

NEWS

Business Insurance

Reporting Weekly on Corporate Risk, Employee Benefit and Managed Health Care News / \$4

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GOP Medicare plan would shift benefit burdens to employers

WASHINGTON—Employers' liability for the health care claims of employees who develop end-stage renal disease would be expanded, while a key court decision that limits the federal government's ability to recover mistaken Medicare payments from employers would be overturned under a Medicare overhaul package unveiled last week by House Republican leaders.

The package also would limit medical malpractice awards to \$250,000 for non-economic damages, cap punitive damage

See Updates on next page

Pension reform plan

Tax bill offers pension reversions, administration changes

By JERRY GEISEL

WASHINGTON—Employee benefit managers could be cheering for a change if Congress passes new tax legislation.

The House Ways and Means Committee last week approved a sprawling tax measure—formally known as a budget reconciliation bill—that includes a wide array of benefit provisions welcomed by employers.

Among other things, the measure would:

- Allow employers to withdraw—for any reason—surplus assets from their pension plans. Asset withdrawals would be permitted as long as a plan remained at least 125% funded after the reversion.

These asset reversions, which currently can be used only to fund retiree health care benefits, would be permitted through the year 2000. Asset reversions from an ongoing plan would be subject to regular corporate income taxes. Starting in July 1996, a 6.5% excise tax also would be charged.

- Simplify many federal rules that have increased the cost of administering a pension plan. Among other things, the measure, proposed by Ways and

Means Committee Chairman Bill Archer, R-Texas, would make it easier for employers to run the basic 401(k) non-discrimination test (see story, page 37).

- Give employers a new weapon to help control health care costs. The measure would give tax-favored status to medical savings accounts so employers could make tax-deductible contributions to MSAs without employees being taxed on the employer's contributions. Alternatively, individuals could make tax-deductible contributions to MSAs so long as their employers did not fund the accounts.

In addition, the measure includes numerous provisions that employees will welcome.

For example, upper middle-income employees would, in certain situations, be able to boost their

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COLI deductions Phasing out tax breaks related to corporate-owned life insurance would make companies find other ways to fund some benefit programsPage 36

Pension simplification The Ways and Means tax bill would take several steps to make it easier for companies to administer plansPage 37

Committee bill would:

- Give employers easier access to surplus pension assets
- Phase out interest deduction for corporate-owned life insurance
- Give favorable tax treatment to medical savings accounts
- Weaken 401(k) plan non-discrimination testing rules
- Let tax-exempt employers establish 401(k) plans
- Speed up vesting schedules for multiemployer pension plans

GRAPHIC BY JERRY PARKS

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The capital of cargo theft

Houston Marine Insurance seminar report

International Union of Marine Insurance report

GRAPHIC BY KIM ROME



Zurich CEO denies obligation to Home

Hueppi sees duty to current policies, not to policies Zurich didn't renew

By GAVIN SOUTER

Zurich Insurance Group will not meet the claims on The Home Insurance Co. policies it chose not to acquire if it turns out there are insufficient funds to pay those claims, says Zurich's chief executive.

"We have nothing whatsoever to do with the policies that were issued by The Home," Rolf Hueppi, Zurich's chairman and CEO, told *Business Insurance* recently.

If Zurich had any intention of meeting The Home's outstanding liabilities, it would have taken over the whole company, Mr. Hueppi said.

Beyond the opportunity to garner some attractive insurance business, the acquisition of key Home business also helps flesh out Mr. Hueppi's plan to expand Zurich's other capabilities such as run-off management services.

In the future, Mr. Hueppi explained, insurance companies will need to offer myriad risk financing solutions



Mr. Hueppi

to clients rather than simply insurance products, and Zurich's recent acquisitions are part of an overall strategy to offer those solutions.

In particular, insurers will need to be able to offer sophisticated financial products and asset management skills to meet the demands of their customers.

See Zurich on page 35

Benchmarking support is split

By DAVE LENCKUS

Few risk managers with any experience benchmarking against another company's metrics or processes would agree that the total quality management tool is a simple device.

From identifying benchmarking partners to adopting or adapting another's best practices, risk managers often find themselves grappling with a frustratingly cumbersome, time-consuming and costly undertaking.

Pointing to the mercurial pace at which the business environment is evolving, some risk managers and consultants don't think the potential rewards of bench-

marking are worth the cost, especially in a protracted project.

"If you do a two- to three-year benchmarking study, now you've got a great study on how business was done two to three years ago," observed Scott K. Lange, director of risk management for Microsoft Corp. of Redmond, Wash.

Even some risk managers who support the "show-me-yours-and-I'll-show-you-mine" concept will not benchmark. They say that distinctive risk management accounting principles from company to company preclude them from finding suitable partners.

Many others, though, say they cannot afford to pass up an opportunity to measure themselves

against and imitate others that have demonstrated best practices. That helps them avoid the so-called "village Venus effect," a business concept that refers to the tale of a secluded tribe of people who believe that the most beautiful woman in their isolated village is the most beautiful woman in the world.

"Their idea of perfection or beauty may be totally different from what's out there in the world," said John Roskopf, a senior vp and risk management consultant with Rollins Hudig Hall of Illinois Inc. in Chicago.

Benchmarking proponents do not soft-pedal the problems in-

See Benchmark on page 29

Marilyn merciless in Caribbean

Losses in U.S. Virgin Islands may top Hugo's damage

By LEE VELKER

CHARLOTTE AMALIE, U.S.V.I.—Early loss estimates indicate that Hurricane Marilyn battered the U.S. Virgin Islands more severely than Hurricane Hugo, which caused \$800 million in insured damage to the islands in 1989.

Damage reports were scarce last week because phone lines and flights were limited to emergency assistance and to islanders recuperating from both Marilyn and Hurricane Luis, which battered the nearby British Virgin Islands only two weeks earlier.

But agents and brokers gave accounts of devastation.

"I suspect the dollar value of damage will be much greater than that of Hugo," said John O'Shea, president of Marshall & Sterling Enterprises Inc. of Poughkeepsie, N.Y.

Hugo did \$800 million in insured damage to the Virgin Islands, mostly St. Croix, before striking the continental United States, estimates the Property Claims Services division of American Insurance Services Group Inc.

As of late last week, M&S, which operates one of the largest insurance agencies in the U.S. Virgin Islands, was still unable to establish steady communication with its St. Thomas office.

The storm created logistical problems for the agency, because its office was damaged and employees' homes were destroyed, said Mr. O'Shea.

"If you compare what Hugo did to St. Croix and Marilyn did to St. Thomas, from what we know so far, they are going to suffer more losses from this one," said Eduardo J. Chevres, president of broker Sedgwick James of Puerto Rico, which places cover-

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Updates

Bill would overhaul Medicare

Continued from previous page

awards at three times the amount of damages for economic losses or \$250,000. The package also would limit medical malpractice awards to \$250,000 for non-economic damages, cap punitive damage awards at three times the amount of damages for economic losses or \$250,000, whichever is greater and eliminate joint and several liability for non-economic damages in medical malpractice cases.

Under current law, employers are the primary payer of health care claims for 18 months for employees who develop ESRD, after which Medicare becomes the primary payer. The GOP package would make employers liable for 24 months.

The package also would overturn a 1994 federal appeals court decision that has limited the Health Care Financing Administration's ability to recover hundreds of millions of dollars in claims that group health plans—not Medicare—should have paid.

The court ruled that HCFA could not demand payments when a beneficiary, such as an older worker, or a provider had not filed a claim within the plan's or insurer's deadline (*BI*, March 27). That deadline is typically one year after the service is performed.

Instead, under the GOP plan, HCFA would have three years from the time a service was performed to seek recovery for mistaken payments.

The package also would make clear that HCFA could seek recovery from third-party claims administrators for claims that employer plans and not Medicare should have paid. The appeals court earlier ruled that HCFA could not demand repayment from TPAs that only administered an employer's health plan and did not also insure the benefits.

Other provisions in the package would substantially increase Part B Medicare premiums for retirees and give retirees new managed care options in lieu of the traditional fee-for-service Medicare program.

OSHA fine policy overturned

WASHINGTON—The U.S. Chamber of Commerce won a major victory over the Occupational Safety and Health Administration when the OSHA Review Commission ruled recently that a company may be fined only once for a single workplace hazard.

That ruling rejects OSHA's "relatively recent" approach to levying fines in some cases by multiplying a maximum fine by the number of employees who had been exposed to the hazard, said Robin Conrad, vp of the National Chamber Litigation Center, a legal organization affiliated with the chamber.

The commission's ruling on Sept. 15 upheld the earlier ruling of an administrative law judge, which the Labor Department appealed.

OSHA has not yet decided whether to appeal the review commission's decision, a spokeswoman said.

Problems plague Value Health

AVON, Conn.—Value Health Inc. says it has no plans to sell Diagnostek Inc., even though problems with the recently acquired unit were cited as a key reason why the specialty managed care firm will be taking a charge of up to \$80 million later this year.

Investors reacted quickly to Wednesday's announcement of "softness" in Diagnostek's results by Robert E. Patricelli, chairman, chief executive officer and president of Value Health. Its shares fell by about 25% after the news and closed Friday at \$27.75. New York Stock Exchange trading in the shares was suspended from Wednesday afternoon until Friday.

"We intend to do whatever we have to do to clean this business up, and that will likely result in additional charges beyond normal merger-related expenses in the third or fourth quarter," said Mr. Patricelli. The cost of doing so, combined with the cost of some other "operational cost-cutting," could be up to 10% of Value Health's assets, or \$80 million, he said.

Value Health's \$216.2 million acquisition of Diagnostek earlier this year created the nation's largest prescription benefit management firm not owned by a drug company (*BI*, June 12; April 3).

One pharmacy benefit observer said the industry is going through a shakeout, but Value Health will survive.

"They just got caught in their own success," said Jim Norton, Canadian practice director for Watson Wyatt Worldwide in Toronto and a longtime observer of the managed pharmacy benefit industry. "It's a very good company. This is not going to be fatal."

California suspect kills self

WALNUT CREEK, Calif.—A University of California risk management employee who was being sued by the university for allegedly embezzling more than \$900,000, committed suicide last week.

Diana F. Spaniol, 47, killed herself by turning on the gas in the oven of her Walnut Creek condominium, said Contra Costa County Deputy Coroner Steve Young.

The deputy coroner said an investigation into the embezzlement case is continuing. No charges had been filed against Ms. Spaniol, who was on administrative leave at the time of her death.

She had sent settlement checks to claimants on behalf of the self-insured University of California. According to court papers, Ms. Spaniol made up claims, then sent out settlement checks to herself or her daughter using a variety of aliases (*BI*, Sept. 18; Aug. 7).

See Updates on page 38

Errors & omissions

A questionnaire for the annual directory of reinsurers was not sent to the proper address of Tokio Marine & Fire Insurance Co. Ltd. As a result, the company was omitted from the Aug. 28 listing. A subsequent listing that appeared in the Sept. 18 issue incorrectly stated the reason for the company's omission.

Trimming 1996 budget one of NAIC's top concerns

By MEG FLETCHER

PHILADELPHIA—Budget cutting is the name of the game for the National Assn. of Insurance Commissioners as it plans next year's operations.

While focusing on its own budget, the NAIC at its recent fall meeting also discussed the steps it is taking to address the regulation of risk retention groups organized as captives and to expand allowable investment approaches for insurers.

The first-round 1996 budget released to the public at the Phila-

delphia meeting earlier this month estimates that an anticipated \$41.3 million in expenses will exceed revenues by \$1.2 million.

For the current year, the NAIC estimated that its \$39.9 million in expenses would exceed revenues by only \$40,727.

Next year, expenses are expected to increase 3.49% over this year, despite cuts that have been made in several areas, including

reduction in temporary help and staff travel.

