

SEPTEMBER 19, 1994

# Business Insurance

Updates

## Former Kansas commissioner charged with work comp fraud

TOPEKA, Kan.—Former Kansas Insurance Commissioner Fletcher Bell has been charged with two counts of theft by deception stemming from a \$94,000 workers compensation award he received after allegedly injuring his back by lifting a briefcase out of his car trunk in 1989.

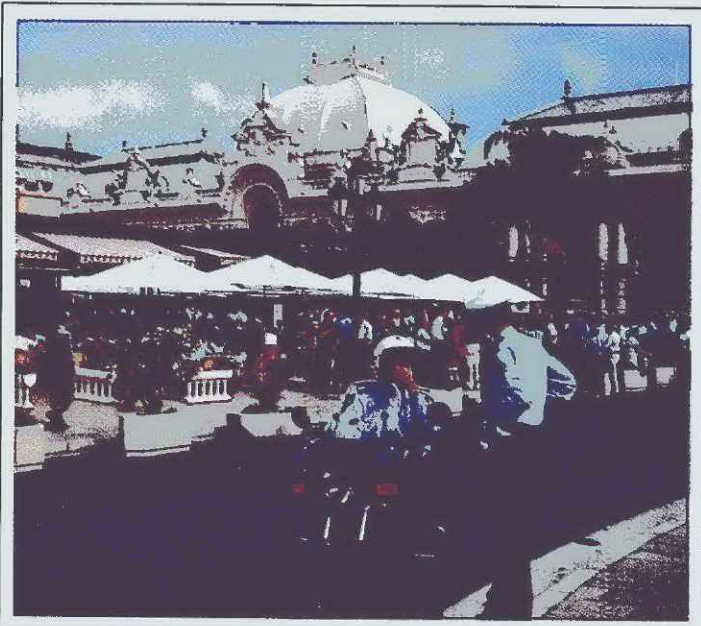
Kansas Attorney General Robert Stephan filed felony charges against Mr. Bell earlier this month in the Shawnee County District Court in Topeka, Kan. The first charge alleges that Mr. Bell's injury never occurred

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Reporting Weekly For Corporate Risk, Employee Benefit and Financial Executives / \$4

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## 38th Rendez-Vous de Septembre



## Reinsurers see pressure to cut cat cover rates

New capital fuels call for better pricing

By GAVIN SOUTER and STACY SHAPIRO

MONTE CARLO, Monaco—Reinsurers and ceding companies are more likely to haggle over property catastrophe reinsurance rate cuts rather than rate increases during year-end renewals.

The influx of new capital into the property catastrophe reinsurance market—especially from Bermuda—coupled with the high price of catastrophe coverage over the past two years is leading to calls for reinsurance rate reductions, agreed many executives meeting at the 38th Rendez-Vous de Septembre in Monte Carlo Sept. 5-10.

Also fueling the call for an end to the hard property catastrophe reinsurance market is the lack of a major catastrophe loss for reinsurers. Even though the Los Angeles earthquake in January has cost insurers about \$7.2 billion, it was a relatively small loss for reinsurers, which bore approximately 25% to 30% of the loss.

These conditions could change overnight, however, if a windstorm or earthquake on the scale of Hurricane Andrew takes place in the next few months. Andrew caused \$15.5 billion in insured losses in 1992.

Meanwhile, there is little sign that the cost of non-catastrophe property/casualty insurance and reinsurance coverage will increase in the United States next year.

Property insurance prices in continental Europe could rise slightly and terms and conditions for liability insurance coverages could tighten during 1995, reinsurance executives say. This further hardening in Europe could prompt U.S. and Bermuda-based reinsurers to enter these markets.

Property catastrophe reinsurance again dominated discussions, though the mood was certainly more relaxed this year than last at the Rendez-Vous de Septembre. The mood had been tense in 1993

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## Superfund changes gain limited reinsurer support

By MARK A. HOFMANN

WASHINGTON—Reinsurers' qualified support for a revised Superfund tax proposal under consideration in the Senate does not translate into support for the Environmental Insurance Resolution Fund that would be financed by the tax.

Other groups, though, remain adamant in their opposition to the EIRF tax provisions, regardless of the changes.

The administration's new tax proposal, which was made public

last week during a hearing before the Senate Finance Committee, represents a considerable improvement over a tax scheme approved last month by the House Ways and Means Committee, said Franklin W. Nutter, president of the Reinsurance Assn. of America.

The House version of the EIRF tax, contained in H.R. 3800 and approved by the Ways and Means committee, would subject reinsurers to a tax rate more than double that of their primary and excess insurer customers, treat all reinsurers—both foreign and domes-

tic—as a single tax pool and subject reinsurers to a purely retrospective tax.

Reinsurers have complained that they are being treated unfairly and that a purely retrospective tax would prevent them from passing the tax costs onto their customers.

The full House of Representatives could vote on its Superfund reform bill as early as this week, although the Rules Committee has not yet set the rules for debate and amendments.

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## Seeking reinforcements

Insurance fund among potential investors in Continental

By JUDY GREENWALD

NEW YORK—Will the Continental soldier, symbol of the venerable Continental Corp., some day soon be hoisting a German beer stein or even wielding a Japanese samurai sword?

That's a distinct possibility, say many people who follow the company closely, pointing to what they say are the insurer's efforts to raise \$300 million in capital to shore up its finances.

Either a foreign insurer or an American financial services company or investment group could be attracted by Continental's well-known name and invest or seek to acquire the company.

Late last week attention focused on a possible deal with Insurance Partners L.P., an investment fund

that, along with Insurance Partners (Bermuda) L.P., raised \$550 million earlier this year to finance insurance company investments (BI, Feb. 7).

## High drama in courtroom

Intrigue and allegations of wrongdoing dominate property claim dispute

By RODD ZOLKOS

CHICAGO—If they made movies about property coverage disputes, *Allendale Mutual Insurance Co. vs. Bull Data Systems*—set for trial today—would be a shoe-in for an Oscar.

It's got everything: a late-night fire of unknown origin that destroyed a French computer warehouse, resulting in nearly \$100

million in damage; a night watchman who was the lone witness to that fire; and allegations from the policyholder that its insurer tried to hide the witness and influence his testimony with huge sums of money.

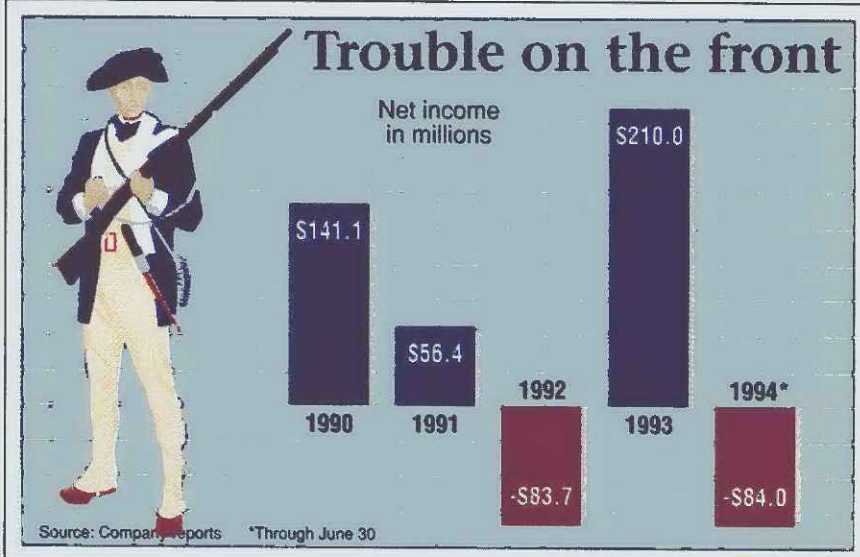
And then there's the allegation that's at the very heart of the complaint being tried this week, that it was the policyholder that set fire to the warehouse on that dark

June night in 1991.

All this and snappy dialogue from years of legal wrangling, too, including a judge moved to quote Joyce Kilmer in mourning the trees sacrificed to the case thus far, another who suggested it illustrates Marx's adage that all great events appear twice—once as history and then as farce—and a third who noted sagely during a 1993 hearing, "You're talking about some big, heavy duty bucks here."

The bench trial that starts today before Judge George M.

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GRAPHIC BY JERRY PARKS

Backers of the funds include Keystone Inc., an investment vehicle of Texas investor Robert Bass; Chase Manhattan Corp.; and

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## Updates

### Bell faces comp fraud charges

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and that he misled state officials to obtain the permanent partial disability payments.

In 1993, Mr. Bell agreed to forgo nearly \$40,000 in weekly benefits after the self-insurance fund reopened his case.

In the second count, Mr. Bell is charged with taking money from an injury fund that he knew should not have paid the award. Because Mr. Bell had suffered a back injury in a car accident before the briefcase injury, his case should have been referred to the second injury fund instead of the self-insurance fund, which paid the award.

Mr. Bell was Kansas commissioner from 1971 through 1991 and is credited with aiding the state's 1993 workers comp reform efforts after his injury and award were made public (BI, May 10, 1993).

### Exxon punitives are \$5 billion

ANCHORAGE, Alaska—Exxon Corp. will appeal a federal jury award of \$5 billion—about one year's profits for the oil giant—in punitive damages to the 15,000 plaintiffs injured when the tanker Valdez spilled 11 million gallons of heavy crude oil in Alaska's Prince William Sound in 1989 in the nation's worst environmental disaster.

Exxon Chairman Lee Raymond called the verdict, which was one-third of the amount sought by the commercial fishermen, Alaska natives, property owners and others harmed, "totally unwarranted and unfair." The award is the second-largest punitive award in U.S. history.

Mr. Raymond said Exxon should not pay any punitive damages because of the company's immediate response to the spill in Prince William Sound and acceptance of liability, the \$2.5 billion it has spent in cleaning up the sound and reaching settlements with plaintiffs, the \$1 billion Exxon agreed to pay Alaska and the federal government, and various safety measures it has implemented to prevent another spill.

Exxon reported \$5.28 billion in net income last year, but first-half profits for the oil giant this year have trailed off to \$2.045 billion.

It is thought that Exxon's coverage for spill-related costs has long been exhausted.

### Moynihan urges health delay

WASHINGTON—Senate Finance Committee Chairman Daniel Patrick Moynihan, D-N.Y., said last week that a "mainstream" group of senators should pull the plug on putting together a health care bill.

Sen. Moynihan labeled the mainstream approach as a "step backwards" for New York and other states with health care costs that exceed the national average.

The mainstream approach, Sen. Moynihan notes, would fund subsidies to enable more lower-income individuals to obtain health care coverage by cutting back on increases in federal support for Medicare and Medicaid, which would hurt providers (BI, Sept. 5).

### Suit filed in USAir crash

PITTSBURGH—Federal investigators were still searching last week for the cause of USAir Flight 427's crash as the first of an expected barrage of lawsuits was filed against the airline.

National Transportation Safety Board officials reported that the Boeing 737-300's wing flaps were in their correct position and the engines were running when the plane crashed into woods about six miles from the Pittsburgh airport Sept. 8, killing 132. Witnesses said the plane rolled to the left before nosediving.

Investigators ruled out sabotage after reports that one of the passengers was a convicted cocaine dealer cooperating with federal prosecutors in Chicago. Investigators were also looking at the possibility—though considered unlikely by some aviation experts—that thrust reversers in one of the engines may have accidentally deployed.

Meanwhile, plaintiffs lawyers were scrambling to line up clients as the first lawsuit was filed in Chicago federal court by the widow of Rev. Joel Thompson, a Chicago-area man killed in the crash.

Liability awards and settlements in the crash could top \$200 million, legal and aviation insurance sources say.

Funeral services were held last week for Richard T. Shillinger, retired corporate risk manager for Aluminum Co. of America, who died in the crash. Mr. Shillinger, 60, retired in 1992 after 35 years with ALCOA and had since worked for Johnson & Higgins.

### Cowboys lose comp case

SANTA ANA, Calif.—Dallas Cowboys owner Jerry Jones cannot regain \$1 million in workers compensation benefits paid to 10 former players who also received separate injury payments from the team, a California workers compensation judge has ruled.

Judge Samuel C. Banis also ordered Dallas Cowboys Football Club Ltd. to pay the players 10% in excess of their original workers comp awards, plus attorneys fees.

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### Errors & omissions

- Combined earnings for the 69 Blue Cross & Blue Shield plans totaled \$1.1 billion for the first half of 1994. That figure was misstated in a Sept. 5 article.

- In the Sept. 5 directory of 401(k) plan administrators, Kimball Akins & Bigwood Inc. omitted Maine, Rhode Island and Connecticut from the states listed in its service area. Also, the listing for A. Foster Higgins & Co. Inc. contained an incorrect spelling of its contact, Gus J. Sanches, principal and national practice leader.

# Court says landfill leakage can be 'accidental' pollution

By JOANNE WOJCIK

OLYMPIA, Wash.—Hazardous waste that unexpectedly migrates from a landfill or other contained area can be "accidental" pollution and thus not excluded by the standard commercial general liability policy, the Washington Supreme Court has ruled.

In companion decisions involving similar issues, the court ruled Sept. 9 that the pollution exclusion added to CGL policies in the

mid-1970s is ambiguous and must be construed in favor of the policyholder.

The decisions, which have been awaited since early 1993, are the latest in a series of pro-policyholder rulings from the Washington high court. In May, the court ruled that CGL insurers had to assume cleanup liabilities that Weyerhaeuser Corp. assumed voluntarily (BI, May 30).

The recent rulings place Washington "squarely among the grow-

ing ranks of states whose highest courts have granted insurance coverage for environmental cleanup despite the presence of the so-called pollution exclusion," observed Robert M. Horkovich, a partner with Anderson, Kill, Olick & Oshinsky in New York who filed an amicus brief on policyholders' behalf in the two cases.

The decisions indicate that "the Washington courts have taken a leading role in the national debate

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# Retirees claim their due

By RODD ZOLKOS

CHICAGO—A group of Chicago-area workers who lost their jobs to corporate downsizing is lobbying for changes in federal laws related to the distribution of benefits to workers terminated prior to retirement age.

The former employees of Chicago-based telecommunications giant Ameritech Corp. plan to push for a "linear" distribution of retirement benefits for laid-off workers.

Such a move would prorate

## Former employees lobbying to change benefit distributions

benefits like pension and retiree medical coverage based on workers' years of service.

And, because some benefit experts see on the horizon a new national debate on retirement income security, the group—Ameritech Downsized Employees—may find its suggestion taking root.

But the change the group seeks

could have a dramatic effect on employers' retirement benefit costs, prompting some companies to rethink the sorts of benefits they offer.

George P. Kaforski, the group's chairman, says that when Ameritech let him go during downsizing in November 1992, he received \$58,000 in vested pension benefits plus an additional payment of about \$70,000 on the condition that he sign a waiver promising not to sue the company.

Mr. Kaforski, now 48, received

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## Arkansas work comp initiative could increase costs

# Employers fight amendment

By SALLY ROBERTS

LITTLE ROCK, Ark.—With a war chest of more than \$1 million, Arkansas businesses are trying to thwart a ballot initiative that they contend would dramatically increase workers compensation costs.

Arkansas voters will vote Nov. 8 on Amendment 6, which would amend the state constitution to let injured workers, among other

things, choose their own doctors and sue employers that knowingly maintain unsafe workplaces.

Colorado residents will vote on a similar ballot initiative Nov. 1 and early polls suggest that labor-backed measure is likely to pass (BI, Sept. 12).

Labor unions and other supporters of Arkansas' Amendment 6 contend the threat of lawsuits will give employers an added incentive to maintain safe work-

places in a state that the National Safe Workplace Institute ranks last in safety.

And letting injured employees choose their physicians will both increase fairness in the system and reduce costs, they say.

But, businesses and workers comp insurers counter that holding employers liable for failing to provide a safe workplace would violate the no-fault concepts that

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# Lloyd's unveils capital guidelines

By ADRIAN LADBURY

LONDON—Lloyd's of London took another big step toward an increasingly corporate structure last week as it published guidelines giving managing agents the green light to raise new capital dedicated to their syndicates.

The guidelines also stated that rules should be in place by June 1995 to allow corporate investors,

including insurance companies, to acquire up to 100% of managing agents.

Lloyd's of London narrowly clears solvency hurdle .....Page 82

At least one insurer, London-based Liberty Europe Ltd., a unit of Liberty Mutual Insurance Cos. of Boston, plans to invest in a

leading Lloyd's managing agency and will likely take a majority stake when allowed.

The new rules, however, do not give the managing agents and their backers carte blanche. They contain important safeguards designed to prevent managing agents from effectively replacing their syndicates' current membership with corporate capital with-

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## Inside

- Ballot initiatives in Arkansas and Colorado could spark a trend that would increase employers' workers comp costs, this week's editorial warns. **PAGE 8**

- Two large Illinois business groups are supporting the state's small firms to help them purchase quality, cost-effective health care coverage. **PAGE 77**

- A Conning & Co. survey reveals some of the issues on which insurers and regulators disagree. **PAGE 52**

- Some employers have a hard time getting workers to defer part of their salaries in company-sponsored defined contribution plans, but Morgan Guaranty Trust has the opposite problem. **PAGE 53**

- A \$187 million claim is expected following the loss of an AT&T Corp. satellite. **PAGE 17**

- A survey of benefit professionals shows ways to make dealing with QDROs less burdensome. **PAGE 59**

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## Bill would alleviate Medicare reporting burdens

By JERRY GEISEL

WASHINGTON—The dreaded federal Medicare data bank law may turn out to be a toothless tiger.

Provisions accompanying a Senate-passed appropriations bill would bar the Health Care Financing Administration from fining employers that violate the federal law requiring them to report health care coverage information. They would also prevent the agency from using any appropriated funds for collecting information for the data bank.

These prohibitions were included, at the behest of Sen. Joseph Lieberman, D-Conn., in a legislative report accompanying H.R. 4606, which appropriates funds for the next fiscal year for the Department of Health and Human Services and several other federal agencies. The Senate passed the bill last month. A companion bill passed earlier by the House does not include funds for HCFA to administer the data bank. The data bank was included as a revenue raiser in a broad budget measure passed by Congress last year.

A congressional conference committee will meet soon to iron out differences in the bills.

The appropriations bills are the latest attempt by some in Congress to take the sting for employers out of the Medicare data bank law.

The law requires employers, as of next year, to tell HCFA the names, addresses and Social Security numbers of employees and dependents and the health plans in which they were enrolled during the year. The agency will use that data to help spot claims that should be paid by employer plans and not Medicare.

Many employers say they do not maintain Social Security numbers for dependents and have no way to ensure that they can get the information. Employers say it would be unfair to fine them for failing to provide data that—through no fault of their own—they couldn't get.

In response, HCFA has said that companies that can prove they established a systematic method to obtain coverage information will not be penalized if employees refuse to provide the information (BI, May 16). Under the law, an employer can be fined up to \$1,000 per employee or dependent not included in its data bank report filed with HCFA.

At the same time, HCFA asked Congress to delay the data bank reporting requirements for 18 months. Without the delay, which Congress has not acted on, employers will be required to file 1994 health

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# NAIC may seek ERISA reforms

By MEG FLETCHER

MINNEAPOLIS—State insurance regulators will consider calling for reform of the Employee Retirement Income Security Act of 1974 this week at the fall meeting of the National Assn. of Insurance Commissioners.

ERISA contains "several weaknesses and gaps" in its governance of employer-sponsored health care plans, according to a 21-page white paper that the NAIC will consider adopting Sept. 18-20 in Minneapolis.

ERISA grants state authority to regulate multiple employer welfare arrangements, but does not address problems posed by Taft-Hartley plans or other ERISA health plans that claim to be fed-

erally governed, the NAIC says.

These plans escape review by state regulators, regularly place consumers' health care coverage in jeopardy and create jurisdictional confusion when they become insolvent, the paper says.

The NAIC's ERISA Working Group, which drafted the white paper, makes several recommendations to protect consumers in the areas of financial regulation, consumer complaint handling, quality assurance and requirements for fair coverage and disclosure. Consideration of the white paper coincides with many state-level health care reforms and increased NAIC effort to develop standards for the health insurance system.

Regulators hoped federal law-

makers would consider their views in drafting health insurance reform measures.

**ERISA contains gaps in regulating employer-sponsored health care plans, the NAIC says.**

NAIC regulators also will consider formal action to:

- Adopt the controversial Non-Admitted Insurance Model Act.

The National Assn. of Insurance Brokers is lobbying the NAIC to add an exemption to allow bro-

kers to help "industrial insureds" obtain excess insurance coverages from non-admitted "industrial insurers." Otherwise, the act would interfere with brokers' ability to coordinate excess coverage for clients, said Dee Ann Bernhard, the NAIB's director of state affairs.

- Add the Risk-Based Capital Model Act to the NAIC's accreditation standards.

- Adopt the Twenty-Four Hour Coverage Pilot Project Model Act.

The model would allow each state to establish up to 10 pilot projects enabling employers to provide "24-hour" medical insurance for both work- and non-work-related injuries.

The NAIC may also:

- Take a position on H.R. 9, the

Continued on page 80

## Mental health care coalitions provide cost savings, clout

By MICHAEL SCHACHNER

WASHINGTON—Small to mid-size employers that want to provide quality mental health and substance abuse treatment benefits—but don't think they can afford to—need look no further than each other to solve their problem, says the head of an employer purchasing alliance.

For years, employers have banded together to give themselves more purchasing clout with health insurers. Now the concept is expanding to behavioral care.

"The coalition movement has evolved to behavioral health care because employers have wanted to increase (mental health) benefits and simultaneously lower their costs," said Jeanne Keller, president of the Vermont Employers Health Alliance in Burlington, a coalition that helps member companies extend behavioral health benefits to 120,000 employees at



significant cost savings.

Alone, a small company is virtually powerless to command both a reasonable price and quality services from managed care companies, Ms. Keller said. Coalitions aim to right that imbalance.

She spoke last week at the Behavioral Healthcare Tomorrow conference, which was sponsored by the Institute for Behavioral Healthcare of Tiburon, Calif.

"The whole thing starts with the purchaser," added Catherine Kunkle, vp of the National Business Coalition on Health in Washington. Once they determine their reasons for forming a coalition and their objectives for coverage, "the employers can achieve cost-effective, quality care."

Coalitions that provide mental health benefits can do so either through a carved-out, stand-alone contract with a managed mental health care firm, or as part of an overall health plan.

Either way, the contracting strategy that establishes the benefits plan and how it will be managed should be focused on a local

Continued on page 78

## Robert Campbell aided MEWA fraud

# Teale associate facing sentence

By DOUGLAS McLEOD

PHILADELPHIA—Insurance con man Robert Campbell faces another jail term after pleading guilty to charges that he conspired with the late Alan Teale to defraud group health insurance policyholders through a network of shell corporations.

Mr. Campbell pleaded guilty earlier this year to a racketeering charge accusing him of helping Mr. Teale drive World Life & Health Insurance Co. of Pennsylvania into insolvency in 1991 by arranging for it to cede reinsurance to several fraudulent offshore reinsurers they controlled.

Victims of the scam included participants in two defunct multiple employer welfare arrange-

ments, which paid more than \$2 million in premiums for worthless health insurance and reinsurance and left millions of dollars of unpaid claims.

Sentencing of Mr. Campbell had been scheduled for last Friday, but was postponed until Oct. 3 due to illness.

He faces a maximum sentence of 20 years in prison, though under federal sentencing guidelines the actual sentence will likely be far less, said Andrea Foulkes, assistant U.S. attorney in Philadelphia.

He is currently serving a 71-month prison term after pleading guilty in 1991 to separate criminal charges brought by federal prosecutors in Newark, N.J., and

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## A trailblazing risk manager sees other side

Steven Salman now insurer CEO

By CHRISTINE WOOLSEY

Believe it or not, when Steven Salman became the first risk manager for Health & Hospital Corp. of Marion County, Ind., in the mid-1970s, medical malpractice insurance was the furthest thing from his mind.

Hired in 1974, Mr. Salman spent most of his time managing workers compensation and safety programs for the corporation, which included a 714-bed hospital and public health and executive divisions.

Health & Hospital Corp. wasn't without medical malpractice coverage at that time, though. It just didn't consume Mr. Salman's every waking hour.

"In the good old days, we never paid more than \$10,000 in aggregate medical malpractice premiums per year," he recalled.

That changed when the medical malpractice insurance crisis hit in the late '70s and early '80s. Premiums suddenly skyrocketed, capacity vanished and Mr. Salman found

himself crafting Health & Hospital Corp.'s first self-insurance program for professional liability/medical malpractice.

Mr. Salman admitted to hiring outside consultants to help with tasks with which he didn't have a lot of experience. But, in the early days, "it was like the blind leading the blind," he said.

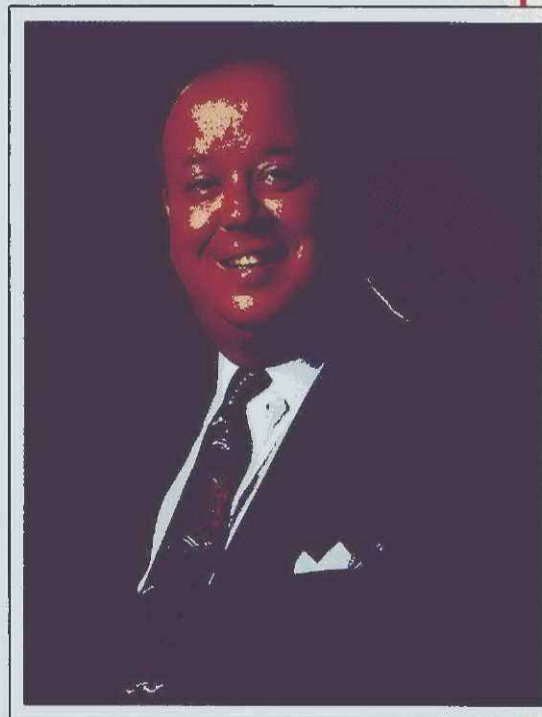
One of his biggest challenges was convincing doctors of the value of loss prevention efforts.

"I enjoyed working as a hospital risk manager because the type of people you encounter are highly intelligent and very bright," Mr. Salman said.

But, the downside was resistance to change, he noted. Being told how to do their jobs by a risk manager, whom they considered a lay person to the medical field, was not easy, he said.

His efforts eventually paid off and today Mr. Salman, 47, considers his early days in health care risk management the best training ground he could get to prepare him for his current position as president and chief executive officer of Kentucky Medical Insurance Co. in Louisville.

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Mr. Salman

# Dispute

Continued from page 1

Marovich in U.S. District Court in Chicago could be the last step in the convoluted process that began with the 1991 warehouse fire in Seclin, France.

If Allendale Mutual Insurance Co. convinces the judge that it deserves a declaratory judgment because the policyholder set fire to the warehouse, then Bull Data Systems and Zenith Data Systems will be unable to recover under their property insurance policy.

If not, Allendale's next step will be to mount a coverage defense, arguing that Zenith and Bull Data overstated the value of the inventory in the warehouse and the extent of the coverages.

Zenith Data Systems France and Zenith Data Systems Europe are business units of Buffalo Grove, Ill.-

based Zenith Data Systems, which itself is a part of Bull Data Systems, a legal entity created to acquire and insure a microcomputer business and inventory purchased from Zenith Electric Co.

Ultimately, the French government holds a significant interest in those enterprises through its extensive shareholdings in the companies' ultimate parent, Cie. des Machines Bull.

Allendale's position basically centers on the assertion "that the defendants are responsible for (the fire)," said Robert M. Kalec, a partner with Altheimer & Gray in Chicago, which is representing the insurer.

John J. Pomeroy, general counsel for Johnstown, R.I.-based Allendale, said the insurer is confident it will be able to prove the arson charge. "The matter is in litigation and it's really not fair to comment beyond that," he said. "I think the documents we have filed speak for themselves."

Zenith Data Systems officials, while also declining to talk about the case because of its proximity to trial, contend, however, that investigations of the fire by French authorities "completely debunk" any charges of arson.

In a second count in its arson claim, Allendale contends that if it is found liable for coverage of losses from the fire, then liability should be limited to 248 million French francs (about \$48 million), the sublimits of a policy issued through Factory Mutual International to the French computer companies to cover property in that country. The computer companies have argued that they were led to believe their coverage had no sublimits.

Parallel legal proceedings in France, in which the computer companies are seeking to force Allendale and Factory Mutual International to pay their claim for complete coverage, are on hold until the U.S. Dis-

trict Court case is resolved.

The computer companies also have filed complaints in this country, though those actions have since been consolidated with the Allendale suit as cross-claims and counter-claims.

Not surprisingly, jurisdiction has been a key issue in the case to this point, with the computer companies arguing it should be tried in France and Allendale contending their claim should be heard in U.S. courts.

With French authorities never having determined that the fire was, in fact, arson, Allendale has argued that it's not possible for it to effectively litigate a civil arson defense in French courts without an arson confession or conviction.

"It seemed to us that because the fire occurred in France and all the witnesses and all the documents were in France, that it made sense for the trial to take place in France," said Bruce E. Fader, a partner with Proskauer Rose Goetz & Mendel-

sohn in New York, who is representing Bull Data and the Zenith Data operations. "Allendale contended that they couldn't get a fair shake in French courts."

By March of 1993, the U.S. District Court judge was clearly beginning to tire of the attorneys' jurisdictional wrangling. "I think you people are tap dancing with me and I'm not going to put on my tap dancing shoes," Judge Marovich told the attorneys during a pretrial hearing.

He also suggested that the government of France wouldn't suffer by being forced to wait for his ruling.

"There is nothing in the world that is going to destroy the government of France until I can rule on this thing," the judge said.

Bringing additional color to the case is the tale of the lone witness to the fire, night watchman Pascal Thomas.

The computer companies allege that while Allendale had invited Mr. Thomas to come to the United States at its expense to discuss his testimony, the insurer was in fact attempting to sway his testimony with a grand tour of the United States and offers of up to \$10 million.

Those charges are "nonsense," said Allendale's Mr. Pomeroy.

Chief Judge Richard A. Posner of the 7th U.S. Circuit Court of Appeals wrote the opinion on Allendale's unsuccessful appeal of a lower court order that the insurer refrain from future conversations with Mr. Thomas without the computer companies' representatives present. Judge Posner had his own take on the allegations.

"One imagines that \$10 million would be a pretty powerful persuader," noted Judge Posner, who added: "These are lurid accusations, in fact defamatory, but it is privileged defamation and, for all we know, true."

Deposed by the computer companies in July, Mr. Thomas answered "all interesting questions by pleading the Fifth Amendment," Judge Posner noted in his opinion.

As the case has developed, both sides also have sued broker Alexander & Alexander Inc., alleging negligence and misrepresentation, with A&A bringing a cross-complaint against Bull Data.

Bull Data's and the ZDS units' complaints against A&A focus on the charge that they believed it had obtained total blanket coverage for their operation, without the sublimits included in the Allendale policy.

A&A counters that while Allendale initially agreed on complete coverage, a subsequent binder included the sublimits—a point that A&A says it repeatedly called to Bull Data's attention even though the computer companies renewed the coverage twice with sublimits in place.

As for Allendale's claims that the broker misrepresented the relationship between Bull Data and the ZDS units, A&A contends that the paper exists to prove the relationships were clearly spelled out when the coverage was secured.

But the claims against the broker will be moot if Allendale proves its arson claim.

Meanwhile, although the key parties won't rule out a settlement, there's no indication that the case will be resolved outside the courtroom, either.

"In this sort of situation, until the verdict is returned I suppose there is always the possibility for a settlement," Allendale's Mr. Pomeroy said. "We expect trial to begin on Sept. 19."

"It's always possible," said Mr. Fader, who's representing the computer companies. "But the parties haven't been anywhere near each other, so I think we're all planning to go forward."

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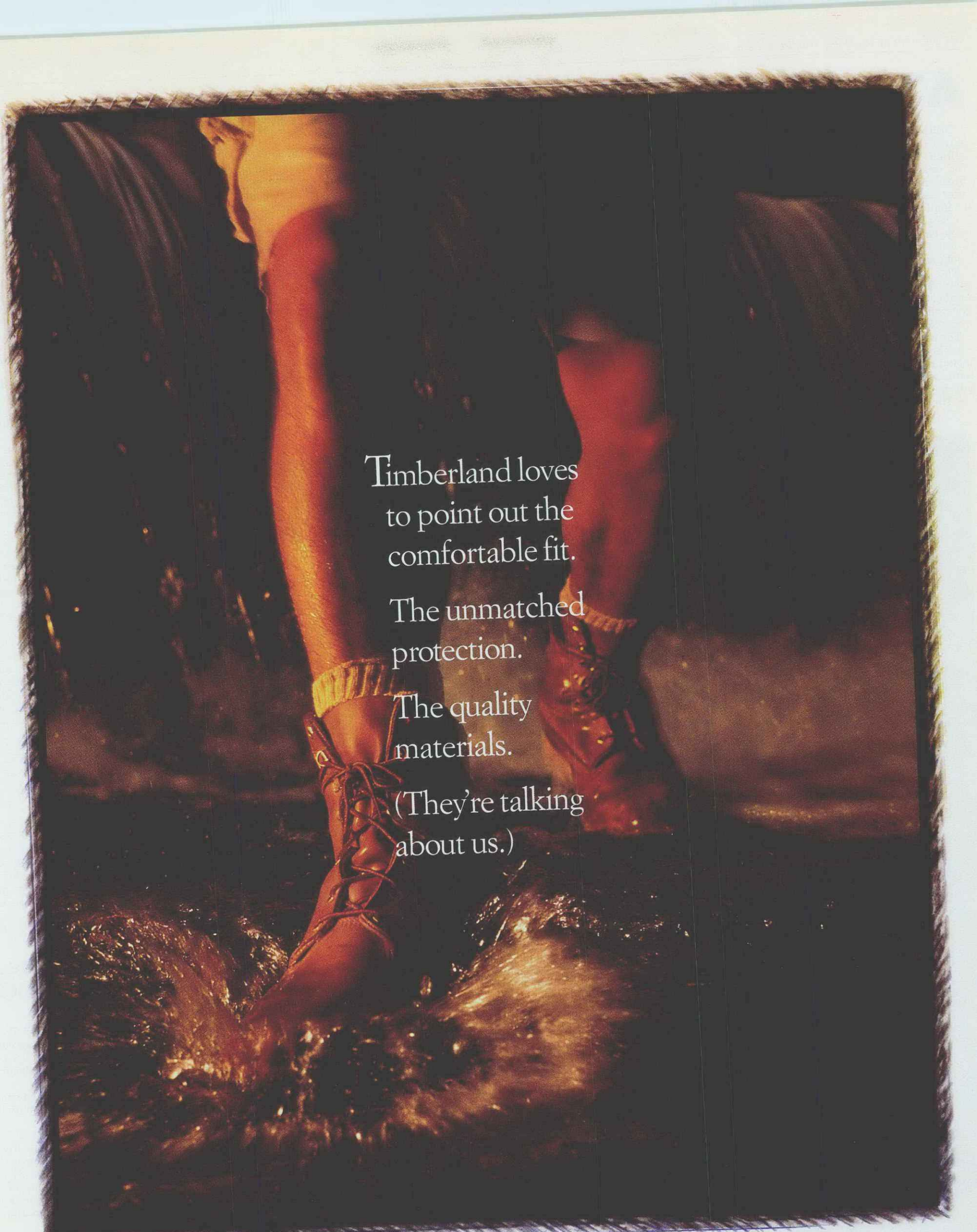
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# AT&T plans to add investment options

BERKELEY HEIGHTS, N.J.—AT&T Corp. is overhauling its \$10 billion defined contribution plan for management employees to broaden investment options and shift certain record-keeping costs to employees.

The plan has about 104,000 eligible employees, of which 87%, or about 90,480, participate, a spokeswoman said.

The old defined contribution plan offered five investment fund options to employees, including government obligation and various stock funds.

The new plan offers 10 options:

- Three AT&T custom funds, including a U.S. fixed income fund, a U.S. equity fund and an international securities fund.
- Three mutual funds managed

## Benefit Beat

by Fidelity Institutional Retirement Services Co. of Boston. These are Fidelity's Retirement Money Market Portfolio, Equity Income Fund and Magellan Fund.

- Three new risk-diversified funds that will be composed of investment units bought from the managers of the AT&T custom funds. The risk-diversified vehicles will be designed to offer employees varying degrees of investment risk, which AT&T categorizes as conservative, moderate and aggressive.

- An AT&T stock fund, which was held over from the previous plan.

Management employees may participate in the plan either on a pretax or aftertax basis, and AT&T continues to match 66.66% of employee contributions up to the first 6% of salary.

Along with the added investment options, the company is switching to daily valuation of account balances from the previous monthly valuation and is sharply reducing the time required to process employee investment changes and withdrawals.

While changes in an employee's investment mix and withdrawal requests used to take 45 to 60 days, the new system will take a maximum of seven to 10 days, the spokeswoman said.

The new plan will also shift some added costs to participating

employees, requiring them to pay up to \$30 a year to cover record-keeping expenses.

AT&T will begin investing new contributions in the new investment funds this month. Old balances will be moved into the new funds in November and December, and daily valuation of balances will begin in December, the spokeswoman said.

The changes were "employee-driven," resulting from employee demand for a broader choice of investment options, she said.

AT&T officials hope that the company's union employees will agree next year to similar changes in the union defined contribution plan, which has more than \$3 billion in assets.

—By Douglas McLeod

## Schwab's 401(k) plan

SAN FRANCISCO—Discount securities brokerage Charles Schwab & Co. is seeking to redesign its 401(k) plan to give employees a wider range of investment options.

Schwab, which currently offers participants six investment options, including company stock, plans to increase its offerings by an unspecified amount to maximize investment options for employees, said Louise Rothman, vp of compensation and benefits in San Francisco.

Sending out the required disclosure information on numerous investment options, though, can present logistical difficulties, said Ms. Rothman.

"I think a lot of us are trying to figure out how we can keep employees educated on the fund choices and at the same time open up choices to a world of funds available to them. That's the dilemma," she said.

Schwab doesn't want its 401(k) plan to be as protective as those of some companies. Instead, the company wants its plan to reflect its philosophy as a discount broker of not giving advice, and to educate its 6,000 employees to be informed consumers.

"We want to empower our employees to make sure that they have as much flexibility and opportunity to be their own investor, which is what (Chairman Charles Schwab's) philosophy of Schwab is all about," Ms. Rothman explained.

Currently, the firm's 401(k) plan has total assets of \$78.3 million and a participation rate of 78% among eligible employees. Schwab also has a \$24.1 million profit-sharing plan.

The company is moving toward a paperless administration system and has put the job of record keeper, which is now handled by Buck Consultants Inc., up for bid. A decision is expected to be made in about a month, said Ms. Rothman.

—By Judy Greenwald

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## NWNL Cos. to buy USLICO

MINNEAPOLIS—NWNL Cos. has signed a definitive agreement to acquire Arlington, Va.-based United Services Life Insurance Co.

The acquisition, in the form of stock swap, is valued at more than \$200 million.

Under the agreement, all USLICO shareholders will receive 0.69 shares of Northwestern National Life Insurance Co.'s common stock for each share of USLICO common stock, plus a special 50 cent cash distribution per share.

At a closing price of \$29.88 per share last week, the entire deal is worth about \$228 million.

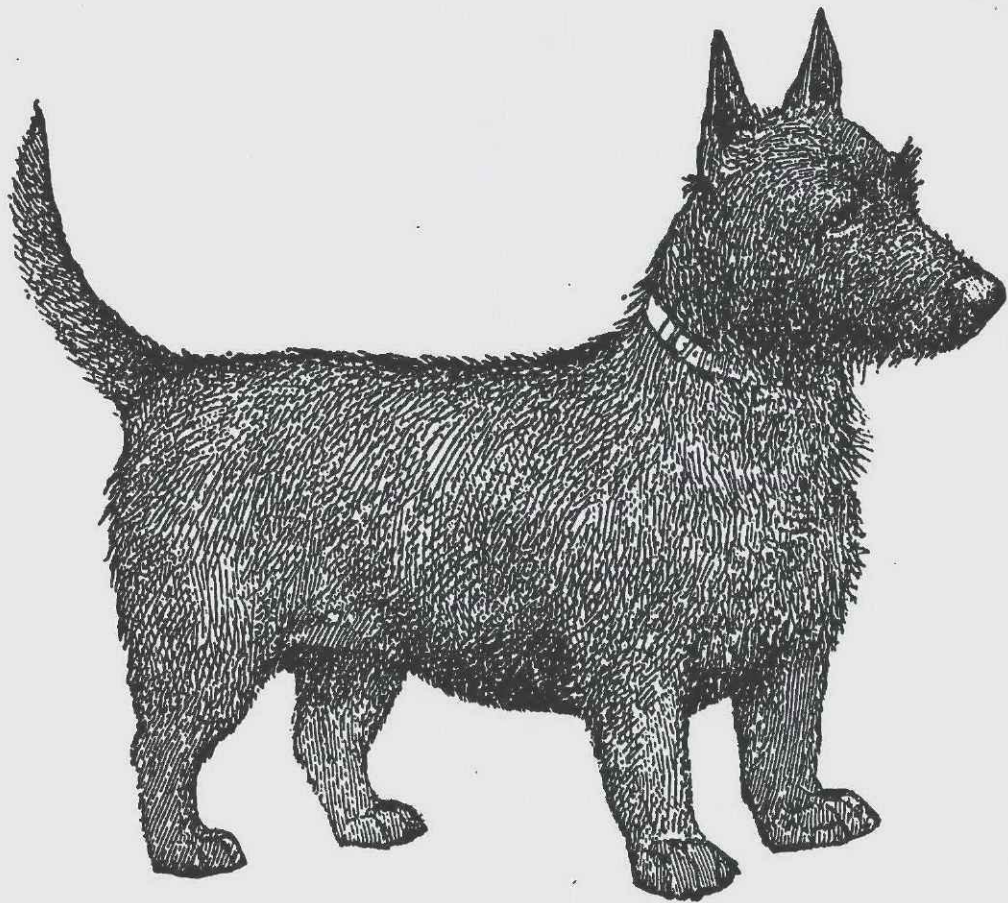
The acquisition is expected to be completed sometime in early 1995. Upon completion, the two life and group health insurers will be based in Minneapolis.

Northwestern National Life Insurance wrote more than \$31 million in gross group life premiums in 1993.

USLICO wrote about \$31.7 million in gross group life premium last year.

—By Sally Rober

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## Opinions

## Work comp roadblocks

**A**NOTHER ROADBLOCK to introducing managed care in workers compensation is being erected.

Efforts are under way in Arkansas and Colorado to amend the state constitutions to give injured workers unrestricted choice in selecting their own health care provider. We hope employer campaigns against these ballot initiatives are successful, or this trend could spread and employers' workers comp costs would return to the dismal state of a few years ago.

In Colorado, the amendment does not even specify that a worker would be required to see physicians. Any "health care providers" would be all right.

Some observers are concerned that letting workers, rather than employers or insurers, choose providers could open the floodgates to all sorts of quack doctors or forms of alternative medicine—like acupuncturists, homeopathy and healing with crystals. But the efficacy of alternative medicine is not the main issue here, it is the risk of not having qualified occupational injury specialists treating workers' injuries.

Employers have made great strides in recent years in forging partnerships with physicians to improve treatment of injured workers and get them back on the job as soon as possible. This has significantly reduced medical and indemnity costs and kept lawyers out of the loop.

The odds are slim that other health care providers or unfamiliar doctors would work as closely with employers to achieve those goals.

How do employers resist efforts to erode the progress they have made with managed care in workers comp?

A good effort is under way in Colorado, where a business- and insurer-backed coalition has launched a campaign to inform voters of the adverse economic ramifications of the proposed initiative. It contends the dangers include inadequate care, greater opportunity for fraud and sharply higher costs for employers.



"IS THAT STARTING TO FEEL BETTER, FELLA?"

A similar campaign has been launched in Arkansas, where in addition to pushing for unrestricted choice of provider, the initiative seeks to amend the state constitution to allow workers to sue employers that knowingly maintain unsafe workplaces.

While we hope these campaigns are effective and urge employers to get involved in them now—before it's too late to complain—they are really just damage control.

What is still needed is for employers to begin or continue efforts to make workers, organized labor and, in some cases, physicians, comfortable with the concept of managed care.

Employers have made great progress on this front to date. But they must continue to demonstrate that managed care delivers high-quality care, as well as lower costs, if they are to avoid similar attacks on their cost control strategies in the future.

torious; in disgrace or dishonor. 2. Causing or deserving a bad reputation; scandalous; outrageous.

So I am led to think that you think that turning over the funding and administration of health care to the tender mercies of the federal government might be a good idea. If that is the case, I begin to wonder whether my continued subscription to your magazine is a good idea.

I will bet that most of your readers are not in favor of a nationalized health care

system and that many of them consider "infamous" this administration's commitment to, and congressional acquiescence in, increasing federal expenditure and intrusion into the daily lives of people. Editorially, you give the appearance of being, like this administration, politically to the left of your constituency. I've come to expect it from the daily papers and televisions, but it is mildly surprising to see it in *Business Insurance*.

John P. O'Neill  
Wheaton, Ill.

## Concerns about NewCo's future

To the editor: Congratulations on the scope and depth of reporting in the Aug. 29 issue on Lloyd's of London. A significant difference between your coverage of Lloyd's problems and that of most others was that your staff brought together so many relevant issues in one issue.

I was especially interested in the NewCo proposal. While the benefits of combining all treatment and settlements of the pre-1986 syndicate open years clearly has significant advantages, some important questions still linger.

For example: What happens if some day the assets of NewCo are deemed to be excessive? Or inadequate? In the former case, who would receive the excess funds? In the latter, is there no further recourse?

Furthermore, if there is no further recourse, what would be the impact of that on the day-to-day operations of NewCo?

As I understand the articles, the size of additional reserves needed by syndicates now to constitute adequate reserves for NewCo are variously estimated to be anywhere from 500 million to 4.6 billion pounds (\$780 million to \$7.18 billion). That is quite a spread.

I suppose the most salutary impact could be a rush to commute before the well runs dry.

In theory and with good negotiators, that could have the beneficial effect of running out of losses before NewCo runs out of funds.

Dewey P. Clark  
Madison, N.J.

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# Insurer recruits coach to boardroom team

By SALLY ROBERTS

Joining the ranks of past and present chairmen, presidents and chief executive officers of large corporations is Anthem Casualty Insurance Group's newest outside board director—Lou Holtz, head football coach at the University of Notre Dame.

"We were looking for someone who would ask the tough questions" and give "alternative viewpoints," said Dan R. Carmichael, president and chief executive officer of Anthem Casualty, a subsidiary of The Associated Group in Indianapolis.

Mr. Holtz said that sitting on a corporate board is unusual for a college football coach because of the time demands, and added that his knowledge of insurance is very limited.

However, he said that he is taking his new position seriously and will bring some common sense to the table.

"You don't ever have to say, 'What do you think about...?' If I feel strongly about something, I will voice my opinion," said Mr. Holtz.

But, "I can only tell you what I feel as a novice. I don't know everything about insurance," said Mr. Holtz, adding that he deliberated before accepting the board position. "My only experience with insurance is from policies, and I've cashed in very few of them."

And while Mr. Holtz says his first priority will always be Notre Dame, "I look on this as a serious obligation," he said.

Board members' major responsibility is to the shareholders. The shareholders and the board mem-

bers both want the corporation to be successful.

And the key to being successful is being able to solve problems. Whether it's coaching football or running a major corporation, "people who solve problems are people you want to be around," he said.

Mr. Holtz, who coached the Fighting Irish to the 1988 national championship title and whose knack for bringing out the best in his players earned him a reputation as one of the top college coaches, said he is uncomfortable around "facts and figures" but has other qualities that he can offer

the board.

"I'm a simple, fundamental person" with a "good insight into how businesses operate," he said.

Mr. Holtz will sit on the compensation committee of Anthem Casualty, which meets twice a year before two of the four quarterly board meetings.

Anthem Casualty is a property/casualty insurer, founded in 1993, with 1993 gross revenues of \$340 million. **EI**

## IVANS now stock corporation

Member companies to benefit from ownership stake in network

By SALLY ROBERTS

Members of the Insurance Value Added Network Services now have a tangible form of ownership in the organization.

Since it was founded 11 years ago, Greenwich, Conn.-based IVANS has operated as a non-profit membership corporation offering its 450 members and 50,000 users in the insurance community electronic access to one another to help improve communication throughout the industry.

At the end of July, members "overwhelmingly" approved a plan to transform IVANS into a private stock corporation, now known as IVANS Inc.

As shareholders in a private corporation, member companies now have dividend rights and can

transfer their shares upon leaving the company, subject to certain restrictions imposed by the Securities and Exchange Commission and IVANS.

Among other benefits, IVANS can sell its unissued shares to raise capital instead of raising members' dues or increasing assessments on them.

In what started as a small organization enabling independent agents to communicate via an electronic data network with insurers, IVANS has become large enough to wield clout and offer members an array of cost-effective programs geared to improve communications.

"We've grown so much that we no longer fit the organizational basis that we were founded on," explained Robert Y. Barham Jr., IVANS' president and chief executive officer.

In the early days, IVANS gener-

ated losses and there was no problem with its non-profit status, Mr. Barham recalled. But, once "we broke into the black, our status as a non-profit was at risk."

Also threatening that status was the Internal Revenue Service, which in a 1990 audit questioned the organization about retaining earnings but not declaring dividends.

At that point it was a non-stock membership corporation and wanted to avoid possible tax penalties in a future audit, so IVANS decided it would eventually have to become a stock corporation, Mr. Barham said.

In August, IVANS authorized issuing 1 million common shares: 700,000 are being distributed to member companies that joined IVANS prior to January of this year; and 300,000 are being held by the organization as treasury

Continued on page 42J

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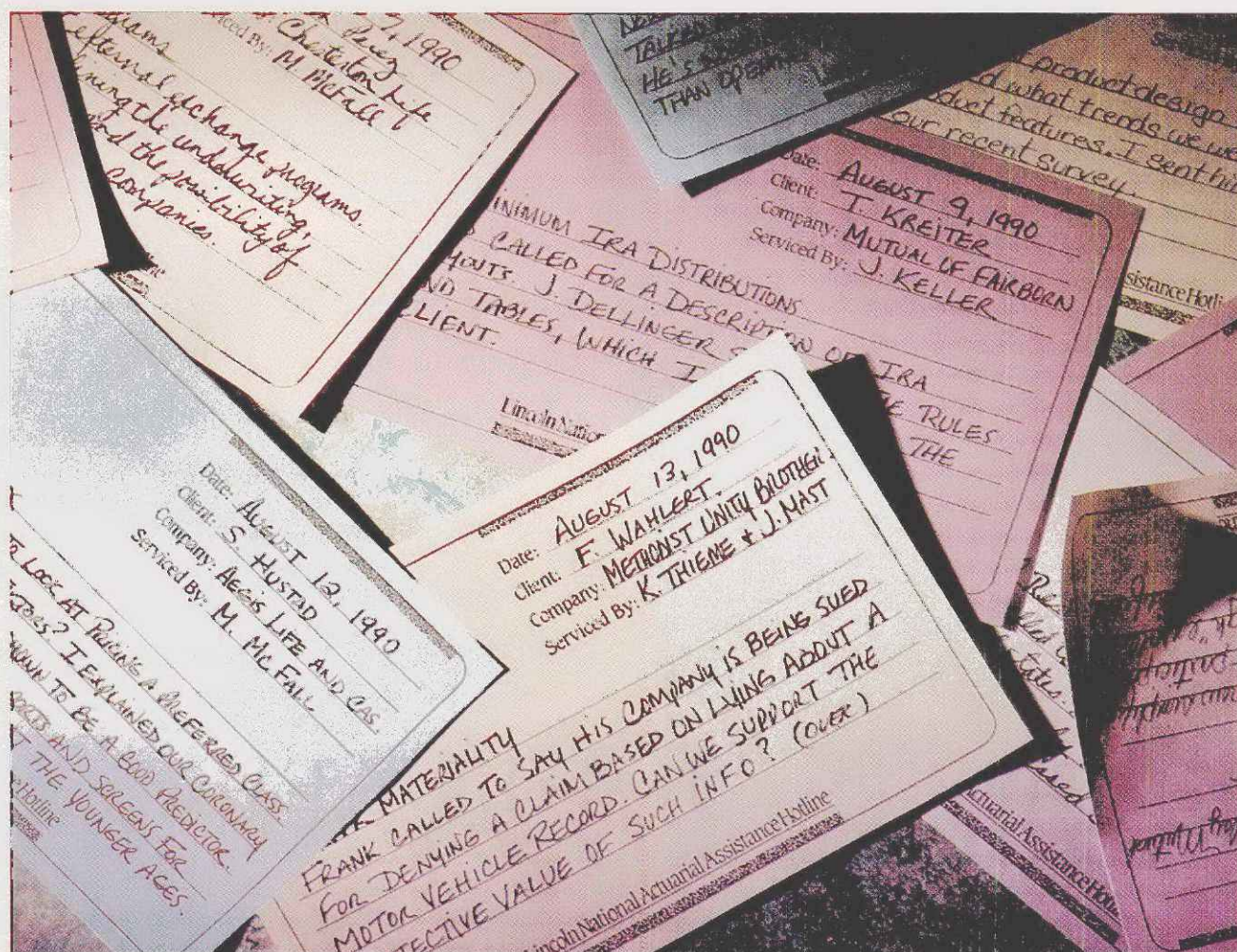
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**Insurer Topics**

**IT Briefs**

*Continued from previous page*  
ities include promoting insurance careers among college students and facilitating the interaction of educational institutions, the insurance industry and professional organizations, has 35 chapters at colleges and universities with insurance programs.

