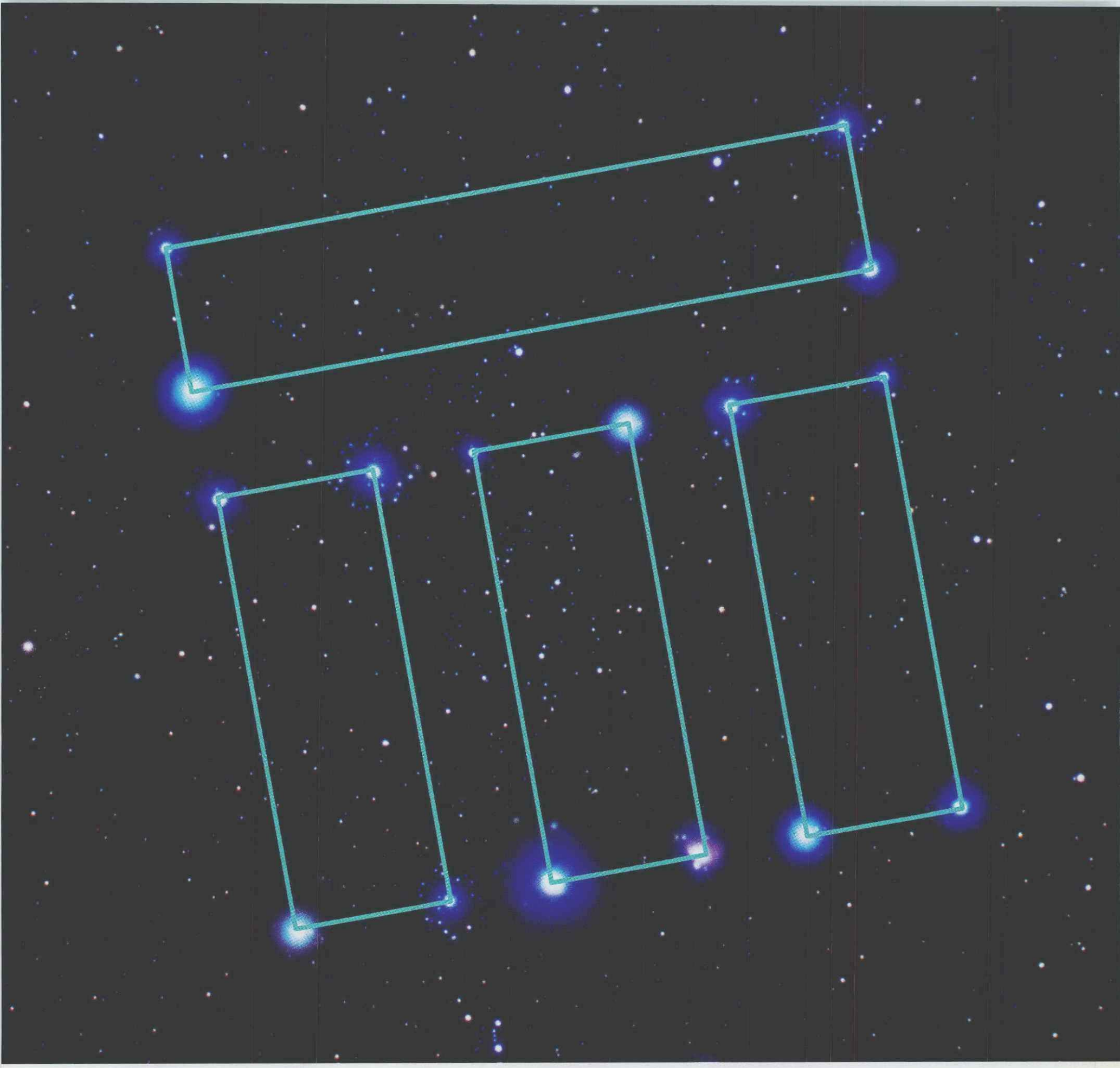
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Corruption

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If he receives gifts amounting to more than $50 in one year, Mr. Welch is required to submit a "conflict of interest filing."

Mr. Welsh has little money at his discretion. He must submit an annual budget for all projects. Then he must receive approval a second time when he goes to pay the bill for each individual project.

Like other cities that receive federal funds, Los Angeles also must undergo annual auditing by an independent auditor.

Still, opportunities for embezzlement do exist.

In Los Angeles, the workers comp department is separate from risk management. It was in the workers comp department that an analyst allegedly took advantage of a backlog of 40,000 open claims and her authority to sign checks. She allegedly embezzled more than $1 million by issuing checks in the names of her associates.

Checks and balances in the workers comp department were ignored because of the backlog of open claims, while city leaders failed to act on recommendations from a previous in-house audit to improve the system.

Ironically, the claims analyst had in the past investigated another workers comp department employee who allegedly was operating a similar scam.

The greatest exposure to theft in risk management is on the claims side.

"How difficult would it be to create a car accident that never occurred? You could fictitiously make up a claimant and say there was an accident involving some city employee and easily rip a city off for a couple of hundred here, a couple of thousand there," said Glendale's Mr. Iampaglia. "You could probably do it once and never get caught. You could probably do it twice and never get caught."

But, the perpetrators of such petty crimes frequently make the mistake of repeating a successful scam too many times, he said.

"The first time is easy. The second time is easier. But you create a pattern," he said.

Checks and balances can make the difference in preventing such abuses, but only if they are used.

Tom Phillips, the risk manager for the city of Santa Monica, Calif., spotted a liability claims supervisor's embezzlement of $450,000 in self-insurance funds in 1992 during a routine midyear budget analysis.

Mr. Phillips discovered multiple payments to the same claimant, but could not find a claims file for the individual. He then found that more than 30 checks had been issued to the same business. Since the checks were for more than $10,000 each, the city attorney's office had signed off on them.

The claims supervisor had disguised the disbursements as payment of workers compensation subrogation claims against the city. But the incidents for which the claims were made never occurred.

The perpetrator was fired and ultimately convicted. And the city recovered the funds by freezing accounts of the business receiving the embezzled funds and by filing a claim against its employee dishonesty bond.

While embezzlement plainly is illegal, lapses in ethical judgment can be less clear-cut.

In addition, some activities that are permitted in private industry may be considered taboo in the public sector.

Western Staffing's Mr. Pettegrew said private corporations are more interested in a risk manager's bottom-line contribution to the company, while government workers increasingly must be concerned about negative press reports detailing gifts or relationships with service providers.

Mr. Pettegrew said that he resigned in 1991 from his position as chief administrative officer for the Contra Costa Municipal Risk Management Insurance Authority after allegations that he made frequent long-distance personal calls.

Local press reports criticized the activity and overlooked the millions in reserves he had built up for the large municipal risk financing pool, Mr. Pettegrew said. Among other things, that accomplishment won him the 1989 *Business Insurance* Risk Manager of the Year Award (*BI*, April 10, 1989).

Public-sector risk managers argue that their private-sector counterparts' acceptance of lavish gifts—such as trips—from service providers like brokers or insurers could be viewed as bribery.

Value added in the form of gifts by service providers should be turned down regardless of the industry, says Mr. Kloman, who contends they amount to bribes.

"It's effectively the same thing," he said. "You are allowing your independent decision-making for an employer to be swayed by your advancement (paid for by) a service provider."

Take the case of the risk manager for construction of the Los Angeles subway project, who was indicted for accepting more than $100,000 in bribes and kickbacks from insurance consultants.

As one risk manager put it: "Is that any different than the broker paying for (a Fortune 100) risk manager to go to London or to go to the Bahamas or go to Bermuda, or that kind of thing?" BI

PRIMA puts ethics first

ARLINGTON, Va.—Members of the Public Risk Management Assn. are strongly discouraged from seeking personal enrichment through their positions as public entity risk managers.

But while members are expected to abide by the ethical principles adopted by PRIMA in 1981, the group has no specific enforcement procedures, according to Dennis Kirshbaum, executive director of the Arlington, Va.-based organization of risk management professionals.

Specifically, the code of ethics that PRIMA adopted states that members of the organization should "seek no favor" and "believe that personal aggrandizement or profit secured by confidential information or by misuse of public time is dishonest."

Members are also expected to be dedicated to the concepts of government, strive toward continuous self-improvement, encourage communication between citizens and municipal officers, and "be dedicated to the highest ideals of honor and integrity in all public and personal relationships," the PRIMA code says.

The code of ethics, contained in the PRIMA board policy manual, is based on the code of ethics established by the International City and County Managers Assn., which also prohibits members from using public property or resources for personal gain, Mr. Kirshbaum said.

—By Joanne Wojcik

"In Russia, only 1% of industrial enterprises
As privatization continues, business owners
the largest insurance program in Russian

DID

American Re, through our subsidiary Becher + Carlson Companies, recently placed $500 million in property coverage for KamAZ, one of Russia's largest heavy truck manufacturers. Always on the lookout for new markets in growing economies, we just became the first reinsurer to open an office in Beijing.

We are a direct writer, carefully positioned to capitalize on opportunities for growth. For the past three years, we co-hosted seminars to facilitate relationships between large industrial corporations, government and international agencies. Together we are addressing environmental issues and identifying emerging technologies that cut both the cost of cleanup and of litigation.

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McBride leaves Value Health

William J. McBride stepped down as president and chief operating officer of pharmacy benefit management firm Value Health Inc. of Avon, Conn., last week to move back to Philadelphia with his family.

Robert E. Patricelli, chairman and CEO, will assume the added role of president of the Avon, Conn.-based firm. The role of COO will be divided into two positions: **Steven J. Shulman**, executive vp, was named president of the pharmacy and disease management group, which includes ValueRx Pharmacy Program Inc. and Value Health Sciences Inc.; and **James E. Buncher**, president and CEO of the company's Community Care Network, was named president of the health plans group, which includes Value Behavioral Health, the network and the insurance services group.

Also at Value Health, **Alan R. Buffington**, formerly executive vp at of Boston-based bank Shawmut National Corp., is joining the company as executive vp and chief administrative officer.

In changes at other suppliers:

David Nunes Jr., **Alice Walker** and **Nathan Hays** named directors of risk management for Alden Risk Management Services, a unit of John Alden Life Insurance Co. in Miami.

Robert L. Harris named senior vp of MMI Risk Management Resources Inc. and president of the newly formed managed care services division in Deerfield, Ill. Previously, Mr. Harris was president and CEO of Anthem Healthplan of West Virginia and senior vp of managed care for Acordia National. Also at MMI Risk Management Resources, **Pamela A. Lockowitz** named senior vp.

Comings & Goings: Industry

Insurers

Tim Mooney named chief executive officer of C.E. Heath Compensation & Liability Insurance Co. in San Francisco, succeeding **Peter McCarthy**, who will remain CEO of C.E. Heath Holdings for an interim period prior to returning to Australia.

Mike Miller named vp-professional liability at St. Paul Fire & Marine Insurance Co. in St. Paul, Minn.

Donald E. Frette named senior vp at Colorado Casualty Insurance Co., an Englewood, Colo.-based subsidiary of The Guaranty National Cos.

Klaus A. Gebhardt joined Arkwright Mutual Insurance Co. as senior vp and chief underwriting officer in Waltham, Mass. Previously, Mr. Gebhardt was vp and chief underwriting officer at Allianz Insurance Co.

Agents/brokers

Tom L. Williams joined the national programs division of Poe & Brown Inc. as vp-underwriting in Daytona Beach, Fla. Previously, Mr. Williams was manager of business development for Houston General Insurance Co. in Fort Worth, Texas.

James H. Levine named president and chief operating officer of Rollins Hudig Hall of Southern California Inc. in Los Angeles. Also at RHH, **Kim Green** joined RHH of New York Inc. as senior vp. Previously, Ms. Green was president of MGIS Inc. in New York.

Howard J. Pitt Jr. named senior consultant in the Charlotte, N.C., office of Palmer & Cay/Carswell. Previously, Mr. Pitt was vice chairman of Sedgwick James of the Carolinas Inc.

John J. Kelly, president and CEO of Willis Corroon Corp. of New York, named the additional post of chairman and CEO of the New York-area tri-state region. Mr. Kelly succeeds **Sandy Vietor**, who has become chairman of Willis Corroon's new global energy practice. Also, **Joseph M. McSweeny**, named president and chief operating officer of the tri-state region which encompasses New York, New Jersey and Connecticut.

Roland Graham-Helwig joined the Palo Alto, Calif., office of Minet Insurance Services Inc. as vp. Previously, Mr. Graham-Helwig was president and CEO of Willis Corroon Corp. of San Jose. Also in Palo Alto, **Debora Karstetter** named practice leader and division president of Minet's new national employee benefits practice.

Michael B. McAllister named president-entertainment and communications division of Near North Insurance Brokerage Inc. in Los Angeles.

Reinsurance

Zurich Reinsurance Centre Holdings Inc. announced several appointments in New York: **Melvin Y. Crannell** named senior vp-facultative underwriting; **Glen E. Curley** named vp-special casualty; **Kirby V. Montgomery** named senior vp-standard casualty; and **Federick J. Pagnani Jr.** named vp-professional liability.

Douglas W. Paige named vp-information services division at American Re-Insurance Co. in Princeton, N.J.

William B. Hopkins named vp-professional liability services in the New York treaty office of Aon Re Inc. Also at Aon Re, **James E. Bowman** named vp of its new accident and health division in San Francisco.

Underwriters Reinsurance Co. in Woodland Hills, Calif., appointed **Denise Coleman** senior vp, and **Jas Chima** and **Judy Mann** vps.

HMOs/PPOs

Mitch Goodstein named president and CEO of PacifiCare of Florida as well as regional vp of PacifiCare Health Systems Inc.'s Southeast region. Mr. Goodstein succeeds David Kibbe, who left to pursue other interests.

Tom Taylor named vp-northern California at Aetna Health Plans of California in Walnut Creek with responsibilities for sales, customer relations, operations and network, quality and utilization management.

Richard F. Shinar named senior vp of PCS Health Systems Inc.'s managed care plans business unit in Scottsdale, Ariz.

Dr. Michael J. Barber named executive vp-medical systems and chief medical officer of ChoiceCare in Cincinnati. BI

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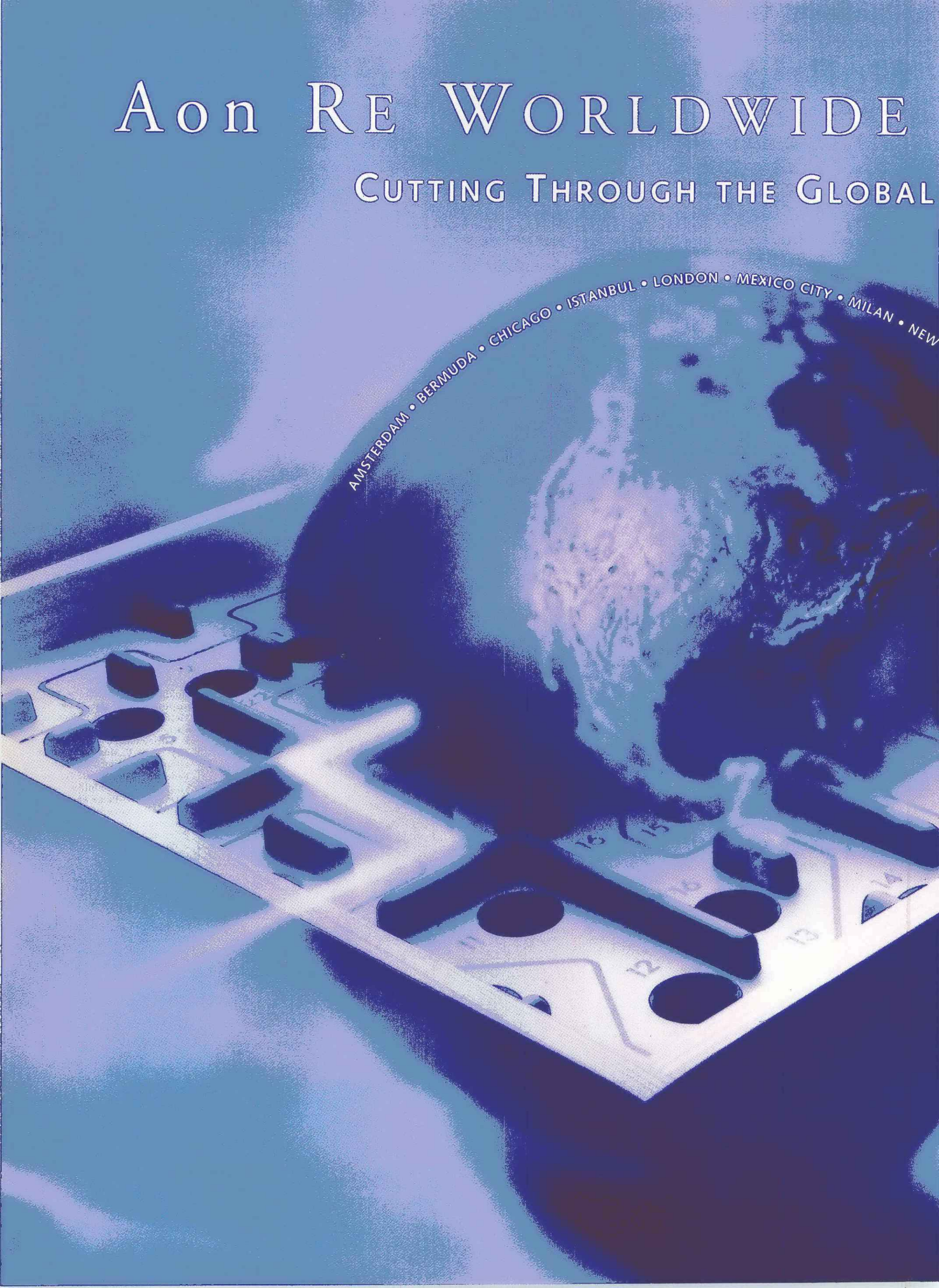
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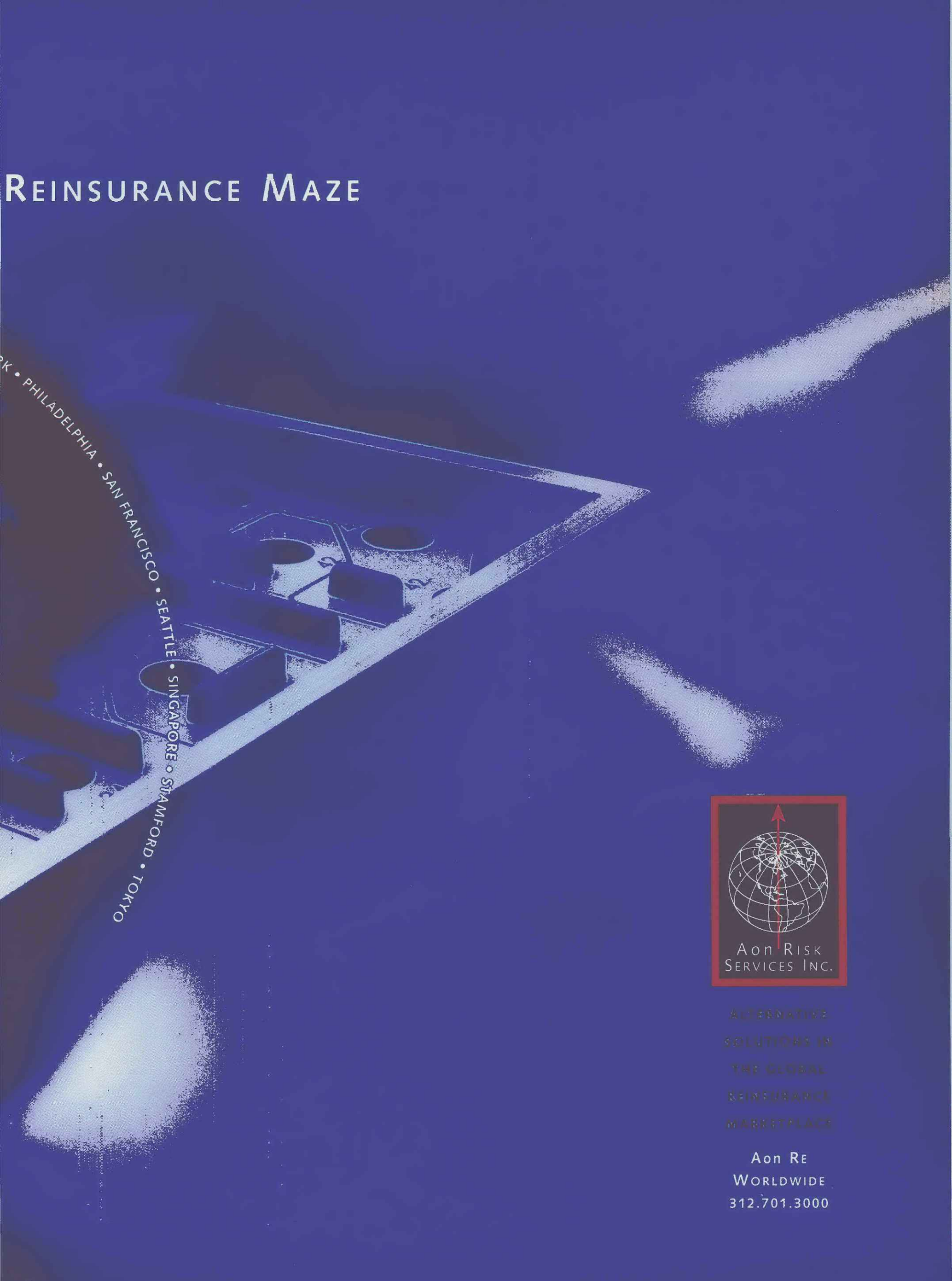
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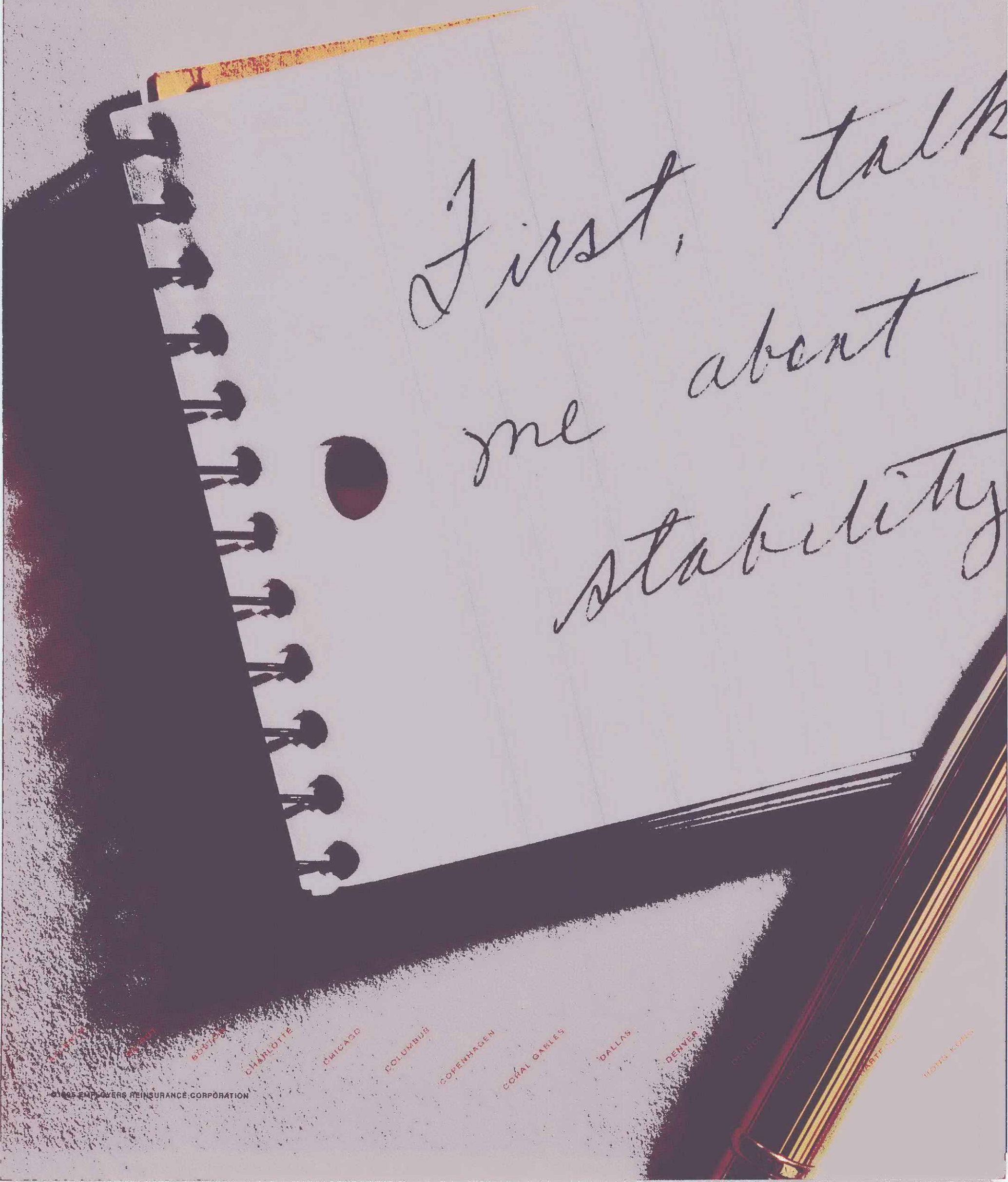


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Court ponders going online

Electronic filing could ease backlog

By KRISTEN BAIRD
Crain News Service

CLEVELAND—The U.S. District Court in Cleveland hopes new technology will help ease administrative burdens caused by more than 17,000 asbestos cases filed with the court.

However, lawyers are skeptical whether the technology will streamline administration of the cases.

To deal with the mountain of paperwork generated by the cases, U.S. District Court Chief Judge George F. White wants to explore the electronic filing of asbestos-related suits and motions.

Under an electronic system, attorneys could send documents by modem and automatically could update their court filings.

Judge White has invited members of the legal community to comment on his electronic filing proposal. However, lawyers who generate much of that paperwork say reforming the court system, not technology, is the only way to resolve what has become a big problem in courthouses nationwide.

An estimated 10,000 asbestos pleadings are filed each week at the U.S. District Court in Cleveland for the existing 17,000 cases, according to court records.

"We need to examine the heart of the problem, not put a Band-Aid on it," said Laura Kingsley Hong, an attorney with Squire Sanders & Dempsey who represents defendants in asbestos cases.

Ms. Hong said that steps must be taken to limit the number of suits filed, particularly by plaintiffs who have had cases dismissed in one jurisdiction and then turn around and file again elsewhere.

However, Judge White argued that the more immediate need of coping with the ongoing flood of paperwork generated by the multidefendant lawsuits is paramount.

"We have to try to come up with a more efficient system," he said.

The federal district court here receives a heavy dose of asbestos cases because many seamen who worked on Great Lakes boats where asbestos was present choose to file their lawsuits here.

The case load is expected to grow at a rate of about 4,000 cases a year.

An estimated 10,000 asbestos pleadings are filed each week at the court for the existing 17,000 cases, according to court records.

The backlog is so severe that the traditional 24-hour turnaround time to update the court docket for the filing of motions and other papers has increased to seven months for asbestos cases.

Robert E. Sweeney, a veteran Cleveland attorney who has specialized in asbestos cases, said an electronic system may not be feasible for plaintiffs.

"The firms representing the plaintiffs don't have any money and the victims don't have any money," according to Mr. Sweeney.

"It would accommodate the needs of the court, but are you going to impose those costs on the widow of a defendant who has already been waiting for justice for 10 years?"

Mr. Sweeney said giving more control over the cases to local federal district court judges could expedite matters. Since 1991, all asbestos cases in the country have been transferred to the U.S. District Court of Eastern Pennsylvania. However, all the paperwork is filed with local district courts.

The consolidation of cases in one court was geared to expedite cases, limit the number of frivolous claims and encourage global settlements. But according to Mr. Sweeney, it hasn't worked.

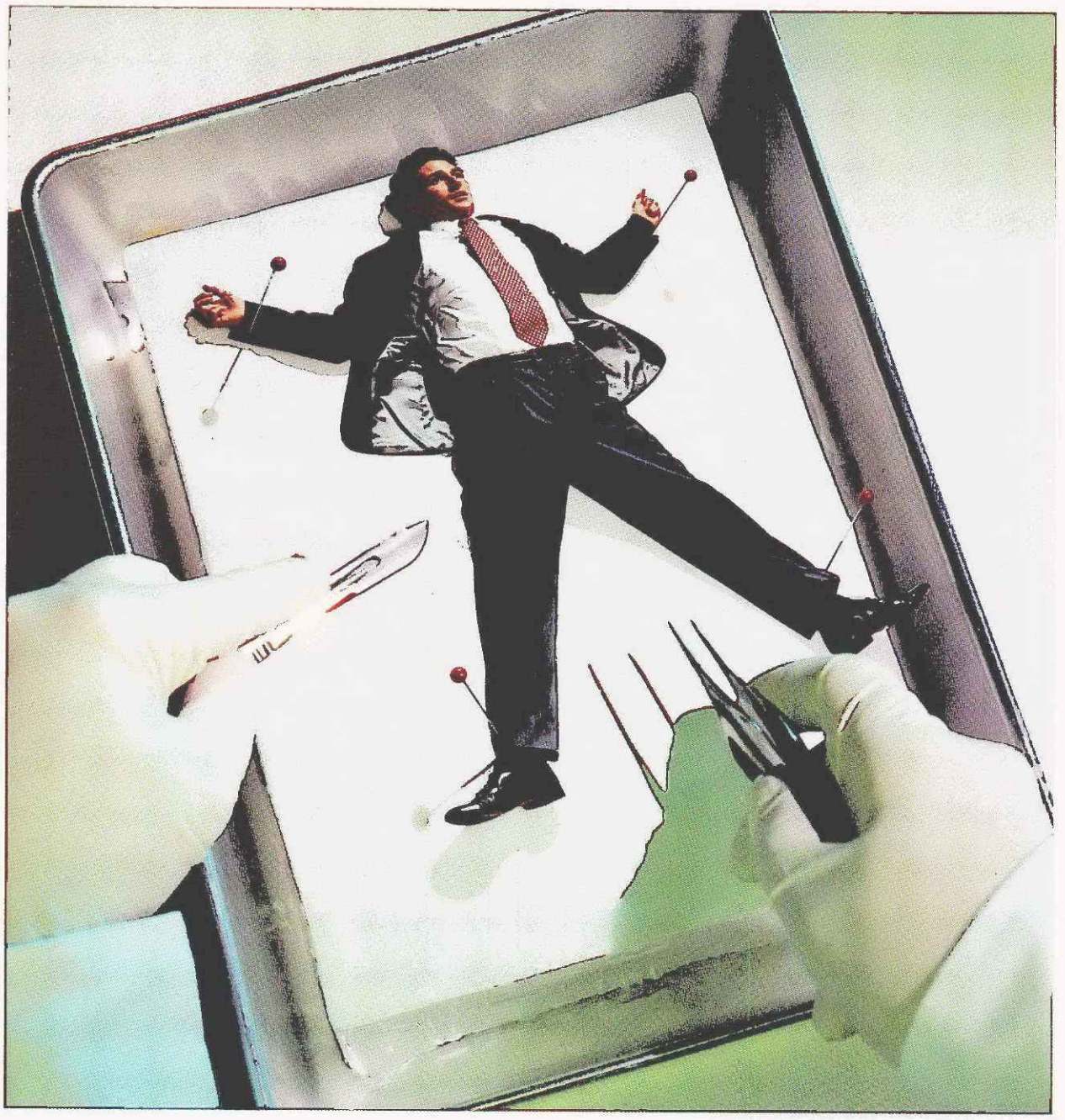
"The American legal community—including lawyers and judges—has failed the general public," he said. "It was unprepared for the avalanche of disease caused by asbestos—there was no strategy for product liability."

Because the system is moving so slowly, cases that should be dismissed are clogging the system.

In the meantime, cases that should be settled or tried have been lost in the shuffle, Mr. Sweeney said.

"I think it would be appropriate for the multidistrict litigation judge in Philadelphia to remand cases back to the federal district court where they originated," Mr. Sweeney said. BI

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Insurance education programs changing amid prevailing winds

Smaller colleges are now more likely to launch new programs

By SARA MARLEY

A handful of new, well-funded risk management and insurance programs are popping up at colleges and universities, but not at the types of schools that have housed them in the past.

"There is a shift going on nationwide where top-tier universities like the University of Minnesota and Ohio State once offered risk management and insurance programs, but they have been systematically dropping these programs over the past 30 years," said Peter C. Young, a professor who is the E.W. Blanch Senior Chair in Insurance at the University of St. Thomas in Minneapolis.

"These programs have been picked up by regional universities, the St. Cloud States, Appalachian States, Middle Tennessee States. These regional universities have been looking for opportunities to develop programs and they have been seeing these vacuums occur," according to Mr. Young.

"A great change is taking place in the insurance education field in the United States," agreed Jerry L. Jorgensen, Insurance and Risk Management Chair at the University of Calgary.

"The large, major schools are reducing their insurance offerings. At the same time, the next tier of universities is picking them up. A number of new chairs have been established just in the last few years," Mr. Jorgensen said.

Among the reasons some larger schools are cutting back their insurance education programs are lack of student interest and difficulty in finding qualified faculty.



In many cases, insurance industry support is dictating where new programs are being established.

For example, the University of Calgary began its program when a now-retired Edmonton broker who had been raising money for risk management and insurance education at junior colleges approached a dean at the university.

Over five years, the two raised $800,000 Canadian ($598,000) from the insurance community for a program at the University of Calgary and obtained a 2-1 matching grant from the Alberta government.

Similar industry-led efforts led to the establishment of a new risk management and insurance major this year at the University of Southwestern Louisiana in Lafayette.

"The industry people here took it upon themselves to raise the money," explained Bill Ferguson, assistant professor in the department of economics, finance, insurance and risk management.

Agents and insurers raised $1.2 million and the state also will contribute funds that will bring the endowment to $1.7 million. Of that, $1 million will fund the G. Frank Purvis Chair, named for the chairman of Pan-American Life Insurance Co. in New Orleans. That chair should be filled in the 1997-1998 academic year, Mr. Ferguson said.

In addition, State Farm Group and Northwestern Mutual Life Insurance Co. are supporting two $100,000 professorships at USL.

"With industry support, I'm years ahead just walking in the door," Mr. Ferguson said. "The money they put up comes back to them in the future with better employees."

In other cases, colleges and universities committed to risk management and insurance education have to beat the industry's bushes to raise needed funds.

Before creating a new concentration in risk management and insurance in St. Thomas's MBA program, Mr. Young established an undergraduate major at St. Cloud State University in St. Cloud, Minn.

"We didn't have any money up there, but what we did have was a commitment from the dean that he thought risk management and insurance education was an important thing, which sadly is a very rare opinion in academia these days," Mr. Young said.

"I'd say that more than money even, executive-level support is very, very important."

Once that support is procured, professors need to turn to the industry to provide the scholarships, internships and jobs that attract students.

"I had to do it the hard way. I had to come in and garner support," said Dave Wood, director of the Brantley Risk & Insurance Center at Appalachian State University in Boone, N.C.

"We got it $10,000 and $15,000 at a time, and in some cases $500 and $1,000 at a time," he explained.

When he came to the university in 1985, the 7-year-old insurance major was languishing with only three students and no full-time faculty members. Today, Appalachian State has 50 students in that major.

Mr. Wood appreciates his fund-raising efforts for also keeping him close to the insurance community. The school's support is very broad-based, including agents, insurers, direct-writing insurance companies, surplus lines professionals and groups of women in insurance or associations of black underwriters.

"The danger of having a large endowment in place is that, as a faculty member, it takes away the 'burden' of having to interact with the industry," Mr. Wood said.

"The public is frustrated with higher education. They think it has lost touch with reality. We have to get back to placing an emphasis on interacting with the business community," he said.

Once industry support is achieved, filling risk management and insurance classes is not difficult.

"I emphasized working with the industry, and the students have taken care of themselves," Mr. Wood said.

"Contrary to perception, risk management and insurance education is an easy sell to undergraduates," Mr. Young said. "It's an interesting career area. There's a reluctance on the industry as a whole to sell itself."

'Contrary to perception, risk management and insurance education is an easy sell to undergraduates,' says University of St. Thomas professor Peter C. Young.

Between 30 and 35 of the University of Southwestern Louisiana's 15,000 students have expressed an interest in risk management and insurance, Mr. Ferguson said.

While the percentage of students in risk management and insurance programs is relatively small compared with the total number of students, it does represent an increase in interest from several years ago.

"We want to grow slowly to make sure there are jobs avail-

See **Programs** *on next page*

Programs

Continued from previous page

able," said Mr. Jorgensen of the University of Calgary, where the number insurance majors has grown steadily to 20 today from nine three years ago.

Calgary students compete for 16 scholarships, a few of which are geared toward attracting students from Ontario or British Columbia to the only risk management and insurance program in English-speaking Canada.

"Getting students interested is an important challenge we face," said Lisa Gardner, an insurance and risk management professor at Bradley University in Peoria, Ill.

"Another is notifying prospective employers that our program exists and that our students will be prepared for employment," she said.

Ms. Gardner joined the Bradley faculty in July and the school expects to offer its first risk management and insurance major in the 1997-1998 academic year.

RLI Corp., Pekin Insurance Co. and Illinois Mutual Insurance Co., are also nearby. Peoria has an active Risk & Insurance Management Society Inc. chapter established by a Bradley graduate.

Faculty from the departments of economics, management, law, finance and quantitative methods are contributing to the new curriculum and will teach some courses. Area professionals will, too.

"We want a very solid 'real-world' experience component," Ms. Gardner said. "That's kind of a Bradley trademark."

In addition to the core of risk management and insurance courses, Mr. Ferguson will urge USL students to take sales management or personal selling courses. Everyone in insurance needs communication skills, he said.

"My goal is to be a market-driven program here," Mr. Ferguson said.

"Students are our products. We have to market them. We have to give them the tools to be productive members of the workforce," he said. BI

The professor as small businessman

How one educator sets his program apart

Peter C. Young is a professor of insurance at the Graduate School of Business at the University of St. Thomas in Minneapolis. He is also director of the school's MBA insurance program. Mr. Young holds a Ph.D. in insurance and risk management from the University of Minnesota and a master's degree in public administration from the University of Nebraska at Omaha. Prior to joining the St. Thomas faculty a year ago, Mr. Young taught at St. Cloud State University in St. Cloud, Minn. He spoke with Associate Editor Sara Marley at St. Thomas' new downtown Minneapolis business school last month.

How did you decide to pursue risk management and insurance education?

I'm not a conventional business professor because my background is more in the public sector. I got into this area working for the state of Nebraska at the Center for Applied Urban Research, which is a state organization that provides technical assistance to local governments. I ended up doing a lot of risk management work.

What are your responsibilities as concentration administrator of the MBA insurance program?



We are a very unusual school. We've got 5,000 students in the graduate school of business, but we've only got 15 full-time faculty members. We rely very, very heavily on adjunct, part-time instructors.

I find the faculty to teach the courses and manage the entire program. It's more like I'm running a small business than anything else.

From a purely management standpoint, all my costs are variable. I don't have a faculty (for whom) I have to find classes to teach or tenure issues. If I want to offer a class on environmental impairment liability management, I can build it from scratch and go out and find an attorney or a even a professor from another institution who has expertise in this and hire them to come in to teach a course for me.

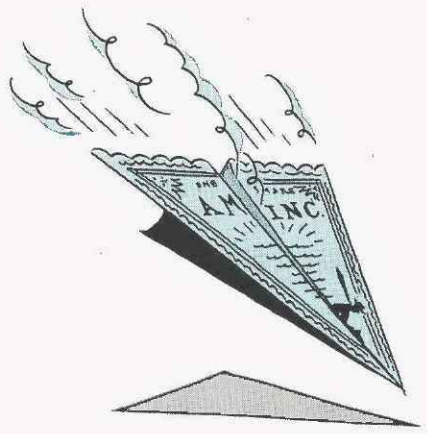
What are your thoughts on using insurance industry professionals to teach risk management and insurance courses?

Sometimes using adjuncts translates into nothing but war stories. Somebody comes in and says, "Oh, you wouldn't believe what happened to me at work today," and they don't really have a cohesive conceptual approach to what they are teaching.

Unlike some people who are in more applied-oriented programs, I do believe that there is an important role that concept, theory and

See **Young** *on next page*

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His company invested in a portfolio of AAA-rated collateralized mortgage obligations that was decimated by unexpected interest rate activity. Some CMO tranches represent outstanding value for the related risk; others are so risky as to be virtually unmanageable. In pursuit of attractive yields, his company forgot that reinvestment risk can be just as dangerous as credit risk.

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Young

Continued from previous page

principles play in adult education. I think there is an absolute, unequivocal role that Ph.D.-level professors can bring to applied business education that nobody else can. At the same time, if it's nothing but theory, that's not going to connect with adult learners, either. Business education serves two masters.

It serves the theory and the academic master and it also serves the business community. We need to pay attention to both of them. There's such a thing as too applied, as well as being too theoretical.

How did you go about establishing a new program at St. Thomas?

I spent the better part of this year doing focus groups and interviewing people in the industry to get a sense of exactly what was needed and what the demand was.

One of the things that I've found is that it is very difficult to come up with a common curriculum for people who major in my area. That's because if I have a risk manager in my class, the things that she needs are quite different from somebody who is the loss control supervisor or an underwriter. It would be foolish for me to think that I could impose on them four courses in a concentration that everybody takes.