Anticipated increases include a 39.8% hike in general business insurance "due to increases in workers compensation coverage based on higher payroll and incident experience increases," the NAIC said. In addition, electronic data processing errors and omissions coverage "has increased 43.76% due to the increased sale of database products and the purchase of \$5 million in excess coverage," the NAIC said.

On the other hand, 1995 revenues

See NAIC on page 33

Surplus lines execs say future is online

Technology changing business as usual

By DEBORAH SHALOWITZ COWANS

SAN DIEGO—Technology will speed up and improve communication between surplus lines underwriters, wholesalers and buyers, and may even fundamentally



change the way business is conducted, experts say. "There seems to be little question concerning the data capturing, analysis and transmission of data" capabilities of computers, stated Les Ross, senior vp of Tri-City Insurance Brokers Inc. of New York.

"There is, however, a growing source of controversy with respect to the role technology will play and actually is playing in the broking and underwriting marketplace in general and in the wholesaler specialty segment in particular."

Mr. Ross moderated a panel discussion about the role of technology in the surplus lines market during the National Assn. of Professional Surplus Lines Offices Ltd. annual convention earlier this month in San Diego.

The surplus lines market faces several issues relating to the growing use of technology, experts say.

For example, some say the abil-

See Technology on page 22

Ford air bag suit allowed despite lack of U.S. rule

DEARBORN, Mich.—Ford Motor Co. hasn't decided whether to challenge a New Hampshire Supreme Court ruling that gives the green light to a product liability suit against the automaker for the absence of air bags in a 1988 model, even though such devices weren't required by law then.

Ford had argued successfully before a lower court that the case should not come to trial because it met the federal standards in place when the car was built. Those standards required automatic shoulder belts and manual seat belts. Air bags were not required until 1990.

But, the mother of a woman killed when her 1988 Ford Escort struck a tree challenged the dismissal, arguing that state and common law al-

lowed her to seek damages. While not addressing her claim that the car was unsafe, the state high court ruled unanimously that the victim's mother was entitled to a trial.

Ford disagreed, saying that when the 1988 Escort was built the model's passive safety belt system met the same federal safety standards as air bags. "Ford is surprised by this ruling," the company said. "Especially considering the vast majority of courts... have ruled that drivers or passengers injured in car crashes could not sue automakers for providing safety belts—instead of air bags—as expressly authorized by the U.S. government."

Ford also contends the victim had been driving too fast.

—By Rodd Zolkos

Effects of cats explored

By MICHAEL SCHACHNER

The worst domestic natural disasters of the previous two years—the Northridge earthquake and the Midwest floods—affected businesses in the two regions in very different ways, according to a recent study.

In the sections of Los Angeles rocked by the January 1994 earthquake, more than half of the businesses were forced to shut down for a period of time due to physical property damage. In Des Moines, Iowa, the city hit hardest by the July 1993 floods, about 40% of businesses were forced to close their doors for some time, mostly because of extended interruptions of services like water and electricity.

But in both regions, the percentage of businesses that had purchased earthquake or flood insurance was relatively low, and only one in five companies in each catastrophe zone had applicable business interruption coverage to respond to lost income, the study found.

The study by the Disaster Research Center at the University of Delaware, found that few businesses were spared at least some inconvenience from the earthquake or flooding.

But the study—the results of which were presented at a seminar earlier this month in New York on the economic consequences of earthquakes and other catastrophes presented by the National Center for Earthquake Engineering Research

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Inside

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• A new package policy may provide multinational firms in Russia with more security. **PAGE 31**

• A bank is studying ways to give 401(k) plan participants access to their funds through a credit card. **PAGE 38**

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Cargo theft causing loads of problems

Risk managers alarmed at mounting losses

By ROBERTO CENICEROS

With a maze of freeways for quick getaways, two of the world's busiest ports and enterprising gangs, Los Angeles is the nation's cargo-theft capital.

More than one cargo container vanishes from truck trailers in Los Angeles each day; sometimes up to three or four. And truckloads of less glamorous items like Campbell's soup or canned beans fall prey almost as often as trailers full of Nike shoes or Kenwood stereos, police reports show.

The thefts happen in broad daylight—when armed hijackers leap onto the running boards of a truck and pistol whip a driver to give up his cargo—and at night, when thieves cut through storage lot fences, back up their own trucks and drag aside several cargo trailers before reaching a targeted load.

The robberies are often violent, with drivers beaten or killed (see story, page 14). In other cases, thieves may simply pay a driver \$2,000 to \$5,000 to park at a cafe and look the other way while they drive off with the truck, law enforcement officials say.

Cargo theft is a growing problem elsewhere in the country, too, as increased shipping activity creates more opportunities for theft. Overall, cargo losses from thefts and hijackings in the United

States produce losses of several billion dollars annually, according to the U.S. Department of Transportation.

As cargo losses continue to mount, the problem is attracting increased attention from risk managers, insurers and investigators, among others.

Cargo theft is a lucrative crime, since there are "fences" who can buy large quantities of stolen goods and unload them for nearly 90% of their retail value, said Lt. Jack Jordan of the Los Angeles County Sheriff's Department. Lt. Jordan supervises a multi-jurisdictional law enforcement unit known as the Cargo CATs (see story, page 12).

Most of the stolen cargo is taken by the containerload, according to Jim Mooney, president of the Inland Marine Underwriters Assn. in New York.

Nailing down actual losses is difficult. "It is very hard to pin down these numbers. Several billion dollars (annually) is what the Department of Transportation is saying," Mr. Mooney said.

Railroad and airport cargo losses are also significant, cargo industry observers say.

While it is the most active, Los Angeles is hardly the only area thieves target.

"You can't discount Newark, JFK and the New England corridor," said Tom Sheets, director of corporate security for Consolidated Freightways Inc. in Portland. See *Crime* on page 12



Los Angeles' position as a transportation crossroads makes it an easy target for cargo theft, though the problem certainly is not limited to California.

Insurer expanding coverage limits

OIL expects changes to pay off

By SARA MARLEY

Higher limits, greater flexibility and higher deductibles would be available to oil and gas companies if proposed changes at industry mutual Oil Insurance Co. Ltd. are approved at an Oct. 20 shareholders meeting.

The board of directors has endorsed the changes, which will take effect Jan. 1 if 75% of the Hamilton, Bermuda-based property insurer's 44 shareholders approve them.

"Approval of the proposals would represent the most significant change in the way that OIL conducts its business since the company commenced operations in 1972," said K. Doyle Stephens, OIL president and chief executive officer, announcing the changes earlier this month at the Houston Marine Insurance Seminar.

The changes are intended to make OIL—which writes property damage, well-control, third-party pollution liability and marine hull insurance—more attractive to a broader market, increase its flexibility and add value to its existing customers, he added.

OIL's basic per occurrence limit would increase to \$225 million from \$200 million and the aggregation limit—the company's ultimate liability for any one occurrence, no matter how many of its policyholders are involved—would increase to \$562.5 million from \$500 million. Shareholders for the first time could buy less than full limits. But, any company that did so could not buy any other insurance above \$10 million.

The joint venture limit would be eliminated. Currently, OIL restricts the amount it will out in claims by joint ventures of two or more OIL shareholders to approximately 1.5 times the per-occurrence limits. Even if that limit were eliminated, joint venture claims could still be restricted by aggregation limit.

OIL would also modify the way it determines premiums to more accurately reflect the risks in different sectors of the gas and oil industry.

Currently, premiums are based on a company's total gross assets, regardless of whether the company was, for example, primarily involved in offshore drilling or chemical production. Under the new proposal, premiums would vary depending on how much of a company's opera-

See *OIL* on next page

Hull rate hikes dead in the water

By STACY SHAPIRO

Marine hull insurance rates are leveling off or dropping following improved loss results in 1994, according to the member associations that comprise the International Union of Marine Insurance.

A survey of IUMI's 40 member marine insurance associations revealed that in many markets there is a "more competitive environment."

Several associations also refer



IUMI TOKYO 1995

to "the return of some underwriters to write for volume rather than profit, and the lowering standards of professionalism," said Peter Christmas, a Lloyd's of London underwriter and chairman of the IUMI ocean hull committee.

Those market conditions follow improved loss results for IUMI members, according to statistics collected by the organization.

But not everyone is willing to follow rates downward, the hull committee's survey of IUMI members found.

"As we are constantly reminded, hull insurance is a cyclical business, and whereas some underwriters saw the opportuni-

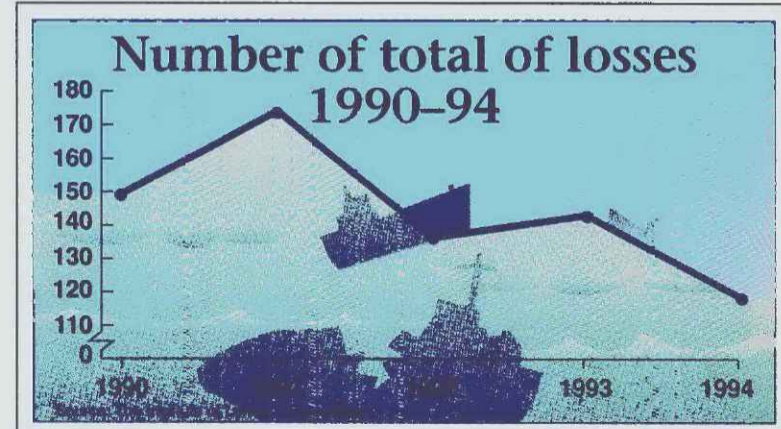
ties to expand their account at the end of 1991, they recognize that now is the time to cut back if we are to avoid repeating the follies of the late 1980s," Mr. Christmas noted.

Any temptation to follow rates downward must be resisted, said Len Campbell, chairman of the

Institute of London Underwriters, just before last week's annual IUMI conference in Tokyo.

Rate increases for shipowners with good or above-average claims records have leveled off, which is understandable after a long period of dramatic increases

See *Hull insurers* on page 18



GRAPHIC BY MIKE GARVEY



GRAPHIC BY KIM BOM

OIL

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tions were in each of five sectors. The sectors are: refining, marketing and chemicals; offshore exploration and production; onshore exploration and production; pipelines; and other.

"If that sounds like underwriting, it is in a sense," Mr. Stephens said. "Our rating formula would remain unchanged. The adjustments would be made prior to the operation of the rating plan."

Shareholders also would be offered flexible limits by asset sector and credits for deductibles up to \$750 million.

"We have seen a lot of members migrate to higher deductibles," he observed. "In the beginning the minimum retention was \$1 million, but few companies have stayed there.

Now the basic program is keyed to \$10 million. The minimum retention for new members is \$5 million."

OIL also proposes allowing shareholders to use quota share arrangements for the first time.

Currently, OIL's standard \$200 million limits are written as 100% of a single layer. If the change is approved, shareholders could designate OIL as a percentage of a larger layer and either self-insure or buy other insurance in conjunction with OIL, provided they buy full OIL limits.

Finally, OIL proposes removing two surcharges—one on incurred-but-not-reported losses and one for replacement cost value coverage.

"I believe the changes will pass, but there is no guarantee," said Mr. Stephens.

Consensus management is part of what sets industry mutuals like OIL apart, Mr. Stephens said. "We are driven not so much by what the

market demands or permits, but by what our customers need and want."

Changes benefit all members, he added, "not just those who have the leverage of large buying power."

A company can join OIL if more than 50% of its assets or more than 50% of its revenues are related to petroleum activities.

Membership in OIL, which began with 16 members in 1972, has fallen to 44 from 49 as recently as 1993. The insurer had \$1.3 billion in capital and surplus as of June 30.