The Columbus, Ohio-based fraternity conducts the annual conference to train chapter officers, provide a forum for faculty advisers, present chapter awards and convene the annual meeting of its board of trustees. This year's Gamma Iota Sigma conference will include programs on the global insurance marketplace, chapter man-

agement and ethics.

For more information, contact the Gamma Iota Sigma headquarters at 614-891-4242 or the fraternity's national president, Mike Hubbel, at The College of Insurance, Center for Professional Education, 101 Murray St., New York, N.Y. 10007-2132; 212-815-9203.

**Insurance seminar**

NEW YORK—Willis Corroon Corp. of New York will sponsor a free seminar on "Planning Ahead: The Insurance Marketplace 1995-1996" on Oct. 12.

The event, which will be held at the World Trade Center offices of Salomon Brothers at the corner of Church and Vesey streets in New York, will include an 8 a.m. continental breakfast before the semi-

nar begins.

For more information, contact Debbie Ciaburri, Administrative Assistant, Willis Corroon Corp. of New York, 7 Hanover Square, New York, N.Y. 10004-2594; 212-344-8888, ext. 230.

**Consulting firm formed**

LAFAYETTE, Calif.—A new company has been formed to provide management consulting and strategic planning advice to insurance companies, agents and brokers.

The firm, Shoemaker-Weber Inc., was established by Richard Shoemaker, president of Fair Oaks, Calif.-based IR Group Cos., and Donald R. Weber, who was formerly executive vp and chief operating officer of JIB Inc., the U.S.

unit of London-based broker JIB Group P.L.C. Prior to that, Mr. Weber had been chairman and chief executive officer of Financial Guardian Group, which was acquired by JIB.

Mr. Weber has been named president of the new management consulting firm, which is based in Lafayette, Calif.

"When I attend Greenbrier and other association meetings, I talk with those executives who are experiencing the challenge of taking regional operations to a larger scale. I have some ideas that I believe could maximize the progress of those firms and I am anxious to share them," Mr. Weber said.

Shoemaker-Weber Inc. is located at 3470 Mount Diablo Blvd., Suite A-150, Lafayette, Calif. 94549; 510-284-3877.

**New actuarial consultant**

BLOOMINGTON, Ill.—A new actuarial consulting firm, Miller, Rapp, Herbers, Brubaker & Terry Inc., has been formed in Bloomington, Ill.

The firm's principals are Michael J. Miller, Jerry W. Rapp, Joseph A. Herbers, Randall E. Brubaker and Karen Fulton Terry. All were formerly with the Bloomington office of Tillinghast.

The new firm, which has a 17-member staff, will also have an office in Barrington, Ill.

Miller, Rapp, Herbers, Brubaker & Terry will provide: competitive analyses, pricing management services, reserving analysis and public opinions for statutory financial statements, expert testimony for regulatory hearings and insurance-related legal proceedings. The firm will also provide other consulting services.

**Texas filing guide**

AUSTIN, Texas—The Texas Department of Insurance has published a reference guide to filing information with the state.

The 47-page booklet, "Filing Smart," includes deadlines, telephone numbers and addresses for filing with the Department's Financial Program, and is organized by category of company, such as property/casualty or life/health.

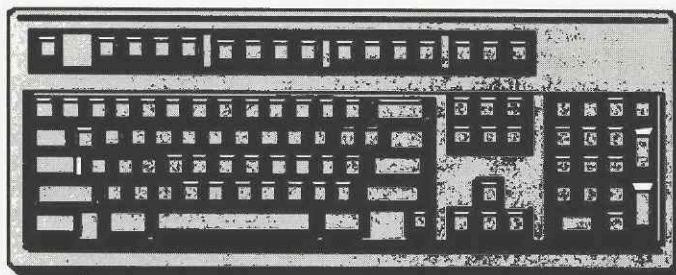
Free copies are available from the Department of Insurance, Publications (MC108-5A), P.O. Box 149104, Austin, Texas 78714.

**Ill now on Internet**

NEW YORK—Insurers can now find products and services from the Insurance Information Institute on the Internet.

Consumer publications, brochures and financial results for the property/casualty industry will all be online and updated quarterly.

All can be accessed through the address: GOPHER.INFOR.COM. For more information, contact Marjorie Gordon, III Director of Information Services, at 212-669-9264. **BI**



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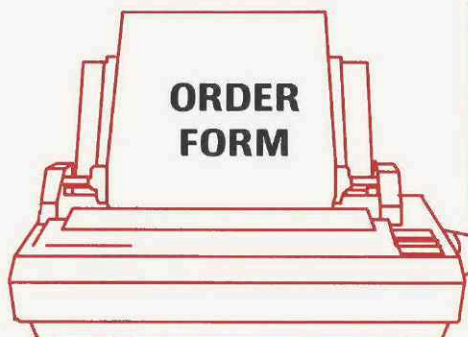
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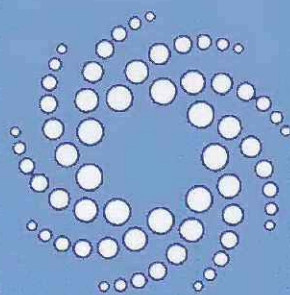
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## TempestRe

THE MONO LINE CAT RESOURCE

# Doing business in Russia

By John J. Hampton  
and Valery Vyatkin

TWO ARTICLES IN the May 21 edition of "The Moscow Times," an English-language paper, illustrate the problem for the future of the insurance industry in Russia.

The first is headlined "Premier Offers Profit Tax Holiday" and deals with Premier Viktor Chernomyrdin's proposal to resolve Russia's economic crisis. He said the government would cut basic taxes by 10% to 20%.

The second is titled "Wild West Saloon Moving to New Staging Post." It discusses the problems facing The Crazy Horse Bar, a "popular watering hole for Russians and foreigners alike since opening in January." It seems that the owners had an unidentified Russian partner who had promised to use his "connections" to acquire the necessary building permits from the massive Moscow bureaucracy. Unfortunately, he failed.

One inspector found the building to be "arbitrary," another observed that it was constructed of wood and therefore was a fire hazard. Still a third found that it encroached upon a sidewalk, a fourth found the hanging of "an unauthorized sign." After being hit with a fine of 25 million rubles (about \$11,095), the owners were forced to start over and move the bar to a new location.

It took six weeks to build the original bar and four months to clear minimum bureaucratic hurdles to open it. Now additional moving expenses must be incurred.

The owners of this business do not need Mr. Chernomyrdin's tax holiday. They need relief from the government bureaucracy. And herein lies both the danger and the opportunity for insurance companies, brokers and risk management specialists in Russia in the near future.

Under communism, China eliminated domestic insurance during the period from 1949 to 1978. No such thing happened in the Soviet Union, where insurance mechanisms have operated since the Bolshevik Revolution in 1917. According to government-published figures, in 1989 the Soviet Union ranked sixth or seventh in the world in insurance volume, with somewhere between 2% and 3% of total global life and non-life premiums. And it did this as the third most populous country in the world.

The level of insurance reflected a moderately high level of economic activity. For instance, the Soviet Union's per capita gross domestic product was about \$4,000 in 1989, compared with \$12,000 in the United States. While it wasn't a Western-style economic system, it was not invisible, either. The system had personal and business assets to protect. This is the business of insurance.

Western business skills are not unimportant in Russia, but survival is a much more powerful teacher. Russians know that a wise man yields in the face of greater power.

To illustrate this point, one only has to consider the current status of the traffic police, found it seems on virtually every corner in Moscow. If they stop a vehicle for a routine inspection, they are going to extract a fee, no question about it. It begins when they wave a wand with a white circle surrounded by a red ring. It is the signal to pull over. Most drivers do. Then begins an inspection of the car. "Is that a crack in your windshield? Were you driving too close to the line for the next lane of traffic? Is the glass covering your headlight dirty?" Finally, something will be settled upon.

Then the discussion begins. Maybe you will be asked to sit in your car. If you have a passenger, you will stand in back while the passenger remains in the car. Lacking witnesses, the officer will explain a potential problem to you. "How unfortunate," he might say. "Maybe the car will have to be impounded

## Crazy Horse Bar serves as parable for bureaucracy insurance industry faces in Russia

as an unsafe vehicle. How will you get home?" Then you think, "How much time and money will it take to retrieve my car from the ponderous Russian bureaucracy?"

And then the policeman makes a suggestion. For a small fee, he might be able to give you another chance. You will correct the offending problem immediately tomorrow morning. No one needs to know. All will be well.

At somewhere between \$10 and \$20, all matters are settled. With a smile on the faces of both parties, the policeman and driver say goodbye. And all is forgotten until the next time someone waves a stick with a white center surrounded by a red circle.

This is the system in Russia. What does it mean for insurance?

Simply stated, changes will have to occur before a modern insurance industry can emerge.

If there is no respect for the law by police officers themselves, how can one expect insurers and customers to honor their contracts? Thus, changes are needed in Russia to produce a viable insurance industry.

### A historical perspective

Modern insurance in Russia can be traced to the end of the 19th century. The business actually grew in a healthy and dynamic way, similar to the developments in western Europe and other prosperous capitalist countries.

Insurance literature was being developed concurrently with the growing complexity of coverages and contract forms.

In fact, some Russian publishing companies are making money in 1994 by reprinting pre-1917 books on insurance and banking. A review of these publications indicates that they are historically interesting and practical albeit archaic.

Shortly after the Bolshevik Revolution, insurance was nationalized, as were all other financial services, by a decree issued by Vladimir Lenin. Two state-owned insurance companies were established at this time:

- Gosstrakch became the domestic insurer and evolved into an extremely formal and bureaucratic entity.

- Ingosstrakch handled international business coverages and operated much like a Western insurance company.

The view of the Russian people toward insurance was molded by the behavior of the domestic insurer. Experiences were quite negative for most individuals.

For one thing, Gosstrakch shrouded its operations in secrecy. A policyholder could not even obtain the full text of an insurance contract. After purchasing a policy, Gosstrakch issued only a one-page document that summarized the coverage. Secondly, when a loss occurred and a claim was filed, it activated a massive, secret bureaucracy that resisted the payment of valid claims.

The result was that the people became accustomed to accepting insurance as a kind of malicious trick enforced by the state.

Even today, many Russians joke that Gosstrakch could come from either of two Russian words—"strakch" which means fear or terror, or

"strakchovaniye" which means insurance.

The situation today is changing. Private insurance companies began to form in response to the financial reforms initiated in the late 1980s by Mikhail Gorbachev. The de-monopolization of financial services continued with the issuing of a "Law of the Russian Federation on Insurance," which became effective Jan. 1, 1994.

The emerging insurance market is described in some detail in a report titled "The Insurance Market of Russia, 1994" issued by the Federal Insurance Supervisory Service of Russia. The report shows that Gosstrakch is still the leading insurer in terms of the volume of business and variety of coverages. It further shows actual or potential competition on every side.

As of Nov. 1, 1993, more than 1,500 insurance licenses had been issued to prospective insurers, an unknown number of which were actually conducting operations. And 700 or so applications for licenses were awaiting approval. The report shows that the 2,200 licenses or applications are divided into three areas: some 900 for property insurers, 700 for inland marine, and 600 for life insurance. Of these numbers, the overwhelming majority involve only native Russian investors. Fewer than 20 of the insurers have been or are being formed with the participation of foreign capital.

As a point of comparison with the official report, attendees of a recent seminar at the Academy of National Economy estimated that Russia had between 900 and 3,000 private companies as of May 1994. The discrepancy in the number stems from the difference between operating entities and companies that exist only on paper. Attendees also indicated that any count of Russian insurers would be a moving target as a result of the new insurance law that was being drafted this summer.

The law will affect the status of existing and proposed companies in unknown ways. It does appear that Russia is moving rapidly toward higher standards for insurance company solvency. Licensed companies that lack financial strength may not qualify to offer insurance. Other reforms and clarifications in the law are expected, either later this year or over a period of years, as the government attempts to create a modern regulatory process that increases the chances of sound insurance practices in the marketplace.

How many insurance companies are licensed for operations in Russia now? The answer is thousands, but many companies may not survive the scrutiny of the new law. Furthermore, many licensed companies may never get started in business. And we might expect a continuing lag in information on which are approved and active and which are not.

Aside from lack of information, there is a movement to shift coverage for a major portion of the Russian market to private insurers from the government-owned insurance companies. Unless the political door closes once again, which is possible but unlikely, the seminar attendees believe, the West should encourage Russia to make internal changes to permit a stable and viable insurance industry to emerge.

### Zeroing in on needed changes

A massive bureaucracy that can destroy individual initiative is quite harmful to an insurance industry. Companies must be formed with risk capital and have the ability to accept risks at premium levels that compensate for losses and allow profits. Regulatory requirements that restrict rates and limit flexibility in assessing exposures and covering them would slow the growth and level of sophistication of the market.

This does not mean that Russia does not need insurance regulation.

On the contrary, no one is served by undercapitalized and poorly managed insurers. The government should:

- Require minimum capital.

Continued on next page

# Russia

Continued from previous page

- Restrict premiums written to reasonable levels compared with the amount of capital contributed by investors.

- Require standardized accounting of insurance company financial results.

- In the consumer market, the government should also approve policy forms and require honest dealings with policyholders.

Imposing additional bureaucratic regulation, including approvals required from multiple agencies of the government, would be a serious impediment to development of the industry.

## Legal accommodations

Insurance policies are interpreted in a structure of contract law. Insurance disputes are resolved in the framework of tort law. Fraud and other dishonest behavior falls under the purview of criminal law.

Two different legal factors are likely to affect the future of insurance in Russia:

- The laws must be developed so that individuals and organizations know the rules. What does the contract mean? How will it be interpreted by the insurer? How will a court or government agency rule on a dispute in wording or intention? It will take many years to get answers to the major questions that affect insurance policies. First, laws must be passed to provide the framework, then an efficient and low-cost dispute resolution system must be implemented. Finally, experience must be gained in interpreting the meaning of various parts of insurance agreements.

- The legal system must respond fairly to the processing of claims. If insurers with political connections can avoid paying legitimate claims, there will be no confidence in the system. If the courts or arbitrators in the bureaucracy are pursuing personal payoffs rather than dispute resolutions based on the merits of a case, once again we can expect a breakdown of the system.

It appears that much is being done and much still has to be done to develop a legal structure in Russia to support a modern insurance industry.

Insurance is a technical business. Underwriters must be experienced in measuring the exposures presented when a party requests coverage. Actuaries

must know the patterns of frequency and occurrence of losses. Claims adjusters must know how to judge whether a loss has actually occurred, is it covered by a policy, and how much should be paid under the terms of the policy.

Such skills are not likely to be widespread in Russia, where the state owns many of the more complex industrial units that will need to find private insurance in the future.

The Russian situation is further complicated by an absence of risk management services and knowledge. Some enterprises operate with risks that are statistically uninsurable as a result of weak technical standards and safety practices. Loss control and other services to reduce the rate of losses and design the proper insurance coverage appear to be a major need in the Russian market.

The state of Russia's market cries out for training to increase the insurance skills of individuals employed in the nation's expanding insurance industry. It begins with a role for the government to encourage programs of retraining and further education. It includes a need for private insurance companies to develop specialties and become experts at reducing as well as insuring risks.

Insurance brokers perform valuable risk management and other services in insurance markets. Even though several Western brokers have a presence in Russia, brokers generally do not play a major role in the Russian market. The development of a strong brokerage sector should be encouraged in Russia, as the expertise of brokers can be valuable as the newly privatized companies create products or services for the world market.

## Facing currency challenges

One of the major drawbacks to rapid development of insurance lies in the problems of the ruble, the Russian national currency.

With inflation running at 10% to 15% a month, it is difficult to do "business as usual." In the summer of 1990, the official exchange rate was one ruble to \$1.61. As of last week, 22 rubles were worth one cent and the value is still dropping. Russians are a creative people, but such a decline in currency value stretches even their ability to cope.

Two reforms are needed with respect to the currency. First, new insurance mechanisms must be developed to take into account the weakness of the

currency, if it continues to be weak. An example might be to develop an inflation guard policy for auto insurance. At present, premiums are paid based on a starting value of a car. If an accident occurs in six months, the loss paid is woefully inadequate to allow for repairing or replacing the damaged vehicle. A system such as weekly or monthly premiums adjusted for inflation, along with a policy limit similarly adjusted, is desperately needed.

The second reform would be to develop hard currency policies. Premiums would be paid in dollars or another freely exchangeable hard currency, and losses would be paid in the same currency. This is particularly useful if destroyed assets, such as computer systems, must be replaced with equipment bought outside Russia. It can also combat declining purchasing power until the ruble is stabilized.

Russia is an insurance market where individual entrepreneurs are moving faster than the system. If the political system stabilizes, we can expect to see many changes in regulation, the players in the market and the mechanisms to provide protection against catastrophic loss to individuals and businesses alike. Only time will tell whether necessary reforms will create a stable and profitable market for insurers and other participants.

In the meantime, we extend our best wishes to the owners of The Crazy Horse Bar. Things are looking up. The bar has discovered a "newfound ally in the Moscow government who, according to one of the owners, is 'very, very close' to the top." The bar plans to reopen under this person's protection. The building will need fire insurance at least and the owners would be wise to buy liability insurance. This second coverage would give protection in case a patron hits his or her head on the "unauthorized sign" that advertises one of the many changes occurring in Russia at this very moment. **BI**



Mr. Hampton



Mr. Vyatkin

John J. Hampton is president of the Princeton Consulting Group Inc. in Gillette, N.J. Valery Vyatkin is a Professor at the Academy of National Economy in Moscow.

# Cleanup coverage for acquired site denied

Comprehensive general liability policies do not cover costs incurred by a policyholder in cleaning up a contaminated site acquired after the policy periods expired, the Supreme Court of Rhode Island ruled.

On Jan. 9, 1981, Textron Inc. acquired Basic Microelectronics Inc. Textron acquired the location subsequent to the alleged occurrence of activities that led to environmental infractions. Textron owned and operated the BMI facility from January 1981 to December 1985.

In November 1983, Florida issued a violation notice to BMI concerning alleged contamination of the surrounding ground water. Textron, which entered a consent agreement with the state and federal governments to clean up the site, was covered under a series of CGL policies by Aetna Casualty & Surety Co. Textron sought recovery for \$500,000 in cleanup costs, which were expected to escalate to \$2 million. The trial court ruled for Aetna.

On appeal, Textron argued that cover should exist because it had incurred a liability from property damage during a policy period. Aetna said the policies limited cover to property owned or acquired during the policy periods. During the dates of all of the policies, BMI was a "total stranger" to Textron, Aetna said.

## Legal Briefs

Viewing the policies in their entirety and using the plain, ordinary and usual meaning of the words, the court viewed the temporal limitations in the policies "during the policy period" as applying to the entire named-insured section of the policies. Thus, it ruled it was reasonable to interpret the policy as restricting Aetna's coverage to actions of both Textron and those entities owned or acquired by Textron during the policy period.

*Textron Inc. vs. Aetna Casualty & Surety Co.*, Supreme Court of Rhode Island, March 11, 1994 (BI/01/0.-\$10).

## Comp benefits terminated

A Pennsylvania law terminating a widower's workers compensation benefits when he either remarried or was living in a meretricious relationship does not violate the equal protection clauses of the federal or state constitutions, the Supreme Court of Pennsylvania ruled.

Adam McCusker began receiving workers comp benefits in 1980 after his wife was killed in a work-related accident. State law allows the compensation board to terminate compensation payable to a

widow or widower if he or she is living with a man or woman in a meretricious relationship and not married.

In 1988, Rushton Mining Co., which employed Mr. McCusker's wife, petitioned to terminate Mr. McCusker's benefits, alleging he was living in a meretricious relationship.

Mr. McCusker denied the allegation but also said the law was unconstitutional as denying him equal protection. The compensation board and the trial court ruled against him.

The appellate court acknowledged that the statute did intrude on his privacy as it required the state to make inquiries into his living arrangements and marital status. But, the court said that intrusion did not implicate any right fundamental to the concept of ordered liberty. It concluded that there was a rational basis for the law and upheld its constitutionality.

*McCusker vs. WCAB*, Supreme Court of Pennsylvania, March 28, 1994 (BI/03/0.-\$10).

## CGL bodily injury coverage

A CGL policy that excludes coverage for bodily injury to employees arising out of and in the course of employment applies to deny coverage for an employee's claim of

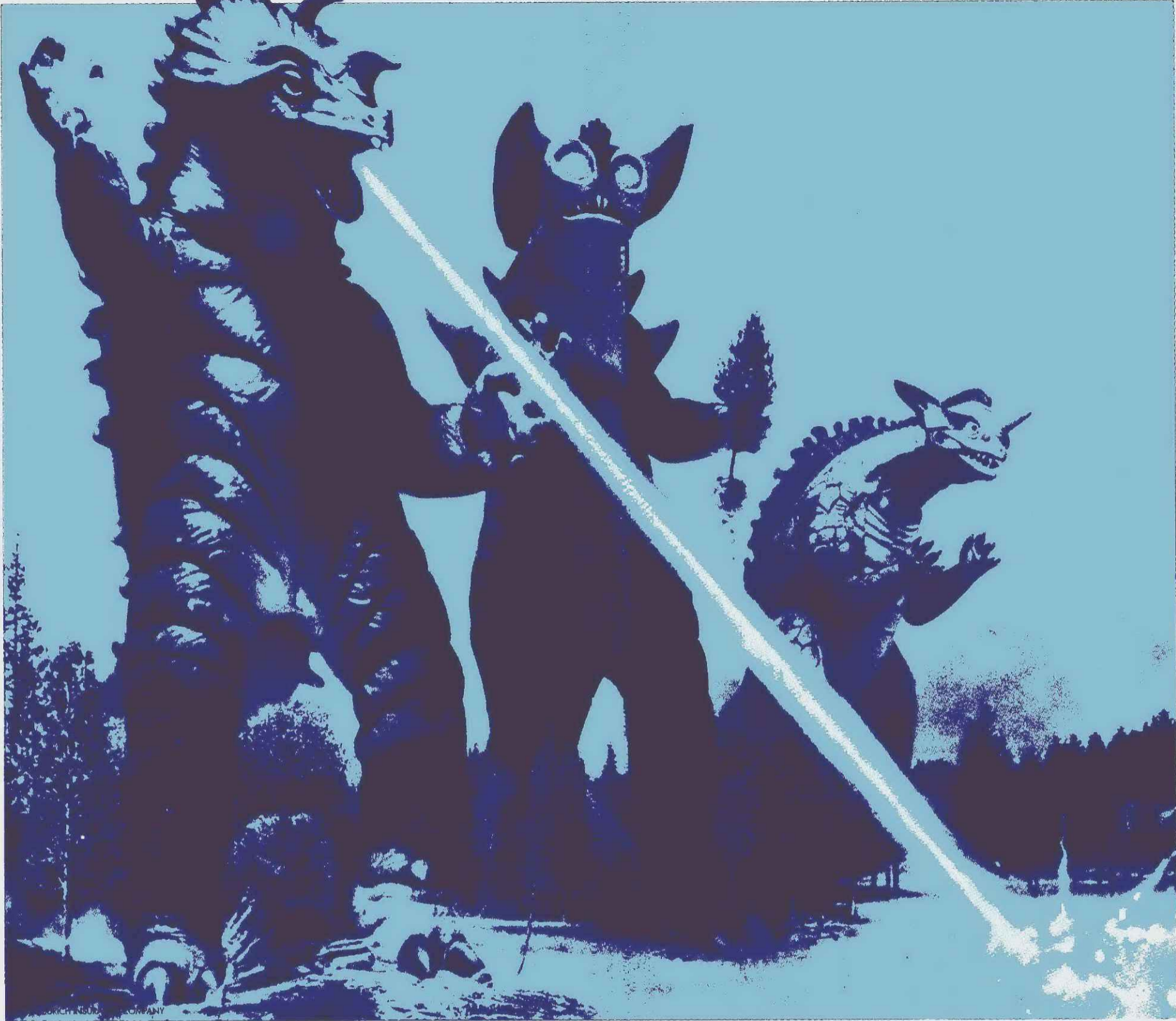
wrongful discharge, according to the Supreme Court of Oregon.

State Farm Fire & Casualty Co. issued a policy to Tecorp International Ltd. that provided coverage for bodily injury except for injury to any employee arising out of and in the course of their employment. Tamira Lynn McLeod sued Tecorp and its CEO for wrongful discharge and intentional infliction of emotional distress. She was awarded a default judgment and the company sought to collect from State Farm. The trial court ruled for State Farm. The Court of Appeals reversed.

The state Supreme Court said her claims, which were based on sexual harassment, arose during her employment. Thus, it said her claims fell within the CGL policy exclusion. It ruled that State Farm had no duty to defend Tecorp.

*McLeod vs. Tecorp International Ltd.*, Supreme Court of Oregon, Dec. 30, 1993 (BI/03/Du.-\$10). **BI**

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



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**Comings & Goings: Buyers**

**Texas names Mathur to risk manager post**

Rupa Mathur has been named director of risk management for the state of Texas.

Based in Austin, she oversees risk management for 136 state agencies and the Legislature is considering expanding her duties. Currently, she is responsible for identifying and reducing property and liability losses, including workers compensation, for each state agency and determining the administrative costs of risk management incurred by each agency.

She replaces Virginia May, who has been named director of self-

insurance for the Texas Workers Compensation Commission. Ms. Mathur reports to Todd Brown, executive director of the Texas Workers Compensation Commission.

Previously, she was director of risk management for Harris County, Texas, which is the state's largest with Houston as its county seat. Prior to joining Harris County, Ms. Mathur was the director of insurance and employee benefits for the Houston Independent School District.

She has also worked as a risk analyst with Coastal Oil Co. and the Metropolitan Transit Authority in Houston, among various other jobs in the United States and abroad.

Ms. Mathur holds a bachelor of legal laws degree and a bachelor's degree in psychology from Bombay University in Bombay, India.

She is a member of the international committee of the Risk & Insurance Management Society Inc. and is past president of the Texas chapter of the Public Risk Management Assn. Ms. Mathur holds several professional designations, including the Associate in Risk Management, Chartered Property & Casualty Underwriter, Accredited Adviser in Insurance, Certified Safety Executive by the World Safety Organization, Advanced Safety Certification from National Safety Council, Emergency Management Certification from the Federal Emergency Management Agency and Emergency Response to Hazardous Materials Technician from the Environmental Protection Agency.

Ms. Mathur in 1993 led a delegation of risk management specialists to Russia and the Ukraine on behalf of the Citizens Ambassador Program/People to People International. Next month, she will lead a similar delegation to China.

\*\*\*

Thomas Soper III has been named senior vp-corporate human resources and communications for Tambrands Inc., effective Oct. 10. Mr. Soper, 45, is currently senior vp-corporate human resources at Alexander & Alexander Services Inc. in New York. A&A has not yet named a successor.

Tambrands, based in White Plains, N.Y., is the manufacturer and worldwide marketer of Tampax tampons. Mr. Soper will have responsibility for all of Tambrands' human resources activities and internal communications. He will report to President and Chief Executive Officer Edward T. Fogarty.

Mr. Soper replaces Helen Goodman, who resigned to join ITT Hartford Insurance Group.

Prior to joining A&A in 1986, Mr. Soper held human resources positions at General Electric Co. and Johnson & Johnson. He received his bachelor's degree in political science from Widener University in Chester, Pa.

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

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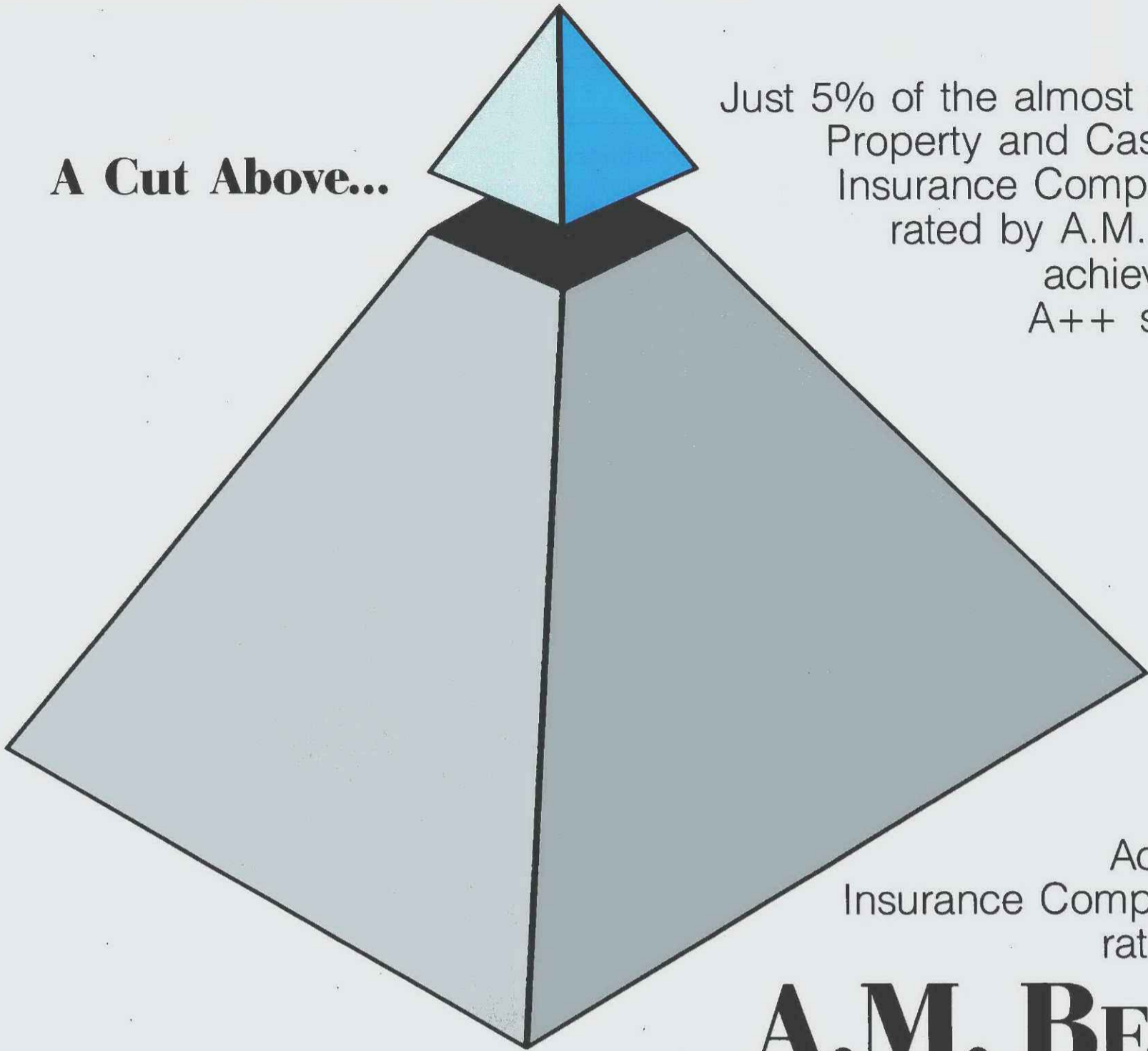
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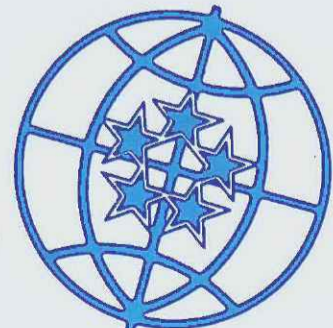
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# Computerized system measures air quality

Interscan Corp. of Chatsworth, Calif., has developed an air quality monitoring system that can be used by companies defending claims of poor indoor air quality.

The computerized system, called Arc-Max, is linked with sensors that continuously monitor air quality and signal potentially hazardous levels of toxic gases. The system automatically records the air quality at a given moment, sampling the air five times a second and compiling the results in 15-second averages. The goal is to produce a record of air quality that can be used to defend employers against workers comp or tort claims alleging poor air quality.

Cost for the standard Arc-Max unit is \$5,800. For more information on the Arc-Max system call Interscan at 800-458-6153 or fax 818-341-0642.

## Violent crime cover

A reinsurance unit of CIGNA Corp. is offering employers a violent crime rider to accidental death and dismemberment insurance policies.

The rider extends comprehensive life and health insurance coverage to employees who are the victims of violent crime beyond the workplace, not just those who may be assaulted and injured while working or while on business travel.

CIGNA's violent crime rider provides coverage of 25% of the AD&D principal sum to a maximum of \$100,000 should a death occur due to injury suffered in a robbery, holdup or kidnapping, regardless of the assault site. If the violent crime results in the hospitalization of the employee the rider provides indemnity payments of \$100 per day up to a maximum of 10 days in the hospital, regardless of other hospital or medical coverage.

Violent acts inflicted by fellow employees or by members of an employee's family or household are excluded from coverage.

All claims must be accompanied by an official police report.

Employers may request the violent crime rider through their AD&D insurance underwriter, and the cost is less than one cent per \$1,000 of AD&D coverage.

## Environmental data

Dun & Bradstreet Environmental Information Services is marketing a series of reporting services that help companies manage their environmental exposure by supplying all available reported data about more than one million commercial/industrial sites across the United States.

The products offer a quick, cost-effective first step in due diligence for evaluating a commercial property site.

They include the Environmental Radius Map Report, which lists federal and state environmental filings located by D&B on and surrounding a target property. It costs \$200.

The Map Report with Toxicheck Analysis, costing \$240 per property, analyzes and translates the government records search into a three-level risk code and often provides examples of the cleanup costs for other sites with similar filings.

Toxicheck Software interprets various sources of environmental information including government records and other informa-

## Products & Services

tion from governmental agencies' questionnaires and site visits to specific properties, and gives businesses direct online access to D&B's environmental information.

The cost is \$140 per property. Toxicheck Portfolio Analysis provides the same information as Toxicheck but on an entire portfolio of properties at a cost of \$120 per property.

The products can be ordered either through a Dun & Bradstreet sales office, online via D&B's DunsPrint service for D&B customers or by calling 800-879-1362.

## 401(k) education tool

The International Foundation of Employee Benefit Plans, Brookfield, Wis., is distributing a new video aimed at helping employers educate workers on details of their 401(k) plans.

Titled "401(k) Your Retirement Plan," the 14-minute video features Pamela Krueger, host of "Money Insights."

The video is designed to give employees a concise overview of 401(k) plans, explaining such benefits as the option to borrow against an existing account; the security offered by the ability to

transfer funds into an individual retirement account; and the importance of investing early in life to maximize returns at retirement, among other topics.

Copies of the video can be obtained by contacting Audiovisual Services, International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis., 53008-0069.

The price of the 401(k) video is \$295 for IFEBP members and \$395 for non-members, plus \$5 for shipping and handling. Payment must accompany the order, and VISA, MasterCard and American Express are accepted by the foundation.

For information on quantity discounts call 414-786-6710, ext. 538.

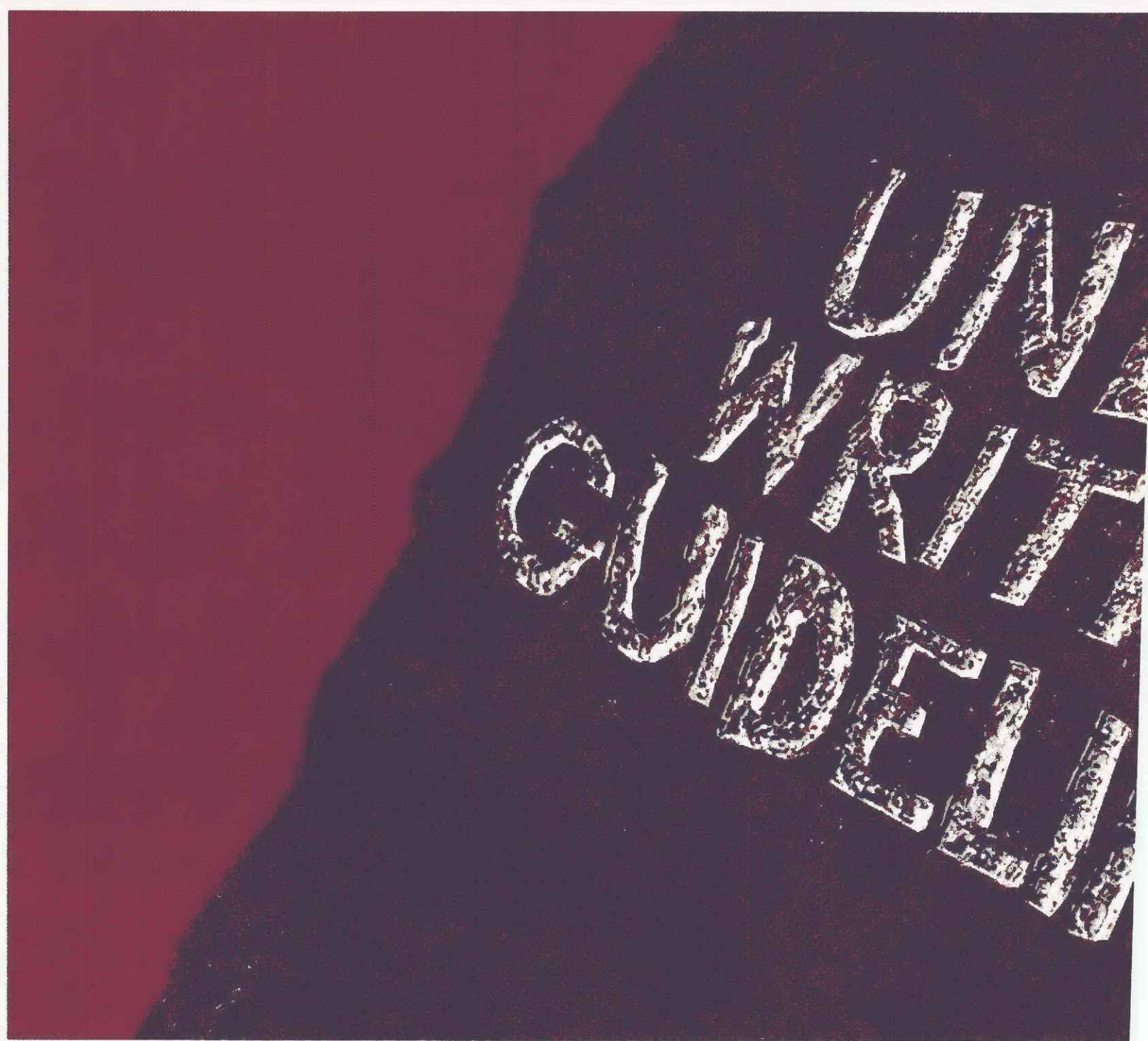
## Institutes' 800 line

The American Institute for CPCU and the Insurance Institute of America have a new toll-free customer service number.

The number, 800-644-2101, can be used to request information about the Malvern, Pa.-based institutes' courses and services, to order textbooks and to register for an exam for one of the institutes' professional designations.

The American Institute maintains and administers the educational program leading to the Chartered Property & Casualty Underwriter designation. The Insurance Institute of America provides educational programs and professional designations for a

*Continued on next page*



## How can you get customized solutions

If it seems like your reinsurer is offering solutions that date back to the dark ages, you may not be getting coverage that prepares you for the future.

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Our goal is to serve our clients as a consistent, strategic partner. To start at the conceptual phase

Continued from previous page  
wide variety of property and casualty insurance disciplines.

In addition, the institutes' area code changed earlier this year. Their main number now is 610-644-2100 and their customer service fax number is 610-640-9576.

The institutes also have expanded customer service hours to 8 a.m. to 6 p.m. EST. Regular business hours for other calls remain 8:45 a.m. to 4:30 p.m.

## Medical bill review

Metadata Inc. of Santa Ana, Calif., has introduced a new stand-alone comprehensive billing review software system called Metadata Strategies.

The software, which allows users to take medical bill review in-house at costs below those of bill review service vendors, can be used by insurers, third-party administrators or

any self-insured, self-administered company.

The Metadata Strategies system's host program includes in its data base all procedures listed in the Current Procedural Terminology (4th Edition), published annually by the American Medical Assn. It identifies diagnoses based on the International Classification of Diseases (9th Revision) and follows established physical therapy guidelines. It also contains specific information about standard surgical follow-up procedures and delays.

Metadata Strategies also houses a user's complete medical bill history, allowing it to check for and eliminate duplicate provider billings, and has a built-in report generating function. Metadata Strategies can be loaded onto any claim management system.

Companies can choose to either purchase or lease the system. Metadata Strategies costs \$2,500 for the base

program, plus added costs for additional features. A user can buy a complete system for \$3,000 to \$15,000, depending on the company's needs.

For more information about Metadata Strategies or other Metadata software products, call 800-935-9995.

## Work comp materials

Regulatory compliance publisher J.J. Keller & Associates Inc. has developed a new program to assist managers in starting a cost-effective workers compensation program or in auditing and improving an existing program.

"Workers' Compensation: A Management Cost Containment Program" takes an active approach to safety, aiming at preventing workers comp claims. The manual also covers aspects of managing cases that do occur from both supervisory and employee levels, and provides documen-

tation to manage, track, keep records and audit relationships with insurance, medical and legal service providers involved in the workers comp system.

Keller also is offering a new eight-page monthly newsletter, *Workers' Compensation Advisor*, to complement the manual.

Keller is offering the manual and a one-year newsletter subscription for \$199. The offer also includes a video on workers compensation. For more information, call Keller at 800-327-6868 and ask for customer service.

## Manager training video

A new video-based training program called OmniTrain is designed to help companies train their managers to be aware of their legal responsibilities under employment law.

The first OmniTrain video, "ADA: What Managers Should Know" is a 10-minute look at the Americans

with Disabilities Act, walking managers through seven ADA-specified actions that constitute discrimination. The video discusses areas in which discrimination can occur, and offers practical solutions to help employers remain in compliance with the law.

For information on "ADA: What Managers Should Know" or the entire OmniTrain management training series contact Joe Saikley at Safety Short Productions Inc., 800-458-2236.

## Lawyers liability policy

Professional liability insurer Design Professionals Insurance Co. has introduced a new professional liability program, the Lawyers Professional Liability System or L/pls.

The L/pls program includes a system of loss prevention education, alternative dispute resolution incentives and personal service by specialized agents. Policyholders can earn annual premium credits for the successful completion of loss prevention programs and for implementing proactive management practices designed to avoid potential litigation.

Farmington, Conn.-based DPIC is the professional liability specialist of Orion Capital Cos. L/pls policies are underwritten by Security Insurance Co. of Hartford and by the Connecticut Indemnity Co. The issuing company varies by state.

For further information, contact Tom Owens at DPIC, 800-227-8533, extension 217.

## Exposure checklist

The International Risk Management Institute Inc. is offering a newly updated third edition of its Exposure Survey Questionnaire.

Designed to help risk managers, brokers and consultants identify risks, the questionnaire is available either in printed form or on diskette. The questionnaire includes over 500 key questions aimed at identifying property/casualty risks, with questions presented in a multiple choice format to reduce the amount of note taking required and to free the interviewer to concentrate on the discussion.

Questions are also grouped in a manner that allows users to skip questions that don't apply to particular industries.

A diskette that accompanies the third edition includes the Exposure Survey Questionnaire in WordPerfect 5.1/5.2 files, allowing users to customize the survey for specific needs, print out questionnaires without having to copy the book, store data on computer or print out surveys that include the user's exposure findings.

The questionnaire, including the word processing diskette, costs \$44.98 and is available from the International Risk Management Institute Inc., 12222 Merit Drive, Suite 1660, Dallas, Texas, 75251-2217. The questionnaire can also be order by phone at 800-827-4242 (in Dallas, 960-7693) or by fax at 214-960-6037.

## Crane safety video

The Crane Institute of America Inc. has released a 20-minute video on "Overhead Crane Safety."

The video uses actual site footage and state-of-the-art animation to outline the principles of safe overhead crane operation, maintenance and inspection and to specify correct procedures.

"Overhead Crane Safety" is part of the Crane Institute's crane safety series of videos, which are available for \$495 each from the Maitland, Fla.-based institute.

For more information, call the Crane Institute at 800-832-2726 or fax 407-875-1126. **E**

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# Rank of regulatory issues in eye of beholder

By MARK A. HOFMANN

While it should come as little surprise that insurance company executives and state insurance commissioners don't see eye-to-eye on everything, just how differently they view regulatory issues as revealed in a new Conning & Co. survey is sure to at least raise an eyebrow or two.

For example, the survey showed that insurers view rate regulation and rate suppression as the chief state issue they face. Regulators, though, rank that issue 14th out of 17.

Insurance commissioners put insolvency at the top of their issues list; insurers ranked it 13th out of 17.

Other issues on which commissioners and insurance company executives hold divergent views are whether workers compensation should be a component of health care reform, who should pay for cleaning up hazardous waste sites and the value of the National Assn. of Insurance Commissioners risk-based capital requirements.

But the survey found that regulators and insurers don't disagree on everything. A majority of the respondents in both categories oppose more federal oversight of the industry.

Insurers and regulators also agree that state guaranty funds should exclude coverage for large commercial risks.

And, perhaps most surprising, a majority of the state regulators agreed with 100% of the insurance company respondents that tort reform is a "viable way to reduce insurers' losses and litigation costs."

The survey was the seventh on insurer/regulator attitudes that Conning has conducted since 1976, according to Nancy Carini, manager-insurance research and publications department at Conning.

The survey is based on the responses of 54 of the country's 150 largest property/casualty insurers and 17 state insurance commis-

sioners.

The responses represented such a representative mix of companies that "I couldn't have done the sampling better if I tried," quipped Ms. Carini.

The survey also asked insurers to rate states on the amount of freedom they were granted to manage their business regarding rates and the regulatory environment.

And, as a corollary, the survey asked insurers whether individual states' regulatory environments had caused them to discontinue or seriously curtail writing certain lines of business (see related story).

Commissioners and insurance company executives differed sharply on the question of how workers compensation and the medical portion of automobile insurance coverages should be treated under any system of health care reform.

Fifty-six percent of the commissioners said that workers compensation should be incorporated into a national health care system, compared with 23% of insurance executives who favored such a move.

The difference regarding the medical portion of auto insurance was even more dramatic—67% of the regulators wanted it incorporated into a national health care system compared with 25% of the insurers.

There was a similar, though narrower, split on the question of who should bear the responsibility for the cost of cleaning up hazardous waste sites.

Fifty-three percent of the commissioners said the cost should be borne solely by polluters and insurers, while only 27% of the insurers agreed.

The disagreement on the effectiveness of the National Assn. of Insurance Commissioners' risk-based capital requirements wasn't as pronounced.

Seventy-nine percent of the commissioners hailed the capital requirements as adequate for identifying financially shaky

companies, an assessment shared by only 53% of the insurance executives.

And while 75% of the commissioners said that a risk-based cap-

tion costs. No insurer in the survey disputed its importance, and 63% of the commissioners called tort reform a viable way to hold down costs.

**Perhaps most surprising, a majority of the state regulators agreed with 100% of the insurance company executives that tort reform is a 'viable way to reduce insurers' losses and litigation costs.'**

ital ratio should be included in the annual insurer statutory statement, only 43% of the insurers agreed.

But insurers and regulators did find some common ground, the Conning survey shows.

For example, only 15% of the company respondents and, perhaps a little surprisingly, 21% of the state commissioners supported greater federal oversight of the business of insurance.

But the survey notes that supporters of a larger federal role in insurance regulation said they endorse expansion only in areas in which Washington could be more effective than the states, such as regulating offshore reinsurance companies.

A majority of both regulators and insurers—71% and 80%, respectively—also said that state guaranty funds provide policyholders with adequate protection against company failures.

Only 20% of the insurers responding said that the current state-based guaranty system should be replaced by a federal system, a change 43% of the commissioners supported. However, 95% of the insurers and 77% of the commissioners agreed that commercial policyholders paying annual premiums of more than \$1 million should not be covered by the funds.

Tort reform generally drew wide support from both camps as a means of holding down insurance company losses and litiga-

tion costs. No insurer in the survey disputed its importance, and 63% of the commissioners called tort reform a viable way to hold down costs.

stead put limiting attorneys' fees at the top of the list, which insurers ranked seventh. The majority of insurance company executives as well as regulators also agreed that insurance commissioners should be appointed rather than elected. Eleven states currently elect commissioners, while legislative attempts to make the job an elective one in three other states have failed.

More than nine out of 10 insurers—92%—said the office should be appointed, and 75% of the commissioners agreed.

Single copies of the "1994 Property-Casualty Regulatory Study: How Far Is the Camel's Nose Inside the Tent?" cost \$495. For more information, contact Conning & Co. at CityPlace II, 185 Asylum St., Hartford, Conn. 06103-4105; 203-520-1521.

## Stating their case

Insurers rank states' regulatory climates for commercial lines

### Most restrictive:

- Florida
- California
- Texas
- Massachusetts
- New Jersey

### Least restrictive:

- Indiana
- Illinois
- Iowa
- Idaho
- North Dakota

Source: Conning & Co.

GRAPHIC BY JERRY PARKS

## Midwestern states generally best choices to escape excessive regulatory control

California regulators have fallen the most in insurers' estimation, Conning & Co.'s survey shows.

Insurers were asked to rank states on a scale of 1 to 5 on the relative freedom they were granted in managing their personal lines and commercial lines business.

Respondents were asked to consider factors such as the regulatory climate, rating classifications and territories, the setting of rate levels, cancellation and non-renewal of risks, and involuntary assignments.

The results were compared with those of previous surveys on the same question going back to 1984.

Perhaps not surprisingly, California—home of Proposition 103—showed the greatest change between 1984 and 1994.

Insurers ranked California as the state that granted them the most freedom in managing both personal and commercial lines in 1984.

By the 1994 survey, however, California ranked 50th on both counts, with only chronically troubled New Jersey ranking below it in terms of personal lines freedom and Florida below it for commercial lines.

That was, however, an improvement for the Golden State—a 1991 Conning survey had ranked it dead last on both counts.

Other states that have slipped in insurers' estimation include: Georgia, which dropped to No. 46 in 1994 from No. 17 in 1984; Kentucky, which slipped to No. 35

from No. 10; and New York, down to No. 45 from No. 15.

Illinois and Indiana, on the other hand, received consistently high marks from insurers regarding the freedom regulators there grant them.

Illinois ranked first in personal lines freedom and second in commercial lines freedom in 1994; Indiana ranked first in commercial lines freedom and second in personal lines freedom.