Basically, our approach is going to be more of a tutorial approach. I am working very closely with each of my students to design a program that meets their specific needs. On a tutorial basis, I can have a lot of things going at once and be learning an awful lot myself, which is personally exciting.

St. Thomas will have about 30 students in the major this year, the first year the concentration is being offered. Do you expect it to grow?

I never hope to get much bigger than 100 because this tutorial approach is going to kill me. Our added value is going to be the quality of the work that I can do with my students. If I'm stretching myself to the limit, I'm violating the fundamental tenet of my program.

Most adult learners are motivated, and most adult learners, if given some professional assistance and support, can learn most of what they need by themselves.

My value to them is to serve as a mentor and a resource and a co-learner. I can't do that if I've got 250 advisees. I may not even be able to do it with 100. We're going to have to see. I don't want us to compromise our quality just in the interest of getting a big headcount into our program. If our program doubles or triples its current size, I will be deliriously happy because I just don't want us to get much bigger than that.

Are other MBA students taking risk management and insurance courses?

We see there is a huge outside market for the risk management course. We have a number of centers here that focus on different segments, like small businesses and non-profit companies. Most of those kinds of institutions can't afford a stand-alone risk manager.

So, as general managers, they have to make risk management decisions. The more they're informed about principles and concepts and practices of risk management, the better they're going to be, whether it's a mom and pop grocery store or a hospital, or the local Girl Scouts chapter.

University risk management programs have not always been given the opportunity and in some cases have not had the interest in spreading the risk management gospel to the future accountants, marketing managers and CEOs.

I think this is a real opportunity to build constituencies in the business schools by making students more aware that risk management has a relevance to their jobs, whether they're in accounting or actually risk managers. BI

Exporting knowledge through students

U.S. educated students take new skills home

By ROBERTO CENICEROS

Universities are exporting U.S. risk management and insurance practices throughout the developing world by training international students.

And, the schools are even helping U.S. insurers make inroads into markets that once were closed to them.

In one example, an economics professor recently returned home to Beijing to pass on to her students the lessons in property/casualty and life/health insurance that she learned while studying for 10 months at Indiana University in Bloomington.

Sun Quixiang's U.S. studies were sponsored by Fort Wayne, Ind.-based Lincoln National Corp., which gave her access to its insurance operations. The insurer also has given books to stock an insurance library at Peking University in Beijing, where Ms. Sun teaches.

Lincoln National opened a liaison office in Beijing in April 1994 and hopes that its association with Ms. Sun will help the company when China eventually allows foreign insurers to sell coverage there.

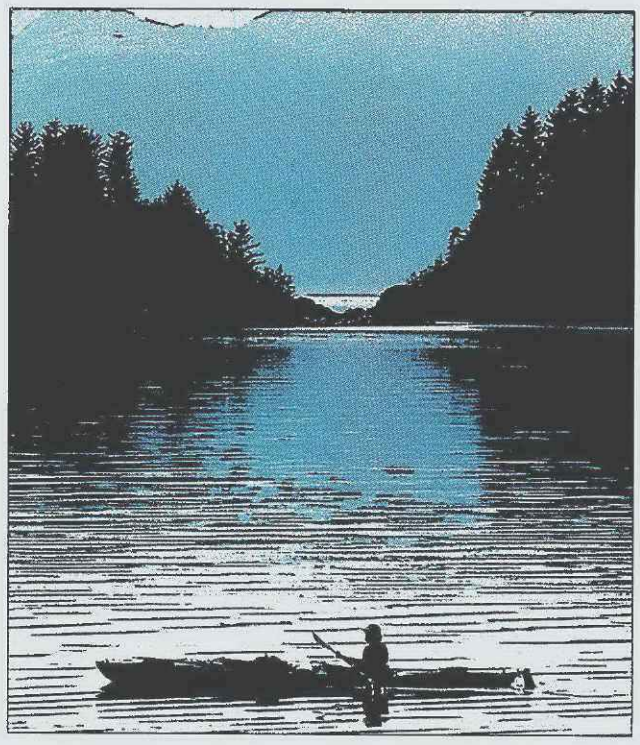
"We would hope that would give us some consideration to be a licensed company," a Lincoln National spokesman said.



The association between the insurer and the Beijing university also could help develop a pool of Chinese employees.

Foreign students at the graduate and doctoral level in U.S. insurance schools often return to their home countries to work, professors say. Some students are sponsored by their governments and employers. Others come on their

See **Students** *on next page*



GET THE BROADER VIEW...

Students

Continued from previous page

own after receiving undergraduate degrees and working for a few years in their own countries.

Often they return home to help develop insurance practices. Their skills are needed, particularly in Asia and Latin America, where private insurance is beginning to flourish. Premium growth in those markets is outstripping growth in the developed nations, creating incentives for their return.

"We've had quite a few doctoral students from outside the United States and they go back home—not always, but often," said Joan Schmit, a professor at the University of Wisconsin in Madison. "The U.S. schools for certain have quite an effect on the world's insurance markets, and they are developing markets."

"You've got to remember those are booming markets," said Harold D. Skipper Jr., a professor in the Department of Risk Management and Insurance at Georgia State University in Atlanta.

At the undergraduate level, Ms. Schmit said she senses that more international students now want to remain in the United States. That was not as common a few years ago. But remaining here is often difficult because jobs and visas are not easy to obtain.

For those students, finding a job at home also may be difficult because even though their countries are opening their markets, they may not yet be developed enough to generate plenty of employment, Ms. Schmit said.

International students who do get hired by U.S. insurers or large brokerage houses often return home as representatives of their American employers.

"Often (their U.S. employers) will have them stay in the U.S. for a year or two" to learn the culture of the company and receive training, Mr. Skipper said. "Then they will send them back."

European students are not as common in U.S. programs because their schools already teach similar principles.

"We think we can be relatively more helpful in developing countries than in typical Western countries," Mr. Skipper said. "We think we are helping them build a solid base of insurance theory and practice that will help them for decades to come."

But how do the students living in other countries know which university programs will benefit them the most?

Respected and well-known professors can attract international students. Word of mouth can spread schools' reputation, Ms. Schmit said. Students educated here return home and tell others of their experiences and U.S. instructors.

"There is usually a connection made and that draws more connections," Ms. Schmit said. "I'm told in Korea there is a group of alums from the University of Wisconsin that meet annually."

Academics by nature enjoy sharing their knowledge and opening their campuses to colleagues from other countries, the professors said. That often results in U.S. professors receiving invitations to study and lecture overseas. For example, Mr. Skipper recently visited Taiwan to lecture on insurance issues.

Many times trips to foreign universities will include visits with government officials who oversee insurance programs, Ms. Schmit said.

Georgia State does not have a program to actively recruit international students, Mr. Skipper said. Yet they come, in part because academics understand their needs.

"We have been trying for a long time to have an international appeal and focus," he said. "We try to be sensitive to non-U.S. students. We think we can provide an education experience to them that is top-flight. We don't see our marketplace just as the U.S.; we see our marketplace as the world."

'The U.S. schools for certain have quite an effect on the world's insurance markets,' says Joan Schmit.

Since 1973, hundreds of international students from 50 countries and U.S. territories have enrolled in Georgia State's risk management and insurance or actuarial science programs. Slightly more than half enroll in graduate programs and the rest in undergraduate curricula.

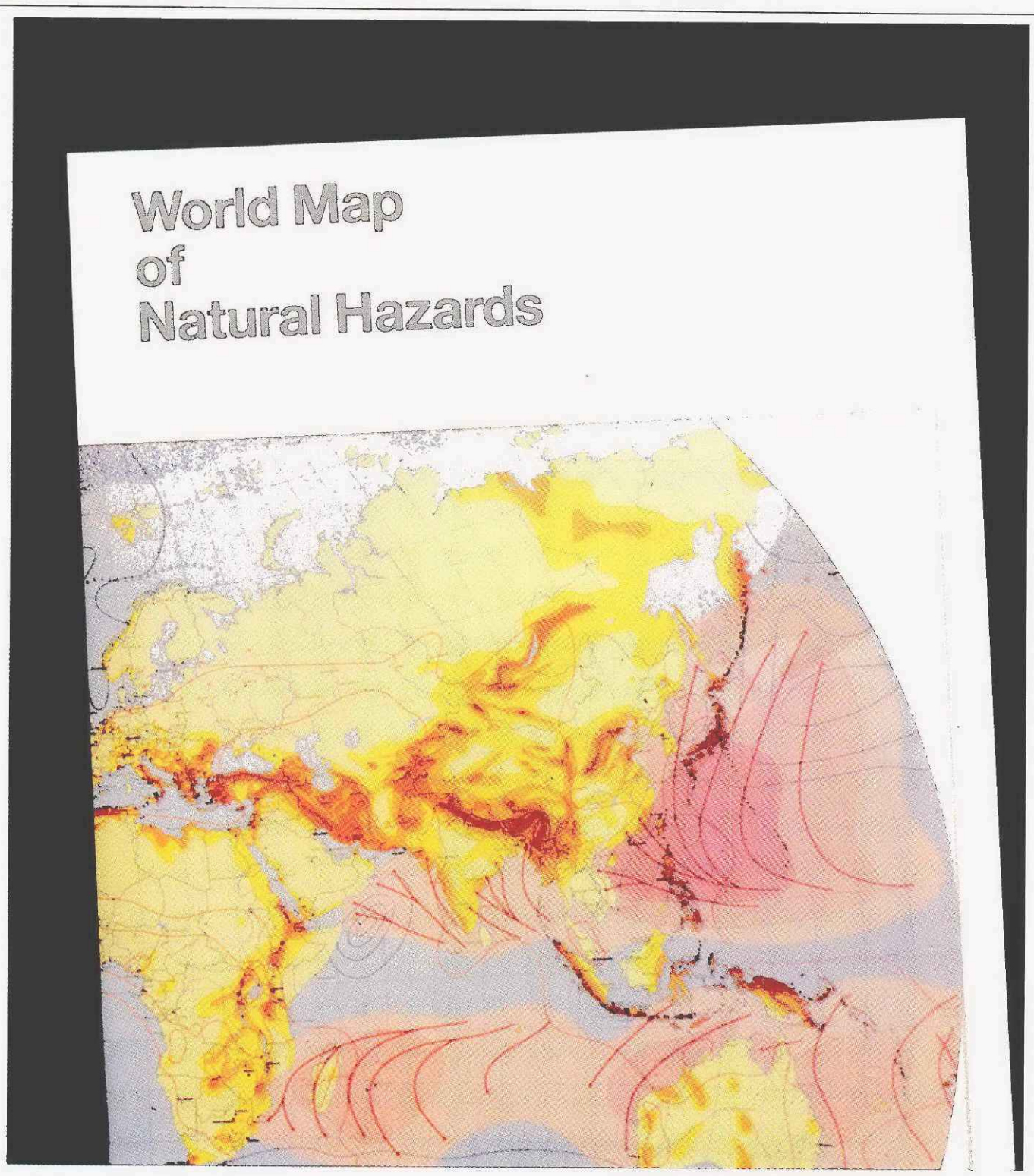
Countries represented by students studying insurance in the United States include Canada, India, Nigeria, Pakistan, the Philippines, Russia, Singapore, Thailand and Zimbabwe.

At the University of Wisconsin, international students make up about 10% of the entire student enrollment in business courses including insurance classes, Ms. Schmit said. But there appear to be more international students in post-graduate insurance programs than in undergraduate programs.

The international students and their countries are not the only ones benefiting from studies in the United States, Mr. Skipper said. U.S. students broaden their perspectives by learning about the business practices in other countries.

Likewise, insurance students in China clearly will gain from Ms. Sun's studies in Indiana, where she was taught one-on-one by two retired professors who are highly regarded in their field, John DeLong and Joseph Belth.

Observers say it is likely that China, with a population of 1.2 billion and a growing number of cars and homes, will allow foreign insurance companies to sell their products there. BI



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Insurers reach out to high schools

Potential consumers, employees have access to an early education

By LEE VELKER

Automobile policies on 16th birthdays may not be the only exposure high school students have to insurance as they return to class this fall.

Instead, students may find insurance in the classroom.

Insurance companies and insurance organizations are getting involved in educating teenagers about insurance so the students can be informed consumers or possibly prepare for an insurance career.

Travelers Insurance Co. of Hartford, Conn., for instance, is investing in high schools around the Hartford area.

"It is a simple issue for us. That is where our future workforce will come from. We think it is very important for corporations to help with educating today's youth," said a company spokesman.

Travelers works with high school students on three levels. These include:

• Mentoring. Last year, the company began a mentoring program, called Adopt, for Hartford-area students interested in insurance. The program offered 32 students a chance to explore job possibilities in an insurance company by job shadowing and meeting with an assigned company mentor once a month during the school year.

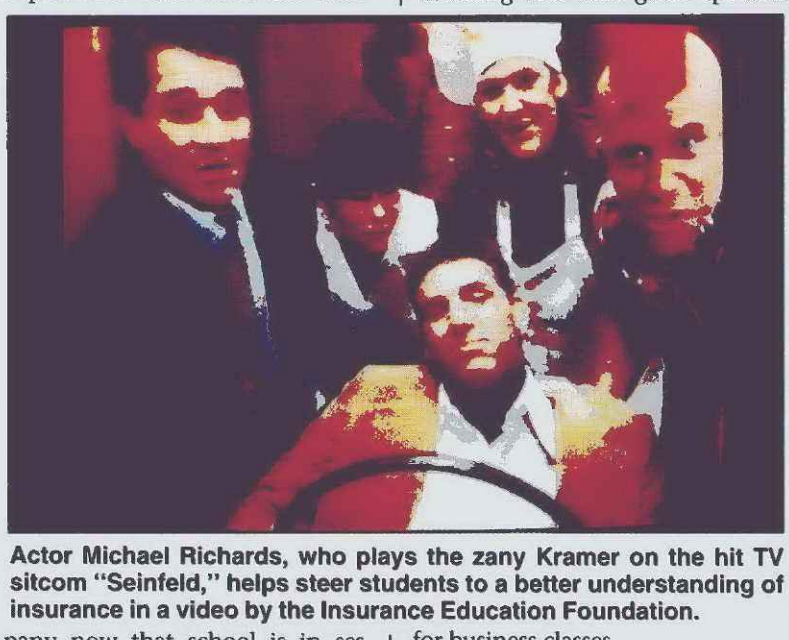
• Summer internships. After observing Adopt, Travelers' Chief Executive/President Robert I. Lipp felt the company should extend its summer internship program to include high school students as well as college students, the spokesman said.

Previously, the company only offered internships to college students. Of the 32 Adopt participants, 30 were interested and participated in the 10-week program.

They received paid internships in areas they shadowed and throughout the summer they participated in "everything from making Xerox copies to doing corporate research," the spokesman said.

The internships were successful for the students and the company, according to Leslie Martin, a supervisor in the company's life/health and annuities department who originated the Adopt program and worked with several interns this summer.

"They were very eager to learn and always available to assist us," she said, adding that some of the students will continue working on a part-time basis with the company now that school is in session.



Actor Michael Richards, who plays the zany Kramer on the hit TV sitcom "Seinfeld," helps steer students to a better understanding of insurance in a video by the Insurance Education Foundation.

• Curriculum planning. The company also is helping a local high school develop a four-year curriculum to prepare students for a career in business. The program provides different activities and speakers in various classes throughout underclassmen years and culminates with a separate business class, including a focus on the insurance business, in the senior year.

Working with the high school's business department, Travelers provides the financial backing, teaching aids and guest speakers for business classes.

Bloomington, Ill.-based State Farm Group is getting involved in schools in a different way.

The company instituted a policy in January that allows each employee a paid-vacation day each year to volunteer in any school-related activity.

"The policy is an extension of our long-standing commitment to education and our policy of encouraging State Farm employees to support local schools," said John Coffey, vp-personnel.

In the past year, State Farm volunteers at high schools have: spoken about insurance at career days; lectured business classes on interviewing skills, the importance of attendance and the relevance of classwork to an insurance career; chaperoned field trips; and helped administer track meets.

In addition to helping students gain information about the industry, the program gives them a better image of insurance companies, a State Farm spokesman said.

The Independent Insurance Agents of America's Insurance Vocational Education Student Training, or InVEST, high school education program shares these goals.

The program's main goal is to begin preparing students for an insurance agency career, but a secondary goal is to give students a better understanding of the industry.

"A lot of the time, kids' only exposure to insurance is with car insurance. They often have saved up to buy a car only to be hit with

See **High school***on next page*

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High school

Continued from previous page

a $1,000 premium. They don't understand why and develop a negative perception of insurance," said Kathleen Shirley, the Tallahassee-based InVEST coordinator for Florida.

InVEST reaches about 3,000 students annually. The IIAA administers the nationwide program, which can be a segment of an existing business class or a separate senior level course, depending on how the school can implement it.

The course uses simulation to prepare students for various insurance occupations. Students form and operate model insurance agencies and companies in the classroom.

IIAA provides business teachers with a teaching kit that includes



the necessary texts, equipment, visual aids and tips on how to successfully teach insurance to teenagers. IIAA also has state and national administrators available for assistance and a network of agents who are available for job shadowing, guest lecturing and job placement.

Because of the close link with local agencies, many graduates of the InVEST program get internships and approximately 75% of graduates move into careers in the industry, said Trelle Shaw, national administrator for InVEST.

While InVEST aims to prepare students to work in the industry, other organizations are working through high school teachers to help students become educated consumers.

"What we are trying to do is teach young people about insurance, following the belief that an informed consumer is a good insurance consumer," said Insurance Education Foundation Executive Director Nancy Coleman.

Indianapolis-based IEF offers training to high school teachers in consumer economics, business, home economics and social studies.

Each summer since 1987, IEF sponsors graduate-level workshops, lasting two weeks, which increase 200 high school teachers' knowledge of the industry and give tips on teaching it to students.

This year the seminars were offered at the College of Insurance in New York; Drake University in Des Moines, Iowa; California State University in Sacramento, Calif.; University of Alabama, in Tuscaloosa, Ala.; and Illinois State University in Normal, Ill.

The Foundation gives the high school teacher a grant that covers administrative expenses and each university provides housing. Since the summer program's capacity is limited, IEF also produces a teaching kit called "Choice-Chance-Control."

The packet includes lesson plans, an insurance term glossary, games and an introductory video on insurance starring Michael Richards, who plays Kramer on the NBC sitcom "Seinfeld."

"The goal is to make insurance less boring to teenagers," said Ms. Coleman.

The Columbus-based Ohio Insurance Institute has offered high school teachers similar seminars and teaching kits for 26 years.

OII and Miami University in Oxford, Ohio, hosted 32 teachers this year for a 5-day workshop. Six of the teachers attended on OII grants while the others received the funding from insurance companies and agents in the state.

OII also coordinates visits from industry professionals to high school classes and has an insurance video loan library, which last year reached 23,994 students, said Mitchell A. Wilson, OII's public information and education director.

Whether preparing students for careers or to better prepare them to purchase insurance, the programs have a third effect.

They give insurers and organizations some positive exposure to the public, said IIAA's Ms. Shirley.

"The programs create a more positive picture of insurance and shows how it is essential to make our society work." BI

Insurance courses not exactly booming

Since 1989, number of college offerings flat

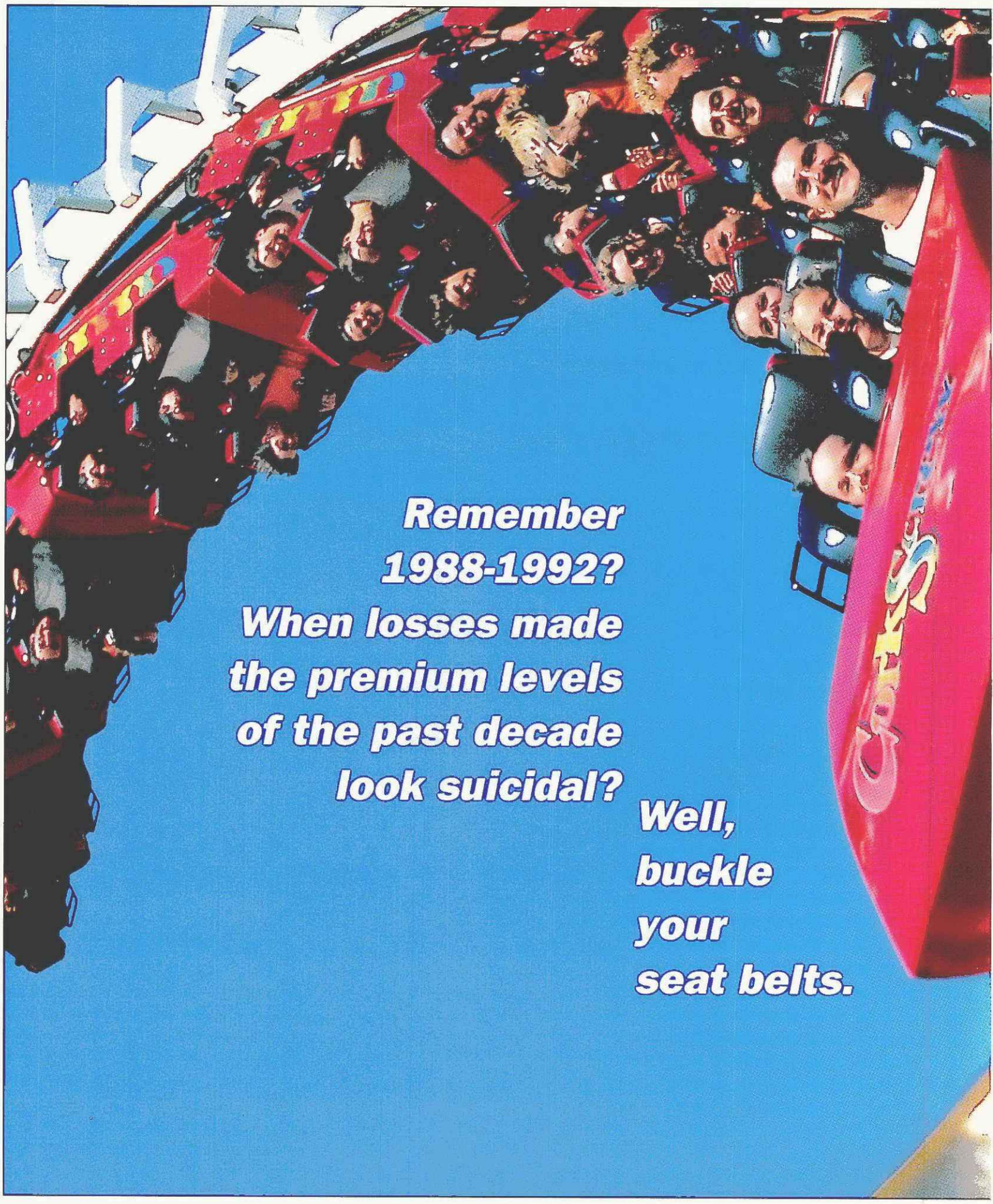
By SARA MARLEY

The number of risk management and insurance programs at colleges and universities is not growing.

In 1992-1993, 61 schools offered majors, minors or concentrations in risk management and insurance, a study commissioned by the American Risk & Insurance Assn. says. In total, more than 26,000 students took risk management and insurance courses at 203 schools that year.

A similar survey in 1989 found 72 schools that offered majors and concentrations in risk management and insurance, called RMI, or a "related area," a broader defini-

Continued on next page



Continued from previous page

tion than the one used in this survey. In the current study, a school has RMI "studies" if it offers at least one course, while it has a "program" if it offers a major, minor or concentration in the area.

"There probably has been a drop off over the broader time spectrum. But since 1989 it has been pretty stable," said Lisa Gardner, a professor of risk management and insurance at Bradley University in Peoria, Ill. She conducted and wrote the study with Joan Schmit, a risk management and insurance professor at the University of Wisconsin in Madison. "I don't think the number is going to mushroom, but (RMI programs) are becoming an important niche for colleges and universities that make the commitment," Ms. Gardner said.

The authors sent surveys to 690



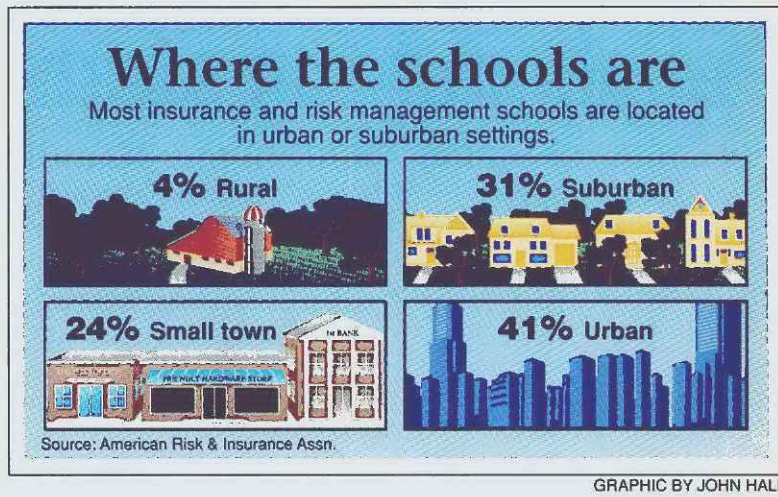
U.S. and Canadian institutions and received responses from 331.

Undergraduate level courses in risk management and insurance are offered at 203 of 331 responding schools, or 61%. Of those 203 schools, 58 offer a risk management and insurance major and 24 offer a minor. On average, 101 to 150 students were enrolled in the courses during the 1992-1993 academic year; the highest enrollment at a single school was 1,600.

Enrollments were higher at schools offering full risk management and insurance programs rather than just courses. In those cases, average enrollment grew, ranging from 251 to 300.

Of those schools that offer just courses, 25% offer more than four. Schools that have full programs offer about six courses on average.

Master's level courses are offered at 71 of the 331 responding schools, or about 21%. Of those 71 schools, 18 offer a major or concentration and three offer a master's-level minor. Eight schools offer doctoral concentrations or majors.



GRAPHIC BY JOHN HALL

In addition to questions about courses now offered, the survey also asked deans whether risk management and insurance courses were expected to be added or deleted within the next five years.

Up to 58 undergraduate risk management and insurance courses are expected to be added at more than 40 of the responding schools, while only 14 are expected to be deleted. Three schools expect to delete their only risk management and insurance course offerings.

Schools with RMI programs accounted for about 60% of both the course additions and deletions.

Employee benefit planning and risk management were the most frequently cited titles of courses expected to be added.

Twelve responding schools that do not currently offer any risk management and insurance courses expect to add them within five years, more than offsetting the 10 schools that no longer offer any courses in the discipline.

In the past five years, four schools deleted master's courses and two eliminated doctoral studies. Often-cited reasons for eliminating courses include inadequate enrollment, failure to find quality faculty and budget constraints.

The study identified 386 faculty positions devoted to teaching risk management and insurance courses. Of those, 46% are full-time tenure track positions; 42% are part-time instructors; 7% are full-time instructors or non-tenure track faculty; 5% are doctoral students.

"Many of these positions are filled by part-time instructors, particularly at schools with undergraduate RMI studies," the study reports. "While. . .the supply of RMI faculty positions will likely grow over the next five years, the number of new RMI doctorates is expected to exceed the number of available positions."

However, not everyone with a risk management and insurance Ph.D. seeks teaching posts.

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The paper will be published in the December issue of the Journal of Risk & Insurance, an ARIA publication. After December, reprints may be obtained for free. Brochures with names of key contacts at risk management and insurance departments at the schools also are available. For information or to request copies, contact Brigida Sgobbo, P.O. Box 9001, Mount Vernon, N.Y. 10522; 800-951-2020.



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People not top strategic priority

For better or worse, insurers put bottom lines, customers first

By LEE VELKER

While insurance company executives agree that people are one of their most valuable assets, making an investment in employees is not a top strategic priority at most companies, according to a recent study.

Many companies do make substantial investments in employee training, education and benefits. But when ranking strategic issues for the company, employee investment and employee performance are not top concerns, Towers Perrin found.

In its study, "The People Strategy Benchmark Awareness and Attitude Study," it surveyed 300 executives of companies with at least 5,000 employees, including 28 insurance company executives, on people-related issues in the workplace.

Of the 28 insurance executives surveyed, all at least partially agreed that improving their people's performance will improve their company's bottom line, while 75% at least partially agreed that their most important resource lies in their people.

Yet only 3.6% of the insurance executives ranked investment in people as their top strategic issue, while 7.1% ranked it as the second most important issue and 25% ranked it third.

Most ranked customer satisfaction, financial performance, competitiveness and product and service quality above investment in people and performance of people.

Insurance executives' responses were similar to those of executives in other industries.

Ninety-eight percent of the 300 executives—who worked in banking, utilities, insurance and general industry—said improving employee performance would significantly improve business results, while 73% said people were their most important resource.

Overall, though, only 4% of those executives ranked investment in people as a top strategic issue, according to Towers Perrin.

For business executives and insurance executives in particular, people-related issues never seem to be top priority, according to Rick Berry, a managing principal at Towers Perrin in New York who helped develop the study.

"Executives will say, 'My problem is not people management,' " he said. "However, they say for sure, 'Managing my people is very important to addressing the problem of reduced sales or financial losses.' "

What executives seem to be missing is the relation between the two, Mr. Berry said. When there is another problem, executives view improving people management as a way to fix it.

What they do not realize is that by incorporating people issues into strategic business planning, they can avoid many problems, he said.

"For many businesses, especially insurance, people-related expenses are where most of the money goes. Therefore, they have a big impact on the bottom line," Mr. Berry said.

"If that is where so much money is going, they need to think of that as an investment. Executives need to think about how to maximize the return on that investment," he said.

"There is a real value in the strategic role of people. It is not how much you are spending. It is how you are doing it," Mr. Berry added.

Beyond providing a salary and employee benefits, companies' investment in people can be found in employee training and education programs.

Many companies regard training as a short-term tactical move. They should think of it as more of a strategic move, said Mr. Berry. Things like skills training and management development may not have an immediate payoff but will show results in the long run.

Mike Quine, vp of administration at RLI Corp. of Peoria, Ill., said an investment in employee training is essential for employees to be able to adapt to industry changes over the long run.

"Our president, Gerald D. Stephens, sometimes jokes he thinks he's running an institute of higher learning," said Mr. Quine, emphasizing the amount of training his company does.

RLI, which is 25% employee-owned, invests in employee training programs because the industry is changing constantly and because it is costly and difficult to find good people, according to Mr. Quine.

"We are building something to last," he said, emphasizing the importance of training for the future.

RLI, for instance, runs in-house workshops and seminars on computer skills and industry issues

Keeping employees is an important issue to many executives.

"Retention translates into collars. If you have to go out and hire new employees, it costs your business in the bottom line," said John A. MacColl, senior vp of human resources and general counsel at Baltimore-based USF&G Corp.

When it comes to retaining employees, the most important element is "making the employee want to stay," he said.

"The critical piece is giving them the ability to grow," said Mr. MacColl, adding that this is how continuing education enters the picture.

When it comes to investing in people for the long run, stock options are "another little tool" used for both recognition and involvement.

"We want employees to feel their production equates to stock prices," Mr. MacColl said.

Companies also find other ways to invest in employees.

"We invest in a variety of ways," said Greg Lee, vp of human resources at St. Paul, Minn.-based The St. Paul Cos. Inc.

See **People** *on page 42J*



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People

Continued from page 42H

While employee training is St. Paul's most important people investment, providing top quality employee benefits is another key. In addition to the usual health and welfare benefits, the company also provides onsite day care and physical fitness programs as a way to meet employees' needs on both a business and personal level.

The emphasis is on keeping employees satisfied.

But, employee satisfaction is only one of several goals for the insurer.

This survey result "doesn't surprise me," said Mr. Lee. "You have to have priorities."

A business is set up to make money, so that is going to be a top priority, he said, and employees are an important investment in that process.

Towers Perrin's Mr. Berry agreed but emphasized that, "Executives sometimes get sort of distracted by the issues themselves and do not see how improvements can be made."

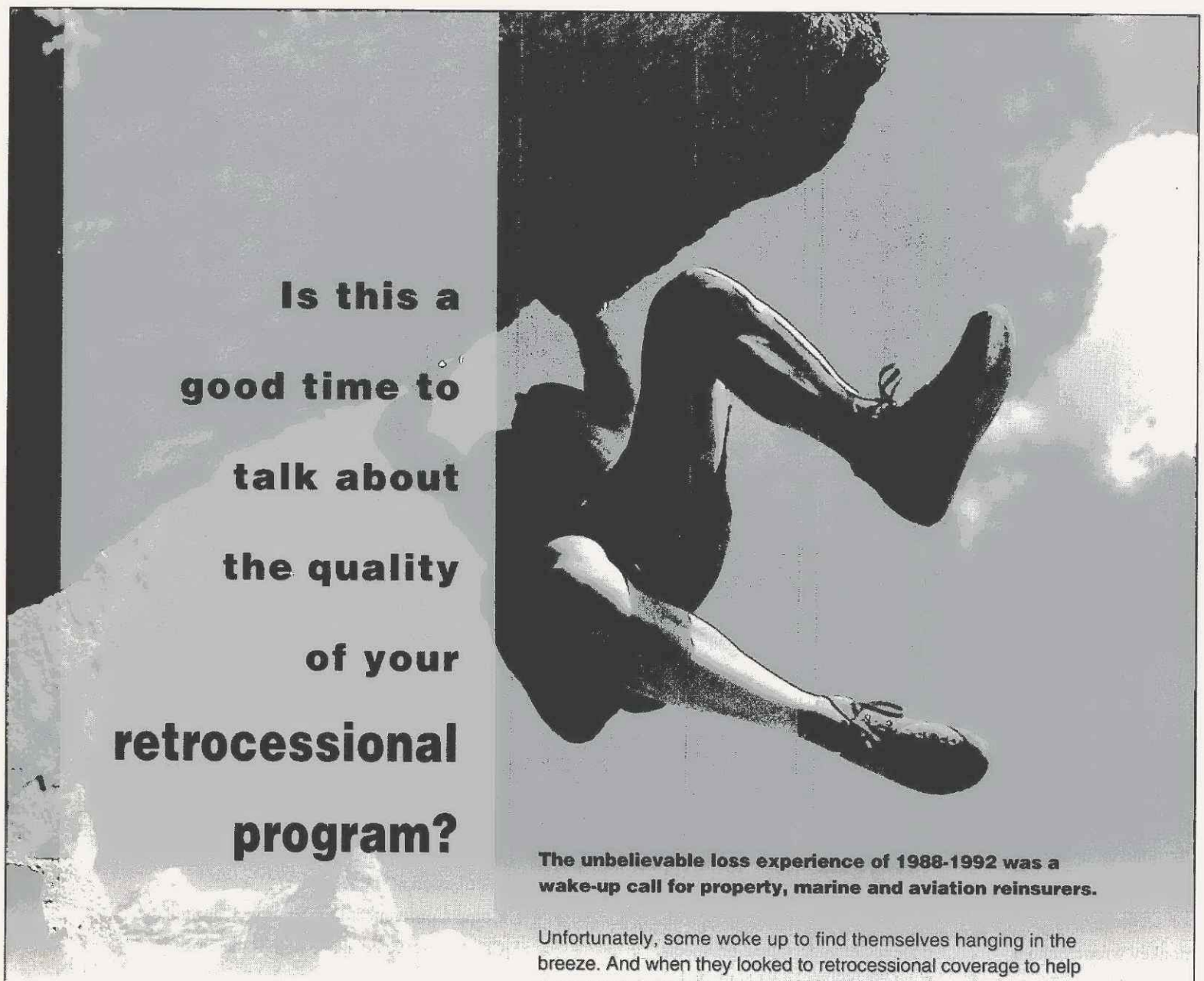
When business planning occurs, executives are thinking about the present instead of the long term. An investment in employees really can translate into financial success in a few years in terms of production and retention, Mr. Berry observed.

"It is common sense, the biggest resource is people. Are you thinking about them in that way?" he asked.

The study is one tool to emphasize the importance of employees to a company. Narrowing the "say/do gap" will lead to better bottom-line results, Mr. Berry said.

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For copies of the Towers Perrin survey, contact Joe Conway at 914-745-4175.



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Attorneys put clients before fees

Law firms, insurers work together to cut costs

By Alan Jay Kaufman and Harold S. Jacobowitz

WHETHER YOU BELIEVE the volume of litigation continues to rise, has flattened out, or is declining, the pressures to control legal costs—which is especially important for insurance companies—continue unabated.

IT Perspective

A New York Times article in 1993, headlined "Revolution in Lawyers' Fees," stated that we have seen "a cultural revolution that puts a premium on serving clients, not racking up hours, and on producing quality work, as clients define it: work that places an emphasis on timely performance, efficiency, risk-sharing between the firm and its clients, and the firm's willingness to discuss how cost estimates were arrived at."

Insurance companies today must challenge law firms to make the best use of client assets and attorney time without sacrificing the quality and integrity of legal services.

Cost containment is not and should not be an "us vs. them" issue. Progressive legal firms are not resisting this issue but working in partnership with their clients to bring costs under control.

The cost control principles that follow can be applied universally. We have focused on the insurance industry to outline a process that, if adhered to, can strengthen the partnership between client and counsel.

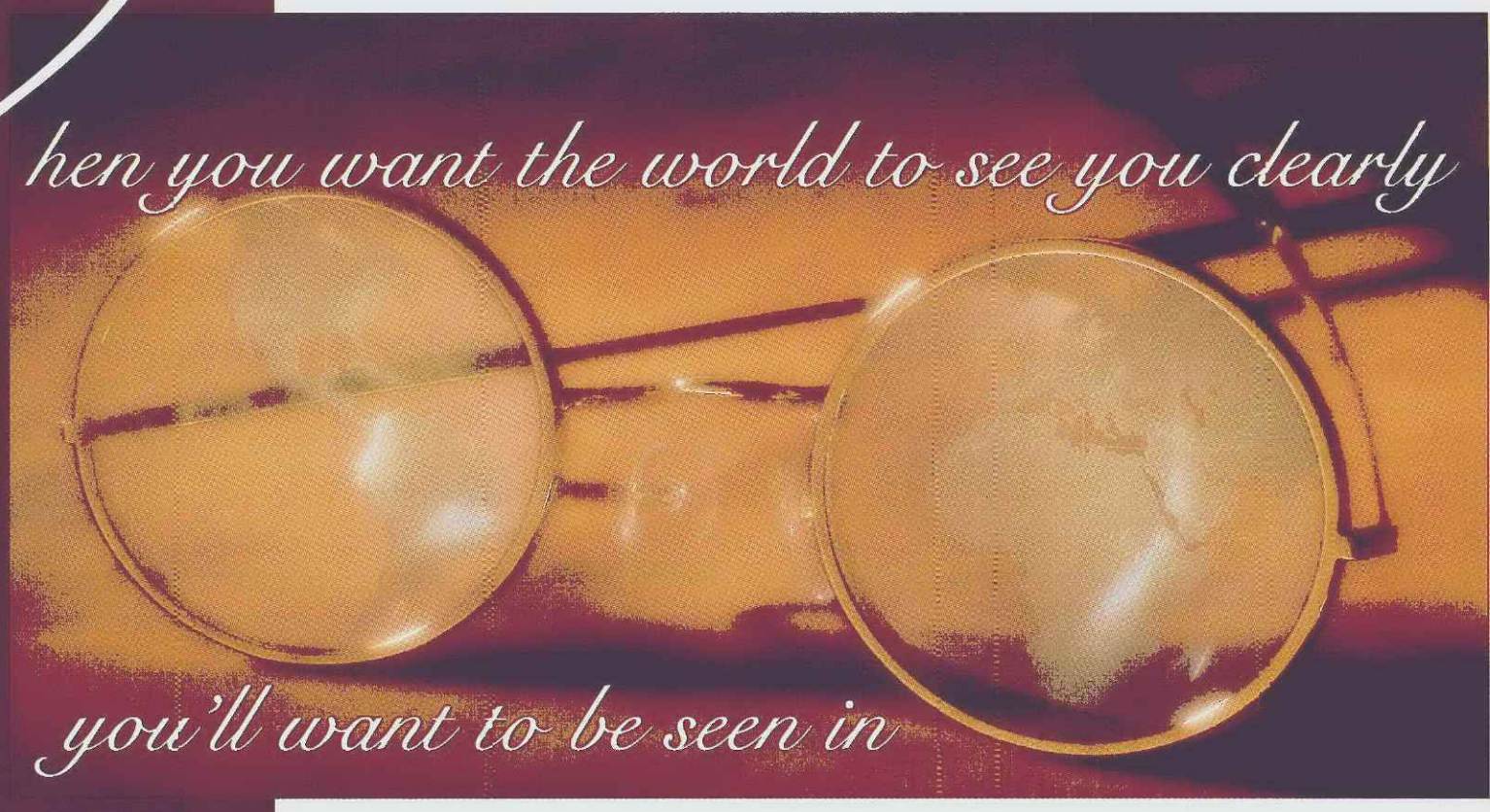
In partnering with the insurance industry to control the litigation process, companies should make attorneys understand that cases must be won on both legal and economic grounds.

By recognizing that litigation management is a multifaceted process, based on the following elements, counsel can realize the potential benefits to their clients, as well as their own firms: approved panel counsel, written litigation management guidelines, staff counsel, expert claims staff, legal audit, alternative dispute resolution, alternative billing arrangements and technology.

As a result of the development of litigation management in recent years, attorneys recognize that superior performance means obtaining the best possible results

See **Legal costs** *on page 42L*

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Legal costs

Continued from page 42J

for their client in the most cost-effective way.

Accordingly, attorneys have begun to develop the skills necessary not only to handle the matters assigned to them but also to think and analyze cases in the way their client requires.