The proposed changes are the result of continued rebuilding and restructuring at OIL since a disastrous 1988 and 1989. Total incurred losses in those two years were \$1.1 billion, more than the total for the previous 16 years. Of that total, \$188 million was recoverable from reinsurers.

"Since 1989 we have largely been rebuilding and restructuring the company," Mr. Stephens said. "The

fallout included the loss of most of our reinsurance program and a drop in capital to a low of \$405 million at the end of 1989." At that time, shareholders voted to reduce limits to \$300 million from \$200 million.

And today OIL does not buy reinsurance. "It is not by choice but by necessity," Mr. Stephens said. "Our only protection is the aggregation limit. Following a series of losses and the loss of most of our reinsurance program, we attempted to structure a new program that ran for three years. We were disappointed with the participants' response."

OIL's efficiency—its expense ratio is just 1.5%—helped the mutual weather the storms.

The petroleum industry was undergoing change at the same time the insurer was, Mr. Stephens noted.

"In addition to the trauma associated with this level of loss experience, we could not ignore the prob-

lems related to the turmoil within our client industry base," he said. "Financial stresses associated with low oil and gas prices and profit margins triggered a wave of restructuring within the industry. This activity continues to this point in time.

"It was a decade of disintegration in the oil industry," he said.

Mutuals are particularly well suited to the petroleum industry, Mr. Stephens said. OIL has two sister companies: Oil Casualty Insurance Ltd., which writes general liability and directors and officers liability coverages; and TOPS Insurance Ltd., which writes total-loss coverage for offshore production platforms. **BI**

BI staff changes

CHICAGO—Business Insurance announces several additions to its editorial staff in Chicago.

Robert Kazel, 32, has joined BI as an associate editor.

Prior to joining BI, Mr. Kazel was managing editor of POS News, a monthly newsletter covering debit cards and retail electronic banking. Before that, he was a reporter for New Orleans CityBusiness, and the Times-Picayune in New Orleans.

Mr. Kazel received a bachelor of science degree in journalism from Northwestern University in Evanston, Ill.

He replaces Christine Woolsey, who left BI to pursue a consulting career. He can be reached at 312-649-5460.

Sandy Budde, 29, has joined BI as directory editor.

Previously, she worked on a consulting basis in business and finance for several companies, including Sara Lee Corp., William M. Mercer Inc. and CCC Information Services. She has also worked as an academic advisor at Triton College and program director for the Boy Scouts of America.

Ms. Budde received a master's degree in higher education from Loyola University in Chicago. She holds a bachelor of science degree in education with a minor in math from the University of Illinois at Champaign-Urbana.

Ms. Budde replaces Kathy Welyki, who is now an editorial systems analyst with BI's parent, Crain Communications Inc. Ms. Budde can be reached at 312-649-5279.

Lee Velker, 22, has joined BI as an assistant copy editor.

He graduated in June with honors from Ohio University's E.W. Scripps School of Journalism in Athens.

Previously, he was an associate editor and staff writer for Southeast Ohio, a regional magazine published by Ohio University. He also held various positions on The Post, the university's student daily.

Mr. Velker replaces Kerry Dziubek, who resigned to pursue a law degree on a full-time basis. He can be reached at 312-649-5283. **BI**



Mr. Kazel



Ms. Budde



Mr. Velker

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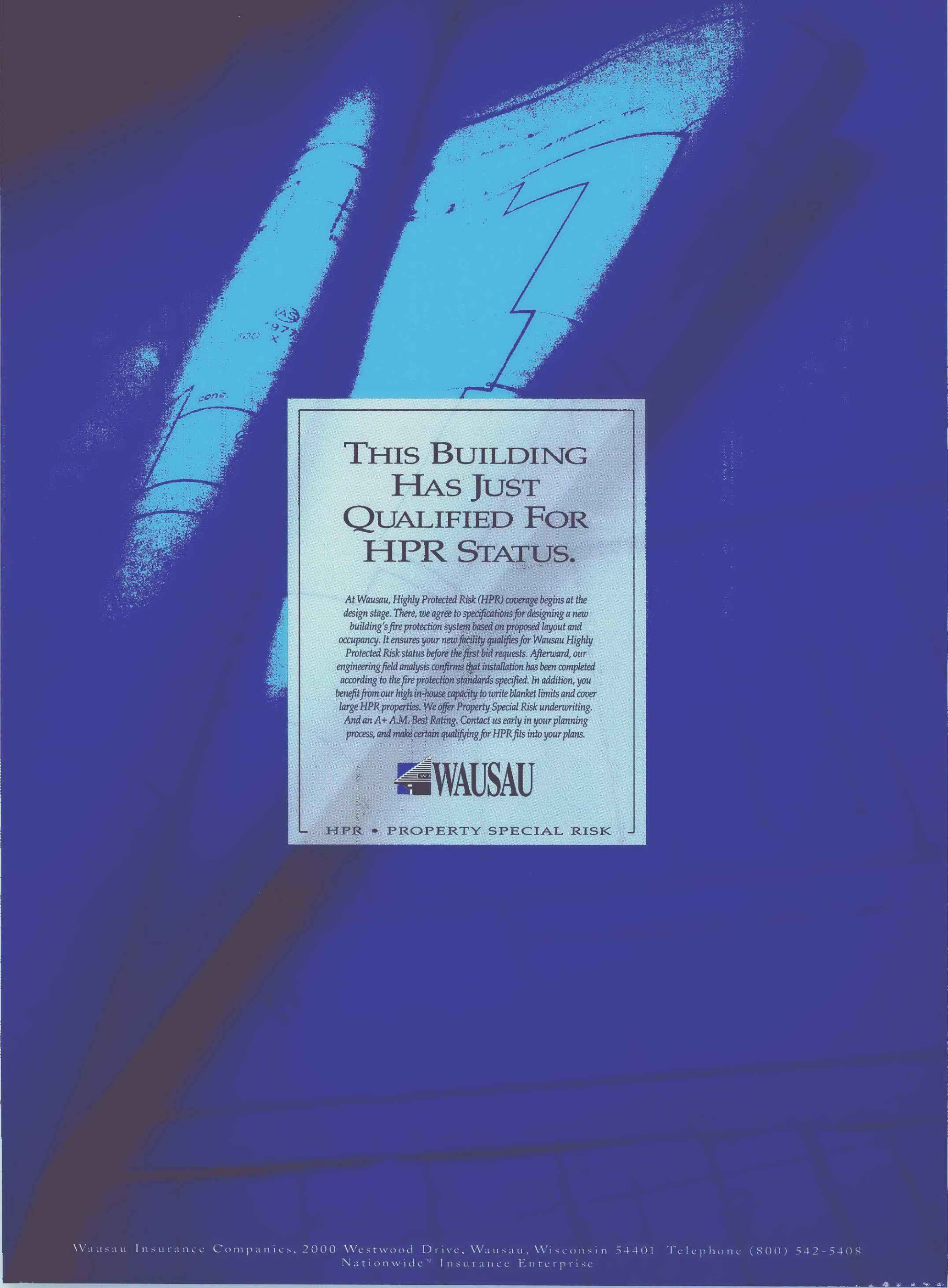
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Details of oil spill rules unclear

Congress may clarify how OPA '90 applies to offshore facilities

By SARA MARLEY

Five years after its passage, operators, insurers and regulators are still waiting for final rules to clarify how the Oil Pollution Act of 1990 will apply to offshore oil and gas facilities.

Final OPA rules were issued in 1994 for shipowners, requiring them to provide a certificate of financial responsibility, based on vessel tonnage, for ships transporting oil in U.S. waters (*BI*, July 18, 1994).

But the 1990 law also requires "offshore facilities" to produce

evidence of financial responsibility up to \$35 million for potential oil pollution costs.

The statute defines facility as a system of physically connected platforms, pipelines, and wells in "navigable waters."

One problem with that definition is that it would apply to facilities in interior waters, such as wetlands, said E. Ronald Dixon, senior program analyst of the Minerals Management Service in Herndon, Va., earlier this month at the Houston Marine Insurance Seminar.

The service, a division of the Department of the Interior, oversees the certificate of financial re-

sponsibility program for offshore oil and gas facilities.

"Particularly significant problems involve what facilities were to be regulated as offshore facilities, including those in state waters," said Mr. Dixon.

Another problem is created by the definition of facilities. For example, gas production facilities that handle less than a certain amount would not be considered a facility for purposes of OPA '90 and, therefore, would not be covered by the oil spill law.

"A structure, particularly a pipeline segment, may go through its productive life at times requiring a certificate of financial re-

sponsibility and at other times not, depending on usage, ownership and handling volume considerations," Mr. Dixon said.

These problems cannot be solved by rule making, but require a technical correction by Congress, which has been proposed.

"I don't care to predict what will happen next if Congress fails to act," Mr. Dixon said. "What we can do is get ready for the uncertain—but inevitable—OPA '90 changes by improving the existing program."

Lack of understanding of the rules regarding certificates of financial responsibility has also hindered compliance efforts.

"It seems the pool of brokers, underwriters and operator personnel who basically understood our requirements has shrunk, resulting in more frequent occurrences of some types of prob-

lems," Mr. Dixon said.

Those problems include:

- Financial responsibility certificate applications separated from insurance certificates.
- Differences in the lists of facilities covered between the financial responsibility certificate and the insurance certificate.
- Gaps in coverage.
- Administrative difficulties caused by multiple layers of insurance coverage being used to reach \$35 million.
- Applicants with deductibles on their insurance policies are required to meet the financial responsibility tests themselves.
- Insurers making changes in the financial responsibility certificate format.

Most of those are due to processing problems, Mr. Dixon noted. Others are more fundamental, however, including changes in certificate wording or use of multiple layers of insurance.

"These changes in business practice are really to be avoided since they abrogate the prior agreements which gave rise to a mutually beneficial vehicle for financial responsibility in the first place," Mr. Dixon said.

The problems are rooted in poor communication.

For example, there is no agreement on what needs to be covered by which operator. Multiple documents are used in applications, such as insurance certificates, lease inventories and surety bonds. And operators, insurers and regulators don't have a standard system for identifying structures in the paperwork.

The communication problems, said Mr. Dixon, date back to when the U.S. Coast Guard ran the offshore financial responsibility program separate from the offshore leasing and permitting, which was handled at the MMS.

In addition, insurers have insisted on using their own insurance certificate formats rather than a standard one. "This created the potential, often realized, for structure inventory differences and other data errors between these two source documents," Mr. Dixon said.

MMS is considering several steps it can take to eliminate those problems under the current OPA '90 rules, including:

- Notifying operators 30 days before coverage lapses.
- Supplying operators with a list of current certificates and what they cover to use in re-applying for certificates.
- Require certification of the new wells drilled by mobile offshore drilling units rather than certification of the drilling units themselves.
- Accept amendments to current facility certificates of financial responsibility adding or deleting connected structures.
- Revise the certificate application, CG-5210, for clarity and ease of completion.

Even greater streamlining could take place under final OPA '90 rules, Mr. Dixon noted. For example, he said:

- Insurance certification could be combined with the certificate of financial responsibility application form.
- All of an operator's facilities could be covered on one application form that itemizes all covered structures.