In fact, Midwestern states dominated the top 10 in terms of both personal and commercial lines freedom in 1994.

The survey also asked insurers to identify states in which the regulatory climate in the last two to three years has led to reduced business and profitability.

In commercial lines, Georgia topped the list of states in which the climate had led insurers to reduce their business, cited by 19% of respondents. It was followed by: California and Florida, both cited by 16%; Texas, 9%; and Massachusetts and Missouri, both 6%.

In all, 54% of insurers said they operated in states in which they have had to discontinue or seriously curtail writing business in the past few years.

Georgia also topped the list of insurers' picks—cited by 22%—for states in which commercial lines rate suppression has led to reduced profits. It was followed by: California, cited by 13%; and Florida, Tennessee and Texas, each cited by 9%.

—By Mark A. Hofmann

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TAILORED AWARDS

# Trusting in Morgan Guaranty

## Workers demand variety of investment options in 401(k)

By CHRISTINE PHILIP

Crain News Service

NEW YORK—Some employers have to go well out of their way to encourage, entice and cajole workers to defer some of their salaries in a company-sponsored defined contribution plan.

Morgan Guaranty Trust Co.'s Gary D. Naylor, vp of worldwide benefits, finds he has something of the opposite problem.

After receiving a personalized letter from Mr. Naylor on April 15 explaining how much they could cut their tax bills through the 401(k) option of the company's profit sharing plan, many non-contributing employees actually called him directly to explain why they were not participating. Many joined as soon as their circumstances allowed.

In all, more than 500 Morgan Guaranty employees signed up to make salary deferrals as a result of Mr. Naylor's appeal.

Such employee response is fairly typical within a company that specializes in investment management and therefore has employees who are fairly attuned to savings and investment, Mr. Naylor said.

The company's main retirement benefit is a \$700 million defined benefit plan for its 10,000 participants, about 2,000 of which are retirees, said Mr. Naylor. A \$600 million deferred profit-sharing plan for Morgan Guaranty and affiliated companies is generally considered a supplemental savings plan, with some unusual features.

Every Morgan Guaranty employee receives an annual award, averaging about 15% of salary, with a mandatory distribution of 50% to the company's 35-year-old profit-sharing plan and 50% in cash. Except for the annual bonus award, the company does not match employee contributions but does pay all administration and investment management fees.

Changing demographics led the company to add a 401(k) element to the plan in 1993.

Employees coming to Morgan Guaranty with lump-sum distributions from previous jobs needed to invest, and with rapid job turnover employees wanted their savings to be portable. Many employees had 401(k) plans at other jobs and were already accustomed to deferring some of their monthly salary. Employee focus groups also helped the company design a plan with features employees wanted. The plan segregates the employer's annual award and employee salary deferrals into separate asset pools, which employees may allocate differently.

Morgan Guaranty weighted the plan, capping the deferrals for low-paid workers at 15% of salary, vs. an 8% maximum for higher-paid employees. Higher-paid employees also have the opportunity to invest in non-qualified savings plans through the company. The company's main objective in designing the plan as it did, said Mr. Naylor, was to make sure it easily passed discrimination testing.

More sophisticated than typical 401(k) plan investors, Morgan Guaranty employees can cope with—and indeed demand—widely diversified investment options, said Mr. Naylor. The profit-sharing plan now offers eight diversified commingled funds, including a small-company stock fund and an international equity fund, all managed by affiliate J.P. Morgan Investment Management Co. Towers Perrin is the company's external record keeper.

In January, the plan will add an emerging markets fund. Because many of the employees research emerging markets as part of daily business, they were sensitive to the potential returns and wanted such a fund for their own savings.

"As far as we can tell, we are one of the first defined contribution plans to offer an emerging markets option. This investment area has very high visibility among our employees, many of whom have been working hard themselves in these markets," said Mr. Naylor.

The company is developing a specialized international investing brochure to help employees understand the differences between investing in established markets and in emerging markets. "We see the need to explain very clearly the risks and rewards possible with emerging markets investing."

Even without a company match,

Morgan Guaranty employees are taking advantage of the chance to save with the 401(k) plan feature, with 77% of the highly compensated employees and 63% of lower-paid ones participating. Part of the success lies in the sophisticated investor profile of the company's employees, said Mr. Naylor.

But much is also due to education. An Investment Information Center is manned by J.P. Morgan Investment Management operators to answer questions about asset allocation for the plan, in addition to the automatic voice response system provided by Towers Perrin. Features and changes are explained in a monthly newsletter. And an annual report to participants discusses plan features such as investment options in detail and compares their performance to that of other asset classes.

Two-day financial planning seminars are offered twice a month in the company's three New York City centers, where 70% to 80% of participants work. Seminars cover all benefit programs and show how pension and savings plans work with other programs to fund a comfortable retirement. An outside financial planner is brought in to educate employees. So popular are the seminars that it is difficult to fit everyone in, Mr. Naylor said.

Employees are permitted to transfer assets between options monthly, but only about 200 transfers are made each month. Better education and the ability to make more frequent transfers—through 1992, only one could be made per quarter—led employees to reduce investment in the conservative guaranteed investment contract plan option to 36% in January 1994, from 60% in September 1990.

Employees have been using similar asset mixes for both their profit-sharing awards and their own salary contributions in the 401(k) option.

The average asset mix for the employer award contribution in January 1994 was 20% company

stock, 13% small-company stock, 14% international equity, 11% domestic equity, 14% balanced, 4% bond, 17% GICs and 7% in a money market fund. The average asset allocation for 401(k) assets was 17% company stock, 17% small company stock, 16% international equity, 14% domestic equity, 16% balanced, 4% bonds, 11% GICs and 5% money market.

"There's a strong sense of trust in their employer among the Morgan Guaranty employees. We know from the market research we collect from our participants what they want and feel comfortable with. The bond of trust is so strong for our employees that many elect to leave their 401(k) and profit-

sharing assets in the plan, even after they retire. We are finding that the greater majority of these retirees continues to allocate their assets to GICs, but that notwithstanding, are not moving their money out of the plan," said Mr. Naylor.

Because a high proportion of employees leave their assets in the deferred profit-sharing plan after retirement, Mr. Naylor said plan officials are evaluating a new product just introduced that allows an employee to permanently roll over defined contribution assets on a tax-free basis into their defined benefit plan. If Morgan Guaranty introduces the service, the Additional Lifetime Pension, employees would receive a lifetime monthly payment, as would their spouses, set up as a fixed benefit or variable annuity. **BI**

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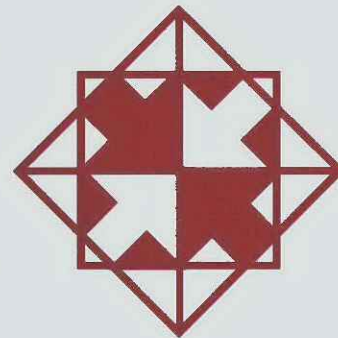
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TAILORED AWARDS

# IRS cuts pension violators some slack

By JERRY GEISEL

## Washington

WASHINGTON—The Internal Revenue Service is making permanent a 2-year-old program that allows employers that have violated certain pension rules to make amends before the IRS audits—and possibly disqualifies—their plans.

Under the voluntary compliance program, employers have to make corrections to their plans and pay a fee to the IRS. The program covers a wide range of violations, such as failure to properly vest benefits or offer certain benefits.

Fees for plans with fewer than 1,000 participants are \$500 for those with less than \$500,000 in assets and \$1,250 for plans with at least \$500,000 in assets.

The fee for all plans with 1,000 to 10,000 participants is \$5,000. The fee for plans with more than 10,000 participants is \$10,000.

The compliance program is not available in a number of situations, such as "egregious" violations of pension rules. An example of an egregious violation would be an employer that consistently and improperly extended pension coverage to only highly compensated employees or violated rules on the maximum contributions that can be made to defined contribution plans.

## Benefits opinion poll

Most Americans are satisfied with the quality of care they receive from health care providers, but are nearly evenly split on whether the nation's health care system needs major or minor changes.

Slightly more than three-fourths of Americans surveyed by The Gallup Organization for the Employee Benefit Research Institute rated the quality of care they receive from their health care provider as either excellent or good, while just 22% described the care they receive as fair or poor.

On the other hand, 46% of respondents said the nation's health care system needs to be completely rebuilt, compared with 43% who said only minor changes are needed to make the system better. Nine percent said no reforms are necessary and 2% said they didn't know if changes are needed.

When asked to indicate what should be the most important goal of health care reform, 34% of respondents said it should be guaranteeing health insurance for all, while 29% cited lowering health care costs and 18% said providing assistance to those who cannot afford health care insurance. The most important goal of health care reform is continuing health care coverage when someone loses his or her job or becomes ill, according to 17% of respondents.

Copies of "Public Attitudes on Health Reform 1994," are available from Cheri Meyer, Employee Benefit Research Institute, 2121 K St. N.W., Suite 600, Washington, D.C. 20037.

For EBRI members, copies of the full report cost \$50, while the cost for non-members is \$100. Summaries also are available for \$25 for EBRI members and \$50 for non-members.

## Flex plan danger seen

While comprehensive health care reform legislation doesn't appear to be going anywhere, a threat to flexible benefit programs remains, a trade group warns.

Sweeping reform bills proposed by both the House and Senate Democratic leadership that are now

considered dead would have barred the use of flexible benefit plans, including flexible spending accounts, to fund medical care expenses and premiums on a pretax basis.

But congressional staffers working on a stripped-down reform bill, still would like to kill off FSAs, according to the Washington-based Employers Council on Flexible Compensation.

While it is too difficult to eliminate all types of flexible benefit programs, congressional staffers believe killing off FSAs may be a first step toward wiping out all types of flexible benefit programs, according to the ECFC.

## PBGC takes over plans

The Pension Benefit Guaranty Corp. is taking over three underfunded pension plans sponsored by two companies.

The PBGC last week said it is terminating two plans sponsored by Front Royal, Va.-based Avtex Fibers Inc., which has filed for bankruptcy. The two plans, which cover 4,900 participants, are underfunded by a total of \$23.5 million.

The other pension plan taken over by the agency was sponsored by St. Johnsbury Trucking Co., which filed for bankruptcy last year and has ceased operations. The plan, which has about \$9 million in assets and \$20.6 million in liabilities, covers about 700 former workers and retirees.

St. Johnsbury was headquartered in Holliston, Mass., and had major operations in Vermont.

## Retirement plan study

Most small firms offering 401(k) plans do not offer other pension plans, while larger employers with 401(k) plans typically sponsor another plan, according to a new Labor Department survey.

For example, 88% of employers with between two and nine employees offering 401(k) plans do not sponsor another pension plan. On the other hand, 90% of employers with between 20,000 and 49,999 employees sponsoring 401(k) plans also offer their employees another pension plan.

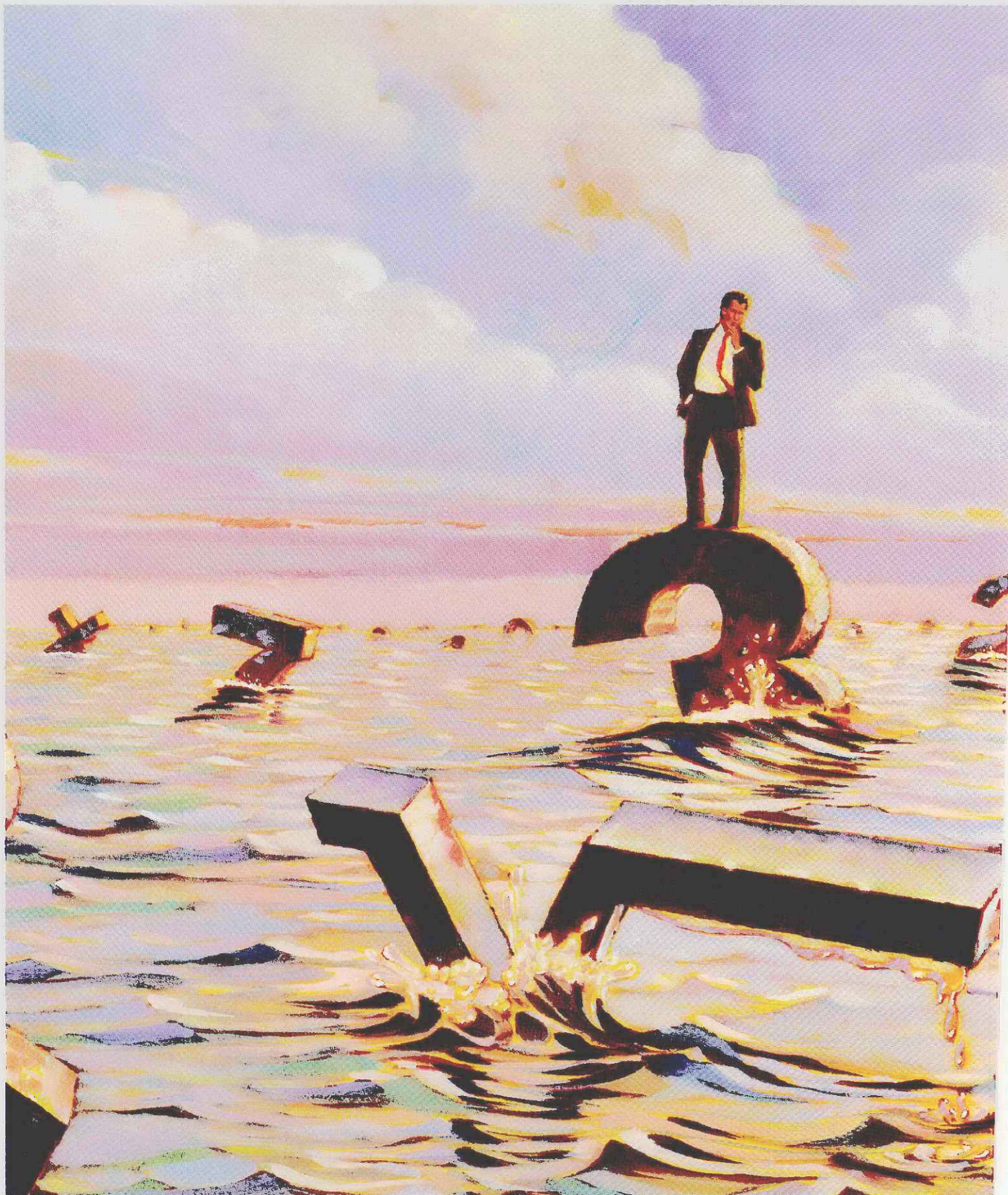
The Labor Department survey,

based on financial reports filed by employers, also found that in 1991 employers offered 114,667 401(k) plans covering 21 million people.

## EPA dioxin study

Affirming an earlier finding, the Environmental Protection Agency released a study last week that says the chemical compound dioxin "probably" causes cancer in humans.

The agency said it has not found a direct link to dioxin and cancer. But it affirmed an earlier study that dioxin is a probable human carcinogen. The EPA says it now has more confidence in its conclusion about a possible link between exposure to dioxin and developing cancer. **BI**



Reliance Re underwrites through Reliance Insurance Company

## Insider Trading

**Alexander & Alexander Services Inc.:** Joseph L. Dionne, director, bought 1,000 shares of common stock at \$19.75 each on Aug. 3 and now directly holds 1,000 common shares.

James Dixon Robinson, director, bought 2,000 shares of common stock at \$20 each on Aug. 2 and now directly holds 2,000 common shares.

A&A stock closed at \$20.38 a share on Sept. 9.

**American International Group Inc.:** William N. Dooley, officer, exercised an option for 937 shares of common stock at \$17.33 each on June 27 and now directly holds 2,194 common shares.

Wayland McCon Mead, officer, sold 600 shares of common stock

at \$94.13 each on June 3. He now directly and indirectly holds 79,400 common shares.

AIG stock closed at \$90.63 a share on Sept. 9.

**Fund American Enterprises Holdings Inc.:** John J. Byrne, officer, director and beneficial owner, sold 50,000 shares of common stock at \$70 each on July 18. He now directly and indirectly holds 670,224 common shares.

Fund American stock closed at \$77.25 on Sept. 8.

**Arthur J. Gallagher & Co.:** Gary M. Van der Voort, vp, exercised an option for 2,000 shares of common stock at \$4.97 each on Aug. 16 and now directly and indirectly holds 58,640 common shares.

Michael J. Cloherty, divisional officer, exercised an option for 300 shares of common stock at \$4.97 each on Aug. 8 and now di-

rectly holds 70,402 common shares.

Walter F. McClure, officer and director, exercised an option for 600 shares of common stock at \$4.97 each on Aug. 10 and now directly holds 17,906 common shares.

Gallagher stock closed at \$33.13 a share on Sept. 9.

**Marsh & McLennan Cos. Inc.:** Frank J. Borelli, officer and director, exercised an option for 11,888 shares of common stock at \$24.31 each on Aug. 8. To cover transaction costs, Mr. Borelli turned in 6,634 of the shares at an unreported price on Aug. 8. He indirectly exercised an option for 3,377 common shares at \$24.31 that same day. To cover expenses of that transaction, Mr. Borelli turned in 3,377 of them for \$85.56 each that same day and now directly and indirectly holds 46,990

common shares.

M&M stock closed at \$84.50 a share on Sept. 9.

**Old Republic International Corp.:** William F. Schumann, vp, sold 9,414 shares of common stock between \$23 and \$23.25 each from June 7 to June 14. Mr. Schumann now directly and indirectly holds 66,153 common shares.

Old Republic stock closed at \$21.88 a share on Sept. 9.

**Poe & Brown Inc.:** Donald E. Howery, retired, exercised an option for 9,747 shares of common stock at \$7.60 each on July 27. He now directly and indirectly holds 23,764 common shares.

Byrne A. Litschgi, officer, exercised an option for 937 common shares at \$7.60 on Feb. 16 and directly holds 15,730 common shares.

Poe & Brown stock closed at

\$20.38 a share on Sept. 9.

**RLI Corp.:** Gerald D. Stephens, president, disposed of by gift 200 shares of common stock at \$21.50 each from June 9 to June 29 and sold 50,000 common shares at \$21.50 each from June 9 to June 29. Mr. Stephens indirectly acquired by gift 100 shares of common stock at \$21.50 each on June 29 and now directly and indirectly holds 351,729 common shares.

RLI stock closed at \$22 a share on Sept. 9.

**SAFECO Corp.:** Roger H. Eigsti, chairman, exercised an option for 3,400 shares of common stock at \$29 each on June 6. He now directly and indirectly holds 42,755 common shares.

Richard W. Hubbard, vp, exercised an option for 3,900 shares of common stock between \$24.50 and \$33.75 each on June 9. To cover transaction costs, Mr. Hubbard turned in 1,952 of the shares for \$58.16 each on June 9. Mr. Hubbard now directly and indirectly holds 35,451 common shares.

SAFECO stock closed at \$55.50 a share on Sept. 9.

**Transamerica Corp.:** Kent L. Colwell, vp, indirectly exercised an option for 2,308 shares of common stock at \$25.75 each on Aug. 1.

To cover transaction costs, he turned in 1,712 of them for \$51.56 each that same day. Mr. Colwell now indirectly holds 17,912 common shares.

James R. Harvey, chairman, indirectly sold 22,290 shares of common stock at \$52.63 each on Aug. 9 and now indirectly holds 83,924 common shares.

Frank C. Herringer, president, exercised an option for 4,512 shares of common stock at \$25.75 each on Aug. 10. To cover transaction costs, he turned in 3,018 of the shares for \$52.87 each that same day and now directly and indirectly holds 43,052 common shares.

Glenn A. Cramer, retired, indirectly sold 1,000 shares of common stock at \$52.75 each from Aug. 5 to Aug. 10. He now indirectly holds 177,270 common shares.

Condoleezza Rice, director, exercised an option for 1,000 common shares at \$41.63 each on Feb. 22 and sold 810 shares at \$51.75 each on Feb. 22. She now directly holds 315 common shares.

Transamerica stock closed at \$52.68 a share on Sept. 8.

**USF&G Corp.:** Robert E. Gregory, retired, sold 11,604 shares of common stock at \$12.39 each on July 15 and now directly holds 2,000 common shares.

Robert J. Hurst, director, indirectly purchased 1,000 shares of common stock at \$14.38 each from Jan. 10 to Jan. 13 and sold 1,000 shares at \$14.63 each from Jan. 10 to Jan. 13. He now directly and indirectly holds 6,000 common shares.

John A. Maccoll, divisional officer, exercised an option for 3,000 shares of common stock at \$9.50 each on Jan. 25. He now directly holds 9,000 common shares.

USF&G stock closed at \$13.63 a share on Sept. 9.

*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 Tribune Media Services Inc.*



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# Comey to leave ITT Corp. post

**Dale R. Comey**, executive vp in charge of ITT/Hartford Group Inc., as well as the finance and business services groups at ITT Corp., will leave the company at the end of the year.

ITT, which has named no successor, said he was leaving to pursue other unspecified interests.

Mr. Comey, 53, was considered one of the leading candidates to eventually succeed Rand V. Araskog as chairman of ITT. Mr. Comey joined Hartford Fire Insurance Co. in 1965. ITT acquired the company five years later.

Mr. Comey had been president and chief operating officer of ITT Hartford Fire Insurance until 1990, when he became executive vp of the insurer's parent.

In other changes at ITT/Hartford, **Raymond P. Welnicki** named senior

## Comings & Goings: Industry

vp and director of the employee benefits division of ITT/Hartford Life Insurance Cos. in Simsbury, Conn. Mr. Welnicki succeeds **Larry K. Lance**, who is retiring.

At another ITT/Hartford unit: **Frederic W. "Ric" Baker** named executive vp of Hartford Specialty Co., which provides specialized insurance to large employers. Mr. Baker succeeds **J. Philip Griffin** who retired.

### In other insurer changes:

**Ronald E. Timpe** was named chief executive officer of Standard Insurance Co. in Portland, Ore., succeeding **Benjamin R. Whiteley**, who retired but remains chairman of the board.

**Mary M. Armstrong** named vp of SAFECO Corp. in Seattle, where she is responsible for information systems and services.

**Frank J. Kotarba** named senior vp-commercial small business market segment at United States Fidelity & Guaranty Co. in Baltimore.

Nationwide Mutual Insurance Co. has made several appointments: **William M. Carpenter** named vp-underwriting in Columbus, Ohio; **Danny M. Fullerton** named vp-agency operations in Columbus; and **Charles D. Wollenzien Jr.** named vp of Nationwide's Annapolis, Md., operation. Also at Nationwide, **Patrick L. Doyle** retired as a vp in the office of the chief executive officer in Co-

lumbus.

**Gene Ballard** rejoined The Home Holdings Inc. as vp and controller in New York.

**Bryan S. Reid III** joined Zurich-American Insurance Group as senior vp in the casualty department in New York.

**Timothy P. Mitchell** named senior vp and chief underwriting officer of Continental Corp. in New York. Also at Continental, **Margaret P. Berton** named vp-special operations group claims for Continental Insurance Co.; **Debra Speight** named vp-infrastructure management and service team support of Continental Insurance's information technology division; and **Chris DePuy** named vp in charge of lawyer and accountant professional liability programs for Continental Pro, a division of Continental Insurance.

**Joan D. Wilson** and **Ronald G. Thornton** named executive vps at Marine Office of America Corp. a

marine insurance unit of Continental Insurance.

**Cornelius E. Golding** named senior vp, chief financial officer and comptroller of the Atlantic Mutual Cos. in New York. Also at Atlantic Mutual, **Lawrence H. Boyd** named senior vp-investments and chief investment officer.

**Gayle Haskell**, chief actuary of The PW Group in Providence, R.I., has assumed the additional title of vp-systems.

**Manuel J. Becerra** named vp and national marketing manager, **S. Craig Lemasters** named vp and business board chairman, and **Howard J. Inclenrock** named vp and regional sales manager for American Bankers Insurance Co. of Florida and American Bankers Life Assurance Co. of Florida, both subsidiaries of American Bankers Insurance Group in Miami.

**Joel Seigle** named vp-life products marketing of Transamerica Occidental Life Insurance Co. and **Grace F. Carpenter** named vp-variable products for Transamerica Life Insurance & Annuity Co., two Los Angeles-based units of Transamerica Corp.

**Laura Bartlett** named vp-marketing for the San Francisco-based California Physicians' Insurance Corp., a unit of Blue Shield of California.

**Charles E. Hawkins** named vp-transition management and **Alberto J. Morales** named vp-human resources for Provident Life & Accident Insurance Co. of America in Chattanooga, Tenn.

**Ted M. Hutchison** named vice chairman of Principal Mutual Life Insurance Co. in Des Moines, Iowa.

**David O. Daniels** named senior vp in the property/casualty division of American Eagle Group Inc. in Dallas. Mr. Daniels succeeds **J.B. Perkins** who retired.

**Dina Kennedy** named vp of New York-based Enhance Financial Services Group Inc., where she works in the underwriting department of subsidiaries Enhance Reinsurance Co. and Asset Guaranty Insurance Co.

## Agents/brokers

**William Roberts** named senior vp of Hogg Robinson of California with responsibilities in developing new insurance products and services. Also in Los Angeles, **David D. Bartlett** named vp of Hogg Robinson of California with responsibilities in new client development and existing commercial account management.

**Gloria Forbes** named vp at Hogg Robinson of PA Inc. in Philadelphia.

**William F. Poland** named president and chief executive officer of Willis Corroon Corp.'s insurance operations in San Francisco and director of the Northern California region, which includes San Jose and Sacramento.

**Steven A. Odell** named senior vp of The Clair Odell Group, a Plymouth Meeting, Pa.-based broker.

**Barry Harper**, president of the Troy, Mich., office of Jardine Insurance Brokers Inc. will become chairman upon the naming of his successor by year-end.

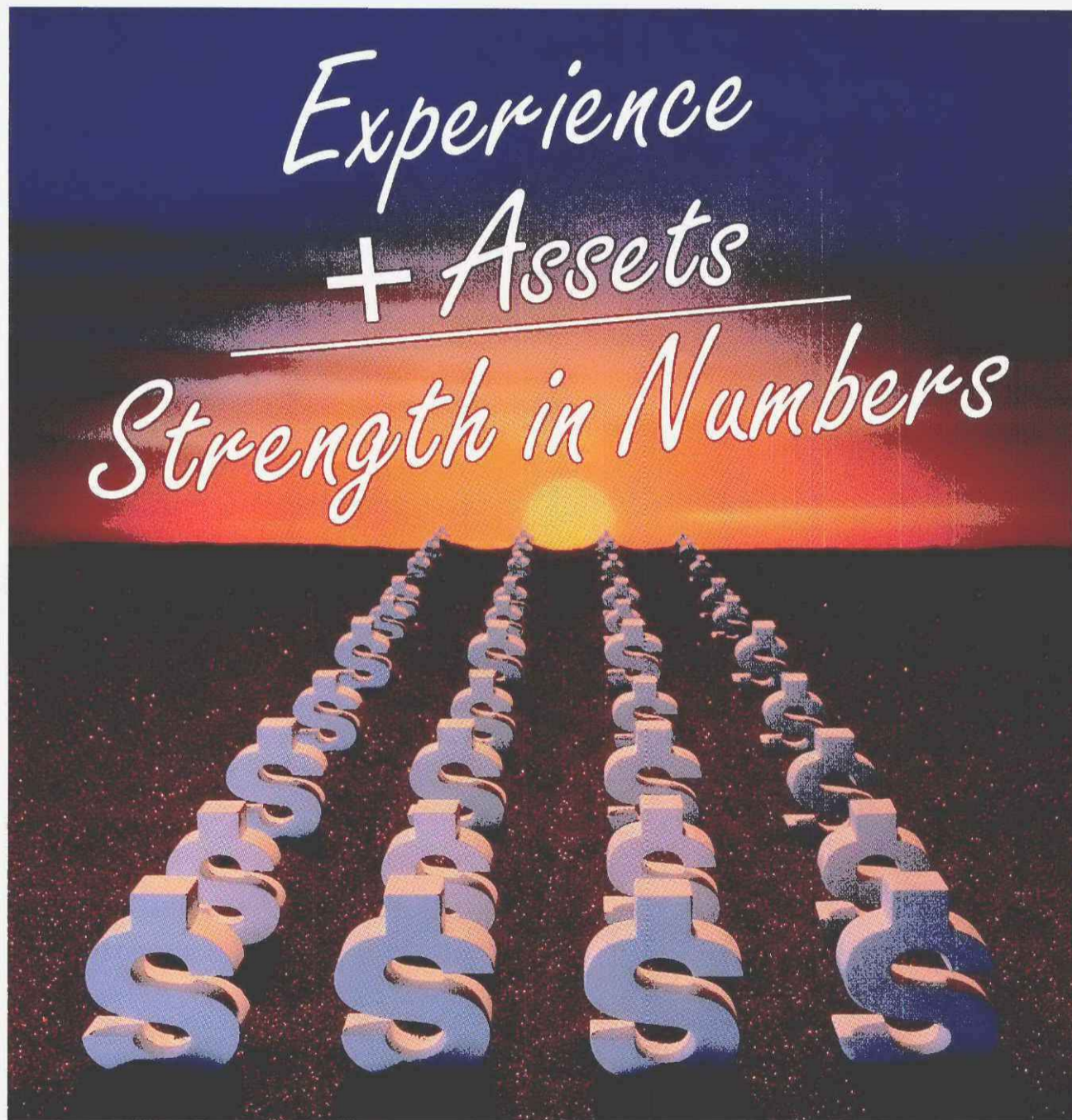
Also at Jardine, **Joyce Bautovich** named president of the broker's Sar Jose, Calif., office, succeeding **Rick Prentice** who left the company.

**William Gallagher** Associate: named **James P. Smith** senior vp in its Boston office and **Richard A. Leavitt** senior vp in the Columbia Md., office.

**Timothy Turner** named president of Chicago-based Crump Insurance Services of Illinois.

**Denis J. Loiseau** named vp-commercial risk management insurance programs and **Viesha I. Treadwe** named vp and producer in the Be

Continued on next page



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Continued from previous page  
mont, Calif., office of Alburger Basso deGrosz Insurance Services Inc.

**John R. Deal Jr.** named vp-financial services and employee benefits; **Gary E. Heaslip** named a vp, and **Ronald P. Joseph** named vp-risk management services and self-insurance programs at Starkweather & Shepley Inc., a Providence, R.I.-based agency.

## Reinsurance

**John D. Dunn Jr.** named senior vp and treaty department manager for SCOR Reinsurance Co. in New York.

**James Hazard** named vp for a newly formed business development division for St. Paul Re, the reinsurance operation of The St. Paul Cos. Inc. in New York.

**William P. Windhorst** named president of Paragon Reinsurance Risk Management Services Inc., a reinsurance brokerage subsidiary of E.W. Blanch Holdings Inc. in Minneapolis.

**Donna M. Peterson** named senior vp at JEH Re Corp. in Philadelphia.

## Other suppliers

**Andrew Power** named senior principal with responsibilities for the health care and insurance consulting practice of EDS Corp.'s management consulting services in Cambridge, Mass.

**Donald R. Fitch** named executive vp and chief financial officer of Consolidated Group, a Framingham, Mass.-based marketer and administrator of employee benefits plans. Also, **Arthur T. Schiltz** named executive vp and chief operating officer, and **Richard P. Gallagher** named vp-insurer relations.

**Patricia Blake** named executive director of Secure Horizons, Tufts Health Plan for Seniors in Waltham, Mass.

**Henry "Hank" A. Boyd** named president and chief operating officer of CMG Health, a managed behavioral health care firm in Owings Mills, Md. Also, **Keith Schafer** named vp-government program development for CMG.

**James Herrick** named vp-strategic contracting for PCS Health Systems Inc., the Scottsdale, Ariz.-based prescription benefit management subsidiary of McKesson Corp.

**John F. Walsh** named a vp of The Segal Co. in New York.

Also at Segal, **B. Victor Pfeiffer** named senior consultant-corporate benefits practice in Washington.

**Peter Strauss** named managing consultant-health care provider strategies at WF Corroon, the St. Louis-based benefit consulting arm of Willis Corroon Group P.L.C. Also, **James A. Clauss** and **Randall S. Moran** joined as senior benefits analysts; **Tammy L. Brown** joined as benefits analyst; and **John T. Vollmer** joined as employee benefit consultant.

**Joyce M. Lloyd** named vp-sales and marketing for WellPoint Pharmacy Management, the Woodland Hills, Calif.-based unit of WellPoint Health Networks Inc.

**G. Sue Dituri** named president and chief operating officer for Summit Perspectives, Risk Management & Insurance Services Inc., in Sacramento, Calif.

**Dr. Paul A. Bluestein** named senior vp and medical director of ConnectiCare Inc., a Farmington, Conn.-based managed care organization. Also, **Eric J. Kaplan** named vp-sales and account management.

**Dr. Richard Cornell** named vp-

medical affairs and chief medical officer of Blue Cross & Blue Shield of Massachusetts in Boston. Also, **Judith Hemming** named vp-government programs and **Mark Kelley** named vp-Eastern local division.

**Dr. Clyde A. Wright** named president and general manager for CIGNA HealthCare of Arizona in Phoenix.

**Stephen A. Noceti** named vp-government relations of Insurance Services Office Inc. in New York.

**Christopher Kane** joined the Atlanta office of A. Foster Higgins & Co. Inc. as a principal and leader of health care provider consulting in the Southeast region.

At Continental Risk Management Services in New York, **E. Randall Clouser** named president, **Douglas Witschen** named executive vp and chief underwriting officer and **Cindy Gates** named senior vp and sales director. **BI**

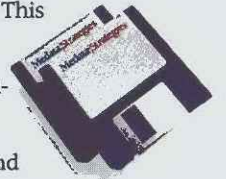
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# Campbell

Continued from page 3  
Tampa, Fla. (BI, Nov. 23, 1992).

The Newark indictment charged him with overvaluing an asset claimed by a now-defunct Anguilla insurer he controlled. Tampa prosecutors accused him of issuing 29 worthless checks drawn on a fraudulent bank he formed in Montserrat, British West Indies.

Mr. Campbell was sentenced to 71 months on the Florida charge and 60 months on the Newark charge, with the sentences to run concurrently. He was also ordered

to pay \$42 million in restitution and agreed to liquidate the Anguilla insurer and more than a dozen other offshore insurers responsible for millions of dollars of unpaid claims.

The latest charge, accusing Mr. Campbell of racketeering conspiracy, was filed by the U.S. Attorney in Philadelphia in May.

Prosecutors alleged Mr. Campbell took part in a scheme with Mr. Teale and his wife, Charlotte Rentz, to defraud World Life and group health policyholders using a network of brokerage, management and reinsurance companies.

Mr. Teale died in prison in April at age 64 while serving a 17-year

prison sentence stemming from separate fraud indictments in Mobile, Ala., and Philadelphia. The Philadelphia charges focused on the World Life collapse (BI, April 18; Dec. 6, 1993).

Ms. Rentz, indicted with her husband in both cities, is currently serving a 13-year prison term after pleading guilty with him last year.

Mr. Teale's operations—including his role in the World Life collapse—were also the subject of 1991 hearings by the Senate Permanent Subcommittee on Investigations (BI, July 1, 1991).

Philadelphia prosecutors charged that Mr. Campbell controlled two

of the 14 companies used in the conspiracy to defraud World Life:

- Cie. Internationale Financiere de Reassurance of Belgium, formerly Overseas Deposit Insurance Co. Ltd. of the Turks & Caicos Islands.

- Northern Commercial Fire & General Insurance Co. of the Turks & Caicos, formerly American Transportation Insurance Co.

The aim of the scheme was to have World Life act-as fronting insurer on blocks of group health business, ceding the risks to several fraudulent offshore reinsurers. The reinsurers were controlled by Mr. Campbell, Mr. Teale and Ms. Rentz,

as were various brokerage and management companies used to skim commissions and fees off the business, prosecutors have charged.

Among other things, prosecutors alleged that Mr. Campbell conspired with Mr. Teale, Ms. Rentz and others to:

- Form offshore shell companies to create the false impression that independent corporations were participating in the World Life reinsurance program, when in fact all the companies were controlled by the conspirators.

- Form a network of management and intermediary companies with multiple layers of corporate ownership to confuse regulators and justify multiple commission and fee payments from World Life premiums.

- Produce fraudulent financial statements for Financiere and Northern Commercial showing substantial assets, when in fact the reinsurers had virtually no assets.

- Fraudulently claim that Financiere and Northern Commercial had a \$2.5 million policyholder trust account at Cenwest National Bank in Johnstown, Pa., when in fact no such account existed (BI, May 6, 1991).

- Set up policyholder trust accounts for Financiere and other reinsurers at Mellon Bank in Delaware using virtually worthless over-the-counter stocks that the conspirators then reported at inflated values. The trust accounts were set up through World Re Inc., an Atlanta-based intermediary that Mr. Teale controlled.

- Deplete reinsurance claims accounts by paying multiple commissions and fees to themselves, letting millions of dollars of legitimate medical claims go unpaid.

Among those victimized were participants in CARE-USA Plan, a San Antonio-based MEWA insured by World Life and reinsured by Financiere and two other Teale-controlled offshore companies, prosecutors allege.

Between July and December 1990, CARE-USA paid about \$2 million in premiums directly to World Re, Mr. Teale's Atlanta-based intermediary. The reinsurers failed to pay about \$2.1 million in medical claims, though, and in December 1990 World Re unilaterally canceled the CARE-USA reinsurance program.

Meanwhile, another MEWA, International Forum of Florida Health Benefit Trust, bought "assessability reinsurance" through World Re to cover monetary assessments of participating employers in case of a shortfall in the MEWA's trust account.

World Re placed IFFHBT's reinsurance with Northern Commercial and two other Teale-controlled companies, and the MEWA paid \$75,000 in premiums for \$1 million in assessability coverage.

In April 1990, the Florida Insurance Department, which had taken control of IFFHBT, demanded a \$750,000 payment from World Re under the terms of the reinsurance contract. Three months later, however, World Re denied the claim and unilaterally canceled the IFFHBT contract, prosecutors allege.

Four principals of IFFHBT were themselves sentenced to prison last year after pleading guilty in federal court in Orlando to various charges stemming from the MEWA's collapse (BI, June 28, 1993; May 1, 1993).

In civil litigation, Florida regulators had also charged that Mr. Teale not only wrote worthless reinsurance for IFFHBT but also provided the MEWA with bogus securities it reported as assets to stay off an insurance department take over. ■



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# Burden of QDROs can be lifted: Study

By CHRISTINE WOOLSEY

Dealing with qualified domestic relations orders is unduly burdensome for most pension plan administrators, a survey says.

But, there are a variety of ways to make the QDRO process less problematic, according to a group of 219 U.S. corporate employee benefit professionals surveyed by Brookfield, Wis.-based International Foundation of Employee Benefit Plans.

QDROs were created by the Retirement Equity Act of 1984, which amended ERISA and the Internal Revenue Code. The amendments carved out an exception to the provisions prohibiting the assignment and alienation of plan benefits. Under the authority of a QDRO, retirement benefits may be distributed to individuals other than participants to fulfill spouse or child support obligations and divorce settlements.

Of the 219 employee benefit professionals responding to the IFEBP's first Corporate Research Panel survey of 1994, 60% described their QDRO responsibilities as somewhat burdensome. Those responsibilities typically include: notifying the appropriate individuals upon receipt of domestic relations orders, segregating amounts payable under DROs, determining whether DROs are qualified and distributing benefits pursuant to QDROs.

To be qualified, DROs must specify, among other things: the name and address of the benefit plan participant and those of the alternate payee or payees; the amount of benefits to be paid; and the manner in which benefits will be paid, in accordance with the benefit plan's terms.

The QDRO responsibility that most respondents—59%—found problematic is communicating QDRO requirements to attorneys.

Forty-two percent indicated problems in determining whether DROs are qualified, the survey found.

In fact, 26% of respondents reported that the vast majority of domestic relations orders fail to qualify on first submission.

And, 41% of respondents said it is difficult to communicate QDRO procedures to participants and potential alternate payees. And, 28% reported difficulty in administering distributions in accordance with the QDROs.

The percentages add up to more than 100% because respondents identified more than one problem in administering QDROs.

The respondents agreed on several techniques to improve the handling of QDROs in their organizations. Among them:

- Establish checklists and guidelines for handling DROs and/or determining if they are qualified.
- Communicate with attorneys before writing a DRO and provide them a checklist or model QDRO.
- Outsource QDRO tasks.

Few retirement plans charge individual participants and/or alternate payees a fee for processing QDROs, the survey found. But, of the five plans that do charge a processing fee, two only charge a fee to alternate payees, while the remaining three charge both participants and the alternate payees the fee.

Most organizations—65%—with defined contribution plans provide alternate payees under QDROs the same rights to direct investments as plan participants, the survey found.

The IFEBP also asked respondents about qualified medical child support orders, which were created by the Omnibus Budget Reconciliation Act of 1993. A QMCSO is a court or-

der for a group health care plan to provide benefits to a child of a participant, even though the child may not otherwise be eligible for benefits.

Most plan administrators are aware of the QMCSO provision in OBRA 1993, but only 15% reported receiving one since Aug. 10, 1993, the required date of compliance, the survey found.

For free copies of the survey, "Qualified Domestic Relations Orders and Qualified Medical Child Support Orders," contact the public relations department of the International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710, ext. 219.

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# Outlook

Continued from page 1

as the Bermuda facilities entered the property catastrophe market flush with \$4 billion in new capital and as more Lloyd's of London syndicates were shut down (BI, Sept. 20, 1993).

Following last year's Rendez-Vous, ceding companies were more willing to pay high prices for property catastrophe reinsurance coverage and go to the market early for fear that capacity would not be

available at year-end. They discovered, however, that the coverage was easier to place than they imagined.

This year, there generally is more than enough property catastrophe reinsurance capacity to go around; the Bermuda market is up and running and willing to sell, and Lloyd's hasn't gone under.

Reinsurer executives during the Rendez-Vous were adamant that they are not going to lower property catastrophe reinsurance prices. But nearly everyone agreed that negotia-

tions will be difficult in the coming months, as cedants look to reduce their catastrophe reinsurance prices.

"I think it's been a remarkably calm Monte Carlo," summed up Ronald Iles, chairman of Alexander & (U.K.) Ltd. "I think the renewal season probably will be late because I guess there is certainly an expectation on the buyers' part for a smoother ride. They're looking for some rate reductions and they might wait until the last minute to get the best rates."

Many ceding companies have paid

reinsurers back for the major catastrophe losses in the late 1980s and early 1990s, so they will be looking for better terms from their reinsurers, said Mr. Iles.

In addition, ceding companies in Japan during April 1 renewals and in Australia during July 1 renewals already have seen rate reductions of between 7% and 15%, so European and American ceding companies will be looking for similar reductions at year-end, noted Mr. Iles.

Year-end renewals "will be easier than last year. But how much is too

early to say," said Benito Pagnanelli, deputy general manager of Assicurazioni Generali S.p.A. in Trieste, Italy. "There's been more enthusiasm from Bermuda... I think new competition will start."

Mr. Pagnanelli echoed what other Rendez-Vous participants said: catastrophe excess-of-loss reinsurance rates will decrease by about 10% to 15%.

"People say that it's fear and greed that drive the market and there is no fear anymore. There is only greed," said John R. Berger, executive vp of F&G Re Inc. in Morristown, N.J.

Two years of large premium increases due to higher catastrophe reinsurance rates have left buyers determined to pay less at this year-end renewal season, Mr. Berger said. "Their mentality is that there have been two years where we have paid through the nose and now it's our turn."

Especially outside the United States, cedants believe that they are due a reduction in rates because they've paid losses back, agreed James N. Stanard, chairman, president and chief executive officer of Renaissance Reinsurance Ltd. in Bermuda.

But, he added, while the general mood among reinsurers is that they'll face pressure to lower non-U.S. catastrophe prices, actual contracts are holding up.

"The general feeling is that it will be back to the old days of cutting prices to retain market share," said Ajit Jain, president of Berkshire Hathaway Inc.'s reinsurance division in Stamford, Conn.

Ceding companies last year paid "hard market prices" that were dictated in October 1993, when capacity was short, noted Tom Carpenter, chairman of London broker E.W. Payne Ltd., the reinsurance subsidiary of Sedgwick Group P.L.C. But this coming renewal season, rates will be under pressure.

However, there still isn't enough capacity to supply U.S. ceding companies with high levels of catastrophe reinsurance cover, so the ceding companies do not buy it, Mr. Carpenter said. Rates, therefore, may remain stable in the U.S. market next year. "I see no reason for the major reinsurers to reduce the price," he added. But everywhere else in the world cat rates probably will decline.

What could change this scenario is the effect that interest rate rises could have on insurance and reinsurance companies' bond portfolios, according to Mr. Carpenter. An increase in interest rates could have a larger effect than Hurricane Andrew, he noted, explaining that reinsurers are heavily invested in government bonds. Rising interest rates are decreasing the market value of those fixed-rate investments.

Though major continental European reinsurers recognize the possibility of rate reductions, they say they will try to resist this pressure.

"I personally believe we will have no softening," said Fedor Nierhaus, member of the board of management of Munich Reinsurance Co. during a phone interview following the Rendez-Vous. There has been a hardening of the market in many fields, "but it is not sufficient yet. In some areas it may be justified to reduce rates. But in most areas the reinsurers would be justified in increasing prices and improving conditions."

Price reductions should only be considered where ceding companies have paid back the losses from the past, said Mr. Nierhaus. "Prices in the catastrophe field must be main

Continued on next page

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Continued from previous page  
tained. There is no reason for a price reduction," he said. Although there are people who are trying to talk the prices down, "reinsurers are not necessarily among them."

"We are not discussing catastrophe for the time being because we have absolutely no reason to lower the cat rates," said Walter B. Kielholz, member of the executive board of Swiss Reinsurance Co. in Zurich. "Discussions about lowering property cat rates are premature."

"We are not looking to reduce prices. If prices reduce, we will reduce the amount of capacity that we have," said Dirk Lohmann, deputy member of the board of management of Hannover Re/Eisen & Stahl Re Group in Hannover, Germany.

"We'll try to communicate to people that we see that there is this pressure after one or two years of good results to see an improvement in reinsurance terms...but we need a fair return (on our capital)," he said.

Reinsurer results over the past 10 years show that the industry is still in deficit, added Michael Reischel, chairman of the executive board of Hannover Re/Eisen & Stahl.

Reinsurers will not be cutting rates severely at year-end renewals, predicted Michael A. Butt, president and CEO of Mid Ocean Reinsurance Co. Ltd. in Bermuda.

"Nobody admits to doing it and while the brokers are talking about decreasing rates I don't feel strong pressure," he said. "From the buyers end, we are hearing, 'Can we have a rational response?' but we are not feeling heavy pressure."

Any decrease in rates for catastrophe coverages should be contained at between 5% to 10%, Mr. Butt added.

The balance between rate reductions and rate stability remains sensitive, agreed Robert F. O'Leary, president and chief operating officer of reinsurance intermediary Willcox Inc. in New York.

"If there's not a major catastrophe until the end of the year, and ceding companies have not presented a major (Northridge) earthquake loss to reinsurers, and they can provide up to date information and modelling to show control of their quake and wind exposures, there will be pressure put on intermediaries to obtain some reasonable concessions from the market," Mr. O'Leary said.

Rendez-Vous participants speculated that competition may return to the catastrophe reinsurance market because London does not want to lose business to the new Bermudan facilities and vice versa. At the same time, more U.S. reinsurers are also willing to lead business, observers say.

If the traditional lead underwriters in London are not prepared to reduce rates for good risks, reinsurance brokers will go elsewhere, said Mr. O'Leary.

"If London is not prepared to be realistic then we would hope that the U.S., Bermuda and the rest of the world will provide reasonable quotations," he said.

More U.S. reinsurers are prepared to lead programs, noted Thomas C. Wafer, senior vp at Willcox. "There's a real quoting market in the United States now."

However, large risks still have to be supported by capacity from London and Bermuda, Mr. O'Leary added. "We've had examples of getting lower quotes from U.S. companies and then not having the capacity to complete without London or Bermuda; once you get past \$80 million you have to go to London or Bermuda."

The Bermuda catastrophe reinsur-

ers set up over the past two years are now prepared to lead risks rather than always follow London leads.

Until now, only Mid-Ocean Re, which was the first of the new Bermuda catastrophe reinsurers, and Partner Reinsurance Co. Ltd. have been prepared to quote leads.

But the capacity available for catastrophe risks varies by territory, with the most demand coming from national accounts in the United States.

Most Bermuda reinsurers say they have no more capacity available for U.S. business that includes earthquake or windstorm exposures.

"I'm sold out in the U.S.," said Donald Kramer, chairman of Tempest Re Ltd. in Bermuda. "Demand from the U.S. was driven by shareholder value issues more than tradi-

tional insurance to risk issues."

International Property Catastrophe Reinsurance Co. Ltd. is also at capacity for U.S. national account business, said James Bryce, senior vp-underwriting at IPC.

"We ran out of capacity to write national account business in the U.S. in June," he said.

That lack of capacity will ensure that rates will stay firm for that business, Mr. Bryce said. In particular, companies that suffered large losses from the Northridge earthquake in January will not receive any rate cuts.

Although the Northridge earthquake is likely to register as the second-largest catastrophe loss ever for the insurance industry, after Hurricane Andrew, most of the loss was borne by insurers.

However, the quake, which is pro-

jected to cost the insurance industry over \$7.2 billion, meant some clients bought "a lot more coverage" earlier in the year, Mr. Bryce said.

Elsewhere in the world there is a perception that there is more supply than demand for catastrophe capacity, said John P. Dowling, president and CEO of IPC.

"But you have to question whether people buy what they need...In some territories, people are running a large amount of risk," he said.

Despite the new Bermuda facilities, total worldwide catastrophe capacity is still significantly lower than it was a few years ago, Mr. Dowling said.

"About \$10 billion left the market and there has been a resurgence of around \$5 billion to \$6 billion, so there is still a lot less than there was

in 1987," Mr. Dowling said.

Meanwhile, non-catastrophe property/casualty coverages in the United States will remain depressed during year-end renewals, Rendez-Vous participants speculated.