Insurers should know that attorneys are beginning to understand the need to work with their clients to: define the goals for a particular case; develop a strategy to accomplish the goal; synthesize the critical issues involved and develop a plan to address and solve them cost-effectively.

This knowledge, in turn, will enable counsel to understand that the hallmark of effective resolution of litigation is constant and timely communication with the client.

For its part, the insurance industry recognizes that, to be an active participant in this process, it must have a claims force in place capable of fulfilling its responsibilities.

At American International Group Inc., for example, the claims departments are structured to ensure that claims technical performance is based on a team game plan. The result is an initial plan within five days of assignment of the case to counsel. This plan details the main issues that need to be resolved and outlines how those issues will be resolved—by whom and by when.

Developing information is exchanged instantaneously by electronic connection between the insurance company's claims technicians and defense counsel so that all parties are fully prepared to revise the plan as necessary. Subsequently, we develop the information needed to settle or try the case as efficiently and cost-effectively as possible.

The increasing emphasis on legal cost control has changed the way outside counsel works with its client. Insurers should be aware of some of the capabilities law firms need. Today, firms must be adept at the following "skills" to maintain rewarding working relationships with their clients:

• The ability to keep abreast of industry trends.

Insurers and law firms need to become a team to better coordinate and monitor cases in progress. Law firms also must stay current on their clients' general business practices, industry trends, including pending or recent litigation, and recent court rulings.

• Intelligent use of legal administrators and adjunct staff.

Law firms today are taking a close look at their internal systems, administration and use of legal adjunct staff. Many firms, for example, employ an experienced legal administrator, specially trained and skilled in running a legal practice.

While such systems free up attorneys for direct case work, it is also true that all attorneys, as "managers" of client time and money, should be very knowledgeable and conscious of issues like staffing, budgeting and the intelligent use of paralegals, law clerks and other staff.

• Understanding technology.

Insurers can expect law firms to have a mastery of the latest computer legal research and case tracking systems. And, firms must be able to interface with the advanced electronic communications systems many companies use today. Such electronic communication serves both as a litigation support mechanism and as a litigation management system that assists clients in analyzing and evaluating the effectiveness of their law firms.

Insurers and law firms need to become a team to better coordinate and monitor cases in progress.

• Internal quality and cost control systems.

Attorneys need to be trained to produce effective, timely results without needless expense. Certainly, legal quality assurance and risk management programs encompass more than issues of cost, but attorneys are quickly understanding that cost is a legitimate component of quality and must be addressed as such.

• The ability to budget for legal services.

Legal budgeting—in advance of internal pressures or audits—is an excellent example of rigorous, meaningful cost containment in action. Legal budgeting, while not an exact science, includes a detailed analysis of anticipated total costs of a matter. Forecast expenses are compared with ultimate exposure so that an informed settlement decision can be made.

• Management of discovery and the apportionment of defense costs.

Law firms should be prepared to prioritize intended actions during the discovery period, rather than have discovery "control the case." At the same time, the reins must not be so tight that alternate solutions cannot surface.

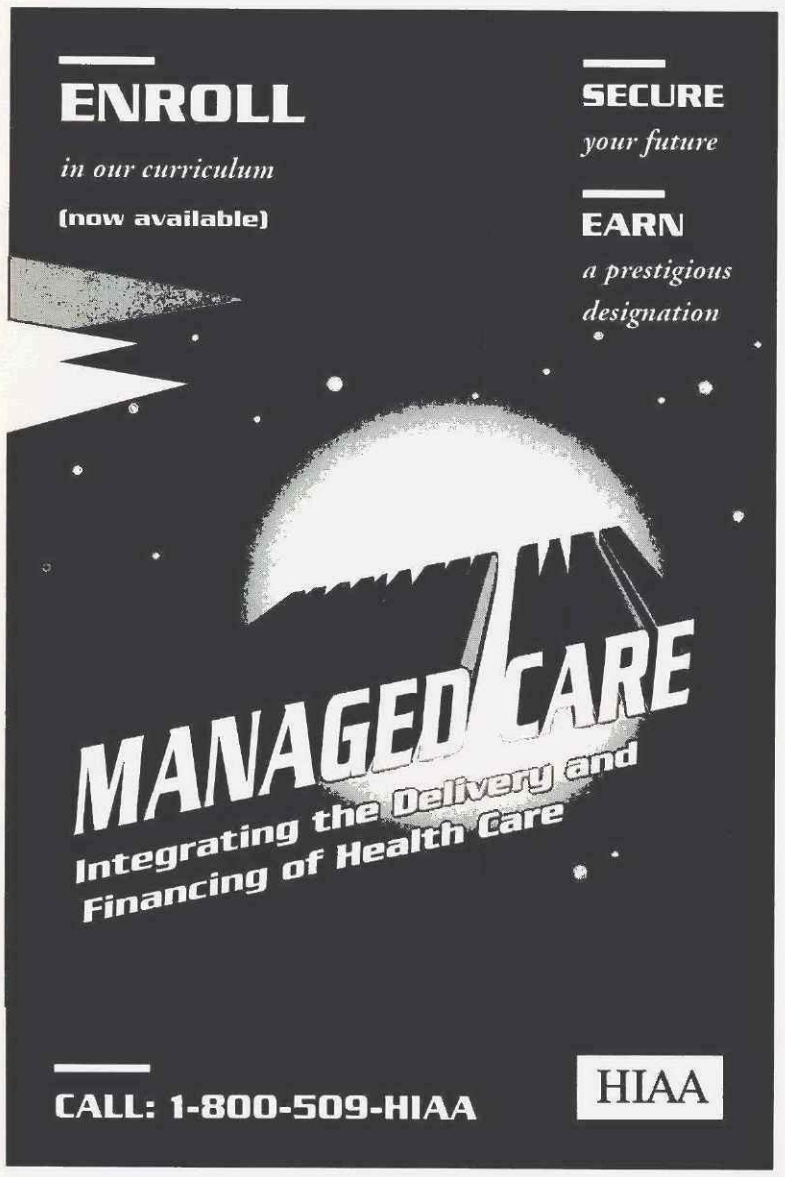
• The ability to work well with peers.

Law firms should be sensitive to working relationships with other legal counsel and the court system. This is especially important with the trend toward multiparty disputes and multiple representation, and the increasing use of arbitration and mediation to resolve disputes and cut costs.

In the real world, a balance must be maintained between cost and quality. But, this does not mean quality should ever be sacrificed for the sake of economics. Just as increased expense does not guarantee superior legal services, neither does cost accountability imply that legal firms or insurance companies should adhere to anything less than the highest professional standards. Understanding the litigation management principles described above will help insurers strike the appropriate balance. BI

Alan Jay Kaufman is a senior partner with Detroit-based law firm Kaufman & Payton, whose focus includes insurance and corporate law, finance law and general, civil and commercial litigation.

Harold S. Jacobowitz is vp of claims litigation at New York-based American International Group Inc.



IT Briefs

NAIW scholarships

TULSA, Okla.—The National Assn. of Insurance Women's Education Foundation is making several changes in its scholarship program.

The deadline for filing applications for the college scholarship awards for risk management and insurance studies for the 1996-1997 academic year is now March 6, 1996. Applications for these scholarships currently are available from the National Assn. of Insurance Women.

And, scholarships for working insurance professionals now may reimburse recipients for any education course that enhances the recipient's duties in the industry—even if the course is unrelated to risk management or insurance.

Under previous criteria, reimbursement for such course work was limited to $350.

For more information on the scholarship programs, contact Jane Seago, Executive Vp, NAIW Education Foundation, P.O. Box 4410, Tulsa, Okla. 74519; 800-766-6249.

Professor named

RALEIGH, N.C.—Claude C. Lilly III has been named as the Joseph P. Freeman Distinguished Professor of Risk Management and Insurance at Appalachian State University in Raleigh, N.C.

Mr. Lilly, who holds the Chartered Life Underwriter and Chartered Property & Casualty Underwriter designations, has 29 years of experience in insurance industry and academic circles.

He has served as professor of risk management and insurance and director of the Center for Insurance Research at Florida State University in Tallahassee.

Mr. Lilly, who is the former assistant deputy insurance commissioner for the state of Georgia, also has written books on risk financing and self-insurance and is the current editor of the Journal of Reinsurance.

College trustees

NEW YORK—The College of Insurance has named nine trustees to its Class of 1998.

The new trustees include: Richard H. Blum, chairman and chief executive officer of Guy Carpenter & Co. Inc.; John R. Dunne, an attorney at Whiteman, Osterman & Hanna; Constantine P. Iordanu, president and CEO of Schaumburg, Ill.-based Zurich-American Insurance Group; Tom N. Kellogg, president and chief operating officer of Stamford, Conn.-based General Reinsurance Corp.; E.A.G. Manton, senior adviser to New York-based American International Group Inc.; Russell R. Miller, chairman of Russell Miller Inc. in San Francisco; Brian M. O'Hara, president and CEO of EXEL Ltd. in Bermuda; Peter T. Pruitt, executive vp of Willis Corroon Corp. in Nashville, Tenn.; and N. David Thompson, chairman, president and CEO of Swiss Re America.

The New York-based College of Insurance offers bachelor's degrees in business administration, finance, insurance and actuarial science and master's degrees in finance, insurance, risk management and actuarial science.

ABI taps Kemp

MIAMI—Former U.S. Rep Jack F. Kemp has been named to the board of directors of American Bankers Insurance Group Inc.

Mr. Kemp was secretary of housing and urban development under President Bush and is the co-founder and co-director of Empower America, a newly created organization that promotes entrepreneurship.

Also named to ABI's board was Mr. Dolara, senior vp of American Airlines Inc.

Miami-based American Bankers Insurance Group writes both life/health and property/casualty coverages. BI

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ASK A BENEFIT MANAGER

Employer coalitions do aid in controlling health costs

Q **I have seen increased activity in health care coalition activity being reported in the media today. Are these coalitions helpful in controlling health care costs?**

A Before discussing the specifics of health care coalitions, a brief discussion of the current health care marketplace is helpful. The trend of health care costs for 1995—and the early indications of 1996—is clearly a trend of moderation.

From my discussions with other benefit professionals and my own experience, 1996 renewals for managed care appear to be very moderate.

It is not unusual to see HMOs providing no change in their rates for 1996. Some HMOs actually are decreasing rates, while those that are increasing rates are showing increases of 2% to 3%. Currently, the marketplace for managed care firms is very competitive and many of the health care plans are vying for market share.

Although costs have been moderating—which is a very good sign—I am not confident this trend will continue in the long term unless the basic cause of the growth in health care cost is controlled. Health care coalitions may play a role in this.

As you indicate, there does appear to be an increase in the activity of many employer health care coalitions. Many of these employer health care coalitions have been very successful.

More than the increased number of employer health care coalitions, there have been some unique differences in the coalitions developed recently. While I will not discuss all of the various employer health care coalitions, I will note a few which I think are unique:

- The National HMO Purchasing Coalition was announced earlier this year. This is a coalition of large employers headquartered mainly on the East Coast with operations countrywide. This coalition represents approximately $1 billion of services for 600,000 employees and dependents at 27 sites.

The uniqueness of this coalition is that it is countrywide. Most other coalition activity has been locally focused, so it will be very interesting to see how successful this coalition will be.

Employers whose employees are geographically dispersed generally find it very difficult to participate efficiently in coalition activities. This coalition may give such employers an opportunity to help control their health care costs on a nationwide basis.

- Another coalition that is fairly unique is the National Medicare HMO Initiative, which is a group of 50 employers coordinated through the consulting firm of Towers Perrin. This group's focus is to encourage approximately 1.5 million Medicare-eligible retirees to join health maintenance organizations.

The general experience has been that managed care has not been warmly endorsed by retirees. Employers have a great deal to gain from getting retirees to move into the managed care arena. This is especially true when one considers the FAS 106 implications on liability and expense related to employer-provided retiree health care benefits. The objectives of this group are multifaceted in that they are focusing on ensuring high-quality service and a competitive premium for offering HMO coverage to their retirees.

- One of the most recent coalitions to be announced is the Foundation for Accountability. The focus of this organization is to rate and improve the quality of care at HMOs. The most unique nature of this organization is that it combines both public and private organizations.

The public/government organizations that are part of this coalition include the Health Care Financing Administration, the Federal Employees Health Benefits Plan and the California Public Employees Retirement System. Private companies that are part of the Foundation include GTE Corp., Minnesota Mining & Manufacturing Co., American Express Co., Ameritech Corp. and PepsiCo Inc.

Employers whose employees are geographically dispersed generally find it very difficult to participate efficiently in coalition activities.

Entire employer coalitions are also a part of this group, including the Pacific Business Group on Health.

It should be interesting to watch how the Foundation for Accountability proceeds. There is great potential for this group to have a significant impact on the quality of care provided by the HMOs. If it can accomplish its goals, many employers and employees countrywide will benefit from the coalition's efforts.

I would be remiss if I did not mention the most recent study that was completed and coordinated through the Chicago Business Group on Health, of

See **Coalition** *on next page*

Eyes on Lloyd's U.S. trust

By Robert M. Hall

Market's U.K. troubles prompting regulators to examine U.S. trust fund

QUESTIONS about the adequacy of Lloyd's of London's primary U.S. trust fund may lead to greater scrutiny of U.S. ceding companies with recoverables from Lloyd's.

The financial reversals suffered by Lloyd's in recent years have received widespread press coverage. These reversals include approximately £8 billion ($12.4 billion) in underwriting losses over the last five years and suits by thousands of names alleging negligence and fraud.

What has been largely overlooked, however, is the impact of these reversals on the Lloyd's American Trust Fund, or LATF.

The LATF historically has been a premium trust fund on deposit in New York. It was formed in 1939 as World War II threatened the ability of Lloyd's to pay claims in the United States. Since then, it has evolved into a collateralization device that allows ceding insurers to treat Lloyd's as if it were a licensed reinsurer. The result is that the ceding insurer is able to reflect reinsurance from Lloyd's as an asset in its financial statement.

Since financial statement credit is based on the LATF, it is critical that this trust be adequate in terms of size and be sufficiently accessible to suit its purpose. In recent years, a number of creditors and regulators have begun to question the adequacy of the LATF for this purpose. The latest blow to the LATF is an examination recently performed by the New York Insurance Department, which concluded that the LATF was deficient by $18.5 billion (*BI*, May 29).

These findings have serious implications for those companies with recoverables from Lloyd's.

They raise questions about Lloyd's ability to pay U.S. claims or, at least, about regulators' continued willingness to allow financial statement credit for cessions to Lloyd's. Disallowance of this credit could render a number of cedants insolvent and affect the financial rating of many others. Since U.S. premium represents 32% of the market of Lloyd's, both regulators and Lloyd's have significant incentives to resolve this crisis successfully.

New York report

Given growing concerns about the adequacy of the LATF, the New York Insurance Department initiated the first examination of the LATF in 1994. In May of 1995, the New York department issued its examination as of Dec. 31, 1993, which reviewed Lloyd's compliance with New York's credit for reinsurance and surplus lines laws.

The report found that the LATF violates New York statutes, which require the LATF to meet gross liabilities, i.e. not losses net of reinsurance. The report also found the LATF to be deficient by $7.8 billion on a net basis and deficient by $18.5 billion on a gross basis.

In addition, the report:

- Notes that Lloyd's violated its own solvency tests in calculating the size of the LATF.
- Observed that there is no assurance that a name's assets in the LATF will equal its liabilities.
- Recommended individual reporting of names' assets or joint liability of names.
- Recommended that the LATF be limited to U.S. business.
- Observed that Lloyd's violated New York law by failing to transfer to the LATF funds that had been earmarked in the Central Fund to cover bad debts of names.

Many of these findings did not surprise close observers given a growing awareness of the structural deficiencies of the LATF and its questionable compliance with credit for reinsurance laws.

Credit for reinsurance

Every state has credit reinsurance laws and/or regulations. Most are patterned after the model act and regulations recommended by the National Assn. of Insurance Commissioners.

The model act separates reinsurers into those that are treated as licensed and those that are treated as unlicensed. Unlicensed reinsurers must post letters of credit or trust funds for the specific benefit of individual cedants. These collateralization devices must equal reinsurance recoverables, including incurred-but-not-reported losses, for the cedant to take full financial statement benefit for the reinsurance.

By a quirk of legislative development, Lloyd's falls under a section of the model act dealing with reinsurers that are treated as licensed in the domiciliary state of the cedant. To receive licensed treatment, however, Lloyd's must post a trust fund for the benefit of all cedants. The size of the trust must equal liabilities to cedants, including IBNR, plus $100 million, the latter amount being held on a joint basis.

Structure of the LATF

The LATF is a several rather than joint fund. This

See **LATF** *on next page*

Coalition

Continued from previous page
which I am the chairman.

The "Chicago Health Plan Value Project" is a multidimensional study of managed care in the Chicago area (*BI*, July 3). This study included 14 employers and seven health plans in the greater Chicago area, and sought to make an overall determination of the value provided by managed care organizations. The findings of this study will help the health care plans in Chicago improve their quality and patient satisfaction, as well as provide a means for the participating employers to ensure they are maximizing value from the health plans. This process followed in Chicago most likely will be applied to other geographic areas.

If there is any fat in rates quoted by provider organizations, pressure through a health coalition can help to eliminate the fat.

It is encouraging to see these many coalition efforts. We are seeing a focus on both cost control/reduction efforts and quality improvements from these groups. The cost control/reduction efforts should pay short-term dividends since in the current competitive environment, health plans appear to be willing to moderate rate increases or even reduce rates in order to maintain or increase market share. Being part of a coalition can help employers achieve such rate reductions. (Having size on your side through coalitions helps.) If there is any fat in the health care rate, pressure through a health coalition can help to eliminate the fat. It should encourage the health care organizations to become more efficient over the long term through improving their administrative operations.

I am confident that the long-term positive impact of employer health care coalitions will be the focus on patient satisfaction and quality improvement. It is through such efforts that the true cost of providing health care should be controlled and our employees and their families should remain healthier as well as more productive.

We often get so focused on controlling health care costs that we neglect to look at the big picture. If our employee does not receive quality health care treatment and if there is a bad medical outcome, we cannot forget that we are losing productivity. There is a real cost to this productivity loss, as well as the additional health care costs.

As benefit professionals, over the years we have focused closely on the design of our health care plans. Our efforts at implementing managed care most likely have been beneficial, since those individuals moving to managed care, in most cases, are having their care managed more efficiently. However, a great deal of our plan design efforts have probably focused on cost shifting, that is, shifting costs to either employees or other employers. While these efforts have probably reduced (or controlled) our organization's cost, such changes have not done much to control the true cost of health care in the marketplace. In contrast, the coalition efforts that focus on quality improvements truly do help control the cost of health care.

As we move forward, we need to become active participants and contributors in the coalition efforts. I encourage you to identify coalition efforts where your organization does business.

By volunteering your time and efforts to coalitions, I guarantee that you will grow personally and you will be contributing to the improvement of the health care system. Both you and your organization will benefit from such efforts.

Material in this article does not constitute accounting, tax, investment, legal or business advice.

You should review your specific situation with professional advisers. BI

Would you like advice from an experienced colleague on a risk management, benefits management or actuarial problem? Four quarterly features in the Perspective section of Business Insurance can give you some answers.

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

This month's column on employee benefit management issues is written by Dennis J. Nirtaut, managing director of compensation and benefits for Arthur Andersen & Co. S.C. in Chicago. Susan M. Werner, director of risk management at Hardee's Food Systems Inc. in Rocky Mount, N.C., answers questions on risk management issues. William J. Miner, an actuary with Watson Wyatt Worldwide in Chicago, answers actuarial questions on benefits issues. And, Richard E. Sherman, president of Richard E. Sherman & Associates Inc. in Ashland, Ore., answers actuarial questions in the casualty field.



Mr. Nirtaut

Address your questions to ASK, Business Insurance, 740 N. Rush St., Chicago, Ill. 60611. Please give us your name, title and employer; however, Business Insurance will consider unsigned letters.

LATF

Continued from previous page
means that Lloyd's names are liable for their own debts but not for the debts of other names. Thus, creditors have a right of recovery under the current trust only if the names on their policies or reinsurance contracts have assets in the LATF.

The LATF has a variety of shortcomings. For instance, there are no assurances that names will have assets in the LATF when claims are perfected. Reasons for this include:

- Assets are freely transferable out of the LATF at any time before a claim is perfected.
- Lloyd's uses a "reinsurance to close" mechanism, which allows names to reinsure their runoff exposure after three years and remove any remaining assets.
- The LATF does not maintain a record of individual names' assets held in LATF accounts.

Creditors also lack "privity" with reinsurance-to-close reinsurers and, therefore, have no right of action against them. Obviously, this can leave creditors without an effective remedy. For this reason, commentators have observed that the LATF issue is not just one of size, but of accessibility by creditors.

Another serious deficiency is that the LATF is net of reinsurance ceded. Other reinsurers are required to collateralize their obligations gross of reinsurance.

U.S. insurance regulators have expressed their belief that the LATF's format is contrary to the model act and to their understanding of how the LATF worked. The model act is being clarified to make it clear that reinsurance cannot be netted off to determine assets to be held in trust.

In addition, the LATF collateralizes all business written on a U.S.-dollar basis—not just U.S. risks. This makes it difficult to match assets with U.S. liabilities and can lead to competition for assets among U.S. and non-U.S. creditors.

Other problems with the LATF include:

- Lack of investment guidelines for trust assets.
- It pays commissions, fees, brokerage and salary to a variety of parties with respect to the U.S. and non-U.S. business.
- The trustee is paid out of trust assets, which means that a trustee may resist the claim of a creditor using the very funds the creditor is trying to collect.
- The LATF contains a mechanism for policyholders to make a recovery but lacks a similar mechanism for cedants.

Given these deficiencies, there is a growing awareness that the LATF should be revised to better serve as an effective collateralization device.

Reaction to New York report

In its response to the New York examination report, Lloyd's announced it would make several reforms.

Lloyd's is establishing two new trust funds, one for U.S. reinsurance business and one for surplus lines business. These funds will be on a gross of reinsurance basis and will apply to new business.

Lloyd's will contribute $500 million to Lloyd's U.S. Central Fund. In addition, Lloyd's intends to establish a joint fund for years 1992 and prior through Equitas, the facility designed to reinsure the old-year liabilities of names.

While these steps by Lloyd's will close the gap somewhat, they do not solve all of the problems cited above. Initially, it is unknown whether the form of the future trust agreement will provide necessary accessibility to creditors. There is a three-year gap between the Equitas trust and the two trusts to be effective in August of 1995. Moreover, some people doubt that Lloyd's has the assets to cover the $18 billion deficiency in the LATF that remains after the $500 million contribution noted above.

The NAIC's reaction

After several years of effort, the NAIC is moving toward amendments that strengthen the reinsurance model act with respect to the LATF. The New York examination report lends some urgency to this process. In pertinent part, the current draft of amendments include:

- Splitting off credit for reinsurance trusts from surplus lines trusts on a going forward basis.
- Investment guidelines for trust assets.
- Requiring that trusts be funded on a gross of reinsurance basis.

It is possible that such amendments will be adopted by the end of 1995; however, it remains to be seen how many states will adopt the amendments.

Remaining problems

While the changes to the LATF generated by New York and contemplated amendments to NAIC model act and regulation are beneficial to creditors, problems remain. The most obvious is the apparent $18 billion deficiency in funding for past years.

Almost as serious is the several nature of the fund which can deny a creditor available funds simply because the names on that creditors' reinsurance treaty have exhausted or removed their funds. The LATF should not be used to pay extraneous fees, commissions and salaries since this drains funds available to creditors.

Finally, there should be an improved mechanism for collection of claims from the trust by cedants.

While Lloyd's response to the report will lessen the fund's deficiency somewhat, they do not solve all of the LATF's problems.

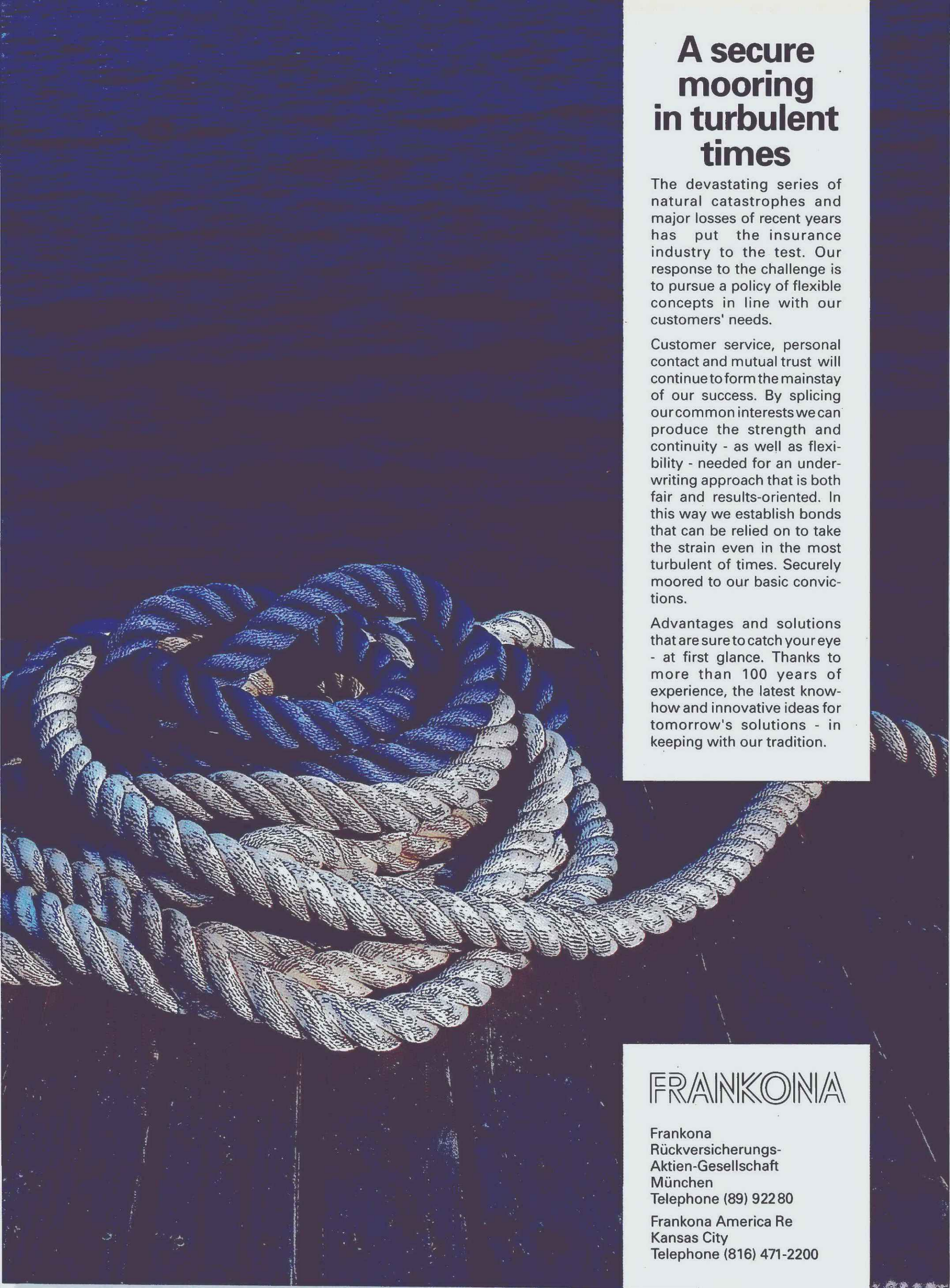
Lloyd's considerable problems with losses over the past five years have been compounded by the deficiencies in the LATF and the New York examination report on point. This has jeopardized the ability of U.S. creditors to take credit for reinsurance ceded to Lloyd's.

While these problems are formidable, it is doubtful that Lloyd's would abandon the U.S. marketplace by failing to find a solution to the LATF problem. Regulators are equally motivated to avoid a shock wave to the U.S. insurance industry.

A short-term solution is likely if Lloyd's has sufficient assets to collateralize its obligations in the United States. A long-term solution may require even more fundamental changes to the LATF than have been offered to date. BI



Robert M. Hall is a partner in the Washington office of Rudnick & Wolfe, concentrating in insurance and reinsurance practice.



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Focusing on retirement issues

Government, pension groups strive to educate public on retirement

By PATRICIA B. LIMBACHER
Crain News Service

WASHINGTON—The U.S. Department of Labor and scores of pension groups are making a full court press on the American public and Congress to get them into better shape on saving and retirement issues.

Faced with an ailing Social Security system, stagnation in pension coverage rates and a meager 2% saving rate, Labor Department officials and pension groups decided to put aside their technical differences and work together in order to rehabilitate the three legs of retirement security.

"The government isn't always the best source of information," said Assistant Secretary of Labor Olena Berg in a recent speech to the Center for National Policy in Washington. "That's why we're building this coalition of forces."

The Labor Department has rallied support from nearly 60 groups, including private, public and union plan sponsors; actuaries; bankers; money managers; life insurers; academics; and pension research representatives. Many have launched education campaigns of their own.

The gist of the Labor Department's message is "beat the clock and prepare for retirement." It created a 10-point pamphlet that talks about how to get ready for retirement. It lists three government agencies and 10 private organizations with phone numbers so people can get more information.

"The key is education," Ms. Berg said. "By providing Americans with the facts they need, we can help change the way people think about and act on their retirement needs."

So far, the department has spent $250,000 to launch the effort. It has printed 37,500 copies of its pamphlet, which officials expect to distribute through the 60 campaign partners and supporters.

The campaign has served as a launch pad for two clearinghouses of information. One is designed to target saving issues; the second, pension retirement issues.

The American Savings Education Clearinghouse, which is being coordinated by the Washington-based Employee Benefit Research Institute, is an information exchange on saving initiatives by its member groups. EBRI will house a small library on what ASEC members have done in the past on saving for retirement. The library will include videos, pamphlets, workbooks, computer programs and other resources that show people how to save for retirement, said Kathy Stokes Murray, ASEC's executive director.

Right now, people can send e-mail questions and comments to the clearinghouse via the Internet at savenow@ebri.org. Future steps will include a toll-free number to leave a mailing address to get information, as well as a more advanced Internet exchange that will include a resource list of people and organizations that will provide additional saving information.

The second clearinghouse, the Pension Education Clearinghouse, is more focused on disseminating information on defined benefit pension plans. It is coordinated by the Pension Rights Center. Member organizations created a pamphlet that explains the three-legged stool needed for retirement security, and offers 10 questions people can ask to find out about their retirement plans. The pamphlet, which will be distributed through the clearinghouse's member organizations, includes a card people can send back to get pension and retirement income publication listings.

"There is a surprising amount of material out there already, but people don't know it," said Karen Ferguson, director of the Pension Rights Center. "We just know that from our experience, there is an avalanche of people in desperate need of this information."

'We can help change the way people think about and act on their retirement needs,' says Olena Berg.

The public is not the only group needing information on retirement issues—Congress does too. On an initiative separate from the Labor Department's campaign, 16 pension organizations have taken on Capitol Hill to educate congressional members and staff from key pension committees on retirement issues.

This group, called the Retirement Savings Network, created an information package with details on different types of retirement plans and tax incentives, as well as information on the 1974 Employee Retirement Income Security Act and other laws affecting pension plans. The package also is being used in seminars with Congress members and staffers.

Overall, the campaign has allowed organizations to tag their own education campaign onto the Labor Department's initiative.

The American Council on Life Insurance, for example, plans to send kits to its 640 corporate members. The kits include ACLI's basic principles and goals for retirement savings and gives sample pieces company officials can use in newsletters.

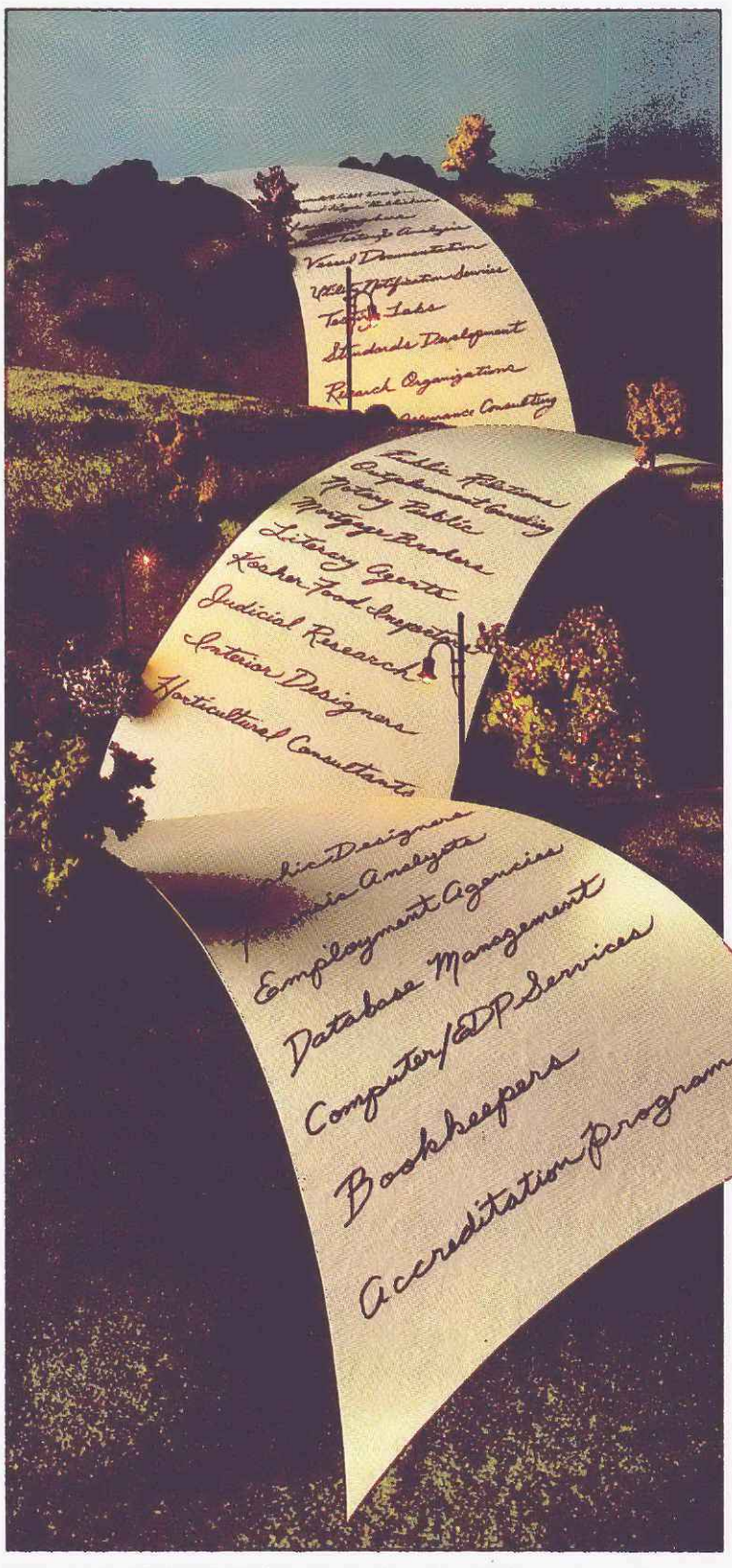
Some organizations, including the American Assn. of Retired Persons, are using the education campaign to publicize things they already are doing.

The campaign, and other initiatives, will last as long as the public is interested, collaborators said.

"We're talking about changing behavior substantially, and that's not something you do in a one-month program," said David Wray, president of the Profit Sharing/401(k) Council of America in Chicago.

"There has never been such a concerted and comprehensive effort like this before." BI

This List is Incomplete.



That's because there are more service businesses than you can think of, let alone list. And nearly every one of them has an errors and omissions exposure, meaning that in their everyday line of work, these companies risk getting sued for making mistakes. They may end up having to pay at least attorney's fees, even if they didn't make a mistake!

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Markets

Daycare firms merge

NASHVILLE, Tenn.—Corporate Child Care of Nashville and Morristown, N.J.-based Resources for Child Care Management will merge to form a yet-to-be-named company that will manage 73 child-care centers in 22 states with more than $50 million in combined 1995 revenue.

The new company, to be based in Nashville with a major Morristown office, will employ more than 2,800 people and serve approximately 6,000 families. The two companies have seven additional centers under construction and projected 1996 revenue in excess of $60 million.

Marguerite W. Sallee, president and CEO of Corporate Child Care, will be president and CEO of the new company. Robert Lurie, founder and president of RCCM, will become chairman of the board and president of a new division responsible for consulting services and research and development.

Terms of the merger, scheduled to close by Nov. 1, were not disclosed.

ECS forms new unit

EXTON, Pa.—Environmental insurer ECS Underwriting Inc. has formed a new customer business unit to specialize in providing non-traditional insurance products including large-deductible programs, retrospective rating plans, finite risk coverage, and coverage through captives or rent-a-captives.

The unit also will offer a combination of fronting and risk transfer mechanisms to help those associated with landfill closures.

The risk management unit will be headed by Managing Underwriter Joe Werner. ECS insurance must write at least one line of insurance for any client of the new unit.

Specific coverages provided include commercial general liability, commercial automobile liability and physical damage, contractor's pollution liability, consultant's environmental liability, pollution legal liability, pollution and remediation legal liability, property and inland marine and workers compensation.

Based in Exton, Pa., ECS Underwriting is a unit of Reliance National Insurance Co. For more information call 610-458-0570.

HMO partnership

MINNEAPOLIS—Northwestern National Life Insurance Co., a subsidiary of ReliaStar Financial Corp., has signed a letter of intent with HealthPartners, a Bloomington, Minn.-based health maintenance organization, to form a strategic alliance that will enable each organization to cross-market its managed care products.

Under the terms of the agreement, Minneapolis-based Northwestern's HMO, NWNL Health Network, will be combined with HealthPartners' HMO.

The transaction still is subject to corporate and regulatory approvals. A definitive agreement is expected by the end of September.

Terms of the agreement were not disclosed, though Northwestern said it does not expect the combination of its HMO with HealthPartners' HMO to have a material effect on holding company ReliaStar Financial's financial results.

New comp market

NEW YORK—Granite State Insurance Co., a unit of American International Group Inc., is now offering workers compensation coverage to employers in North Carolina, South Carolina and Missouri.

The coverage is targeted to small employers with annual workers compensation premiums between $5,000 and $50,000, which often are placed in state workers compensation assigned risk plans.

The Granite State policy makes loss control specialists from AIG Consultants Inc. available to policyholders to develop improved loss control programs to reduce workplace risks. Also, specialists from AIG Claims Services Inc. will apply cost containment measures emphasizing early return-to-work programs to reduce policyholders' claims costs.

For more information, call 800-444-8678.

St. Paul buys insurer

ST. PAUL, Minn.—St. Paul Fire & Marine Insurance Co. has acquired NML Insurance Co. of Nevada, following approval of the transaction by the Nevada Insurance Division.

Terms of the purchase of NML, Nevada's second-largest provider of medical professional liability insurance, were not disclosed.

NML provides professional liability coverage to approximately 660 physicians and physicians group practices throughout Nevada. Its 1994 written premium of $10.5 million was about 30% of total physicians medical liability premium in the state.

Summit opens office

DALLAS—Summit Global Partners Inc. has opened an additional Dallas office, Summit Global Partners of Texas Inc.

David Nichols, former vice chairman of Willis Corroon Construction, has been named president and chief executive officer of the new subsidiary.

Summit Global Partners, a Dallas-based broker headed by Gary R. Griffith, former president and chief executive officer of Bain Hogg Robinson Inc., now has six offices around the United States and one in Bermuda.

Benefit survey unit

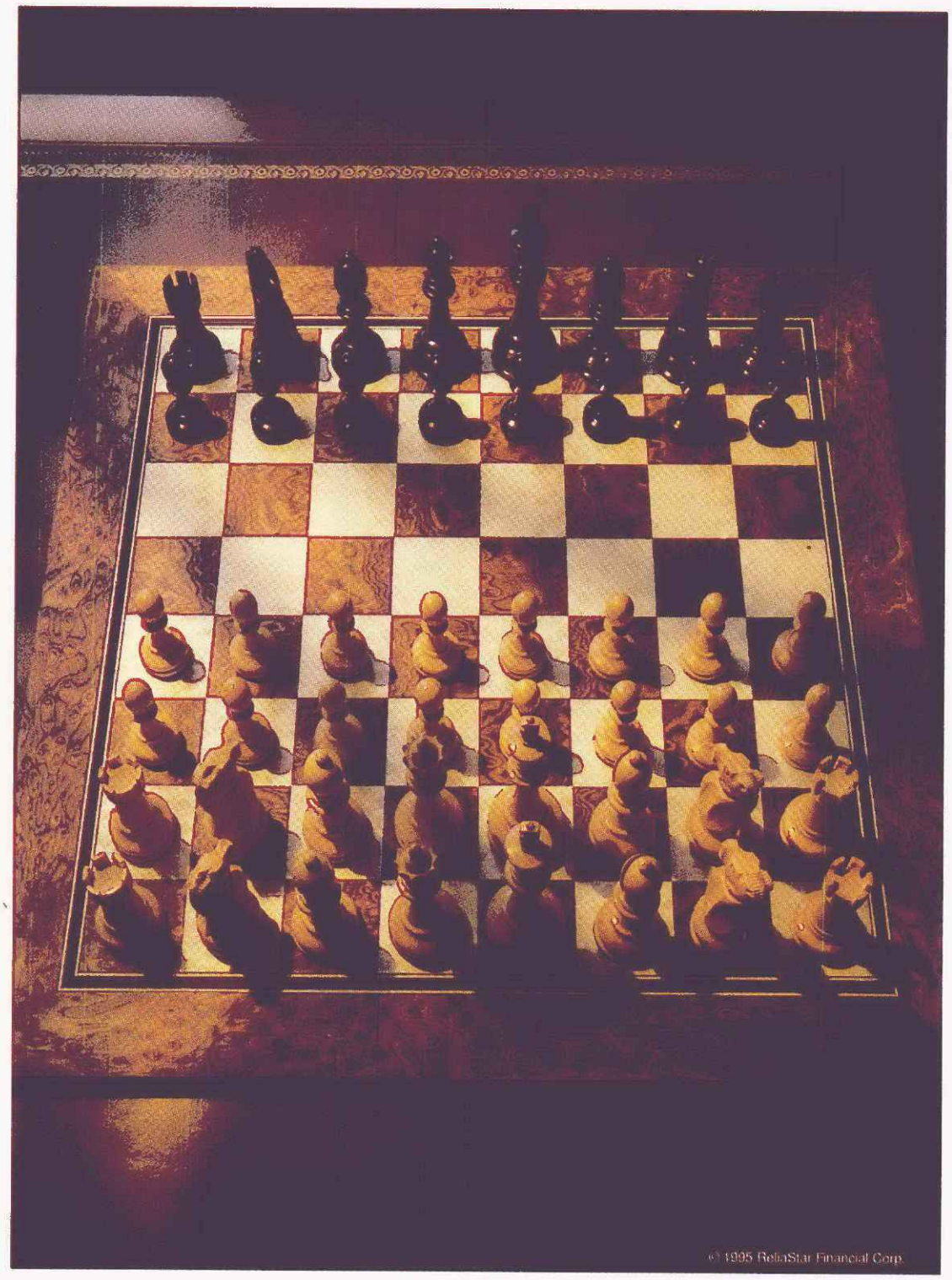
NEW YORK—The Human Resource Advisory Group of Coopers & Lybrand L.L.P. has established a health care consumer survey unit to assist employers and providers in determining the satisfaction of employees and other consumers with their health care plans.