Despite the problems, "the current COFR program situation is rather positive," Mr. Dixon said. "Insurers are still creating a viable market for evidence of financial responsibility under the existing regulations." **BI**

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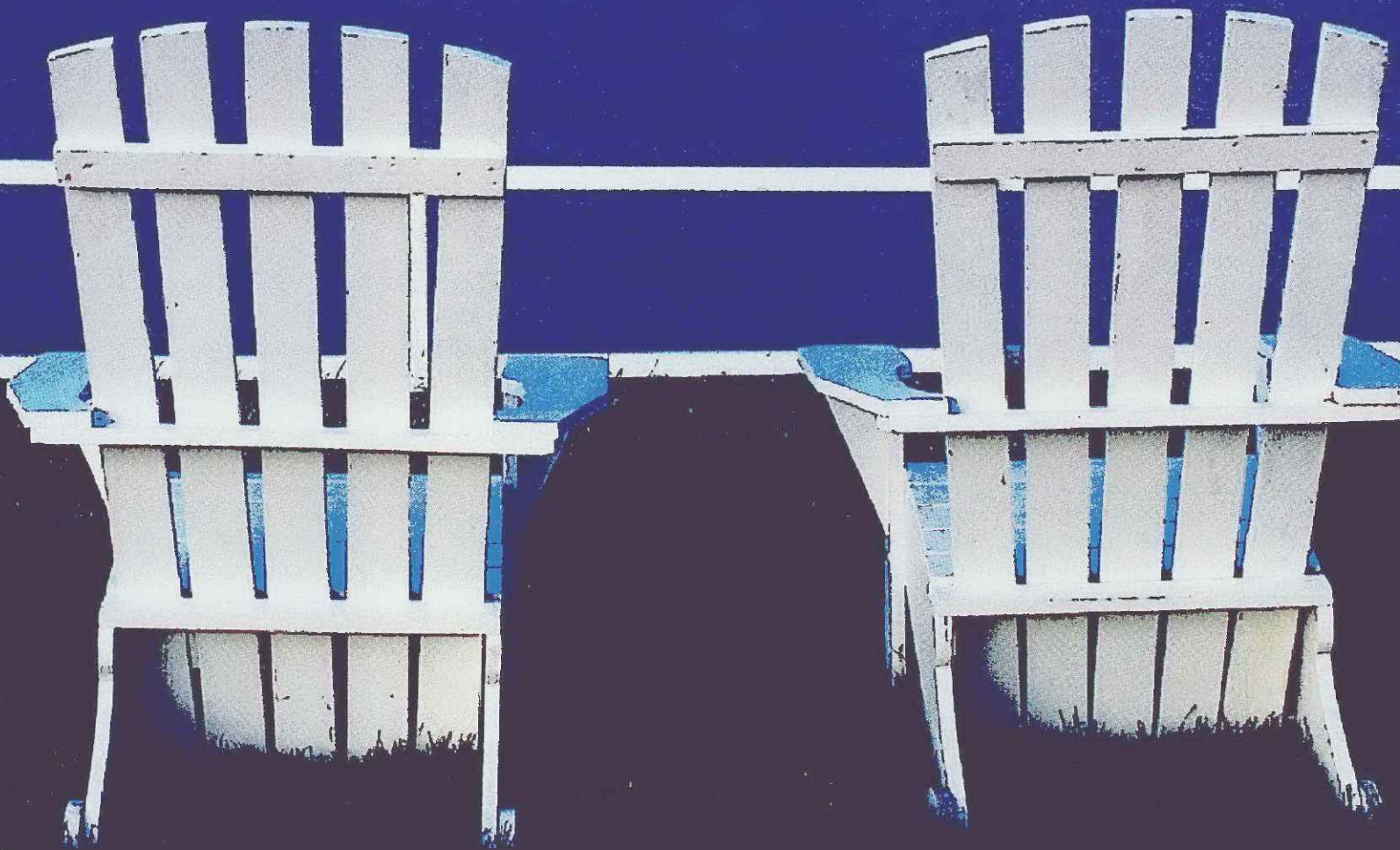
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Opinions

Reverting to bad habits

WHILE WE THINK there are good policy reasons to permit employers to withdraw surplus assets from their pension plans, we deplore the way a congressional panel has approved legislation that would permit reversions.

As we report on page 1, the House Ways and Means Committee included a pension asset reversion provision in a broad tax package it cleared last week.

Under the provision, employers would be free to remove—for any reason—surplus assets from their pension plans so long as the plan remained at least 125% funded after the reversion.

That would mark a dramatic change from current policy. Under current law, employers can remove surplus assets from an ongoing plan only to fund retiree health benefits.

Several Democratic members of the Ways and Means Committee said the panel's action sets the stage for a debacle much like the government bailout of the savings and loan industry in the mid-1980s.

In their view, surplus assets provide a needed safety cushion for pension plans. If that cushion is removed, they say, pension plans could quickly become underfunded if, for example, a plan incurred severe investment losses or a company went into a tailspin and cut back on plan contributions. Ultimately, if a company went out of business, these underfunded plans would have to be bailed out by the federal Pension Benefit Guaranty Corp., or so the reasoning goes.

We think the S&L analogy is incorrect for several reasons. The S&L crisis was brought on by lax regulation. The Ways and Means Committee bill would do nothing to alter the way pension plans are regulated.

Secondly, a good argument can be made that allowing asset reversions from ongoing plans will encourage employers to step up contributions to their plans. That is because companies will know that they will have access to the surplus assets, which they could need for other business purposes in the future. By contrast, the current restrictions on removing assets discourage companies from doing more than putting just enough in their pension plans to cover liabilities.

Having said this, we think the Ways and Means Committee erred badly in putting the asset reversion provision in the tax bill. Asset reversions are an important



C'MON AND GET BACK IN THE CAR... WE'LL SEE WHAT IT LOOKS LIKE WHEN THE FILM IS DEVELOPED!!!

issue, not just to employers but also to plan participants and regulators.

Before a committee would approve such a proposal in which tens of billions of dollars are at stake, one would think that vital questions, such as how much of a surplus should employers be required to retain in their plans after a reversion, would be thoroughly debated.

Is, for example, a 25% surplus sufficient or would 50% be more appropriate? We don't know and neither does the committee because it approved the asset reversion provision without a single day of hearings or testimony from actuarial experts.

This slap-dash approach to benefits legislation is, unfortunately, reminiscent of the time when the Ways and Means Committee was controlled by Democrats. The era of "let's not bother to hold hearings" on benefit issues produced many disasters, Section 89 non-discrimination tests being one of the most notorious.

We hope the Republican leadership, which stumbled badly on the reversion provision, gives more thought and consideration in the future when it deals with employee benefits legislation.

Letters

Answering the tort question that's never asked

To the editor: As an insurance and reinsurance broker for the last 20 years, I have had a close view of our American tort system, as well as the long-running debate over "tort reform."

Those in favor of tort reform argue that U.S. courts are inundated with unnecessary and expensive litigation and that as a result, American business is less able to compete in the global marketplace. Those who oppose reform say our current system gives everyone access to the courts and encourages higher ethical and safety standards.

But the key question, and one that no seems to be asking, is whether our present system allows an injured person to be compensated fairly, quickly and with dignity? I don't think so.

Every day, people in this country are seri-

ously injured and sometimes another party is responsible. During this stressful time, these people are faced with the prospect of a challenging legal battle to obtain some compensation for their injuries.

If a plaintiff is lucky enough to win in court, the attorney will get a contingency fee of 30% to 40% of the award. This system allows everyone to have access to the courts. But it also creates a conflict of interest. How can an attorney advise his client properly when a huge fee hangs in the balance?

It isn't just the plaintiff who suffers under our tort system. We've all heard horror stories about defendants and their insurers having to pay huge and sometimes unreasonable awards. But it isn't the size of the awards but the *unpredictability* that causes a serious problem for business.

We have no uniform standards as to how injured persons should be compensated, and juries are not given enough guidance on this issue by the courts. An injury in one jurisdiction may produce an award of \$40,000 and a similar case in another jurisdiction \$12 million.

The most puzzling aspect of our American system is the custom of seeking a separate award for punitive damages. Assuming the plaintiff has been compensated as fairly as possible for actual injuries, as well as for

pain and suffering, why should he or she then receive a punitive damage award?

Why not use this money to set up an independent "watchdog" agency or consumer advocate to educate business, improve safety standards and alert the public about companies with poor safety records? Or, why not use the money to compensate other victims who have similar injuries but have not been able to win adequate compensation?

If we want a tort system that allows everyone to have his or her day in court, and if we want a system that is efficient and fair, we will have to make some changes. I propose the following:

- Attorneys' contingency fees should not exceed two or three times the customary hourly rate or 30%, whichever is less.

- Institute the "English" system or some other penalty to discourage frivolous lawsuits.

- Use mediation and arbitration, especially when the demand is below a certain dollar threshold.

- Establish uniform jury guidelines for assessing responsibility as well as damages.

- Punitive damages should not be awarded to the plaintiff and should be subject to a separate and lower attorney fee.

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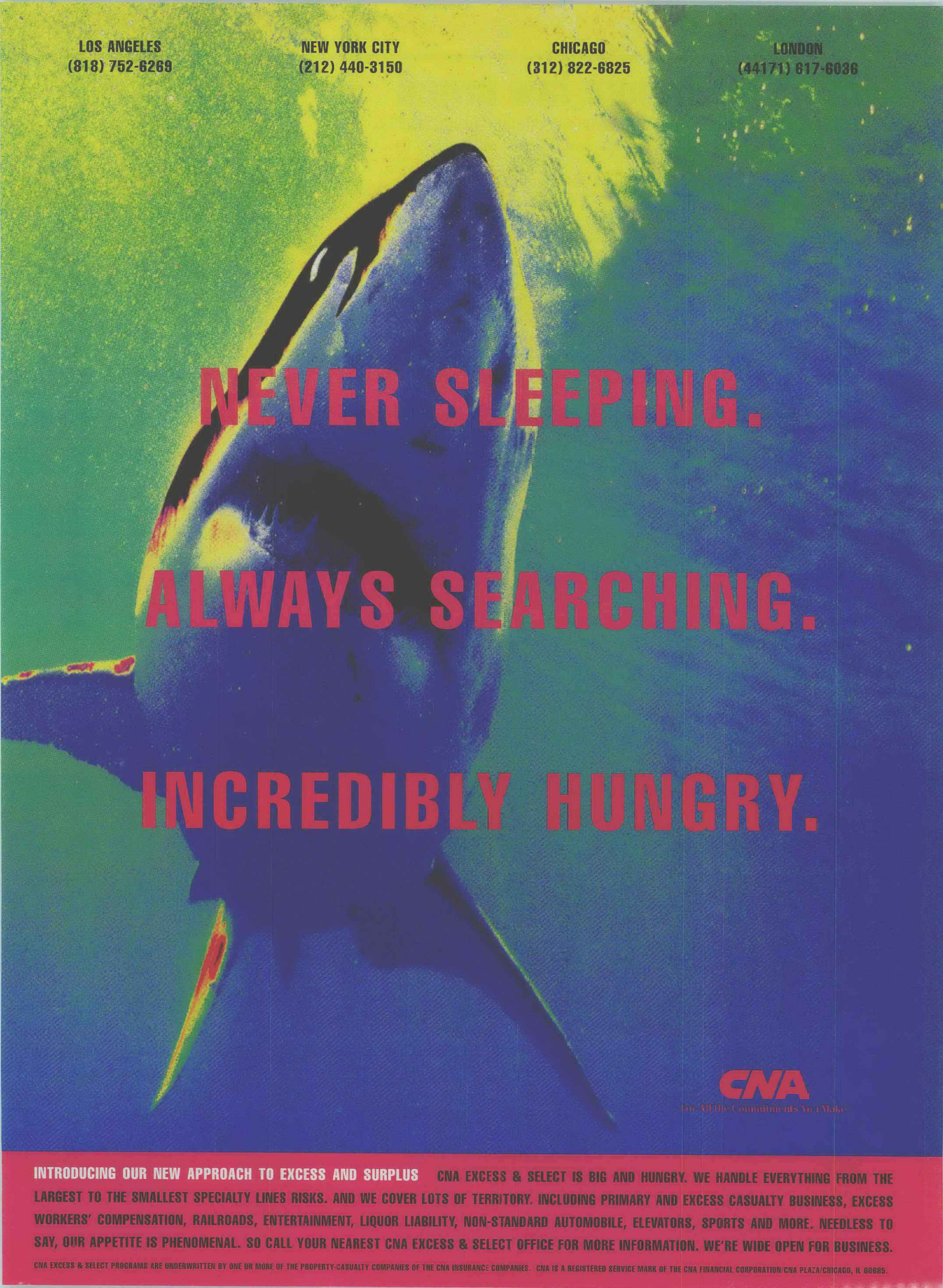
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Marine insurance law urged

Backer says federal statute would improve consistency, predictability

By SARA MARLEY

A uniform federal marine insurance law would eliminate conflicts among courts and forum shopping, says a lawyer who favors abandoning the current system of having both state and federal courts hear the disputes.