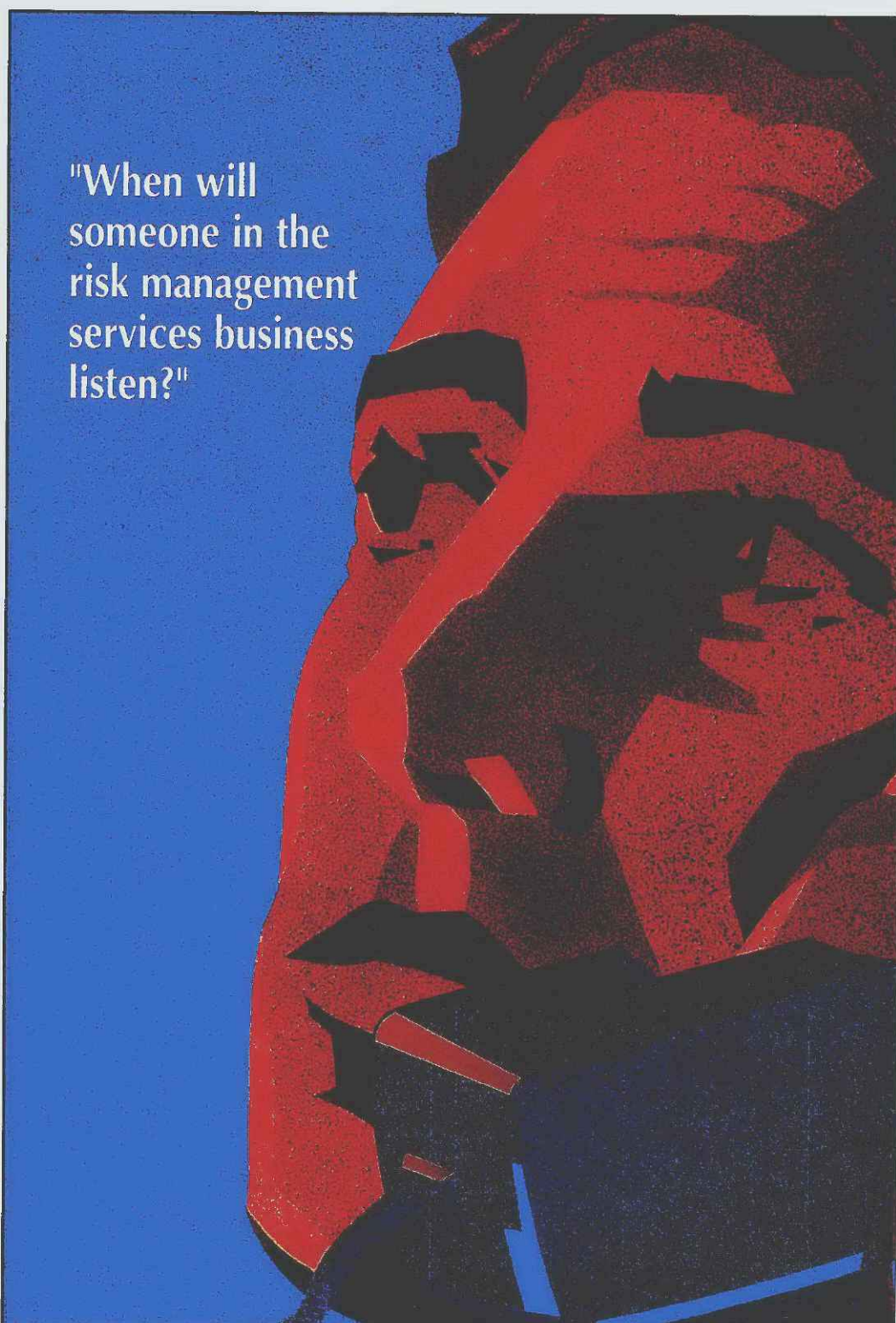
Non-catastrophe rates in the United States are still very poor, said Jacques Blondeau, chairman and CEO of SCOR S.A. in Paris.

In particular, casualty rates are at the same levels as 1983, he said.

And there is no sign that casualty rates will increase, said Frederick Kist, managing partner at Coopers & Lybrand's casualty actuarial and risk management consulting practice in Atlanta.

Although investment returns are down, they are still large enough for insurance and reinsurance executives to obtain adequate returns on

Continued on page 64



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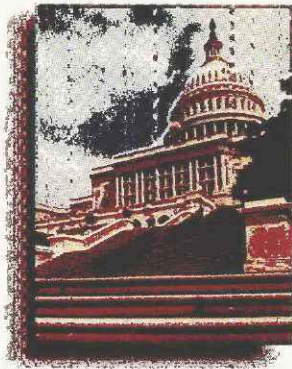
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- EARLY REGISTRATION & WELCOME RECEPTION

### THURSDAY, OCTOBER 20, 1994

- Registration & Continental Breakfast
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- DISABILITY MANAGEMENT
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  - ▶ THE TRUTH AND CONSEQUENCES OF COMBATTING FRAUD
- FINANCING ALTERNATIVES FOR WORKERS COMPENSATION: HOW TO EVALUATE AND DECIDE WHICH FINANCING METHOD IS RIGHT FOR YOUR COMPANY
- Reception

### FRIDAY, OCTOBER 21, 1994

- Continental Breakfast
- DEALING WITH CONTESTED CLAIMS
- CUMULATIVE TRAUMA DISORDERS: CONTROLLING THE WORKERS COMPENSATION MONSTER
- ESTABLISHING AND MANAGING THE CLAIMS AUDIT PROCESS
- LUNCHEON SPEAKER – DOUGLAS MCCOY RESIDENT VICE PRESIDENT, COMMERCIAL LINES, THE TRAVELERS CORPORATION
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- Closing Reception

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**Rendez-Vous  
de Septembre**

# Outlook

Continued from page 61  
casualty business without increasing rates, Mr. Kist said.

Any change is still some way off as there is not enough pressure on rates for a marketwide hardening, he said.

"In our view, casualty rates are at an unattractive level," said Mr. Kielholz of Swiss Re, adding that his firm will not actively write U.S. casualty business.

At the same time, casualty rates are unlikely to go any lower at renewals, said Mr. O'Leary of Willcox. "There is no real downward pressure on casualty business but it is still very competitive so there is no upwards pressure either," according to Mr. O'Leary.

For property pro rata reinsurance coverage in the United States, though, there could be some downward pressure on rates, said Mr. O'Leary.

"There could be some pressure on the margins where the business has been profitable," he said.

But overall, the property market will be largely stable, he added.

Only in continental Europe might prices rise and conditions tighten for certain property and liability coverages, according to Rendez-Vous participants.

"The major problem we have in Europe is the industrial proportional fire business," said Mr. Kielholz of Swiss Re.

Though there is enough catastrophe capacity to satisfy demand in Europe and Japan, proportional treaty business in some areas of Europe is still underpriced due to insufficient primary rates, said Herve Cachin, president and director general of Societe Anonyme Francaise de Reassurances in Paris.

"The price of commercial lines business in France still needs to go up 15%," he said.

Property rates have increased in Britain and Germany, but reinsurers are still suffering hard times financially, Mr. Cachin said. "Most professional reinsurers have improved results but our profitability is still not what it should be."

The rate of return on equity for SAFR in 1993 was 7.5%, Mr. Cachin

said.

"That is only marginally higher than the rates on the bond market so we still need to improve our profitability," he said.

But pressure to increase rates for proportional treaties may be stifled by the feeling of some cedants that they paid too much for their catastrophe coverages last year, Mr. Cachin acknowledged.

"Companies accepted rate increases in November and at the end of December they discovered that their treaties were over placed and in June they told their brokers that they had not done a good job," he said.

But European cedants should still expect to pay higher proportional treaty rates, said Mr. Blondeau of SCOR. "What has been done is not enough."

Large industrial risks in Europe should still expect a 15% to 20% increase in rates, he said.

But it is not just previously poor rating in Europe that will affect reinsurers, Mr. Blondeau said. The increase in insured values due to technological developments and the end of the recession in Europe will increase demand for insurance and reinsurance, he said.

"Loss ratios have been quite good in 1993 and 1994, but we expect loss ratios to increase because of the increased economic activity," Mr. Blondeau said.

Reinsurers need limitations on proportional property reinsurance treaties, particularly for earthquake and windstorm coverages, added Mr. Nierhaus of Munich Re.

Property insurance rates will continue to go up in France, where rates have risen more slowly than in other parts of the world, added Patrick Lucas, chairman of Paris-based broker Gras Savoye S.A. Some underwriters would like to see rate increases of up to 15%, but Mr. Lucas doubts those kind of increases will be possible.

Another development in Europe is a crack-down on unlimited liability coverages. This includes employers liability, professional liability, third-party auto and, in France, some general liability coverages.

Reinsurers haven't offered unlimited liability coverages in the United States for many years.

"In certain cases we are taking a very serious view that we are no longer writing unlimited cover," said Mr. Kielholz of Swiss Re.

Some countries, though, require by law that motorists buy unlimited third-party auto liability insurance and this will take time to change, he added.

In the United Kingdom, Swiss Re will not write any unlimited employers liability coverages. And, as of Jan. 1, the reinsurer will no longer offer unlimited liability protection in France for industrial and professional liability risks.

"Reinsurers want to discontinue (unlimited liability covers), which is absolutely right," added Mr. Nierhaus of Munich Re.

Meanwhile, Michael R. Pinter, chairman and CEO of Kemper Reinsurance Co. in Long Grove, Ill., said there are some changes in the way that reinsurers are dealing with their clients.

"We are seeing a change for the better in the way that reinsurers interact with clients," he said.

Reinsurers are now more willing to work with their clients directly on loss prevention and other risk management issues for their policyholders, Mr. Pinter said.

"It is becoming a much more service-related business and clients are looking for added values," Mr. Pinter said. **BI**

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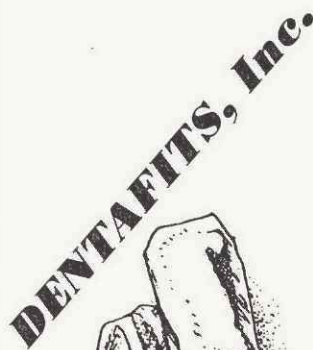
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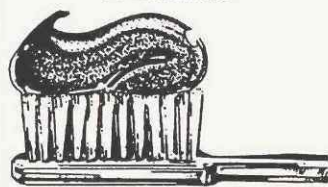


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# Rendez-Vous attracting more vendors

By STACY SHAPIRO

MONTE CARLO, Monaco—Though the empty restaurants didn't show it, the official attendance of the 38th Rendez-Vous de Septembre was up this year.

The attendance was "very satisfactory," with 2,068 people from 995 different companies in 80 countries registering with the official organizers, noted Antoine Jeancourt-Galigan, president of the Rendez-Vous de Septembre organizing committee.

This was up a fraction from 2,040 last year (BI, Sept. 20, 1993).

And the official list of participants—given to every registrant to help them organize meetings—also grew to 107 pages from 97 pages a year ago.

The growth is not necessarily a sign of an improved reinsurance market, however.

What is increasing is the number of "professionals" attending the conference, namely lawyers, consultants, bankers, accountants and insurance runoff administrators, according to Mr. Jeancourt.

One British reinsurer who did not attend the Rendez-Vous this year noted that the meeting is in danger of becoming the "reinsurance advisers" gathering rather than an annual meeting place for reinsurance underwriters and brokers.

Some reinsurers this year remembered the days when the Rendez-Vous began and underwriters came armed with statistics and sat down to underwrite year-end renewals at the tables of the Cafe de Paris or the lobby of the Hotel de Paris.

But others remember those days with fear. One former Lloyd's underwriter said that it used to be a rule in the market not to write any business the week after the Rendez-Vous in case coverages that could not be placed had been written at the meeting.

Many continental Europeans believe that the reinsurance gathering in Baden-Baden, Germany, at the end of October is more worthwhile from an underwriting perspective.

More business is done in Baden-Baden because reinsurers' nine-month figures are out, which gives them a better idea of what their 1994 results will be, said Michael Reischel, chairman of the executive board of Hannover Re/Eisen & Stahl Re Group in Hannover, Germany. "Then you have a better picture of what's going on and the hurricane season is over, so (the situation) is more stable in a way."

But Mr. Reischel comes to Monte Carlo to meet clients and get an idea of the trends in the market that will affect year-end renewals.

Many people still value their week in the dog days of summer in Monte Carlo, however, to gather information that will be valuable during the year-end renewal season.

It was Mr. Jeancourt's first time at the Rendez-Vous. "I was struck by the dynamism of this meeting," he said. "The vitality of the conference is unequalled anywhere."

Mr. Jeancourt became president of the Rendez-Vous organizing committee when he took over as chairman and chief executive officer of Assurances Generales de France in February (see story, page 71). The chairman of AGF has traditionally been the president of the Rendez-Vous committee since the meeting began in 1957.

Twelve countries are represented on the Rendez-Vous organizing committee by senior executives of the world's largest insurers and reinsurers, including Cologne Reinsurance Co.; Assicurazioni Generali S.p.A.; CIGNA Reinsurance Co.; The Mercantile & General Reinsurance Co. P.L.C.; Swiss Reinsurance Co.; and Skandia International Insurance Corp.

This year, the organizing committee published reams of information in French and English to give the insurance media some idea about the state of the world's insurance and reinsurance market.

For example, the committee's data noted that insured damages in 1993 totaled \$11.3 billion, compared with insured damages of \$26.4 billion in

1992, when Hurricane Andrew struck, among other events.

There were 340 catastrophic events in 1993, despite being a profitable year for many reinsurers. None of these disasters were considered a "major natural disaster or man-made catastrophe" and the total insured catastrophe loss only amounted to \$6.9 billion, the committee noted.

None of them, in fact, compared with Hurricane Andrew, which in 1992 cost underwriters \$16.2 billion, bringing 1992 total catastrophe losses to \$18.2 billion, according to the committee.

The United States had the most insured catastrophic damage in 1993, totaling nearly \$7 billion—60% of the worldwide total. Europe's catastrophe losses cost \$2.6 billion, or 22% of the world total; while Asia had 15%, or \$1.7 billion.

So far in 1994, major catastrophe claims include the January earthquake near Los Angeles, for which insured loss estimates now stand at \$7.2 billion; an Arctic freeze in the United States costing \$1.7 billion;

and Typhoon Yancy in Japan earlier this month costing \$896 million.

In addition to catastrophe losses, 1993 losses tracked by the committee included:

- 30 air disasters costing more than \$920 million, compared with 32 air crashes in 1992 costing \$604 million.

- 37 marine disasters, compared with 29 in 1992. No insured loss estimate was given.

- 39 industrial losses costing \$1.6 billion, compared with 37 events in 1992 costing \$1.3 billion.

- \$302 million from two rail disasters, namely the derailing of the Amtrak-Sunset Ltd. Express; and the collision between a subway and a crowded passenger train in Singapore. No comparable 1992 train accidents were cited.

In addition to disseminating information about 1993 catastrophe losses, the Rendez-Vous organizers also provided details about the French insurance market.

French insurers' worldwide premium income rose 18.4% to 820 billion French francs (\$145.14 billion)

in 1993, from 692 billion French francs (\$130.79 billion) in 1992, according to figures provided by the Federation Francaise des Societes d'Assurances. Of this, about 4% is derived from reinsurance business. Reinsurance premium income rose 13% to 33.8 billion French francs (\$5.98 billion) last year from 29.9 billion French francs (\$5.65 billion) in 1992.

The largest reinsurer in the French market is SCOR S.A., with net premiums last year totaling 9.8 billion French francs (\$1.73 billion), according to information from Syndicat des Compagnies Francaises de Reassurances.

AXA Reassurance S.A. is the second largest, with net premiums totaling 5.7 billion French francs (\$1.01 billion).

Next year the Rendez-Vous de Septembre will be held in the week beginning Sept. 4, said Mr. Jeancourt. The topic for the half-day conference, which this year was re-insurer security, will be "environmental protection: the cost of it and who will pay," he said. **BI**

## Bermuda reinsurers assert their place in world market

By GAVIN SOUTER

MONTE CARLO, Monaco—Bermuda catastrophe reinsurers were out in force at this year's Rendez-Vous de Septembre—and plan to keep coming back.

Despite continued skepticism among some London and continental European reinsurers, the Bermuda reinsurance market is now a permanent fixture in the reinsurance world, Bermuda executives say.

And many of the new companies are taking a more aggressive stance as they negotiate their first renewals. Instead of simply following London leaders, several new Bermuda companies are now prepared to take leads on catastrophe reinsurance programs.

In several cases, the Bermuda companies are undercutting London firms to win the business, some observers say.

That renewal business will keep the Bermuda catastrophe reinsurers firmly in the black and able to pro-

vide profits for their shareholders, they say.

But just how long they will be able to keep up the returns on equity by writing little more than catastrophe business is still a source of speculation.

Bermuda is now an established reinsurance market, said James N. Stanard, chairman, president and chief executive officer of Renaissance Reinsurance Ltd.

"Bermuda is now a real market and there is little skepticism about that, apart from in a few closets in London," he said.

Most buyers now acknowledge that Bermuda is a secure market and they are placing business there to access the nearly \$4 billion in capital that the market has attracted, Mr. Stanard said. Ceding companies also are placing business in Bermuda to diversify their reinsurance markets and obtain coverage from a financially secure market, he added.

"Companies are saying, 'Why do I

*Continued on next page*

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# Bermuda

*Continued from previous page*  
have some companies reinsuring me who I have barely heard of?" They want to consolidate their coverages with well-capitalized companies," Mr. Stanard said.

"I'm personally very happy with the Bermudian companies because they provide the capacity that reinsurers need to fulfill their services," said Walter B. Kielholz, a member of the management board of Swiss Reinsurance Co. in Zurich, Switzerland and a director of Bermuda catastrophe reinsurer Partner Reinsurance Co. Ltd.

"As long as this is governed by financial disciplines, I don't mind (the new Bermuda reinsurers) at all. I hate the fly-by-nights that come in and try to make a big dollar premium."

"The Bermudian market has really been very successful in capturing something like 20% of the available worldwide catastrophe premium income. For a new market that is really quite something," noted Victor Blake, chairman and chief executive officer of CNA International Reinsurance Co. Ltd. in London.

CNA Re is one of the shareholders of LaSalle Re Ltd. in Bermuda, which began writing business in

December and has capital of \$350 million. LaSalle Re will write about \$140 million in premiums in 1994, its first full year, and next year will probably write about \$180 million, said Mr. Blake.

Like other Bermuda reinsurers—such as International Property Catastrophe Reinsurance Co. Ltd. and Mid Ocean Reinsurance Co. Ltd.—LaSalle Re has an office in London.

People at the Rendez-Vous wondered whether the Bermuda market is now a competitor of the London market, "but everyone is a competitor of everyone else," said Mr. Blake, also chairman of the London Underwriting Centre.

Besides, he said, after Hurricane Andrew it was clear there wasn't enough reinsurance capacity to cover a major catastrophe.

Despite Bermuda's success in attracting business, especially from the U.S. market, there is still some suspicion about the long-term commitment of the new Bermuda reinsurers, said Herbert N. Haag, president and CEO of Partner Re.

"Some people don't seem to know enough about Bermuda but feel that they have to say something negative about Bermuda," he said.

For example, one rumor circulating in Monte Carlo was that Partner Re had taken over the lead of

the reinsurance program for Direct Line Insurance Co., a British auto insurer, by undercutting the former London lead by one-third.

Partner Re did quote for the business, but cheaper quotes were

ffered in London and other markets.

But on most risks, Partner Re quotes were more expensive rates than those offered in London, he said.

The business being conducted in



Photo by Kathryn J. McIntyre

**Representatives from Bermuda were not in short supply at the Rendez-Vous.**

obtained from other reinsurers, Mr. Haag said. "We were not chosen as the lead," he said.

He acknowledged that Partner Re, which writes some business on a direct basis, has offered coverages at lower rates than those of-

Bermuda is long-term in nature so the market will be a long-term market, observed John P. Dowling, president and CEO of IPC Re.

"People think that it is all short-term business but it isn't. The average period to settle a catastrophe claim is four to five years," he said.

IPC Re set up in June last year. Of its 150 customers, only one has not renewed in 1994, and that was because it no longer needed the coverage, said Mr. Dowling.

Doubts about the long-term prospects of Bermuda will likely continue, said Michael A. Butt, chairman and CEO of Mid Ocean.

The refusal of rating agencies like Standard & Poor's Corp. to evaluate the claims-paying ability of the Bermuda companies hampers their reputation, Mr. Butt said.

Robert J. Mebus, managing director of S&P's Insurance Rating Group in New York, said the Bermuda companies are not rated because they are writing high-risk business and have only a short track record.

Although several of the companies are sponsored by well-established and strong companies, the Bermuda facilities have distanced themselves from those backers, Mr. Mebus said.

S&P currently is trying to establish some methodology that would enable it to offer an opinion on the Bermuda companies, he said.

Recent proposals to overhaul Bermuda's insurance regulations should help bolster the reputation of the catastrophe reinsurance market there, said Mid Ocean's Mr. Butt.

Under the proposed regulations, which are expected to be adopted by the Parliament, new capital and surplus requirements have been imposed on Bermuda insurers and reinsurers, as well as restrictions on excessive distributions or reductions in capital and surplus (*BI*, Sept. 5).

The new laws should help curb fears about the mobility of the capital in Bermuda, Mr. Butt said.

Mid Ocean, like Partner Re, has offered lead catastrophe programs since it was established in 1992.

Mid Ocean last week announced net income of \$50.3 million for the nine-months ending July 31, up 13% from \$44.5 million for the year-earlier period.

Several more Bermuda companies that previously only followed London leads are now offering lead quotes for renewal business.

For example, Tempest Reinsurance Co. Ltd. is quoting leads, said Chairman Donald Kramer.

However, Tempest Re will likely only lead one in 10 of the programs it quotes, said Mr. Kramer, noting that it remains primarily part of the following market.

Renaissance Re also is now prepared to offer lead lines, said Mr. Stanard. "We will selectively lead certain U.S. programs because we are so model-driven," he said.

Renaissance Re relies heavily on underwriting models that predict the effect a catastrophe would have on insurers for a given area, Mr. Stanard explained. "The thing that has really changed in the market is the improvement in the models... and that was driven by Hurricane Andrew, when the primary companies realized that they did not know what their exposures were."

The extensive use of models is a marked difference between the Bermuda market and previous catastrophe reinsurance markets, agreed Frederick Kist, managing partner at Coopers & Lybrand's casualty actuarial and risk management consulting services in Atlanta.

Renaissance Re, like other Bermuda reinsurers, is considering using some of its capital to underwrite risks other than property catastrophe exposures, Mr. Stanard said.

But as yet there is no pressure to generate a greater return on equity by pursuing new lines of business, Mr. Stanard added.

Renaissance Re posted net income of \$39.5 million for the first six months of the year, he said. Shareholders equity as of June 30 was \$310.2 million.

However, concerns over the long-term profitability of the Bermuda market was one of the reasons why SCOR S.A. abandoned its plans to develop Compass Reinsurance Ltd. as a catastrophe reinsurer in Bermuda last year.

"I don't think that (the property catastrophe reinsurers) will be as profitable as they planned to be. They are not writing the amount of business that they hoped to," said Jacques Blondeau, chairman and CEO of Paris-based SCOR.

SCOR pulled its plans to launch Compass Re when it became clear that there would be enough capacity in Bermuda for its large clients to access without SCOR having to enter that market, he said.

The Bermuda companies will eventually need to write more business to provide the returns that they have promised investors agreed Jean-Pierre Fillebeen, vice chairman and CEO of SAFR Reinsurance Corp. in New York.

However, they are restricted in what they can write due to the limited underwriting expertise they have available, he added.

Bermuda may compete for business, "but it must make a return on its capital to shareholders," warned Mr. Kielholz of Swiss Re, one of Partner Re's shareholders. To satisfy shareholders, a company can either lower its standards or can buy back some of its share which would reduce its capital base, he said.

But a strong capital base must be maintained by the Bermuda catastrophe reinsurers to write the high-risk line, he noted. Partner Re capital is three times its premium.

"You have to survive a major event and you might have a severe event," he said. "So you have to have a strong capital base."

Stacy Shapiro contributed to this report.

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# Panel eyes efforts to improve finances

By GAVIN SOUTER

MONTE CARLO, Monaco—Until insurers and reinsurers can re-establish their security credentials by more carefully assessing risks, policyholders will need to more carefully assess insurers, experts say.

Poor profitability in the past and the unknown effect of future regulatory and natural events dampen any

hope of an overall improvement in the claims-paying ability ratings of underwriters, said Robert J. Mebus, managing director of insurance ratings services at Standard & Poor's Rating Group in New York.

"The insurance industry has been living off its capital for too long. Profitability has not carried its fair share of the load," said Mr. Mebus at a panel discussion at the Ren-

dez-Vous de Septembre.

Although insurers and reinsurers are now focusing more on the bottom line, and taking steps, such as obtaining better risk information, to improve their results, other factors still hamper their efforts.

"In the United States, we continue to see ratings slip lower for the primary companies, plagued by poor profitability and reserve inade-

quacy," Mr. Mebus said.

Around the world few markets are seeing lasting improvements in profitability.

In Britain, the market is stable but softening in some areas; in continental Europe and Japan, the markets are stable but have already seen several rating downgrades; the end of the improving Australian market is probably in sight; and

though the Scandinavian market looks stable it has suffered a rough few years, he said.

In the future, said Mr. Mebus, the financial results of insurers and reinsurers could be held back by three main factors: changes in the Superfund law (see story, page 1); increased frequency of catastrophe losses; and the quality of reinsurance recoverables.

"Adding it all together, one sure fact is that rating upgrades are likely to be infrequent and the overall downward trend continues," he said.

But profitability is not the only concern of the industry: the claims-paying ability of insurers and reinsurers will also be affected by regulatory changes, he said.

"Regulation is changing and what might have been viewed as strong regulatory control in the past may really have been a very favorable accounting and taxing environment that made it difficult to fail," Mr. Mebus said.

Regulatory changes include requiring greater disclosure of hidden asset and reserve values. "In some markets these values are being booked, and it would seem inevitable that governments in their quest for revenues will look for higher taxes," he said.

The reinsurance world, in particular, is evolving into a market where ratings are likely to be in the range of A to AA, rather than AAA, Mr. Mebus said.

"The companies rated higher may have a difficult time maintaining these ratings unless they can be compensated by their clients for the additional capital needed for a AAA rating," he said.

Financial strength will be a key property of successful reinsurers and insurers in the future. "Its absence is becoming too onerous. We have clearly seen the quality of banks deteriorate and it is naive that investors, policyholders, regulators and others won't be interested in the financial strength of insurers," said Mr. Mebus.

Policyholders should also pay attention to factors that are not immediately discernible when they assess the security of reinsurers, advised John N. Lombardo, president and chief executive officer of Munich American Reinsurance Co. in New York.

For example, reinsurers' financial statements can sometimes be hard to analyze because of changes in underwriting, he said.

"Key words and concepts and the layers involved, limits provided, re-insurers' net retentions, spread of risk and pricing of business Changes in these areas... may render historical data virtually meaningless," Mr. Lombardo said.

And the changes may take years to emerge in a company's financial results, he added.

Although quantitative analysis of factors like surplus and loss reserves, invested assets, and retrocessional support are important, qualitative analysis should also be used, Mr. Lombardo said.

For example, reinsurers should have a large solid client base with long-term record in high client retention, he said. "These qualities will demonstrate a reinsurer's consistency and integrity in both hard and soft markets. This will provide evidence of the reinsurer's financial ability and willingness to meet obligations which often occur many years after the risk was written," Mr. Lombardo said.

These qualities can only be proven over the long term, he added.

"First, by the reinsurer's and  
*Continued on next page*

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# Lloyd's fate a popular topic at meeting

By STACY SHAPIRO

MONTE CARLO, Monaco—The fate of Lloyd's of London still fascinates insurance executives from around the world, as conversations at the Rendez-Vous de Septembre earlier this month indicate.

But, for every worried face, there must have been three others from Lloyd's during this year's Rendez-Vous to assure the reinsurance world that the market is not dead.

There was a time not so long ago when Lloyd's officials wouldn't be caught in Monte Carlo during the first week in September—when the Rendez-Vous was primarily a meeting of European reinsurance companies.

But, for the first time, Lloyd's Chairman David Rowland came to the Rendez-Vous this year to spread the word. Accompanying him was Lloyd's Chief Executive Peter Middleton, who kept a low profile and was not an official registrant of the meeting.

The official list of participants also was full of people affiliated with the Lloyd's market. Aside from the usual Lloyd's brokers, the numbers included officials from corporate capital vehicles that have invested in Lloyd's this year and will do so next year, such as CLM Insurance Fund P.L.C. and London Insurance Market Investment Trust P.L.C.

Lloyd's underwriters from J.H. Chappell (Underwriting Agencies) Ltd. and Spreckley, Villers & Burnhope Ltd. were also present.

As a sign of the times, there was also an abundance of syndicate and insurance company runoff managers from London. They included Market Run-Off Services P.L.C.; Chilmington International Ltd.; Randall Insurance Services Ltd.; and the administrators of the KWELM companies from Coopers & Lybrand.

Mr. Rowland spoke at a session on NewCo sponsored by accounting firm Neville Russell. NewCo is the proposed runoff reinsurer that will manage the collective liabilities of all Lloyd's syndicates for the years prior to 1986.

Many syndicates have substantial pollution and asbestos liabilities resulting from policies written in the decades before then.

Under the NewCo proposal, all Lloyd's syndicates will contribute to a centrally managed reserve fund that will pay the liability claims from old years.

The principal benefit of NewCo is its ability to invest over the long term, while Lloyd's syndicates, which change in structure every year, normally have a short-term investment policy, said Peter Ridge, senior partner of Neville Russell in London.

"This might be fine for short-tail

syndicates but is totally inappropriate for long-tail risks, where unquestionably the investment philosophy should match the expected payment pattern of claims," he said.

NewCo gives Lloyd's a chance to solve its past-year problems, said Mr. Rowland. "NewCo is one of the most intensely interesting and exciting projects in the insurance world."

The project is not guaranteed to succeed, but Lloyd's syndicates are better placed than many companies to meet their past liabilities, he said.

"I believe that Lloyd's assets meet its liabilities as well or better than its competitors."

Other Rendez-Vous attendants expressed bullish expectations for the future of Lloyd's and the London insurance market.

"I have always respected the London market. There's a tremendous amount of expertise—particularly in Lloyd's—and I hope they will continue," said Fedor Nierhaus, member of the management board of Munich Reinsurance Co., in a telephone interview from Munich.

"We're quite enthusiastic about Lloyd's," said Richard E. Cole, chairman and chief executive officer of Stamford, Conn.-based Chartwell Re Corp. London is still a world leader in reinsurance, and "the United States property/casualty market is still a soft market. We find opportunities at Lloyd's much more exciting."

The London market is very different from the U.S. market these days, added Steven J. Bensinger, president of Chartwell Re. There's been a lot of "bloodshed" in London, but a real change has occurred in that serious underwriting has returned and the market has hardened. "That's not occurred in the United States."

In 1993, Chartwell Re considered offering quota-share reinsurance to selected Lloyd's syndicates that were struggling to find capacity. The reinsurer's idea was to form a company with S.G. Warburg & Co. Ltd. that would be floated on the London Stock Exchange.

But, while in London last year, Chartwell Re executives learned that Lloyd's was going to admit corporate capital into the market. So the reinsurer changed direction and formed an investment company, New London Capital, for the sole purpose of investing corporate capital at Lloyd's.

At the same time, Chartwell Re formed a wholly owned subsidiary called Chartwell Advisors, headed by Executive Vp Michael Hayes, to become a licensed Lloyd's corporate adviser.

New London Capital raised 60 million pounds (\$88.8 million) on the London Stock Exchange last year, and this year invested 52.5 million pounds (\$82.1 million) in capital and 105 million pounds

(\$164.2 million) of capacity to 22 syndicates selected by Chartwell Re. New London's minimum syndicate investment is 5 million pounds (\$7.8 million).

Chartwell Re chooses the syndicates its company invests in differently than any other capital provider, Mr. Cole said. The U.S. reinsurer brings its actuaries, underwriters and claims people to London and "performs very in-depth underwriting reviews of these syndicates," he said. "We do this every year."

The whole approach is to select syndicates "that outperform the market," added Mr. Bensinger.

Investing at Lloyd's has allowed Chartwell Re to indirectly "step into a portfolio of business that's generated by some of the most intelligent specialty underwriters in the world operating at this point in time... That's an opportunity that comes along very infrequently," said Mr. Bensinger. "It was almost a chance that was too good to be true."

At the moment, there is not a lot of new capital available to invest in Lloyd's next year, "but we're looking at all options," said Mr. Cole. There are numerous ideas to bring capital into the market, such as dedicated corporate capital vehicles, he added. Some say that when the windstorm season ends later this year, the capital markets might be more enthusiastic about insurance stocks.

Chartwell, meanwhile, continues to reinsure Lloyd's syndicates, Mr. Cole added.

Other executives are less enthusiastic about the future of Lloyd's.

Lloyd's and the London market are still in a "difficult position," summarized James Holmes, head of Zurich, Switzerland-based Zurich Reinsurance Co., one of the five business units of the Zurich Re Group. There are still many clients who seek Lloyd's capacity, but others are worried about Lloyd's future and are moving away from the market, he said.

The London market will survive, however, and by the year 2000 there will probably be a limited number of strong companies "with considerable force" in the market doing business and a few "fringe" players.

"I do believe in the future of the London market," said Mr. Holmes.

"The future of Lloyd's remains very uncertain," noted Antoine Jeancourt-Galignani, president of the Rendez-Vous de Septembre organizing committee. But Lloyd's problems underline the structural problems of the reinsurance industry generally today, he said.

Lloyd's will survive, but it will sharply contract the lines of business it covers and will be mainly a marine, aviation and transport market, predicted Jacques Blondeau,

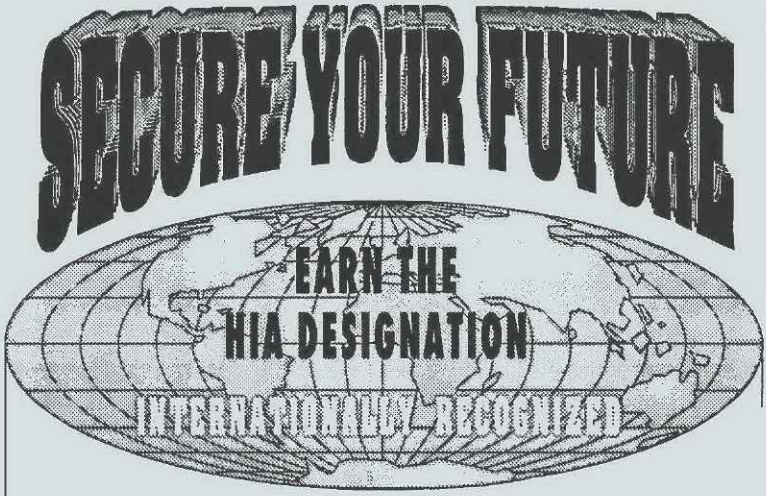
chairman and CEO of SCOR S.A. "I don't see the end of Lloyd's, but it will get back to its original business."

Soon Lloyd's will not have the capacity to offer all of the coverages that are currently available, Mr. Blondeau said.

But, some successful Lloyd's underwriters, such as Mark Brock-

bank, are channeling more capacity toward personal lines business, like direct auto insurance. And, Lloyd's Mr. Middleton has stated publicly his desire that Lloyd's should become more involved in domestic markets (BI, Aug. 29).

Gavin Souter contributed to this report.




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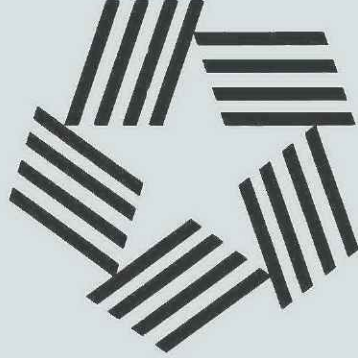
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## Security

*Continued from previous page*  
writing philosophy and sound business practices. Second, by its claims management and settlement practices," he said.

In order to reach this position of security, many insurers and reinsurers need to fundamentally change their business, said Pierre Florin, general manager of AXA Assurance A. of Paris.

This is due to fundamental changes taking place in the world at large, he said.

Increased, technological developments can lead to almost uncontrollable events, and changes in society have led to more violence and higher compensation payments, Mr. Florin said.

In order to meet the greater demands on the insurers and reinsurers, the industry must obtain more money, he said.

"A true assessment of our liabilities is not enough: to be solvent we need money," Mr. Florin stressed.

The insurance industry as a whole is probably receiving \$40 billion less than is demanded by the scope of the risks it is underwriting, he said.

In order to obtain better results

insurers and reinsurers should apply professional rules to govern the industry that would prevent poor underwriting from driving down rates, Mr. Florin said. "It is up to the world of insurance and reinsurance to demand better professional rules and standards."

These rules should ensure: adequate retentions; special reserves for low frequency and high exposure risks; and the pricing of risks based on statistical information from a similar group of risks, he said.

The session was moderated by Kaj Ahlmann, chairman and CEO of Employers Reinsurance Corp. in Overland Park Kan. EIL

# Different world for some delegates

## Croatia Insurance hopes steadier times are ahead

By STACY SHAPIRO

MONTE CARLO, Monaco—Times keep changing for insurers in some Eastern European countries.

Delegates from the countries that comprise the former Yugoslavia—Bulgaria, Romania and Russia—attended the Rendez-Vous to explain during informal meetings the situations in their respective insurance markets.

The Croatia Insurance Co. Ltd. is hoping premium volume will rise now that the political environment is more stable following

a cease fire with the Croatian Serbs in 1992.

But the insurer's toll from the fighting with the Croatian Serbs is still significant.

Croatia Insurance still has four of its 42 branch offices occupied by local Serbs in Croatia "so we don't know if the buildings are demolished," said Vladimir Miletic, vp for finance and economics for Croatia Insurance. He thinks one of the buildings is "almost certainly destroyed."

More than 10 of the company's office buildings also were damaged during the war. Three em-

ployees died during the fighting and more than 20 were wounded.

Croatia Insurance didn't insure any property in the country for war risk, but did underwrite marine war risks and personal accident coverages, which produced claims of about \$2 million from the fighting.

However, since the 1992 cease fire there's been peace and stability in Croatia, Mr. Miletic maintains. Now that an agreement has been signed in Washington about the future of neighboring Bosnia-Herzegovina, Croatia Insurance is hoping there will be new opportu-

nities in its homeland, he said.

Croatia Insurance, which is 100 years old this year, claims that it was the biggest insurance company in the former Yugoslavia and is now the biggest in Croatia.

Written premiums last year were down 25% from what they were before war broke out in the region, said Mr. Miletic. "But in the last year the situation has been stabilized and we are not losing any more premium."

Croatia Insurance now has the opportunity to grow following years of hyperinflation, war and its aftermath and lack of new products, Mr. Miletic said. The economy should start to grow and

opportunities may arise in 1995, he said.

Already in 1994 Croatians have seen a recovery in the tourist industry, he claimed. In the 1980s, Yugoslavia earned about \$5 billion of foreign exchange annually from tourism in Croatia. Many of the country's best hotels, though, were destroyed in the war.

Croatia Insurance also hopes to benefit from changes in the state's social laws. Like other Eastern European countries, Croatia is "retreating from social covers" like state-funded national health insurance, pensions and compulsory employers liability coverages. At the end of this year, for example, Croatia is expected to pass legislation that would redefine state pensions that paid up to 87% of each person's salary on retirement. This provides "big opportunities" for commercial insurers to provide private pensions, said Mr. Miletic.

The state used to fund employers liability losses, but there's now a shift of responsibility to the corporate sector, so the need to buy insurance for the risk will increase, he said. Private medical coverage also is becoming more popular.

Insurance in Croatia is governed by a new insurance law passed last February that is based on the Westernized insurance law in the former Yugoslavia. Under Croatia's new insurance law, the supervisory authority is the Minister of Finance. Foreign companies can own Croatian insurers, but only companies based in Croatia can write domestic business.

Croatia Insurance is 84.4% state-owned, but the company is looking for foreign capital and wants to be privatized eventually.

In the meantime, insurance legislation is expected to be passed at the end of this year in Russia that could wipe out up to half of the insurers currently registered, according to Mikhail A. Safronov, president of Westrosso Insurance Co. Ltd. in Moscow.

There are now about 3,000 companies registered as insurance companies in Russia, he said. But by the end of the year, Russia is expected to pass insurance legislation with minimum capital requirements "which would make most of these companies not exist," said Mr. Safronov.

Under the proposed legislation, he said:

- "General" non-life insurance companies would have to have 300,000 European Currency Units (\$372,000) in capital.
- Life insurers would have to have 600,000 ECUs (\$744,000) in capital.
- Reinsurers would have to have 800,000 ECUs (\$992,000) in minimum capital.

Mr. Safronov doubted that every registered insurance company would find enough capital to meet the new requirements. Westrosso for example, would need a "substantial injection" of capital to continue, said Mr. Safronov. Westrosso will talk to Russian investors and clients to see if they would be willing to increase the company's capital.

Westrosso, which writes marine aviation and some property coverages, employs 25 people and had premium volume last year of 1.1 billion rubles (about \$755,000). Profit last year totaled 100 million rubles (about \$44,400) using Russian accounting, but 33 million rubles (about \$14,600) using Western accounting, said Mr. Safronov. **E**

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# Privatization on hold for AGF

## Poor results may push action back to 1995

By STACY SHAPIRO

MONTE CARLO, Monaco—French insurance giant Assurances Generales de France may have to wait a while longer before the French government sells its 57.1% stake in the firm.

AGF had hoped the government would sell the shares, valued at about \$2 billion, to the public by the autumn of this year (*BI*, April 25).

However, stock analysts believe it is increasingly unlikely that AGF will be privatized before the end of the year because the company's first-half results were mediocre and year-end results are not expected to be much better.

The analysts also believe that the privatization will not take place soon because investors are less interested in offerings in financial companies now that interest rates are rising; and the privatization of Union des Assurances de Paris earlier this year has not been profitable for investors. UAP's stock price last week was 10 French francs (\$1.90) per share less than its issue price in May of 155 French francs (\$29.45) per share.

The large French delegation attending the Rendez-Vous de Septembre earlier this month also speculated that AGF would have to wait at least until French car manufacturer Renault is sold off by the government. The government is expected to make an announcement this month on which company will be privatized first: AGF or Renault.

Despite the private debates, however, AGF Chairman and Chief Executive Officer Antoine Jeancourt-Galignani is confident that the group will be privatized soon.

"It is clear that we will be privatized," Mr. Jeancourt said. "The question is when. Should we be privatized right now or should it come after Renault?"

The decision is up to the French government, he said. However, "I think that the (AGF) share price today is not an obstacle to privatization."

AGF's stock price has been falling slowly this year. At 228 French francs (\$43.32) per share last week, AGF's stock price was up 7% over a month ago, but has declined 2% over the last three months and 24% over the past 12 months, stock analysts say.

Whatever happens, AGF is trying

to put its house in order to improve its results.

AGF's net income at year-end fell sharply to 977 million French francs (\$172.9 million) from 1.5 billion French francs (\$283.5 million) in 1992 and 2.7 billion French francs (\$477.9 million) in 1991.

But, its premium volume rose 9.9% to 65.3 billion French francs (\$11.6 billion) last year from 59.4 billion French francs (\$11.2 billion) in 1992.

The position has improved in the first half of this year, noted Mr. Jeancourt.

Net earnings totaled 1.04 billion French francs (\$197.6 million), down 26.2% compared with 1.41 billion French francs (\$245.3 million) in the first half of 1993. However, the first-half results are still better than the whole of last year, which is an encouraging sign, he said.

And more is being done to improve AGF's results.

To begin with, AGF is reducing significantly its ownership in banks and sticking to its core business—commercial insurance, said Mr. Jeancourt, who replaced Michel Albert as chairman and chief executive officer in February. Mr. Albert is now a member of the French Commission on Monetary Policy of the Bank of France.

AGF's future strategy "is going to be in insurance because I don't believe in the strategy of insurance and banking," said Mr. Jeancourt, despite his own background in banking. He previously was chief executive officer and chairman of Banque Indosuez before joining AGF.

"I know a bit about banking. It's a dangerous business. We want to concentrate on insurance (and sell for a price) a large part of our banking interests," he said.

AGF owns 100% of Banque du Phenix, recently renamed AGF Banque. The insurer plans to sell a major portion of the bank's portfolio and keep Banque du Phenix as "a much smaller operation," said Mr. Jeancourt.

AGF also owns 43% of Banque Francaise du Commerce Exterieur and has asked investment advisers at Banque Paribas to sell the shares. Credit Lyonnais will assist in the sale. Mr. Jeancourt said during AGF's six-month results that the sale of BFCE "will generate a considerable capital gain for the

group."

AGF also owns 29% of bank Comptoir des Entrepreneurs, which is directly supervised by the French government. AGF has made provisions to cover the residual losses from last year and will keep the shareholding for the moment.

For AGF, the concept of "assurfinance"—or selling banking instruments through AGF's agency system—is dead, Mr. Jeancourt said. "We are in the business of selling insurance products through our (agency) network. We don't want to share that with a bank."

Instead, AGF will concentrate "on the industrial and corporate side (of non-life insurance) and also in a sector in which we are a leader in France, namely credit insurance."

## Skandia's reinsurance results looking up

By GAVIN SOUTER

MONTE CARLO, Monaco—The pared-down reinsurance operations of Skandia Group have shown a dramatic turnaround.

Results for the first six months of 1994, released in the week before the Rendez-Vous de Septembre, show a sharp increase in profits but a drop in gross premiums.

The reinsurance results were one of several bright spots for the Swedish insurer, which only two years ago was embroiled in a hostile takeover bid from rival Scandinavian insurers UNI Storebrand A/S and Hafnia Holdings A/S.

The turnaround of Skandia's reinsurance operations was one of the frequent discussion topics of the Rendez-Vous.

"They showed that they really meant it when they said they were getting back to profitable business," said one reinsurance executive.

For its reinsurance operations outside of North America, Skandia's profits leapt to 139 million kronor (\$17.9 million) in the first six months of 1994 from 49 million kronor (\$6.4 million) in the same period last year.

The gross premiums of the reinsurance operations were 1.9 billion kronor (\$245.1 million) in the first half of 1994, compared with 2.2 billion kronor (\$286 million) in the first half of 1993.

The key to making profits in reinsurance is to pick out the best areas and stick to them, said Bjorn Wolrath, president and chief executive

Last year, AGF also suffered from exceptional charges for restructuring and depreciation of goodwill for its troubled Spanish unit Union y el Fenix. Under an agreement between UFE investor Banesto Group and AGF, Fenix merged with AGF Seguros and AGF now owns 70% of Fenix.

AGF has installed new management and plans to axe 700 of the 2,500 employees working for AGF Seguros, he added. "Still, it's a major company that will be a weight on AGF's profits for the next two years. Our plan is to be profitable by the end of 1996, and I'm confident."

In the meantime, AGF is pleased with its 33.5% ownership in German insurer Aächener & Münchener

officer of Skandia Group.

Over the past year, Skandia has reduced its reinsurance business in traditional lines like proportional treaties and concentrated instead on more profitable areas, he said.

"People have been talking about premium rates going up and we have not been confident about that because of things like self-insurance and direct writers wanting to keep more of the risk. But if you look very carefully you can find good business," Mr. Wolrath said.

In particular, facultative business has proven profitable, Mr. Wolrath said.

For example, in the United States, Skandia's reinsurance business is 50% proportional and 50% facultative, whereas two years ago it was 80% proportional business, he said.

"We make money on facultative business and we have a combined ratio of below 100%," Mr. Wolrath said.

Facultative business is particularly attractive as it allows reinsurers to identify the risks they are covering more easily than proportional treaty business, he said.

Other areas where Skandia has

Group, which was bought last year for \$1 billion, despite conflicts between French and German management.

"In Germany, I'm very bullish—good investment (but) a bad relationship. I rather like that than the other way around," said Mr. Jeancourt. "I try to keep the investment, which is profitable, and improve the relationship. . . . It's true the relationship was not good. We're working on that and we'll be able to announce changes soon."

The French giant has no plans to expand in the United States, said Mr. Jeancourt. "We want to keep out of the U.S.," he said. "We think we don't have the muscle to have our European shareholdings and an operation in the U.S."

AGF has a small operation in Canada "which is not successful and I'm not sure we will be there forever." **BI**

increased business include aviation, marine, offshore energy and life reinsurance, Mr. Wolrath said.

Life reinsurance in France, where it writes 1 billion kronor (\$129 million) in premiums, is a good niche for Skandia, he said.

French life insurers are keen to reinsure their risks outside of the French market to prevent domestic competitors from analyzing their figures, Mr. Wolrath said.

In the U.S. market, Skandia America Corp.'s results were poor. The company lost 29 million kronor (\$3.7 million) in the first half of 1994, compared with a loss of 26 million kronor (\$3.4 million) in the same period of 1993.

However, the poor result was largely due to direct operations, Mr. Wolrath said. The reinsurance book was profitable, he said.

The turnaround in non-U.S. reinsurance comes two years after the Scandinavian market was in turmoil with proposed takeover bids of insurers by banks and rival insurers.

The takeover bid for Skandia eventually failed amid accusations of financial improprieties at UNI Storebrand (*BI*, Feb. 1, 1993). **BI**

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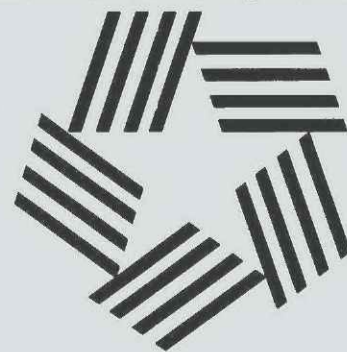
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# Refining the art of conversation

## Exec transitions, company changes among topics ripe for gossip

By **STACY SHAPIRO**  
and **GAVIN SOUTER**

MONTE CARLO, Monaco—The Rendez-Vous de Septembre traditionally is a time for catching up on gossip, and spreading the word about new products and events.

This year was no exception.

One of the main topics of conversation this year was the resignation of Patrick Peugeot late last month as chairman and chief executive officer of French reinsurer SCOR S.A. to become vice chairman of mutual life insurer La Mondiale.

Jacques Blondeau, who had been president of SCOR, has taken Mr. Peugeot's place.

Speculation was rife as to why Mr. Peugeot resigned. Some reinsurers familiar with the French market suggested that as an executive of a mutual insurer he would be more able to re-enter socialist politics. In the early 1980s, he had served as an adviser to then-Finance Minister Jacques Delors.

Others speculated that he feared a right wing French government administration would not renew

his contract at SCOR; and still others suggested he may have been ousted due to infighting among SCOR's senior management.

However, Mr. Peugeot, who joined SCOR in 1983, insisted that he was leaving to seek a new challenge.

"I have always said that things and people must change and I'm applying that to myself," he said.

Looking ahead, SCOR is planning to inject 80 million deutsche marks (\$51.9 million) into its German operations. "Over the years the German market has been the most profitable and SCOR has only 1% of the market so we want a bigger share of the German market," Mr. Blondeau said.

SCOR also plans to increase its business in the Far East, he said. "The Japanese and Asian markets are very good."

But competitors have dampened other recent SCOR expansion plans. Plans for a new Bermuda catastrophe reinsurer, for example, were abandoned when it became clear that a huge amount of capacity was being established

there, he said.

Other continental European news—such as the move by General Reinsurance Co. to invest in Cologne Reinsurance Co. (*BI*, July 4)—was the topic of many conversations during Rendez-Vous week.

Neither Gen Re nor Cologne Re were available to comment at the gathering.

**'I have always said that things and people must change and I'm applying that to myself,' says Patrick Peugeot, who resigned late last month as chairman and chief executive officer of SCOR S.A. to become vice chairman of mutual life insurer La Mondiale.**

"I don't think things will change dramatically for either company," speculated Michael Reischel, chairman of the executive boards of Hannover Re/Eisen & Stahl Re Group in Hannover, Germany. "It will be good for General Re to be in international reinsurance."

Hannover Re is going through

some changes of its own. It and Eisen & Stahl Re are sister companies; Haftpflichtverband der Deutschen Industrie VaG owns nearly all of Hannover Re and 50.9% of Eisen & Stahl. Hannover plans to buy the HDI's Eisen & Stahl holdings and ultimately sell 25% of its shares in a public stock offering this year (*BI*, Aug. 29).

"The continental European market is going through tremen-

dous changes," said Jim Holmes, in charge of the Zurich-based continental European unit of Zurich Reinsurance Co. "There are structural changes going on in the insurance and reinsurance business. And a lot of people with the liberalization of insurance activities under the European (single insurance market) directives are looking to establish themselves in new markets. Some have been successful, some have not."

This means more choice for policyholders, but also means "more companies will go out of business," said Mr. Holmes. By the year 2000 there will probably be

fewer but larger continental underwriters, including Zurich.

Zurich Re's intention in this changing market is to continue to offer proportional reinsurance selectively; and provide coverage for ceding companies' entire portfolio, said Mr. Holmes.

Zurich Re is one of five units of the Zurich Re Group, which announced that Dettler Steiner, who has been responsible for Northern Europe within the group, will become the executive vp of assumed reinsurance for the Zurich Re Group effective Oct. 1.

Meanwhile, Swiss Reinsurance Co. in Zurich will be formulating a new business strategy later this year now that its new chief executive is in place, according to Walter B. Kielholz, a member of the management board. More will be revealed at Swiss Re's annual general meeting in November.

Lukas Muhlemann, a former McKinsey & Co. managing director, replaced Arnold W. Saxer in April as chief executive (*BI*, May 2).

Swiss Re's new strategy will take into account the liberalized markets in Europe and will respond to the changes in the marketplace, said Mr. Kielholz.