Harris Allen, who developed and implemented the Employee Health Care Value Survey in his previous position with the Health Institute of the New England Medical Center in Boston, will head the new unit.

He also was involved in conducting the Iowa Health Survey in 1993, which used data from over 1,700 Iowans to compare area health plans, hospitals and physicians offices.

The consumer health plan value survey to be conducted by the new unit will help identify plans delivering the best care and service and will measure how employees

Continued on next page



Continued from previous page
and other consumers assess their own health.

It's intended to help employers and others maximize the value of the care they receive from health plans.

For more information call 617-478-3419.

Construction partners

NASHVILLE, Tenn.—Willis Corroon Construction has entered into a long-term strategic partnership with American Contractors Insurance Group, a Dallas-based company that owns and operates a number of insurance organizations for the construction industry.

Under the relationship, Willis Corroon is the exclusive broker of new members for ACIG as well as the preferred broker of surety, professional liability, umbrella, excess, and other miscellaneous coverages.

ACIG, which owned by Bermuda-based American Risk Transfer Insurance Co. Ltd., also has a long standing relationship with Continental Insurance Co., which is now part of CNA Financial Corp., to provide a broad range of services to ACIG.

New Wexford unit

SAN FRANCISCO—Wexford Underwriting Managers Inc., the excess workers compensation underwriting management unit of Aon Risk Services Inc., has formed a new unit.

Professional Risk Co., based in Seattle, will act as an underwriting manager providing employment-related practices liability insurance and human resource consulting services.

The new unit's telephone number is 206-621-8808.

A&A creates new group

NEW YORK—A new global infrastructure unit at Alexander & Alexander Services Inc. will provide risk management consulting and insurance services for major infrastructure construction projects.

Len Battifarano has been named director of the new group, which is headquartered in New York.

Additional regional offices will be established in Latin America and Asia.

New benefit researcher

SAN FRANCISCO—A new non-profit organization formed by two top California Workers' Compensation Institute staffers with 35 years of experience in compensation issues between them aims to develop research and analysis on integrated employee benefits.

Thomas Parry, former director of director of research at the institute, and William Molmen, former general counsel at the institute, said the new organization will include employers, health care providers, underwriters, employee organizations and consultants as members.

Mr. Parry will be president of the new organization and Mr. Molmen will be its general counsel.

The organization's creation will be formally announced some time this fall.

Seed money for the integrated benefits research group was supplied through a grant from Alexander & Alexander Services Inc.

For more information call 415-222-7280.

Claims cost control

CLEARWATER, Fla.—A new centralized risk management department at Acordia of Central Florida will focus on lowering variable claim costs in its clients' insurance programs.

Kurt Rosenast has been appointed manager of the newly formed division.

The new division combines several functions into a single department to work with clients to drive costs down by concentrating on integrating initial loss reporting, loss control, experience rating modification analysis and claims management.

Clearwater-based Acordia of Central Florida is an Acordia Inc. unit. For more information on the new department call 813-796-6666.

USI links with TPA

MELVILLE, N.Y.—As part of its plan to expand operations nationally, Benefit Plan Administrators Inc. of Melville, N.Y., has entered into a partnership with USI Insurance Services Corp. Terms of the agreement were not disclosed.

Third-party administration firm BPA designs and implements customized employee benefit plans for 150 companies and links with about 50 preferred provider organizations and some 300,000 providers nationwide.

USI is a brokerage based in San Francisco.

New offices

The Hartford Steam Boiler Inspection & Insurance Co. has opened a new office for its special risks division at 311 S. Wacker Drive, Suite 3275, Chicago, Ill., 60606; 312-697-4560; fax: 312-697-4561.

USI Insurance Services Corp. has a new location at 235 Pine St., Suite 1000, San Francisco, Calif., 94104-2701; 415-983-0100; fax: 415-983-0101.

EQE International Inc. has opened a new southeast regional office in the Woodside Executive Park, 1359 Silver Bluff Road, Suite G-26, Aiken, S.C., 29803; 803-642-6902; fax: 803-642-7193.

Duncanson & Holt Group has relocated its corporate headquarters to 1 Liberty Plaza, 52nd Floor, New York, N.Y., 10006; 212-385-9100; faxes: 212-385-1583 and 212-374-1876.

Insurance agency **Starkweather & Shepley Inc.** has opened it new headquarters at 60 Catamore Blvd., East Providence, R.I., 02914-1226; 401-435-3600; fax: 401-438-0150.

Reliance National Insurance Co. has expanded its global operation network to include an office in Cologne, Germany. The Cologne office operates as a branch of the company's London-based operation, Reliance National Insurance Co. (UK) Ltd. The new office, Reliance National Insurance Co. (UK) Ltd. Direcktion fur Deutschland, is located at Kaiser-Wilhelm Ring 50, 3rd Floor, 5000 Koln, Germany; 49-221-912-7670; fax: 49-221-912-7676.

Woodland Hills, Calif.,-based health-care software firm **Fred Rothenberg & Associates Inc.** has opened a Chicago area office at 2 Mid America Plaza, Suite 800, Oakbrook Terrace, Ill., 60181; 708-954-2247.

Cincinnati-based **Great American Insurance Co.**'s bond division has expanded its Western states operation by opening an office in Phoenix. The new office's address is P.O. Box 30570, Phoenix, Ariz., 85046-0570; 602-488-0558. BI

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Central element of early retirement plans ruled illegal

By JERRY GEISEL

SAN FRANCISCO—A widely used feature in early retirement programs—offering increased pension benefits in exchange for a waiver of the right to sue the company for employment discrimination—violates federal law, an appeals court says.

The 9th U.S. Circuit Court of Appeals ruling, which benefit experts call "clearly wrong," involves a Lockheed Corp. program.

In 1990, Lockheed offered enhanced pension benefits to older employees as an inducement for them to retire and used surplus pension benefits to fund the better benefits.

As in many other programs, employees that took the offer had to waive their right to sue the company for employment-related violations.

Such arrangements, the 9th Circuit ruled, violate one of the central elements of the Employee Retirement Income Security Act of 1974, the requirement that pension plan assets be used for the exclusive benefit of plan participants.

By linking benefits to waivers of rights to sue, Lockheed used plan assets to benefit itself by removing the threat of suits, the court said.

"The (litigation) releases at issue cannot be accurately characterized as an incidental benefit. . .they relieved Lockheed of countless liabilities or potential liabilities to thousands of employees," the court said.

"For these reasons, we conclude that the Lockheed's adoption of the 1990 plan amendments violated ERISA," the court said.

The decision, which the appeals court declined to reconsider last week, stunned benefit experts.

"The case was wrongly decided. This is a case where a plan is being amended to give employees increased benefits. That is the very nature of employee benefit programs," said John Woyke, a principal with Towers Perrin in Valhalla, N.Y.

Employers routinely establish programs that benefit themselves and their employees, noted the ERISA Industry Committee and the Assn. of Private Pension & Welfare Plans in a friend-of-the-court brief.

"Some employers allow employees to participate in a pension plan only if they agree in exchange to reduce their cash compensation. By striking such a bargain, the employer reduces its wage costs and employees obtain retirement benefits. It has never been suggested that such arrangements are unlawful," they said.

In the wake of the decision, some employers, though, may want to consider removing waivers from their early retirement programs.

"I'm not sure releases are (always critical). The nature of a window is that an employer is offering something beneficial to employees and it is fully voluntary. It is not something where you would expect employees to turn around and bite the hand that feeds them," said Tom Butterworth, a consultant with Hewitt Associates L.L.C. in Rowayton, Conn.

Alternatively, employers could offer extra cash to those who waive their rights to sue, noted Mr. Woyke.

But since the ruling is believed to be the first of its kind, employers may just to see what other courts do.

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Spink vs. Lockheed Corp., 9th U.S. Circuit Court of Appeals, July 18, No. 92-56094.

Age

Continued from page 2

The class-action suit also may include the several dozen younger laid-off workers who are not protected by the ADEA. Mr. Schleicher said he would consider whether to argue that those younger workers should be included in the class because they lost their jobs as a result of the alleged age discrimination against other workers at the plant.

The litigation centers on Kraft's 1993 closure of its Decatur, Ga., grocery products plant and its interpretation of its responsibilities under a 1990 law to 386 workers it laid off.

The act, the Older Workers Benefit Protection Act, clarifies the ADEA by standardizing the guidelines employers must follow to ensure that they obtain "knowing and voluntary" waivers of their laid-off workers' ADEA rights.

Kraft offered its Decatur plant workers enhanced severance benefits that included health benefits for a limited period and severance pay, both of which were based on employees' length of service. In return for the beefed-up severance benefits, the laid-off workers had to waive their ADEA rights.

Employers that lay off workers often take advantage of their ability to offer greater severance benefits in return for ADEA waivers, which prevent the workers from pressing age-discrimination suits against the employer later.

To obtain "knowing and voluntary" waivers, the OWBPA requires, in part, that employers first provide the laid-off workers the ages of other workers in the same job classification or the same organizational unit who will not lose their jobs. The employer also must provide the ages of those who are being laid off.

Kraft argued that no other employees at the company held the same job classifications or were in the same organizational unit as the laid-off employees. As a result, Kraft was obligated to provide the laid-off workers only the ages of the workers in that group, the company argued.

The laid-off workers, though, pointed to an analysis that Kraft conducted to determine where the layoffs should occur. "We think they've pretty much admitted they treated all of them as one group for analysis," said Mr. Schleicher, asserting that all five plants produced largely the same products.

That would mean that Kraft should have provided the laid-off workers the ages of the unaffected workers at the other four plants.

"That's how you really tell if this employer is targeting people with gray hair," said Sally Dunaway, an attorney in the Worker Equity Section of the American Assn. of Retired Persons in Washington, which filed an amicus brief in the case.

"If you don't have anything to hide, why should you care" about providing the ages of the unaffected employees? Mr. Schleicher asked.

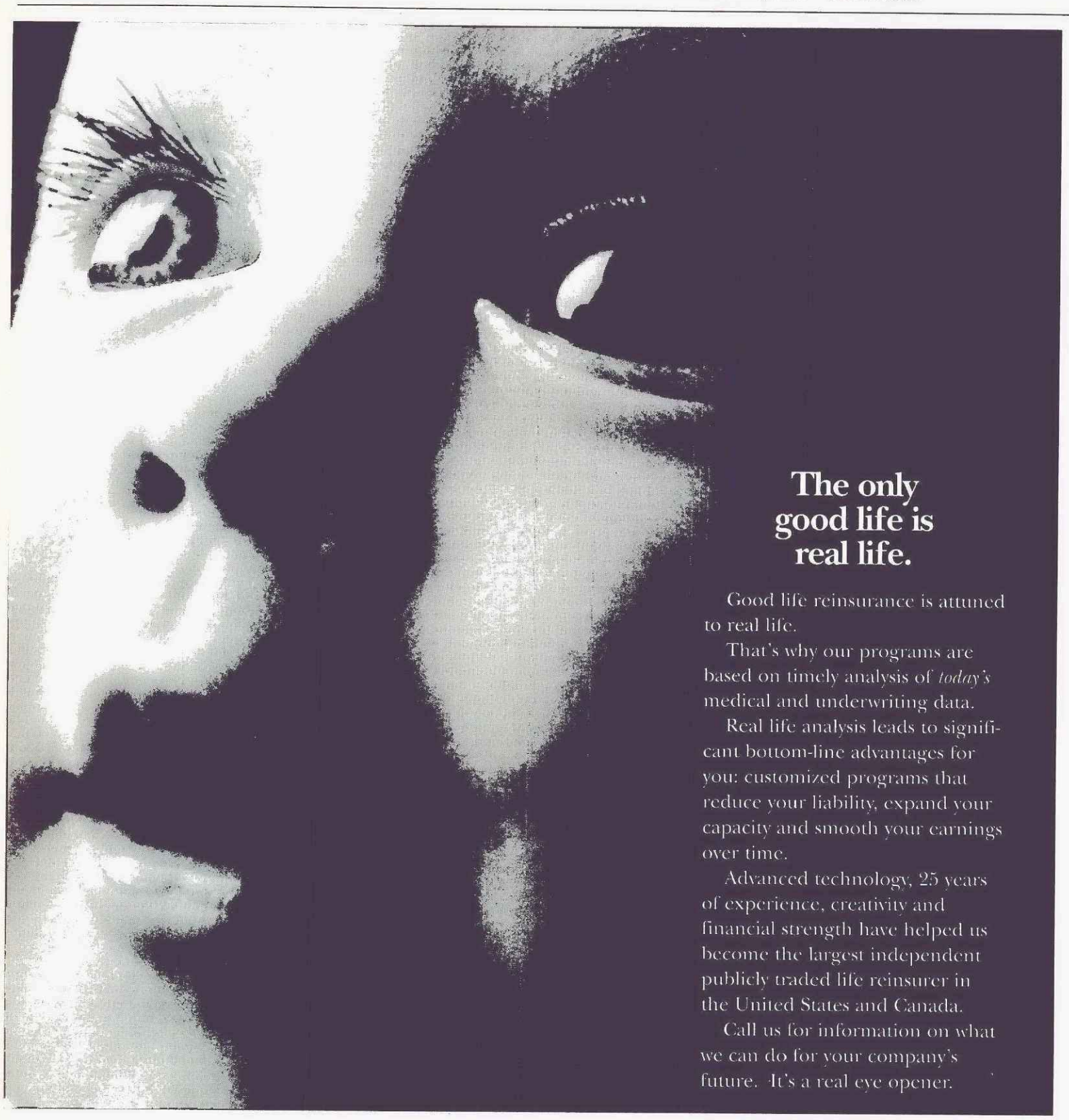
With that information, the laid-off workers would have seen that 309 of them, or 80%, were older than 40 and therefore protected by the ADEA, according to Mr. Schleicher. A far lower percentage of employees at the other plants were protected by the ADEA, he said.

Kraft's motive for eliminating the Decatur plant employees was to avoid the huge cost of providing lifetime health benefits, in which many of the older workers were close to vesting, Mr. Schleicher said.

The district court granted Kraft summary judgment, but the 11th Circuit reversed that ruling Aug. 28.

The OWBPA does not define "job classification or organizational unit," the 11th Circuit noted, "but neither

See **Age** *on next page*



Age

Continued from previous page

phrase naturally includes only the employees at a single plant. Given the myriad organizational structures of the business world, it is easy to conceive of a unit that would span more than one plant. Likewise, employees at the company's other plants may perform the same jobs, at identical levels in the hierarchy, making the same products, for pay similar to the Decatur employees.' "

In addition, nothing in the OWBPA limits employers' informational requirements to the unaffected employees at a single plant, the court ruled.

Nothing in the statute limits the employers' information requirements, the 11th Circuit ruled.

"Thus, to limit individuals in the same 'job classification or organizational unit' to a single plant would be to read the statute's words contrary to their naturally broad meaning and to insert an exception where none is written."

The court also rejected an argument by a Washington-based human resource advisory group that the OWBPA's legislative history shows Congress intended to limit employers' informational requirements to the employees at a single plant.

In an amicus brief, the Equal Employment Advisory Council pointed out that the "job classification or organizational unit" phrase in the act originally read "plant, facility or organizational unit" when it was reported to the Senate Labor and Human Resources Committee.

"If anything, the change from the concrete 'plant, facility' to the abstract 'job classification' suggest that Congress preferred a more open-ended reading of the statute that would take into account a variety of company structures," the 11th Circuit wrote in a footnote.

A lower court now must determine whether the employees at the other plants that Kraft included in its layoff analysis held the same job classifications or were part of the same organizational unit as the Decatur plant workers.

The appeals court also ruled that the district court should have considered factors other than those the OWBPA spells out for employers to follow to ensure that they obtain "knowing and voluntary" waivers of their laid-off workers' ADEA rights.

ADEA waivers are invalid if they are induced by fraud, duress, coercion or mistakes in information on which workers base their decisions.

Mr. Schleicher believes the lower court also should have considered the confusion he said Kraft caused after it gave the workers 45 days to accept the terms of the severance plan. Less than a month later, Kraft informed some employees that they had two days to return their ADEA waivers if they wanted their benefits on their last day on the job.

The workers were not sure whether the second notice shortened the original 45-day acceptance period or meant to inform the workers that their benefits would be delayed until after their termination date if the waivers were not returned within those two days.

The 11th Circuit, though, rejected a third argument by the plaintiffs. It ruled that employers do not violate the ADEA if their layoff and severance benefit plan does not provide greater benefits to older laid-off workers than to younger laid-off workers.

The older plaintiffs argued that they were entitled to additional benefits because the younger workers did not have to give up any rights to obtain the severance benefits.

The 11th Circuit deferred to a recent 3rd Circuit decision. "The court reasoned that such a plan is not facially discriminatory, because the plan itself does not distinguish between older and younger workers; rather, the ADEA makes that distinction," the 11th Circuit explained.

The plaintiffs did not raise this issue before the lower court, but the 11th Circuit decided to hear it on appeal anyway.

Kraft's attorneys at King & Spalding in Atlanta would not comment.

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Poleon Griffin, Nathaniel Solomon, Jackie Moody et al. vs. Kraft General Foods Inc., 11th U.S. Circuit Court of Appeals; 94-8335.

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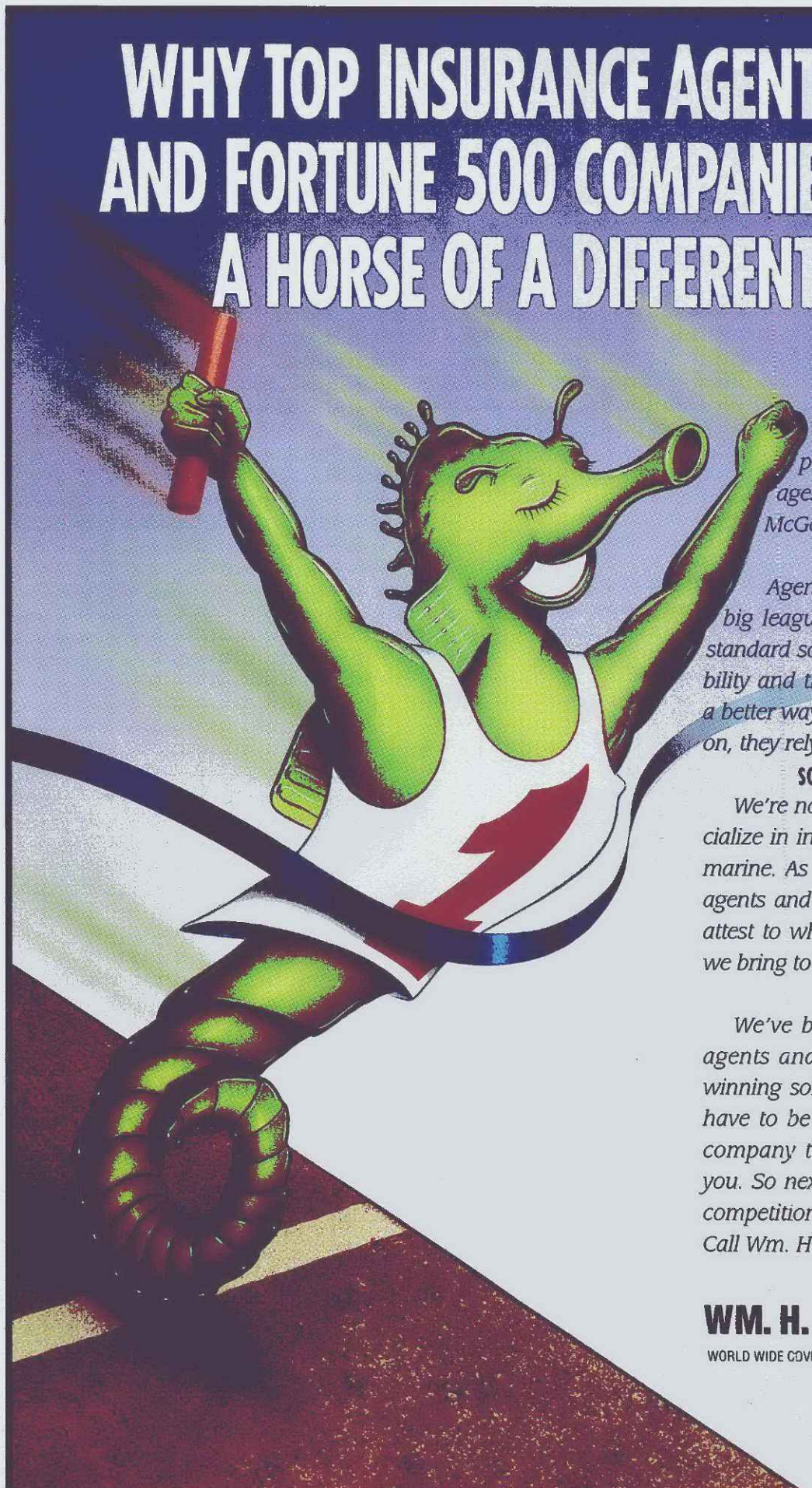
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HMOs

Continued from page 2

interest-sensitive stocks.

Dave Shove, of Fox, Pitt-Kelton in New York, noted that of the 20 HMO stocks his firm follows, only six have gone up. And just one, Oxford Health, has outperformed the Standard & Poor's 500.

"April was kind of the turning point," said Caren Taylor, an analyst at Kemper Securities Inc. in Chicago. In April, she noted, Blue Bell, Pa.-based U.S. Healthcare Inc. announced a change in its strategy and implied its medical loss ratio would go up, resulting in lower margins. "That kind of spread to the whole group" and investors became concerned about rising health care costs, inflation and competitive premium rates, said Ms. Taylor.

"This is going to still be a very choppy year for HMO stocks," said Dean Witter's Mr. Richter.

However, the situation may already be starting to improve. For the week ended Sept. 1, the *Business Insurance* stock market index of eight HMOs had declined an average of 6.6% year-to-date, but by Sept. 8, this had improved to a 1.9% decline.

"The last couple of months have been fairly lackluster, until really about the last week or so, when things have picked up fairly nicely across the board," said Rob Mains, of First Albany Corp. in Albany, N.Y.

He said there "doesn't' seem to be any particular reason for it," although a rosy outlook given by Oxford Health Plan at an investor conference two weeks ago could be a factor.

Another possible factor: expectations, later realized, that the Health Care Financing Administration would set Medicare rates at levels that would bolster HMOs that specialize in this area.

HMO stocks did very well in anticipation "of Medicare rates coming out in the high single digits," said Gregory Moerschel of Chicago Corp. That is certainly a windfall for the HMOs, because they're able to control costs far better than Medicare has in the past, which is what the payment formula is based on," he said.

Last week, the federal agency announced Medicare rates would increase on average 10.1% nationwide in 1996.

While only about 2 million to 3 million Medicare recipients are HMO members, if those HMOs that do business in this area "don't have to pay doctors and hospitals as much as their rate increases, they have a slight advantage there," said Mr. Snow of Buckingham Research.

Anticipated price increases are also bolstering HMO stocks.

"I think that the investment community is starting to believe that the price increases in 1996 may be a little bit better than they were expecting a few months ago, and that cost pressure may have eased slightly, which leads to larger margins," said Mr. Shove.

"Enrollment's not an issue. Enrollment's very strong. The question's always been will the margins hold, and I think investors are starting to think they will," Mr. Shove said.

Many analysts say next year's outlook is brighter for the selected stocks that increasingly distinguish themselves from their lower-quality competitors.

"I think what will happen is over time there will be a differentiation between companies that are well run and have a good business opportunity and the companies that have operational or market problems," said Ellie Kearns, of Alex. Brown & Sons in Baltimore.

These well-run companies "will appreciate in value as they deliver earnings, but I think they're going to have to wait maybe a couple of quarters" for this to materialize, she added.

Selected HMO stocks will remain strong performers, said Mr. LeConey. "The reason probably is mainly that investors are moving out of technology stocks and into health care. (Prices for high-tech stocks) have just gone so high."

Overall, pressure on premiums will make HMOs an uneventful market sector over the next six to 12 months, said Kandace Rawls, an associate analyst with Montgomery Securities in San Francisco. However, she added, there may be a distinction between HMOs that can more effectively manage their medical costs vs. those that cannot and perhaps that will "become a little more visible over the next year."

One analyst favorite is Oxford Health, which operates in the New York metropolitan area.

"I think they are a very well-run company in an extremely desirable market, and the company has been able to capitalize on the opportunity and to manage pretty outstanding growth," said Ms. Kearns. "Membership has doubled for the last two years, and we're projecting it will double again this year."

Oxford Health "services the most attractive market in the country, the smaller New York-based employers, which is a huge market," as well as a lucrative one, said Mr. LeConey. "It demands high-quality services, will pay a premium price, and is the best niche market, if you can call it that, in the country.

"It's basically law firms, brokers, architects, you name it. The people in firms like that are either workaholics who die at their desk, like me, or young people, who don't go to doctors, like my assistant, and that's really true."

"Oxford has done a fantastic job" in developing this as a profitable niche market, said Mr. LeConey.

Mr. Mains said he recommends Oxford Health as well as Healthsource because "they are the two leaders in the industry in terms of enrollment growth, and neither of them has disappointed investors this year in terms of making earnings expectations either.

Furthermore, their rapid enrollment growth "allows them to remain somewhat selective with their customer base." If a customer says he wants a 10% break next year, they are not in a position where they have to accept that because "plenty of members elsewhere can continue to fuel growth."

Other stocks recommended by analysts include United Healthcare, with analysts citing its impending merger with MetraHealth (*BI*, June 26).

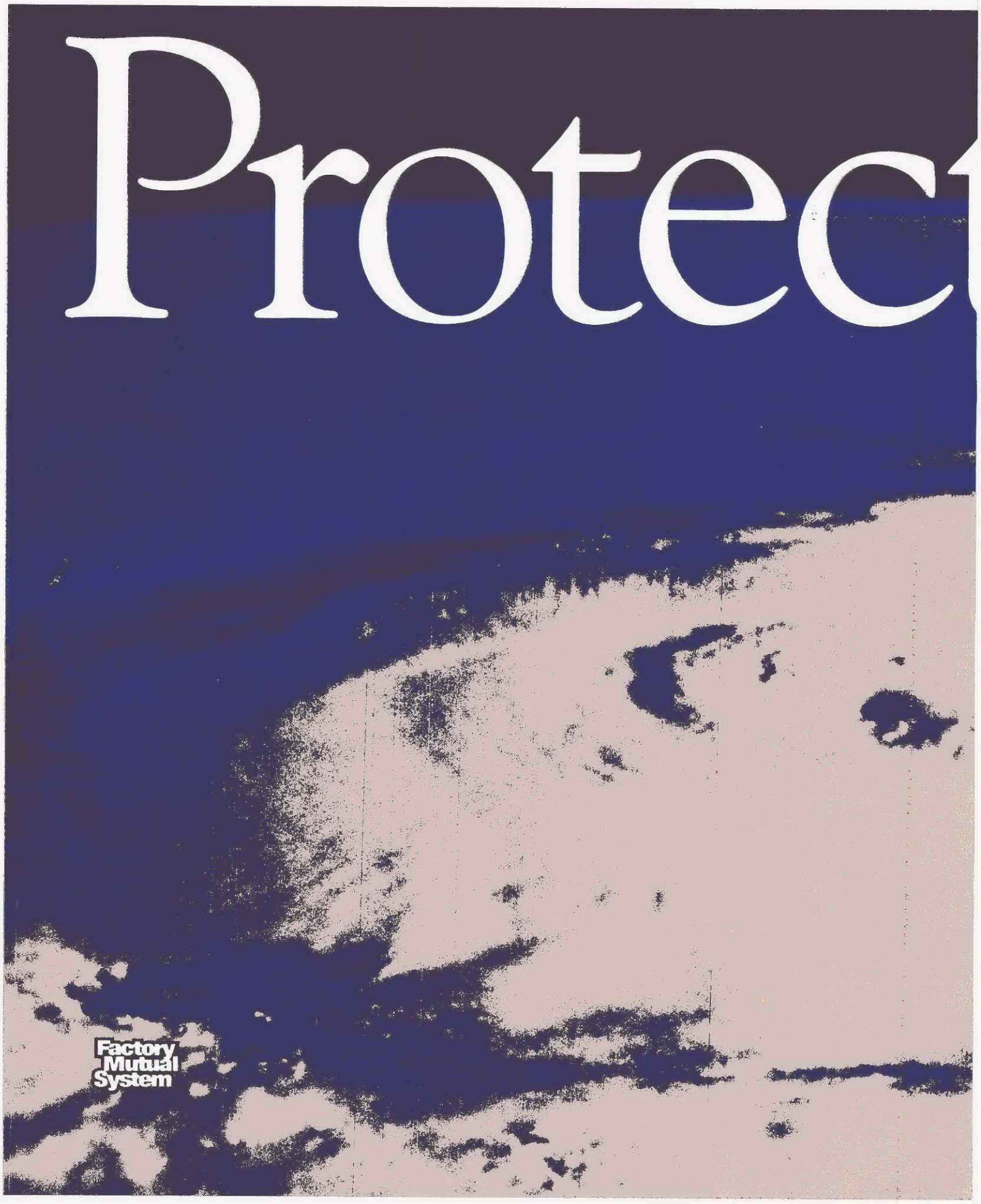
The company is "probably the pre-eminent HMO in the industry," and is well-managed and very highly regarded, said Ms. Taylor.

Its proposed merger with MetraHealth is "a fantastic acquisition for them" that will given the company significant negotiating leverage with providers, an enormous amount of enrollment and enable it to get into new markets and introduce new products, said Ms. Taylor.

"United HealthCare is an industry leader," said Ms. Kearns. "I think it's one of the strongest management teams in the industry, and with the acquisition of MetraHealth—probably in the fourth quarter—will become a national leader in size as well. They will grow virtually double," from $5 billion to $10 billion in revenues annually, and their scope will become national.

Analysts describe Pacificare as

See **HMOs** *on next page*



HMOs

Continued from previous page

being very strong in the Medicare business although it has a "very strong commercial base as well," said Ms. Kearns. Referring to its Medicare business, Mr. LeConey said "This is the last frontier for the HMO industry and nobody does it better than Pacificare."

Pacificare is "not allowing themselves to go into expansion faster than they can control it," said Ms. Rawls.

Mr. Shove recommends Pacificare, along with Maxicare Health Plans Inc. and Foundation Health Plan. "Right now, we're only recommending West Coast companies because we believe that they have the strongest tools to deal with a competitive, heavily-regulated environment," he said.

On Monday, however, the day the HCFA announcement was made, PacifiCare's stock dropped $4.25, closing at $57.88.

Ms. Rawls noted this was a reflection of the market's disappointment that with rates overall increasing 10.1%, the rates within the regions Pacificare operates will increase an average of only 4.5%, compared with 5.4% for 1995.

Ms. Rawls said this is a reflection of a 1.6% rate for Los Angeles County, where Pacificare does a significant amount of its business. She said it is likely this is a mistake that will eventually be corrected, perhaps to about 3%. Monday's drop, she stressed, does not indicate "a fundamental weakness in the stock."

Another analyst favorite, Healthsource, "emphasizes a rural, less competitive market in smaller states, like a Wal-Mart approach," said Mr. Snow, who includes it among his recommendations.

Healthsource is also on Ms. Rawls' list. The company "at this point still has a lot of enrollment momentum building in its markets," with "same store" gains of more than 40%, she said.

While many other HMOs are approaching the point of becoming licensed in its markets, "we believe the company is very well-positioned to maintain a very strong competitive position in those markets they're in," and it will not be a "total piece of cake for those other competitors to come in" and gain significant market share, said Ms. Rawls.

Other stocks recommended by analysts include Coventry Corp., parent company of Group Health Plan Inc. in St. Louis; Nashville, Tenn.-based Healthwise of America; Mid-Atlantic Medical Services, based in Rockville, Md., and Physicians Health Services Inc., based in Trumbull, Conn. BI

Roth

Continued from page 3

year as cash.

Sen. Roth has "been very supportive of MSAs. . .it is a reflection of his belief in personal responsibility" for savings, said Greg Scandlen, executive director of the Council for Affordable Health Insurance, an Alexandria, Va.-based insurer group that backs MSAs.

But, the passionate interest Sen. Roth has shown in individual benefit programs, like IRAs and MSAs, does not yet extend to group benefit programs, consultants say.

Indeed, several years ago, when a number of group benefit experts met with Sen. Roth to discuss the need to improve the nation's savings rate, the Delaware Republican was far more interested in IRAs as savings vehicles than group pension plans.

"He went on and on about IRAs. It was clear that Sen. Roth was less interested in employer savings plans than in IRAs," said Howard Weizmann, a consultant and manager of the Washington office for Watson Wyatt Worldwide.

Sen. Roth's interest in individual benefit plans could have disturbing implications for group benefit plans, some benefit experts worry.

They question, for example, Sen. Roth's willingness to resist proposals to reap new federal revenues by taxing employee benefit plans.

"He is not likely to go to the mat" to defend employee benefit plans from new taxes, warned Henry Saveth, a principal with A. Foster Higgins & Co. Inc. in New York.

In fact, Watson Wyatt's Mr. Weizmann speculated that Sen. Roth might be willing to support proposals to tax group benefit plans if the revenues were used to help fund expanded IRAs.

While Sen. Roth may be the Senate's lead supporter of individual benefit programs, Sen. Packwood has long been known in benefit lobbying circles as the congressional champion of employee benefit plans.

"He has been a historic figure in Congress for employee benefits," said Frank McArdle, a Hewitt Associates L.L.C. consultant in Washington.

In 1984, Sen. Packwood almost singlehandedly forced Sen. Robert Dole, R-Kan., to withdraw a proposal the Kansas Republican was trying to ram through the Finance Committee that would have gutted the use of Voluntary Employee Beneficiary Assns. as a tax-effective vehicle to fund health care and long-term disability programs.

"Sen. Packwood's role was critical," said Edward J. Davey, national practice leader for health and welfare at Buck Consultants Inc. in New York.

During the mid-1980s, Sen. Packwood may have been the Senate's most outspoken opponent of proposals to tax employees on a portion of employer-paid health care premiums. He also resisted moves to take away the tax breaks enjoyed by participants in flexible benefit plans.

In the mid 1980s, Sen. Packwood convened several days of hearings to get the message across of the importance—for social policy reasons—of retaining the tax-favored status of employee benefit plans.

Sen. Packwood's support of group benefit plans was grounded in a core belief that the private sector does a far better job of providing benefit plans than the government and those private efforts should be encouraged through tax breaks.

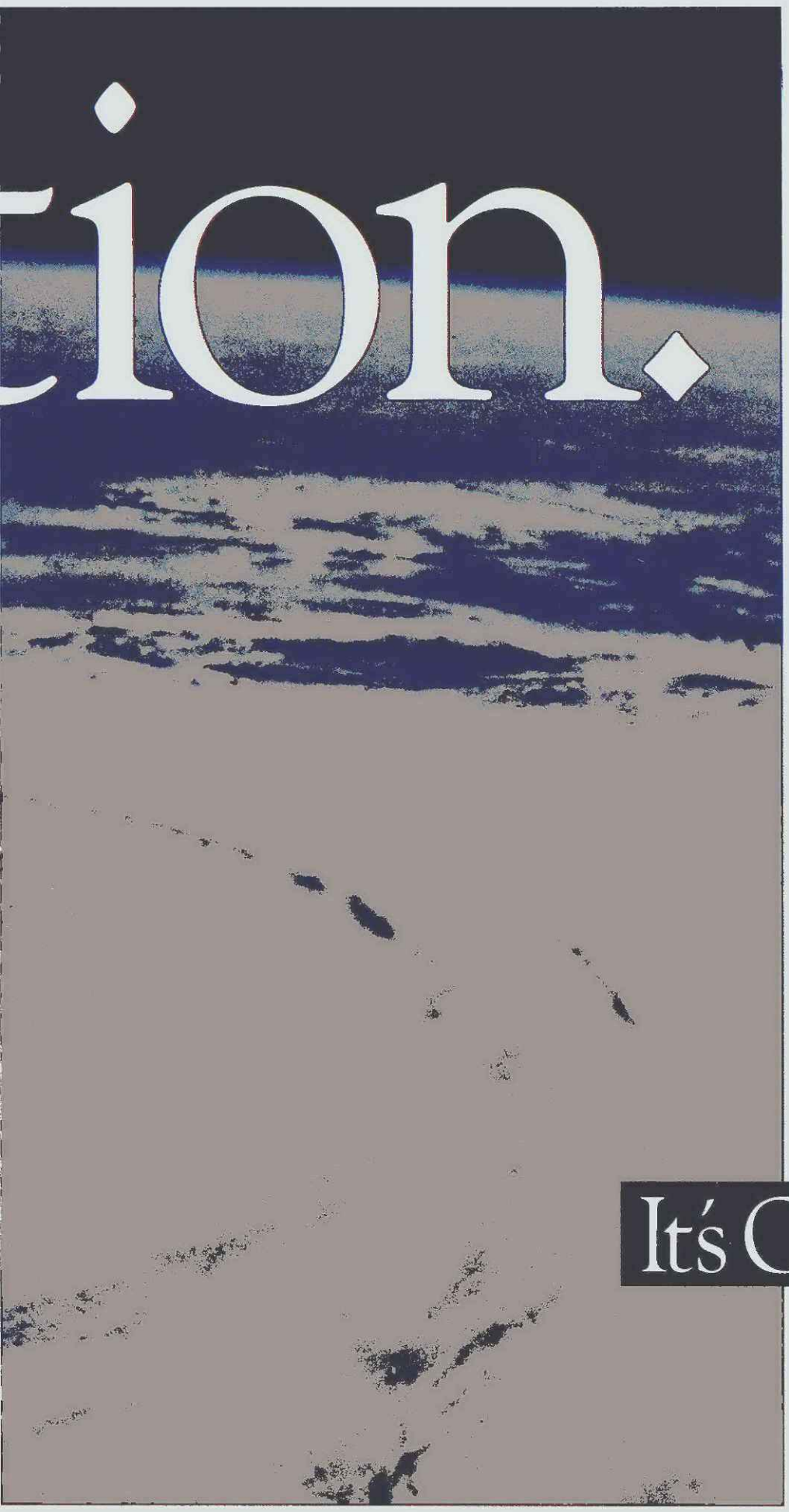
"Sen. Packwood viewed employee benefits as serving a vital public policy purpose where others (in Congress) saw benefit plans as no more than a drain on revenues," said Mr. McArdle.

While the differences between Sens. Roth and Packwood on employee benefit issues are obvious, the immediate significance of the leadership change in formulating legislative policy for benefit plans will not be clear for several months.

Still, whoever chairs a key committee in charge of tax and benefit issues can play a vital role in the fate of legislative proposals.

Perhaps the best recent example of that occurred last year when House Ways and Means Committee Chairman Rep. Daniel Rostenkowski, D-Ill., resigned after being indicted on corruption charges and was succeeded by Rep. Sam Gibbons, D-Fla. (*BI*, June 13, 1994; May 30, 1994).