"Lawyers would like to see marine insurance develop in a more predictable, reliable way," said Edward F. LeBreton III, of the Rice, Fowler law firm in New Orleans.

Current legal tests to determine whether disputes should be heard

in federal or state court has led to "needlessly complicated litigation," said Mr. LeBreton, who is chairman of the Maritime Law Assn.'s committee on marine insurance.

"Federal law follows traditional common law," he said earlier this month at the 1995 Houston Marine Insurance Seminar. "State law varies a lot."

Also, the leading Supreme Court precedent for determining jurisdiction in marine insurance disputes, *Wilburn Boat Co. vs. Fireman's Fund Insurance Co.*, was decided in 1955. "Any law frozen 40 years ago is out of date and static," Mr. LeBreton said.

Unlike the jurisdiction rules, maritime law itself has evolved. For example, for years there was no recovery for death in maritime cases, but that has been updated to reflect the times, he noted.

A federal marine insurance statute would be a "restatement of prevailing law of marine insurance according to the majority of courts," Mr. LeBreton said. "It must be made with input from the business community: risk managers, brokers and underwriters."

Canada adopted such an act in 1993, he said.

Attracting the attention of Congress these days is not easy, however.

"So far, we have been unsuccessful in developing support in Congress," Mr. LeBreton said. Politically, industrywide support is needed.

A Marine Law Assn. committee is studying Great Britain's 1906 Marine Insurance Act and will decide whether to use the British law as a basis to draft a proposal for a U.S. Marine Insurance Act.

Federal jurisdiction over marine insurance disputes should not be confused with federal regulation, Mr. LeBreton stressed.

He offered several arguments why federal courts are better suited to handle marine insurance disputes:

- In most states, marine insurance is written as a surplus line, or outside the admitted market.

- Purchasers of marine insurance are often financially sophisticated companies not in need of

the consumer protection established for personal lines.

- The majority of marine insurance policies are written in a worldwide market and vessels move from jurisdiction to jurisdiction.

Mr. LeBreton also offered a case study of how complicated disputes can become.

In a 1991 case, *Albany Insurance Co. vs. Anh Thi Kieu*, the 5th U.S. Circuit Court of Appeals did not follow the *Wilburn* test but devised its own.

Anh Thi Kieu is a Vietnamese immigrant in Texas who misrepresented information on her application for hull insurance on a fishing vessel. She conceded that she misrepresented the purchase price, that she would be on board during operations and that the ship had sustained damage within five years. In addition, she breached the implied warranty that her vessel was seaworthy by going to sea with a hull infested with worms.

In 1988, the same year she obtained coverage from Albany Anh Thi Kieu's ship collided with an offshore oil platform and took on water.

However, the owner maintained that she should still be covered because under Texas law, "technical" misrepresentations do not void coverage.

The court wrote that "state insurance law generally should not govern marine insurance disputes if it is materially different from federal marine insurance law."

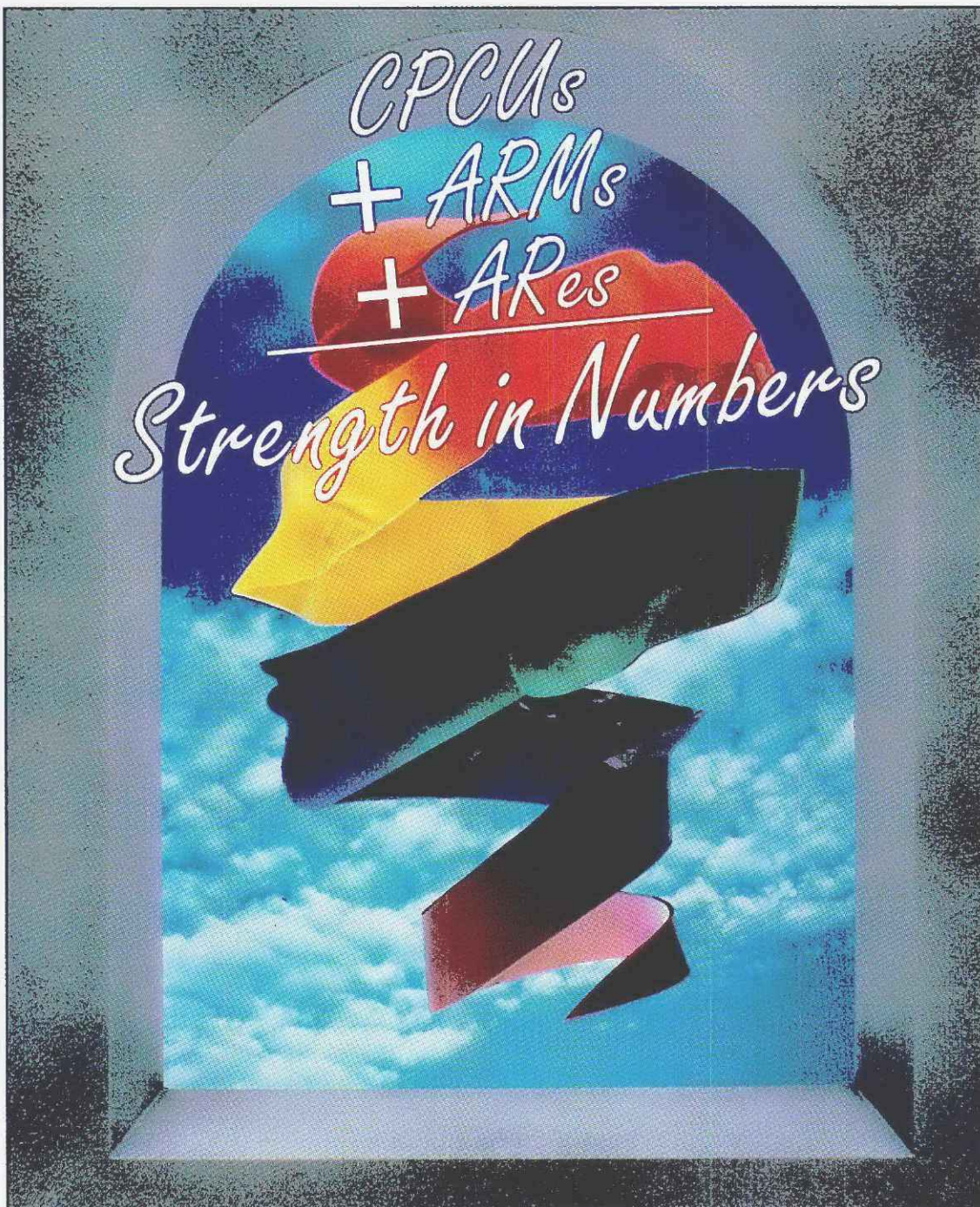
The 5th Circuit found that there was no material difference, though federal law would void coverage for misrepresentation on an application and Texas law would void the policy only if the misrepresentation were intentional.

"The court held the two rules to be similar so there was no barrier to applying state law," Mr. LeBreton said. "But the rules are right and day. It's much harder to prove intent and deceit."

Once the 5th Circuit decided that state law would apply, it then had to decide which state's law. In Texas, a breach of warranty must directly contribute to the loss before coverage is voided. In Louisiana, where Anh Thi Kieu's broker was located and the application was made, a breach of warranty usually results in loss of coverage.

The case was heard in Texas and ultimately was resolved in favor of the underwriters.

"Other circuits are not as extreme as the 5th," Mr. LeBreton said. "The 5th Circuit didn't appreciate that if underwriters sent someone to investigate every application, there would be a lot of extra expense that would fall back on the insureds. The underwriter relies on the application, or the insured risks losing insurance coverage." **BI**



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A lot of carriers talk about
financial strength. But who has the
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Crime

Continued from page 3

land, Ore. "This is a nationwide issue."

In the last 14 months, for example, a gang of South American thieves dubbed "The Ecuadoran Group" is blamed for stealing millions of dollars in cargo from truck trailers along a corridor stretching from Vermont to Kentucky. Much of the loot probably ends up in South America, investigators say.

Miami and New Jersey also are known as high-risk areas.

Nevertheless, insurers, investigators and industry officials agree that moving goods through Los Angeles is especially risky.

Although the actual ports of Los Angeles and Long Beach are relatively safe from crime, hijackers and thieves prey on the areas immediately surrounding them, investigators say. As a result, cargo losses in Southern California may reach \$1 million daily.

Increased cargo traffic in the Los Angeles area means more opportunities for crime.

Companies chasing international markets are causing a boom in cargo container shipping, explained Bruce Lambert, a trade analyst for the Port of Long Beach. In 1994, about 5.5 million containers passed through the neighboring ports of Long Beach and Los Angeles, he said.

At the Port of Los Angeles, container traffic increased 10.2% during the first six months of the year. In Long Beach, the increase was 17.3%.

Even shipping companies highly respected for their security measures are vulnerable.

For example, in the past 18 months, six Consolidated Freightways trucks have been hijacked in Southern California, Mr. Sheets said.

More commonly, though, loaded trailers are stolen when they are left unattended. In 1994, Los Angeles County recorded 537 grand thefts of unattended truck trailers, compared with 134 armed robberies of trailers.

From January to August, losses reported to the Cargo CATs investigators were up 7.1% to \$35.8 million.

And those figures are probably understated. Authorities say many trucking companies and warehouse operators fail to report thefts for fear of damaging their reputations.

Some also complain that the thefts and hijackings are not given high priority by lawmakers and law enforcement officials because they are not high profile crimes.

"You have a better chance of getting arrested and going to jail if you mug someone than if you steal a load of computers," said Mr. Mooney of the IMUA.

Some risk managers are attempting to hold the line on these losses.

With name-brand clothes a favorite target of the thieves, Guess Inc. uses codes, rather than its well-known name, to mark shipping containers.

Eliminating the brand name from containers can make it a little harder for the crooks who try to get an inside line on specific cargo shipments, explained Larry Edelman, director of risk management and loss prevention for the Los Angeles-based manufacturer.

Less discerning thieves, though, often will steal entire trailers in the hopes of a big score, without knowing the actual contents.

Stolen trailers sometimes are abandoned with full loads of hard-to-sell items like broccoli or even Gideon Bibles, police reports show.

Other items are surprisingly easy to move. Stolen canned goods, for instance, can be fenced and re-sold to grocery stores, said Frank Wehner, president of the Western States

Cargo Theft Assn., which represents retailers and trucking companies. Mr. Wehner is also vp of Transportation Security West, a Fullerton, Calif., company that conducts background checks on truck drivers.

The loss control efforts at Guess don't stop at eliminating the company name from shipping containers.

After the thefts of hundreds of thousands of dollars worth of its merchandise, Guess now requires contract trucking companies to use electronic tracking systems. Guess can then monitor their movements from a remote site.

The company also has used "chase cars" to follow its trucks during deliveries.

The measures have, so far, proved effective, Mr. Edelman said. Stopping the problem is important because cargo theft can produce addi-

tional losses for the company, he added.

"It's our goods on the street competing with us," Mr. Edelman explained.

Guess also requires the contract truck company to purchase cargo insurance and name Guess as an additional insured, in addition to signing an agreement giving the cargo insurer subrogation rights on the company's behalf in case of a loss.