On a more worldwide basis, CNA Financial Corp. is restructuring so that its worldwide reinsurance entities will be brought under the umbrella of CNA Reinsurance Co. Ltd., headed by Chairman Victor Blake in London. Together, CNA's reinsurance entities generate about \$1 billion in premium income and have

*Continued on next page*

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## Unistrat of America offering higher limits

MONTE CARLO, Monaco—Political risk and credit insurer Unistrat Corp. of America is increasing its capacity to \$5 million per risk from \$1.5 million, which will enable it to lead more business.

"U.S. brokers were saying that what they wanted was at least a lead (underwriter) in the U.S. and that meant \$5 million," said Louis Habib-Deloncle, president of the insurer's parent company, Unistrat Assurances of Paris.

Unistrat Assurances was formed last year after Unistrat Holding of Amsterdam, which managed the P.A.R.I.S. political risk insurance pool, decided to transform itself into a risk-bearing insurance company (BI, Sept. 20, 1993).

New York-based Unistrat of America writes contract frustration and confiscation coverage for companies in the United States, Canada and Mexico.

The company expects it will write \$5 million in premiums this year, compared with \$2 million last year, Mr. Habib-Deloncle said.

The increase in capacity at Unistrat of America is part of a

worldwide increase in capacity for credit insurance expected to occur over the next year, he said.

As several credit insurers increase their business, worldwide capacity should reach between \$40 million and \$50 million in 1995, he said.

Currently, about \$30 million in capacity is available. This is in marked contrast to 1992 when around \$60 million was available, Mr. Habib-Deloncle said.

The dramatic fall off is largely attributable to the contraction of capacity in the troubled Lloyd's of London market, he said.

Companies will use the extra capacity to cover an expanding range of risks, Mr. Habib-Deloncle predicted.

"Big clients are asking for new kinds of coverage," he said.

For example, Western companies investing in Eastern European countries are seeking coverage against the activities of organized crime, he said.

"I'm not sure whether we can cover that yet because it is not controllable, but it shows that the perception of political risk is evolving," he said.

—By Gavin Souter

## Berkshire life unit gets AAA rating

MONTE CARLO, Monaco—Berkshire Hathaway Inc.'s new life insurance subsidiary has been awarded a claims-paying ability rating of AAA by Standard & Poor's Corp.

The rating of Berkshire Hathaway Life Insurance Co. of Nebraska is in line with the rating of the rest of the Stamford, Conn.-based group.

The new subsidiary underwrites life insurance and annuities for structured settlements and should write \$40 million to \$50 million in premiums this year, said Ajit Jain, president of Berkshire Hathaway's reinsurance division.

The life insurance company will enable Berkshire Hathaway to diversify outside of property/casualty insurance, he said.

"We felt that with our kind of

capital, while we do so much property/casualty business, we wanted to have a life business as well," Mr. Jain said.

The life company will also enable Berkshire Hathaway to access a market with which it is already familiar, he said.

"We have seen structured settlements through our property/casualty business but it is difficult to sell through a property/casualty company because it is a life product," Mr. Jain said.

Downgrades in the ratings of several life companies also means that now is an opportune time to enter the structured settlements market, he said.

"There really has been a flight toward quality," according to Mr. Jain.

—By Gavin Souter

## Pollution

Continued from page 2

over insurance coverage for environmental cleanup costs," agreed Ann M. Holmes, an attorney with Stoel Rives Boley Jones & Grey in Seattle who represented policyholder Key Tronic Corp. of Spokane, Wash., in one of the cases.

"As is apparent by the court's recent Weyerhaeuser decision, Washington public policy strongly encourages policyholders to take preventive measures rather than wait to be sued in order to clean up the environment," Ms. Holmes said.

"Consistent with this approach, the court's rulings (in these two cases) recognize the rights of environmentally responsible policyholders to receive coverage for damages caused by unexpected and unintended pollution. Intentional polluters obviously and appropriately should bear that financial burden themselves."

Insurer lawyers, for their part, caution that the rulings may not be clear policyholder victories.

"This case really belongs in the 'other' column," observed Laura Foggan, a partner with Wiley, Rein & Fielding in Washington, D.C., who filed an amicus brief in the case on behalf of the Insurance Environmental Litigation Assn., a group of large liability insurers.

"It's true this decision represents the reversal of an insurer victory," she said. "But the court hasn't said the policyholder wins, either." Both cases have been remanded for new trials.

The two coverage cases were decided together because they both hinged on interpretation of the pollution exclusion added to standard CGL policies in the mid-1970s.

In a 5-4 decision, the court ruled in *Queen City Farms Inc. vs. Central National Insurance Co. of Omaha* that there should be coverage for cleanup costs under CGL policies with qualified pollution exclusions if Queen City Farms did not intend or expect that waste deposited into an unlined pit on its property near Seattle would migrate into the environment.

Qualified exclusions deny coverage for all pollution that is not "sudden and accidental."

The court also ruled that the

"polluting event" did not occur until the waste actually migrated into the environment. Insurers had argued that the waste disposal itself triggered the pollution exclusion.

"The decision is unique since it deals with both the issues of 'sudden and accidental' and the release," said Paul J. Lawrence of Preston, Gates & Ellis in Seattle who represented Queen City Farms.

In reaching its conclusion, the court held that:

- Whether damage was unexpected and unintended is to be determined on a subjective, rather than objective, standard. A subjective standard focuses on the actual expectations or intentions of the particular policyholder; an objective standard looks at what a reasonable policyholder would have expected or intended.

- Policyholders bear the burden of proving that damage was unexpected and unintended.

- The qualified pollution exclusion is ambiguous and, therefore, the policyholder can rely on published appellate decisions that discuss the drafting history for a reasonable interpretation of the exclusion.

- "Sudden and accidental" means "unexpected and unintended."

- Where material has been deposited in a sanitary landfill or other place believed to safely contain or filter the material, the polluting event is not necessarily the initial deposit of waste but the discharge, dispersal, release or escape of toxic material into the environment.

In *Key Tronic Corp. vs. Aetna (CIGNA) Fire Underwriters Insurance Co.*, the Washington Supreme Court ruled 6-3 that pollution may be "sudden and accidental" when a business deposits waste in a landfill or other place believed at the time to contain the waste, and the waste unexpectedly migrates from the contained area.

Key Tronic's insurers had denied coverage on the grounds that the keyboard manufacturer intentionally dumped wastes into a unlined landfill between 1975 and 1980.

In both cases, the high court cited its own 1959 ruling interpreting the term "sudden and accidental" in a boiler and machinery policy.

The reasoning in that case "is as sound in the context of these policies as it was in the policy at issue in that case. That the term 'sudden' may sometimes be unambiguous depending upon context does not mean it always must be given one, and only one, meaning," the court said.

"Unresolved ambiguity in insurance contract language is resolved against the insurer. Where exceptions to or limitations upon coverage are concerned, this principle applies with added force. We thus construe the ambiguity in the pollution exclusion against the drafter-insurer, and in accord with a reasonable interpretation of the policy language," the court concluded.

So far, state appellate courts nationwide have split on whether the qualified pollution exclusion precludes coverage for policyholders' environmental liabilities. Thirteen rulings have gone in favor of insurers and, including the Washington decisions, eight have gone for policyholders, according to the Insurance Environmental Litigation Assn.

It is uncertain at this point exactly how much coverage is at stake since the cases have both been remanded for retrial, attorneys say. In addition, a large portion of the cleanup costs associated with the Queen City case has been paid by Boeing Corp., which dumped the majority of the waste at that site.

Insurers have not yet decided whether to file a motion for reconsideration, said William Price of Karr, Tuttle & Campbell in Seattle who represented Maryland Casualty Co. in the litigation. Such motions must be filed within 20 days of the Sept. 9 decision.

*Queen City Farms Inc. vs. Central National Insurance Co. of Omaha, Washington Supreme Court; No. 59594-1, Sept. 9, 1994. Key Tronic Corp. Inc. vs. Aetna (CIGNA) Fire Underwriters Insurance Co. et al., Washington Supreme Court; No. 59616-6, Sept. 9, 1994.*

## News

Continued from previous page more than 200 employees.

CNA Re has offices in the United States, London and Amsterdam and just opened one in Zurich.

CNA Re will one day stand alone and may seek additional capital from outside investors in a few years, Mr. Blake said. Its future, whoever owns it, is to become "a big player and influential" in the world market, he said.

Fewer new products and services were unveiled at the Rendez-Vous compared with previous years.

Willis Corroon Group P.L.C. announced the launch of Specialist Insurance Recoveries Ltd., which was set up to provide insurance and reinsurance companies with a full range of "expert recovery services" in London and international markets.

SIR was set up internally last September to gather data to help policyholders and underwriters recover money from companies in un-off, said William Rookes, executive director of the insurance accounting division of Willis subsid-

ary Willis Faber & Dumas Ltd. This service is already provided to existing Willis clients for free, but the brokerage would now like to turn "our cost base into a profit center," said Mr. Rookes.

Now that the data is gathered, SIR would like to offer its services to non-Willis clients who need to recover funds. Fees would range from 2% to 15% of the claims collected, said Mr. Rookes.

Standard & Poor's Insurance Rating Services also released its latest review on Lloyd's of London, entitled "Snakes and Ladders at Lloyd's."

S&P noted that while Lloyd's had made considerable progress in reforming the market there is no certainty that these developments would resolve the "whole range of complex and difficult challenges faced by Lloyd's."

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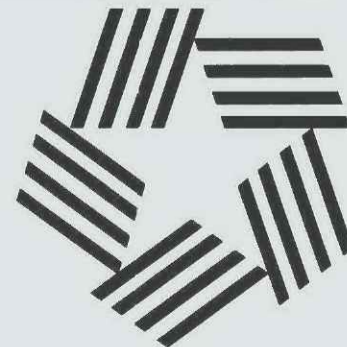
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# Arkansas

Continued from page 2

underlie the workers comp system and would ultimately cost jobs and increase costs.

"I've never seen the threat of a lawsuit benefit safety," said Steve Carter, chairman of the Committee to Save Arkansas Jobs, which opposes the amendment. "Education is what's going to affect safety."

Mark Skinner, senior counsel in Houston for the American Insurance Assn., said the initiative would be "greatly detrimental" to Arkansas, referring to National Council on Compensation Insurance estimates of massive job losses, tax increases and workers comp cost increases. "The AIA strongly believes in workers compensation as a non-adversarial system where benefits are certain and the process is streamlined."

The Committee to Save Arkansas

Jobs, which includes the AIA, the NCCI, the Alliance of American Insurers and 850 area employers, has raised over \$1 million and begun an advertising campaign against the reform proposal. Since August, the group has been running television, print and radio ads.

The insurer-financed NCCI estimates that Amendment 6 would raise workers comp system costs 75% to 100%—or between \$260 million and \$350 million. It would also put 60,000 to 80,000 jobs in the state at risk, the NCCI says.

Factors fueling the NCCI's projected increases: Allowing workers to sue over unsafe workplaces would increase costs 30% to 50%; letting them choose their own doctors would raise costs by 2.8% to 4.3%; and increasing benefits for disabled workers with dependents could result in an 11% cost increase.

"My main concern, other than it being a hollow bill, is that it doesn't

address employee safety," said Nathan Carruth, risk manager for Sunmark Holding Co. in Little Rock and president of the Arkansas Risk & Insurance Management Society Inc. Rather than giving the workplace safety reform measures passed in 1993 a chance to take place, the amendment would increase the incentives to sue and increase costs by allowing workers to choose any physician, Mr. Carruth contends.

Supporters of the amendment, including the AFL-CIO, the National Assn. for the Advancement of Colored People and the Arkansas Professional Firefighters, acknowledge that more claims would be paid under Amendment 6. But they say that the initiative would reduce injuries and deaths more than enough to offset any cost increases.

The way to reduce the total workers comp "economic overhead" is to reduce the number of injuries, said Bruce McMath, an attorney with his

own firm in Little Rock and co-chairman of the pro-amendment Committee for a Safe Workplace. One way to do that, he added, is to hold accountable those companies that violate workplace safety rules.

Now, an Arkansas worker who loses an arm on the job can never receive medical benefits of more than \$42,000, according to Mr. McMath. "There is no rational human being who can defend that," he said.

One-third of the 100 or so on-the-job accidental deaths in Arkansas each year are caused by "demonstrable violations of written safety provisions," Mr. McMath said.

"All we want is the right to work safe," said Bill Becker, president of the Arkansas AFL-CIO. "We want it in the constitution because we think it is a basic right for all workers."

Mr. Carter of the Committee to Save Arkansas Jobs, countered, "You don't put economic issues in the constitution. . . .Times change." **BI**

## Honeywell discrimination claims settled

MINNEAPOLIS—Honeywell Inc. will pay \$3.5 million in back pay and interest to 6,000 hourly female employees to settle sexual discrimination charges that arose 20 years ago.

A Sept. 8 agreement between the industrial control systems company and the U.S. Department of Labor also calls for Honeywell to invest \$3 million over the next five years to enhance workforce diversity initiatives.

Minneapolis-based Honeywell reached the agreement after Labor Secretary Robert Reich ruled that Honeywell had "systematically" directed women into jobs that offered less advancement than jobs offered to their male counterparts.

In March, Mr. Reich found that Honeywell owed back pay to women affected by its past promotion and assignment practices at factories in the Twin Cities area between 1972 and 1977.

Honeywell neither admitted nor denied wrongdoing in the settlement. It said in a statement that it "wanted to resolve this in a responsible manner."

The Labor Department's Office of Federal Contract Compliance Programs is responsible for determining who will receive back pay and the amount each will receive.

Honeywell said the \$3 million investment in workforce diversity funds will be used to expand existing programs. These include programs and workshops, some mandatory, in such areas as sexual harassment awareness and prevention and intercultural communications.

—By Christine Woolsey

## Woman claiming fear of AIDS cannot collect from doctor

LOS ANGELES—A woman whose doctor contracted and died from the AIDS virus cannot seek damages from his estate for her fear of contracting the disease, a California appellate court has ruled, upholding a lower court decision.

The Aug. 23 decision by the 2nd District Court of Appeals found the medical doctor's estate was not liable to a patient the doctor operated on four years before his death and two years before he announced publicly he had AIDS.

The patient has tested negative for the AIDS virus.

The ruling, *Kerins vs. Hartly*, follows a California Supreme Court decision that people exposed to pollution can only recover damages for their fear of cancer if medical evidence shows they are more likely than not to contract the disease due to the exposure (*BI*, Jan. 3).

In its ruling, the 2nd District Court of Appeals also said that a proliferation of similar claims could compromise the availability of dental, medical, and malpractice coverage.

*Kerins vs. Hartley, California 2nd District Court of Appeals Aug. 23, 1994, No. BO65917.*

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Comprehensive Occupational And Clinical Health

# Salman

Continued from page 3

Named to that post in 1991, he oversees the operations of this publicly traded regional insurance company that provides medical malpractice insurance and professional liability insurance to physicians, hospitals, clinics and health care facilities in Kentucky, Indiana, Ohio and Tennessee.

His experience on the other side of the fence—as a hospital risk manager—gives him a unique perspective in his role as insurance company CEO.

"We insure hospitals and doctors and I spent the last 25 years working with them. I have an intimate understanding of the politics of health care institutions, of how doctors operate and the underwriting needs," Mr. Salman said.

"Being in risk management gives me sensitivity to the fact that losses can be prevented."

Mr. Salman credits his father, Julius, with instilling a strong work ethic in him. "My father always said, 'Never use your back when you can use your head.' My philosophy is there is no replacement for hard work."

If there ever was a model of a hard worker, it's Steve Salman.

After graduating in 1969 with a degree in business administration from Indiana University in Bloomington, the Indianapolis native bought into a small extension-cord manufacturing business. After a year, the business was sold and he joined his father-in-law selling insurance for Reserve Insurance Co. in Indianapolis.

In 1974, when Health & Hospital Corp. began its search for a risk manager, Mr. Salman took the opportunity to get out of insurance sales, which he recognized early on was not something he wanted to do the rest of his life.

As director of loss/risk control

for Health & Hospital Corp., he established and managed the loss control program for all elements of the corporation—including establishing safety programs for the patient, employee and visitor areas and implementing Occupational Safety and Health Administration training programs. He also administered self-insurance programs for medical malpractice and workers comp.

Mr. Salman's initial lack of risk management experience didn't stop him from vying for the job. "They were looking for their first risk manager, so I applied," he said. "Once I tried it, I really liked it."

In 1977, he left Health & Hospital Corp. to become the first risk manager for Riverside Methodist Hospital of Columbus, Ohio.

While at Riverside, Mr. Salman decided to pursue a law degree.

"I disliked getting to a certain point in a claim and having to hand it over to the legal department," he explained. "I found myself spending a lot of time getting attorneys up to speed on a claim. But, whenever I got to the fun part, I had to give it away."

"It was like running a relay race. You like to be the last guy so you can come in with the finish. But this was like being the first guy, handing off to someone else."

He felt a law degree would enable him to grow in his risk management career.

So he enrolled in Capital University Law School's night program, keeping his 50-hour-a-week job at Riverside. He graduated a semester early, in 1981.

That hard work has paid off, he said. "My law degree gives me another frame of reference. And, most things we do have legal implications of some sort."

But earning a law degree while working full-time was not Mr. Salman's only achievement during the mid- to late-1970s. He also established the first—and now

largest—trade association for health care risk managers.

The idea for such an association was spawned by the dearth of information about health care risk management principles that Mr. Salman encountered during his tenure at Health & Hospital Corp.

Then, in 1975, the American Hospital Assn. sponsored a risk management seminar for hospitals, but very few full-time risk managers could be found at the poorly attended meeting, he said.

"It became clear to me that more and more of these people would show up on the scene. But they had no common knowledge base." The few people Mr. Salman had

**'Risk management gives me sensitivity to the fact that losses can be prevented,' says Steve Salman.**

met who were in charge of hospital risk management had widely different backgrounds—which accounted for their risk management focus.

Mr. Salman approached the AHA with his idea to form a health care risk management educational society but met with little support.

After more cajoling, executives at the AHA said they might go for the idea if Mr. Salman could prove there was an interest. A survey of U.S. hospitals proved there was, indeed, interest in the idea and Mr. Salman successfully persuaded the Chicago-based AHA to sponsor a new affiliated society for professionals in hospital risk management.

Mr. Salman was named the first president for the American Society for Health Care Risk Management in 1979. Its first meeting was

held in New Orleans in 1980 and was attended by 300 individuals involved in risk management and insurance. Attendance at this year's meeting in Seattle will probably total more than 5,000.

The year Mr. Salman was named ASHRM president, he traveled to 29 states and attended meetings in Chicago 19 times. "The AHA wanted to parade around a real live hospital risk manager."

That left little time to spend with his wife and two children, who were nevertheless understanding of his drive to succeed.

Today, Mr. Salman thinks of ASHRM as one of his children. "I want to see it live a long and healthy life."

Given the changes Mr. Salman has seen in the medical malpractice market, it's a safe bet that health care risk managers will continue to flock to ASHRM for advice on controlling their institutions' liability.

"The medical malpractice market has changed dramatically. When I began, no one knew anything about it and the plaintiffs and defense bars were fairly unsophisticated."

But rapidly advancing technology has altered the nature of risks health care facilities and physicians face, he noted. "Today, technology creates new opportunities for liability. Plus, patients' expectations are greater, so if their health outcome isn't what they expected," they will hold the hospital or physician liable.

The changing health care marketplace has produced deeper pockets from which plaintiffs can recover, Mr. Salman added. "Your health care provider today is very different from the provider of yesterday. People were far more reluctant to sue their family doctor than they are to sue a faceless corporation."

What's more, "Juries are more willing to give lottery-type ver-

dicts, even in cases with no merit," he added. "What they don't realize is (their large verdicts) impact the price of medical care. The money has to come from somewhere."

In 1982, after a management shakeup, he left Riverside and joined Sisters of Charity Health Care Systems Inc. in Cincinnati. His main mission at that organization was to establish a risk management program and oversee corporate legal services. As senior vp of corporate affairs and general counsel, Mr. Salman monitored the system's risk and quality management departments, as well as marketing and research, claims services and insurance management units.

But, he still found time for some "extracurricular" activities. While working with Sisters of Charity, he founded, developed and oversaw other business ventures, including:

- M.S.J. Insurance Co., a Denver-based captive owned by Sisters of Charity that provides liability insurance to hospitals in six states. Mr. Salman served as president.

- Preferred Physicians Insurance Co. of Omaha, Neb., which provides liability insurance to physicians in 32 states. Sisters of Charity owned 25% of the company, and Mr. Salman located the other three partners.

- Consolidated Catholic Casualty Risk Retention Group, which provides excess insurance for 11 Catholic health care systems and their more than 100 hospitals. Mr. Salman helped found the company and served as chairman.

- Novare Services Inc., a for-profit unit of Sisters of Charity developed to sell services to approximately 210 outside hospitals and clients. Mr. Salman developed, implemented and managed the start-up of Novare and also was president.

When KMIC began its search for a new president and chief executive officer, they were looking for someone with experience in both hospital and physician liability and Steve Salman fit the bill, according to Dr. Richard Hench, chairman of the KMIC board.

"He's a very capable and well-trained individual. We feel he is doing an excellent job. He's definitely a hard worker," Dr. Hench said. "We are trying to get him to relax a little and play a little more golf."

Mr. Salman does find time for activities outside of work. He jokes that he never outgrew his "adolescent passion" for cars. He owns a 1947 Jaguar, a 1956 Mercedes and a 1952 Porsche.

"He knows how to balance work and his family life," said Chuck Fischesser, vp of claims at KMIC. Mr. Fischesser worked with Mr. Salman for eight years at Sisters of Charity before joining him at KMIC in 1993. Mr. Fischesser described him as "a quiet, witty guy with a great sense of humor."

One reason Mr. Salman took the job at KMIC was to spend more time with his family, he said. He adds that it won't be the last step in his illustrious career.

"I'm very happy here, but the company has to move on. There are numerous companies in our line of business, but the future dictates that the medical malpractice insurance industry will consolidate," he said. "I won't necessarily leave Kentucky Medical, but I may bring it into a larger family to deal with integrated health systems, which are our customers."

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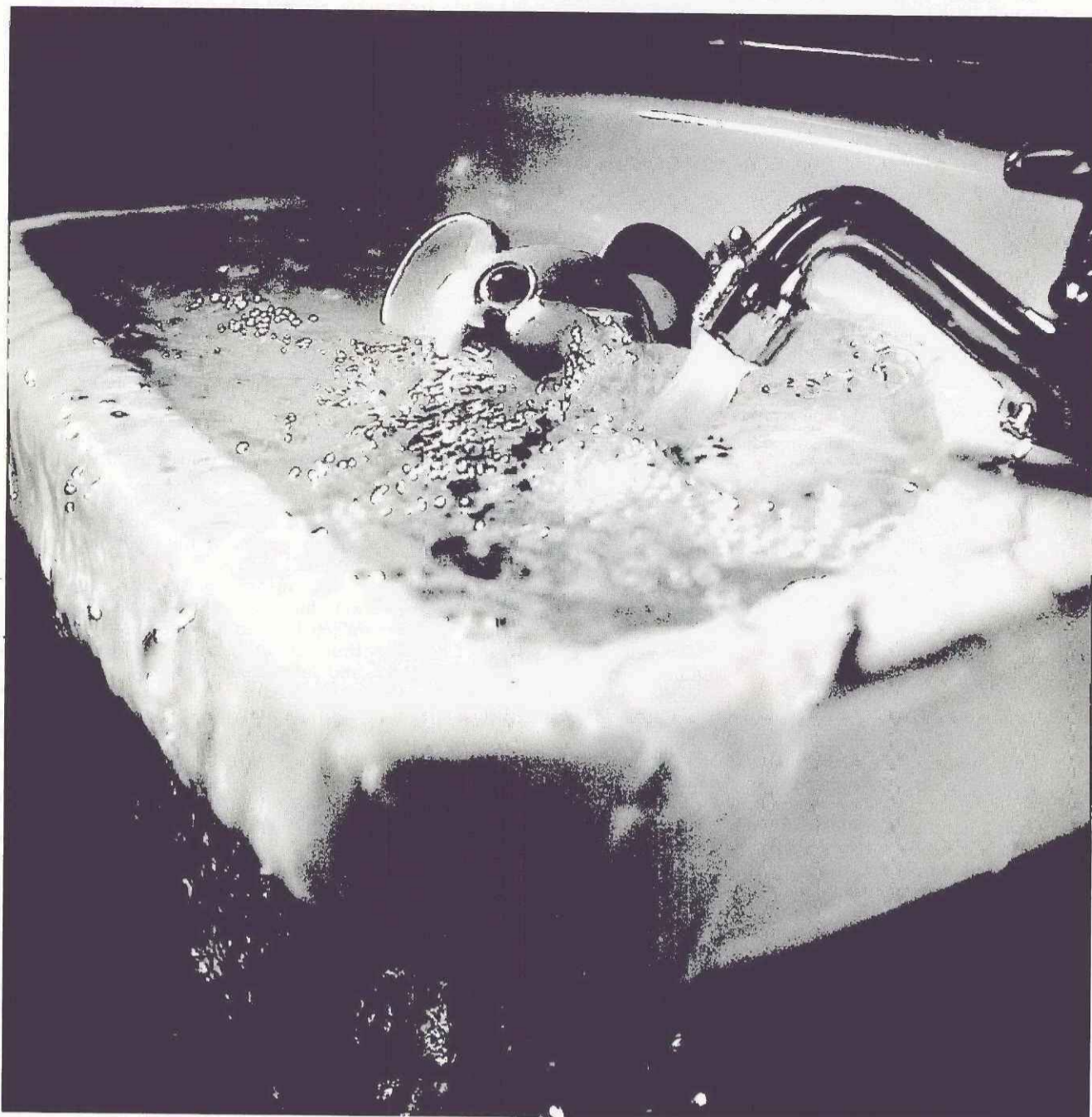
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## Markets

### Florida gains HMO

RANCHO CORDOVA, Calif.—Foundation Health Corp. has announced that its subsidiary, Foundation Health, A Foundation Health Plan Inc., has won approval from the Florida Department of Insurance to begin health maintenance organization operations in Florida effective immediately.

Foundation Health, of Rancho Cordova, Calif., has established a network of physicians and hospitals in the Orlando, Fla.-area counties of Orange, Osceola and Seminole and will begin marketing to employer groups for coverage effective as early as Jan. 1, 1995.

The company intends to intro-

duce several managed care products in Florida in the near future, including individual and family coverage, point-of-service, insured and self-insured PPO programs, term life coverage and workers compensation.

In addition to Florida, Foundation Health currently is licensed to conduct HMO operations in California, Louisiana and Texas and has HMO applications pending in Alabama and Oklahoma.

The company also has announced pending acquisitions of HMOs with operations in Arizona, Colorado and Utah.

### New U.S. Re branch

NEW YORK—U.S. Re Corp. has launched its first operations in

Europe with the opening of a Copenhagen, Denmark, branch.

General manager of the branch will be Mark K. Lucas, who had been general manager of Copenhagen branch of reinsurance intermediary Guy Carpenter & Co.

Opening the Copenhagen branch is part of New York-based U.S. Re's strategic plan to provide reinsurance consulting and brokerage services to clients worldwide.

The new European office is located at Abenra 19, Copenhagen, Denmark. The telephone and fax numbers are both 45-53-14-40-04.

### Comp cost control

GLENDALE, Calif.—Fremont Health Corp., a newly formed subsidiary of Fremont Compensation Insurance Co., will focus on integrating proven medical managed care techniques within a

workers compensation claims cost control program.

Specialty workers compensation writer Fremont Comp, based in Glendale, Calif., covers more than 17,000 employers. Fremont Health is now forming partnerships with industrial medical providers in selected regions of California.

Fremont has already invested more than \$1 million in a new computer system that manages workers compensation medical costs.

Fremont Health will also benefit from a strategic alliance in place between Fremont Comp and Electronic Data Systems Corp. EDS currently services 170 health care provider companies representing 30% of the insured U.S. population.

Fremont Comp also recently announced a joint effort with New York Life Insurance Co. and

MassMutual that will explore the development and joint marketing of 24-hour health care products for employers.

### Natural hazard service

SAN FRANCISCO—Guy Carpenter & Co. Inc. and EQECAT International have former EQECAT Inc., a joint venture to provide services to help insurance, reinsurance and other financial service firms manage risks related to natural hazards.

EQECAT links the resources of EQE, a leading engineering consulting firm in the natural hazards field, and reinsurance broker Guy Carpenter. Among the services provided by the new venture will be consulting, portfolio and single site analysis, software licensing, training and the distribution of information designed to keep clients current on the body of knowledge available on natural hazards.

EQECAT will be based in San Francisco and will operate principally out of San Francisco and Irvine, Calif., New York and London and Warrington, England.

### New HMO venture

MADISON, Wis.—Physicians Plus Insurance Corp., a Madison, Wis.-based health maintenance organization, and Employers Health Insurance Co., the principal operating unit of Green Bay, Wis.-based EMPHESYS Financial Group Inc., have announced plans to form a joint venture that will allow them to expand Physicians Plus HMO throughout south central Wisconsin.

Under the arrangement, Employers Health would own a substantial part of PPIC and have access to PPIC's closed-panel provider network, which includes Physicians Plus Medical Group and Meriter Hospital.

Physicians Plus would have access to Employers Health's range of employee benefit products, including group life and disability insurance, dental insurance and Section 125 plans.

The two parties will negotiate a definitive agreement over the next several months which will be subject to regulatory approval and the approval of the companies' boards of directors.

### New captive division

ITASCA, Ill.—Arthur J. Gallagher & Co. has formed Gallagher Captive Services, a new division that will be the focal point for the coordination of company-wide captive activity and business development.

Arthur J. Gallagher has been involved in the alternative market since 1962 through the development of risk sharing pools, risk retention groups, captives and other self-insurance vehicles, and company officials envision that the new division will be a logical extension of Gallagher's group captive activity.

The new division will be headquartered in Downers Grove, Ill. and will be headed by Kevin J. Doyle, vp-sales, and Catherine Duffin, vp-production management.

The division will work closely with Gallagher's existing Bermuda captive management operation.

### PCS biotech venture

PHOENIX—In an effort to improve the delivery and management of biotechnology drugs and

Continued on page 1

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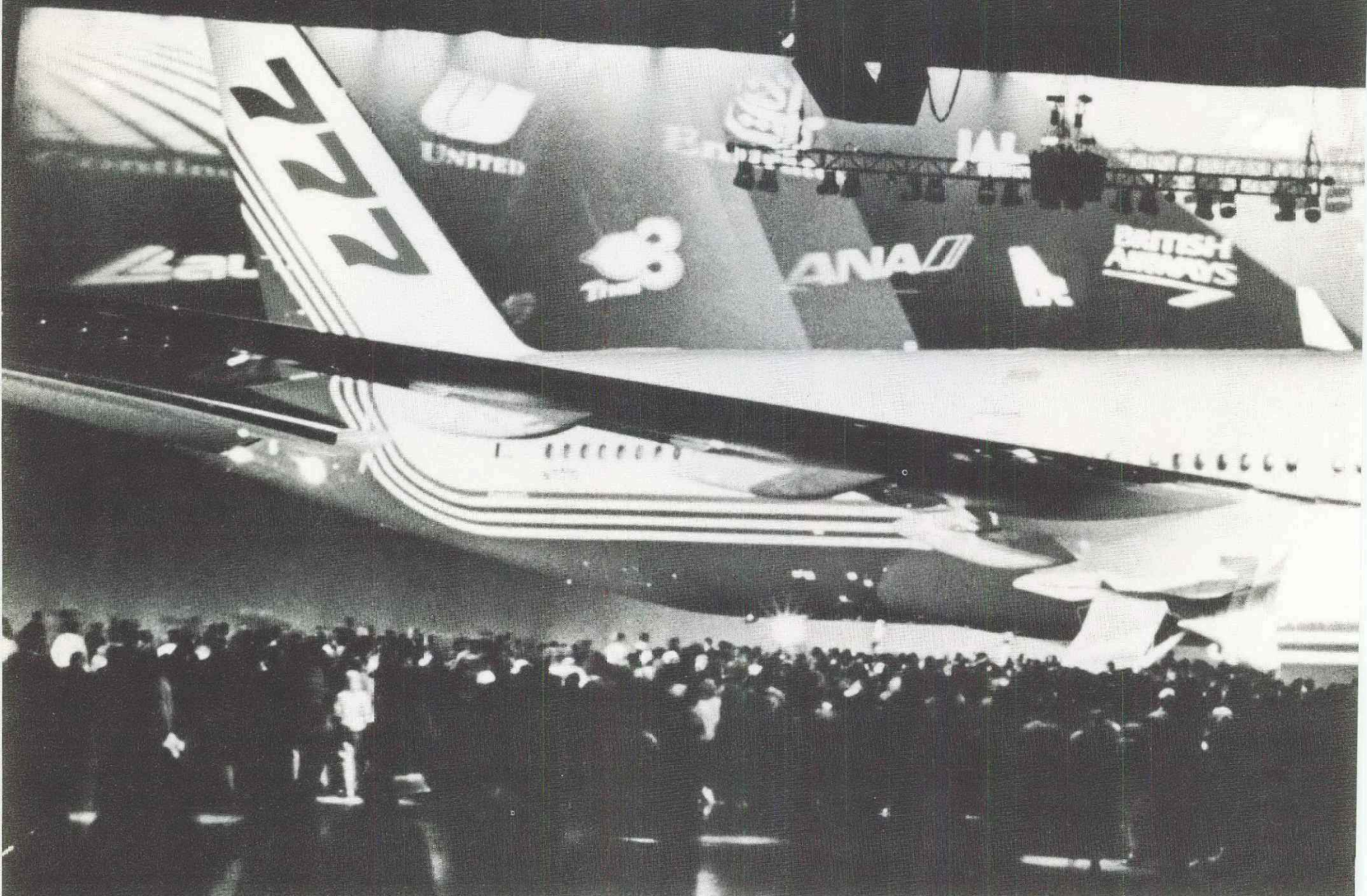
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## Markets

Continued from page 12  
other medical therapies, PCS Health Systems Inc. has formed Healthcare Delivery Systems.

The new division will work with biotechnology and drug firms to create drug-specific and patient-specific delivery systems for patients who require specialized drug therapies.

Among the areas in which Healthcare Delivery Systems will assist manufacturers are: providing cost-effective delivery of their prod-

ucts, both commercially and during clinical trials; collecting patient disease and drug therapy data and making that information available to physicians; and reducing the cost of drugs and therapy to patients by applying PCS's managed care capabilities.

Healthcare Delivery Systems also will: improve patient access by offering a wide choice of delivery methods; manage indigent-patient programs for manufacturers and provide reimbursement advocacy support to patients to help them obtain reimbursement from private and public sources; and facilitate compliance with patients' drug reg-

imens through patient/prescriber communication or by dispensing free drugs.

Phoenix-based PCS, a provider of managed prescription care services, is expected to be acquired by Indianapolis-based Eli Lilly & Co. (BI, July 18).

### P/C insurer acquired

BROOKFIELD, Wis.—The Mutual Group (U.S.) has agreed to purchase the Milwaukee Insurance Group Inc.

The purchase price, initially agreed to in May, was reported to be \$24 million in cash and other

considerations.

Based in Brookfield, Wis., The Mutual Group markets a range of employee benefit products as well as individual products, including life insurance and annuities.

Milwaukee Insurance Group provides property and casualty insurance through three subsidiaries: Milwaukee Guardian Insurance, Milwaukee Safeguard Insurance Co. and Alpha Property & Casualty Co.

### New offices

CIGNA Property & Casualty has opened three new branch offices.

One is in Seattle to serve agents and brokers in Alaska, Oregon and Washington, phone 800-235-2022, fax 206-654-8905.

A second is in Colorado to serve agents and brokers in Colorado, New Mexico, Wyoming, Utah and Idaho, phone 800-742-4135, fax 303-721-3222. The third is located in Phoenix to serve agents and brokers in Arizona, Nevada and Montana, phone 800-542-9937, fax 602-906-1595.

Broker Dawson y Correa has expanded its corporate insurance and surety business in Mexico to include a new office in Chihuahua. The new office will serve clients and prospects in the Chihuahua-Ciudad Juarez area and can be reached by phone at 521-410-5132 or by fax at 521-415-8166.

Lindsey Morden Claim Services Inc., based in Tyler, Texas, has opened offices in Reno, Nev., and Tucson, Ariz. The Reno office can be reached by phone at 702-827-4144 or by fax at 702-827-0443, and the Tucson office can be reached by phone at 602-751-8460 or by fax at 602-751-2890. **EI**



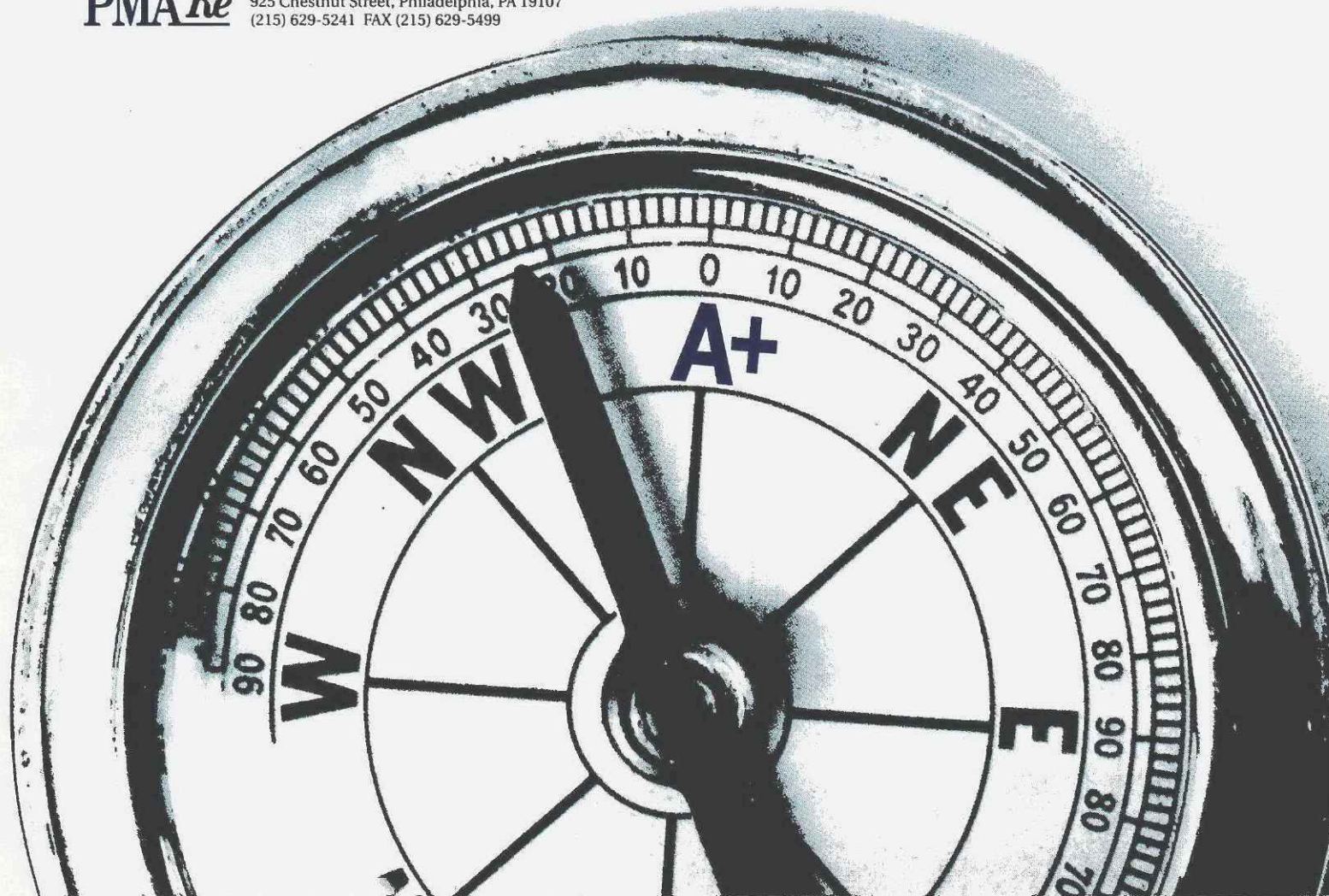
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## INTERNATIONAL

## Minimizing pollution exposures

By ROBERTO CENICEROS

Strict penalties motivate Canadian execs to avoid problems

WINNIPEG, Manitoba—The stakes for environmental offenses are getting higher—and much more personal—for executives at Canadian companies.

Regulators are prosecuting individual executives for environmental crimes rather than merely penalizing their corporation, warned a Toronto attorney during a session at the Canadian Risk & Insurance Management Society conference.

Roger Cotton, head of Tory Tory DesLauriers & Binnington's environmental group, said five corporate officers and directors have gone to jail in recent years. And, the Ontario Court of Appeals currently is deciding whether the former vp and president of Bata Industries Ltd., a shoe manufacturer, must pay \$6,000 each out of their personal—rather than corporate—funds. The fines were levied by a lower court for a 1989 incident involving waste product storage.

However, risk managers can protect themselves and their bosses.

Maintaining comprehensive company environmental policies is the most crucial and important step, Mr. Cotton said. Keep company policy in a binder near the key people who need it, he suggested.

"If all your company has is a one-paragraph or a three-paragraph policy, you're in the dark ages compared to your competitors," Mr. Cotton warned. "That is just a starting point. The courts and regulators look at those policy statements and just toss them aside as not a serious matter at all.

"You've got to have an (environmental) auditing procedure. You've got to spell out in detail what you are trying to do with that auditing procedure, how frequently it's going to happen. Show who is going to do it and so on."

A clear chain of command for reporting problems is also essential. Workers and managers need to know exactly what and where to report.

"The state of the art today is spelling out exactly what comes

up to the board of directors and what they are going to do about it," Mr. Cotton said.

And environmental policy terms such as "major" should be defined in-house so that directors are apprised of important information but not bothered with insignificant data.

"Boards today are passing board resolutions that define what major is," Mr. Cotton said. "If you don't bring things to the board that they should have heard about, you're in trouble."

Company policies should contain all relevant information, such as hazardous-waste transportation and health and safety issues. This information should be accessible 24 hours a day to anyone who may need it in an emergency.

"What kills us as lawyers all the time is an employee who says, 'Yeah, I've heard of that procedure, but I can't find it.'"

The policy should be tested to determine effectiveness under different circumstances. Mr. Cotton even suggested conducting simulated accidents at 2 a.m.

Several members of the audience noted that inevitably, some company directors cannot be convinced to create defined environmental company policies.

In that case, risk managers must make sure they don't become the focus of government investigators, Mr. Cotton responded.

"You have to protect yourself," he said. "Make sure you've got your file in shape so you can survive a review (by government investigators). People come to me all the time in frustration and say, 'I've told (my bosses) three times if they don't do this we're going to have a spill.' I say that is fine as long as you have it in your file and can show (investigators) that you took individual due diligence. If you took all reasonable care, you're going to be OK. They're going to be in trouble, but you're going to be OK."

Following the session, Len Griffiths, an attorney with Tory Tory DesLauriers & Binnington representing Bata, said he has reviewed literature in the United States, Europe and Australia, but has not found laws that go as far as the one being weighed by the Ontario Court of Appeals.

The former Bata Industries Ltd. executives were not directly responsible for the storage of the waste material that led to this case. Yet, the lower court ruling that fined them came under a 1986 law that holds company officials personally responsible if "reasonable care" was not taken to prevent pollution.

John J. McKernan, vp of Dale Intermediaries Ltd. insurance brokers in Toronto, also addressed the session.

Environmental reports are crucial when shopping for insurance policies, he said. He added that tough economic times in Canada have spurred the growth of several environmental consulting firms. As a result, now more than ever, risk managers must pay close attention and hire firms with a reputation for delivering sound guidance.

"Don't be impressed by one that (presents) a bound multipage technical document," said Mr. McKernan. "You'll never get a corporate director to read it, let alone act on any of its content."

Risk managers also need to make sure that hired consultants understand the terminology of the trade.

"With the economy being what it is, there are a large number of people hanging up shingles saying,

'I am an environmental consultant. I specialize in ground water studies, air and emission studies.' These people have not been exposed to this whole spotlight of indemnification and liability, Mr. McKernan warned.

Choosing an environmental attorney to review reports and policies can help.

"One of the things I've learned is that words like spill, accident, rupture, contaminant, leakage have different meanings," Mr. McKernan said. "And apparently not all consultants are up to speed on the legal interpretation. If you put out a report based on these terms and it gets in the wrong hands, it can be very difficult to defend your position."

Many consultants do not carry professional liability coverage, but purchase it on a case-by-case basis, and only when contracts demand. It's generally a matter of cash flow and expensive premiums, Mr. McKernan said. After the session, he added that he did not know of any companies that have been stung by hiring consulting firms that lack experience or professional liability insurance.

The session was moderated by Maurice J. Smith, director of risk management and corporate real estate for CCL Industries Inc. in Willowdale, Ontario. **BI**

## Global Briefs

## Generali acquisition

TRIESTE, Italy—Assicurazioni Generali S.p.A. has acquired a 27.9% equity stake and 55% of the voting rights in Swiss insurance group, Fortuna Holding.

The acquisition gives the Trieste, Italy-based insurer stakes in five of Fortuna's insurance subsidiaries in Switzerland, Germany and Spain, as well as an investment subsidiary in Switzerland. The acquisition cost 77 million Swiss francs (\$60.2 million), a Generali spokesman said.

The impetus behind the acquisition is to strengthen Generali's stake in the Swiss market, the spokesman said. Generali has a 2% share of the Swiss market through its interests in Union Suisse Cie. Generale d'Assurances and Familia

Lebensversicherung-Ges.

The four Fortuna subsidiaries in Switzerland in which Generali now has an interest are: Fortuna Lebensversicherung-Ges., Fortuna Personalversicherung-Ges., Fortuna Rechtsschutzversicherung-Ges. and the investment company, Fortuna Investment A.G. All of the companies are based in Adliswil, Switzerland.

The deal also includes Fortuna subsidiaries Fortuna Espana Seguros De Vida S.A. of Madrid, Spain, and Fortuna Lebensversicherung in Germany.

"The Spanish and German companies will be integrated into the group but the strategic aspect was Switzerland," the Generali spokesman added.

—By Maria Kielmas  
Briefs continued on page 30

AP/Wide World photo  
The AT&T satellite was lost after this launch in French Guiana.

## \$187 million satellite loss is insured

By MARIA KIELMAS

A \$187 million claim is expected following the loss of an AT&T Corp. Telstar 402 satellite launched by Arianespace.

The satellite was declared a loss shortly after its separation from an Ariane 42L rocket that was launched from Kourou, French Guiana, on Sept. 9.

The cause of the loss is not yet known, according to Simon Clapham, underwriter for the Marchant Space Consortium, which is the London lead underwriter on the risk.

The Marchant Space Consortium, a group of 20 Lloyd's syndicates, wrote a \$9 million layer of coverage for the satellite, Mr. Clapham said. He confirmed that the satellite was insured for \$187 million.

The loss will come under launch and orbit coverage, which includes the first six months after launch, sources say.

Roughly 45% of that coverage was placed in the U.S. market, 20% in the German market, 20% to 25% in the London and other interna-

Continued on page 20

## More German firms turning to captives

By DON LEWIS KIRK

Prompted by an economic recession, rising commercial insurance rates and expanding liability exposures, more German companies than ever before are interested in forming captive insurers.

Automobile giant Daimler-Benz A.G. is among the most recent, announcing it will launch a reinsurance captive in Luxembourg in 1995 (see story, page 24).

"It's long overdue," said Henner Gottschling, president of debis Assekuranz Versicherungsvermittlungs GmbH, Daimler-Benz's insurance brokerage. "We should have done this long ago to build our reserves."

Although German tax authorities have yet to resolve their official position on the formation of

captives in domiciles like Luxembourg that offer tax advantages to parents, insurance market conditions are prompting German companies to go ahead with captive formations.

"Companies like ours were hesitant to take the step," Mr. Gottschling said. "But we found premiums for our large risks did not reflect our losses," he says. "And we are not alone."

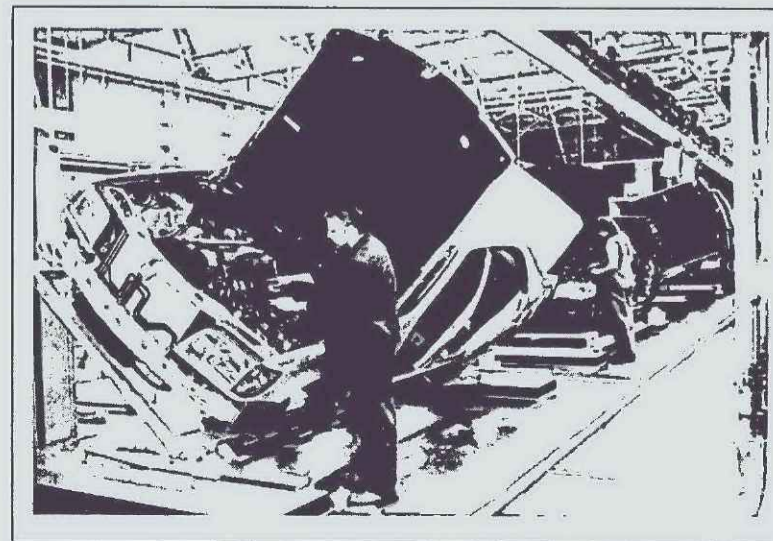
One of the most notable examples of German captive formation occurred in December 1993, when leading chemical giants BASF A.G., Hoechst A.G. and Bayer A.G. formed the first German group captive, Indurisk Reinsurance A.G., in Luxembourg (BI, April 18). Indurisk reinsures its parents' self-insured retentions for environmental liability risks.

German companies in greater numbers contend that traditional insurance has lost its luster for some risks.

"We're not declaring war," said Fritz-Juergen Cremer, director of Hoechst's in-house broker, Hoechst Versicherungs A.G., and chairman of the insurance division of the Federation of German Industries. "We just believe we can assess our own risk better" than an insurer, he said.

"The interest for captives is like a fever spreading to the most unlikely places," said Dieter Schwanke, senior executive of the L. Funk & Soehne GmbH, a subsidiary of the Funk Group, Germany's third-largest brokerage. "Hospitals, mid-sized companies, we've seen companies that can't

Continued on page 24



AP/Wide World photo  
Daimler-Benz A.G. is one of the latest German firms to turn to captive insurance.

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A flexible approach which

their particular challenges.



## INTERNATIONAL

## Getting the risk management message out

By ROBERTO CENICEROS

WINNIPEG, Manitoba—Publishing a newsletter can help risk managers establish their worth to their organizations, educate employees and even make the job easier, a Canadian risk manager says.

"If your company doesn't know you're around and doesn't know what you are doing, you're not going to be around," said Glen Frederick, who is manager of risk management operations for the province



of British Columbia.

Educating executives, managers and workers with a publication also can make it easier to perform risk identification audits of company departments, Mr. Frederick said last week at the Canadian Risk & Insurance Management Society conference in Winnipeg, Manitoba.

"If you show up in somebody's office and say, 'I'm here to do a risk identification for your department today,' (and) if they don't have any idea what risk identification is, you end up spending two hours telling them," he said. "I prefer to let them know through one of our publications."

Mr. Frederick's department pro-

duces three risk-education newsletters with a combined circulation of about 5,100.

"At Risk" goes to government ministries and government-owned corporations.

"Risk Ed" is read by school principals. And, "Risk 101" is tailored for college and university presidents and safety officers.

One story published in issues of both education newsletters warned administrators to ensure that groups using their facilities take responsibility for their own risks.

Mr. Frederick said he knows the newsletters are widely read because he receives telephone calls requesting copies. He also sends

out questionnaires seeking comment, criticism and story ideas.