Rep. Gibbons lacked his predecessor's skill in building bipartisan support. With Rep. Gibbons at the helm, the Ways and Means Committee put together a health care reform bill without any Republican support, a factor in the eventual collapse of the reform effort. BI





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–Charles Dudley Warner, 1890

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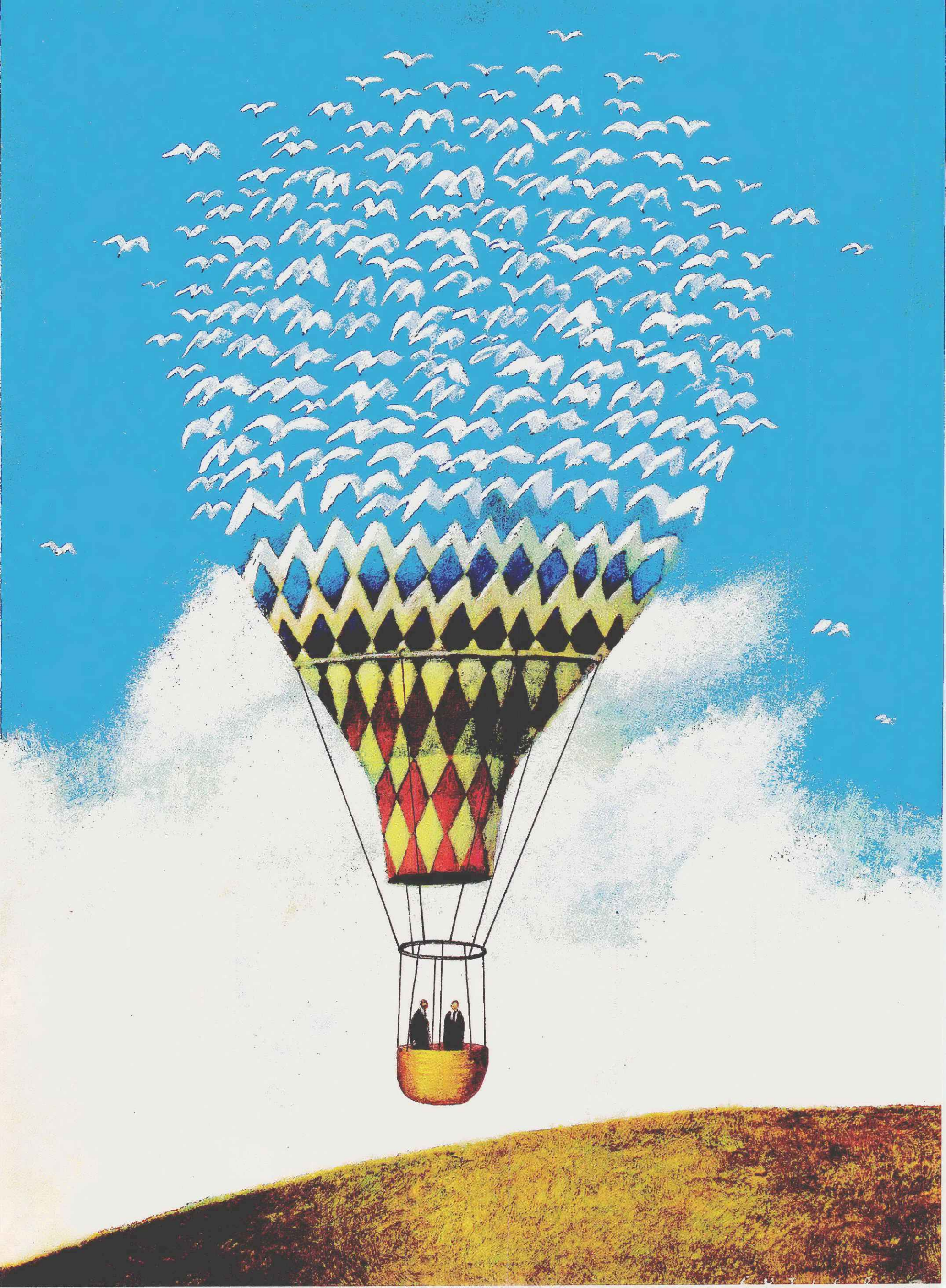
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Fraud

Continued from page 3

guilty at an Aug. 30 arraignment and were released on bond.

Mr. Ledbetter "denies that he committed any fraud," said his lawyer, Alexander Bunin of the federal public defender's office.

Billy Kimbrough, a lawyer for Ms. Miller, said Mr. Ledbetter had fired her as counsel for SAMCO and as a director of Southern Continental in May 1991, nearly a year after Mr. Ledbetter acquired the offshore insurer.

At the time Ms. Miller was fired, Southern Continental was still paying claims, according to Mr. Kimbrough, of Turner, Onderdonk, Kimbrough & Howell in Mobile.

He also denied that Ms. Miller diverted premiums, saying she was paid for work she performed for the companies.

"I don't know that being paid is a crime," he said.

If convicted on all counts, Mr. Ledbetter faces a statutory maximum of 180 years in prison and Ms. Miller up to 35 years.

Though not mentioned in the indictment, SAMCO did business with other offshore insurers that encountered regulatory trouble in the United States, documents show.

One of these was Premier Assurance & Casualty Co. Ltd. of the Turks & Caicos, for which SAMCO handled claims and from which Southern Continental took over a book of California auto business in 1990, according to documents signed by Mr. Ledbetter.

Premier was later barred by the California Insurance Department.

In early 1992, at about the time Southern Continental announced it would stop underwriting in the United States, SAMCO became the managing agent on a California auto program for Old American Insurance Co. Ltd. of the Turks & Caicos, according to a cover note issued to SAMCO. Cover notes are sometimes used as evidence of insurance in place of binders.

Under a separate cover note, Old American agreed to cede 25% of the business to Southern Continental, with additional 25% shares also going to Global Insurance Co. S.A. of Uruguay and Western Fire & Marine Insurance Co. Inc.

Old American, operated in the 1980s by the late con man Alan Teale, was banned by California regulators in 1993 (*BI*, Jan. 25, 1993).

Global has also been hit with cease-and-desist orders by regulators in several states.

Both covernotes were issued on letterhead of Winmill International Inc., a Winnipeg intermediary that has acted as agent for both Global and Azteca Insurances S.A., another Uruguayan insurer that has been hit with cease-and-desist orders in at least two states (*BI*, Jan. 2).

The Mobile indictment charges that Mr. Ledbetter and Ms. Miller conspired to write business for Southern Continental knowing that the insurer was not financially able to handle the risks.

After Ms. Miller was fired in 1991, Mr. Ledbetter kept pocketing money while policyholders 'were complaining daily' about unpaid claims, the indictment claims.

The defendants knew, for example, that when Mr. Ledbetter acquired Southern Continental in mid-1990, its former owner retained most of the insurer's significant assets as part of the purchase price, prosecutors allege. Mr. Ledbetter also used $595,000 that SAMCO owed to Southern Continental to pay part of the purchase price to the former owner, prosecutors say.

The indictment does not name the former owner, but lawyers in the case identified him as Kenneth W. Canton, a Mobile surplus lines broker. Mr. Canton could not be reached.

Mr. Ledbetter and Ms. Miller also provided fraudulent Southern Continental financial statements to insurance regulators in which the insurer reported holding assets it did not actually own, the indictment charges.

Shortly after Mr. Ledbetter took over Southern Continental, he and Ms. Miller started withdrawing large amounts of cash from the insurer for their personal use, even though they knew it was in weak financial condition, prosecutors allege.

After Ms. Miller was fired in 1991, Mr. Ledbetter continued to pocket money from the insurer while policyholders "were complaining daily" about unpaid claims, the indictment says.

Money was also siphoned away from the insurer through payment of large management fees to SAMCO. Though the two companies were represented to be unrelated entities, Southern Continental and SAMCO were both operated from the same Mobile office using the same employees, prosecutors say.

Through his employees, Mr. Ledbetter used stalling tactics and lulling letters to put off policyholders who complained about unpaid claims. When the flow of incoming premiums slowed and it became more difficult to cover claims, Mr. Ledbetter and Ms. Miller tried to shift the blame by saying that Southern Continental's problems were caused by adjusters, brokers and even fraudulent claimants, the indictment alleges.

Once Southern Continental ceased underwriting, Mr. Ledbetter also hired a "liquidator" for the company who did not pay a single outstanding claim but who "managed to drain what little cash was left in the company and allowed the defendants to keep the assets they had taken" from Southern Continental, according to the indictment, which does not name the liquidator.

Along with mail and wire fraud, money laundering and conspiracy charges, the indictment accuses Mr. Ledbetter of tax evasion for failing to report more than $800,000 he diverted from the insurer from 1990 to 1992.

While Mr. Ledbetter reported taxable income of $351,525 in 1990, for example, his actual income was $751,525, according to the indictment. In 1991, he reported only $263,898 but actually had taxable income of $432,773, the indictment says.

Ms. Miller, charged with wire fraud and conspiracy, also faces one tax evasion count for failing to report $300,000 she allegedly diverted from Southern Continental in 1990. BI

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A&A deal

Continued from page 2

ing group, marine and construction.

"This gives us the opportunity to refocus and return resources to expand in the business we are proven leaders in with expertise," said Nick Cosh, financial director for JIB in London. "It's one of those deals that is very good on both sides."

As part of the deal, A&A will acquire operations in: Phoenix; Los Angeles, Orange County, San Francisco, San Jose and Stockton, Calif.; Chicago; Topeka, Kan.; Detroit; Kansas City, Mo.; New York; and Houston.

It excludes JIB's personal lines, reinsurance, wholesale and its New York-based marine business as well as Jardine Group Services, which is JIB's Latham, N.Y.-based group and affinity business specialist and manages insurance programs for trade and other organizations.

In addition to building "depth and scope in the markets we want to build in," the acquisition also brings with it "real professionals and high-quality management people," Mr. Zarb said.

Jardine Chairman George W. Brown is joining A&A and will work directly with Mr. Zarb on new business development; David J. Batchelor, Jardine's president and CEO, will become A&A's regional director of the Western region; and Sam Elliott, president and CEO of Jardine's Los Angeles office, will become A&A's regional director for California.

In all, the JIB deal will add about 500 employees to A&A.

Jardine "obviously has some strengths that are being acquired," said Fred Dopfel, president of Russell Miller Inc. in San Francisco, referring to the broker's West Coast operations.

By making the acquisition, A&A is signaling that "it is on a comeback, in a big way," he said.

At the same time A&A is building its organization, JIB is looking to restructure its operations.

JIB Group P.L.C. is the world's No. 8 brokerage, with $367.7 million in 1994 revenues, up 6% from $347 million in 1993.

Revenues from U.S. operations, though, have been declining steadily. They fell 11% to $154.4 million in 1994 and 1.3% to $173.5 million in 1993. For the first six months of 1995, JIB reported a £700,000 ($1.1 million) loss on operating revenues of £112.1 million ($178.7 million), compared with an £8.9 million ($13.7 million) profit on operating revenues of £114.7 million ($177 million) in the first half of 1994.

JIB attributes its poor results to the soft property/casualty market and the dollar's weakness against the pound. Six-month results also include an £8.9 million ($14.2 million) loss due to the write-off of good will relating to sold offices in the United States, New Zealand and London (*BI*, July 17).

As part of its restructuring, JIB is withdrawing from non-core areas and developing and growing its specialty business. JIB expects to net about £20 million ($31 million) from the sale of its U.S. operations and will use those proceeds to invest in these areas of specialization, Mr. Cosh said.

In addition to selling its U.S. retail operations, JIB is merging its retail and wholesale operations into one London-based company that will be known collectively as Jardine Insurance Services. Mr. Cosh said an estimated 150 jobs will be cut due to the merging, which is expected to save the company about $5 million.

The entire restructuring effort is expected to cost £5 million ($7.6 million) for the full year. BI

Benefit research group formed

Integrated employee benefits in California initial target for new group

SAN FRANCISCO—Two top California Workers Compensation Institute staff members with a collective 35 years of experience have resigned their positions to launch a non-profit organization dedicated to developing research and analysis on integrated employee benefits.

The formation of Integrated Benefits Institute will be formally announced once a target number of member organizations is reached sometime this fall, according to William Molmen, CWCI's former general counsel who will serve as general counsel of the new organization.

The institute, which was inaugurated Sept. 6, will include employers, health care providers, underwriters, employee organizations and consultants as members, he said.

Eventually, the group plans to expand beyond California to meet the membership's out-of-state needs.

"Integrated benefits, including 24-hour coverage programs, are poised for explosive growth," predicts Thomas Parry, former director of research for CWCI who will serve as president of the new organization.

"Integration is already under way in various forms such as blended workers compensation and group health medical care, coordinated management of various disability programs and more closely linked group health and group disability plans," Mr. Parry said.

"However, companies using such new programs will be managing their benefits with no history," Mr. Parry warned.

"Our new organization will develop broad-based data and analysis to help member organizations project and measure the effectiveness of their innovative programs and provide a forum to discuss important issues in this emerging area of employee benefits," he said.

The group also plans to review regulatory and statutory initiatives that govern benefit plans, he said.

Preliminary institute research projects as many as 25 million to 45 million employees being covered under some form of integrated benefits program by the end of the century.

To date, 19 states either have passed legislation or have bills pending which would enable employers to integrate their benefit programs, according to the institute.

Seed money for the group came from a grant by Alexander & Alexander Inc.

In addition, participation-based membership fees will be established.

For information on membership, contact Mr. Parry at the Integrated Benefits Institute, 525 Market St., Suite 740, San Francisco, Calif. 94105; 415-222-7280.

—By Joanne Wojcik

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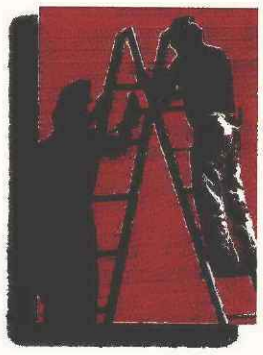
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BIWCFPS

Cost still drives health plan design

By SALLY ROBERTS

A majority of employers still rank cost over quality as the most important factor in their health plan decisions, despite evidence that the era of spiraling group health cost increases is over, a recent survey says.

However, large employers as a group have implemented managed care more fully than midsize to small employers and more are beginning to treat quality as a more significant factor in health plan decisions, the study indicates.

Total costs for all health plans fell 1.1% to an average of $3,741 per employee in 1994, from $3,781 in 1993, while managed care plans saw even greater declines, according to a survey of 2,097 employers conducted by A. Foster Higgins & Co. Inc. earlier this year (*BI*, Feb. 13).

Despite lower plan expenses, cost remains high in employers' minds, according to a recent survey by the American Management Assn. and Fortis Inc.

Seventy-seven percent of the 1,115 employers surveyed consider their cost as one of the most important factors when designing or modifying group health plans. By comparison, 57% said quality of care is of high importance, while 47% said cost to employees, 32% said the range of benefits and 42% cited accessibility. Figures exceed 100% because the companies could choose more than one answer.

"Companies are very concerned about health care costs," even though cost increases are slowing and some costs are declining, said Mary Case, a principal with Kwasha Lipton L.L.P. in Fort Lee, N.J.

Everyone understands cost, "whereas many plan sponsors are not familiar and comfortable discussing quality issues," said Dave Johnson, director-joint venture marketing for Fortis in Woodbury, Minn. As more employers use managed care, though, quality will be a bigger issue, he said.

Benefit consultants agree that plan sponsors are placing more weight on cost than quality when designing health plans, though it depends on company size and the maturity of the marketplace.

"A vast majority of the American public is employed by small employers—500 employees or less—and, in general, smaller employers focus heavily on cost," said Robert Coburn, director of managed care in the Mid-Atlantic region at Foster Higgins in Washington.

Indeed, a greater percentage of large employers are starting to measure quality than smaller employers. According to the survey, about 60% of small employers—those with less than $50 million in sales—are taking some steps to measure quality while 80% of large employers—those with more than $1 billion in sales—are taking quality measurement steps.

The most heavily utilized quality measurement approach, according to the survey, is reviewing health plans' utilization reports. Nearly 60% of the respondents use these reports to show overutilization or underutilization of services. About 69% of larger employers use the reports, while 47.7% of smaller employers do.

"Cost will continue to be the driver mainly because plan sponsors haven't yet fully realized that quality will be an integral part," said Randall Abbott, managing director at Alexander & Alexander Consulting Group Inc. in Lyndhurst, N.J.

When managed care evolved, plan sponsors started saving money through price discounts and then squeezed further costs out through utilization review and utilization management, Mr. Abbott explained. Most plan sponsors still can squeeze savings out through these methods. However, in more "mature markets," such as the West Coast or Minneapolis, further cost savings are not possible by these means, so the focus is on the next step—the quality of care.

Because quality is so ambiguous, clinical outcomes measurements—a key approach for measuring quality—are being underutilized, consultants said.

Assessing clinical outcomes helps patients, payers and providers make more rational medical care choices based on better insight into these choices' affect on the patient's life.

According to the survey, only 28.5% of companies said that clinical outcomes is a factor of highest importance in measuring quality of health care services. And only 18% have access to an enhanced information system that allows them to track treatment outcomes.

Consultants say the findings are not surprising because clinical outcomes reports are still new and somewhat confusing to employers.

Clinical outcomes is "a comfort and understanding issue," said Mr. Johnson, adding that the industry hasn't promoted the strength and usefulness of this measurement yet.

Clinical outcomes is the "toughest piece of the equation" because it is difficult to guage, ACG's Mr. Abbott said. Not only do health care practice patterns differ among plans, outcomes also are affected by demographics, case mixes and severity of conditions, he said.

Those plan sponsors taking advantage of clinical outcome measures are "forward thinking" or those that are aware and concerned about vicarious liability issues that can emerge with sponsoring managed care plans, Mr. Abbott said.

Indeed, clinical outcomes may become more of an issue as an employer's liability for managed care programs becomes more prevalent, Kwasha Lipton's Ms. Case said. Employers are apt to preform greater due diligence before partnering with a health plan to make sure it is not exposing itself to liability.

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For a free copy of the survey, write to Eric Rolfe Greenberg, director-management studies at American Management Assn., 135 W. 50th St., New York, N.Y. 10020-1201.

Insider Trading

Alexander & Alexander Services Inc.: Frank G. Zarb, chairman, indirectly bought 3,000 shares of common stock at $23.63 each on July 28. Mr. Zarb now directly and indirectly holds 276,141 common shares.

A&A stock closed at $23.38 a share on Aug. 25.

American International Group Inc.: Edwin A.G. Manton, officer, disposed of by gift 20,000 common shares at an unreported price on April 17. Mr. Manton now directly and indirectly holds 2,689,580 common shares.

Lawrence W. English, vp, exercised an option for 1,499 common shares between $29.53 and $32.07 each on May 25.

Mr. English sold the shares at $116.50 each on that same day and now directly holds 44 common shares.

Patrick J. Foley, vp, exercised an option for 1,874 common shares between $27.20 and $29.53 each on May 3. Mr. Foley sold them at $106.50 each on May 3 and now directly and indirectly holds 15,069 common shares.

Houghton Freeman, director, exercised an option for 4,624 common shares at $22.63 each on June 12. Mr. Freeman now directly and indirectly holds 890,055 common shares.

John G. Hughes, vp, sold 2,000 common shares at $112.88 each on May 12 and now directly holds 6,998 common shares.

Robert Michael Sandler, vp, exercised an option for 1,502 shares of common stock at $22.63 each on May 31 and now directly holds 33,894 common shares.

William N. Dooley, officer, exercised an option for 300 common shares at $32.07 each from May 10 to May 30. He sold 800 shares at $113.25 each from May 10 to May 30 and now directly holds 1,643 common shares.

Evan G. Greenberg, vp, sold 265 common shares at $115.13 each on May 25 and now directly and indirectly holds 10,710 common shares.

AIG stock closed at $79.75 a share on Sept. 8.

Argonaut Group Inc.: Michael J. Crall, vp, sold 3,000 shares of common stock at $30 each on Aug. 9. Mr. Crall now directly holds 25,074 common shares.

Argonaut stock closed at $30.50 a share on Sept. 8.

Chubb Corp.: Randell G. Craig, vp, exercised an option for 2,000 shares of common stock at $47.75 each on June 6. To cover transaction costs, Mr. Craig turned in 1,143 of the shares for $83.50 each on June 6. He now directly and indirectly holds 3,589 common shares.

David H. Hoag, director, bought 100 shares of common stock at $84 each on July 31. Mr. Hoag now directly holds 300 common shares of Chubb.

Chubb stock closed at $90.25 a share on Sept. 8.

Fremont General Corp.: Kenneth Lewis Trefftzs, director, exercised an option for 937 shares of common stock at $14.67 each on May 15 and now directly holds 10,305 common shares.

Fremont General stock closed at $27.50 a share on Sept. 8.

Hartford Steam Boiler Inspection & Insurance Co.: Donald M. Carlton, vp, sold 4,000 shares of common stock at $43.50 each on May 2 and now directly and indirectly holds 23,759 common shares.

Wilson Wilde, director, sold 2,391 common shares at $44.32 each on May 3 and now directly and indirectly holds 25,817 common shares.

Hartford Steam Boiler stock closed at $45.88 a share on Sept. 8.

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Insider Trading, compiled by Invest/Net Trading Group Inc. of Fort Lauderdale, Fla., from reports filed with the Securities and Exchange Commission, tracks stock sales and purchases by insurance industry directors and officers. The column is distributed by Tribude Media Services Inc.

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Rendez-Vous de Septembre

Market

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But conversations also focused on the major mergers and acquisitions going on in the insurance and reinsurance industry; the uncertainty of the Lloyd's of London market; the role of the broker; the success of the Bermuda market; and whether or not there were fewer people in town for the meeting.

Reinsurers, relaxed as a result of two years of profits, seemed resigned to the fact that rates cannot continue to rise for property catastrophe reinsurance as they have done since 1993 when a capacity crunch struck.

Although some underwriters will resist it, most people during the Rendez-Vous felt that a softening at year end is inevitable, especially for property catastrophe covers.

"I've heard no one deny that there's a softer market" in all classes of risk, summed up Ronald Iles, chairman of Alexander Howden Group Management Ltd. in London. "There's a general impression that there will be some reduction in rates in the upcoming renewals barring any catastrophes. Overall there will be a more competitive environment during year-end renewals."

Even with reductions at year end, however, property catastrophe reinsurance prices worldwide are still "historically a lot higher than at any other time," Mr. Iles noted.

"There is no sense of urgency, and there is a lot of capacity in the market," said John R. Berger, executive vp of F&G Re Inc. in Morristown, N.J. If there is no major loss during the rest of 1995, reinsurance rates for national insurers in the United States should remain flat; regional rates will likely fall a little; and U.K. insurers will seek larger rate reductions, he said.

"What will be really interesting is if there's a big storm. There is a lot of capacity out there so will a big storm change much?" he said.

The market's softer and rates will go down at year end "but the question is by how much," added Victor Blake, chairman and chief executive officer of CNA International Reinsurance Co. Ltd. "The business is always about adjustments and people get excited about it. It would be a strange business if year after year the rates were the same. Then it wouldn't be a risk business anymore, so I don't know why people get excited about rates going up and rates going down."

Ceding companies may opt for more cover for the same price rather than reduced prices, added Mr. Blake. "In a way, we would prefer that because we'd much rather give more cover and still get the same amount of premium."

The consensus feeling at the Rendez-Vous was that rates are going to be lower at year end, said Ajit Jain, president of Berkshire Hathaway Inc.'s reinsurance division in Stamford, Conn.

While rates in Florida, California and the Northeastern United States will likely change little, rates in other areas may fall between 10% and 20%, he said.

But the reductions are relative. In some cases the rates are coming down from 40% rates on line, Mr. Jain said.

"And we will still see some 40% rates on line in the first excess layer," he said.

Rating at year end will be related to the experience of individual ceding insurers, said Michael A. Butt, president and CEO of Mid Ocean Reinsurance Co. Ltd. in Hamilton, Bermuda.

"People know that rating will be experience related and they know that everything is not massively overpriced, so there is no need for massive reductions," he said.

One of the changes at this year's meeting is that few people are actually discussing rates, Mr. Butt said.

"I have not had a single broker come to me and talk about rates this year," he said.

Instead the discussions have centered on the consolidation in the reinsurance market and whether the large reinsurers will carry out their professed plan to focus on profits rather than market share, he said.

Mid Ocean, for one, will not follow plummeting rates, Mr. Butt said.

However, the abundance of reinsurance capacity for small and medium-sized insurers means that reinsurers that are not willing to cut their rates will have to have other qualities to sell, he said.

"What we are seeking to sell is quality of capital and stability," he said.

Ceding insurers may also be willing to stay with the existing reinsurers because they have paid such high premiums over the past several years, said Mr. Jain of Berkshire Hathaway.

"They have been paying high rates on line and they don't want to walk away from the bank," he said.

Insurers are now more concerned about the security of reinsurers and are more willing to stay with reinsurers who are well capitalized, in part, because of the high premiums that have been paid in recent years, Mr. Jain said.

Ceding insurers realize that rates need to be stable to avoid huge increases after a loss, said Herbert N. Haag, president and CEO of Partner Reinsurance Co. in Hamilton, Bermuda.

"The cedants are recognizing that perhaps it's not such a bad idea for rates to remain stable," he said.

In the United Kingdom and for national accounts in the United States, rates are unlikely to change, Mr. Haag said. Regional companies in the United States may see modest reductions, he said.

Some areas may even see rate increases, Mr. Haag said.

For example, rates in Turkey, which is an earthquake area, are too low, he said.

But still, the high premiums of the past should lead to pressure on rates at this year-end renewal, said Tal P. Piccione, chairman and president of U.S. Re Corp., a New York intermediary.

"People recognize that ceding companies are paying back their losses," he said.

Reinsurance rates could soften between 5% and 10% at year end, Mr. Piccione said.

'Some very serious players are very focused on the bottom line, and that is a healthy sign,' says Kaj Ahlmann said.

"For excess-of-loss accounts, I would expect rates to go down again at Jan. 1, 1996, largely because there have been no losses this year," added Ian Dean, chairman of Sphere Drake Underwriting Management Ltd.

This has been one of the most active Atlantic hurricane seasons in 60 years.

"But so far there's been very little damage from a reinsurance point of view, so one would expect rates to go down," said Mr. Dean.

At year end there will be "rate corrections" for property catastrophe coverages rather than reductions, considering rates have gone up 700% since 1989, said Mr. Dean. "To go down 10% or 15% after a few good years is not unreasonable," he said.

However, some ceding insurers received reductions over the past year already and reinsurers may be unwilling to grant more reductions to those insurers, said Thomas C. Wafer, senior vp at reinsurance intermediary Willcox Inc. in New York.

But the differentials in the rate cuts will add to the haggling, he said.

"People will say I only got 5.5% last year, but the guy next door got 7.5% so I want more this year," Mr. Wafer said.

It's too early to talk about catastrophe reinsurance programs during the Rendez-Vous because storms are still blowing across the Atlantic, added Dirk Lohmann, deputy board member at Hannover Re/Eisen & Stahl Re Group in Hannover, Germany. Even during the Rendez-Vous, Hurricane Luis was tearing through the Caribbean and threatening Puerto Rico before blowing itself out. So talking about pricing "is all very premature at this time," he said.

It makes more sense to discuss property catastrophe reinsurance pricing at the reinsurance meeting in Baden-Baden, Germany or at the National Assn. of Independent Insurers meeting later in the year "because you have a more definite idea of what has happened" during the wind season in the United States, Mr. Lohmann said. "If nothing happens, rates will go down," Mr. Lohmann added. "But then it ain't over till it's over. A $50 billion hurricane can put the market back on its head."

But there are unlikely to be any wild fluctuations in rates in the future as there have been in the past, said Kaj Ahlmann, chairman and CEO of Employers Reinsurance Corp. in Overland Park, Kan.

The consolidation in the reinsurance market has generally led to larger reinsurers who are determined to make profits, he said.

"There are some very serious players who are very focused on the bottom line and that is a healthy sign," Mr. Ahlmann said.

Employers Re's European acquisitions were one of the main topics of conversation at the Rendez-Vous (see story, page 68).

Employers Re executives have been told to concentrate on making profits rather than protecting their market share, he said.

Reinsurers seemed pretty content during the Rendez-Vous, in stark contrast to several years ago when underwriters wondered if they would be shut down before year-end renewals began. During this year's meeting, executives seemed to be willing to spend more money on themselves, their staff, their clients and their spouses, which may be the reason why the number of official attendants rose for the first time in several years by 100 to 2,252.

Reinsurers spent money in Monte Carlo because they have made more money, participants say. After years of crisis marked by deteriorating solvency of reinsurers worldwide, prices went up substantially in 1993 and 1994 and stayed stable in 1995, according to Rendez-Vous organizers.

The rise in the number of natural and man-made catastrophe losses hit an all time high last year when 341 catastrophic events were recorded, including the $12.5 billion insured-loss Northridge, Calif., earthquake.

But there have only been two major catastrophic events so far this year, which have cost insurers and reinsurers very little. In the first two months of this year, French provinces were affected by severe floods, with insured losses of approximately $100 million, the Rendez-Vous organizers stated. And in January, a major earthquake struck Kobe, Japan, which at the end of the first half of this year had only cost reinsurers $1.4 billion, the organizers noted.

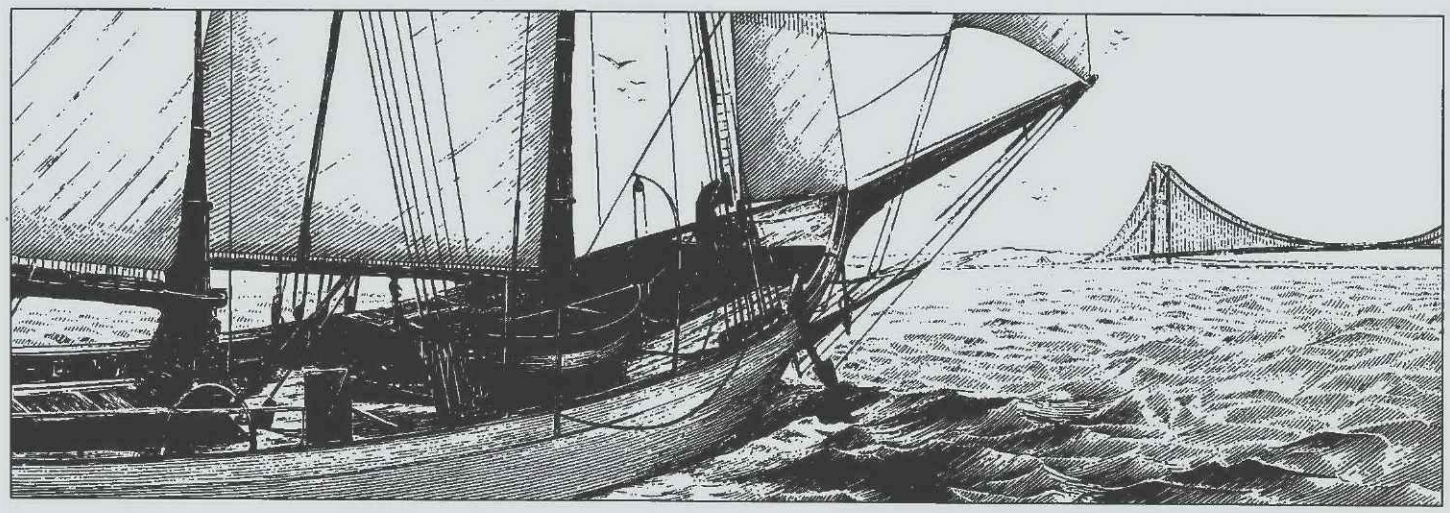
Despite the recent success, some of the world's major reinsurers are cautious about the future, refusing to be sucked into a soft market.

"I'm seeing too many happy faces" in Monte Carlo, said John Engestrom, group chief executive of London-based Mercantile & General Reinsurance. "I think people are relaxed because there have been two pretty good years for reinsurers."

There is a tendency to price catastrophe reinsurance on "experience" rather than "exposure," he said. "That seems to be the trend that many of my competitive colleagues are talking about. Ceding companies and brokers would like to talk rates down as well."

See **Market** *on next page*

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Rendez-Vous de Septembre

Stronger market withstands cats

MONTE CARLO, Monaco—Several factors have led to a stronger international reinsurance market, says the Rendez-Vous de Septembre organizing committee.

"Lower loss experience, a gradual increase in direct insurance rates, and the broad restructuring which has benefited the major players on the market have helped to strengthen reinsurance companies," the committee stated.

Last year 341 catastrophes produced insured losses of $18.8 billion, "a level hardly ever reached in the history of insurance," said the committee. "However, the increase had little effect on reinsurers because of the steep rise in ceding companies' retention levels."

The Rendez-Vous committee, headed by Antoine Jeancourt-Galignani, chairman and chief executive officer of Paris-based Assurances Generales de France, consists of many of the world's leading reinsurance executives. For several years, the committee has issued detailed information about the state of the market, and views about the main topics of conversation at the one-week meeting.

The committee reported there were 130 natural catastrophes last year, including the January Northridge, Calif., earthquake (*BI*, Jan. 31, 1994; Jan. 24, 1994) which so far has cost insurers $12.5 billion; and the cold wave in the southeastern United States which cost $800 million (*BI*, Jan. 31, 1994; Jan. 24, 1994).

About one in five of the world's natural catastrophes last year occurred in Europe, but "the insured losses remained relatively low," the committee stated. Northern Europe, especially Germany, was struck by Hurricane Lore in January 1994 (*BI*, Feb. 7, 1994), which cost insurers 200 million DM ($135.7 million). Hail fell on Cologne, Germany, in July, costing insurers 500 million DM ($339.4 million). Torrential rain hit Northern Italy in November, costing a total of $9 billion, but insured losses only totaled $65 million because little flood coverage is available (*BI*, Nov. 14, 1994).

Of the 341 catastrophe occurrences in 1994, 211 were attributable to human error. The insured value of these events totaled $4.4 billion.

Of this, there were 35 air- and space-related catastrophes, costing insurers about $2.2 billion. Twenty-two airliners crashed with insured losses of $1.2 billion while space industry insured losses totaled $758 million.

There were also 40 catastrophes on the world's seas and rivers, with nearly 3,000 lives lost, costing insurers almost $362 million. The sinking of the ferry Estonia in the Baltic Sea in September with almost 1,000 lives lost (*BI*, Oct. 10, 1994; Oct. 3, 1994) has cost insurers $60 million so far.

Among its many observations, the Rendez-Vous committee noted that "liability coverage is causing reinsurers serious problems" particularly in the area of products and pollution liability. In the United States, as well as in Spain and France, some courts "have no hesitation in canceling certain exclusion clauses, redefining some losses and invalidating some clauses involving time limit," the committee said. "Courts are increasingly applying the principle of retroactive joint and several liability."

The committee called upon the reinsurance industry to "end retroactive cover of chronic and past pollution risks."

Once only an American problem, liability claims caused by asbestos-related diseases also are beginning to affect Europe, the committee stated.

—By Stacy Shapiro

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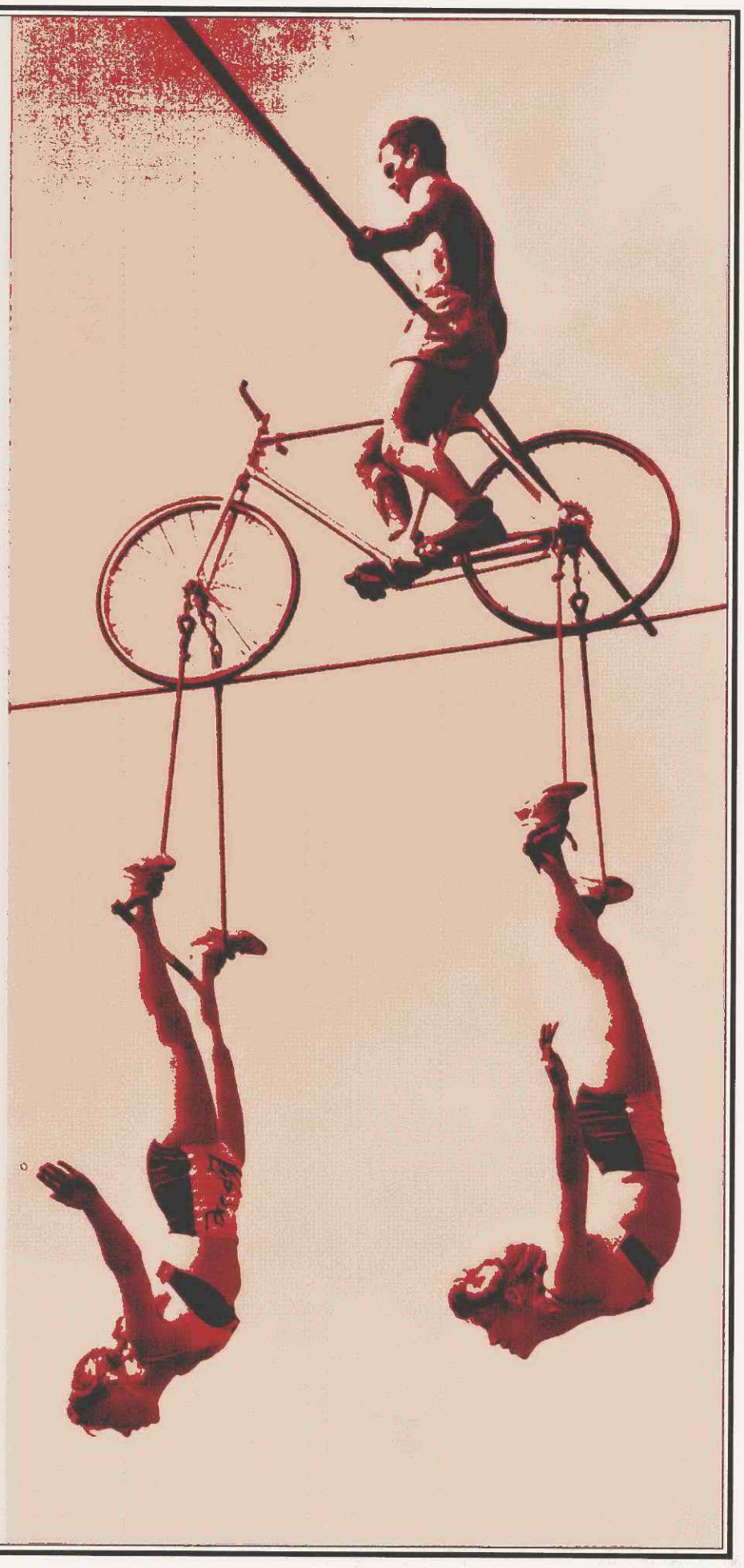
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Market

Continued from previous page

This attitude will lead to some "softening" at year end, but no free-fall of rates, said Mr. Engestrom. The "fashionable" reduction is 10%-15%; but some ceding companies could receive 25-30% reductions, while others receive no decreases, he said.

Softening could lead to rate reductions; or it could lead to increased profit commissions to ceding companies; or the coverage could be restructured and retentions could be increased, said Mr. Engestrom.

But the danger is to calculate the coverage based more on past experience than on the potential exposure in the future, he said.

Because there have been two good years "my fear is that many people will have short memories and forget the four very bad years preceding these two," said Hans-Wilmar von Stockhausen, member of the management board of Munich Reinsurance Co., the world's largest catastrophe reinsurer.

As a result of this memory loss, there will be some softening in cat coverages at year end, "but we'll certainly do our best to resist this as far as possible," he said. "We'll be willing to let some business go, but not all of it" rather than chase rates downward. Munich Re might give rate reductions, however, to clients that have a good spread of business with the company. "We'll defend our interests when necessary, but we'll try to be as technical as possible" in our underwriting, he said.

Buyers are looking more into the future than ever before, however, and seek a "reasonable approach," which is encouraging, he added.

Reinsurers will be willing to watch business go elsewhere rather than drastically reduce rates, said Herve Cachin, president and director general of Societe Anonyme Francaise de Reassurances in Paris.

"All of the ceding companies are expecting rate reductions, but I think that they will probably be disappointed," he said.

And in many areas in the United States, rates will remain firm because there is still insufficient capacity available, he said.

Reinsurers are more focused on producing profits and on underwriting exposures rather than just pricing on past results, agreed Pierre Croizat, general manager of Societe de Reassurance des Assurances in Paris.

"It's been a remarkably quiet Monte Carlo," added Rudolf Kellenberger, member of the executive board of Swiss Reinsurance Co. in Zurich. "Everyone seems happy, content."

See **Market** *on next page*

Rendez-Vous de Septembre

Market

Continued from previous page

There is certainly a pressure to soften, "but it won't be a big step backwards," Mr. Kellenberger added. There still isn't sufficient capacity in certain parts of the world to generate reductions.

A Swiss Re study on the catastrophe market shows that there hasn't been a substantial change in rating in the past two years, said Mr. Kellenberger. Those who say rates have gone down are incorrect, in fact, he said. "In the forefront of Monte Carlo you have heard of prices going down—10% or 20%—and we say that's not right. We can base our assessment on figures."

The study also shows that ceding companies still do not buy sufficient coverage for a once-in-a-century event, said Mr. Kellenberger. Ceding companies may therefore want to buy more coverage or structure alternative risk financing mechanisms.

Swiss Re will be issuing a much more detailed report on the catastrophe market in October to use for year-end renewals.

The increased analysis of exposures worldwide is encouraging, said Mark Hinkley, executive vp at TIG Reinsurance Co. in Stamford, Conn.

"We are happy about meeting companies who are increasing their specialization in what they write and in the territories they operate in, and we like to affiliate with those companies," he said.

And companies that are using modeling techniques are getting an even firmer grasp on their exposures, Mr. Hinkley said.

The growth of catastrophe models for territories outside the United States help U.S. reinsurers become more comfortable about writing international exposures, he said.

TIG is expanding its own international business through its London contact office, which it plans to turn into a branch office, Mr. Hinkley said.

"The opportunity for intelligent underwriting is increasing, but competition is increasing, so it's not a perfect world," he said.

Whatever happens at year end, some reinsurance buyers might increase their retentions rather than buy low-layer coverage, Rendez-Vous participants say.