Subrogation is a well-established practice in the cargo insurance industry, but the increase in thefts is helping make it a growth industry. Litigation over losses is up and more cases are being referred to private detectives and attorneys.

"It's very time consuming and a big customer service problem," said Carole Dillinger, claims manager for DSL Transportation Services Inc, in

South Gate, Calif. DSL is a common carrier and transloading company, meaning it uses non-owned vessels to move containers inland.

Ms. Dillinger said there has been an upsurge in the number of insurers representing cargo consignees seeking to subrogate against her company for their losses. Consignees are typically the companies receiving goods.

In turn, DSL is having to subrogate more often against steamship lines, trucking companies, and railroad companies that actually ship the goods.

Because shipped goods often change hands several times before reaching their final destination, establishing who is responsible for damage or theft is often complicated and may require detective work and litigation.

Intercargo Insurance Co., for example, is creating its own subrogation department to pursue these claims, said Craig Pearson, marine claims supervisor for the Schaumburg, Ill.-based insurer.

The cargo insurer's own growth, along with the theft problem, have made such a department more cost-effective, Mr. Pearson said. In the past, outside attorneys handled its subrogations.

At the firm of Countryman & McDaniel in Los Angeles, attorney Michael S. McDaniel and his colleagues represent air and ocean forwarders, customs house brokers and common carriers in subrogation and other cases. Given the current climate, Mr. McDaniel said he advises clients that careful drafting of shipping contracts and documents can

See Crime on page 14

Cargo CATs stalking cargo thieves

L.A. authorities successfully dismantling cargo theft rings with extra surveillance and tips from paid informants

By ROBERTO CENICEROS

Standing beside a bulletin board with rows of brand names scrawled across it, Los Angeles County Sheriff's Lt. Jack Jordan explains that recovering stolen goods rarely occurs due to tips from honest employees.

Although some truck drivers will tip off authorities when crooks offer them money to leave their load unattended, nice guys rarely tip off investigators to truck hijackers or the brokers who fence the loot, Lt. Jordan said.

Dismantling cargo theft rings instead often requires someone who knows the underworld; someone sleazy enough to commit the crimes and then sing to investigators, trading information about their criminal associates for money or a chance to stay out of jail.

"A lot of times you need that inside person that is a criminal," Lt. Jordan explained. "They have the knowledge. And we either catch them with the crime and they want to flip and turn someone else in to save their own bacon, or that's their job: Just like in narcotics, you have paid informants, too. That's how they make their money. Today's informant was yesterday's crook or vice versa."

Lt. Jordan is the supervisor of the Cargo CATs, a multijurisdictional law enforcement team in the Los Angeles area that also receives contributions from insurers, trucking associations and warehouse operators.

Cargo CATs stands for Cargo Criminal Apprehension Team, which consists of four lawmen from the Sheriff's Department, two from the California Highway Patrol, three from the Federal Bureau of Investigation, one from the Los Angeles Port Police, one from the city of Vernon and several volunteers who staff the office.

The Los Angeles Sheriff's Department founded Cargo CATs in 1990 and oversees it as one of several elite teams that focus on career criminals. While the law enforcement agencies pay their salaries, contributions from insurers and trucking companies pay for informants and equipment.

"We have a pretty good relationship with them," said Mark Heisler, a claims manager for Great West Casualty Co. in Boise, Idaho. "They're focusing right on our

problem when we have insured a (stolen) load. Not too many police departments do that."

Great West last year purchased about \$17,000 worth of surveillance gear for Cargo CATs, Mr. Heisler said.

That sort of investment sometimes can help insurance companies recover insured cargo. Spending a few hundred dollars for an informant can easily lead to the recovery of tens of thousands of dollars in stolen goods.



That, in turn, keeps loss ratios healthy and rates competitive, said Craig Pearson, marine claims supervisor for Intercargo Insurance Co. in Schaumburg Ill.

Since Cargo CATs was launched, it has recovered more than \$1 million in stolen property and made about 700 arrests.

Inside the Cargo CATs office hangs the bulletin board where investigators scrawl a few facts about the latest reported cargo thefts and hijackings.

From Pioneer stereo equipment to Wolfgang Puck frozen pasta, big-screen televisions to lobster

told what to get. They have a buyer already in place. It's an inside job."

Most cargo loads are stolen while a truck is left unattended. Dishonest truckers who may be behind on their truck payments can earn a few thousand dollars in exchange for leaving a load while someone steals it. Thieves also take loaded trailers right off of truck terminal lots with inadequate security.

But there are also street gangs turned hijackers who will ambush

Two years ago, a Cargo CATs member in an unmarked car was driving behind a truck hauling stereo speakers. As the truck lumbered up the on-ramp of a busy Southern California freeway, gunmen jumped the driver from both sides of his truck.

The tailing police officer radioed for help before following the truck. The hijackers' accomplices, following in a pickup truck, realized a police officer was behind the stolen big rig. They tried to force him off the road. But he held steady until other police cars cut off the hijackers and their buddies in the pickup.

The Cargo CATs usually prefer to follow stolen trucks, rather than force freeway stops of hijacked vehicles, explained Lt. Jordan. Following a truck can uncover clan-



Los Angeles' Cargo Criminal Apprehension Team, or Cargo CATs, is leaving its mark on cargo theft, as the message on a windshield shows. So far, the team has recovered more than \$1 million in stolen goods.

destine warehouses and the brokers who store the loot until heat dies down and then re-sell it

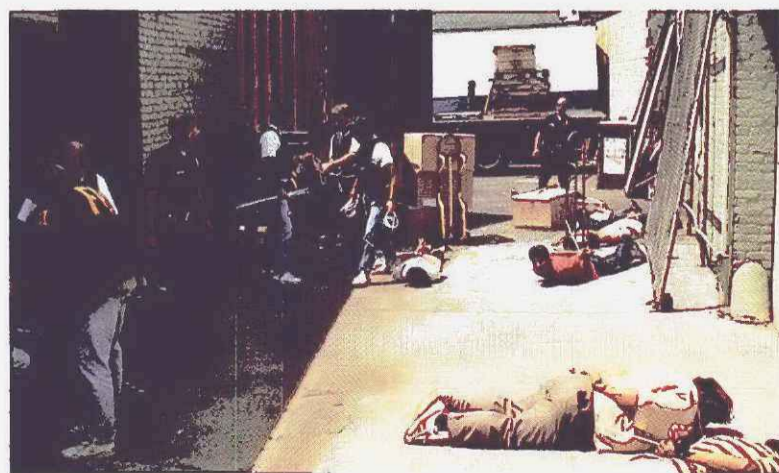
The brokers often have transportation industry expertise and know how to unload large quantities of stolen goods.

They can sell trailer loads of goods for 80% of their retail value, Lt. Jordan said.

Re-shipping stolen goods to Asia and Latin America is a growing practice, investigators say.

"It's not organized crime like the traditional organized crime you see in 'The Godfather,'" Lt. Jordan explained.

"But there is a core of people who know each other. The brokers and the thieves all work together. We've seen thefts that occur here today and they are known about in Guadalajara almost instantly. It's a network," he said. **B**



tails, the products and brand names are a testament that most goods are vulnerable to theft.

"The biggest people we are looking at are the armed hijackers," Lt. Jordan says. "Because that's where the violence is and that's where the fear in the community lies. We also want to get the brokers, the money men who are making money off of this. Some of these (robberies and hijackings) are actually orchestrated. They are

trucks at slow-moving freeway on-ramps and other vulnerable points. They have bound and gagged drivers with duct tape while driving off with the load, or will resort to pistol whipping or even killing drivers.

Catching the crooks requires cultivating informants, gathering intelligence and hours of surveillance.

But sometimes law enforcement officials get lucky.



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Cargo theft spawns other losses

Violence, intimidation can create other exposures for companies

By ROBERTO CENICEROS

Police have yet to solve the murder of a Northwest Airlines baggage supervisor who was found beaten, stabbed and stuffed in her car trunk after she left Boston's Logan International Airport to fetch sandwiches for her co-workers.

However, some investigators still speculate that the 1992 murder may be tied to a multi-million dollar cargo crime that brought stinging publicity for the airline.

Susan Taraskiewicz, the murder victim, supervised several former Northwest Airlines baggage handlers who have pleaded guilty to stealing thousands of credit cards being shipped in the airline's cargo holds.

Some of the crooks are the same workers about whom Ms. Taraskiewicz had complained because of sexual harassment and abusive graffiti that included a coffin with her

name scrawled in it, according to a report on NBC's "Dateline." Other co-workers have claimed the crooks were able to carry out the credit card thefts over a two-year period because they effectively intimidated employees.

Ms. Taraskiewicz's family is currently seeking \$5 million from Northwest Airlines for sexual harassment. The Massachusetts Commission Against Discrimination has ruled that there is probable cause to investigate the claim.

A spokesman for the Minneapolis-based airline said the company is self-insured for any losses stemming from the sexual harassment suit.

The story offers an example of the variety of exposures that employers may face in grappling with cargo theft. Savvy risk managers in the cargo industry know that every stolen load of cargo could potentially present employers with multiple exposures.

"The increased theft and hijacking

activities have an impact on other lines of insurance coverage as well," said Debra Schramm, director of risk management for Consolidated Freightways Inc. in Portland, Ore. "Physical damage losses increase when equipment is stolen or damaged and there is greater risk to employees, increasing the workers compensation exposures."

For cargo industry employers, dishonest employees can present another insurance headache. Many cargo liability policies will not cover a loss if it can be proved an employee participated in the theft.

And some losses can be less than tangible.

Northwest Airlines, for example, includes its damaged reputation as one of the losses it sustained from the credit card thefts, the Northwest spokesman said. NBC's "Dateline" on June 28 presented a bruising report on the death of Ms. Taraskiewicz and its possible link to the stolen cards.

Stealing high-value cargo is common enough at the nation's airports, but deaths are almost unheard of, investigators say.

The trucking industry has not been so lucky. Drivers and security guards have been killed in a few cases in the Los Angeles area.

Investigators say it's just a matter of time before that level of violence spreads.

"I'm in a group called the Eastern Transportation Group and we're on the verge of that we think," said John Tichenor, a marine surveyor for CIGNA Property & Casualty Insurance Co. in Jersey City, N.J. "That's constantly the talk because we hear the reports coming out of the West Coast."

While deaths are still uncommon, intimidation is not.

Crooked employees often will intimidate other workers to keep them from reporting their activities, explained Los Angeles Airport Police Officer Henry Acosta. He cited a case at the Los Angeles International Airport, when police arrested several employees of a cargo transportation company after secretly videotaping them pilfer boxloads of Sega Genesis game machines arriving in an airplane cargo hold. The video tape also captured a security guard standing in a nearby shack and other employees happening by, all ignoring the scene unfolding before them.

"Some airport workers will say, 'Well, the reason we didn't say anything is we think they belong to a gang,'" said Los Angeles Police Detective Bruno F. Pabon, Officer

Acosta's partner in a two-man airport-crime task force.

Gang members working for cargo handling companies is a real threat, according to Tom Sheets, director of corporate security for Consolidated Freightways in Portland.

To limit the possibility of hiring gang members or others who will steal, CF and some other shippers conduct thorough background checks of all potential employees.

Additionally, CF requires workers to undergo a "court approved" integrity test, Mr. Sheets said.

But not all companies can afford such a level of scrutiny. And investigators say low wages paid to cargo handlers doesn't help limit the temptation to steal.

"It's proportionate to the wages paid. You go to an airline like United where people get paid good money and they have been there a long time, you don't have that (theft problem)," said CIGNA's Mr. Tichenor. "You go to someone else where you have a contractor in there and they are basically hiring a lot of people off the streets. You get a lot of sampling. It just stands to reason."