Among his tips for producing a newsletter are:

- Determine the exact cost before approaching executives with the idea.
- Stick to a regular distribution schedule.
- Solicit the help of the communications department and invite employees with proven expertise to provide articles.
- Keep risk management messages consistent with the corporate identity. That can be accomplished by setting up an editorial board of no more than eight people responsible for the overall content but not the specific infor-

mation contained in each issue.

"Be careful. Don't let them take it away from you," he said.

• Don't use risk management or insurance jargon, and keep the article to about 600 words. Complex stories can increase a risk manager's workload because readers will call for clarifications.

• Never assume that statistics given to you are accurate.

"If you lose credibility in one issue, it takes a lot of issues to get it back," Mr. Frederick warned.

An estimated 35% to 40% of Canadian risk managers produce newsletters. **BI**

## Canadian RIMS meeting draws a crowd

WINNIPEG, Manitoba—One of the sure signs of success for this year's Canadian Risk & Insurance Management Society conference came when almost 500 people showed up for an Irish Pub opening reception.

Conference planners were only expecting about 300 to attend the Sunday night event, said Richard Girden, publicity chairman for the Manitoba chapter of RIMS, which hosted "Harvest '94" last week in Winnipeg.

About 450 registered delegates attended a brunch, breakfasts, lunches, sessions and workshops held at The Westin Hotel from Sept. 11-14. Twenty-six companies presented exhibits and most of the better hotels in Winnipeg were fully booked.

Opening session speakers included Roger Cotton, whom conference organizers billed as Canada's most prominent environmental attorney. Another featured speaker was Mike Sutton, the first Manitoban ever to reach the summit of Mount Everest.

Next year's Canadian RIMS conference will be held Oct. 15-18 in Vancouver, British Columbia. Hotels in that popular destination are expected to book up soon.

"A lot of people will be reserving as soon they get back to their offices," Mr. Girden said.

For information on the 1995 conference, contact Keith Gibson, 604-273-4770. **BI**

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## Satellite

Continued from page 17  
tional markets and 12.5% in the French market.

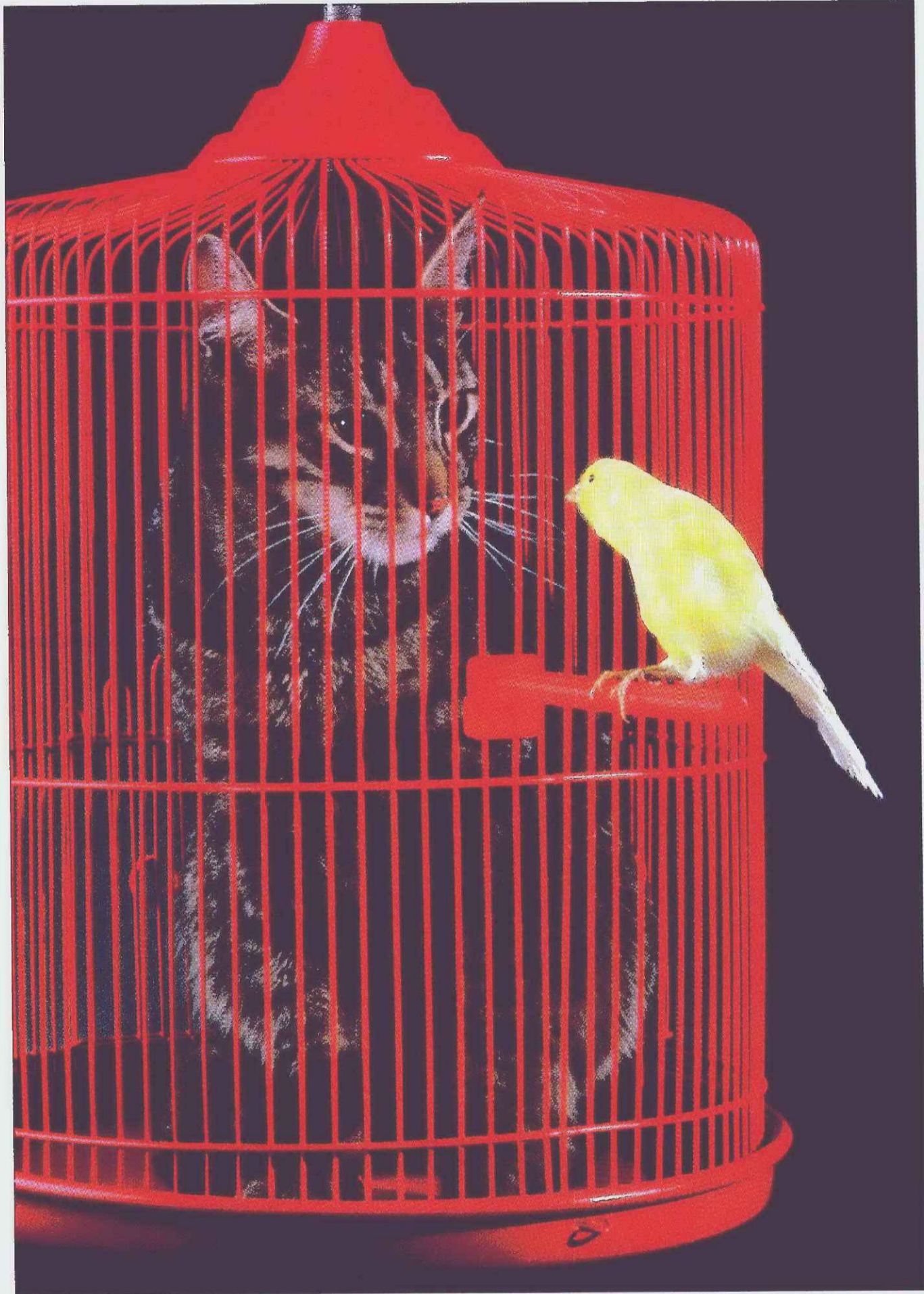
Bowring Space Projects, a unit of Marsh & McLennan Cos. Inc., was the broker for the risk.

Mr. Clapham said AT&T has assembled a panel that includes representatives from Martin Marietta Corp., the satellite's Bethesda, Md.-based manufacturer, to investigate the event.

It is the second satellite loss this year stemming from a launch by Arianespace, the European Space Agency's launch operator.

In January, the \$356 million loss of an Ariane V63 launch vehicle in French Guiana was one of the satellite insurance market's greatest losses to date (*BI*, Jan. 31).

That crash ended Arianespace's record of 19 successful launches in the past three years (*BI*, March 22, 1993). **BI**



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## INTERNATIONAL

## Rate increases drive Daimler-Benz to form captive

STUTTGART, Germany—German manufacturer Daimler-Benz A.G. expects big savings, as well as new business opportunities, in forming a captive insurer.

The Stuttgart-based maker of Mercedes Benz automobiles and other products is the latest of several German companies fed up with rising insurance rates and looking to alternative risk financing.

Daimler-Benz hopes to have its

captive up and running by early 1995, said Henner Gottschling, chairman of debis Assekuranz Versicherungsvermittlung GmbH, the company's in-house insurance brokerage, which is coordinating efforts to start the captive.

"At first, it will be a reinsurance captive for property, business interruption, transport and contractor insurance," he said. "Later, we plan to cover liability insurance."

Daimler-Benz initially is planning, through debis Assekuranz, to provide coverage to its aerospace, electronics and automotive subsidiaries—DASA A.G., AEG A.G. and Mercedes Benz A.G.

But eventually it plans to allow other German and non-German companies to join its captive, said Mr. Gottschling, noting that debis Assekuranz already serves as an insurance broker for other corporations and foreign companies.

"It's the Daimler strategy," he said. "What we have tested and found good should be applied to others."

The company expects the captive reinsurer will translate into big savings.

"We have a loss ratio of 16% and our premium doesn't reflect that," Mr. Gottschling said. "We are also worried about the fact that Daimler could one day end up without adequate insurance in

certain sectors, because its insurers can't find enough reinsurance capacity."

Daimler-Benz has suffered from German insurers' attempts to clean house by forcing higher rates, said Mr. Gottschling.

"We were finding that the reinsurer, not the primary insurer, was coming to Daimler facilities to assess risk. Why don't we just deal with the reinsurer directly without fooling around?" he questioned.

"That is why we decided to form a reinsurance captive. We decided to offer the reinsurance ourselves," he said.

Eventually, he added, debis Assekuranz plans to enter the international reinsurance market with the captive, helping other companies to lower their insurance costs. "We want to work in the market as a reinsurance factor."

Mr. Gottschling recalled that when he came to Daimler-Benz A.G. three years ago he was amazed it didn't already have a captive. "I asked, 'Where is your captive?' not 'Do you have one?' I was amazed they didn't have one."

—By Don Lewis Kirk

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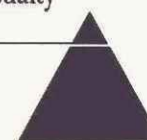
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## Captives

Continued from page 17

afford or administrate captives make decisions we can't believe, just because everyone else is doing it."

Edmund Stroesser, insurance broker for Jaspers Industrie Assekuranz GmbH, agreed: "Captive is a catchword stirring the imagination of every big company. We've had lots of companies ask about captives that can't afford them."

But a spokesman for Jauch & Huebener warns: "Companies should have at least 2 million deutsche marks (\$1.3 million) in premium before they even think about captives. Captives are not a cure-all."

Several factors have infected the corporate buyer with the captive bug, according to Jochen Schelle, executive partner of broker Jauch & Huebener in Hamburg.

"Price, limits on coverage or lack of coverage, cash-flow possibilities and participation in better risk (financing) conditions compared with competitors will lead to more captives," he predicted.

Higher rates are a large thorn in the side of many buyers, who have criticized Germany's rating system for large industrial risks, which are set by quasi-cartel commissions called KOKOs (BI, Feb. 14). In an attempt to return insurers and reinsurers to profitability KOKOs have pushed through rate hikes of as much as 300% in some cases.

"We consider KOKO a carte that dictates prices," said Mr. Gottschling of Daimler-Benz' broker unit. "We have no tolerance for higher rates, when our loss ratio is so low," he said.

"We know that insurance only works because the good risks help pay for the poor. But when we are constantly dictated rates and told we have to accept certain conditions or clauses, that we should be grateful that we get insurance at that rate, then we look for alternatives," he said.

Mr. Gottschling admitted he hoped Germany's new captive fever would put enough pressure on insurers to force them to scale back rate increases sought by th

Continued on page 18

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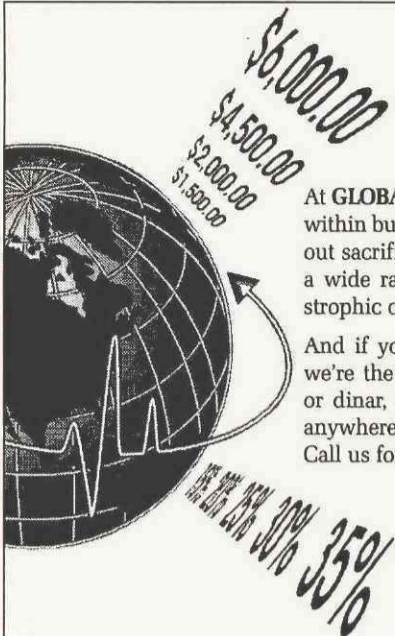
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**Captives**

*Continued from page 24*  
 KOKOs. "But that did not happen," he said. "That's why we started the project at the beginning of the year."

And German insurers show no sign of relenting, Mr. Gottschling said. "So be it," he said. "I don't see it as a short-term measure to soften the market. I see it as a long-term strategy," he said of the captive trend.

Rates have also gone up as a result of environmental impairment liability coverage requirements. Germany mandated in 1992 that companies purchase minimum EIL coverage limits of 160 million deutsche marks (\$103.7 million) for personal injury and 160 million deutsche marks for property damage arising

from pollution caused by normal operations.

However, insurers could provide only a fraction of the capacity needed to meet those statutory levels of coverage, offering only about 20 million deutsche marks (\$13 million) in limits.

As a result, many of Germany's chemical giants have decided to go it alone.

"All things considered, we opted for a captive solution," said Karl-Heinz Jaeger, BASF's risk manager and director of its domestic reinsurance captive Lucura Reinsurance GmbH.

Other companies with recent captive formations include Quelle Schickedanz A.G., Germany's largest mail order house, which formed a Dublin-based captive in January. "Our captive keeps profits in the group," said a Quelle finance department executive. "It also gives us better control of our insurance coverage, reduces costs and provides access to the international reinsurance market. We also improve risk management. Of course, we have potential losses, but they're reduced by stop-loss limits."

As further evidence of dissatisfaction with the German insurance market, Munich-based Siemens A.G., one of the first German corporations to set up an insurance cap-

**'All things considered, we opted for a captive solution,' says BASF's Karl-Heinz Jaeger.**

tive in Dublin, now is looking to bring its entire property insurance and business interruption risk to the U.S. market.

Its Dublin captive, Siemens International Insurance Co. Ltd., underwrites 10% of the group's fire insurance. Siemens does not plan to form a new captive or expand its current captive's business.

Despite the boom in captive interest, J&H's Mr. Schelle cautioned that German regulations still hold some pitfalls for captives. "Caution is still advised for German companies, when it comes to tax aspects," he said.

"German tax authorities are suspect of captives," agreed Hauprecht Freiherr Schenck zu Schweinsberg, director of Westdeutsches Assekuranz-Kontor, the in-house broker for Krupp A.G. "If it looks anything like a tax haven, watch out."

If the German government does not approve a captive arrangement, the parent will face additional taxes.

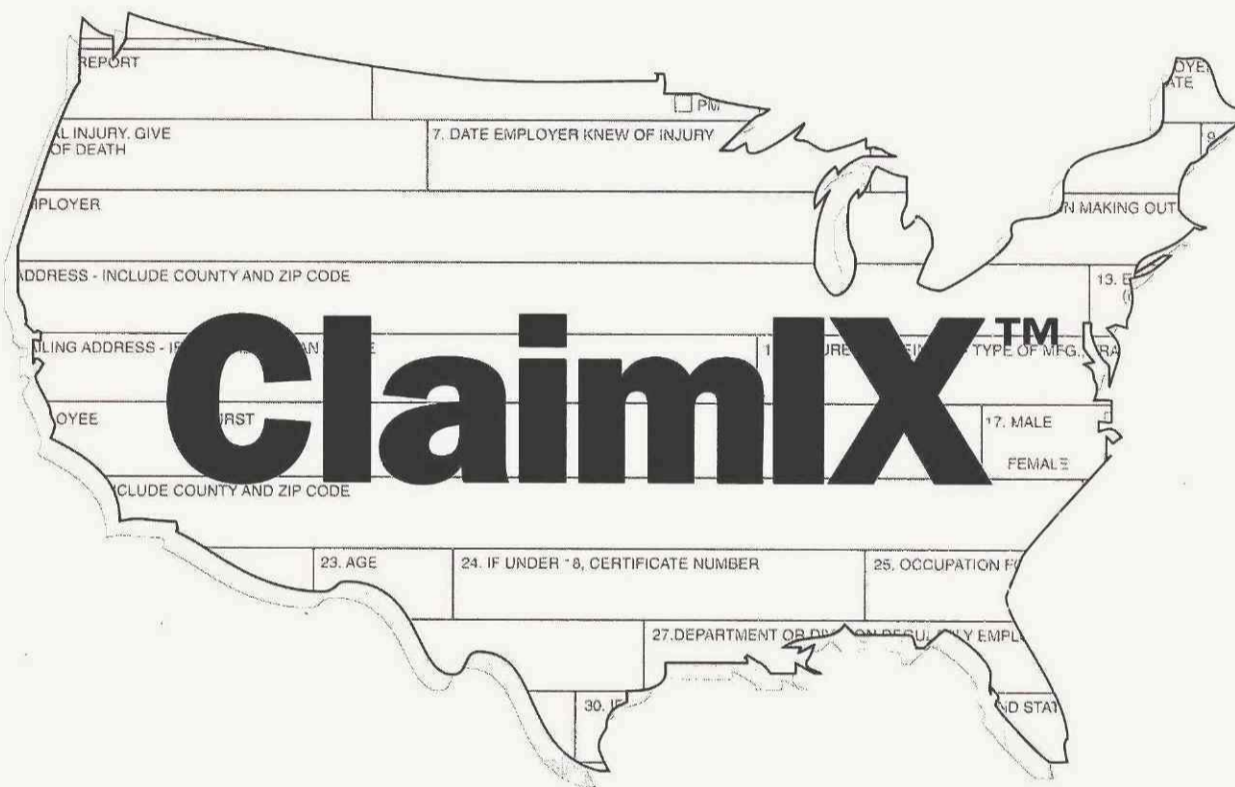
The structure of German laws compounds the problem.

"In Germany, each region has authority to approve tax exemptions for companies which transfer funds to a captive and some regions are more liberal than others," said Mr. von Schenck.

But formations like Indurisk show it can be done. Germany's big three chemical manufacturers not only have tax advantages in Luxembourg they wouldn't necessarily get in Germany, "they have gained a greater independence from traditional insurance, which is subject to large premium fluctuation," said Mr. Jaeger of BASF.

In addition, German companies say captives allow them to insure risks that traditional insurers refuse to cover, like flooding.

"If a lot of your risk is non-insurable, as it is with our environmental liability, it's a natural course," Mr. Jaeger said. **BI**



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## INTERNATIONAL

## Global Briefs

## Health rates to drop

German health insurance rates appear likely to drop in 1995.

"I'm optimistic at least some health insurers can cut rates in 1995," said Eckart Fiedler, director of the Federation of German Sickness Funds.

The Federation of German Guild Sickness Funds, or IKK, announced it will lower rates by at least 0.2%

this year. Several other sickness funds are expected to follow suit.

German sickness funds, which act as health insurers and make up the backbone of Germany's health care system reported first-half 1994 profits of 792 million deutsche marks (\$499.2 million) in western Germany and 420 million deutsche marks (\$264.7 million) in eastern Germany. The largest sickness fund in eastern Germany, Barmerersatzkasse, reported profits of 300 million marks (\$189.1 million) and a substantial rate cut is planned for October.

The anticipated decrease in insur-

ance rates comes despite a 6.4% increase in health care costs for the first half of 1994. Total health care expenditures for the first six months were 102.4 billion deutsche marks (\$64.5 billion), while sickness fund contributions were 103.2 billion marks (\$65.1 billion).

German Health Minister Horst Seehofer attributed the increase in costs to "normalization" after extremely low increases in health care costs last year. A wide-reaching 1992 health care reform law went into effect in Jan. 1, 1993. It led to Germany's first surplus last year. Health

care costs rose only 3.6%.

"In 1993, health care costs rose at about half the rate of wage and salaries," Mr. Seehofer said. "In nearly all areas, the reform has led to savings."

Wolfgang Schmeinek, director of the Federation of Company Sickness Funds, agreed. "Caps on drug costs and doctors fees created an extreme reduction in 1993. What we see now are more realistic costs."

He said there's still a ways to go. "We still have problems with hospital costs, which account for post-sickness fund outlays. We need

greater tabs on costs. That would affect nearly a third of what we pay."

Prescription drug costs, which fell 20% in 1993, increased 6% in the first six months of 1994. At the same time, the amount patients paid for medicine increased. Overall, Germans paid nearly 2 billion deutsche marks (\$1.3 billion) more out of their own pocket for medicine in 1994 than in 1993.

—By Don Lewis Kirk

## German insurance losses

German insurers had a rough year in 1993.

The German Insurance Assn., which represents the nation's insurers, reported total underwriting losses of 194 billion deutsche marks (\$111.7 billion) last year, 11% worse than the 175 billion deutsche mark (\$108.1 billion) loss posted in 1992.

Factors such as car theft, corporate bankruptcy and storm damage caused a "claims explosion," the association said. Return on capital investments was the only factor keeping companies in the black.

German insurers' gross premium volume in 1993 reached 197 billion deutsche marks (\$113.5 billion) a 9.4% jump from 180 billion (\$111.2 billion) in 1992. Most of the increase came from the highest loss sectors, private health insurance and fire insurance, which saw premiums rise 12.5% and 12.4% respectively.

—By Don Lewis Kirk

## Multinationals eye U.K. pension reform

Pension executives at U.S. multinational companies fear a U.K. pension law reform proposal will diminish their control of U.K. pension plans, warn consultants at Towers Perrin in Newbury, England.

Recently back from a trip in which they met with pension executives at about 60 U.S. companies, Towers Perrin consultants say U.K. defined benefit plans are falling victim to more government regulation. Ultimately, this might drive employers to switch to defined contribution or hybrid plans.

The U.K. government's White Paper released in June contained three proposed elements that upset U.S. pension executives, said Lawrence Clark, a principal at Towers Perrin. Proposed legislation will be unveiled this fall for enactment in the next parliamentary year.

First, imposition of mandatory cost-of-living adjustments could impose a significant cost burden on employers. Second, the proposed requirement that plan participants comprise at least one-third of board of trustees alarms employers, who worry such trustees will cause the fund to make more conservative—and ultimately more costly—investments. Third, creation of a minimum funding standard also could steer funds into more conservative investment policies. Participant trustees might worry about explaining a short-term dip below full funding to fellow workers, Mr. Clark said.

But some U.K. pension experts say participants have never impaired investment policies. "We have not experienced any difficulty whatsoever in the 11 years in which we've had member trustees on board," said Peter White, group pensions manager for Tate & Lyle P.L.C. in Bromley, England.

The 480 million pound (\$746 million) pension fund is split evenly between employer- and employee-nominated trustees.

—Crain News Serv.

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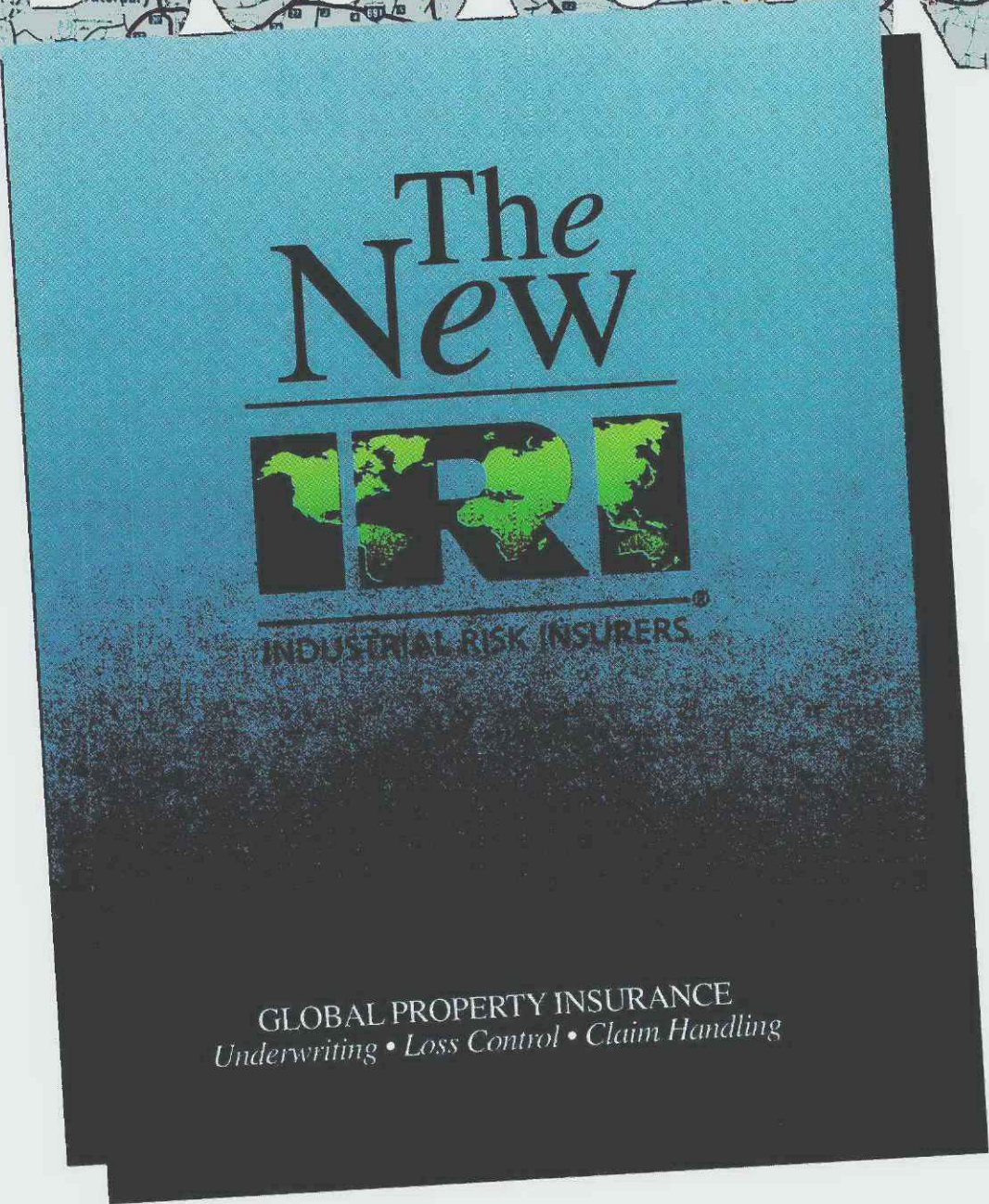
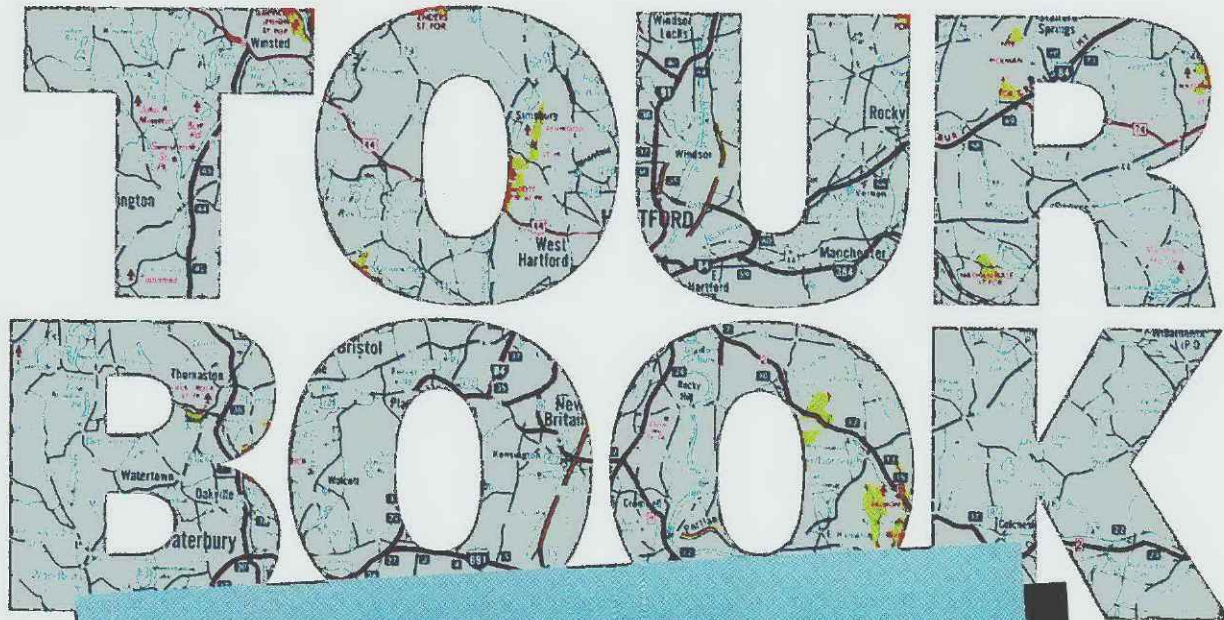
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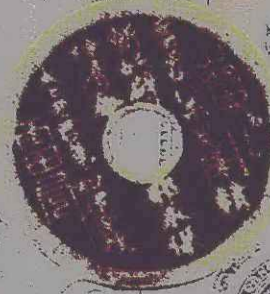


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CANADA

# Ameritech

Continued from page 2

two years of early retirement credit as part of the downsizing.

At the time he was laid off, with the early retirement credit Mr. Kaforski was only three months short of the length of service required for full pension benefits, which would have provided him a lump-sum payment of just over \$200,000 plus full medical coverage for himself and his wife. It's the medical coverage he really misses, which Mr. Kaforski said he thinks is the greatest loss for downsized workers in their 40s or 50s.

"Dollars don't mean a whole lot today, but the medical (coverage) does," he said.

With the change his group proposes, a worker in his situation would receive a prorated distribution of the full pension benefit and a similar portion of the medical coverage offered at full retirement.

Bob Batey, manager of benefit planning at Ameritech, said, "Ameritech really did make every effort it could to really care for people" in its downsizing. He noted, too, that Mr. Kaforski's benefits enhancement had "at least a doubling effect" on his vested pension.

Mr. Batey acknowledged that Mr. Kaforski fell short of qualifying for the full retiree medical benefit, but stressed that he fell short even after adding the two years to age and service that Ameritech credited downsized workers to see if they qualified for the full benefits. "It wasn't like he just missed it by three months, he missed it by two years, three months," Mr. Batey said. "That's going to happen any time. You can't bankrupt the company, and that's essentially what you're facing."

If federal law were changed to apply a linear distribution method to retiree medical benefits, "you'd see a lot of people getting rid of retiree medical altogether and just saying, 'You're on Medicare,'" Mr. Batey said.

While Mr. Kaforski said he has a mailing list of 1,100 downsized Ameritech workers, he added that his group's active membership includes "probably a couple of hundred I can actually call on to write letters."

The group is starting to see interest from workers downsized from other companies, though, and Ameritech Downsized Workers might expand its membership to include them, he said.

Once the debate over health care reform in Congress dies down, Ameritech Downsized Employees will begin lobbying for changes in the federal Employee Retirement Income Security Act that would require linear distribution of benefits, Mr. Kaforski said. The group would also seek the inclusion of retiree medical benefits under ERISA vesting rules.

"We're going to find a (congressional) sponsor, and that's all we need," he said. "And once we get a sponsor, that's when the hard work begins, because I'm sure these companies are going to lobby hard against it."

The group also approached Illinois State Sen. Ed Petka, R-Plainfield, who said he has asked his staff to determine if there is "any federal pre-emption that might apply here" and, if not, to "offer suggestions as to any language we might use to go forward with linear distribution."

Paul Perry, a partner in the Human Resource Advisory Group of Coopers & Lybrand in Minneapolis, said attempts to achieve a linear benefit distribution on a statewide level likely would be pre-empted by ERISA.

"Typically, if it relates to the retiree medical plans or the pension plans, unless there's some sort of fed-

eral provision which permits it, it would be pre-empted," he said.

Mr. Perry noted the existing federal rules that govern pension benefits and retiree medical benefits "are pretty significantly different."

Essentially, retiree medical coverage is not subject to the same vesting and accrual requirements as pensions.

Pension rules prohibit employers from "backloading benefits," or vesting an employee at \$1 per year, for example, and then providing a \$100,000 benefit after 30 years, Mr. Perry said. However, actuarial concerns in the rules do allow for a significant drop-off in the vested pension benefit if the employee falls far short of full retirement.

"(Pension) benefits are prorated, so to speak, but it's not linear," said Joe Walshe, a partner in Coopers & Lybrand's Human Resource Advisory Group in Washington. "There are actuarial reductions in what the bene-

fit itself is at any given point in time." For example, assuming a 30-year time frame for full retirement, the actuarial reduction for leaving 15 years early may well be more than 50% of the total benefit, he noted.

Given the extent of that actuarial fall-off, a linear distribution method would sharply drive up employers' benefit costs.

"If they are talking about having some sort of linear accrual, obviously that would be a great cost to employers and would cause them to rethink how they offer some of these benefits," Mr. Perry said.

But, as health care reform fades on Capitol Hill, the stage may be set for Washington's focus to switch to retirement income security, said Mr. Walshe, noting that the concept of linear distribution might find some receptive ears.

"I think we are on the verge of a very major debate in this area that will take place next year," he said.

Linear benefit distribution might be "way ahead" of where members of Congress are on the retirement security issue today, he said, but "it would make sense that this may well surface during that discussion."

If such a measure were ultimately adopted, it could accelerate the trend of companies moving away from defined benefit plans and toward defined contribution programs.

"If you take the employer-provided pension system, which is already somewhat of an endangered system, and you put more pressure on employers and say, 'Your costs are going to go up because of these changes,' how many of them are going to say, 'All right, that's it, we're not doing this anymore?'" Mr. Walshe said.

Lynn Dudley, director of retirement policy for the Assn. of Private Pension & Welfare Plans in Washington, noted that typically the pension plan sponsors that form her

group's membership offer enhanced benefits to downsized workers.

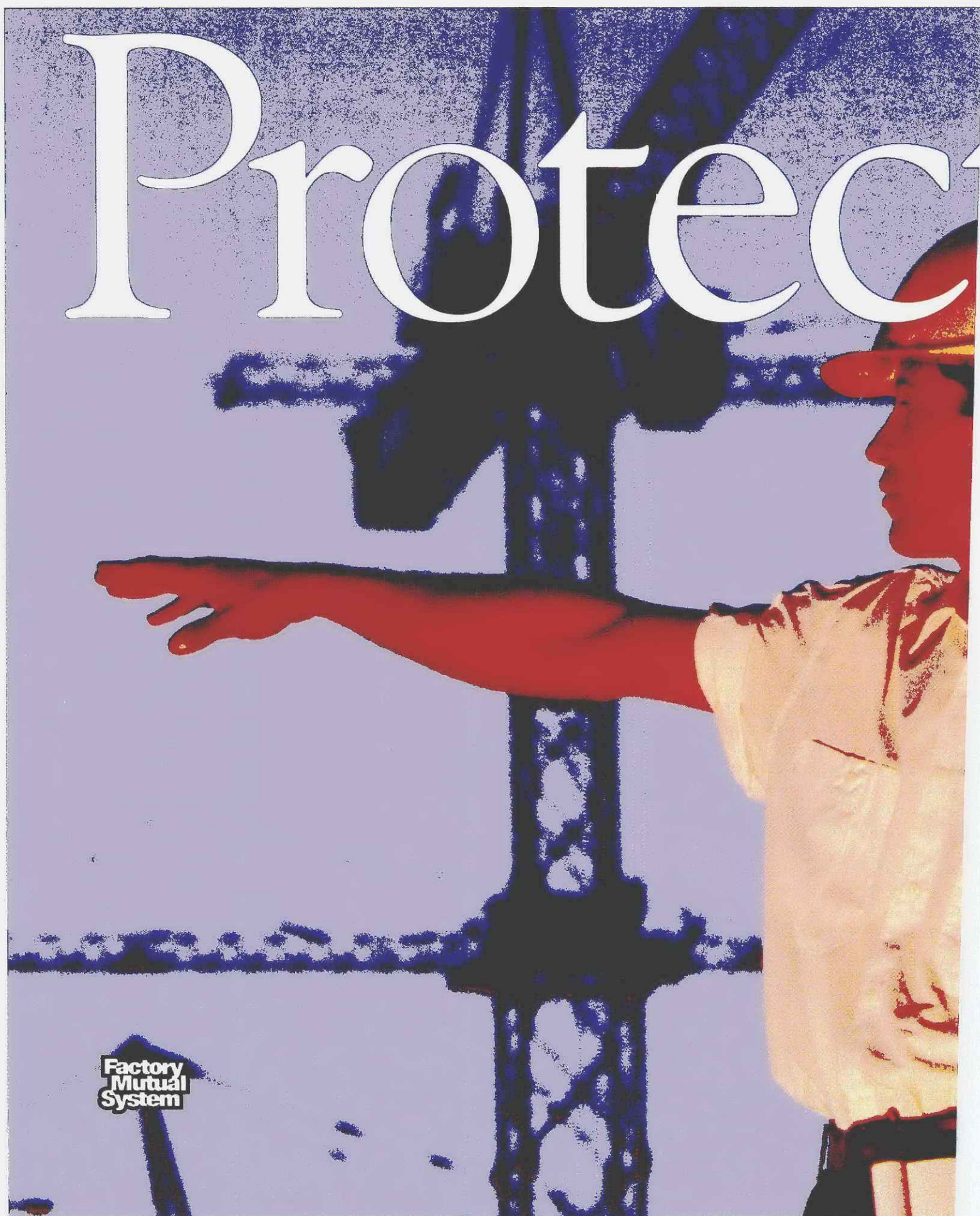
"My experience has been, if anything, we have had to seek exemptions to the discrimination law to allow greater benefits to people who have been downsized," she said.

Pension non-discrimination laws prohibit employers from unfairly favoring highly paid employees.

Still, a federal law requiring a linear distribution would surely have negative fallout in the form of increased benefit costs, Ms. Dudley said. Companies accustomed to using retirement benefits to attract workers in a competitive labor market would likely be forced to reduce the benefits they offer, she said.

And Mr. Walshe noted that it's difficult to make such a change without considering the big picture.

"You can't just say, 'This is going to be good for people who are downsized.' You have to say, 'What is the impact on those who remain?'" ■



# Benefit claim against GM denied

## Suit filed too late, under wrong ERISA provision: Court

By DAVE LENCKUS

CHICAGO—A General Motors Corp. worker who claims GM violated federal benefits law when it did not pay him supplemental lay-off benefits and later delayed in recalling him cannot recover the benefits for several reasons, a federal appeals court says.

The worker waited too long to file suit and sought protection under an inappropriate provision of the Employee Retirement Income Security Act of 1974 to recover the supplemental layoff benefits, a panel of the 7th U.S. Circuit Court of Appeals unanimously ruled on Sept. 7.

The court also ruled there is no

proof that GM deliberately altered the man's work record so it could improperly recall other workers ahead of him, a charge that was not time-barred because the recalls began years later.

The decision affirmed a district court ruling.

The worker's attorney said his case was hindered by the lack of a clearly stated statute of limitations in such litigation in the 7th Circuit, which consists of Illinois, Indiana and Wisconsin. The district and appellate courts first established a five-year statute of limitations in this case.

ERISA does not contain a statute of limitations for filing claims, so federal courts must impose the

time limit that applies under what it considers the most appropriate state law.

In addition, the worker's attorney said, only after that statute of limitations had expired did the worker discover information that clearly showed he was entitled to the benefits.

The attorney, Jerry L. Lambert, a partner with Stinespring, Lambert & Associates in Flossmoor, Ill., is not sure whether his client will drop the case, seek a rehearing or ask the U.S. Supreme Court to review the case.

GM laid off the worker, production supervisor Edmond C. Teumer, as well as others from its Electro Motive Division 207 plant

in Chicago in May 1986 as part of what the company called a "plant consolidation."

At that time, GM offered supplemental layoff benefits under its Income Protection Plan to all laid-off salaried workers with 15 years or more of service. The same additional benefits were available to workers with at least 10 years' experience if their layoffs were due to plant closings.

GM would not pay Mr. Teumer the IPP benefits because he had 14 years and nine months of service and because his layoff was due to a plant consolidation, not a plant closing.

Mr. Teumer, who was recalled to temporary positions at GM plants in 1989 and 1991 and to a permanent production supervi-

sory position in September 1991, filed suit in March 1992—nearly six years after GM initially laid him off.

He charged that because of a deletion of some work experience from his work record, GM improperly laid him off ahead of other workers and improperly recalled other workers ahead of him.

Those actions, he charged, violated Section 510 of ERISA, which prohibits employers from changing employees' employment status to prevent them from obtaining their rights to benefits.

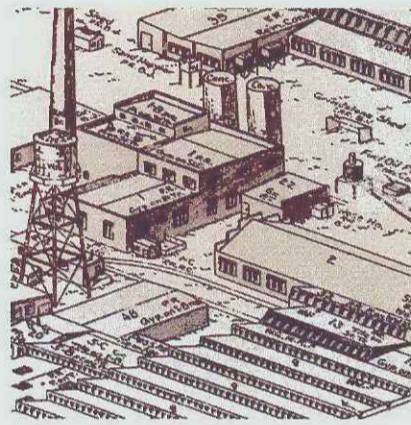
He also charged that GM intentionally mischaracterized the cause of the 1986 layoffs as a plant consolidation rather than a plant closing to deny workers the IPP benefits. Mr. Teumer said the IPP benefits would have entitled him to more than 50% of his salary during subsequent layoffs as well as a continuation of his health care benefits.

A federal district court last year granted summary judgment for GM, ruling that Mr. Teumer belatedly filed his claim that he was improperly laid off.

In affirming the lower court's decision, the 7th Circuit agreed that Illinois' five-year statute of limitations for retaliatory discharge claims applied to the case.

The court had considered apply-

**Judge Flaum notes that the plaintiff began to suspect wrongdoing by GM 2½ years before filing suit.**



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ing Illinois contract law in the case because benefit plans are contracts between employers and employees and because of the good faith and fair-dealing doctrines in contract law. That would have given Mr. Teumer 10 years to file his claim.

But in an opinion written by Judge Joel M. Flaum, the court rejected that notion. Judge Flaum explained that the element of Illinois' retaliatory discharge tort law dealing with employers' interference with employees' rights to benefits "clearly bears a closer family resemblance to the Section 510 right" than does contract law.

Judge Flaum also noted that Mr. Teumer began to suspect wrongdoing by GM 2½ years before filing suit, when he discovered the errors in his work record that could have affected his layoff priority. Mr. Teumer's delay in filing suit after making that discovery was unreasonable, according to the appeals court.

But, "Nobody knew it was a five-year statute," said Mr. Lambert, the plaintiff's attorney. "You don't file a case until you know it's well grounded, because Rule 11 says you can't," he said, referring to the federal rules of civil procedure.

He also noted that he did not discover until last year a written GM policy to supervisors on IPP benefits that described the cause of the 1986 workforce reduction as a plant closing rather than a plant consolidation.

Mr. Teumer initially charged in his complaint that GM violated Section 510 of ERISA by improperly characterizing his plant's closing as a plant consolidation to deny workers IPP benefits.

But, on appeal, he characterized the charge as a violation of Section 502, which provides employ-

*Continued on next page*

## GM ruling

*Continued from previous page*  
ees a remedy when they do not receive their entitled benefits for any reason.

Under this allegation, Section 502 would have applied because Mr. Teumer alleged he was denied benefits because of how GM categorized its workforce reduction—not because of the workforce reduction itself.

Judge Flaum noted that Mr. Teumer's case was strong enough to warrant relief and acknowledged that the court occasionally has overlooked litigants' "oversights" in seeking recovery under improper legal theories.

However, the plaintiff's briefs showed he knew better and just assumed the courts would apply the proper theory without raising it himself. "Now is too late to

press this new theory of recovery," Judge Flaum chastised Mr. Teumer.

Mr. Teumer's claim that GM improperly began recalling other workers ahead of him beginning in 1989 is not time-barred under the five-year statute of limitations, the court ruled.

But, he did not prove the errors in his work record were made to deny him the IPP benefits or to affect his layoff and recall priority status, the court found. The GM official responsible for the error did not know how it would affect Mr. Teumer's recall status, and Mr. Teumer's record was the only one altered, according to the court.

GM's attorneys would not comment on the case.

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*Edmond C. Teumer vs. General Motors Corp., 7th U.S. Circuit Court of Appeals; No. 94-1085.*

## Make prioritizing waste sites due for cleanup a priority: NRC

By MARK A. HOFMANN

WASHINGTON—The federal government should develop a uniform way to assess which hazardous waste sites around the country need to be cleaned up first, says the National Research Council.

"The enormous costs of environmental remediation certainly justify the development of an objective, replicable and equitable priority-setting process that is fully open to public scrutiny," say the authors of a new NRC report. "At the present time, there is no consistent relationship between the hazard present at a site and the

process by which the different agencies screen and evaluate a site for remediation."

The study, "Ranking Hazardous Waste Sites for Remedial Action," was released last week by the NRC's Committee on Remedial Action Priorities for Hazardous Waste Sites.

The council consists of the National Academy of Sciences, the National Academy of Engineering and the Institute of Medicine, all in Washington.

"Vast resources will be allocated for hazardous waste site remediation throughout the 1990s and beyond. If the United States is ever to adopt a uniform na-

tional scientific and decision-making process, it makes sense to do it soon," the authors say.

They note that a variety of federal and state agencies have jurisdiction over hazardous waste sites, even some of those on the Environmental Protection Agency's Superfund national priorities list. Different agencies, such as the Energy and Defense departments as well as the EPA, use different systems to rank sites for cleanup.

An examination by the NRC study of how the different ranking systems would treat five actual waste sites showed that the agencies would disagree on which posed the greatest risk.

What's more, even the ranking systems that do exist do not set priorities in a way that is "explicit, clear, well-documented and open to scientific and public scrutiny," said the report. "Approaches to priority setting are not always consistent even within a given agency, and there is no consolidated priority-setting process for sites at the national level."

The report calls for the federal government to "consider the development of a unified national process of scientific hazardous waste site analysis to replace the current multiple approaches."

The authors suggested three main goals that the new system should achieve:

- The first is increasing consultation and cooperation among the agencies. An interagency task force should determine how the different entities can share information, expertise, quality control and other assets.

- The second goal is promoting scientific consistency.

"This would require that each site be subjected to the same scientific protocols for evaluating health and safety, environmental impact, and economic costs and benefits," the authors of the report wrote.

- The third goal, which complements the second, is establishing decision-making consistency.

"All agencies would apply the same decision-making protocols to every site. Priority-setting decisions would not be influenced by which agency was responsible for the site—solvent spills at a factory in Illinois would be treated the same way as solvent spills at a DOD base in Arizona or a DOE facility in Ohio."

The authors also recommend a three-tiered approach to dealing with sites. First, sites should be screened to determine whether and how to clean up the site. The second step is actually investigating the site to find out the extent of contamination, to identify who and what is affected by the site and to estimate costs of remedial action. The third tier "would combine the ranking risks and the estimated costs of remediation alternatives to determine what sites to address first and what levels of control to pursue," the authors wrote.

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Single copies of "Ranking Hazardous Waste Sites for Remedial Action" cost \$30 plus \$4 shipping and postage. For more information, contact the National Academy Press, Lock Box 285, 2102 Constitution Ave., Washington, D.C. 20055; 1-800-624-6242 or 202-334-3313.

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# CWCI compares work comp, group medical treatment costs

By MEG FLETCHER

A new California Workers Compensation Institute study suggests there may not be any overall savings in delivering workers compensation medical care through group medical programs.

Such a proposal—which was considered as part of health care

reform legislation in the U.S. House of Representatives—could extend duration of care and increase disability costs, offsetting any savings in treatment expenses offered by group medical care, according to the San Francisco-based CWCI, an insurer trade group and research organization (BI, Aug. 8).

The study shows that for comparable diagnoses, the cost of individual medical procedures averages about 21% less in workers compensation than group medical care.

However, total overall medical costs are 21% higher for workers compensation treatment because of increased frequency of care, including more patient visits to doctors.

The study also found that for comparable diagnoses.

"Thus, merging workers compensation medical care into the existing group medical model could extend the duration of treatment and increase disability costs for work-related injuries," the CWCI study concluded.

The study also indicated that

workers comp treatment tends to use more specialists, while group medical plans use more primary care physicians, as well as treatment that requires longer recovery

injured player back in the game quickly" said CWCI President Edward C. Woodward.

"The current group medical system appears to place more emphasis on cost control and less on recovery time," Mr. Woodward explained.

The conclusions are drawn from a comparison of 76,612 workers comp claims and 71,248 group medical claims in California, with services provided in 1990 and 1991.

**Treatment under group medical plans lasted 78% longer than under workers comp, the CWCI study finds.**

periods.

"The results suggest workers compensation is analogous to sports medicine, using specialists and aggressive treatment to get an

Copies of the report, "Medical Benefit Delivery-Group Health vs. Workers' Compensation in California, are available by sending \$5 per copy to the CWCI, 120 Montgomery St., San Francisco, Calif. 94104.

## AWP laws raise costs, lower quality: GHAA

By MICHAEL SCHACHNER

Laws that require health maintenance organizations to accept any willing physician or hospital into their network increase the cost of medical coverage and detract from quality of care, says a recent study commissioned by the Group Health Assn. of America.

Any willing provider laws have been enacted in 21 states, are being considered in 19 others and are the subject of discussion as part of national health care reform.

These laws add as much as \$1,284 annually to the cost of family coverage, depending on how many providers choose to join an HMO, the GHAA's study asserts.

These so-called AWP laws also hinder quality by preventing HMOs from choosing only the best-qualified doctors for their networks, the GHAA says. Cur-

vider Legislation," call the GHAA library at 202-778-3268 or fax the library with mailing information, 202-331-7487.

**AWP laws 'turn back the clock to a time when consumers had no' health plan choice, says Karen Ignagni.**

rently, 85% of HMO physicians are board certified in their specialty, compared with 60% of all physicians nationally, the trade group and the American Medical Assn. said.

"HMOs must be allowed to select doctors that are best suited to the needs of their members," said Karen Ignagni, president and chief executive officer of the GHAA. "AWP laws lower the quality of care and increase costs in HMOs. They turn back the clock to a time when consumers had no choice of health plans."

The GHAA study, which was prepared by Atkinson & Co. Inc., notes three ways in which AWP laws can boost costs under an HMO:

- The laws increase basic administrative costs because provider networks grow beyond an optimum size and economies of scale are compromised.
- They complicate the task of reviewing professional standing and practice patterns.
- They limit an HMO's ability to negotiate fee discounts with doctors and hospitals by eliminating the HMO's bargaining leverage.

In total, AWP mandates could increase the cost of providing universal coverage by up to \$45 billion per year, depending on the number of doctors who join HMOs, the study said.

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## Datebook

### SEPTEMBER

**SEPT. 23. Today's OSHA: A Compliance Update** seminar in Minneapolis, sponsored by the American Management Assn.; \$159. Also **Sept. 29** in Chicago. KEYE Productivity Center, American Management Assn., P.O. Box 27-480, Kansas City, Mo. 64180; 1-800-821-3919 or 913-345-2140.

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

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

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

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

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

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

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

**SEPT. 26-27. 1994 Electronic Health Records Conference** in Denver, sponsored by Faulkner & Gray Inc.; \$695. Electronic Health Records Conference, 11 Penn Plaza, New York, N.Y. 10001; 1-800-535-8403.

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

**SEPT. 26-27. Continuous Quality Improvement in Psychiatric Services** workshop in Boston, sponsored by the

AIG Consultants Inc.; \$375. Also **Nov. 14-15** in Chicago. S. Lasky, AIG Consultants Inc. 72 Wall St., Ninth Floor, New York, N.Y. 10270; or Emily Rinehart, 617-345-6457.

**SEPT. 26-27. Physician Hospital Organizations** conference in Palm Beach Gardens, Fla., sponsored by Conference Development Inc.; \$1,395. Registrar, Conference Development Inc., 1000 Winter St., Suite 4000, Waltham, Mass. 02154; 1-800-872-0094.

**SEPT. 26-27. Ohio HMO Assn. 1994 Annual Conference and Trade Show** in Columbus, Ohio; \$295 for OHMOA members, \$350 for non-members. Ohio HMO Assn., 471 E. Broad St., Suite 1301, Columbus, Ohio 43215; 1-800-233-1234 or 614-228-4662.

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

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

**SEPT. 26-30. The Fundamentals of Money Management Workshop** in Philadelphia, sponsored by the International Foundation of Employee Benefit Plans; \$1,770 for IFEBP members, \$1,895 for non-members. Registrations Department, International

Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-6710, ext. 257.

**SEPT. 26-OCT. 14. Understanding Property and Casualty Insurance** course in New York, sponsored by the World Trade Institute; \$3,000. Vincent Seglior, Director of International Training, World Trade Institute, 1 World Trade Center, 55W, New York, N.Y. 10048; 212-435-3175.

**SEPT. 27. Town Hall Meeting on Health Care Reform** in Chicago, sponsored by the Chicago Chapter of the International Society of Certified Employee Benefit Specialists; \$25 for ISCEBS members, \$35 for non-members. Constance Karduck, Chicago Chapter ISCEBS, c/o Alumni Services, P.O. Box 350, Kenilworth, Ill. 60043-0350; 312-822-6803 or 708-256-4422.