With fewer insurance buyers and reinsurance buyers as a result of mergers and acquisitions, "the logical consequence of increased size and strength should mean retentions are optimized," said Robert H. Gaynor, chairman of the marine group for London-based reinsurance broker Willis Faber & Dumas Ltd. "There is increasing confidence in the profitability of the underlying business, so I think clients are on the whole looking for increasing their retentions."

Clients are looking for higher retentions, but not necessarily in the catastrophe arena, added Mr. Blake of CNA Re. "This comes back to the affordability question. If the product is deemed to be too expensive, then more and more people will say they are buying too low down and need their protection only to work for them in a really severe situation."

There's more of a tendency for reinsurance buyers to protect themselves for the "catastrophic unforeseen event rather than the every day event," said Mr. Blake. So they retain more business and buy higher limits.

For example, the days of buying reinsurance treaties to protect all general liability risks up to $1 million are "passe" because it's too costly, said Mr. Blake. But it still makes "enormous sense" in the medical malpractice area where ceding companies reinsure each doctor's risk for $2 million excess of $1 million, he said.

Reinsurance buyers also may not buy traditional reinsurance, but may buy "balance sheet protection" over a five-year period as a form of alternative risk financing, according to Mr. Blake. "It's a changing scene with new ideas and new concepts."

Some European casualty business is becoming more refined and more attractive to U.S. reinsurers, said Mr. Hinkley of TIG.

More information on the risks are being made available to reinsurers, and the risks are sometimes being segmented by class, he said.

"Our preferred clients are those that do one thing well and that seems to be emerging in the U.K.," Mr. Hinkley said.

Reinsurers seeking U.S. casualty business see a stable and profitable industry, said Frederick O. Kist, managing principal, casualty actuarial risk management at Coopers & Lybrand L.L.P. in Atlanta.

'The opportunity for intelligent underwriting is increasing,' but so is competition, says Mark Hinkley.

"There is no event to trigger any significant hardening. The smaller and the medium-sized markets are doing very well, and the big guys are not doing badly apart from environmental exposures," he said.

But other trends in the market are not reassuring for primary insurers and their reinsurers, said Phillip N. Ben-Zvi, principal-in-charge, casualty actuarial & risk management consulting at Coopers & Lybrand in New York.

For example, companies with large risks are increasingly turning to self-insurance and more services provided by insurers are being placed with other providers such as third-party administrators, he said.

"They will end up only with the excess which is difficult to price, and they don't all have the expertise," Mr. Ben-Zvi said.

During the Rendez-Vous, there were hardly any discussions about any changes in terms or conditions or policy wordings next year.

Only in the French market are insurers considering the removal of unlimited liability for bodily injury damages for employees and third parties. "We are in the process of looking to put a ceiling on that for companies with (revenues) of more than $10 million," said Antoine Jeancourt-Galignani, chairman and CEO of Assurances Generales de France and president of the Rendez-Vous organizing committee. Smaller companies would retain unlimited general liability, he said. The French insurers and brokers have not decided yet what general liability limits they will offer. "That will be decided this year," he said. BI

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Rendez-Vous de Septembre

Industry consolidation rumors

Recent big-ticket deals fuel speculation on next merger

By STACY SHAPIRO and GAVIN SOUTER

MONTE CARLO, Monaco—Consolidation in the insurance and reinsurance industry was the hottest topic of conversation at this year's Rendez-Vous de Septembre.

In the past year, major insurers and reinsurers have merged, sparking interest in how this will affect the market and who will be next.

In fact, "worldwide, the number of reinsurers fell from about 100 early in 1994 to 90 by year end and amalgamations have increased substantially over the first half of this year," organizers of the annual Rendez-Vous in Monte Carlo said. About 110 reinsurers have left the market in the past 10 years.

This streamlining is in keeping with several underlying tendencies, the organizers said. "Ceding companies want to do business with fewer, more reliable partners. (And) this trend has coincided with a thrust into Europe of the major American reinsurers."

Since July 1994, two of the largest U.S. reinsurance companies have bought German reinsurers:

- Stamford, Conn.-based General Re Corp. has set up a joint venture with Cologne Reinsurance Co. in Germany whereby Gen Re owns 50.1% of Cologne Re and 49.9% is held by the German reinsurer's parent, Colonia Versicherung A.G. (*BI*, Oct. 31, 1994).
- Overland Park, Kan.-based Employers Reinsurance Group this year acquired Aachen Re Group and a majority stake in Frankona Reinsurance Co., both of which are based in Germany (*BI*, March 27).

Also, earlier this month in the week before the Rendez-Vous, French insurer AXA S.A. became the largest French reinsurer with the purchase of Abeille Reassurances from Cie. de Suez. Abeille Re, which has been up for sale for a while, will be merged with AXA subsidiary AXA Reassurance (*BI*, Sept. 4).

The past year has witnessed some large mergers and acquisitions by U.S. insurance giants: the purchase of The Home Insurance Co. by Zurich Insurance Group; and CNA Financial Corp.'s acquisition of Continental Corp. (*BI*, Dec. 12, 1994).

Some Rendez-Vous participants believe that the consolidation trend is diminishing.

"Major concentrations are still going on, (but) my own feeling is that we are coming to the end of it. Most of the major acquisitions are done now," said Jacques Blondeau, chairman and chief executive of SCOR S.A. in Paris.

But, most executives in Monte Carlo say that they believe the trend will continue and will include brokers as well as insurers and reinsurers.

"There is a continuing trend from smaller reinsurers to bigger ones," summed up Bjorn Wolrath, president and CEO of Skandia Group in Stockholm, Sweden. The days of hundreds of reinsurers on one reinsurance program are disappearing, he said.

"The tendency of the past year and a half is to have a limitation of well below 100 and get down to a situation of 10 or 20 on one risk."

So the smaller players are getting squeezed out.

In addition, small and medium-size insurance companies are shutting down or selling their reinsurance subsidiaries, he said. "Now you can see major companies giving up their non-life reinsurance," Mr. Wolrath said.

All this consolidation will threaten "the brokers who are the middlemen who put together a team of 40 or 50 reinsurers to cover one risk," he added. "The number (of brokers) probably will be reduced and the tendency of insurers going directly to reinsurers will become more obvious. It's a changing marketplace."

Skandia continues to underwrite reinsurance, though the firm reduced its reinsurance volume after a $162 million initial public offering of Skandia America Reinsurance Corp. was canceled in 1992. Following the failed IPO, James F. Dowd resigned as chairman and CEO of Skandia America, but he returned to that post in July (*BI*, July 10).

Mr. Dowd is in the middle of outlining his business plan for Skandia America to focus on the company's strengths and weaknesses, but "we have no plans" to make a public offering or have a management buyout at the moment, said Mr. Wolrath.

However, it is likely that Skandia America will increase its premium volume at year-end renewals, he said. And Mr. Wolrath added that Skandia Group is on the acquisition trail, but he would not give details.

During the Rendez-Vous, participants speculated about the next company to merge or sell.

Topping the list of targets was French reinsurer SCOR S.A.

Most everyone had heard the rumor that the company would be sold to Employers Re.

But Mr. Blondeau of SCOR said that a purchase like this "doesn't make sense" because Employers Re has already spent a lot of money in Germany. He says he has had no discussions with Employers Re.

The rumor began when Employers Re executives were asked by a French insurance magazine earlier this year whether the company would buy SCOR, and the executives responded that they would be interested in discussing any acquisitions, Mr. Blondeau explained.

At least two of SCOR's shareholders with 10% stakes in the reinsurer—Assurances Generales de France and AXA—have said they want to sell their shares. "But I don't understand why a company like Employers Re would want to

See **Mergers** *on next page*

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Rendez-Vous de Septembre

Mergers

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buy 10% (or 20%) of SCOR," he said.

"We will grow by ourselves," said Mr. Blondeau. "We will not buy anything in the U.S., (though) there are still opportunities in Europe." SCOR may buy other business, too, as it did last year when it bought the reinsurance business of Oslo, Norway-based UNI Storebrand A/S.

Patrick Lucas, chairman of Paris-based broker Gras Savoye S.A., said he would hate to see SCOR sold to a non-French company. SCOR has taken 20 years to be the top French reinsurer and if it were sold to a foreigner "there would be an effect on building Paris as a financial center," he said. It is in the interests of "our country, our clients and our industry" to keep SCOR in French hands even if it means new shareholders based in France, he said.

Kaj Ahlmann, chairman and CEO of Employers Re, would not comment on the rumors.

But, he noted that consolidation seems to be the driving force in much of the activity in the insurance and reinsurance markets.

Gradually, the desire for large reinsurers to acquire more companies should wane, Mr. Ahlmann said.

For example, "if you are not in Germany, you may be willing to pay substantial prices for strategic reasons, but if you are already there you don't have to," he said.

And many of the medium-size reinsurers are not attractive takeover targets because they do not have a core business, he said. "But there are still a couple of companies out there that we would be willing to consider in Europe and the U.S."

Part of Mr. Ahlmann's mission at this year's meeting was to reassure cedants about Employers Re's new acquisitions in Europe, he said.

"There will be a two-phase integration. This renewal we'll renew the business with the existing companies unless the client says otherwise. But in the long term we'll only have one face per market," Mr. Ahlmann said.

Rendez-Vous participants also wondered whether anyone would buy Italy's largest reinsurer, Unione Italiana di Riassicurazione S.p.A. German, Swiss, and U.S. reinsurers were mentioned. Assicurazioni Generali S.p.A. already has sold its 14.85% share in the Italian reinsurer.

There were also rumors during the Rendez-Vous that Italian insurance giant Assicurazioni Generali S.p.A. was interested in buying government-owned French insurer Groupe GAN.

"But these are just rumors," said Benito Pagnanelli, deputy general manager of Trieste, Italy-based Generali. Generali also has been linked with SCOR and Generali is interested in expanding in France. However, although "Generali gets offers every day, I don't think there is anything serious (happening)."

Although Generali may expand in Asia, it will not expand in the United States, Mr. Pagnanelli said. Generali will maintain its cooperation agreement with CNA Insurance Cos. as it had with Continental before the company was sold to CNA.

No one will buy Generali, though, because "it's too expensive," being valued at about $30 billion, he quipped.

It is still to early to see what effect these consolidations will have on the shape of the reinsurance market worldwide.

However, some companies believe there will be changes.

The push by North Americans into Europe will "not make our life any easier," said Hans-Wilmar von Stockhausen, member of the board of Munich Reinsurance Co. in Munich. "But I don't think we have anything to fear."

Gen Re and Employers Re, like Munich Re, are looking for decent returns for their shareholders and they will have to underwrite conservatively to achieve this, said Mr. von Stockhausen.

Although consolidations will continue, Munich Re so far is not actively on the acquisition trail, he confirmed. "We have looked and I'm sure we shall continue looking at new opportunities that present itself. But we have been able to produce sufficient growth (internally)."

Instead, Munich Re plans to come up with new solutions to fund financial risks. "Munich Re may be an old battleship, but we're not that old mentally," he said.

The North American influence in Europe will be a good thing, said Rudolf Kellenberger, member of the executive board of Zurich-based Swiss Reinsurance Co. Added capacity has to generate profits and will enrich the European market. North American companies "will help us to steer more toward non-proportional and facultative business," which is abundant in America but not in Europe, he said.

Since Lukas Muhlemann became CEO of Swiss Re last year, many changes have taken place at Swiss Re which are "exciting," said Mr. Kellenberger. "A lot of things have changed. We have new people. We have opened new markets. We're trying to be more global (by) harmonizing our systems (such as) underwriting and philosophies," he said. Swiss Re also is considering a global training program for its management.

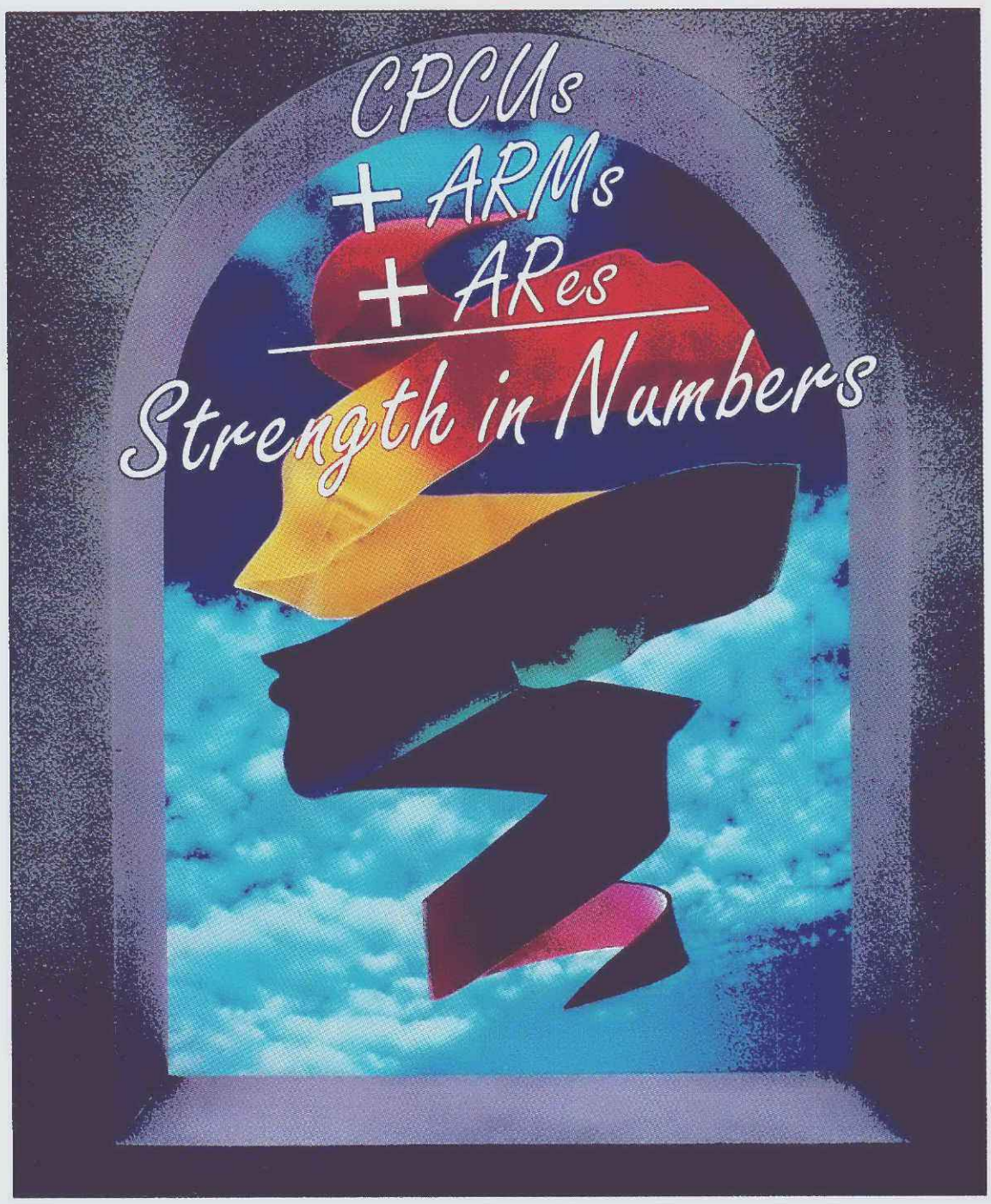
Earlier this year, Swiss Re injected $700 million into its U.S. operations, now known as Swiss Re America, which represented about 20% of the $4.42 billion Swiss Re raised from the sale of its insurance operations to Allianz A.G. Holding last October. Swiss Re America will be chaired sometime next year by Heidi Hutter, the director of Lloyd's of London's Equitas project.

Swiss Re also announced in April that it would have a minority shareholding in Credit Suisse Financial Products to develop new products. As a result, Swiss Re is in the process of setting up three new units: Reinsurance Financial Consultants, to combine reinsurance risks with banking risks; Swiss Re Financial Products, to define products in the derivatives market to attract outside capacity into the catastrophe market; and an unnamed fund with capital of $500 million to support insurance companies as a minority investor.

Some consolidations will present opportunities for other reinsurers, Rendez-Vous participants said.

For example, "I think there will be business out on the street" as a result of the purchase by AXA of Abeille Re, said Dirk Lohmann, deputy board member at Hannover Re/Eisen & Stahl Re Group in Hannover, Germany. In Canada, for example, Abeille Re was big and clients aren't clear what the acquisition

See **Mergers** *on next page*



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Rendez-Vous de Septembre

Mergers

Continued from previous page
means for them, he said.

"With all these consolidations, that will lead to some re-orientation and reallocation of (reinsurers') participations. We see that as an opportunity for us, particularly in our own market in Germany," Mr. Lohmann said.

Ceding insurers may move some of their business away from the largest reinsurers if they find that the acquisitions lead to a contraction in the number of reinsurers on their programs, said Pierre Croizat, general manager of Societe de Reassurance des Assurances in Paris.

"One and one may not make two. While I don't expect them to lose much business, people may not like to have too much (of their reinsurance program) in the same hands," he said.

The growth of the large reinsurers could benefit other reinsurers, agreed Herve Cachin, president and director general of Societe Anonyme Francaise de Reassurances in Paris.

"The ceding companies want competition at the reinsurance level. They want to diversify their reinsurers," he said.

And the change in ownership of reinsurers could lead to a more disciplined market, Mr. Cachin said.

In the past, reinsurers often have been owned by insurance companies that have used the reinsurers to access world markets, he said.

"Now the shareholders want profitability whereas before they wanted prestige and premium volume," he said.

But the consolidations and the excess of capacity available for small and medium-size reinsurance programs does not leave much hope for small, non-specialist reinsurers, said John Berger, executive vp of F&G Re Inc., a unit of USF&G Corp. in Morristown, N.J.

"The momentum seems to be for mergers and acquisitions. If you have under $250 million in capital, are you going to survive? If you took away all the companies that have less than $150 million in capital, you would not miss them," he said.

The smaller non-specialist reinsurers often cannot match what large reinsurers can offer, agreed Thomas C. Wafer, senior vp at Willcox Inc. Reinsurance Intermediaries in New York.

"When you come away from the 20 largest programs in the world, there is enough capacity for everyone. How does a $50 million player compete with a $200 million player when everyone is looking for capital and there is not much difference in price?" he said.

Insurers too are finding it necessary to increase their capital and this has accentuated a recent trend where reinsurers are being asked to invest in ceding companies, according to Mark Hinkley, executive vp at TIG Reinsurance Co. in Stamford, Conn.

"We have nothing against it but we are aware that we could lose twice," he said.

TIG has invested in a small number of cedants, but the decisions are not made solely by underwriters, Mr. Hinkley said. "Underwriters are not born venture capitalists, so we rely on investment people to advise us," he said. BI

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Minet banking on acquisition

Broker to boost financial institution book

MONTE CARLO, Monaco—Minet Group will substantially increase its financial institution business with the purchase of specialist London-based broker Special Risk Services Group, according to Peter Christie, chairman and chief executive officer of London-based Minet.

The deal, the terms of which were not disclosed, was agreed on just before the Rendez-Vous de Septembre earlier this month. It will give Minet a European financial institution operation to match its operation in the United States, he said.

And, the operation likely will expand to cover Southeast Asia, Mr. Christie said.

"We've been investing for a number of years in building a U.S. financial institutions team and we recognized that we needed to build that into a global business," he said.

Many financial institution clients need and expect brokers to have knowledge of and access to global insurance markets, Mr. Christie said.

Special Risk Services has offices in London, Paris, New York and Santa Ana, Calif.

SRS' New York office will merge with Minet's office there.

SRS specializes in professional liability coverages, bankers blanket bonds, and directors and officers liability.

It had $11 million in gross revenues last year.

Minet will form a new division, called the Financial Risks practice, which will cover the SRS business and the brokerage's own existing financial institution business.

John H. Sewell, who is currently Minet Financial Institutions' global coordinator, will head the practice.

The next area for expansion likely will be Southeast Asia, Mr. Christie said.

"We have some financial strengths in Australia and Hong Kong and we will strengthen them in Southeast Asia," Mr. Christie explained.

Stephen Wenman, founder and chairman of SRS, will remain with the company for three months to help integrate the company with Minet, Mr. Christie said.

"And we hope to do some work with him after that," Mr. Christie said.

—By Gavin Souter



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Rendez-Vous de Septembre

Irrelevant, or way to test the waters?

Slightly more people do slightly less dealing at Rendez-Vous

By STACY SHAPIRO

MONTE CARLO, Monaco—Every year, executives ask themselves whether it's worthwhile to come to the Rendez-Vous de Septembre and whether more or fewer people have shown up.

This year—at the 39th Rendez-Vous—was no exception.

Some people thought there were fewer people in Monte Carlo from Sept. 3 to Sept. 8.

"The taxi drivers say there are less people. In the Casino there are less people," said Patrick Lucas, chairman of Paris-based brokerage Gras Savoye S.A. "And you can find rooms at the hotels. But these are just impressions."

But others believed there were more bodies around. Indeed, it was difficult to find a table at the Cafe de Paris most days and the lobby of the Hotel de Paris was packed with people carrying briefcases and computers for their half-hourly meetings. Only the newly renovated piano bar of the Loews Hotel seemed slow.

And because the meeting was early in September, the crowds of insurance and reinsurance executives were interspersed with hoards of tourists arriving in busloads to see the famous town.

Many continental European executives cut their visit short, however, and only stayed in town from Saturday to Wednesday while those who came from the United States, Bermuda or as far away as Japan stayed until Friday.

The official numbers collated by the Rendez-Vous organizing committee proved that it was indeed a very busy year in Monte Carlo. There were 2,250 names in the official book, up 100 from 2,150 last year, the committee stated. About 60% of those people were from insurance and reinsurance companies; 30% were from brokerages; and 10% were from law, accounting and other related service firms.

The purpose of the Rendez-Vous has changed over time, noted executives who'd been coming for years. In the old days—when the hotels didn't have private bathrooms—underwriters came to discuss individual reinsurance programs to set down lines and agree on terms.

These days, however, executives meet during the day, on the boat or the beach, over lunch, cocktails and dinner to get a feel for year-end renewals and discuss other aspects of their business—like acquiring additional capital to increase year-end capacity.

"Monte Carlo is in a way irrelevant," said Jacque Blondeau, chairman and chief executive officer of SCOR S.A. in Paris. "But we're here to test the water."

The reinsurance meeting in Baden-Baden, Germany, at the end of October will be a time to discuss specifics and write lines of business, said Mr. Blondeau. This used to be done in Monte Carlo because ceding companies wanted year-end reinsurance renewals in bed by the end of October. But now renewals aren't finished until the middle of January, so the timing for the Rendez-Vous is too early, said Mr. Blondeau.

The meeting will remain the "trend-setter" for year-end renewals, however, he added.

"As usual, Monte Carlo is not a venue to start placing or accepting reinsurance," said Benito Pagnanelli, deputy general manager of Assicurazioni Generali S.p.A. in Trieste, Italy. "You just have to listen and get an appetite for year-end renewals."

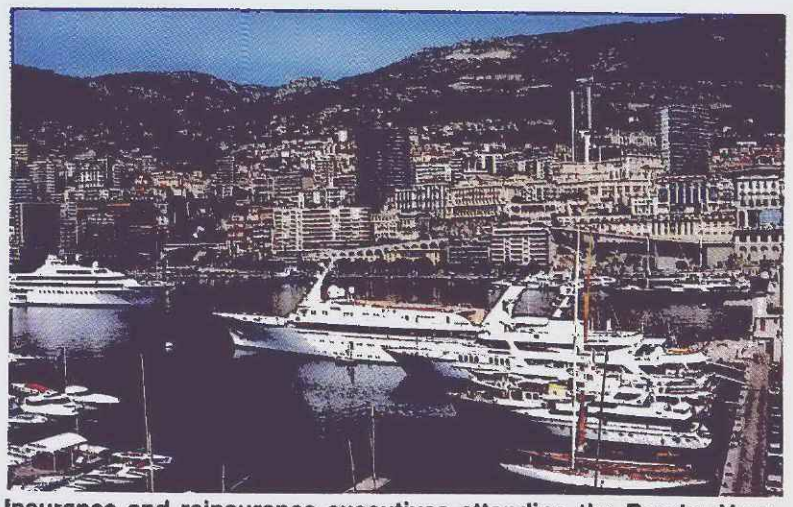
Some special clauses or rates may be discussed. But mainly in Monte Carlo "you get a flavor for the next year," he said.

Mr. Pagnanelli would like to see a change in the Rendez-Vous, say to a different time of year to make it more relevant.

Companies also "should say to their employees that if they go to Monte Carlo, they want to see results for the money spent," he said. Generali had five people in Monte Carlo this year "but I think we should reduce this," Mr. Pagnanelli said.

Fewer Japanese insurance companies were represented in Monte Carlo this year, with only five shown in the official attendees list. That's because some companies now are going to Baden-Ba-

See **Attendance** *on next page*



Insurance and reinsurance executives attending the Rendez-Vous de Septembre in Monte Carlo meet on the beach or on boats, over lunch, cocktails and dinner to get a feel for year-end renewals.



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Rendez-Vous de Septembre

Attendance

Continued from previous page

den instead; some have pulled out of underwriting international reinsurance; and Japanese reinsurance renewal season revolves around March 31 rather than year end, Rendez-Vous participants said.

But for some Japanese insurers, the Rendez-Vous is still worthwhile.

"We're still writing international business and it's a good place to get information about the next reinsurance renewal season," said Katsuya Kimura, associate director and general manager-reinsurance and international department for The Dai-Tokyo Fire & Marine Insurance Co. Ltd. in Tokyo. "So I think Monte Carlo is still very important to listen and to tell everyone that we are still in the international marketplace."

Others still think Monte Carlo is worthwhile.

Brokers in particular were in abundance this year, with 35 people alone headed by president Hady Wakefield representing the world's largest reinsurance broker, Guy Carpenter & Co. Inc.

For the first time, Dennis Mahoney, deputy chairman of Alexander Howden Group Management Ltd., attended the meeting in tow with longtime attendee Ronald Iles, chairman of the Howden Group. Mr. Mahoney was surprised at the amount of work done during the week and at the number of people he knew even though he is more familiar with retail and wholesale business rather than reinsurance, said Mr. Iles.

Also down for a few days was Garth Bearman, chairman and chief executive of Swire Fraser Ltd., who hadn't been to the Rendez-Vous in eight years.

Other senior brokerage executives also attended as they have for many years, including Richard Shaw, chairman of Lowndes Lambert Group Holdings P.L.C., who hosts several parties and afternoons on his yacht Moon Maiden II; Roger Elliott, chairman and chief executive of Willis Corroon Group P.L.C.; and Vincent Redier, chairman of France's largest reinsurance broker, Groupe Le Blanc de Nicolay, who hosted a Mozart evening at the Monte Carlo Country Club.

The Rendez-Vous "is proving itself this year," said Victor Blake, chairman and chief executive of CNA International Reinsurance Ltd.

"It's much more serious. It seems to be smaller attendance, but people seem to be very, very busy. It all seems a bit more dynamic and it looks like serious discussion is going on. I still don't think as much business gets done here as in Baden-Baden, but it serves its purpose," Mr. Blake said.

Monte Carlo is about meeting people and chatting with them

Meeting colleagues in Monte Carlo restores confidence to the year-end renewals, says Victor Blake.

about year-end renewals, new business ventures, new capital requirements, and market gossip, participants say.

"A lot of our business is about attitudes and our response to the season is governed by a fragile thing called confidence," Mr. Blake added. Meeting colleagues in Monte Carlo restores that confidence and gives courage to people to "hold the line" at year-end renewals, he said." BI

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If it ain't broke...

No cats, no demand for new financial tools

By GAVIN SOUTER

MONTE CARLO, Monaco—Reinsuring risk through capital market tools like derivatives and other financial products is an intriguing possibility, but the concept needs more development to be practical, several reinsurance executives say.

Large insurers that cannot obtain enough reinsurance protection from the traditional markets may be interested in buying protection backed by the capital markets.

But so far, few companies are actually doing so, they said. Trading in catastrophe insurance options has been very light, and few insurers have disclosed any use of other tools such as "surplus notes"—which pay a high rate of return to investors if the insurer has no catastrophe problems but which pay far less if the insurer has big catastrophe claims.

Would-be providers of the products may have to wait for a large catastrophe to strike before they find ready buyers, they say.

Interest in accessing capital markets for reinsurance capacity has increased. Earlier this year, Columbus, Ohio-based Nationwide Insurance Group set up a $400 million surplus notes deal to fund catastrophe losses or business expansion (*BI*, May 29).

In July, reinsurance broker Guy Carpenter & Co. Inc. announced that it had set up Normandy Reinsurance Co. Ltd. in Bermuda to design and market derivative contracts and other financial products to cover catastrophe risks (*BI*, July 24).

There is a highly sophisticated market of U.S. buyers that wish to harness a "new class of capital," Guy Carpenter President Hady Wakefield said at the Rendez-Vous de Septembre. And Normandy Re could play a part. "You may not need a company like Normandy in due course. But at this juncture you need a Normandy because somebody wants to buy reinsurance and somebody wants to buy a capital bond. You need a transformer to marry the two together and Bermuda (where Normandy is based) seems to be a good environment in which to do that."

Insurance companies seeking catastrophe capacity of $500 million to $1 billion would be the obvious candidates to buy the products, said Hal P. Piccione, chairman and president of U.S. Re Corp. in New York.

The new products likely will complement conventional reinsurance coverages, he said. U.S. Re is trying to devise ways to access the capital markets for its clients, he said.

Catastrophe reinsurance capacity is insufficient for some of the large insurers, but even if there was enough, the insurers probably would be unwilling to pay the premiums, said Michael A. Butt, president and CEO of Mid Ocean Reinsurance Co. Ltd. in Hamilton, Bermuda.

Consequently, there likely would be a market for reinsurance products that access capital markets, he said.

But the deals being suggested are not attractive, said Ajit Jain, president of the reinsurance division at Berkshire Hathaway Inc. in Stamford, Conn. "There's a lot of talk and a lot of resources going into it, but there is nothing coming out of it."

Part of the problem is that many of the products being mentioned involve an index that might not reflect an insurer's or reinsurer's own book of business, Mr. Jain said.

The product vendors may have missed the opportunity in the past 12 months to introduce them into the market, he said. For the products to take off, there needs to be a lack of reinsurance capacity combined with a period when investors are eager to invest in insurance and reinsurance companies, he said.

But if an opportunity does arise, plenty of people are itching to sell products, said John Berger, executive vp at F&G Re in Morristown, N.J.

"After Hurricane Andrew, it looked like it was the end of the world and then Mid Ocean and the rest of the Bermuda companies came along. If we have another storm, it looks like the reaction will be even quicker," he said. BI

Rendez-Vous de Septembre

Privatization eludes AGF

French insurer seeks to shed banking operations, SCOR share

By STACY SHAPIRO

MONTE CARLO, Monaco—A year has passed and Groupe des Assurances Generales de France is still no closer to being privatized by the French government.

Last year, during the Rendez-Vous de Septembre, there was a question over whether AGF or car manufacturer Renault would be the next French government-owned company to be privatized. Renault was privatized last year, and the French government still owns 57.1% of AGF.

During this year's Rendez-Vous, AGF Chairman and Chief Executive Officer Antoine Jeancourt-Galignani predicted that the flotation would not take place for at least six months, until the Paris-based insurer disposes of its banking interests.

AGF also plans to sell its 10% interest in French reinsurer SCOR S.A., said Mr. Jeancourt.

"That may be sooner than later," though there is no buyer in mind, Mr. Jeancourt said. However, the French insurer plans to keep its 46% controlling interest in reinsurer Societe Anonyme Francaise de Reassurances, he said.

Mr. Jeancourt has always said that he wants AGF to get out of the banking sector. "I think that will be done by the end of this year, so the idea is to have privatization (of AGF) sometime next spring," he said.

AGF is in the process of selling its 43% share of Banque Francaise du Commerce Exterieur to Credit Nationale. Observers say AGF will get 1.9 billion French francs ($373 million) for the bank, but Mr. Jeancourt would not comment.

"This will strengthen our cash position and it's good for us. We're reducing our exposure to the banking sector," he said.

This year, the French insurance federation distributed its 1994 annual report in French and English as participants registered for the Rendez-Vous.

The report revealed that the French insurance industry grew by 7.7% to 882.6 billion francs ($165.3 billion) in worldwide premium volume last year, ranking it the fifth-largest market in the world.

Insurance companies licensed to operate in the French market collected 665.4 billion francs ($124.6 billion) in premiums in 1994, a 14.2% increase over the year, according to Federation Francaise des Societes d'Assurances.

Reinsurance companies based in France increased their premium volume last year by 7.9% to 32.8 billion francs ($6.14 billion).

French insurance and reinsurance subsidiaries abroad showed slower growth, decreasing 10.6% to 184.4 billion francs from 206.3 billion francs (to $34.54 billion from $34.91 billion) in 1993.

The French insurance industry employed 197,200 people last year, down 200 from 1993. Most of these workers—122,000—are employed by insurance companies; 52,400 by underwriting and general agents; 18,400 by brokerages; and 4,400 by loss adjusters and appraisers.

Life insurance accounted for 67%, or 446.9 billion francs ($83.70 billion), of the domestic French insurance market's premiums last year, says the FFSA. The life market includes life insurance connected with savings plans; medical and accident coverages; and unique "welfare benefit" contracts.

Medical expenses in France last year totaled 652.8 billion francs ($122.27 billion). Of this, 73.6% was paid by the government's social security program for salaried employees, while the rest was paid for by stock and mutual insurance companies.

Insurance companies in France contribute only about 10% to hospital expenses, while social security picks up the rest. But insurers pay substantial proportions of dental expenses, in-office physician care, laboratory expenses and prescriptions, the FFSA stated.

The FFSA at the moment is concerned that the French Parliament may cancel tax deductions on life insurance premiums, said a spokeswoman. These deductions are a great incentive for people to buy life policies, which benefit the country by providing an alternative to the welfare state, she said.

"We think it's very, very serious from an economic and social view," the spokeswoman said.

Property/casualty premiums last year in France increased 6% to 177.8 billion francs ($33.30 billion). Auto insurance accounted for the largest portion of this total, 82.5 billion francs ($15.45 billion), while commercial property totaled 23.4 billion francs ($4.38 billion). Liability coverages only accounted for 9.6 billion francs ($1.80 billion), while the rest of the premium came from such sectors as homeowners, agricultural property, catastrophe, legal services, transportation and credit guarantee.

Insurers are concerned that the French Parliament may cancel tax deductions on life insurance premiums.

The FFSA mentioned that there is a national public service association known as Centre National de Prevention et de Protection, which promotes loss prevention for personal and commercial risks. Its subsidiary, CNPP Entreprise, is the driving force behind a risk management organization known as Institut de Gestion des Risques. BI

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Rendez-Vous de Septembre

Bermuda comes into its own

Europe alone remains wary of island's catastrophe facilities

By GAVIN SOUTER

MONTE CARLO, Monaco—Two years ago the main topic of conversation at the Rendez-Vous de Septembre was the new catastrophe reinsurers in Bermuda. This year they were hardly mentioned. But that's OK with the Bermudians.

The silence marks the recognition by buyers of reinsurance and other reinsurers that Bermuda is now an integral part of the world reinsurance market, many brokers and reinsurance executives say.

The more than $4 billion in capital on the island is firmly established and unlikely to vanish, they say. And buyers around the world are taking advantage of the capacity.

But despite their success in attracting business from the United States, the United Kingdom and other areas, the reinsurers on Bermuda have yet to crack continental Europe. Many European ceding insurers are still skeptical about the commitment of the backers of the Bermuda companies and already have sufficient capacity from established reinsurers in Europe.

To win more of that business, some Bermuda companies are expanding their European personnel and offices.

At the Rendez-Vous, the attitude toward Bermuda reinsurers has shifted from skepticism about the permanency of the capital to a desire to access the capacity, said Michael A. Butt, president and chief executive officer of Mid Ocean Reinsurance Co. Ltd. of Hamilton, Bermuda.

"There is a substantially different atmosphere and the reason for that is that worldwide the clients have decided to do business with people like us and nobody can gainsay that," he said. Mid Ocean has 543 clients worldwide, he said.

And some reinsurers on Bermuda are often part of the lead on the reinsurance programs they underwrite, Mr. Butt said.

"Leading in a consensus market involves three or four reinsurers and we are influencing pricing on well over half of our book," he said.

Partner Reinsurance Co. Ltd. of Bermuda, also leads many of the risks it covers, said Herbert N. Haag, president and CEO.

The ability to lead the programs heightens the status of some of the Bermuda reinsurers, he said.

"The fact that we are able to quote each program means that we understand the market," said Mr. Haag. "The fact that a company can do this sets it apart."

Outsiders, too, acknowledge that the Bermuda reinsurers have been assimilated into the world market.

"I always felt that once the money was there they were not going to go anywhere," said Ajit Jain, president of the reinsurance division at Berkshire Hathaway Inc. in Stamford, Conn.

And the Bermuda companies have not undercut the rates of other reinsurers, he said. "From a pricing standpoint they have not given away the store and a lot of people were concerned about that a couple of years ago."

What the Bermuda companies have not done is thrive in Europe, said Thomas C. Wafer, senior vp at intermediary Willcox Inc. in New York.

"The one area which they have not been able to crack is Europe. They are getting the U.K. accounts but they are not getting all the European business they want," he said.

Some European ceding insurers, often small companies that can find adequate capacity in the continental European market, are still concerned about the permanency of the capital on Bermuda, Mr. Wafer said.

Some of the Bermuda reinsurers are acting to shore up their weakness in Europe. For example, International Property Catastrophe Reinsurance Co. Ltd. has employed as its European representative Laurence Lenard, a Frenchwoman who formerly worked at SCOR S.A.

And reinsurers on Bermuda recognize that it will take a little longer to win all the European business they want, said John P. Dowling, president and CEO of the Bermuda-based reinsurer. "Europe is very conservative and it will be two, three or four years before we have the amount of European business that we want."

Similarly, Mid Ocean is opening a branch office in London.

Making the office a branch, rather than a mere contact office, should be more attractive to Europeans as it will be backed by the capital of Mid Ocean in Bermuda and will be regulated by the British Department of Trade and Industry, said Mr. Butt.

Partner Re says it has done better than other Bermuda companies in penetrating the European market because it has an office in Zurich, Switzerland, it has ties to Swiss Reinsurance Co., which is a Partner Re investor, and because its executives speak several European languages.

"We speak the languages and that is important because it makes (the cedants) feel that you understand them a little bit better," said Mr. Haag. BI



Bermuda company representatives have won over many skeptics.

Sphere Drake flotation aims for higher rating

By STACY SHAPIRO

MONTE CARLO, Monaco—In search of an elusive "A" rating, Bermuda-based Sphere Drake Holdings Ltd. plans to raise at least $100 million through a corporate bond issue to save on borrowing costs and boost capital.

Meanwhile, Sphere Drake's ownership may change after Sept. 29 when the initial investors during the 1993 initial public offering can begin to trade their shares. There are now 8.4 million shares—or 48% of the company—tradable on the New York Stock Exchange, but come Sept. 29, the other 52% of the shares can be traded, bringing the total to 18.4 million shares.

The $100 million issue is designed to "enhance the credit rating of the company and for writing business sometime in the future," said Ian Dean, chief executive of Sphere Drake Holdings.

According to Mr. Dean, Sphere Drake will use $26 million of the money to refinance short-term borrowings; $26 million to finance intercompany debt between its Bermuda and London operations; and the rest to boost the capital of the company's U.K. underwriting operations to £150 million ($233.3 million).

The deal should be completed by Sept. 30.

Also, on Oct. 1, Richard Gray, finance director of Sphere Drake in the United Kingdom, will become finance director of the Bermuda operations. And Michael Watson, who was with Prudential Insurance Co. of America, will become the group's new chief financial officer.

Mr. Dean has met with A.M. Best Co. officials to explain what the company is doing and "we're waiting for their rating." The Oldwick, N.J.-based rating agency rates Sphere Drake as a B++ at the moment, but "we would obviously like to be an A-rated company," he said.

Standard & Poor's Insurance Rating Services in New York raised its rating of Sphere Drake to a BBB+ from a BBB this year, but "I'd still like that A rating," Mr. Dean admitted.

S&P is still concerned about the volatile London market where Sphere Drake underwrites two-thirds of its business, Mr. Dean has been told. "We will work with them and give them comfort over time."

Sphere Drake's past problems when owned by Alexander & Alexander Services Inc. until 1987 "are gone," said Mr. Dean. Last last year, A&A settled certain indemnity obligations to Sphere Drake (*BI*, Nov. 14, 1994).

Over time, Sphere Drake indirectly will benefit from about $144 million of the $200 million that American International Group Inc. injected into A&A last year through various reinsurance contracts (*BI*, June 13, 1994) Mr. Dean believes.

Sphere Drake has come a long way since it was capitalized in 1982 at £15.5 million ($24.1 million), Mr. Dean noted. This year, Sphere Drake's U.K. operations will be capitalized at £150 million ($233.3 million). Its Bermuda operations—which write a third of its business and over time "will grow faster than London"—has capital and surplus of $150 million and writes just under $300 million in premiums annually. The group is now a publicly held company and files its accounts as such, "so we've come a long, long way," he said.

Meanwhile, on Sept. 29, a two-year "lock-up" agreement between IPO investors ends and an additional 52% of the shares of Sphere Drake could be traded on the New York Stock Exchange, Mr. Dean confirmed. Including the already-traded stock, 70% of the company is owned by eight entities.

Mr. Dean isn't sure whether the investors who hold these shares and are represented on the board will trade their stock. His guess is that "some will and some will not," but they will all watch the share price before selling.