To help minimize losses, shippers can do their part by asking questions about who will actually handle their goods, Mr. Tichenor said.

"The trucker that you use (or, you have been using for 10 years, how do they hire their people?" Mr. Tichenor asks. "Do they just get anybody that can drive a truck? Are they hiring convicted felons to drive their trucks? Or are they doing background checks?"

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Crime

Continued from page 12

minimize their liability for losses due to theft.

That means shippers need to make sure they can afford to retain the loss or have adequate insurance if other parties successfully avoid liability for the loss, he said.

"You have a system whether it be ocean, rail, air, whatever, that if everyone is doing their documents properly the shipper or consignee, whoever is filing the claim at which end, may find it difficult to recover for lost, damaged, or stolen cargo," Mr. McDaniel said.

For trucking companies, cargo thefts also represent not only lost goods but also a loss of reputation.

"We're a vulnerable industry," said Bruce Leonard, risk manager for Market Transport Ltd., a Portland, Ore., company that sends trucks and trailers throughout 11 Western states.

So far in 1995, Market Transport has lost four trailer loads to theft, all of them in Southern California. Trailers containing food items like refried beans and grape juice have disappeared.

"It just seems to be potluck," Mr. Leonard said. "I don't think they care what they take."

Despite the losses, competition in the cargo insurance market has kept Market Transport's rates from going up, according to Mr. Leonard. But at mid-year, he added, the company's insurers asked more questions than usual about the company's loss prevention methods.

Among other measures, the company now requires its drivers parking trailers overnight at loading docks to leave them only in storage lots that are fenced in and have security guards, Mr. Leonard said.

Like other shipping companies, Market Transport is often able to recover its stolen trucks and trailers, but not the freight, Mr. Leonard said. The company's insurers pay its customers for their losses through a freight liability package that con-

tains a \$10,000 deductible per occurrence.

For larger trucking companies, cargo insurance is typically purchased on an excess-of-loss basis and retentions of \$50,000 to \$500,000 per occurrence are common, said Debra Schramm, director of risk management for Consolidated Freightways.

Michael F. Bruns, vp of insurance for Yellow Freight System Inc. in Overland Park, Kan., said that most of the larger trucking companies he knows of carry self-insured retentions of \$250,000 to \$500,000 per occurrence.

Enforcement of loss prevention efforts, rather than simply increasing rates, seems to be cargo insurers' preferred method of reducing losses. The market is competitive, and raising rates only sends policyholders elsewhere, underwriters say.

"There are a lot of people out there chasing the business," said John Mihelich, a senior marine underwriter for Intercargo Insurance in Shaumburg, Ill.

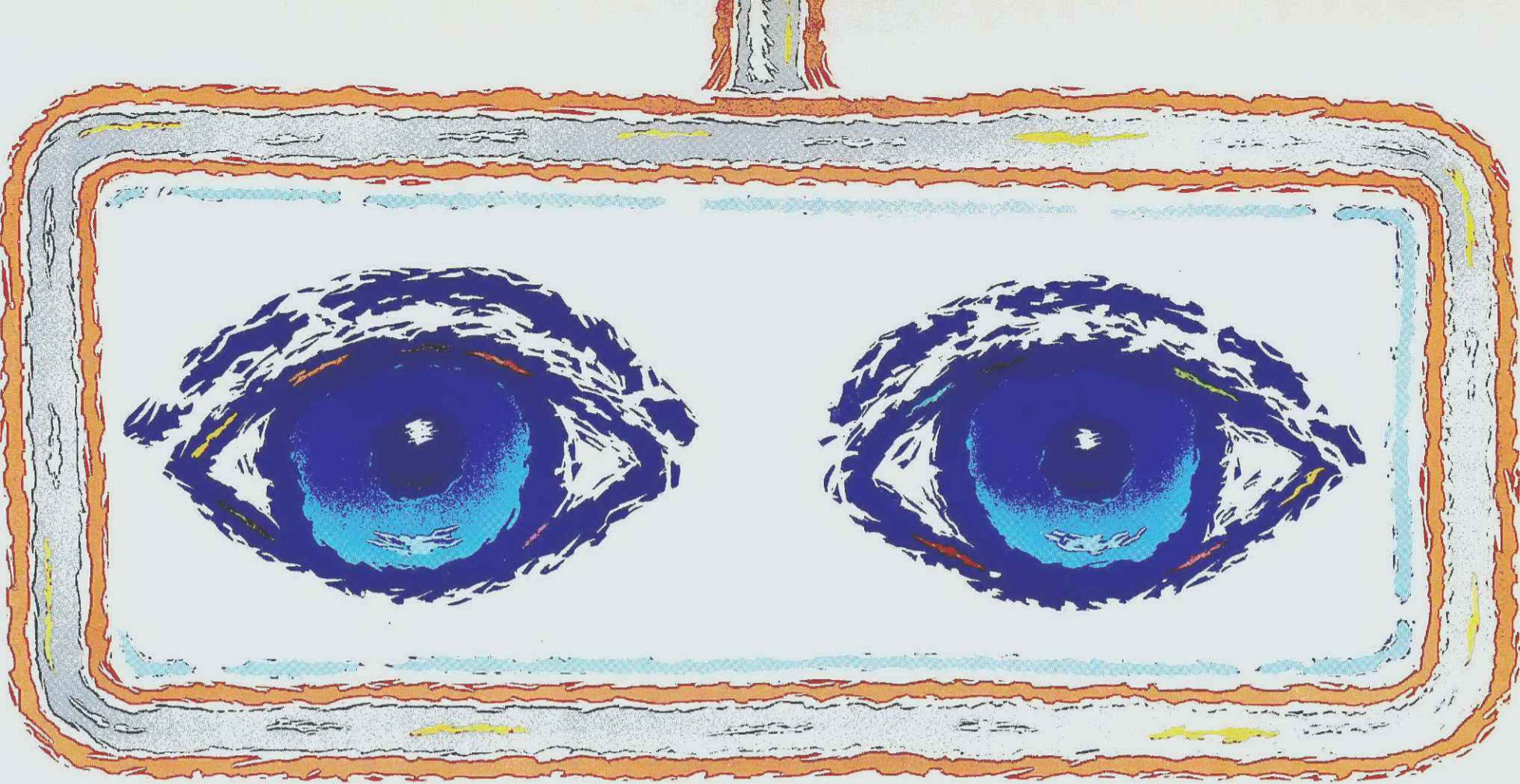
However, underwriters and risk managers say insurers are imposing higher deductibles and tougher underwriting standards. Some exclude coverage for losses when a load of cargo was not parked in secure lots and others are requiring background checks of drivers.

While many trucking companies now conduct such background checks, other firms pay less attention to that because of a shortage of truck drivers.

"The marketplace is so competitive out there for drivers everyone is trying to steal everyone else's drivers," Mr. Wehner said.

Although rates remain relatively low and cargo insurance is plentiful, the IMUA's Mr. Mooney expects losses eventually will force insurers to shed their higher-risk clients.

"It's a highly competitive business and I think it will remain competitive for desirable business," Mr. Mooney said. "If (truck) owners do not have at least minimal loss control measures they won't find insurance."



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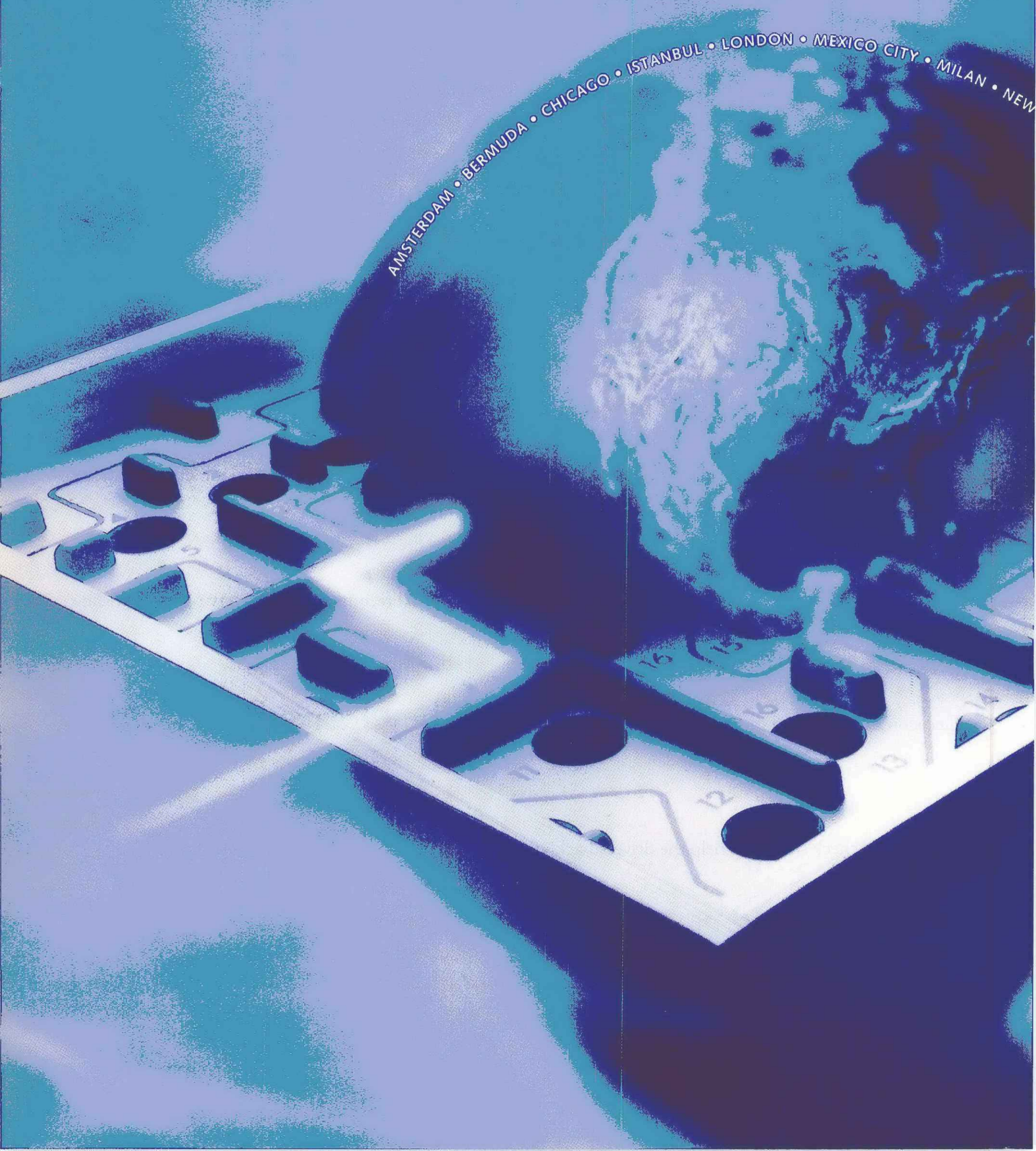
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Hull insurers

Continued from page 3

in hull rates and deductibles over the past few years, the ILU noted in its own report. However, increases in premiums are still being sought in many individual cases where loss results justify them.

"There is no denying that through its tough action, which was long overdue, the market has regained a lot of ground," Mr. Campbell noted.

Underwriting statistics show

this improvement in 1993 and 1994, he said.

"However, it would take many more such years to replenish reserves after the horrendous losses of the late 1980s and early 1990s," he said.

"It is imperative we maintain the stability we have achieved, not only in the interests of our customers but in our own."

Following hull rates downward at this time because of cyclical pressures would be "suicidal," Mr. Campbell said. "We have fallen into this trap before and we know what happened. The cycle

may be shorter but hull insurance is still an infamously long-tail business. This should be uppermost in our minds."