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

**SEPT. 27-28. Introduction to Insurance Regulation** seminar in Chicago, sponsored by the Alliance of American Insurers; \$350 for Alliance members, \$425 for non-members. Angela Stames, Alliance of American Insurers, 1501 Woodfield Road, Suite 400 West, Schaumburg, Ill. 60173-4980; 708-330-8670.

**SEPT. 28-30. Disease Management Programs for Pharmaceutical Manufacturers and Pharmacy Benefit Managers** seminar in Princeton, N.J., sponsored by Global Business Research; \$1,195. Conference Administrator, Global Business Research, 151 W. 19th St., Eighth Floor, New York, N.Y. 10011; 212-645-4226.

**SEPT. 29-30. Second Barbados Information Services Conference** in New York, sponsored by the Barbados Investment & Development Corp.; \$495. John Mills, Business Development Officer, Barbados Investment & Development Corp., 800 Second Ave., New York, N.Y. 10017; 212-867-6420.

**SEPT. 29-30. Business Process Redesign & Enabling Technologies for Property/Casualty Marketing & Distribution** conference in Chicago, sponsored by the Institute for International Research; \$1,095. Conference Administrator, Institute for International Research, 708 Third Ave., Fourth Floor, New York, N.Y. 10017-4103; 1-800-345-8016 or 212-661-8740.

**SEPT. 29-30. Managed Care Pharmacy Contracting** conference in Orlando, Fla., sponsored by International Business Communications; \$1,095. IBC USA Conferences Inc., 225 Turnpike Road, Southborough, Mass. 01772-1749; 508-481-6400.

**SEPT. 29-30. Reacting to Reform** conference in Washington, sponsored by the National Employee Benefits Institute; \$125 for NEBI members, \$200 for non-members. National Employee Benefits Institute, 601 Pennsylvania Ave. N.W., Suite 750 North, Washington, D.C. 20004-2612; 800-558-7258.

**SEPT. 29-30. Insurance Fraud and Suspicious Claims** seminar in Boston, sponsored by Defense Research Institute; \$445 for DRI members, \$495 for non-members. Defense Research Institute Inc., 750 N. Lake Shore Drive, Suite 500, Chicago, Ill. 60611; 312-944-0575.

**SEPT. 29-OCT. 1. National Assn. of Prepaid Dental Plans Sixth Annual Conference** in Scottsdale, Ariz.; \$495 for NAPDP members, \$795 for non-members. National Assn. of Prepaid Dental Plans, 5001 LBJ Freeway, Suite 375, Dallas, Texas 75244; 214-458-6998.

### OCTOBER

**OCT. 3-4. New Trends in Structured Notes** conference in Chicago, sponsored by Executive Enterprises; \$1,195. Executive Enterprises Inc., 22 W. 21st St., New York, N.Y. 10010-6990; 1-800-831-8333.

**OCT. 3-4. Advanced Reinsurance** seminar in New York, sponsored by The College of Insurance; \$595. The College of Insurance, 101 Murray St.,

New York, N.Y. 10007-2165; 212-815-9201.

**OCT. 3-5. Catastrophe Exposure Management & Reinsurance** seminar in Hamilton, Bermuda, sponsored by Tillinghast, a Towers Perrin company; \$800 for Bermuda residents, \$900 for non-Bermuda residents. Eileen Wroe, Conference Director, Towers Perrin, 100 Summit Lake Drive, Valhalla, N.Y. 10595; 914-745-4611.

**OCT. 4-7. Fourth Asia-Pacific Risk Management Conference** in Singapore, sponsored by the International Federation of Risk & Insurance Management Assns., RIMA of Singapore and Asia Insurance Review; \$1,550 Singapore for RIMAS members, \$1,650 Singapore for non-members. Conference Secretariat, IIR Pte. Ltd., Suite 08-03, Golden Wall Centre, 89 Short St., Singapore 0718; 65-338-3521.

**OCT. 5. Motor Truck Cargo** seminar in Hartford, Conn., sponsored by the Inland Marine Underwriters Assn.; \$85. Also **Oct. 19** in New York; \$125. Tracey O'Donnell, Inland Marine Underwriters Assn., 111 Broadway, New York, N.Y. 10006; 212-732-3451.

**OCT. 5-7. Claims Management** course in New York, sponsored by the Risk & Insurance Management Society; \$700 for RIMS members, \$800 for non-members. Risk & Insurance Management Society Inc., Education Department, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

**OCT. 5-8. Self-Insurance Institute of America's 14th Annual National Educational Conference and Expo** in Chicago; \$695 for SIIA members, \$995 for non-members. SIIA, P.O. Box 15466, Santa Ana, Calif. 92705; 714-261-2553.

**OCT. 6-7. Securities Litigation** conference in New York, sponsored by the Practising Law Institute; \$695. Also **Oct. 24-25** in San Francisco. Practising Law Institute, 810 Seventh Ave., New York, N.Y. 10019; 212-765-5710.

**OCT. 6-7. 23rd Symposium on Directors & Officers Liability** in Dallas, sponsored by The Wyatt Co.; \$795. Mary Maze, The Wyatt Co., 303 W. Madison, Suite 2400, Chicago, Ill. 60606; 312-704-2483.

**OCT. 7. The Future of the Risk Manager** conference in San Francisco, sponsored by the Golden Gate Chapter of the Risk & Insurance Management Society Inc.; \$70. Cynthia Sharpe, GATX Capital Corp., 4 Embarcadero Center, Suite 2200, San Francisco, Calif. 94111; or call Jane Keegan at 510-272-1535 or Bob Dyer at 415-565-1854.

**OCT. 9-11. Alliance of American Insurers Annual Marketing and Communication Management Conference** in Atlanta; \$430 for Alliance members, \$550 for non-members. Sue Christiansen, Alliance of American Insurers, 1501 Woodfield Road, Suite 400 West, Schaumburg, Ill. 60173-4980; 708-330-8595.

**OCT. 11. CPCU Society of New York 49th Annual Conferment luncheon** for in New York; \$60. CPCU Society of New York, 914-699-2020.

**OCT. 11-12. Analyzing Property/Casualty Insurance Company Financial Statements** seminar in New York, sponsored by The College of Insurance; \$525. The College of Insurance, 101 Murray St., New York, N.Y. 10007-2165; 212-815-9201.

**OCT. 11-14. Methods and Tools for Quality Improvement** course in Minneapolis, sponsored by the Institute for Healthcare Improvement; \$1,600. Institute for Healthcare Improvement, 1 Exeter Plaza, Ninth Floor, Boston Mass. 02116; 617-424-4800.

**OCT. 12. Planning Ahead: The Insurance Marketplace 1995-1996** seminar in New York, sponsored by Willis Corroon Corp.; no charge. Debbi Ciaburri, Administrative Assistant, Willis Corroon Corp. of New York, Hanover Square, New York, N.Y. 10004-2594; 212-837-0661.

**OCT. 12. 10th Annual Health Care University & Exposition** in Wheeling, Ill., sponsored by the Chicago Northeastern Illinois Assn. of Health Underwriters; \$50. Contact Sco Shalek, 708-587-6966.

Continued on page 4

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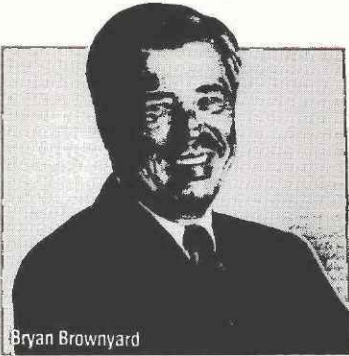
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## Datebook

Continued from page 38

**OCT. 12-14. Twenty-Fourth International Insurance & Risk Management Conference** in London, sponsored by Management Centre Europe; 90,000 Belgian francs (\$2,841) for members of the American Management Assn./International, 100,000 Belgian francs (\$3,157) for non-members, 80,000 Belgian francs (\$2,526) for corporate risk managers. The Accounts Department, Management Centre Europe, rue Caroly 15, B-1040 Brussels, Belgium; 32-2-5161911.

**OCT. 12-14. Quality and the Risk Management Process** seminar in Atlanta, sponsored by the Risk & Insurance Management Society Inc.; \$700 for RIMS members, \$800 for non-members. Contact the Risk & Insurance Management Society Inc., 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

**OCT. 12-15. Eighth International Re-**

insurance Congress in Hamilton, Bermuda, sponsored by Coopers & Lybrand and Hawksmere; \$995. Hawksmere P.L.C., 12-18 Grosvenor Gardens, London SW1W 0DH; 071-824-8257.

**OCT. 13-14. Advanced Healthcare Capitation & Risk Sharing** conference in Boston, sponsored by the Institute for International Research; \$1,295. **Also Oct. 24-25** in San Francisco. Conference Administrator, Institute for International Research, 708 Third Ave., Fourth Floor, New York, N.Y. 10017; 1-800-345-8016 or 212-661-8740.

**OCT. 14-15. American Managed Care & Review Assn. Quality and Utilization Management Conference** in Atlanta; \$575 for AMCRA members, \$675 for non-members. Marhea Perkins, AMCRA, 1200 19th St. N.W., Suite 200, Washington, D.C. 20036; 202-728-0506.

**OCT. 16-19. American Managed Care & Review Assn. 1994 Annual Managed Care Conference** in Atlanta; \$700 for AMCRA members, \$800 non-members. Marhea Perkins, AMCRA, 1200 19th St. N.W., Suite 200, Washington, D.C. 20036; 202-728-0506.

**OCT. 13-14. Disaster Planning and Preparedness Workshop** in Norwood, Mass., sponsored by Factory Mutual Engineering & Research; \$495. **Also Dec. 8-9** in Santa Clara, Calif., and **Dec. 12-13** in Los Angeles. Factory Mutual Engineering & Research, Training Resource Center, Training Department Enrollments, P.O. Box 9102, Norwood, Mass. 02062; 617-255-4606.

**OCT. 14. Earthquake Probable Maximum Loss** seminar in Atlanta, sponsored by the Inland Marine Underwriters Assn.'s Southeast Advisory Committee; \$55 for IMUA members, \$65 for non-members. Louis D. Talmadge, American Reinsurance Co., 404-231-3628.

**OCT. 14. Philly I-Lay** in Philadelphia; \$50. Philly I-Day, An Insurance and Risk Management Experience, P.O. Box 1499, 456 Public Ledger Building, Philadelphia, Pa. 19105-1499; or contact James LaPlante, 610-371-7644.

**OCT. 16-18. Public Risk Management Assn. Eastern Miniconference** in Asheville, N.C.; \$175 for PRIMA members, \$225 for non-members. Lynne Armstrong, PRIMA, 1117 N. 19th St., Suite 900, Arlington, Va. 22209; 703-528-7701.

**OCT. 16-19. Medical Case Management Conference VI** in San Diego, sponsored by the Individual Case Management Assn.; \$385 for ICMA members, \$440 for non-members. ICMA, 10809 Executive Center Drive, Suite 105, Little Rock, Ark. 72211; 501-227-5553.

**OCT. 17. Benchmarking: A Concept for the '90s** seminar in Dallas, sponsored by the Dallas-Fort Worth Chapter of the Risk & Insurance Management Society Inc.; \$75 for RIMS members, \$135 for non-members. Contact Ruth Roberson, Rexene Corp., 5005 LBJ Freeway, Dallas, Texas 75244 214-450-9082.

**OCT. 17-19. Fundamentals of Insurance** course in Charlotte, N.C., sponsored by the Risk & Insurance Management Society; \$650 for RIMS members, \$750 for non-members. **Also Dec. 12-14** in Denver. Risk & Insurance Management Society Inc., Education Department, 205 E. 42nd St. New York, N.Y. 10017; 212-286-9292.

**OCT. 17-21. The Essentials of Multi employer Trust Fund Administration** seminar in Brookfield, Wis., sponsored by the International Foundation of Employee Benefit Plans; \$1,125 for IFEBP members, \$1,250 for non-members. Registrations Department, International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-671 ext. 257.

**OCT. 18. Doing Business in the Pacific Rim: Emerging Markets** seminar in San Francisco, sponsored by the International Foundation of Employee Benefit Plans; \$145. **Also Oct. 20** New York. Registrations Department International Foundation of Employee Benefit Plans, P.O. Box 69, Brookfield, Wis. 53008-0069; 414-786-671 ext. 257.

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**Datebook**

*Continued from page 40*

**OCT. 18-22. Understanding Property-Liability Contracts** seminar in New York, sponsored by The College of Insurance; \$900. Also Dec. 13-17 in New York. The College of Insurance, 101 Murray St., New York, N.Y. 10007-2165; 212-815-9201.

**OCT. 19-21. Second Annual Business Insurance Workers Compensation Conference** in San Diego; \$595 for risk, benefit or safety managers; \$795 for service providers. Contact IBF/International Business Forum, 7 Penn Plaza, Suite 901, New York, N.Y. 10001; 212-279-2525.

**OCT. 19-21. International Risk and Insurance Strategies** course in Nashville, Tenn., sponsored by the Risk & Insurance Management Society; \$800 for RIMS members, \$900 for non-members. Risk & Insurance Management Society Inc., 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

**OCT. 19-21. Capitation Rate Setting: An Actuarial and Financial Workshop** in Chicago, sponsored by Global Business Research; \$1,195. Conference Administrator, Global Business Research, 151 W. 19th St., Eighth Floor, New York, N.Y. 10011; 212-645-4226.

**OCT. 20-21. Payer-Provider Systems Integration** conference in Reston, Va., sponsored by the Institute for International Research; \$1,195. Conference Administrator, Institute for International Research, 708 Third Ave., Fourth Floor, New York, N.Y. 10017-4103; 1-800-345-8016 or 212-661-8740.

**OCT. 24-25. Emerging Markets** conference in New York, sponsored by the Financial Advisory Council; \$1,195. Financial Advisory Council, 1-800-882-8624.

**OCT. 24-26. National Human Resources Information Technology Exposition & Conference** in San Jose, sponsored by Blenheim NDN Inc.; \$725. HMRS/EXPO 94, Registration Department, 444 Castro St., Suite 1101, Mount View, Calif. 94041; 1-800-232-3976 or 415-966-8440.

**OCT. 26-28. Techniques of Risk Control** course in Scottsdale, Ariz., sponsored by the Risk & Insurance Management Society; \$650 for RIMS members, \$750 for non-members. Risk & Insurance Management Society Inc., Education Department, 205 E. 42nd St., New York, N.Y. 10017; 212-286-9292.

**OCT. 30-NOV. 2. National Assn. of Independent Insurers 49th Annual Meeting** in Honolulu; \$350 for NAII members, \$450 for non-members. NAII, c/o Premier Group, P.O. Box 5007, 2550 West Golf Road, Suite 900, Rolling Meadows, Ill. 60008; 708-427-7260.

**OCT. 31. General Liability Coverage for Construction Exposures** seminar in Washington, sponsored by the International Risk Management Institute; \$275. IRMI, 12222 Merit Drive, Suite 1660, Dallas, Texas 75251-2217; 800-827-4242.

**OCT. 31. Construction Insurance 101** seminar in Washington, sponsored by the International Risk Management Institute; \$275. International Risk Management Institute Inc., 12222 Merit Drive, Suite 1660, Dallas, Texas 75251-2217; 800-827-4242.

**OCT. 31. Contractual Risk Transfer** seminar in Washington, sponsored by the International Risk Management Institute; \$275. International Risk Management Institute Inc., 12222 Merit Drive, Suite 1660, Dallas, Texas 75251-2217; 800-827-4242.

**OCT. 31. Making Money with the Surety Team** seminar in Washington, sponsored by the International Risk Management Institute; \$275. International Risk Management Institute Inc., 12222 Merit Drive, Suite 1660, Dallas, Texas 75251-2217; 800-827-4242.

**NOVEMBER**

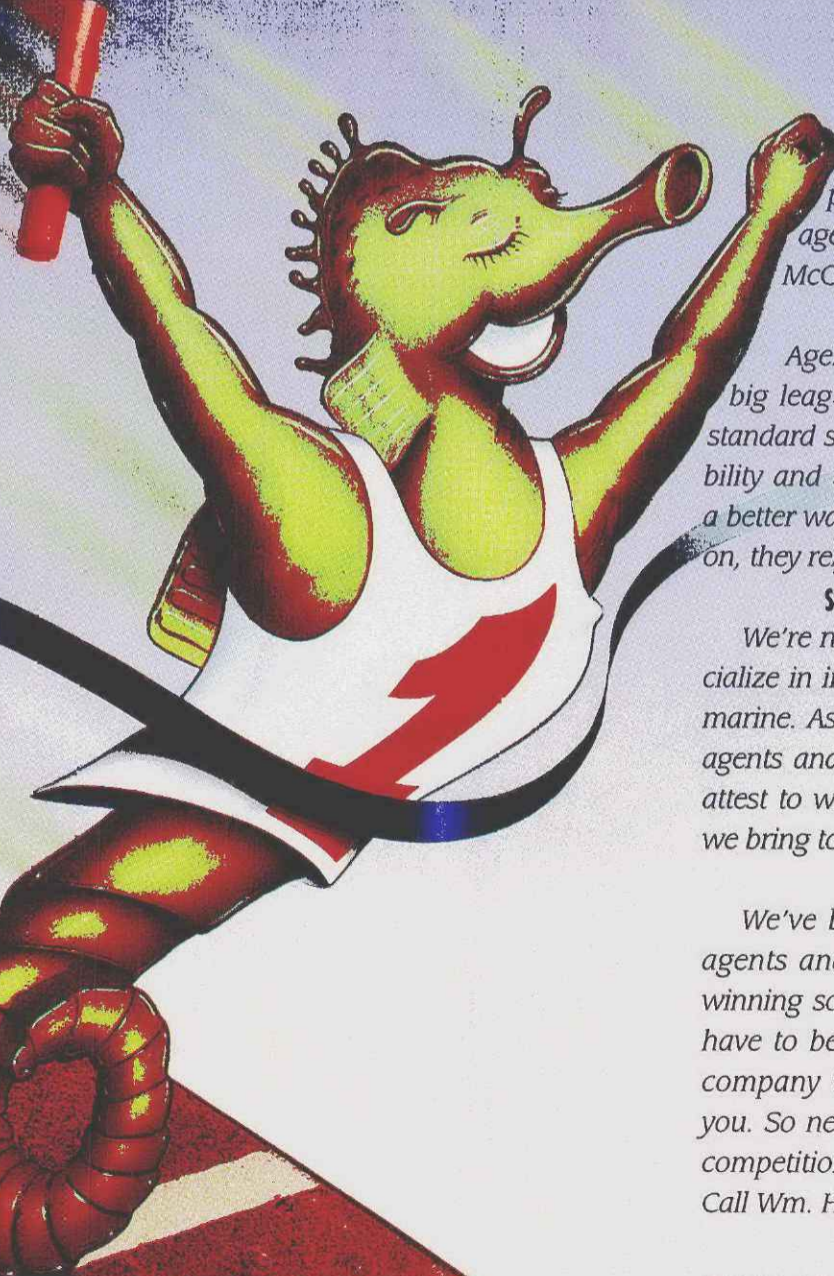
**NOV. 1. Preventing and Controlling Fire Losses** seminar in Pittsburgh, sponsored by Factory Mutual Engineering & Research; \$295. Also Nov. 9 in Baltimore and Nov. 16 in Norwood, Mass. Factory Mutual Engineering & Research, Training Resource Center, Training Department Enrollments, P.O. Box 9102, Norwood, Mass. 02062; 617-255-4606.

**NOV. 1. Outsourcing Employee Benefits** seminar in Chicago, sponsored by The Conference Board; \$525 for Conference Board associates, \$650 for non-associates. Also Nov. 4 in New York and Nov. 8 in San Diego. The Conference Board Inc., P.O. Box 4026, Church Street Station, New York, N.Y. 10261-4026; 212-339-0345.

**NOV. 1-3. The 14th Annual Construction Insurance Conference** in Washington, sponsored by the International Risk Management Institute; \$650. International Risk Management Institute Inc., 12222 Merit Drive, Suite 1660, Dallas, Texas 75251-2217; 800-827-4242.

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

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# Insurer Topics

A special editorial section sent exclusively to insurers and reinsurers

## A learning curve

Insurers' interest, support for college programs picking up steam

By SARA MARLEY

Pete Hudson would rather not hire someone like himself. And he might not have to, thanks to growing support for insurance curricula at colleges and universities across the nation.

The chairman and president of Monroe Guaranty Insurance Co. came to the industry in 1959 after working as a funeral director.

"I had no knowledge of what the industry was about," Mr. Hudson said.

At the other extreme, Doug LaFevor joined the Carmel, Ind.-based insurer in 1992 after working two summers in the claims and underwriting departments and taking courses in commercial property, liability, life, health and business insurance while earning a bachelor's degree in insurance and finance from Indiana State University.

"I wanted real-world experience," said Mr. LaFevor, who is now a commercial underwriter with Monroe Guaranty. The availability of insurance internships helped sway him from being strictly a finance major at the university in Terre Haute.

After his internship, "I was impressed," he said. "I loved insurance and I liked everything about the company."

As insurance becomes more complex, more executives like Mr. Hudson are realizing that they need new hires who already have a solid background in the fundamentals of insurance. In response, insurance companies increasingly are funding endowed professorships at the nation's colleges and universities.

And, as university budgets become tighter due to decreasing enrollments, professors have found that such partnerships with insurers can bring needed support and a job market for their graduates.

The on-the-job training the industry traditionally has relied on is expensive and leaves room for mistakes due to inexperience, Mr. Hudson said.

"Typically, it takes five years to train a mature underwriter," he said. Insurance graduates he has hired can reach that level in one year. "They hit the ground running."

During the first summer, Mr. LaFevor progressed from reading claim files, to attending meetings, to going out with claims adjusters to adjusting claims on his own. In the second summer, he spent time in other departments, including underwriting.

"The internship was by far the most important step" in his insurance education, Mr. LaFevor said. "You can read things in a textbook, but until you get out and get experi-

*Continued on next page*

## Television producer channeling energies into insurance shows

By ROBERTO CENICEROS

Unless Jerry Seinfeld can deliver a good property/casualty shtick, don't expect to see the prime-time comedian wisecracking on the Insurance Broadcast System. Only talent with insurance industry knowledge would make it onto the satellite-delivered programming that producer Dennis N. Richard plans to create if he can muster the sponsors needed to bankroll his idea.

Mr. Richard, 42, is the former producer of the insurance program "The Premium Dollar Today," a widely praised cable television show that provided an in-depth look at consumer issues.

The idea of launching an entire channel with programming for anyone working within the insurance industry came to Mr. Richard in 1991, while he was working on "The Premium Dollar Today." And he has been developing that idea for the past two years.

Supporters say television shows could be a key method of providing information and education for the insurance field in the future.

Mr. Richard said he plans to team up with an educational institution that could provide insurance instructors and speakers for his shows. He has not yet chosen an institution for the job.

"The insurance industry has more of a need for this because they train more, they educate more than other industries," Mr. Richard said in a recent interview.

"If you work in the insurance industry, I want to be relevant to you," he said. "There are so many hot issues in the insurance industry right now more than ever. This is where Insurance Broadcast System comes in."

Mr. Richard has also produced other business programs for television, including "Lawyers and the Law" and "The Bankers Round Table." Both were 13-episode series made for a cable television channel.

For the Insurance Broadcast System, or IBS, planned programming would include a morning news show, roundtable discussions and plenty of educational programs split into 15-minute segments, Mr. Richard explained.

Programs would be received via satellite dishes on a subscription basis, allowing busy executives, workers and other subscribers to watch the material in their offices or conference rooms.

Initially, programming would be broadcast from 9:30 a.m. to 5 p.m. on Tuesdays and repeated on Thursdays. Production of the

*Continued on page 42F*



Photo by Tim Petros

Experienced television producer Dennis Richard is hoping to launch the Insurance Broadcast System sometime in 1995.

## Education

Continued from previous page  
ence, you don't know what is really going on in the industry."

Monroe Guaranty has hired three interns per summer for the past four years and has taken three of them on permanently when they graduated.

Mr. Hudson also chairs the insurance endowment campaign at Indiana State, which has raised about \$725,000 toward its goal of \$1 million, set last year.

The University of Wisconsin's insurance program dates back to 1938, but "we've done more fund raising in the past 10 years than in the first 40," said Dan R. Anderson, Leslie P. Schultz Professor of Risk Management and Insurance and chairman of the actuarial science, risk management

and insurance department.

Four endowed professorships, including three funded by insurance companies, have all been created in the past five years, he said.

The chairs help attract and maintain quality faculty and provide money for research, he said. Students also benefit directly via funds for research assistantships, for example.

At least 47 schools offer an undergraduate major in insurance, 22 offer a minor and 28 require at least one risk management or insurance course for another program, according to a survey by the American Risk & Insurance Assn., a group of insurance educators.

While it's difficult to track whether more colleges and universities are offering insurance classes, interest in them is on the rise, professors say.

Earlier this year, the insurance fund

at Illinois State University was boosted above \$2 million with a \$300,000 grant from State Farm Cos. Foundation. Although the Normal, Ill.-based university has offered insurance courses for 20 years, it has only been in the past four years that the need to support a major and a fund-raising campaign have developed, said George B. Flanigan, insurance industry professor in the department of finance, insurance and law.

Forty students have declared insurance their major since it was approved earlier this year.

Three hundred students are enrolled in insurance classes, and two new professors, including Mr. Flanigan in an endowed chair, have brought the faculty to a total of three.

To promote the minor in insurance, the department is cultivating ties with departments such as applied

computer science, actuarial science and loss control.

Because of the personnel needs at State Farm's home office in Bloomington, Ill., the insurer also hires from—and supports via grants and scholarships—those departments, said Donna Vincent, assistant secretary of the State Farm Cos. Foundation.

Money donated by insurers based near the universities often stays close to home.

"We hire more alumni from ISU than from any other single school," said Ms. Vincent. Bloomington is adjacent to Normal. "It benefits us to help them have students graduate with the skills we need. It's a symbiotic relationship."

State Farm also supports schools near its 27 U.S. regional offices. Many underwriters and claims personnel are hired by the regional offices.

The insurer also grants merit-based scholarships for students studying business in general.

"State Farm has strong in-house training," Ms. Vincent said. "We can take students with good academic backgrounds in business and help them learn what they need to know about claims and underwriting."

Illinois State's insurance program also has an advisory board of insurance executives.

"It's a very 'roll-up-your-sleeves' kind of board," said Donna Galer, executive vp for corporate development at Zurich-American Insurance Co. in Schaumburg, Ill.

Each of the 24 board members chairs one committee and sits on others. Ms. Galer chairs the professional opportunities committee, which seeks to promote the prestige of the faculty and the major itself to secondary-school educators, two-year colleges and internally.

"Enrollment is trending in the right direction, but there is still a lack of universal understanding of the new major," Ms. Galer said.

"We will be looking to hire more and more (people) with insurance degrees," she said. "We will balance that with growing and promoting our own. The industry has to take a strategic view of the expertise and knowledge needs of their future workforce."

"The world is more complex, products and services are more complex," she explained. "Customer demands and expectations are increasing all the time. The days of the vanilla insurance contract are gone, even in the middle commercial market. We need people who really understand insurance, not just the basics."

Illinois State is trying to respond to industry hiring needs by directly recruiting minority students, particularly through a program at Jones Technical High School in Chicago.

"The insurance industry is interested in hiring qualified minority students who have studied insurance," Mr. Flanigan said. The university also conducts a summer program for high school teachers to educate them about the principles of insurance and job opportunities in the field.

Whether interaction with the insurance industry translates into jobs for graduates remains to be seen, said John Thomson, regents' professor of insurance at the University of North Texas in Denton.

"The job market is still a little soft," he said. "I'd love to see more national companies support regional universities on a regional basis. I've seen an improvement, but I'd like to see more" industry support.

Underwriter and claims adjuster jobs are often filled by the regional office.

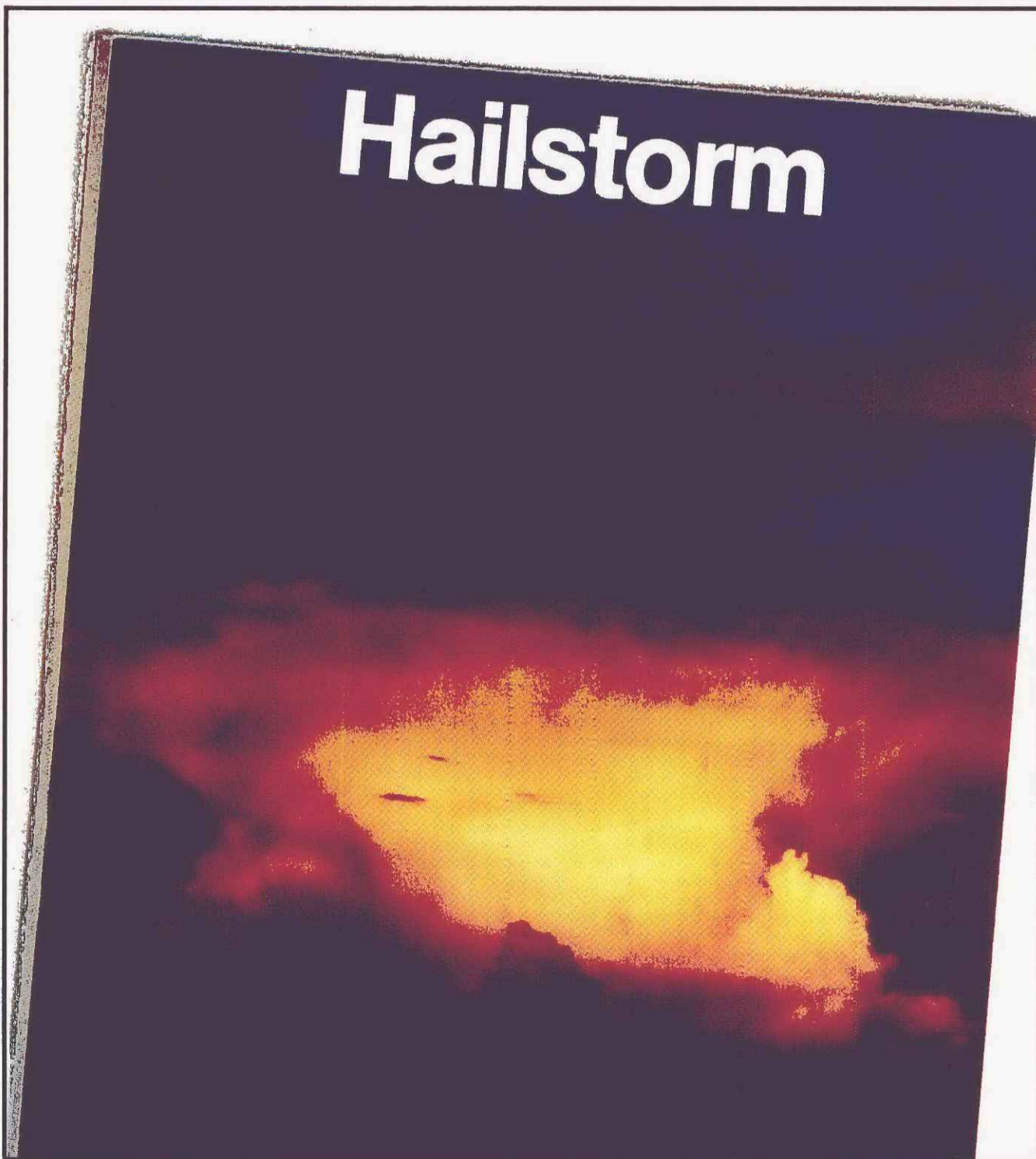
"It's one thing to create a supply and it's another to have the demand," agreed Monroe Guaranty's Mr. Hudson. Indiana State is trying to determine how many new hires companies may need and in what areas.

Risk management students are not overlooked when it comes to corporate contributions and involvement. Several chapters of the Risk & Insurance Management Society offer scholarships to colleges and universities.

Two North Texas risk management students and their professor accompanied the Caltex Petroleum Corp. risk manager to his annual meeting with brokers and reinsurers in Bermuda.

"We feel strongly that we have to put something back into the profession," said Greg Sosbee, president of Caltex Risk Management Service Corp. in Dallas. Caltex, owned by Chevron Corp. and Texaco Inc., has two Bermuda captives: Eastern Hemisphere Holdings Ltd. and Traders Insurance Ltd.

Continued on page 42



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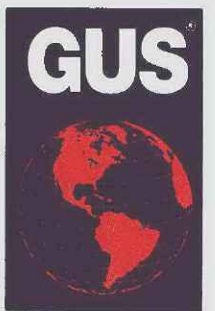
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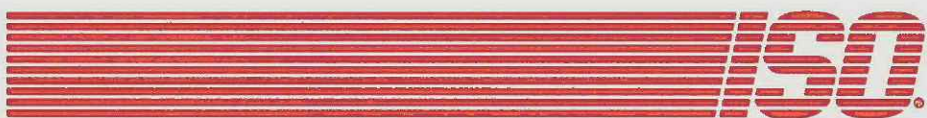
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## Education

Continued from page B

"We are a very widely spread organization with all of our operations in the Middle and Far East," said Mr. Sosbee said, a North Texas graduate. "The purpose of the meeting is to get together and talk about what is going on in the market and where we are. It's timed to help us with our business plans for the next five years."

The week begins with a series of meetings with individual brokers, reinsurance executives and captive management firm American International Co. Ltd., a unit of American International Group Inc., and ends with general meetings. The students were in on every one, he said.

Opportunities like the one provided by Caltex are "marvelous," Mr.

Thornton said. "We can sell kids on exceptional opportunities. It increases the excitement of those in the major."

Southern Methodist University uses industry support to create opportunities for students to interact with members of the Dallas insurance industry, such as bringing speakers in and holding executive seminars.

"We try to provide a practical education and put students in contact with the people making important decisions," said Bob Puelz, professor of insurance and risk management at SMU.

"There are not a lot of insurance programs that really reach out to the industry as much as they ought to. You can never do enough advertising. There is an untapped market that needs to know about insurance education," Mr. Puelz said. ■

## Internships provide bonus

### Employers, students get head start in hiring

By SAMEERA KHAN

**I**nternships can benefit both insurers and college students who are considering careers in the insurance or risk management field.

As a result, an increasing number of companies are looking at internships as a source of potential hires. And, many schools are now concentrating their energies and talents toward developing effective internship programs to complement instruction in the classroom, professors of insurance and risk management said at the recent American

Risk & Insurance Assn.'s annual meeting in Toronto.

"Students of risk management and insurance who undergo an internship in those fields during the course of their four-year undergraduate program often fare better in the job market," said Sandra Gustavson, head of the department of risk management and insurance at the University of Georgia in Athens.

"These students end up in jobs that are better suited to them, often with the companies they interned with," she said.

Companies also favor students who have had some exposure to

their industry, she added.

However, getting companies to hire interns has not always proved easy. While responses from those that have had interns in the past are good, often it takes a great deal of time and initiative on the part of colleges and universities to convince the industry that internships work to favor both the undergraduate student and the company.

"We've had an internship program in place for the past decade, but it has exploded over the past few years, largely due to greater faculty involvement," said Larry A. Cox, associate professor of risk management and insurance at the University of Georgia.

While the University of Georgia placed 35 students in internship programs at insurance companies, insurance brokers and within corporate risk management departments this summer, last summer's placements totaled a record 47 students.

About 44 of those received very good reviews from their employers, Mr. Cox said. "Usually companies don't approach us, we approach them. All we ask is that they try out our students for a summer and give them a chance to prove their worth," he said.

Companies where University of Georgia students interned this summer included the Atlanta office of American International Group Inc. and broker Sedgwick Inc. in San Francisco, Ms. Gustavson said.

Students must have completed a minimum of two courses in risk management and insurance and be in their junior or senior year to qualify for these summer internships, Mr. Cox said.

While the University of Georgia mainly has summer internship programs, students at California State University at Sacramento juggle intern work and classes year-round.

"As Sacramento is a large regional center of insurance, we have local placements for students throughout the year but mostly in the fall and spring," said Patricia A. Cheshier, professor of finance and insurance at Cal State in Sacramento.

Ms. Cheshier, who runs the internship program at the university, said students can earn up to three hours of credit for the work they do. Some are also paid by the companies.

Most of them work with companies, agents and brokers in claims, sales or underwriting. Some work on specific projects, while others gain hands-on work experience. Some have even interned with the California State Office of Risk Management, Ms. Cheshier said.

Currently, the university has 55 students who are majoring in risk management and insurance, and about 50% of these have had exposure to the insurance industry in some form of internship, she said.

"From the students' point of view, it is an absolute necessity to work in the field while they study courses in risk management and insurance," she said. "All our students have told us that it gave them an added edge in the marketplace. Employers considered it very valuable and it lets students try out various insurance and risk management fields and decide what interests them most."

Even smaller schools and newer programs are now developing internships. The University of Calgary in Alberta, Canada, set up its insurance and risk management department just two years ago. This summer, it has already placed four students in internships and is planning an expanded program for next year, said

Continued on page 42F

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## Internships

Continued from page D

Jerry Jorgensen, chairman of the department.

But, he has more ambitious plans up his sleeve. His department is proposing setting up a cooperative program in which students can choose to do a five-year bachelor's instead of the traditional four years. The extra year will be spent by the students, either in two six-month periods or as one whole year, interning in the in-

surance or risk management field.

"This is done in the actuarial field very successfully in the United States and Canada, so we said why not in the insurance or risk management field," Mr. Jorgensen said.

"Firms like it because they get the student for a longer period and can then really use them," he said.

Internship programs are a "win-win situation" for both employers and students, he said. "Students get a chance to see what's out there and employers have a chance to assess the students." ■

## Broadcast

Continued from page A

shows will be done in Los Angeles and New York.

"I don't know what the market would be for that," said Roger Smith, president of the Insurance Educational Assn. in San Francisco.

"But there are so many problems and issues in the insurance industry employers would like their employees to know about. There well may be a need for that," he said.

Early in the development of the Insurance Broadcast System, Mr. Richard formed a non-management board of advisers composed of 12 insurance and entertainment executives. Many are people he met on "The Premium Dollar Today."

Mavis A. Walters, executive vp of the New York-based Insurance Services Office Inc., who worked with Mr. Richard on "The Premium Dollar Today," is a member of the board.

Although the advisory board members help evaluate programming ideas, they would not oversee or

manage the system's operations, As. Walters said. The Insurance Broadcast System is purely Mr. Richard's brainchild, she said.

"He'd like to use the advisory board to bounce ideas off us," she explained. "We're not a board of directors. It's truly an advisory board."

If anyone can succeed in establishing an insurance network, it is Mr. Richard, according to Ms. Walters.

"I'm impressed with Dennis Richard. He's quite knowledgeable in the area of broadcast media, and he's very enthusiastic. He's a quick study," she said.

"What he hopes to do with the programming is very intriguing."

"Sooner or later, there is going to be some kind of television program for the industry," said Joseph Decaminada, executive vp and general counsel for The Atlantic Mutual Cos. and also an advisory board member.

"If IBS produces a quality product, everyone in the industry is going to get it," Mr. Decaminada said.

To receive the programs, subscribers would have to pay about \$700 per month, Mr. Richard said. Branch offices would be charged about \$300.

That could be a bargain, several observers said.

"The cost of education seems to keep getting higher and higher when you have to send someone out to a seminar," said James R. Marks, another of Mr. Richard's advisers and senior vp of communications and marketing for the CPCU Society in Malvern, Pa.

"This could be the future of how we deliver education to people," Mr. Marks said.

"I think there are still some hurdles," he added. "For example, how comfortable are companies with having their people watch television for half an hour. That could be a perception hurdle."

Mr. Richard said that is why he is planning short, 15-minute shows that would repeat within a week. Each 15-minute segment would be one-half of a full 30-minute program.

But, before Mr. Richard can say "lights, camera, action," he must raise \$3 million to \$5 million to get the Insurance Broadcast System off the ground.

Mr. Richard said he is close to finding sponsors, but he declined to say who they might be.

"I can't mention their names because we are in negotiations right now," he said.

Still, he is confident IBS will happen. "I'm fairly certain at this point we're looking at the first quarter (of 1995) for me to flick the switch on."

While he plans to welcome insurance company subscribers, he does not want them as initial investors.

"It could be perceived as bought and paid for by the insurance industry," Mr. Richard said. "We must be able to give the news and give the issues in a fair way."

Rob Bonomolo, assistant vp of advertising for Reliance National Insurance Co., said \$700 is inexpensive enough for an insurance company.

"I know the industry is one in which education and continuing education is always in demand because insurance changes everyday," Mr. Bonomolo said. Reliance National was the major sponsor behind "The Premium Dollar Today." "This whole thing hinges on what the offering is. If the offering is significant, a lot of companies will go for it."

And, if the programming is good enough, it could also prove to be a time saver.

"The question is how much time can you spend reading and how much time can you spend traveling to education programs?" the CPCU Society's Mr. Marks said. "Those are time-intensive activities." ■

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# Illinois employers to form health alliance

By CHRISTINE WOOLSEY

CHICAGO—Two large business coalitions in Illinois and the state chamber of commerce are lending their support to the state's small businesses in an effort to help those companies purchase quality, cost-effective health care coverage.

The initiative, spearheaded by the Midwest Business Group on Health, the Chicago Business Group on Health and the Illinois State Chamber of Commerce, is being launched to create a health care purchasing alliance that would be the largest of its kind in Illinois and could become the largest in the country.

The Illinois Employer Benefits Alliance will offer participating employers a menu of health plan choices not normally available to small companies because of their size.

But larger employers also will benefit from the project, which is designed in part to heat up competition among health insurers, managed care companies and health care providers.

"It will strengthen the whole market because purchasers will be stronger in numbers," said James Mortimer, president of the MBGH in Chicago. "Small companies that aren't providing insurance now will be able to—and that will cut down on cost-shifting to big companies."

"We all get beat up on cost-shifting," agreed Dennis Nirtaut, chairman of the CBGH and manager of employee benefits at Continental Bank Corp. in Chicago. "If we can give smaller employers the opportunity to have a health plan and pay reasonable prices, without the fear of being dropped next year because of one bad claim, it will benefit all of us," he said.

Mr. Nirtaut said the initiative is further evidence that employers don't need the federal government's help in reforming the health care system. "We don't need a big bureaucracy. We have done something about the 37 million uninsured, and this is a step in that direction," he said, noting that a large percentage of the nation's uninsured work for small employers that cannot afford group coverage.

Sponsors of the IEBA also say the alliance will help educate employees at smaller companies to become savvier health care consumers, which could reduce the number of unnecessary medical procedures—and unnecessary health care costs—in the state.

Most importantly, however, large and small employers in the state will benefit from the shared base of health plan cost and quality information that will be collected and distributed to employers and providers by the alliance.

By combining the membership of MBGH, CBGH and the Illinois Chamber, the IEBA hopes to entice health insurers, managed care companies and other health care providers into bidding for business they would otherwise shun.

The 6,000 employer members of the Illinois Chamber collectively represent 1.2 million employees, 5% of the state's work force. Members of the MBGH and CBGH are primarily large, self-insured organizations, but the two groups do have some smaller and self-insured members that might be interested in purchasing health coverage through the new alliance.

liance.

"The alliance approach is a realistic way to bring more purchaser influence to the health care market," said Sally Jackson, president of the Illinois Chamber of Commerce. It will "catapult small employers onto the same playing field the big guys have been on for a decade."

Small employers often do not have the time or resources to shop around and effectively compare different health plans, and some are not knowledgeable about the array of managed care plans available, she said. The alliance will function as a prudent shopper for them, so they can choose among plans to which they otherwise would not have access.

The three employer groups hope

to have the IEBA fully operational by the first quarter of 1995, when it will begin offering multiple health care plans to qualified employers. To qualify to purchase coverage through the IEBA, employers must meet underwriting requirements to be established by participating health care plan providers.

In addition, employers must sign three-year contracts through their membership organization, be it the Illinois Chamber, MBGH or CBGH, the MBGH's Mr. Mortimer said.

Initially, the alliance will offer a bare-bones small employer health plan, a traditional fee-for-service plan, as well as HMO and PPO plan options, Ms. Jackson said. The group hopes to be able to offer

self-insured employers a stop-loss product within a year.

"We hope to attract small and mid-sized companies, but we won't restrict companies by size," she said. Two-thirds of the Chamber's members have fewer than 100 employees, she noted.

The alliance also will offer employers the services of a "shared benefit office," which will function as the central administrator for the alliance, and as an education and marketing contact for providers.

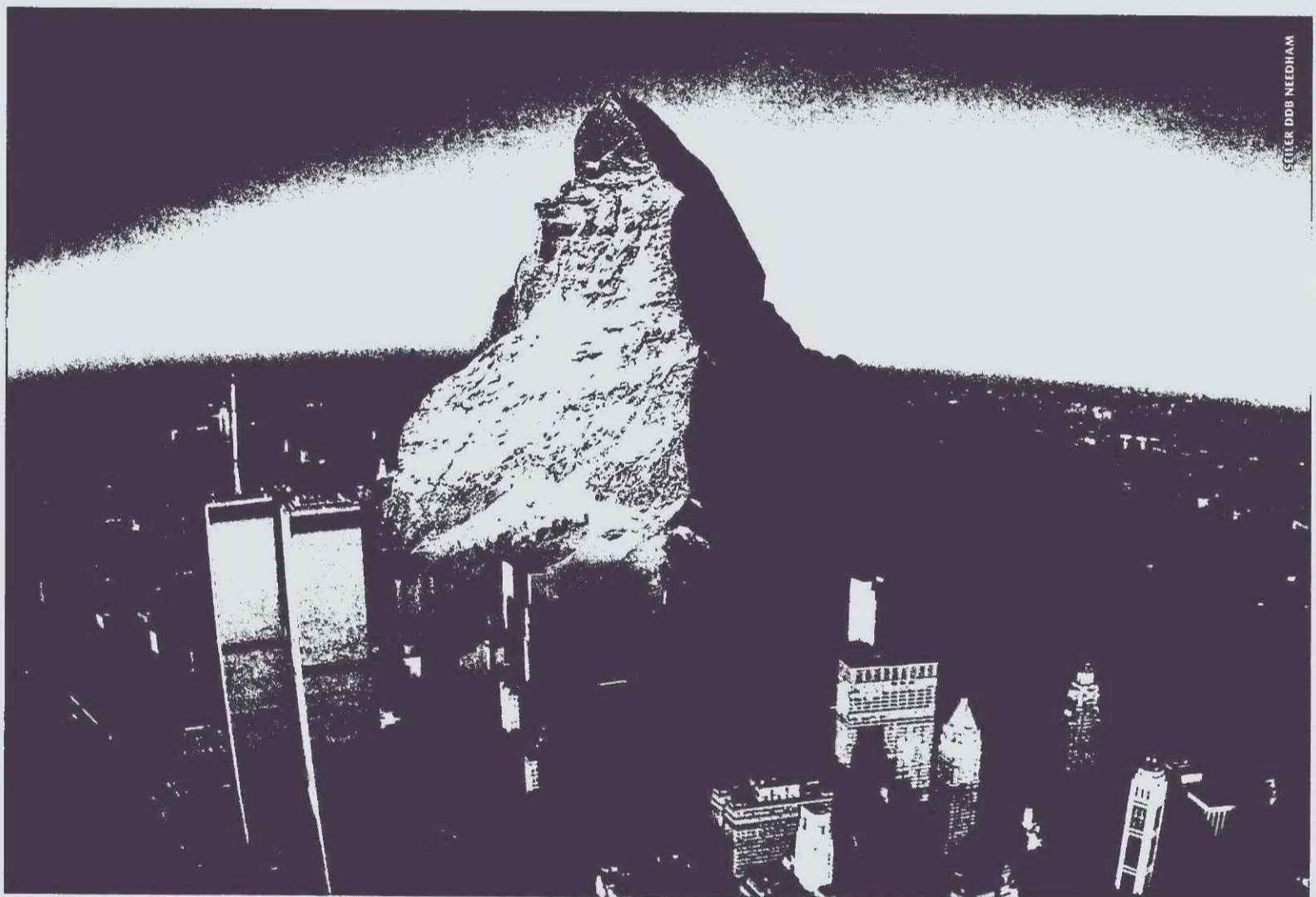
The shared benefit office will process all of the paperwork associated with the IEBA health plans and collect standardized health plan cost and quality data. Among other things, health plans will be monitored for such things as Caesarian section rates and inpatient hospitalization rates.

sarean section rates and inpatient hospitalization rates.

In November, the three sponsoring groups will request bids from interested health insurers, managed care companies and other health care providers.

"This is a tremendous opportunity for small employers to provide value-added health care to their employees," commented Dr. Wayne Burton, vp and medical director of First Chicago Corp. "That is consistent with what the MBGH has been doing all these years."

Eventually, the alliance hopes to offer non-medical benefits, such as life and disability insurance and investment strategies for small-employer pension plans, Ms. Jackson said. **BI**



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# Coalitions

Continued from page 3

market of providers, said Ms. Kunkle.

Most often, companies in coalitions are located near each other and share common coverage goals, she said. "The membership of coalitions is often very diverse. Some are purchaser-driven and others represent providers and insurers. But basically, a coalition is simple to form, inexpensive to operate and almost always voluntary."

Staffing is minimal. "You don't even need much of a staff until goals are defined and dues are collected," said Ms. Kunkle.

Coalitions, whether for mental health benefits alone or all health benefits, run on budgets ranging from several hundred dollars for volunteer-staffed ones to more than \$2 million, she said. "But money can be raised from dues, grants and more sources," to offset costs, said Ms. Kunkle.

Once a coalition is formed, it can do much more than simply buy coverage at an affordable rate. It can exchange information and data with other coalitions and health care agencies. It can network and lobby on issues such as health care reform. And it can help educate employees about health care, especially behavioral health care costs, treatment methods and outcomes.

"Coalition activities include policy analysis with respect to access to care, cost-shifting and state health care policy," Mr. Kunkle said.

She also noted that many health care coalitions get involved in health care planning within their region. Some, for instance, help try to convince local hospitals to reduce their bed count if there is an oversupply of open beds.

"We all must deal with oversupply of services because in many cases, supply can drive demand," said Ms. Kunkle.

Coalitions are also good for gathering data and information on health care utilization and the success of certain procedures and then providing that information to managed care companies and insurers.

Finally, Ms. Kunkle pointed out that coalitions, through hard-ball negotiating, can actually take a bite out of the technology glut often blamed for rising prices.

"If there are nine MRI units in a geographic area and there is no need for that many and they are all charging a high rate, you can demand that they lower their rates in exchange for a contract," she said.

"Generally, coalitions are focused on alternative deliveries," Ms. Kunkle said. "They know all the managed care animals—point-of-service, HMOs, PPOs and the rest. There are too many differences among markets to go with one thing."

"Some areas have too many beds or specialists. Maybe through coalitions we can shrink capacity, which will leave us with an easier market to work in," Ms. Kunkle said.

Coalitions, through their collective nature, can provide more of a

service to the behavioral health care market than simply driving costs down.

"We need to stop permitting incentives to be put into contracts that allow for the masking of a mental health or substance abuse admission as a medical admit. Sure, stomach pain could be medical, but not when the cause is a mental health disorder that the primary care physician doesn't recognize," Ms. Kunkle said.

Furthermore, coalition members need to be aware that quality services for employees are most important when a mental health disorder is the subject of treatment.

"Cost containment is the easy

part. You can achieve that just by limiting benefits to 10 lifetime visits," she said. "There should not be any incentives to skimp on care. No perverse incentives to deny care are necessary because that's not value, that's pure cost containment."

To take full advantage of a coalition, its leaders need to educate members and employees.

Decision-makers should not be afraid to opt for a carved-out managed mental health plan. "It's the most aggressive plan you can have, especially with the risk transferred to a network. It's really the most evolved, adult relationship you can have. You're say-

ing, 'here's the money, now do what we're paying you for.' You can monitor that vendor's performance, but you don't have to micromanage mental health benefits. That's probably not what your company does for a living," said Ms. Kunkle.