The board is aware that Sphere Drake will be vulnerable to a takeover come Sept. 29, but any response from the board would depend on whether it was a friendly or hostile takeover, said Mr Dean.

However, he added, "I'd like to see us carry on as an independent public company."

If the share price were higher, there would be no reason Sphere Drake couldn't raise more capital through the equity markets and consider some acquisitions, he said.

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Superfund reform called more likely

By GAVIN SOUTER

MONTE CARLO, Monaco—With bills to reform Superfund likely to be put before lawmakers within weeks, reforming Superfund without imposing new taxes looks more likely than a year ago, said Maurice R. Greenberg, chairman of American International Group Inc. in New York.

And Congress and the Clinton administration both now have sufficient political will to reform the hazardous waste cleanup program, he said.

Should the existing funds available for the cleanup of polluted sites prove insufficient, the federal government should issue "green bonds" to raise more money, he said.

If the reforms go through, insurers, industry, and the rest of U.S. society should have a more equitable system for cleaning up pollution that is not based on the liability system, Mr. Greenberg said.

But it is not just insurers in the United States that need to worry about pollution, said Wilhelm Zeller, member of the executive board of Cologne Reinsurance Co. A.G. of Cologne, Germany.

European insurers may face similar problems if they do not act now to firmly establish exactly what their policies cover.

To attain this goal, insurers should offer new, stand-alone pollution products that should cover everything but "non-fortuitous" pollution, he said.

Market-based incentives could help prevent much pollution, added a leading industrial executive.

By using market-based methods to encourage companies to become more "eco-efficient," much pollution can be prevented, said Stephan Schmidheiny, chairman of ANOVA Holding, an industrial holding company in Huerden, Switzerland, and principal adviser for business and industry at the 1992 Earth Summit in Rio de Janeiro, Brazil.

The Republican-controlled Congress acknowledges that the Superfund law is "broken and must be reformed," Mr. Greenberg said at a panel discussion at the Rendez-Vous de Septembre.

Efforts for reform this year are not as likely to fail in the same way as reform efforts failed last year, Mr. Greenberg said, and President Clinton probably would not veto some reform of the law.

Last year's reform efforts were stymied for several reasons, he said.

"Congress and the administration were uncertain about what reforms should be undertaken," he said, adding that potentially responsible parties were unwilling to risk the imposition of additional taxes to pay for pollution cleanup.

"They were prepared to live with retroactive liability as a concept and then move against an insurer and recover some part of what they were forced to pay," Mr. Greenberg said.

But if reform of Superfund includes less stringent clean-up requirements for some sites, it could be achieved without the need to raise additional revenues, Mr. Greenberg said.

For example, while land that will be the site for a school obviously needs to be comprehensively cleaned, land that will be used as a parking lot need not have such expensive remediation treatment, he said. And the use of new technology also should make pollution clean up cheaper.

However, if more money is needed to fund clean-ups, it could be raised through the issue of "green bonds" backed by the U.S. government, rather than through the imposition of new taxes, he said.

If reform does go through, it should establish a system that is designed to clean-up pollution, rather than punish polluters as the liability system has since Superfund, he said.

And efforts for reform should be aided by the current air of unity among insurers. "The insurance industry is more united today than it has ever been on this problem," Mr. Greenberg said.

Insurers in Europe should be learning lessons from the United States' experience, and should act now to firmly establish what pollution coverage they are providing, said Mr. Zeller of Cologne Re.

"Unfortunately, we cannot undo the sins of the past. . .what can, however, be rectified and saved are future accident years," he said.

While several insurers have tried to offer stand-alone environmental impairment liability policies in the past, they have not been popular, Mr. Zeller said.

The policies were too complex and inflexible. Now insurers should offer EIL coverage for all normal, fortuitous risks, he said.

"In addition, reinsurers should abandon their practice of making obligatory EIL capacity available only for sudden and accidental pollution events. Instead, general liability treaties should be opened up to all fortuitous pollution events, be they sudden or gradual," he said.

The only requirements from the reinsurers would be that all pollution exposures should be written through a separate EIL policy and that the EIL policy is written on a claims-made basis with an aggregate limit, is site-specific and excludes past pollution and all non-fortuitous events such as ongoing pollution from normal operations, Mr. Zeller said.

"The insurance-buying community will appreciate such a move, for it will afford them clearly defined, comprehensive EIL insurance coverage with limits that are in line with their needs and demands," he said.

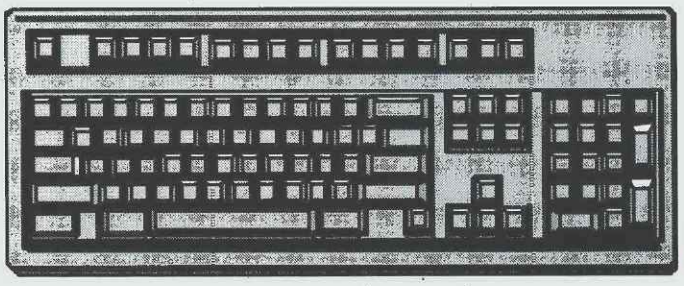
Companies buying insurance also need to take a new look at pollution, said Mr. Schmidheiny of ANOVA.

Some industrial companies continue to take staggering environmental risks, he said.

"In Germany, men in spacesuits will be taking sheets of asbestos cement from a roof and deposit it in very expensive sites as toxic waste, while a few kilometers across the border in France roofers are installing new sheets of asbestos cement," Mr. Schmidheiny said.

To encourage companies to include environmental considerations in their business decisions, methods should be devised within the free market to reward companies who are eco-efficient, he said.

In addition, insurers should take the lead in encouraging eco-efficiency, Mr. Schmidheiny said. BI



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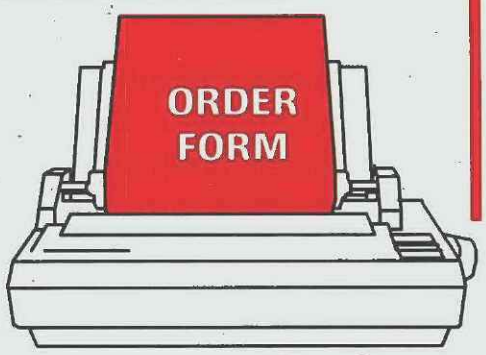
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Rendez-Vous de Septembre

Even rivals pulling for Lloyd's

By STACY SHAPIRO

LONDON—As the insurance and reinsurance industry's preoccupation with Lloyd's of London's future sparks much debate, many observers have come to the conclusion that whatever the outcome, Lloyd's will not be the same market anymore.

Buyers and syndicate reinsurers wonder whether they should place business with Lloyd's at year end when the future of the market is uncertain. And even competitors are concerned about Lloyd's future, hoping it will succeed because it is a vital source of capacity and would damage markets worldwide if it were to fail.

Meanwhile, London market players are sure Lloyd's will survive.

Lloyd's is rushing through a complex reconstruction and renewal plan to corral the pre-1993 syndicate accounts into runoff reinsurer Equitas Ltd. and go forward with a new Lloyd's which one day will consist mainly of limited liability and corporate members. But no one will know until next spring whether Lloyd's will pull this off.

Nearly everyone at the Rendez-Vous de Septembre this year talked about the future of Lloyd's and the success of Equitas. Speaking at a seminar sponsored by London law firm Clifford Chance, William Pitt, Lloyd's communications manager, explained why Lloyd's thinks it can pull off its R&R plan. The market's profits in 1993, 1994 and 1995 will act "as the engine for our reconstruction plan," and Equitas will offer finality to many Lloyd's members, he said. "A lot of the heavy lifting has already been done."

Many senior representatives involved in the London market are confident of a future for Lloyd's.

"I feel more confident today than I have for a long time about Lloyd's future, (though) I don't think its future will be the same as the past because the structure of Lloyd's will change and there will be an increasing emphasis on limited liability," said Hady Wakefield, president of reinsurance intermediary Guy Carpenter & Co. Inc.

"We are looking to do anything and everything we can to assist Lloyd's in recovering to full health. It's very important to London for that to happen. It's also very important to the international market," said Michael J. Caley, chief executive of reinsurance broker Kininmonth Lambert Ltd. in London.

There's a lot of expertise and experience in Lloyd's and the market continues to have 30 to 40 of the best underwriters in the world despite the problems, said Mr. Caley. "Most of the (ceding company) clients and people represented (in Monte Carlo) are aware of the importance of Lloyd's and are not as concerned as many insurance buyers." But, U.S. insurers also have the same long-tail liability problems as Lloyd's, Mr. Caley noted.

Many Rendez-Vous participants were cautious about Lloyd's future, though they want it to succeed.

"In a way, it's gone, it's over," said Jacques Blondeau, chairman and CEO of SCOR S.A. The old Lloyd's will no longer exist if it is run off into Equitas. As to whether Equitas will succeed, "I haven't got a clue. The numbers are so staggering and the legal extent of this is so complex."

But once Equitas is up and running, "that will be the end of Lloyd's. We will then be talking about something totally different," said Mr. Blondeau. Then there will be a "good solid London market of stock companies. Whether for the time being they are called syndicates or whatever doesn't matter. They are putting in totally different mechanisms from what Lloyd's used to be," said Mr. Blondeau.

The French market has developed "to some extent at the expense of Lloyd's," said Mr. Blondeau. "I would say the same for Bermuda. Lloyd's has been losing market share for the past four or five years."

Other markets have benefited from buyers' worries about Lloyd's, agreed Pierre Croizat, general manager of Societe de Reassurance des Assurances in Paris.

In particular, ceding companies are wary of placing long-tail business in Lloyd's, Mr. Croizat said.

The U.S. market also is taking business that was formerly placed in Lloyd's, said Thomas C. Wafer, senior vp at reinsurance intermediary Willcox Inc. in New York.

"Everybody is looking at the security of the syndicates, especially when you get away from the big ones," he said.

And insurers are now more willing to place business with U.S. reinsurers than they were in the past for both international property and casualty reinsurance, Mr. Wafer said.

"Lloyd's is in a dilemma," said Benito Pagnanelli, deputy general manager of Assicurazioni Generali S.p.A. in Trieste, Italy, whose London office writes about $1 billion in premium volume annually, including life insurance. "For years, we were told that Lloyd's system was being changed for the better. But now we understand that there are so many doubts."

Mr. Pagnanelli is optimistic that Lloyd's will continue. Generali continues to reinsure with the market, though the insurer wants specific syndicates identified and may not seek limits as high as it has.

"We need Lloyd's," said Mr. Pagnanelli. "For the insurance industry it would be shocking if we heard one day that Lloyd's closed down."

The chances of Lloyd's surviving have increased over the past year with the recovery plan, said Michael A. Butt, president and CEO of Mid Ocean Reinsurance Co. Ltd. in Hamilton, Bermuda.

"It will probably survive partly because there are some able people (implementing the plan) and partly because it has to. . . .This time last year, I would have said it had a 25% chance; now it has a 60% to 70% chance," he said.

Even if Lloyd's does survive,

"the myth of unquestionable security is a thing of the past," said Mark Hinkley, executive vp of TIG Reinsurance Inc. in Stamford, Conn. And that was one of the main selling points of Lloyd's, he said.

"The reality is that there are still a lot of question marks about some really important issues," such as whether Equitas will succeed or members will accept a £2.8 billion settlement ($4.33 billion) offer, said Dirk Lohmann, deputy board member at Hannover Re/Eisen & Stahl Re Group in Hannover, Germany. The plan also is based on the premise that there will be a profit release in 1993, 1994 and 1995.

"I don't really know what I'm going to be making in 1995, so I wouldn't be banking on it," said Mr. Lohmann. "When you talk to people in the market, they seem to be carried by an internal optimism that (Lloyd's R&R plan) will happen—and they prefer not to think what may happen if it doesn't occur."

Mr. Lohmann has heard that some managing agencies have contingency plans to become licensed insurance companies if the R&R plan fails

"The value of the Lloyd's franchise has eroded to a point where there are certain segments that must seriously be asking themselves why they are still part of it," he said.

Lloyd's can continue to trade next year because it has met its solvency requirements, but if the problems aren't solved, "1996 will be the last year it will trade," he said.

Hannover Re/Eisen & Stahl Re, which has long-term relationships with strong syndicates in the market, will reconsider its position at year end, but probably will continue to do business with Lloyd's.

The change in the funding requirements in the United States for Lloyd's syndicates could have a strong impact, however, said Mr. Lohmann. Under the new arrangements, Lloyd's "sponsored syndicates" can write surplus lines and/or reinsurance if they deposit money equal to anticipated liabilities gross of reinsurance for U.S. domestic risks in a trust fund.

But, "I really highly doubt whether retrocessionaires will be willing to fund in cash or securities outstanding liabilities (of Lloyd's syndicates). So Lloyd's syndicates will either have the option of funding those liabilities in their American reinsurance trust, or they will have to go outside the trust and offer to their ceding insurers letters of credit," said Mr. Lohmann. "And Lloyd's is not going to get letters of credit for bargain-basement prices from the banks."

Then a syndicate would be just another unlicensed surplus lines or reinsurance underwriter and would not have the benefit of Lloyd's licensing in the United States, he said.

Whatever happens to Lloyd's, most Rendez-Vous participants—including Mr. Wakefield of Guy Carpenter—believe that the London market will continue to be a world-class center for reinsurance.

Many attending the Rendez-Vous pointed to the announcement that Mid Ocean was setting up a branch office in London as a sign of confidence in the London market.

Skandia U.K. Insurance P.L.C. also is converting its London office into a branch of its parent, Skandia International Insurance Corp., which will increase the capitalization behind London underwriting as the parent stands behind the coverage.

The U.K. Department of Trade and Industry is considering Skandia's application to do this, said Skandia U.K.'s managing director, S.E. Hardie. Skandia U.K. is in discussions with the DTI about running off its current operations as a licensed British insurance company.

•

Gavin Souter contributed to this article.

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Rendez-Vous de Septembre

More companies worldwide interested in the alternative

Traditional, non-traditional coverage mix gives best of both worlds

By STACY SHAPIRO and GAVIN SOUTER

MONTE CARLO, Monaco—Enthusiasm for alternative risk financing has crossed U.S. borders and is traveling worldwide, according to people at the Rendez-Vous de Septembre.

More and more companies are interested in alternative methods of financing insurance and reinsurance risks, particularly in the catastrophe area.

The growing interest in non-traditional markets probably will continue and fundamentally change the reinsurance market over the next decade and beyond, one reinsurance broker said.

Insurers are seeking ways to blend traditional coverages with non-traditional coverages to obtain more capacity and cheaper coverage, they say.

And the long-term nature of many non-traditional reinsurance coverages enables the insurers and reinsurers to build a long-term relationship, they say.

While interest in non-traditional coverages first began in the United States, insurers in other areas, particularly Europe, are eager to buy the alternative coverages, they say.

And changes continue in the primary insurance market as association captives with outside capital are established to provide coverage to industries that have difficulty obtaining coverage.

The Rendez-Vous, however, is still a meeting mainly for traditional insurers and reinsurers, participants say.

Swiss Reinsurance Co., for example, only had three of the 25 people it sent discussing financial reinsurance. And no one from Swiss Re was there specifically to talk about derivatives and other financial instruments that can be tapped to protect catastrophic exposures. Swiss Re, in conjunction with Credit Suisse, is setting up three new subsidiaries to offer such financial instruments.

"It's not the market for it here" to discuss alternative risk financing, said Rudolf Kellenberger, member of the executive board of Swiss Re in Zurich. "It's much more of a conventional market, including financial reinsurance" coming to Monte Carlo, he said.

However, Swiss Re executives were listening to clients during meetings at the Rendez-Vous to see what services were needed and whether new financial instruments would play a part in their programs, said Mr. Kellenberger.

Derivatives, for example, could be used by insurance companies to hedge their risks, he said.

Swiss Re hopes to develop its expertise in new financial products. However, "the alternative risk transfer market can only work together with the traditional risk transfer market," said Mr. Kellenberger. "I would hate to see the development of two totally different markets. There will still be certain synergies between conventional and alternative risk transfer. In some cases, you'll do the conventional side; in other cases you'll do the alternative side, so it's a combination of both."

The traditional reinsurance market will not disappear, but it may have a different profile in the future, he said.

Fortune 1000 companies are interested in alternative risk financing to protect self-insured retentions, according to Graham C. Pewter, president and chief executive officer of Commercial Risk Partners Ltd. in Hamilton, Bermuda.

Commercial Risk, which offers non-traditional insurance and reinsurance products worldwide, is 53% owned by SCOR S.A. in Paris; 12% by SCOR U.S.; and 35% by Western General Insurance Co. which bought into the company in 1994. About 90% of Commercial Risk's U.S. business of Fortune 1,000 companies involves the risks of one corporate policyholder.

"We've always focused on the corporate buyer, not the insurance company, who buys reinsurance," said Mr. Pewter. "I'm a strong believer that while the financial reinsurance market is bouyant and strong and the premium writings are strong, the nature of the business has changed somewhat. There are fewer finite (risk) treaties being done by p/c companies, but they're bigger."

In all the consolidations going on in the insurance and reinsurance business, for example, "there are a lot of opportunities for finite reinsurance to help with managing loss reserves," said Mr. Pewter. "But we're not ignoring the retail side."

The search for long-term relationships has helped increase interest in finite risk and other alternative risk coverages, said John Berger, executive vp at F&G Re. Inc. in Morristown, N.J.

"Insurance companies are looking for stability. They want reasonable deals for the long-term," he said.

And interest in finite risk coverages is growing rapidly outside of the United States, he said.

Approximately one third of F&G Re's non-traditional coverage premium is derived from outside of the United States, he said.

"Non-traditional reinsurance outside of the U.S. is probably the biggest growth area for us," Mr. Berger said.

More insurers are looking for coverages blending traditional reinsurance and non-traditional reinsurance, said Thomas C. Wafer, senior vp at reinsurance intermediary Willcox Inc. in New York.

"A lot of people are taking a more blended approach even with rates and terms being more favorable," he said.

Interest in financial and finite reinsurance products continues because of the continuity they offer at a competitive price, said Tal P. Piccione, chairman and president of U.S. Reinsurance Corp. in New York.

"There are more and more companies buying the products because and they are interested in combining conventional and non-conventional reinsurance because of the savings they can obtain," he said.

In the long term, finite risk and financial reinsurance are often less expensive than traditional reinsurance, Mr. Piccione said.

Also, it provides a source of extra capacity to companies that cannont find sufficient capacity for their needs in the traditional market, he said.

Despite recent accounting regulations changes, finite risk and other non-traditional reinsurance coverages are still available to cedant insurers, Mr. Piccione said.

The products have been continually modified to comply with regulations in the United States and other countries, Mr. Piccione said.

Companies in Germany, Scandinavia, France and Italy are buying non-traditional coverages and "there is a lot of emerging interest in a lot of places in Europe," Mr. Piccione said.

The non-traditional reinsurance market will continue to impact the traditional reinsurance market and to transform it, he said.

"What we called reinsurance 15 years ago is not what it is today, and in 15 years time it will not be the same as it is now," Mr. Piccione said.

Lack of capacity for some catastrophe risks is continuing to drive insurance buyers to the alternative market, said Robert Virtue, who recently resigned as president of International Risk Management Group in Bermuda to help establish group captives for industries that have difficulty obtaining sufficient capacity.

The facilities will be set up largely with the backing of outside investors as well as some capital from the members of the group captives.

The first facility was the Caribbean Hotel Assn. which was established with the help of Aon Corp. in May (*BI*, May 29).

The group captive provides coverage for hotels in the Caribbean that have been unable to obtain sufficient catastrophe coverage for the past several years, Mr. Virtue said.

Investors in the captive include Aon, Centre Reinsurance Co. Ltd. in Bermuda, BankAmerica Corp., and other insurance and financial companies, he said.

The association uses sophisticated modeling software on hurricane and earthquake probabilities and loss history to help price the coverage, Mr. Virtue said.

Association captives for other industry groups will be established over the next several years, Mr. Virtue said. BI

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Rendez-Vous de Septembre

Changing times confront brokers

Industry consolidation prompts speculation on intermediaries' role

By STACY SHAPIRO

MONTE CARLO, Monaco—There soon may be a slew of mergers in the brokerage industry to rival the consolidations going on in the insurance and reinsurance markets.

"Everybody's talking to everybody" in the brokerage community about merging with or acquiring each other, said one broker.

Small and medium-size brokers could either be the targets of takeover or find it difficult to survive independently unless they are niche players. And, the skills that a reinsurance broker needs are changing from those needed in the past.

More and more, a broker must be a consultant, charging fees to access financial markets to protect risk, rather than be an intermediary that gets commission to place coverages.

During the Rendez-Vous de Septembre earlier this month, brokers were in abundance, entertaining clients and chasing potential new ones. Brokers have played a part at the Rendez-Vous since it began 39 years ago.

But, this year brokers also were the target of speculation. Will they survive the consolidations in the insurance and reinsurance industry? Are fewer needed in London? What is a broker's role if more insurers and reinsurers are dealing directly with their clients?

Rumors abounded at the Rendez-Vous, including that Alexander & Alexander Services Inc. would buy JIB Group P.L.C.

In fact, A&A agreed Sept. 8 to pay an estimated $54 million to buy the U.S. retail brokerage operations of JIB Group P.L.C. The deal was announced Sept. 11 (see story, page 2).

The Rendez-Vous talk of brokers' future, however, was more general.

"We are going to find some very, very interesting times in the London market now with broking houses," said Garth Bearman, chairman and chief executive of Swire Fraser Ltd. in London. The underwriting fraternity already has suffered a "Big Bang" in terms of mergers, acquisitions and runoffs, but "I don't think the broking market really has."

There is talk about mergers among the major brokerages, he said. "I think the big are going to get bigger and those in the middle ground will find it very difficult. Where are they going to go?...They aren't global brokers or small specialists."

This shake-up could concern clients, who might wonder which companies they will do business with in a few years if their broker is a takeover target, he noted.

But some brokers will be able to take advantage of the resulting opportunities.

For instance, Swire Fraser is very much a small specialist independent "niche" player, owned by a major

Continued on next page

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CHEROKEE INSURANCE COMPANY, Respondent.

Case No. 84-1460-III

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IN THE MATTER OF THE LIQUIDATION OF CONTINENTAL FIRE AND CASUALTY COMPANY, LTD., ET AL.	)))	**NO. 90 CH 1614**

TO: ALL POLICYHOLDERS AND CREDITORS

On October 26, 1994, an Order of Liquidation was entered against CONTINENTAL FIRE AND CASUALTY COMPANY, LTD., FIDUCIARY INDEMNITY ASSURANCE GROUP, LTD., FIRST CHICAGO INSURANCE GROUP, INC, ROSEMONT PREMIUM FINANCE COMPANY, INC., AND INTERNATIONAL RISK INTERMEDIARIES SERVICE CORPORATION, INC. (the "Companies") in the Circuit Court of Cook County, Illinois. The Director of Insurance of the State of Illinois, in his capacity as Liquidator, was vested with title to the property, business and affairs of the Companies.

The Director has determined that there are no assets available with which to pay the claims of policyholders and creditors. Further, because the Companies ("unauthorized insurers") did not have certificates of authority to transact insurance business in the State of Illinois, their policyholders are not protected by the Illinois Insurance Guaranty Fund (responsible for paying property & casualty covered claims). As a result, claims against the Companies cannot be paid by either the Liquidator or the Guaranty Fund.

On March 14, 1995, the Circuit Court of Cook County, Illinois entered an Order closing the estate of CONTINENTAL FIRE AND CASUALTY COMPANY, LTD., FIDUCIARY INDEMNITY ASSURANCE GROUP, LTD., FIRST CHICAGO INSURANCE GROUP, INC, ROSEMONT PREMIUM FINANCE COMPANY, INC., AND INTERNATIONAL RISK INTERMEDIARIES SERVICE CORPORATION, INC. This Order terminates the receivership proceedings and all activities related thereto. Please be advised that there will be no funds forthcoming from this estate.

Please be further advised that Section 121-4 of the Illinois Insurance Code (215 ILCS 5/121-4) provides, in pertinent part, that if any unauthorized insurer fails to pay any claim or loss under the contract, any person who assisted or in any manner aided directly or indirectly in the procurement of the insurance contract shall be liable to the insured for the full amount of the claim or loss.

Peter G. Gallanis
Special Deputy Receiver

Rendez-Vous de Septembre

Continued from previous page

Asian conglomerate, the Swire Group, with broker offices in London, Singapore, Hong Kong, Sydney, Beijing and Vietnam, he said.

The current upheaval "gives us a wonderful opportunity to be fast on our feet and show our clients that we're there for the long term," Mr. Bearman said. The next 18 months will bring opportunities and "we can capitalize on that."

"Although most of my broker friends quite rightly worry about the future, there's nothing worse than a complacent market where there is no change," said Mr. Bearman. The changes "are good" for brokers.

Some people say that the days of the big broker are gone, but that isn't so, said Brandon W. Sweitzer, executive vp of New York-based Guy Carpenter & Co. Inc., the world's largest reinsurance broker.

"In a world where the buyer is more sophisticated and the seller is more sophisticated, that doesn't mean you eliminate the intermediary," said Mr. Sweitzer.

"That just means you need a more sophisticated intermediary because the stakes are more complicated and bigger," he said.

The reinsurance broker now sells a "far wider and more sophisticated" range of reinsurance products than it did before, observed Hady Wakefield, president of Guy Carpenter.

Guy Carpenter, which is owned by Marsh & McLennan Cos. Inc., foresees the need to employ graduates with more financial and language skills.

"The intellectual content of our business today is significantly higher than what it was," Mr. Wakefield said. "You need people with greater and more diverse skills."

"The trend (of the reinsurance broker) is surely moving toward the role of a consultant/adviser," added Mr. Sweitzer. Reinsurance brokers continue to be intermediaries, standing between buyer and seller. However, "we have a variety of skills which we are bringing into play (and) there's diversity in the forms of advice we give and we're being compensated differently for that."

There is "no drama" within Guy Carpenter now in terms of internal organizational issues, though the group already has been through one shake-up, Mr. Sweitzer confirmed. Three years ago, "we took a major stride forward internally and within (M&M) by putting together strategic planning."

The company then devised a strategic document for future growth, outsourced a great deal of its technology functions, got out of facultative business in North America, closed three non-strategic non-North American offices and streamlined its back offices.

Three years ago, Guy Carpenter also developed four "practice groups," which haven't changed since then and neither has the management structure. "There's no bold initiative to open in Vietnam or anywhere of that nature. What we're focusing on these days is honing skills and building the strength of individual brokers and broker teams in a variety of ways," said Mr. Sweitzer. Guy Carpenter is developing new products, including marrying the capital markets to reinsurance needs.

Guy Carpenter also for the first time is raising its profile by talking to the media and speaking at conferences.

"As the business becomes more sophisticated and new products proliferate and the whole intellectual content of the game gets higher, you need to talk and explain and write," said Mr. Sweitzer. BI

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Speakers: Constantine "Dinos" Iordanou President and Chief Operating Officer of the Zurich-American Insurance Group, Richard A. Riley, President of Rollins Hudig Hall Company, Richard E. Smith, Executive Vice President and Chief Operating Officer of the Zurich Reinsurance Company, Sari S. Gadbois, Vice President of Risk Management with Educational and Institutional Insurance Administrators, Inc. (EIIA).

Moderator: Dr. George Flanigan, Insurance Industry Professor, Katie Insurance School, Illinois State University

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Family

Continued from page 3

headquarters, but at three other sites as well.

While popular, it is not the solution for all companies, said Ms. Lingle. "The demographics have to be just right, so it is not a drain on a company," she said, adding companies also must consider the percentage of female employees and availability of other care options.

Other popular offerings among the top companies are flexible scheduling and telecommuting.

One of the perpetuals on the list is International Business Machines Corp. of Armonk, N.Y., which has been on eight of the 10 lists.

The computer giant has earmarked $50 million for Funds for Dependent Care Initiatives, a program that invests in community development of quality child and elder care facilities. The funds will span the next six years and expand on $25 million in FDCI funds set aside over the last five years (see related story, page 3).

Other family friendly benefits include individualized work schedules, flexible work leaves of absence, work from home options and resource and referral services.

The individualized work schedules let employees begin their workday two hours before or after their normal start time and take up to a two-hour lunch for special occasions. IBM employees have used the plan, subject to management approval, to attend a child's school play, visit an elderly relative or participate in sports, for example.

The company's flexible work leave of absence allows full-time employees to work 20-30 hours per week for a five-year span to accommodate events such as the birth of a child, coping with a family illness or continuing their education.

"These benefits allow employees to be more focused on work and they provide peace of mind," a company spokesman said.

Many companies on the list share that opinion of the work/family benefits, said Milton Moskowitz, co-author of the Working Mother report.

"There is a palpable excitement in these companies that they are doing right by their employees while boosting their bottom lines. That is, perhaps, the most remarkable change of all in the work/family revolution of the past 10 years," he said.

Xerox Corp., which appears on the 100 best list for the fourth time, increased flexible scheduling this year.

The Stamford, Conn.-based company is issuing laptop computers to its entire U.S. sales force, giving employees the ability to schedule their work around customer and family needs. The company expects to have the approximately 3,000-member sales force completely laptop-equipped by next June.

While the change is being made to increase productivity, it also helps employees schedule their work according to their needs, said a spokesman for the company, which placed in the magazine's top 10 list for the fourth time.

Other Xerox work/family benefits include adoption assistance, salary redirection for dependent care, child and elder care referral service, a child care subsidy for employees earning less than $50,000 per year and an option to buy health care coverage for members of the extended family.

Patagonia, among the 10 best for the second time, offers its employees an eight-week paid paternity and maternity leave, among other work/family benefits.

The company also hosts lunchtime parent education programs that deal with various issues and has lactation support centers at its various sites that provide information, specialists and funding toward the purchase of a breast pump.

Other arrangements offered by Patagonia include subsidies for child care costs, an onsite child care center, a network of local child care providers, work-at-home options, flex time and job sharing.

"Recognizing that it is impossible to separate our employees' personal and professional roles has led us to a philosophy of flexibility in the workplace here," said Terri Wolfe, human resources director. BI

Settlements shrinking

But attorneys' fees in securities suits keep rising anyway

By RODD ZOLKOS

When companies' directors and officers are included as co-defendants in securities class-action claims, directors and officers insurance policies on average pick up more than two-thirds of any settlement costs, a new study shows.

And, while the average securities class-action settlement fell from 1993 to 1994, plaintiffs attorneys' fees continued to head upward.

According to a study by National Economic Research Associates Inc., a White Plains, N.Y.-based research and consulting firm, the average settlement in securities class-action suits stood at $6.14 million in 1994, down 28.6% from $8.6 million in 1993.

Plaintiffs attorneys fees' increased nearly 3.5% during the same period, however, to $2.03 million on average in 1994 from $1.96 million in 1993.

Todd Foster, a NERA associate analyst, noted that average settlements didn't decline in all cases, however.

"Depending on the sample of the companies you look at, that result differs," Mr. Foster said. "For a smaller subset, that average actually increased. Those were cases involving only common stock. In those cases, the average settlement actually rose from 1993 to 1994."

Settlements in class-action claims involving only common stock increased 7.7% to $5.6 million in 1994 from $5.2 million in 1993, according to the study.

The study, titled "Recent Trends III: What Explains Settlements in Shareholder Class Actions?" also showed the number of settled cases are growing steadily each year, climbing to 183 in 1994 from 103 in 1991. NERA found that 83% of class actions were settled before going to trial or being disposed of by a court.

In cases where directors and officers were named along with the company, D&O insurance paid on average 68.2% of any settlement, with the company paying 31.4% and the directors and officers themselves paying 0.4%, the survey found.

The study also showed that settlements tended to increase as cases came closer to trial, and that when accounting firms or underwriters were included as co-defendants in shareholder class actions, the expected settlement value increased by 30% from 1991 to 1994.

"Generally, when there's an accounting or underwriting party named as a co-defendant, the settlements tend to be larger," Mr. Foster said. "We speculate it's because they have additional assets and tend to have their own insurance."

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Copies of the report can be obtained without charge by calling Frederick Dunbar, NERA senior vp, at 914-448-4050.

GASB compliance to be easy for most

Many in public sector have health data

By RODD ZOLKOS

A vast majority of public-sector employers already collect most if not all of the data necessary to comply with anticipated Government Accounting Standards Board regulations related to calculating retiree medical liabilities.

But, "a significant number" would have to increase periodic data collections to comply with any requirement for actuarial measures of retiree medical liabilities, New York-based Buck Consultants Inc. found in a survey it released recently.

The survey was prompted by GASB's plans to develop new accounting and reporting rules for government employers' non-pension retiree benefit liabilities.

GASB, an independent organization similar to the Financial Accounting Standards Board, establishes accounting standards for public entities.

Although GASB isn't scheduled to release an exposure draft of the new rules until late 1996, the Buck survey showed many public-sector employers have already begun analyzing their retiree medical benefit costs.

"Post-retirement medical benefits are a major expenditure for many benefit providers," the Buck survey report noted. "New rules for reporting these benefits may have a substantial impact on public employers' financial reports."

Of the survey respondents providing post-retirement non-pension benefits, all offer retiree medical insurance. To comply with the new GASB rules, government employers may need data specific to the medical program, including historical claims experience and retiree enrollment statistics.

But the survey showed that of the 33 respondents providing medical program information, 94% have data available by historical claims experience and all have enrollment data available.

In addition, 97% of those 33 public-sector employers reported having access to detailed medical claims information.

Of the 33 respondents offering retiree medical program information, 73% said they project medical costs of their entire retiree program population annually, 12% reported doing so on a quarterly basis, 6% do so monthly and 9% reported that they don't regularly project their retiree population's medical costs.

In terms of accounting practices, of the 26 governmental units offering accounting information, 86% indicated they record retiree benefit costs on a pay-as-you-go basis

Respondents said requiring them to disclose the present value of all estimated future post-retirement medical costs would be the most difficult form the new GASB rules could take, with 26% saying such a requirement would be "very difficult" and 35% calling it "difficult."

In contrast, 16% said disclosing only assets set aside to cover benefit liabilities would be "very difficult" and 22% said it would be "difficult," while 39% said such a requirement would be "not difficult."

Buck conducted the survey in January, sending a copy to 193 public-entity employers, including the 50 states, the largest county in each state and the 100 largest cities in the country. In some states, the city and county surveyed function as a single governmental entity.

Of the 42 entities completing questionnaires, 17 were states, six were counties and 19 were cities.

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Copies of the survey report, "Post-Retirement Medical Benefits: Public Employer Practices," are available for $25 from Buck Consultants Inc., 2 Pennsylvania Plaza, New York, N.Y. 10121.

Fifth client for Municipal Mutual

CARSON, Calif.—The city of Carson, Calif., is now the fifth California city to purchase liability insurance from Gardena, Calif.-based Municipal Mutual Insurance Co.

Municipal Mutual, incorporated in 1992 by the Los Angeles suburb of Gardena, Calif., has been trying to attract other California municipalities—the majority of which belong to municipal liability pools—as customers since it was licensed in 1993 (*BI*, June 5). Through June 1995, Gardena remained the mutual's only client.

The city of Carson is paying $212,000 for automobile liability, general liability, personal injury, police professional liability and errors and omissions by public officials.

Under the policy purchased July 1, Municipal Mutual will provide $5 million in liability coverage and the city will retain losses up to $250,000, said Jim Gregg, Municipal Mutual president and CEO.

Since its inception, the cities of Beaumont, Gardena, Hayward and Richmond and have purchased coverage from the insurer. BI

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Reinsurer directory listing

The following listing was not included in the annual Business Insurance *directory of the world's largest international reinsurers published in the Aug. 28 issue, due to a miscommunication from the reinsurance company.*

An employee of Tokio Marine & Fire Insurance Co. Ltd. originally declined to be listed, citing a decision to reduce its international reinsurance underwriting.

In fact, Tokio Marine & Fire reported $1.056 billion in net reinsurance premiums in fiscal 1994, which would have ranked it as the 14th-largest reinsurer in 1994.

The Tokio Marine & Fire Insurance Co. Ltd.

2-1, Marunouchi 1-chome,
Chiyoda-ku, Tokyo 100, Japan;
81-3-3212-6211; fax: 81-3-5223-3100

	1994*	1993*
Premiums written	$1,056,298,400	$994,980,860
Capital & surplus	$19,945,399,200	$20,178,167,400
Domestic	72.4%	72.9%
Foreign	27.6%	27.1%

** Fiscal years ending 3/31/95 and 3/31/94.*

Founded: 1879.

Officers: S. Kono, president; S. Horichi, executive vp.

Contact: Masayoshi Saito, Tokio Re Corp., New York, 212-267-3300.

Figures are in U.S. dollars. The yearly average exchange rate used for the specified fiscal year end is $0.0101 (3/31/95), $0.00934 (3/31/94).

Lloyd's to appeal Texas ruling allowing suits in U.S. court

Names hope U.S. discovery process will aid their cases

By GAVIN SOUTER

HOUSTON—Lloyd's of London is appealing a Texas district court's decision to allow U.S. members to sue Lloyd's in the United States.

Judge John D. Rainey's decision runs counter to previous decisions, including a recent California case, in which U.S. courts have agreed with Lloyd's that all disputes between Lloyd's and members should be heard in English courts.

U.S. members were elated at Judge Rainey's decision. They believe their chances of success are greater on their home turf because of the extensive discovery allowed in cases tried here.

The interlocutory hearing in the U.S. District Court in Houston came in the case of *Charles Robert Leslie vs. Lloyd's of London and R.W. Sturge & Co.*

Mr. Leslie alleges that he was recruited to join Lloyd's by insiders who knew that Lloyd's faced huge asbestos and pollution liabilities and wanted new members to help pay those losses.

The forum selection clause—which members have signed since 1986, restricting them from suing Lloyd's outside of England—is invalid in this case because Lloyd's officials had asked members to sign it without giving them full information about their potential for loss, Mr. Leslie alleged.

In the ruling late last month, Judge Rainey agreed that the case could be heard in the United States.

"The court concludes that Leslie's accession to the forum selection clause was the product of fraud on the part of Lloyd's and Sturge," court papers say.

When members were required to sign the general undertaking that contained the forum selection clause, Lloyd's insiders did not disclose information about the level of the pollution and asbestos liabilities, the decision says.

"If any reasonable outside Name had known what insiders at Lloyd's knew in the summer of 1986, the Name most certainly would have preferred to terminate or suspend his or her underwriting activity with Lloyd's," court papers say.

The court also rejected Lloyd's argument that the principles of international comity require that the dispute should be heard in England.

"Concerning personal jurisdiction, Lloyd's interest in having disputes concerning its transactions with American names resolved in English courts is apparent—but the court cannot fathom what interest English courts might have in adjudicating claims concerning an English defendant's activities in the United States," court papers say.

Aside from having a peculiar structure, Lloyd's is no different from any other English business entity, and it should be subject to foreign courts when it does business outside England, court papers say.

Lloyd's is petitioning to appeal the decision. The appeal is expected to take between 12 and 20 months, a Lloyd's spokesman said.

The Leslie decision is a "pivotal" decision that eventually should lead to a ruling on Lloyd's by the U.S. Supreme Court, said Jeffrey Peterson, executive director of the American Names Assn.

If the decision is upheld on appeal, the Supreme Court will likely feel compelled to clear up disagreements between different court circuits, he said.

Lloyd's is no different from any other English business entity and should be subject to foreign courts when it does business outside England, court papers say.

"It is likely to open up the floodgates. . .it's going to affect a whole series of cases that are coming up," Mr. Peterson said.

In another aspect of the case, Mr. Leslie is appealing a court decision which allows Lloyd's to draw down on his letter of credit to meet his outstanding liabilities.

Lloyd's was more successful in another court last month where the judge dismissed 650 members who attempted to have their case against Lloyd's heard in the United States.

Judge Irma E. Gonzalez in the Southern District of California in San Diego upheld an earlier ruling in May which held disputes between Lloyd's and its members should be heard in England.

The members involved in the California case subsequently presented new evidence for the judge to consider, including an opinion by English lawyer Kenneth Rokinson on the laws affecting Lloyd's; a British parliamentary committee report in May which faulted the oversight of Lloyd's (*BI*, May 29); and a report by the New York State Insurance Department issued in May that also was critical of Lloyd's (*BI*, May 29).

"After reviewing plaintiffs' newly discovered evidence, the court finds that it does not persuade the court to alter its decision," court papers say.

The members are appealing the decision. BI

For the Record

$1 million awarded to obese ex-employee

OAKLAND, Calif.—A 400-pound man who claimed he was fired from his job at a Kragen Auto Parts store because of his weight has been awarded more than $1 million by an Alameda County Superior Court jury on Sept. 1.

Attorneys for 36-year-old John Rossi argued that he was fired in violation of California's Fair Employment and Housing Act, which protects people with physical disabilities. He was a 10-year employee of Kragen, which is owned by Phoenix-based Northern Automotive Corp.

Mr. Rossi claimed that he had asked the company's personnel department for help with his obesity and that after denying him help, the company complained about his job performance, according to his San Francisco attorney, Barbara Lawless.

The company argued that his termination was based only on Mr. Rossi's performance and that accommodations were made when he complained in 1989 that his obesity contributed to severe drowsiness during his commute to work. The company transferred him to a store closer to his home when it found its benefits program did not allow other remedies.

After that, Mr. Rossi did not report any other concerns to his employer, the company argued.

The jury awarded him $776,739 for emotional distress and $258,913 for loss of compensation and benefits.

Northern Automotive issued a statement saying that it does not tolerate discrimination and that the company currently is reviewing its legal options.

During the trial, a medical doctor testified that Mr. Rossi's condition was a disease, which helped the plaintiff meet a standard set by the California Supreme Court in the 1993 ruling of *Cassista vs. Community Foods*. In that decision, the high court held that in order for obesity to be a physical disability, the plaintiff must prove that it is a physiological disorder.

Rossi vs. Northern Automotive Corp., Alameda County Superior Court; No. 70242-1, Sept. 1, 1995.

State questioning 'HCO' promotions

SAN FRANCISCO—Several medical provider organizations and groups have been distributing promotional materials that misleadingly incorporate the title of HCO, or "health care organization," into their names, the California Labor Department has warned.

However, the state Division of Workers Compensation so far has certified only three workers compensation health care organizations under guidelines created by the 1993 workers comp reform legislation.

The three certified HCOs are: FHP Life HCO of Costa Mesa; MetraComp of Long Beach; and Greaney Medical Group/WorkCare of Anaheim.

However, several additional HCO applicants are close to attaining HCO certification, according to Casey L. Young, administrative director of the Division of Workers Compensation.

Under the 1993 reform law, qualified medical provider organizations and disability insurers can apply to the division for certification as HCOs. Once certified, employers can offer their employees the opportunity to enroll in one of the plans for treatment of job-related illnesses and injuries and retain the ability to manage enrolled employees' medical care for up to one year (*BI*, July 26, 1993).

"DWC has only certified three workers compensation health care organizations at this time," Mr. Young asserted. "Any other organization purporting to be a certified workers compensation HCO is making misleading or false statements."

Anyone who has questions about the certification status of any organization offering medical services under workers compensation should contact the division's managed care unit at 415-557-9744.

Monsanto settles cleanup disputes

ST. LOUIS—Monsanto Co. has reached settlements with 37 of its commercial general liability insurers in a coverage lawsuit filed in 1988 involving the environmental cleanup of approximately 100 Superfund sites.

St. Louis-based Monsanto would not release financial information about the settlement it reached Sept. 1, but a spokeswoman said the undisclosed amount is expected to have a significant positive effect on the company's third-quarter earnings.

Insurers either could not be reached or would not reveal the amount of the settlement.

The suit did not seek a specific amount in damages, the Monsanto spokeswoman said, adding that the settlements also resolve a series of associated disputes between Monsanto and the insurers.

Citation General in liquidation

SAN JOSE, Calif.—Citation General Insurance, which was placed under the conservatorship of the California Department of Insurance last month, has been ordered liquidated.

A Superior Court judge approved the department's request for liquidation of the San Jose, Calif.-based property/casualty insurer on Aug. 24 based on the company's continuing poor financial results.

As of June 30, an assessment of Citation General showed that its liabilities exceeded its assets by roughly $10 million.

Citation General's diminished revenues and its continued high claims expenses "leave us no reasonable hope of rehabilitating the company," said Insurance Commissioner Chuck Quackenbush.

Prior to the company's placement in conservation last month, Citation General policyholders were offered the option of either canceling their policies or transferring to identical policies with the company's financially healthy affiliate, San Jose, Calif.-based Citation Insurance Co.

So far, only 29 policyholders have opted to stay with Citation General, the department said.

Information in brief

Rancho Cordova, Calif.-based Foundation Health Plan Inc. has been awarded the five-year, **$2.5 billion military health care contract** after a nearly two-year-long battle with rival health plans Aetna Health Plans and QualMed, a subsidiary of Woodland Hills, Calif.-based Health Systems International Inc. The so-called CHAMPUS contract, which will provide health care services to approximately 720,000 beneficiaries located in California and Hawaii, had been in dispute since 1993 (*BI*, Aug. 2, 1993). BI

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IPOs

Continued from page 1

deals had little in common, potential Risk Capital investors may have been affected by the fallout from the Normandy America failure (*BI*, Sept. 4; Aug. 28).

Even before the postponement in August, Risk Capital had scaled back the size of the offering to $240 million from $280 million. If over-allotment options are exercised, Risk Capital could raise total net proceeds of up to $334.5 million from both the public sale and direct sales, according to its latest prospectus.

EXEL Ltd., the parent company of Bermuda-based X.L. Insurance Co., had not been listed among Risk Capital's investors in its original Securities and Exchange Commission filings. Observers say it became involved only recently, apparently at M&M's behest.

Among other investor changes, Marsh & McLennan Risk Capital Holdings Ltd., which had originally been listed as contributing $20 million, doubled its contribution to $40 million. Other investors include Trident Partnership L.P., an insurance investment fund organized by M&M, which invested $35 million.

Another $1 million was invested by Taracay Investors, a general partnership of Risk Capital Chairman Robert Clements and his family. One firm, listed in the original prospectus as investing $15 million, is no longer participating: an affiliate of Harvard Private Capital Group Inc. of Boston, which is related to the firm that manages the university's funds.

Risk Capital Reinsurance Co., Risk Capital Holdings' subsidiary, will be a Nebraska-domiciled reinsurer that will focus on traditional and finite risk property and casualty reinsurance, including excess-of-loss and quota-share, the filing says.

Risk Capital is unusual compared with traditional reinsurers in that the new company plans to invest most of its investment portfolio in equity securities primarily issued by insurers, reinsurers and companies providing services to the insurance industry. It may in some cases provide reinsurance to insurers in which it invests, according to its SEC filing.

Unlike most states, Nebraska permits property/casualty insurers to invest fully in equities, though it does limit the amounts that can be put in any one issue or issuer, said William H. McCartney, former Nebraska insurance director. That law has enabled Berkshire Hathaway Inc. of Omaha, Neb., to invest heavily in equities for years.

It is "extremely positive" that the personal funds of those involved as well as those of allied corporations were first invested before the public was asked to invest in the company, said Russell Miller, chairman of San Francisco-based Russell Miller Corporate Finance Inc., an investment banking firm specializing in insurance deals.

"That is novel and refreshing, where a group of investors say, 'I'm not asking anything of the public that I wouldn't do myself.' I think it's great."

Alice Schroeder, senior vp with Oppenheimer & Co. in New York, agreed. Having EXEL as an investor "demonstrates a commitment to their business strategy, which is appealing to investors, because EXEL is a very credible company," she said. EXEL's involvement was not essential, said Ms. Schroeder, "but it was obviously helpful."

On Wall Street, though, not everyone took EXEL's involvement as a sign of confidence.

"Interesting, isn't it, how it was another of Marsh & Mac's children that gave Risk Capital the lift?" asked Michael Smith, an analyst with Lehman Bros. in New York. "It remains debatable that it's actually been Wall Street that's backing this, when you consider the support this thing got from EXEL to get the deal done."

Most observers are optimistic about the ultimate success of the company. "I look for great things from this group of people," said Mr. Miller. The fact that the company successfully returned to the market "shows that the people involved in this transaction don't get dissuaded easily when things outside their control cause setbacks, and this is a very good quality for someone in the reinsurance business. It just reconfirms it's the right team."

"Certainly one of the bigger positive factors for a company like Risk Capital is that it comes out with a clean balance sheet," said Tom Walsh, associate director with Standard & Poor's Corp. in New York. "Obviously, it has no track record, but with a proven investor base and having attracted some good reinsurance talent right up front" it certainly has credibility.

Pointing to the reinsurer's plans to invest in other insurance companies, David Seifer, an analyst with Donaldson, Lufkin & Jenrette Securities Inc. in New York, said that while this is not typical of reinsurers, "I think the management here understands what the challenges and problems are, and they'll do it."

However Lehman Bros.' Mr. Smith again was less optimistic. Whether or not it can be a factor in the reinsurance market is highly debatable and questionable, he said. "The world has changed," he said. "You can't simply raise a bunch of money and say, 'OK gang, now I'm in the reinsurance market.' "

Meanwhile, efforts by the Prudential Insurance Co. of America to sell a 40% stake in Prudential Reinsurance Holdings Inc. for $300 million to $360 million in a scaled-down offering could be successful both because of its parent company's reputation and because Pru Re is an already-established company rather than a startup, observers say.

The holding company, which controls Pru Re, the largest broker market reinsurer in the United States, and subsidiaries Prudential National Insurance Co. and Le Rocher Reinsurance Ltd. of London, is wholly owned by PRUCO Inc., a unit of Prudential Insurance Co. of America.

Prudential originally filed a proposed IPO in 1993 to sell 40% of Pru Re for $420 million (*BI*, Nov. 22, 1993). The offering came after the insurer failed to find a private buyer earlier in the year, when the entire reinsurance unit was offered for $1.2 billion. The IPO was subsequently postponed, in part because of poor stock market conditions.

A revised offering, originally filed in June and subsequently amended in a Sept. 6 filing, provides for the sale at a price that could be below book value.

According to the latest prospectus, the 20 million shares would be sold at $15 to $18 per share, or $300 million to $360 million. This values the reinsurer at $750 to $900 million, while Pru Re's stockholders equity is $874.4 million.

The SEC filing also notes that Prudential plans to eventually sell its remaining ownership interest in the reinsurer, subject to certain restrictions. The reinsurer would be required to change its name within six months from the point when Prudential ends its majority ownership.

Douglas C. Moat, chairman of the New York-based The Manhattan Group, an investment banking and consulting organization, said he believes the Pru Re IPO has a good chance of success. Despite its recent problems with its Prudential Securities Inc. unit, the Prudential name remains an advantage. "It's still a hugely successful company," he said.

In addition, he said, "There's a lot of capital out there, and I think, frankly, a lot of that capital is looking for a home. Although the insurance industry generally has shown very low returns on equity, very low returns to investors, that's not been true of the reinsurance segment, so personally, I'd be optimistic."

Also optimistic was John L. Ward, chief executive officer of the Ward Financial Group, a Cincinnati-based research and consulting firm.

"I think they've got a high possibility of a successful offering," he said. "Yes, there's been a repricing. . .but I think that's more a function of the timing of dealing in the stock market than it's the value of the underlying franchise."

The offering will be helped by having a well-known name like Prudential behind it, he added.

The company has also made a number of changes—including focusing more on specialty underwriting, and bringing in new management—designed to improve its operating performance (*BI*, Jan. 2).

Michael Lewis, first vp with Dean Witter Reynolds Inc. in New York, is cautious about the IPO's chances of success. "It's going to be a real litmus test" of the stock market, said Mr. Lewis.

"The reinsurance deals that didn't fly over the summer were somewhat different than this," he said. "This is No. 1, a large, well-known reinsurance company with an established book of business," said Mr. Lewis.

Pointing to Joseph V. Taranto's appointment in 1994 as Pru Re's chairman, president and CEO, Mr. Lewis said, "The key, the story is the new management team and the belief that they can bring about the improved results and tight underwriting standards that so far have not been able to be delivered to the company."

"What's going to make this story is that the new management team has a very good reputation, and it's really going to be something of a faith story that they can come in and tighten up the situation dramatically and improve the business and run it more efficiently," he said.

Mr. Lewis added the deal could be a success if it is priced appropriately. "I think the key here is on the pricing side."

The question is whether they have convinced anybody "that they've truly changed," said Keith Erickson, an associate with Russell Miller.

He noted also, however, that unlike the Risk Capital and Normandy America offerings, the Pru Re deal is not adding new capital to the market. "In this case, it would just be a reallocation of capital unless the new owners added capital to the operating company," he said.

Oppenheimer's Ms. Schroeder said she believes prospects for the Pru Re IPO are improved with the successful Risk Capital IPO.

Another analyst also predicted success for Pru Re itself.

One thing that should help the turnaround is the company's size, he said. "The insurance market is still very concerned about security and long-term commitement of reinsurance buyers and just sheer size helps Prudential."

Pru Re long has been a below average company, he said. Other reinsurance companies decided about 10 years ago to focus on casualty business, writing on an excess-of-loss basis. Pru Re, he said, is one of a handful that maintained a more traditional focus on property, much written on a quota-share basis.

"The results were very disappointing, so Prudential has turned over the management and is now changing its business mix," the analyst said. BI

Updates

CHA suing pension adviser

CHICAGO—The Chicago Housing Authority is seeking more than $15 million in damages from a Boston-based investment consulting firm in an effort to recover the pension assets lost in fraudulent investments made by the CHA's former risk and benefit manager.

In a suit filed Sept. 14 in U.S. District Court in Chicago, the authority charges that J.A. Hannah Investment Advisory Services Inc., which it hired as an adviser in 1992, should have discovered and notified it that John D. Lauer was transferring money to investments other than those set out in its diversification plan.

Jack Curtin, an attorney for the investment firm, said it had no fiduciary duty to the housing authority. "Our position would be that there was no fiduciary duty that would require us to be responsible," Mr. Curtin said. "We weren't responsible for it."

A federal grand jury last month indicted seven men for allegedly running a fraudulent investment scheme that bilked the CHA, though Mr. Lauer was not named in the indictment. He was one of three named in a civil action the Securities and Exchange Commission brought in June 1994, however, that first exposed the investment scandal (*BI*, June 27, 1994).

General Motors defends trucks

DETROIT—General Motors Corp. says that its settlement of four lawsuits stemming from fiery crashes involving pickup trucks with side-mounted fuel tanks doesn't suggest the company is unprepared to defend the trucks' safety in court.

The terms of the recent settlements, which came in cases in federal or state courts in Georgia, Oklahoma and Kansas, were not disclosed. The cases were among dozens filed in courts around the country claiming injuries or wrongful death resulted from an alleged design flaw in the C/K model pickup trucks built between 1973 and 1987, which have side-mounted fuel tanks located outside the vehicles' frame rails. Critics say the design causes the trucks to explode easily on impact.

In addition, a class-action suit brought by truck owners seeking compensation for reduction in their vehicles' resale value still is pending in the federal district court in Philadelphia.

GM says the trucks meet federal safety standards, "including those for fuel system integrity in collisions," and that it was "prepared in these cases to present overwhelming evidence to demonstrate the safety of its 1973-1987 C/K pickup trucks."

New Jersey regulator resigns

TRENTON, N.J.—New Jersey Insurance Commissioner Andrew Karpinski resigned last week after the state's Department of Law and Public Safety released a report saying he amended department records on the deactivation of his surplus lines agent license.

The agency found that Mr. Karpinski improperly altered department records to show that he was still an officer of Burkar Associates in Parsippany, N.J., until Jan. 26, when he actually gave up his license Jan. 12. During that period, Burkar, one of two New Jersey agencies Mr. Karpinski owned prior to becoming commissioner in March 1994, issued a new surplus lines policy and renewed two other policies with no officially licensed agent on staff. Mr. Karpinski's wife, Caroline Conboy, took over as president of the agency Jan. 26, the date she obtained a surplus lines license.

While the report found that his actions were clearly improper, it said no criminal action is warranted. In a statement, Mr. Karpinski admitted he made an "error in judgment" when he agreed to "postpone the deactivation" of his surplus lines authority for two weeks between the time he sold his shares in the agency and when his wife became a proper substitute. He said he never took a salary from the agency between March 1994 and January and did not share in the $5,000 in commissions the three improper surplus lines transactions generated.

Anita Kartalopoulos, executive director of the New Jersey Real Estate Commission, has been appointed acting commissioner.

Briefly noted

Rep. Norman Mineta, D-Calif., will resign from Congress next month to take a job with a defense contractor. Rep. Mineta, a former insurance agent, was the chief Democratic sponsor of the Natural Disaster Protection Partnership Act of 1995, which would create a new catastrophe reinsurance fund (*BI*, June 19). . . .Insurers have rejected a request from Republican leaders that they pay a "voluntary tax" of about $400 million to the **Superfund** program in return for abolishing retroactive liability. One of the lawmakers who suggested the tax—Rep. Michael Oxley, R-Ohio—is expected to introduce a Superfund reauthorization bill in the next few days. . . .Kenneth J. Rutkowsky will become president and chief operating officer at Hamilton, Bermuda-based **Tempest Reinsurance Co. Ltd.** Oct. 1, succeeding John C. Etling, who was appointed Tempest Re's president, CEO and co-chairman earlier this year. Mr. Rutkowsky formerly was executive vp at Morristown, N.J.-based Mercantile & General Reinsurance Co. of America. His replacement at M&G Re is Robert W. Hedges, former senior vp of The Home Insurance Co. in Manchester, N.H. Mr. Etling will remain Tempest Re's co-chairman and CEO. . . .The Property Claim Services division of the American Insurance Services Group Inc. confirmed last week that its final estimate of insured property damage from the January 1994 **Northridge earthquake** is $12.5 billion. . . .**California Assembly Speaker Doris Allen** stepped down Sept. 14 as speaker, just three months after Democrats handed her the job. She was regarded as an adversary to the managed care industry (*BI*, July 3) and was under fire from fellow Republicans. . . .**Breast implant liability** suits can proceed against Dow Chemical Co. and Corning Inc., even though suits against their joint venture Dow Corning Inc. are stayed since the implant maker filed for Chapter 11 bankruptcy protection, a U.S. District Court judge in Detroit ruled last week.

Accreditation

Continued from page 3

tee, which oversees accreditation.

• Hosted a public hearing at which nearly a dozen insurance industry and consumer representatives made suggestions about ways to improve the accreditation program.

• Adopted a mission statement for the accreditation program.

In addition to Vermont, the NAIC accredited the New Mexico Insurance Department, though it will be subject to special review next year to ensure that its domestic insurer examinations have been improved, said Superintendent Christopher Krahling.

Accreditation of the Vermont department became possible after the NAIC decided in June to remove for study a previous accreditation requirement relating to the treatment of risk retention groups organized as captives (*BI*, June 12). The NAIC voted not to require states to regulate risk retention groups the same as traditional insurers, and now is studying whether captive law, as used by Vermont, provides effective regulation.

The NAIC's new flexibility is also apparent in a recent change in mood by the majority of members of the organization.

"In the past couple of years, there have been a lot of attacks and defensiveness. What I see now within this organization is an emphasis on problem solving," said Vermont's Ms. Costle. "We may not always agree exactly, but I think we are all working toward a solution and we will get there," she said, encouraging all NAIC participants to adopt the same spirit.

Steven T. Foster, chairman of the NAIC's accreditation subcommittee, said he considers it "wonderful" that the Vermont department became accredited. "They have made a lot of progress in the past three years."

Mr. Foster also chaired a public hearing at the meeting where nearly a dozen industry and consumer representatives offered suggestions about ways to improve the accreditation program.

Several of the speakers expressed support for the concept of accreditation and frequently praised the NAIC's recent willingness to re-evaluate its process, especially giving states more time to pass standards and considering standards that are emphasize results rather than formal rules.

New Hampshire State Sen. Leo W. Fraser Jr., president of the National Conference of Insurance Legislators, recommended emphasizing that the accreditation program is a voluntary program by removing all language about sanctions, even though states generally do not enforce them.

He also urged continued efforts by the NAIC to adopt program budgeting and to obtain input from legislative groups like NCOIL. In addition, Sen. Fraser said that state lawmakers should help improve communications between legislators and regulators by expanding the distribution of NAIC model law information, providing for an NAIC presentation at upcoming NCOIL meetings and holding public hearings on NAIC model bills.

'What I see now within (the NAIC) is an emphasis on problem solving,' says Elizabeth Costle.

Sen. Fraser also said he will continue to support the idea of an interstate compact to unify state solvency regulations. "Without the authority of an interstate compact, arguments over sovereignty, due process and checks and balances are sure to surface and re-surface," he said.

Consumer advocate and former Texas commissioner J. Robert Hunter warned that "the criticisms by the NCOIL must be taken with a grain of salt, however, given NCOIL's extreme conflict of interest."

Several of NCOIL's leaders work for the insurance industry, according to a study Mr. Hunter co-authored as director of insurance for the Consumer Federation of America in Washington (*BI*, Sept. 4).

He also dismissed criticisms by the National Assn. of Independent Insurers that the accreditation program be more voluntary and the NAIC allow more industry input. "The NAII and other such attacks are so self-serving and arrogant that they should carry little weight," Mr. Hunter contends.

The criticisms from other state legislative groups should be considered "serious," he said. Among those criticisms is that states continually are barraged by new accreditation regulations to follow and what these groups see as a lack of openness on the NAIC's part.

The NAIC's accreditation program is "an important innovation by the NAIC that should not be weakened," Mr. Hunter argued.

William Anderson, associate general counsel of the National Assn. of Life Underwriters, also was concerned that the program might be weakened.

Robert Zeman, assistant vp and assistant general counsel of the NAII, generally ignored Mr. Hunter's charges, but suggested that the NAIC require a "supermajority" to establish an accreditation standard, add a year or more to the process before a model law becomes an accreditation standard, make the program more voluntary and perhaps set up an advisory committee.

In addition, Senior Vp Mike Stinziano of the Alliance of American Insurers urged that the NAIC develop "standards for the standards" so any proposed new change would be accompanied by a written rationale.

Rick Hamilton, chair of the board of directors of the Vermont Captive Insurance Assn., said in a letter that his organization had a mixed view of accreditation. It is "a positive force so long as it is used to enable states to do a good job of regulation," though it can be used in a manner that is "inappropriate and counterproductive."

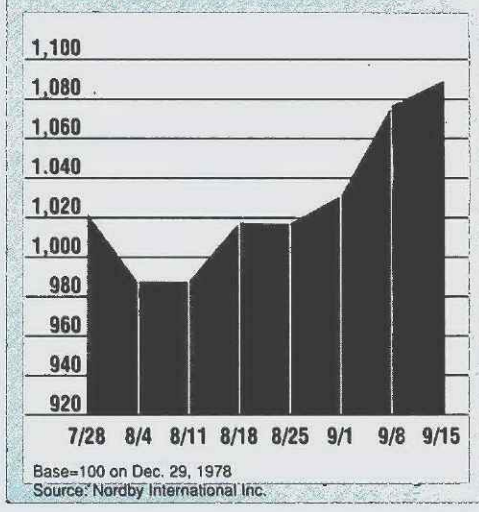
The VCIA recommended divorcing administration of the program from the adoption of standards and allowing an unspecified "reasonable" period of time before any new standard is made part of the program.

Also, there should be no sanctions if a state chooses not to adopt a particular standard, he said. "The NAIC does not have the legal authority to impose mandatory standards," and would be vulnerable to litigation to overturn any mandatory standard.

The NAIC previously said examination reports from non-accredited states may have limited acceptability, though it later softened that to let individual commissioners decide whether or not to accept them.

Finally, VCIA's Mr. Hamilton also urged the NAIC to familiarize itself with Federal Trade Commission guidelines for accreditation programs, and emulate its goals of fairness, due process and objectivity. BI

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc.

Catastrophe insurance option call spreads

As of Sept. 15

Call spread	Price bid/ask	Rate on line %	Call spread	Price bid/ask	Rate on line %
Eastern September 1995			Eastern September 1995		
50/70	.7/1.5	3.5/7.5	20p	5/8	
150	—/5	—/10	50p	37/—	
190	—/0.8	—/8	70p	57/—	

Total volume: 30 Total open interest: 2,534

For quotes, call the CBOT trading floor at 312-341-3342. For general information, call 312-435-3674.

Source: Chicago Board of Trade

British Issues

Sept. 14 Companies	Price pence	P/E	Div. pence	Yield %	1 week high—low
Commi Union	623	12.5	33.0	5.3	623—601
Genl Accident	650	9.5	36.3	5.6	650—624
Gdn Royal Exch	234	N/M	10.3	4.4	234—228
Independent	345	9.6	11.9	3.4	345—345
Royal	369	7.0	15.0	4.1	372—347
Sun Alliance	369	12.4	19.7	5.3	371—358
Brokers					
Bradstock	50	5.6	7.1	14.2	52—50
Fenchurch	140	9.8	10.0	7.1	142—140
CE Heath	193	12.1	20.0	10.4	197—193
JIB Group	111	9.7	9.4	8.5	112—110
Lloyd Thmpson	162	11.3	9.8	6.0	165—162
Lowndes Lmbrt	158	8.8	10.3	6.5	166—158
Nelson Hurst	167	12.9	8.3	5.0	167—167
PWS Holdings	15	N/M	0.8	5.3	16—15
Sedgwick Grp	120	10.9	8.1	6.8	124—120
Steel Brl Jones	55	6.5	11.3	N/M	82—55
Willis Corroon	137	N/M	8.3	6.1	138—137

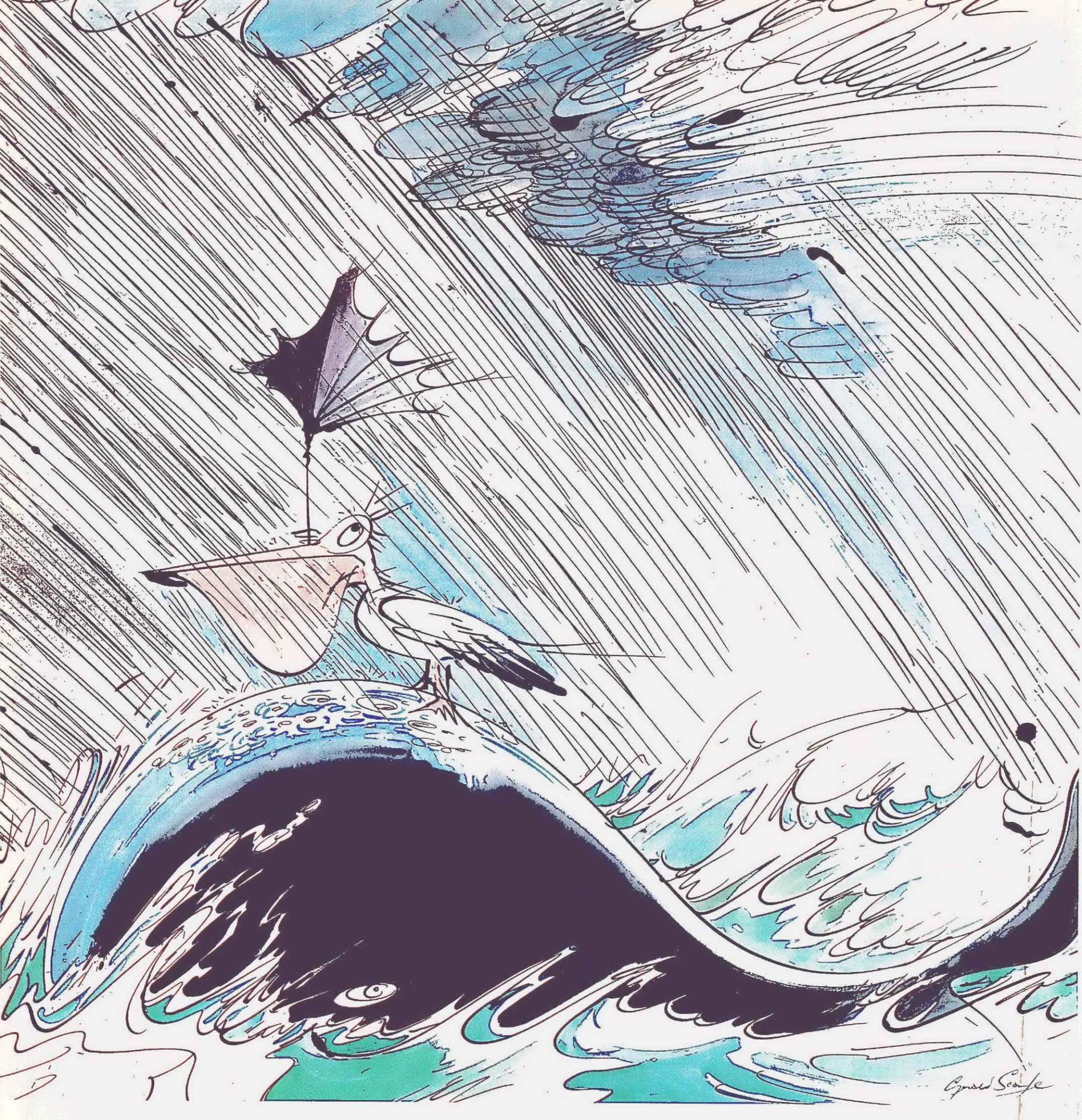
Source: Philip Olsen, London

BI Industry Stock Report SEPT. 11, 1995, THROUGH SEPT. 15, 1995

BROKERS		Price	Weekly % change	Year to date % change	Annual High	Annual Low	Vol.(000)	$ Div.	% Yield	P/E	Book value	Mkt./Bk. value
Acordia Inc.	NYS	28.375	2.25	-15.30	34.50	26.00	88	0.72	2.54	14	14.00	2.03
Alexander & Alexander	NYS	24.75	4.76	33.78	26.44	18.50	233	0.1	0.40	-12	19.17	1.29
E.W. Blanch Holdings Inc.	NYS	19.375	2.65	-6.06	23.00	16.50	31	0.4	2.06	16	1.40	13.84
Gallagher Arthur J. & Co.	NYS	35.25	-2.76	10.16	38.00	29.63	158	1	2.84	15	6.48	5.44
Hilb, Rogal & Hamilton	NYS	13	-1.89	7.22	13.50	10.50	115	0.56	4.31	16	1.21	10.74
Marsh & McLennan	NYS	84.125	2.59	6.15	85.00	71.50	917	2.9	3.45	16	19.95	4.22
Poe & Brown	NDQ	24.625	-2.48	13.22	25.25	19.50	161	0.48	1.95	15	5.15	4.78
BROKERS	AVERAGE		0.7	7.0					2.5	11		
INSURERS/REINSURERS												
ACE Ltd.	NYS	34.125	3.41	45.99	34.63	20.75	409	0.00	0.00	0	22.45	1.52
Acceptance Insurance Cos.	NYS	16.75	-1.47	11.67	18.00	12.63	240	0.00	0.00	12	10.76	1.56
AEGON N.V.	NYS	34.75	0.36	36.81	37.25	22.13	85	1.07	3.08	13	17.28	2.01
Aetna Life & Casualty	NYS	70.5	0.53	49.60	71.63	43.13	2154	2.76	3.91	52	48.85	1.44
AFLAC Inc.	NYS	40.125	3.55	25.39	44.75	31.63	2909	0.52	1.30	12	17.58	2.28
Allied Group Inc.	NDQ	33	2.33	33.33	33.00	22.00	146	0.68	2.06	7	21.81	1.51
Allmerica Prop. & Casualty	NYS	24	0.52	42.22	24.25	14.63	63	0.16	0.67	10	19.87	1.21
Allstate Corp.	NYS	36	6.27	51.58	36.00	22.63	7674	0.78	2.17	11	18.75	1.92
American Financial Group	NYS	30.875	-2.37	47.02	32.13	22.00	401	1	3.24	343	24.94	1.24
American General	NYS	38.375	7.34	35.84	38.38	25.63	1775	1.24	3.23	14	17.03	2.25
American Heritage Life Ins.	NYS	20	-3.03	5.26	21.50	16.25	31	0.72	3.60	11	12.51	1.60
American Indemnity/Fin'l	NDQ	10.5	13.51	3.70	12.75	9.00	18	0.3	2.86	7	15.92	0.66
American International	NYS	83.625	4.86	-14.67	84.38	58.50	4932	0.34	0.41	17	34.66	2.41
American Re Corp.	NYS	42.875	7.86	32.95	43.13	25.50	133	0.32	0.75	17	16.77	2.56
Aon Corp.	NYS	39.75	0.00	24.22	40.38	29.25	723	1.36	3.42	12	18.30	2.17
Argonaut Group	NDQ	30.875	1.23	9.29	32.50	27.50	68	1.32	4.28	11	29.91	1.03
AVEMCO Corp.	NYS	17.125	6.20	11.38	18.25	13.38	66	0.48	2.80	15	6.28	2.73
Baldwin & Lyons Inc.	NDQ	15.625	4.17	5.93	17.63	14.50	9	0.32	2.05	12	13.90	1.12
Berkley W.R. Corp.	NDQ	46.9375	4.02	25.17	46.94	32.50	1133	0.48	1.02	22	34.46	1.36
Berkshire Hathaway Inc.	NYS	29100	0.34	42.65	29100.00	18200.00	1	0.00	0.00	69	10089.11	2.88
Capital RE Corporation	NYS	29	2.20	5.94	29.25	20.50	39	0.2	0.69	10	22.30	1.30
Capsure Holdings Corp.	NYS	13.625	-2.68	-6.84	14.88	12.13	33	0.00	0.00	13	14.61	0.93
Chubb Corp.	NYS	95.125	5.40	22.94	95.13	57.00	1268	1.96	2.06	13	48.92	1.94
CIGNA Corp.	NYS	101.375	3.97	59.33	101.50	59.00	1871	3.04	3.00	9	80.46	1.26
CNA Financial Corp.	NYS	101.375	3.97	56.26	102.25	60.75	267	0.00	0.00	11	71.13	1.43
EMC Insurance Group Inc.	NDQ	14.25	-0.87	50.00	15.25	8.75	33	0.52	3.65	9	11.13	1.28
Emphesys Financial Gr. Inc.	NYS	36.75	0.34	15.75	39.50	22.63	173	0.6	1.63	10	17.69	2.08
EXEL Ltd.	NYS	58.5	-2.50	48.10	60.00	36.88	783	3.00	0.00	0	31.47	1.86
Fremont General Corp.	NYS	27.25	-0.91	16.58	28.75	18.88	113	0.8	2.94	8	19.04	1.43
Frontier Insurance Group	NYS	32	9.40	46.29	32.00	16.75	85	0.48	1.50	24	14.65	2.18
Gainsco Inc.	ASE	9.375	-2.60	13.64	11.00	7.75	129	0.04	0.43	12	3.98	2.36
General RE Corp.	NYS	152.125	4.64	23.18	152.13	104.50	768	1.96	1.29	16	59.35	2.56
Guaranty National Corp.	NYS	17.875	-0.69	-2.72	19.00	15.13	44	0.5	2.80	10	11.60	1.54
Harleysville Group	NDQ	29	5.45	19.59	29.25	22.00	20	0.76	2.62	10	20.72	1.40
Hartford Steam Boiler	NYS	48.5	5.72	21.63	48.50	35.88	239	2.28	4.70	18	14.68	3.30
HCC Insurance Holdings	NYS	33	-1.12	57.14	34.25	18.50	157	0.00	0.00	18	11.76	2.81
ITT (Hartford Group)	NYS	128.5	3.84	44.99	128.50	77.00	2389	1.98	1.54	10	45.46	2.83
Lincoln National	NYS	46.75	6.25	33.57	46.75	34.63	1421	1.72	3.68	12	28.90	1.62
Markel Corp.	NDQ	69.5	1.83	67.47	69.50	40.25	8	0.00	0.00	16	25.71	2.70
Mid Ocean Ltd.	NDQ	36.375	-0.51	33.49	37.25	22.25	475	0.00	0.00	0	22.18	1.64
Mutual Risk Mgmt. Ltd.	NYS	37.875	-1.62	44.29	39.00	24.38	124	0.32	0.84	19	9.72	3.90
NAC Re Corp.	NDQ	37.75	2.03	12.69	38.38	24.25	113	0.2	0.53	15	18.23	2.07
National Re Corp.	NYS	34.375	4.56	30.95	34.88	22.25	131	0.16	0.47	20	17.05	2.02
Navigators Group	NDQ	15.125	12.04	4.31	19.75	12.75	42	0.00	0.00	108	10.21	1.48
Nopel Insurance Ltd.	NDQ	11.875	-1.04	43.94	12.00	8.00	14	0.2	1.68	5	6.84	1.74
Ohio Casualty Corp.	NDQ	34.5	2.60	22.12	35.00	27.00	537	1.52	4.41	14	23.64	1.46
Olc Republic Int'l	NYS	28.875	0.00	35.88	29.25	18.88	199	0.52	1.80	11	25.79	1.12
Orion Capital Corp.	NYS	45.125	2.56	28.01	45.25	28.13	65	0.92	2.04	10	26.00	1.74
Partner Re Ltd.	NDQ	26.75	-2.28	28.92	28.38	18.50	263	0.00	0.00	0	20.37	1.3
Penn-America Group Inc.	NDQ	11	-2.22	49.15	11.50	6.50	40	0.12	1.09	11	6.40	1.72
Philadelphia Cons. Holding	NDQ	18.75	2.74	53.06	19.75	11.75	2	0.00	0.00	17	9.05	2.07
Phoenix RE Corp.	NDQ	27.375	-4.78	-3.10	29.75	21.00	320	0.6	2.19	5	21.27	1.29
Provident Life	NYS	27.25	1.87	25.29	29.38	20.50	120	0.72	2.64	13	22.34	1.22
Reliance Group Holdings	NYS	7.75	-3.13	49.40	8.13	4.88	699	0.32	4.13	11	3.42	2.27
Reliastar Financial Corp.	NYS	41.25	6.11	42.24	41.50	27.00	407	1	2.42	11	24.53	1.68
RenaissanceRe Holdings Ltd.	NDQ	24.625	0.00	NA	25.38	20.72	120	0	0.00	-	NA	NA
RLI Corp.	NYS	22.375	1.13	36.43	23.63	16.00	18	0.52	2.32	11	20.51	1.09
St. Paul Companies	NYS	55	1.85	22.91	55.88	39.38	814	1.6	2.91	10	32.46	1.69
SAFECO Corp.	NDQ	67.125	3.47	29.09	67.75	47.13	1278	2.12	3.16	13	44.95	1.49
SCOR U.S. Corp.	NYS	11.625	4.49	38.81	12.00	7.50	20	0.2	1.72	15	13.60	0.85
Seibels Bruce Group	NDQ	1	14.29	-60.00	3.25	0.75	35	0.00	0.00	-1	0.04	25.00
Selective Ins. Group	NDQ	35.75	4.38	41.58	36.25	23.50	288	1.12	3.13	11	23.23	1.54
Sphere Drake Holdings	NYS	18.25	2.10	31.53	18.25	10.75	14	0.00	0.00	0	13.86	1.32
TIG Holdings	NYS	26.625	-0.47	42.00	27.00	17.00	413	0.2	0.75	20	16.62	1.60
Titan Holdings, Inc.	NYS	15	1.69	53.85	15.50	8.25	136	0.3	2.00	11	9.04	1.66
Tokio Marine & Fire	NDQ	55	-2.22	-9.47	62.25	49.88	9	0.4	0.73	48	57.72	0.95
Torchmark Corp.	NYS	41.875	0.30	21.38	44.50	32.38	806	1.16	2.77	11	17.37	2.41
Transatlantic Holdings	NYS	68.75	-0.36	23.04	70.38	47.75	72	0.4	0.58	13	33.30	2.06
Transnational Re Corp.	NDQ	25.25	0.50	7.45	26.38	18.75	180	0.00	0.00	7	18.84	1.34
Travelers Corp.	NYS	52.75	5.50	62.93	52.75	30.38	3579	0.8	1.52	13	24.77	2.13
Trenwick Group Inc.	NDQ	51	9.09	20.35	52.00	36.50	172	1.12	2.20	13	29.23	1.74
United Fire & Casualty	NDQ	34.25	-2.14	23.80	37.00	26.75	3	0.8	2.34	9	28.96	1.18
Unitrin	NDQ	47.75	-1.04	11.05	50.50	41.50	116	2	4.19	13	37.51	1.27
UNUM Corp.	NYS	53.375	5.96	41.39	53.38	35.13	1173	1.06	1.99	26	26.45	2.02
US Facilities Corp.	NDQ	18.75	4.17	87.50	18.75	9.13	1178	0.2	1.07	9	11.66	1.61
USF&G Corp.	NYS	18.375	2.08	36.11	18.38	12.63	1370	0.2	1.09	9	10.86	1.69
USLIFE Corp.	NYS	46	4.84	31.90	46.13	30.88	166	1.4	3.04	11	38.45	1.20
Washington National	NYS	24.125	3.76	26.97	24.13	17.75	126	1.08	4.48	9	25.13	0.96
Zenith National Ins.	NYS	23.5	-0.53	3.30	24.75	19.38	68	1	4.26	12	16.35	1.44
Zurich Reinsurance Centr.	NYS	29.75	-0.83	3.03	30.88	25.00	68	0.00	0.00	106	21.64	1.37
INSURERS/REINSURERS	AVERAGE			2.3	28.2				1.9	21.1		
HEALTH MAINTENANCE ORGANIZATIONS												
FHP International	NDQ	23.25	-1.06	-9.71	31.00	19.50	2119	0.00	0.00	80	28.15	0.83
Humana Inc.	NYS	19.875	-1.85	-12.15	27.13	17.00	4629	0.00	0.00	17	6.56	3.03
Pacificare Health Sys.	NDQ	57.25	-7.85	-12.09	79.50	44.50	300	0.00	0.00	17	15.02	3.81
Safeguard Health Enter.	NDQ	11.75	0.00	27.03	12.38	8.25	10	0.00	0.00	69	6.15	1.91
Sierra Health Services	NYS	27.25	-3.96	-13.83	33.63	22.13	252	0.00	0.00	15	9.22	2.96
United Healthcare Corp.	NYS	46.25	0.54	2.49	55.38	34.13	8725	0.03	0.06	24	16.17	2.86
U.S. Healthcare	NDQ	32.625	-6.45	-20.91	49.00	26.50	8380	1	3.07	13	5.66	5.76
Wellpoint Health Networks	NYS	30.125	-1.63	3.43	37.00	25.88	176	0.00	0.00	14	14.26	2.11
HMOs	AVERAGE			-2.8	-4.5				0.3	28		
ALL COMPANIES	AVERAGE			0.1	10.3				2.1	24		

Top advancing issues: Seibels Bruce Group, American Indemnity/Fin'l, Navigators Group. Leading decliners: Pacificare Health Sys., U.S. Healthcare, Phoenix RE Corp. Most active issue: United Healthcare Corp. The BI Index rose 1.2%; the Dow Jones 30 Industrials rose 2.1%; the S&P 500 increased 1.9% and the NYSE Composite gained 1.8%.

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