And, when contracting for case management, coalition planners can't just settle for basic utilization review promises from managed care companies. "Case management is dealing with the problems of grief, emotionally disturbed children and elderly women with a mental disability, not just pushing people through," she said. **BI**

## Looking for a good fit

### Behavioral health experts want a role in reformed health system

By MICHAEL SCHACHNER

WASHINGTON—As Congress continues to wrangle over the future of health care, questions

abound as to what role behavioral health care would have in a standard benefits package.

At the Institute for Behavioral Healthcare's Behavioral Healthcare Tomorrow conference, held last week in Washington, corporate health care experts continued to ponder where mental health would fall if health

care reforms are agreed upon.

"We still don't know what's up in terms of mental health or health care reform, period," said Dr. Robert Hunter, medical director for special health services at Shell Oil Co. in Houston. "The garbage is piling up, but it's business as usual. For self-insured employers and behavioral health care, the answer remains, 'Who the hell knows?'"

Casting a large cloud over the future of behavioral health care in the context of health care reform are all the regulations that apply to mental health benefits, said Dr. Hunter.

As examples, he cited the Americans with Disabilities Act, The

Drug-Free Workplace Act, the Occupational Safety and Health Administration's hundreds of rules, 50 different workers compensation systems, evolving case law, the Civil Rights Act of 1964's Title VII and the Age Discrimination in Employment Act.

"The future of behavioral health care benefits will likely include even more managed care, because there can only be more emphasis placed on costs, quality and outcomes. My prediction is there'll be a lot more auditing of behavioral health care providers."

Also speaking at the session was Bruce Davidson, employee assistance program manager at Digital

Continued on next page



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Ms. Debbie Cannon  
Communications Director  
LASERS  
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(504)922-0682  
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All bids must be received by 4:00 P.M. CST, Thursday, September 29, 1994. All firms must be able to demonstrate prior disability plan experience with public entities.

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Statement

# Backers aim to keep mental health care on agenda

By MICHAEL SCHACHNER

WASHINGTON—Now that employers, insurers, providers and managed care companies all understand how important mental health care is, they must not let it slip off the national health reform agenda, says a health policy analyst.

Attitudes toward mental health benefits have changed so dramatically in recent years that it is now regarded as being as important as medical benefits, argues Dr. Bernard Arons, director for the Center for Mental Health Services in Rockville, Md.



"The public attitude toward mental health treatment has changed. Most people now see it the same as all benefits," he said last week at a conference sponsored by the Institute for Behavioral Health-

care. "The public has come to this recognition quicker than policy makers. People want mental health to be part of any reform package."

Administrators and providers have "come together as a force," said Dr. Arons. "They've put aside their differences and are all aiming for an outcomes-based system that emphasizes identification and early treatment."

Sounding a similar note, Dr. Mary Jane England, president of the Washington Business Group on Health, said that the bond between providers and employers is stronger than it ever has been.

Still, she said, employers continue to demand cost containment and quality from providers. "Employers have long ago realized they could not wait for national reform to save them. We've been doing things on our own for years."

If a health reform bill does ultimately include mental health care,

mental health benefits.

"Society can't write a blank check for everything. We must prevent endless personal growth and stress reduction as well as and open door to all benefits. Boundaries are the key," Mr. Shusterman insisted.

If health reforms include mental health benefits, those benefits should be available to all at the same levels of coverage as medical benefits, "but not more," he said.

In addition, Mr. Shusterman called for the creation of standardized means of reporting outcomes.

Competition among providers must not be eliminated under a new system. "There must be some competition left, and I believe there will be. Also, the end user must continue to pay for some of the expensive methods of care," he said.

And like Dr. Arons, Mr. Shusterman urged members of the alliance behind mental health benefits to remain allies. "We've had this bond for a year, but we could get back to fighting between psychotherapists, administrators and others if things stall for too long."

# Reforms

Continued from previous page  
Equipment Corp. in Maynard, Mass., who discussed what companies have done about mental health benefits in the current marketplace.

Digital, for example, went to a managed care approach for mental health care about four years ago after its mental health-related claim costs reached 12% of overall health care costs.

With most companies, that component is about 8% of total costs once managed care is fully implemented.

Digital, he said, has successfully managed behavioral health care benefits as part of its overall self-insured health care plan.

"It's not carved out because we felt the need to keep things together for integration. But, at least 50% of (mental health benefits in) HMO plans are carved out these days."

A key to Digital's program is that beneficiaries have timely access to providers.

Not only is the computer maker happy with its behavioral health care benefits arrangement, but quality appears to be a direct product of the managed care plan. "We do member satisfaction surveys, the plan documents all activity and we're compiling outcomes data," Dr. Davidson said.

For mental health and substance abuse benefits, Digital applies no caps on benefits. It prefers a flexible benefit structure to help people get the appropriate care.

"Access is one of our concerns. We want to get someone cared for within 10 days if the case is non-urgent, two days if it's urgent and within eight hours for an emergency. We can direct people through our EAP," he said.

Treatment in a managed behavioral health care setting is based on an assessment of needs by EAP specialists and primary care mental health practitioners. "We're not opposed to treatment that restores functional status, whatever that might be. This all requires pre-evaluations and knowledge of what is appropriate care," Mr. Davidson said.

Also at the core of such a system is case management. "Mental health and substance abuse are often complex issues that require multi-system interventions," he added, noting that it is necessary to coordinate care with rehabilitation clinics, workers comp program managers and whatever other program may be involved with treatment, including EAP.

With respect to benefit design, Digital's plan is proof that caps and limits on benefits aren't necessary to control costs, Mr. Davidson said. "I realize that finance people may wobble and shake when hearing about flexible benefits is a necessary process."

Naturally, employers should strive for early intervention and prevention in their behavioral health care plans.

And, if an HMO is doing the case management, it should provide regular health information back to the employer and should also conduct seminars and workshops that are reflective of community issues. "There is a cost to this. HMOs will charge for this type of attention," he noted.

John Mahoney of Hewitt Associates in Rowayton, Conn., also spoke during the session. **BI**

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## GATT conferees debate pension rules

By JERRY GEISEL

WASHINGTON—Facing a Sept. 20 deadline, House and Senate conferees assembling a revenue package to implement the General Agreement on Tariffs and Trade continue to wrangle over whether to include pension-related provisions.

House negotiators have conditionally agreed to accept a provision that would change the formula for setting the maximum benefit that could be funded through defined benefit plans and the contributions that could be made to defined contribution plans. Both the House Ways and Means and Senate Finance Committees have approved the provision.

Currently those maximums rise in lockstep with the Consumer Price Index. Under the new provision, the caps would rise in \$5,000 increments

and be rounded down to the nearest \$5,000. House negotiators say they will accept the change on the condition that an agreement can be reached on other provisions aimed at shoring up the Pension Benefit Guaranty Corp. (BI, Aug. 29).

But negotiators are trying to find a common ground on PBGC-related provisions. House Democratic conferees have been pushing provisions similar to those earlier approved by the Ways and Means Committee. Those provisions, which a number of benefit lobbying groups oppose, would require employers to use conservative mandated interest rate and mortality assumptions when calculating pension plan liabilities.

Using those assumptions would significantly increase some employers' pension liabilities, potentially turning fully and even overfunded

plans into underfunded plans. That would subject employers to special rules requiring accelerated contributions.

The PBGC argues the change is needed because current law gives employers too much flexibility in their actuarial assumptions and lets

them minimize pension contributions.

Possible compromises being discussed include subjecting employers to rapid pension funding schedules if their plans—using the new conservative assumptions—are less than 90% funded for three years in a row or if their plans are less than 80% funded in any single year. Under the Ways and Means Committee bill, the faster

funding rules would kick in if a plan were less than 90% funded in any year.

Ways and Means Chairman Sam Gibbons, D-Fla., says he wants conferees to agree by Sept. 20 on a set of revenue provisions.

Once conferees agree on a revenue package to implement GATT, the package will go to President Clinton for approval. **BI**

## Data bank

Continued from page 3  
care coverage reports with HCFA by Feb. 28, 1995.

But under the legislative report accompanying the Senate-passed HHS appropriations bill, employers wouldn't face any monetary threats if they failed to file the reports.

The language was included in

the report as a way of delivering a message to HCFA, said an aide to Sen. Lieberman, who has spearheaded congressional efforts to delay or repeal the data bank law. "The data bank law probably was a mistake and there is a strong sense in Congress that it should not be enforced. If HCFA does enforce it, that could cause problems with Congress," the aide said.

A HCFA official, while noting the agency has supported delaying

the data bank law, says until the law is repealed employers would be legally required to supply the coverage information. The next step is up to Congress, she said, adding that conferees still have to fashion an agreement on the appropriations bill.

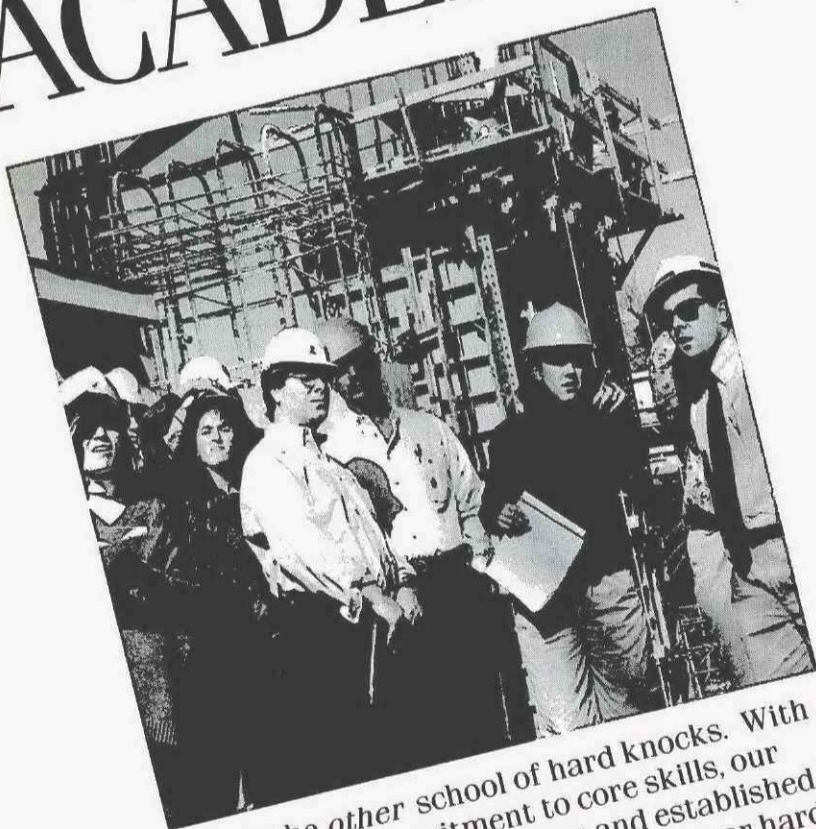
Until the issue is resolved, prudent employers may want to hold off on any major efforts to collect the coverage information, consultants say.

For now, employers that do not have the information they need to comply—principally dependents' Social Security numbers—may want to take steps to obtain that information that do not cost them any additional expense.

Examples of simple, non-costly steps would be asking newly hired employees for dependents' Social Security numbers as well as requesting that information during open enrollment periods—that point in the year when employees decide which health plan they want to enroll in for the year ahead—said Francesca Bruno, a managing consultant with A. Foster Higgins & Co. Inc. in Detroit.

Employers are anxious to avoid a repetition of the Section 89 fiasco, in which some companies spent tens of thousands of dollars collecting information and setting up administrative systems to comply with the law, Ms. Bruno said. That money went down the drain after Congress repealed Section 89 of the Internal Revenue Code in 1989, which established complex non-discrimination tests for health care plans. **BI**

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## NAIC

Continued from page 3  
Insurance Competitive Pricing Act of 1994, which would replace the insurers' antitrust immunity under McCarran-Ferguson with what proponents describe as "safe harbors" for specific industry activities. The Judiciary Committee passed the bill in July (BI, Aug. 8 July 25).

Texas Insurance Commissioner J. Robert Hunter and the American Insurance Assn. generally favor the measure.

However, other trade groups including the Alliance of American Insurers, consider it "devastating" to state regulation and likely to affect the insurance market negatively, President Rodger S. Lawson wrote to regulators.

- Hear comments from the public on the latest draft of the Investments of Insurers Model A and on how the NAIC should fine-tune its accreditation program. The NAIC is nearing time again review the performance of the first batch of states to receive accreditation.

- Consider an open meeting policy formed by the NAIC's Zo Coordination Subcommittee.

NAIC President David Wal had sent a memo to NAIC members asking them to commit open meetings.

The National Conference of Insurance Legislators has criticized the NAIC's closed-door session (BI, Aug. 1). **I**

# Continental

Continued from page 1

Centre Reinsurance Holdings Ltd. Officials of each either had no comment, or could not be reached.

Whatever investor does step in at Continental is likely to have a strong—even dominating—say in the insurer's future, even if it does not assume majority control. And John P. Mascotte may be asked to resign as chairman and chief executive officer, a post he has held since 1982.

Continental finds itself in this situation after several years in which its underwriting results have lagged the rest of the industry.

Mr. Mascotte and other Continental executives would not discuss the company's current and past problems and its plans for the future. A Continental Corp. spokesman cited advice from company lawyers as the reason.

Speculation about those plans is being fueled by a series of moves and Continental's recent disclosure that it hired Goldman Sachs & Co. to "assist it in exploring the available alternatives, including a possible equity investment."

Earlier this month, the company signed a letter of intent to sell its Continental Insurance Co. of Canada unit to Fairfax Financial Holdings Ltd. of Toronto for \$155 million. It also plans to sell Casualty Insurance Co., its Illinois workers compensation unit.

On the cost-cutting front, the company has eliminated a 25 cent per share quarterly dividend, which is expected to save about \$55 million annually, and has taken steps to trim expenses—including reducing its work force of 12,255 by about 4%—by \$155 million.

Continental Corp. has also redeployed \$40 million of capital into its domestic insurance operations, and the insurance unit has entered into a quota-share reinsurance arrangement to lower its premium-to-surplus ratio.

Continental has not been a top industry performer for some time, but its 1994 results to date are sharply lower.

A first-quarter loss of \$89.9 million from continuing operations contributed to a net loss of \$84 million in the first six months of 1994, compared with net income of \$96 million in the first half of 1993. The first-half loss, partly attributable to restructuring, exceeds the company's \$83.7 million loss for all of 1992.

The ratings agencies have taken note.

A.M. Best Co. in June placed the company's A- rating under review. Observers say Continental made some of its cost-cutting moves, including eliminating its dividend, in part to forestall a downgrade by Best.

Standard & Poor's Corp. in July placed the company's AA-claims-paying ability rating on CreditWatch with negative implications.

Both of the rating agencies cited poor first-quarter results, including declining statutory surplus. Statutory surplus fell 10.9% in the first quarter to \$1.74 billion from \$1.95 billion at year-end 1993. The figure rebounded only slightly in the second quarter to \$1.75 billion.

S&P attributed the drop to catastrophe losses, loss reserve strengthening, charges related to the restructuring, and reduced capital gains.

Moody's Investors Service Inc. last month placed the company's property/casualty subsidiaries' A2 financial strength ratings under review for possible downgrade along with its Baa1 senior debt ratings.

What accounts for Continental's lackluster performance?

Catastrophe losses have hit hard in the past several years, particularly from Hurricanes Andrew and Iniki, as has the ongoing soft property/casualty market, which has hurt the commodity-type pricing on its commercial package policy business.

"They've been stung by the soft market from a pricing perspective," explained John L. Ward, chief executive officer of the Ward Financial Group in Cincinnati. "I think their book of business has proven to be unusually risky and difficult to estimate reserves for."

"Continental Corp. has been in decline for years, and it's still an open question as to whether it's viable at all," said Barbara Stewart of Stewart Economics in Atlanta.

Some see Continental's situation as endemic to the industry.

"The grand old stock companies that prospered in an era of regulation, which was pretty much the first half of this century, have been singularly inept in their ability to compete in an innovative, free-wheeling, financially-driven marketplace," said another observer, who asked not to be identified. "And it is only because they have had such huge capital bases that it has taken this long for the companies, and the market, to reflect decades of bad management. It's just one of many old line companies this has happened to."

Like some other old companies, Continental has grown fat and is looking to trim expenses. Its underwriting expense ratio from 1988 to 1993 was 32%, compared with 28.4% for comparable companies, according to Ward's Financial, using data compiled from the National Assn. of Insurance Commissioners. And, it was far higher than industry leaders like Berkshire Hathaway Co.'s National Indemnity Co. unit, with 17.9%, and American International Group Inc., with 21%.

"I think they recognized that expenses have contributed to their problems through the painful downsizings they've recently gone through," said Mr. Ward.

Continental's capital is also more exposed to risk than many other companies.

Its net written premium-to-surplus ratio from 1988 to 1993 was 2.1-to-1—compared with 1.5-to-1 for comparable companies, according to Ward's Financial. For 1993 alone, the difference was even greater: 2.3-to-1 for Continental, 1.3-to-1 for comparable companies.

Although its capital adequacy ratios are declining, the company is adding premiums faster than its peers, "probably at pricing levels that are inadequate in the first place," said Mr. Ward.

Efforts to trim expenses at Continental are seen by some outsiders as inadequate.

"The management has been too slow by some standards in cutting expenses and cutting payrolls and eliminating departments," said Robert Branche of the Branche Research Group in Morrisville, Pa.

"The only way I would really fault Jake (Mascotte) is he was really too gentle with the cutbacks. He went in with a scalpel instead of a butcher knife."

Continental did avoid the mistake of cutting indiscriminately, said Mr. Branche, but "I would have expected, and certainly Wall Street expected, to see results much earlier."

Despite its perceived failings, Continental might be seen as a good vehicle for a foreign company to enter the United States market.

"Foreign insurance companies have not had the best of records in some of their property/casualty acquisitions (in the U.S.) but, even after saying that, my feeling is it certainly is a desire for foreign players

to have a bigger role in the U.S. insurance marketplace," said Michael Lewis, first vp with Dean Witter Reynolds in New York.

The Continental name may prove a powerful draw.

"Foreign buyers," explained Joanne Morrissey, a principal with Firemark Consultants in Parsippany, N.J., "are more likely to put money into the U.S. when there's a name attached to it, and Continental certainly has a solid name in the industry."

"If a new investor can capitalize on that name, and on the infrastructure that the company has, they could have some success that Continental on its own has been unable to have in the past ten years," said Ms. Morrissey.

Some experts say foreign companies are more likely than domestic ones to provide the capital Continental is seeking.

After the due diligence process, "if the transaction doesn't go through, too many domestic companies would probably know too many secrets of (Continental's) operation," said Donald E. Franz, vp and insurance analyst with Advest Inc. in New York.

High prices in Europe are increasing interest in U.S. investments, said Mr. Branche. What's more, European insurance companies are becoming less tempting targets as they begin to face some of the same problems, like expanding legal liabilities, that U.S. insurers already face.

Japanese investors might also be interested in U.S. expansion, Mr. Branche said.

One name frequently mentioned as a possible investor is Italian giant Assicurazioni Generali S.p.A., which already has a reciprocal agreement with Continental.

The Italian company writes European indigenous business associated with U.S.-based multinational accounts, while Continental does the same in the United States for European multinationals.

A Generali spokesman in Trieste, Italy, said he knew of no plans to invest in Continental.

Of course, foreign companies realize the problems facing U.S. insurers and may not be interested in Continental.

"I just think that it's not logical to assume a substantial foreign insurance carrier would make that move," said Douglas Moat, chairman of The Manhattan Group, a New York consulting firm. There are other acquisitions a foreign insurer could make that are "less fraught with danger" than a Continental investment would be, he said.

If not a foreign company, there is speculation that a U.S. financial services firm or investment group could make an offer for Continental.

Market observers who consider this a possibility say a model for such a deal could be Travelers Inc. under the leadership of Sanford I. Weill, who led the purchase of Travelers Corp. by Primerica Financial Services Inc.

"I'm sure there are a number of people of his ilk who would consider that kind of play," said Mr. Moat. "They're in the business today and can raise money and are not afraid of the management changes that can be made."

"There's no way to predict what type of company it would be," said James Ramenda, an analyst with Northington Partners in Avon, Conn., referring to potential Continental investors.

"I think it could be a fairly wide range, from purely financial investors, maybe, to foreign companies that have strategic interest in the U.S., or maybe other U.S. companies, either property/casualty companies that want to expand their

business, or companies that want to enter the business," Mr. Ramenda said.

Whoever invests in Continental, will likely seek to wield a significant amount of control, if not take it over altogether.

A Sanford Weill-type of investor would want a significant amount of control, said Mr. Moat.

"Why buy a minority interest in something unless you can get control?" he said. Otherwise, for the same money, "you can buy some other entities that don't have all the inherent problems that Continental has."

Mr. Ward said the "word on the street" is that Continental is searching for a preferred stock investment.

But to attract up to \$300 million, Continental would have to give an investor a significant ownership stake and a "considerable degree of conversion privileges and features that would allow the preferred stock to be converted to common stock," Mr. Ward said.

Continental also could wind up being acquired outright, said Ms. Morrissey.

"Whether they mean it or not," she said, Continental has "really sent out a signal that they are on the block, and being on the block means other people are going to be looking at Continental, and I don't think

we're going to be seeing the Continental in its next incarnation the way we see it now."

An outright purchase might be done in two steps, said Mr. Ramenda. "First, the equity investment, and then a decision to go forward as it was the case with Travelers. It's certainly a possibility."

Regardless of its structure, once a deal is struck, it is unlikely that Mr. Mascotte would remain with the company.

"Based on the track record of the company under his watch, the possibility of change in top management must be given serious sway at this point in time," said Mr. Lewis.

"It's not unusual in restructuring situations, especially where large amounts of new capital are infused, to expect changes at the top," agreed Mr. Ward. "That's very common."

A capital infusion, however, could put the company back on track, Mr. Ward added. "New capital brings with it a new discipline in running the business, and I think all of the red flags that I see in their financials are correctable with time and with new capital."

If Continental were to get \$300 million and put it in loss reserves, "I think that's a big step in the right direction," said Jonathan Godown, S&P associate director. ■

## Long-term problems seen for life insurers: Moody's

By DOUG McLEOD

U.S. life insurance companies have made strides in improving their financial position but still face long-term problems that could damage their ability to compete with other financial institutions for business, concludes a report by Moody's Investors Service Inc.

Though real estate and mortgage loan portfolios continued to deteriorate through year-end 1992, life insurers have shown improved operating earnings, higher-quality bond portfolios and generally improved capitalization ratios as companies prepared to implement the National Assn. of Insurance Commissioners risk-based capital requirements, Moody's concluded.

Moody's predicts a continuation of certain trends of recent years, including allocation of new investments to high quality and highly liquid assets and management and capital decisions based on risk-based capital constraints.

"We see a steady management focus on core strategic operations, as well as improved operating efficiency from cost reductions and an industrywide attempt to capture a large portion of the significant growth in retirement savings and asset management businesses," said Robert L. Riegel, a Moody's vp.

Overall, the life insurance industry should maintain a high average rating for the "medium-term," Moody's said. While the current average Moody's financial strength rating of A1 is down from the average Aa2 rating of 1990, it is still at the high end of the "good" category, the agency noted.

However, "we are concerned about the significant exposure of the industry to mortgage-backed securities, and the impact that a volatile interest rate environment will have on certain insurers," Mr. Riegel added.

Beyond the medium-term, Moody's outlook on the life industry is "somewhat negative," the rating agency says.

U.S. life insurers still face pressures that could erode their long term prospects in several industry segments.

The group life/health segment, for example, is facing uncertainty over the outcome of health care reform.

"The risk exists that health care reform will restrict premium increases, benefit payments (and) underwriting abilities, leading to compression of profit margins," Mr. Riegel said.

Consolidation will continue in this segment, and the survivors will have to have strong managed care networks and systems capabilities as well as significant capital available for new investment, he observed.

Meanwhile, the group and individual asset accumulation segment—including retirement savings and asset management business—is facing stiffer competition from banks, mutual funds and other financial institutions, Moody's notes.

Life insurers are at a competitive disadvantage in this line, given other institutions' wider distribution systems and lower costs. While some new products—such as separate account guaranteed investment contracts and variable annuities—have all but eliminated insurers' investment risk, profit margins have also become slimmer, Moody's observes.

Insurers are also facing an ongoing stagnant market for individual life products, and downsizing and consolidation in this segment of the industry will continue, Moody's predicts.

For information on obtaining a copy of the study, contact Moody's Investors Service Inc., Corporate Marketing Department, 99 Church St., New York, N.Y. 10007; 212-553-1658.

# Capital

Continued from page 2

out the approval of current members.

John Charman, underwriter of syndicate 488, Lloyd's second-biggest syndicate this year, and chairman of Charman Underwriting Agencies Ltd., was the focus of members' anger recently as members learned of his plan to introduce new corporate capital, seemingly at the expense of his current members (*BI*, Sept. 12).

Leading members agents say that Mr. Charman, under pressure from them and the Council of Lloyd's, has watered down his proposals. Mr. Charman was not available for comment last week.

Lloyd's refused to comment on whether it will allow Mr. Charman to go ahead with his amended plans.

Lloyd's new guidelines state that:

- Single-member corporate syndicates that are run parallel to traditional syndicates will be permitted beginning in 1995. "Stand-alone" syndicates created solely for corporate members are "likely" to eventually be permitted.

- Dedicated members with a reasonable spread of syndicates and risks underwritten will be allowed, and will be given new solvency ratios depending on the variety of business in which they participate.

- "Priority" will be given to plans to facilitate the transfer of individual members to corporate status.

- Corporate members, including insurance companies, will be allowed to acquire up to 100% shareholdings in managing agents, up from the current ceiling of 25%, under new rules planned for June 1995.

- Managing agents will be allowed to increase the level of investment on syndicates by corporate members, currently fixed at 50% per syndicate and 25% per investor. The guidelines do not address the amount of the increases.

Each of these proposals were tempered with caveats designed to accommodate current members and their members agents.

"New corporate proposals must adhere to the following basic principles: the position of existing members must be protected; mem-

bers must not be forced off a syndicate or into a form of investment against their will; schemes, some element of which is contrary to (the former) can only proceed if approved in writing by members agents/direct members representing a majority of the syndicate's capacity," stated the guidelines.

On the day Lloyd's published the guidelines, Cater Allen Syndicate Management Ltd. announced that it had secured up to 40 million pounds (\$62.4 million) of new premium capacity backing for syndicate 190 from Liberty Europe.

Richard Hazell, former underwriter for syndicate 190, who was succeeded by John Wetherell, is chairman of Liberty Europe, which has offices in the Lloyd's building.

Cater Allen plans to set up a separate managing agency to manage 190. Liberty Mutual will take up to a 25% stake in the new agency and is expected to invest more once the new rules on agency

ownership are in place.

Syndicate 190, one of Lloyd's leading underwriters of U.S. property and casualty business, has suffered a dramatic loss in members agency support over the last few years, falling to 33 million pounds (\$48.8 million) of capacity this year from a high of 175 million pounds (\$327.3 million) in 1991. The new cash will stave off syndicate 190's possible collapse.

Additional capacity will come from current members, but they are not expected to commit more than 10 million pounds (\$15.6 million) above the 40 million pounds from Liberty Europe.

Cater Allen Chairman Robin Gilkes said Cater Allen still intends to raise capital, mainly from U.S. investors—including syndicate 190 policyholders—for a dedicated vehicle to invest in syndicate 190 and its other syndicates. Cater Allen officials are in the United States this week to confirm commitments from backers (*BI*, Aug. 8). **BI**

## Lloyd's clears solvency test, now going after members' debt

LONDON—Lloyd's of London is forming a new debt collection department to go after foot-dragging members.

The new Financial Recovery Department is expected to streamline and accelerate collection of outstanding debts estimated at 1.34 billion pounds (\$2.03 billion).

Chairman David Rowland said on Friday that since June, when 1991 results were unveiled, members have paid roughly 1 billion pounds (\$1.56 billion) of outstanding debts, of which 400 million pounds (\$624 million) represents the 3% credit against next year's profits and stop-loss recoveries.

Mr. Rowland also said that, contrary to the claims of some dissident members, Lloyd's is technically solvent. He conceded, however, that this year's solvency test had proved a struggle for the market because of the uncollected debt.

He said that the total assets of all members are insufficient to meet the total amount earmarked within the Central Fund as unpaid debt.

To clear the solvency test, the society accounted for about 180 million pounds (\$280.8 million) worth of double counting as an asset and was again forced to use the Lloyd's building itself as an asset.

Lloyd's hopes the new debt collection department will prevent a similar cash flow problem from arising next year. The new department will replace the Members' Hardship Committee. Members, though, will still be able to apply for hardship relief from their obligations.

"Names who are unable to meet their liabilities will be treated fairly and equitably. The department will, however, take a much more active and positive role in relation to those names who can but have so far been unwilling to make payments in respect of their liabilities. This will benefit the Society as a whole," Mr. Rowland wrote in a letter to members.

—By Adrian Ladbury and Stacy Shapiro

## Florida health reform Medicaid waiver frees subsidy plan

TALLAHASSEE, Fla.—The federal government last week waived its Medicaid rules in Florida so the state can impose managed care requirements on Medicaid recipients and use the savings to help low-income citizens buy health insurance.

If the plan is approved by the Florida Legislature, it would be another significant incentive for small employers in the state to offer health coverage to their workers, according to a spokesman with the state's Agency for Health Care Administration. The ACHA administers a state-wide program implemented earlier this year under which businesses with 50 or fewer employers can join Community Health Purchasing Alliances that collect rate and other data on state-certified health plans.

Under the five-year waiver of Medicaid rules, Florida now can require—rather than ask—its 1.5 million Medicaid recipients to obtain care in managed care settings.

As part of the agreement, the federal government will not reduce its annual funding levels despite expected Medicaid savings. Therefore,

the state expects to save \$3.2 billion in federal Medicaid funding as well as \$2 billion more in state funding over the five-year period.

The Medicaid waiver allows the state to use the federal savings to help individuals and families who earn up to 250% of the federal poverty level obtain health insurance. Florida estimates it will be able to subsidize health insurance costs for 1.1 million low-income citizens.

At most under the subsidy program, monthly health insurance costs would be \$78 for a family of four and \$50 for an individual, the state estimates.

Though the subsidies will be directed to the uninsured, the state figures they will give small firms a greater incentive to offer health coverage. With the subsidies, small firms could obtain coverage and pay only the \$50 to \$60 they have said they could afford to pay monthly for each worker.

"It will be very difficult to use costs as an excuse not to get coverage," the ACHA spokesman said.

—By Dave Lenckus

## Art Blumeyer out on bond after judge declares mistrial

ST. LOUIS—Former Bel-Aire Insurance Co. owner Arthur A. Blumeyer III was released on \$250,000 bond and ordered to wear an electronic monitoring bracelet after a judge threw out his February fraud conviction.

U.S. District Court Judge Jean C. Hamilton declared a mistrial Aug. 30 in the prosecution of Mr. Blumeyer and co-defendant John W. Peckham Jr. after finding that a juror had discussed the case with a lawyer friend during the trial.

Federal prosecutors are appealing the mistrial order to the 8th U.S. Circuit Court of Appeals, but a decision is not expected until next year.

A federal jury found Mr. Blumeyer guilty of 27 conspiracy, fraud and money laundering charges. The jury found that he used a series of bogus insurers to defraud policyholders of more than \$43.5 million (*BI*, Feb. 14).

—By Douglas McLeod

## Updates

### Cowboys lose comp case

Continued from page 2

The Cowboys originally filed suit in Dallas in January, a move the judge characterized as an attempt to circumvent the California workers compensation authorities. The NFL Players Assn. responded by bringing an action before the Workers Compensation Board in Santa Ana, where the players had originally filed for benefits. They have also filed for dismissal of the Texas suit, according to Richard Berthelsen, general counsel for the NFL Players Assn.

A Cowboys spokesman said the team might appeal but is waiting to see how the Texas judge rules.

The players received about \$1 million from Travelers Insurance Co., National Union Fire Insurance Co. of Pittsburgh, Pa., United States Fidelity & Guaranty Group, Insurance Co. of North America and Industrial Indemnity Co., Mr. Berthelsen said. He added that attorney's fees will amount to about \$150,000. The payments stem from injuries dating back to the mid-1980s, before Mr. Jones bought the team.

The 10 former players are Gordon Banks, Benny Barnes, Douglas Cosbie, Douglas Donley, Michael Downs, John Dutton, Leroy Hill, Philip Pozderac, Donald Smerek and Glen Titensor.

### Blue Cross to shed \$2 billion

SACRAMENTO, Calif.—Attempting to resolve a long-running dispute, Woodland Hills-based Blue Cross of California announced it will divest itself of more than \$2 billion in assets as part of a plan to become a for-profit corporation.

The plan was outlined in documents submitted to the California Department of Corporations, which must approve BCC's plan to contribute the assets to a new health foundation.

In January 1993, BCC spun off its managed care operations and other product lines into for-profit WellPoint Health Networks. BCC sold 20 million shares of WellPoint stock to investors and retained 80 million shares, valued at more than \$2 billion.

When California non-profits switch to for-profit status, they usually have to donate their fair value to a charitable foundation. BCC, which itself remained a non-profit entity, agreed to donate only \$5 million a year to charity for 20 years and to make \$100 million in donations this year, which drew fire from legislators, consumer groups and California regulators (*BI*, June 14, 1993).

### Briefly noted

A New Mexico state court judge reduced the punitive damages **McDonald's Corp.** must pay Stella Liebeck, 81, who burned herself with McDonald's coffee, to \$480,000 from \$2.7 million. Compensatory damages of \$160,000 were unaffected. . . . An interstate **banking reform bill** that raises the standard of misconduct for which federal regulators can recover monetary damages from officials of failed savings institutions passed the Senate last week. The Resolution Trust Corp. opposed raising the standard, saying it would lose about \$200 million in recoveries from failed thrifts annually (*BI*, Aug. 1). . . . **General Motors Corp.** cannot alter current health benefits or copayments for a group of early retirees while the company appeals a federal court ruling that GM must provide free lifetime benefits, the 6th U.S. Circuit Court of Appeals ruled (*BI*, Aug. 1). . . . The **House Education and Labor Committee** this week is expected to vote on legislation to make clear that former pension plan participants who become covered under an annuity policy after their employer terminates their pension plan, would retain the right to sue their employer for fiduciary breaches relating to the purchases of the annuities. The measure, S. 1312, was unanimously passed by the Senate last year. . . . Proposition 186—California's proposed **single-payer initiative** (*BI*, May 9)—drew only 23% support in a Los Angeles Times poll last week. . . . A temporary 6% increase in California auto insurance rates was approved for earthquake-troubled **20th Century Insurance Co.** and its affiliate, 20th Century Casualty Co. The 6% rate hike will automatically fall to 3% once the company's premium-to-surplus ratio reaches 3-to-1 for a period of two months. . . . **Stockton Reinsurance Ltd.** of Bermuda, a new finite risk reinsurer run by former Centre Reinsurance (Bermuda) Ltd. underwriters Richard Black and Michael Cascio, is up and running (*BI*, Aug. 15). Previously, the company had not been named. . . . A new **American Tort Reform Assn.** study says that by the end of this year, plaintiffs attorneys probably will have contributed at least \$20 million to state political candidates in Alabama, California and Texas since 1990. . . . New York City police have arrested six people in the \$1.9 million **Tiffany & Co. robbery**, including a Tiffany security supervisor and the Tiffany guard who initially told police he was accosted by two holdup men on his way into the building. Of 457 items stolen, police had recovered 255 by late last week (*BI*, Sept. 12). . . . **ITT Group** has put its financial services subsidiary **ITT Financial Corp.**, which took \$1.44 billion in 1993 gross revenues, up for sale. **ITT Financial** units include Lyndon Insurance Co., which sells surplus relief reinsurance. On the news, Moody's Investors Services put ITT Financial's commercial paper and debt ratings under review with direction uncertain. . . . The United Rubber Workers has filed suit in U.S. District Court in Nashville to block an effort by **Pirelli Armstrong Tire Corp.** to cut off health care benefits to a group of 2,100 retirees. . . . H.R. 995, a bill passed by the House of Representatives last week, would require employers to make retroactive profit-sharing and 401(k) contributions for returning **military veterans** (*BI*, Nov. 11, 1993). . . . President Clinton last week signed broad **anti-crime legislation** into law that for the first time creates specific federal penalties for insurance fraud (*BI*, Aug. 29, Aug. 8). . . . Blue Cross & Blue Shield of Michigan will be the new owner of the **Accident Fund of Michigan** after its \$291 million cash bid survived a challenge from an employee group last week (*BI*, June 20). . . . Maryellen Waggoner has been named **deputy insurance commissioner in Colorado**, replacing Jack Ehnes, who was appointed insurance commissioner in February.

# Superfund

Continued from page 1

Despite praise for the tax compromise before the Senate Finance Committee, Mr. Nutter stressed that the RAA is not endorsing the EIRF concept and is unlikely to do so. In fact, the RAA's support for the new tax proposal is contingent on reinsurers being taxed at a rate comparable to that levied on primary and excess insurers, he said.

H.R. 3800 would saddle reinsurers with an effective retrospective premium tax rate of 0.83%, compared with an effective retrospective tax rate of 0.37% on primary and excess insurers (BI, Aug. 22). Primary insurers, though, would also have to pay a prospective tax on premiums yet to be written to pay for the EIRF.

The Senate Finance Committee has yet to hammer out specific tax rates for its version of EIRF funding.

The EIRF is designed to reduce litigation between insurers and policyholders for Superfund cleanup. Premium taxes on a variety of liability coverages written by insurers and reinsurers would raise \$810 million per year for 10 years to fund the EIRF. Policyholders could receive a portion of their costs for cleaning up Superfund sites in return for agreeing to drop all litigation against their insurers.

Under the complex formula for funding the EIRF, reinsurers would pay a purely retrospective tax on premiums written during the period 1968-85, while primary insurers would pay a combination of retrospective and prospective taxes as well as a fee based on settlements made through the EIRF.

The new framework for the EIRF tax was hammered out during a series of discussions at the White House that ended less than 24 hours before last Wednesday's hearing before the Senate Finance Committee.

In addition to administration representatives, participants included the Reinsurance Assn. of America, the American Insurance Assn., American International Group Inc., Chubb Corp. and representatives of Lloyd's of London and other British insurers.

Under the new framework, reinsurers' collective share of the EIRF tax would be capped at \$88 million for each year of the EIRF's projected 10-year lifespan rather than the \$200 million cap under the Ways and Means version. In addition, the tax liabilities of domestic and foreign reinsurers would be subject to respec-

tive caps within the \$188 million.

"We entered into the negotiations with the administration and (the other parties) primarily because of the onerous nature of the Ways and Means bill. Our rough sense was the taxes it would produce were at least twice and maybe three times higher than the probable liabilities based on market share of what the companies had. It was essential that even without supporting or opposing the EIRF, that we undertake efforts to correct what we viewed as an inequitable tax," said Mr. Nutter.

Mr. Nutter said the Ways and Means reinsurance provision would have required all reinsurers in the tax pool to pick up any shortfall in that pool due to insolvent or defunct companies, regardless of whether they were foreign or domestic.

"Our objections were in part that it was the primary companies that chose to do business with those companies, foreign or domestic, that are no longer here, who may not be able to pay or who are able to manipulate their way around this tax. We viewed it as largely a problem of collections from the offshore reinsurance market," he said.

With the new framework, "we have gone from an undefined risk of non-collection to a very specifically defined risk of non-collection with a cap," he said.

Mr. Nutter said the RAA's analysis of domestic reinsurers' share of reinsurance premiums written for the lines of coverage subject to the EIRF tax is about 45% to 48% of the total.

Mr. Nutter stressed, however, that the RAA's support for the new financing framework is "conditional on an acceptable tax rate." He said the RAA wouldn't know what the revised tax rate would be until the Finance Committee votes on the bill, and no date has been set for the markup.

"The tax rate is critical because all we're seeking is equity and if the tax rate is too high, that would undermine our support for the compromise," he said.

Mr. Nutter also cautioned that support for this particular tax framework does not mean that the RAA is supporting the EIRF concept. "We didn't intend that to be the case, we felt our ox was being gored by Ways and Means and we were trying to correct that."

Although the compromise dealt in large part with the treatment of reinsurers, it also clears up a few other potentially controversial matters in the Superfund reform package.

For example, the compromise spells out that premiums from financial guarantee and fidelity

coverages would not be subject to the EIRF tax. It also gives the secretary of the Treasury the power to extend the prospective tax to lines of insurance not specifically named in the bill "to allow the secretary to respond to changes in the construction of the lines" so that insurers do not attempt to reclassify coverages intended to be taxed.

Other than the revelation of the new EIRF tax framework, last week's Finance Committee hearing on S. 1834, the Senate's Superfund reform bill, contained few surprises.

"This legislation comes to us late in the year, but not too late, we hope," said Finance Committee Chairman Daniel Patrick Moynihan, D-N.Y., who gave his witnesses a polite, even courtly, hearing.

But Sen. Charles Grassley, R-Iowa, raised the question as to whether an insurance industry consensus on the EIRF did indeed exist. "We're still a long ways from consensus," said Sen. Grassley. Like Sen. Moynihan, he pointed to the rapidly contracting legislative calendar as a concern for passing a Superfund bill.

And, as if to prove Sen. Grassley's point, the day's final witness stressed that the divisions within the industry are indeed considerable.

Howard E. Steinberg, senior vp and general counsel of Reliance Group Holdings Inc. in New York, spoke on behalf of the National Assn. of Independent Insurers and the National Assn. of Mutual Insurance Cos. Both trade groups adamantly oppose the EIRF in its present form.

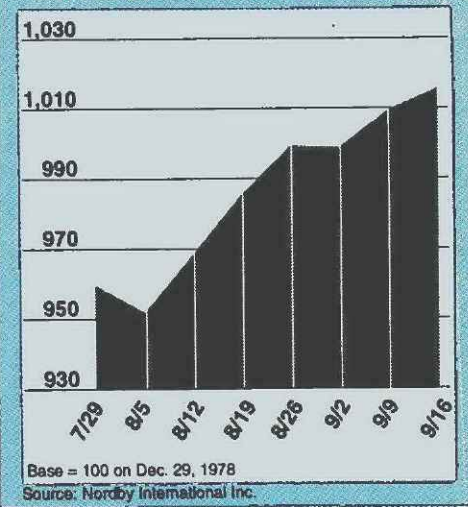
The NAII has offered a counterproposal to fund an EIRF based on two new corporate environmental taxes applied to certain property/casualty insurers (BI, Aug. 1). NAMIC announced at the hearing that it would support the NAII proposal if an EIRF becomes law.

"Most of this country's 3,000 insurance companies" don't have Superfund exposures, said Mr. Steinberg. Only large commercial insurers would benefit from the EIRF in its present form, he said.

"This is a thinly disguised forced bailout" of a few insurers, he said. "What you have before you is an unfair, government-mandated windfall." If the NAII's funding proposal isn't adopted, the Superfund bill should be stripped of the EIRF provisions and passed on the merits of its remaining cleanup provisions, said Mr. Steinberg.

After Mr. Steinberg's often passionate testimony, an obviously amused Sen. Moynihan noted "ambiguity is not one of your faults" and brought the hearing to an end. **BI**

## BI Insurance Index



Insurance stocks rose last week, as the Business Insurance Index gained 5.8 points to 1,015.7 Sept. 16 from 1,009.7 on Sept. 9. Advancing issues were led by: Seibels Bruce Group, up 11.1%; FHP International, up 9.7%; and Harleysville Group, up 7.5%. Declining issues for the week followed: E.W. Blanch Holdings Inc., down 5.5%; Tokio Marine & Fire, down 4.1%; and Humana Inc., down 3.8%. The most active issue was ITT Hartford Group, 7.6 million shares traded. The BI Index rose 0.6%; the Dow Jones 30 Industrials gained 1.5%; the NYSE Composite increased 0.5%; and the Standard & Poor's 500 rose 0.6%.

## British Issues

Sept. 15 Companies	Price	P/E*	Div.†	Yield	1 week high-low
	pence		pence	%	
Comm Union	527	16.8	31.0	5.9	549-527
Genl Accident	561	11.2	34.4	6.1	566-558
Gdn Royal Exch	189	12.0	9.5	5.0	192-186
Independent	268	8.7	10.4	3.9	268-265
Royal	287	12.5	9.4	3.3	290-281
Sun Alliance	323	14.5	18.4	5.7	333-313
<b>Brokers</b>					
Bradstock	100	11.2	6.9	6.9	100-100
Fenchurch	155	12.1	9.0	5.8	155-155
CE Heath	284	10.2	20.0	7.0	288-284
JIB Group	137	12.0	9.4	6.9	139-137
Lloyd Thompson	171	11.6	8.4	4.9	171-171
Lowndes Lmbt	198	12.5	9.4	4.7	198-198
Nelson Hurst	153	15.0	7.0	4.6	154-153
PWS Holdings	43	N/M	2.5	5.8	44-43
Sedgwick Grp	164	18.3	7.5	4.6	171-164
Steel Bri Jones	124	N/M	11.3	9.1	124-124
Willis Corroon	154	14.1	8.3	5.4	158-154

Source: Philip Olsen, London \* Actual 1993 figures

# BI Industry Stock Report SEPT. 12, 1994, THROUGH SEPT. 16, 1994

BROKERS	Price	Weekly % change	Year to date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt./Bk. value	Price	% change	Year to date % change	Annual		Vol.(000)	\$ Div.	% Yield	P/E	Book value	Mkt./Bk. value			
				High	Low										High	Low									
Accordia Inc.	NYS	27.00	-2.26	9.64	28.75	21.00	14	0.60	2.22	14	10.22	2.64	NAC Re Corp.	NDO	26.25	-0.94	-9.87	37.00	24.00	315	0.16	0.61	14	19.24	1.36
Alexander & Alexander	NYS	20.38	0.00	2.52	23.63	14.00	332	0.10	0.49	-157	6.73	3.23	National Re Corp.	NYS	26.50	-1.40	-13.47	35.13	23.50	158	0.16	0.60	10	17.51	1.51
E.W. Blanch Holdings Inc.	NYS	21.38	-5.52	23.02	23.50	15.75	30	0.32	1.50	19	4.10	5.21	Navigators Group	NDO	17.50	2.56	-50.00	39.00	16.00	28	0.00	0.00	-7	16.99	1.03
Gallagher Arthur J. & Co.	NYS	33.63	1.51	-5.94	37.13	28.13	39	0.88	2.62	18	7.52	4.47	Nobel Insurance Ltd.	NDO	8.25	3.13	8.20	8.63	6.63	16	0.20	2.42	5	6.84	1.21
Hilb, Rogal & Hamilton	NYS	12.13	0.00	-7.62	14.63	11.13	20	0.48	3.96	16	4.51	2.69	NWNL Companies	NYS	31.00	-0.80	-4.62	38.75	27.00	770	0.90	2.90	11	23.97	1.29
Marsh & McLennan	NYS	79.63	-3.34	-2.15	90.50	77.00	803	2.90	3.64	16	16.76	4.75	Ohio Casualty Corp.	NDO	32.00	2.40	0.39	35.75	26.50	276	1.46	4.56	13	23.84	1.34
Poe & Brown	NDO	19.75	-3.07	9.72	22.75	16.88	57	0.40	2.03	14	3.02	6.54	Old Republic Int'l	NYS	21.63	-1.14	-3.89	27.50	21.25	291	0.48	2.22	8	23.57	0.92
AVERAGE			-1.8	4.2					2.4	-9			Orion Capital Corp.	NYS	32.50	-0.76	5.26	36.31	28.63	44	0.80	2.46	9	27.43	1.18
													Partner Holdings Ltd.	NDO	21.19	2.11	-2.59	23.50	18.50	413	0.40	1.89	18	N.A.	N.A.
													Penn-America Group, Inc.	NDO	7.25	-3.33	-5.69	9.50	6.50	112	0.00	0.00	8	6.21	1.17
													Phoenix RE Corp.	NDO	26.75	-3.17	-2.73	37.75	18.50	402	0.30	1.12	7	19.99	1.34
													Provident Life	NYS	28.50	0.00	-9.09	31.88	24.38	83	1.04	3.62	-11	26.38	1.09
													Re Capital Corp.	NDO	12.50	0.00	-8.26	15.50	12.25	1	0.32	2.56	12	16.88	0.74
													Reliance Group Holdings	NYS	6.25	-1.96	-19.35	10.38	4.88	493	0.32	5.12	11	4.22	1.48
													RLI Corp.	NYS	22.13	0.57	-17.29	27.75	20.63	13	0.60	2.71	-43	22.91	0.97
													St. Paul Companies	NYS	41.75	1.52	-6.96	49.00	37.69	911	1.50	3.59	9	57.84	0.72
													SAFCO Corp.	NDO	54.00	-2.70	-1.14	65.75	48.50	745	1.96	3.63	10	41.59	1.30
													SCOR U.S. Corp.	NYS	12.00	2.13	-4.95	16.88	10.13	14	0.36	3.00	8	16.08	0.75
													Seibels Bruce Group	NDO	3.13	11.11	78.57	3.50	0.31	241	0.00	0.00	-7	1.90	1.64
													Selective Ins. Group	NDO	27.00	2.86	-10.74	31.00	23.00	86	1.12	4.15	10	23.11	1.17
													Sphere Drake Holdings	NYS	15.30	-0.81	-6.82	21.63	14.63	17	0.12	0.78	7	12.17	1.26
													Statesman Group Inc.	NYS	15.50	0.81	24.00	15.50	10.25	298	0.10	0.85	6	8.65	1.79
													TIG Holdings	NYS	20.63	1.23	-8.84	28.00	17.25	405	0.20	0.97	18	18.49	1.12
													Titan Holdings	NYS	9.25	2.78	-14.94	12.50	7.75	54	0.28	3.03	8	8.93	1.04
													Tokio Marine & Fire	NDO	58.00	-4.13	7.41	66.00	49.25	29	0.41	0.70	-	57.72	1.00
													Torchmark Corp.	NYS	43.00	4.56	-3.91	59.38	36.75	870	1.12	2.60	11	17.35	2.48
													Transatlantic Holdings	NYS	51.50	-1.90	-3.51	58.75	45.38	58	0.36	0.70	13	29.60	1.74
													Transatlantic Re Corp.	NDO	22.00	-3.30	-18.52	27.00	0.13	328	0.00	0.00	17	N.A.	N.A.
													Travelers Corp.	NYS	35.00	-2.10	-9.97	49.50	31.00	2110	0.60	1.71	8	33.35	1.05
													Trenwick Group Inc.	NDO	39.25	0.64	1.29	47.75	33.25	84	1.00	2.55	14	26.00	1.51
													United Fire & Casualty	NDO	41.00	0.00	13.89	44.00	36.00	0	1.08	2.63	9	28.96	1.42
													UNIFAC Corp.	NDO	48.50	0.52	14.12	51.50	38.50	161	1.60	3.30	34	38.90	1.25
													USFAC Corp.	NYS	49.75	0.76	-5.24	58.00	43.00	975	0.96	1.93	12	27.55	1.81
													USF&G Corp.	NDO	12.08	-0.52	1.58	14.63	8.25	28	0.00	0.00	16	10.48	1.15
													USLIC Corp.	NYS	13.75	0.92	-9.09	17.88	11.69	1162	0.20	1.45	9	10.60	1.30
													USLI Corp.	NYS	21.13	-0.59	28.03	24.00	15.75	712	0.24	1.14	8	25.22	0.84
													USLIFE Corp.	NYS	35.00	-1.75	-9.68	45.75	34.75	125	1.24	3.54	8	41.73	0.84
													Washington National	NYS	22.38	1.70	-7.73	26.13	20.63	81	1.08	4.83	8	28.40	0.79
													Zenith National Ins.	NYS	24.50	-1.51	10.73	28.75	20.63	85	1.00	4.08	11	17.71	1.38
													Zurich Reinsurance Centr.	NYS	27.00	0.00	-4.42	33.00	24.25	41	0.00	0.00	-56	24.41	1.11
													AVERAGE			0.4	-2.6				2.3	10.9		</	

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