"The international marine insurance market is again entering a down cycle with a softening trend and we are deeply concerned that we may go through the same miserable market that we experienced several years ago," added Masakazu Nakanishi, chairman of the Japanese Hull Insurers' Union, during the IUMI conference last week.

To avoid the "notorious insurance cycle," he recommended that

all marine underwriters adopt principles of quality underwriting that are specified in Japan's new insurance business law, which was passed in April and will take effect next summer.

An article in the new law "declares the well-known three principles of premium (rating), namely that rates should be adequate, not excessive and not unfairly discriminating," he said.

The market also should follow a fourth principle not in the law, namely that "rates should be stable in order to meet the requirements of the shipping industry,"

Mr. Nakanishi said.

He also discouraged marine underwriters from giving automatic "quality assurance discounts" on rates for clients that follow the International Safety Management Code, which was adopted last year by the International Maritime Organization and will require shipowners and managers to be certified either in 1993, or 2002, though some owners are going through the process now.

"I do not wish to discourage the efforts of our clients regarding the safe operation of their ships, which means better-quality shipping," Mr. Nakanishi said. However, the standards are new, and "it would be too optimistic for underwriters to offer discounts on rates without verification of the results of these efforts, which are unknown at this stage."

Several countries are considering changes to marine safety following the 1994 loss of the passenger ferry "Estonia," in which more than 1,000 perished (BI, Oct. 10, 1994; Oct. 3, 1994).

For example, the U.K. government has proposed design improvements to roll-on/roll-off ferries like the "Estonia" to prevent water from sloshing along open car decks (BI, Aug. 14). The "Estonia" sank in rough seas after its bow doors opened and water rushed through the car decks.

More countries also are considering adopting the International Safety Management Code that Mr. Nakanishi mentioned.

"Whilst underwriters have positively welcomed the introduction of the safety codes, there is no guarantee of a reduction in major losses, as this year's casualties will confirm," Mr. Christmas of the ocean hull committee said.

Difficulty in finding properly trained crews for vessels seems to be "getting, if anything, worse not better, with the expansion in the world's overall fleet," he added. The lack of crew standards, which can lead to losses, is "the most depressing aspect of the shipping scene."

The IUMI meeting also provides an opportunity to review surveys and statistics detailing the state of the world's marine insurance market.

The number of ships lost last year fell significantly from 1993 levels, according to statistics released by the Institute of London Underwriters.

A total of 118 ships were lost last year, compared with 143 in 1993. However, late confirmation of total losses could boost last year's total to 125, the ILU said.

General cargo vessels suffered the most losses of any type of ship, though total losses in this category were still down to 55 in 1994 from 86 in 1993.

A total of 1,478 people died on the seas last year, more than double the 615 who died in 1993. However, more than 1,000 of these fatalities were caused by the loss of the passenger ferry "Estonia."

The insured value for hull losses last year totaled \$630 million, down slightly from \$670 million in 1993, the ILU said. The total insured loss is likely to rise, however, as additional total losses are confirmed, in which case 1994's total "will probably exceed the 1993 figure," the ILU said.

These loss figures, which exclude partial hull losses, have not varied much since 1986, according to the ILU report. Most annual insured total losses between 1986 and 1994 were between \$610 million and \$670 million, except in 1990 and 1991, when losses to-

See Hull insurers on page 20

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Cargo rates may drop at renewals

Kobe quake losses less than expected

By STACY SHAPIRO

Cargo and other claims from the devastating Kobe, Japan, earthquake are coming in far lower than initially predicted, while cargo losses in Russia are rising rapidly.

These were some of the conclusions drawn from International Union of Marine Insurance cargo committee report, which was based on the responses from 40 member marine insurance associations around the world. Cargo premiums for the 35 member IUMI marine associations that gave figures totaled \$6.84 billion in 1993, the most recent

year for which figures are available, the group said last week at its annual conference.

In 1992, cargo premiums totaled \$7.4 billion for 41 member associations, representing 99% of total marine cargo premiums written by all 51 IUMI member associations.

Cargo underwriters reduced rates during 1994 year-end renewals and say they may do so again at this year-end season.

However, the cargo market has never experienced the severe hardening that the hull insurance market experienced earlier this decade.

"I have learned that the 1995 renewal season started much later than normal and must be looked

upon as rather disappointing," said Emanuel Burckhardt, first vp of managing business development for the Baloise Insurance Co. Ltd. in Basle, Switzerland. "There were again rate reductions across a number of sections of the account," he said, without being specific.

The number of policyholders changing their leading marine underwriters on cargo risks also has "increased strongly," said Mr. Burckhardt, chairman of IUMI's cargo committee. This pattern is "usually a sign of a soft market."

Relatively few cargo losses were reported from the "Great Hanshin" earthquake in Kobe on Jan. 17 (BI, Jan. 23, Jan. 30).

"Notwithstanding the extensive loss of life, injury and damage to

property, it's clear from the responses received that the impact on international cargo accounts has been considerably less than originally estimated," the IUMI cargo committee reported.

Even though the Kobe quake damaged a major Japanese port and container terminal, more than 80% of the member associations said they had received no notice of any claims.

"The heaviest cost has fallen on the Japanese insurance companies," which have estimated cargo losses of 5 billion yen (\$60 million), the committee said. The Marine & Fire Insurance Assn. of Japan has said that the Kobe quake will "not have a serious effect" on Japanese insurers. It put the total insured loss from Kobe at \$1.2 billion to \$1.3 billion, including about \$7 million for hull insurance, \$50 million for cargo insurance and \$750 million for non-marine earthquake cover.

The Kobe quake will produce the biggest claim to cargo underwriters in the past 12 months, the committee concluded.

Other cargo losses on land are causing concern, however.

Many marine insurance associations reported losses caused by fire in warehouses. And, Italy suffered severe flooding (BI, Nov. 14, 1994), causing a \$16 million claim from a confectionery manufacturer for lost goods in a warehouse.

The Belgian marine association reported a loss of \$2.5 million following an explosion in a grain silo in the Northern city of Ghent. And the Dutch marine association suffered a \$3.4 million claim from sugar stored in Kazakhstan.

And in the United Kingdom, cargo underwriters had to pay 24 million pounds (\$37.3 million) after two paintings by 19th century English

See Cargo on next page

Hull insurers

Continued from page 18
taled \$735 million and \$800 million, respectively.

Nearly all marine insurance associations worldwide reported a reduced incidence of claims during the past five years, according to Mr. Christmas. This was a result of tighter conditions of coverage, a more targeted selection of risk and higher deductibles, he said, without elaborating.

The group noted that 1994 and 1993 were favorable for marine underwriters because there were fewer substantial insured losses. "Unfortunately, this trend appears to have changed in 1995, with a constant series of large losses particularly involving modern tonnage," Mr. Christmas said, without detailing this year's losses.

Meanwhile, there is an "escalating trend" in tanker claims for vessels in

Of the 118 ships lost last year, 34.5% were between 15 and 19 years old, and 43% were 20 to 24 years old.

excess of 15 years old, he noted.

Of the 118 ships lost last year, 34.5% were between 15 and 19 years old, and 43% were between 20 and 24 years old. Of the remainder, 14.4% were more than 25 years old, 7.9% were 10 to 14 years old and 0.2% were 9 years old or newer.

He also noted a "steady and worrying" occurrence of vessels suffering major failures following long periods of inactivity.

Among the 35 IUMI members that supplied premium information, volume increased in 1993, the most recent year for which statistics are available. In 1992, 41 companies reported premium information, making direct comparisons difficult.

Marine insurance premiums totaled \$14.51 billion in 1993, of which hull insurance accounted for \$5.08 billion, or 35%.

The London market—including Lloyd's of London and the Institute of London Underwriters—accounted for \$3.57 billion of the world's marine insurance premiums in 1993; Japan accounted for \$2.58; and the United States accounted for \$1.28 billion. The remainder comes from a variety of other world markets, including Scandinavian countries.

In 1992, marine premiums stood at \$14.12 billion among the 41 members reporting that year. Of those, hull premiums accounted for \$4.85 billion, or 34%. **BI**

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47 nations represented at marine conference

The International Union of Marine Insurance held its 50th annual conference in Tokyo last week, as Typhoon Oscar was grazing the north-east side of Japan.

Storm damage appeared to be minimal, though the Marine & Fire Insurance Assn. of Japan had not yet compiled estimates.

A total of 418 marine underwriters came to the conference, representing 47 nations, including Mexico and Slovenia,

which were represented for the first time.

More than 40 individual marine insurance associations are represented in IUMI, which some call the United Nations of marine insurance.

For more information on next year's marine insurance conference which will be held in Oslo, Norway, Sept. 15-19, contact The Central Union of Marine Underwriters, Hantsteens gate 2; P.O. Box 2550 Solli; 0202 Oslo, Norway; phone: 47-22-04-85-00; fax: 47-22-56-10-77.

Cargo

Continued from previous page

landscape artist Joseph Turner were stolen from a Frankfurt, Germany, museum.

Several marine insurance associations reported an increase in losses in the Commonwealth of Independent States, which has led to several changes in terms and conditions on cargo policies.

"It is clear from the responses that as trade with the C.I.S. develops, insurers are experiencing substantial claims and will continue to do so unless they maintain a strict control on the terms and conditions on which they provide cover," the cargo committee warned.

The majority of insured losses in the C.I.S. are caused by theft, pilferage, fraud and false documentation involving organized crime, insuffi-

cient packing and poor stowage, lack of secure parking areas for trucks and poor transportation networks.

The losses are compounded by a lack of communication and cooperation, poor administration and inexperience of claims surveyors and adjusters, and the lack of procedures to enforce contractual responsibilities of the cargo carriers.

Underwriters reported taking various steps to limit their exposure to these losses, including:

- Raising deductibles where transit on roads, rail or rivers is involved.
- Adding a warranty that goods must be released to an established consignee or identifiable and responsible agent.

- Identifying claims procedures, surveyors, adjusters and the communication channel when the policy is written.

"Clearly the C.I.S. remains a problem area that will continue to de-

mand active attention on the part of association members," the IUMI cargo committee stated.

Russia also experienced more losses due to fraud than many countries. Its association said its underwriters had suffered "many losses" due to unauthorized receipt of cargoes imported by road. Fraudulent documents and imitation papers authorizing custom clearance were used.

The Japanese marine insurance association reported that a container of car stereos and cassette players was stolen by the use of a "fake" pick up and delivery order. The loss, totaling \$290,000, occurred at a container terminal in Long Beach, Calif., in February last year.

And the American Institute of Marine Underwriters reported a number of losses involving the use of fraudulent documents. These included a large coffee loss in Mexico; and lost grain and other commodities bound for India and Nepal.

There is very little reporting by either committee about cargo losses caused on the sea rather than on land while in transit or in container terminals. The major loss on the sea, however, was the \$57 million total loss of cars on board the "Magnolia Ace," a car carrier that burned and was abandoned off the coast of Sri Lanka (*BI*, Nov. 28, 1994).

Several marine associations gave some ideas on cargo loss prevention to reduce claims on land or by sea.

The French organization, Assn. Francaise de l'Assurance, Transports, Aviation et Spatiale, said that in order for goods to arrive safely, the transportation companies must be involved by carrying out a joint inspection of the goods at destination, maintaining thorough controls during the transit and using quality packing techniques.

The Marine & Fire Assn. of Japan noted that its members had trouble with damage, dents and scratching to auto panel spare parts when transported throughout Japan by auto manufacturers to auto parts dealers.

After reviewing the storage of these parts in warehouses, Japanese underwriters suggested that the packing be improved, blankets be used as buffers and doors be packed individually.

In Poland, there have been some big losses reported of truckloads of cigarettes and alcohol. "The insurers have urged the clients to apply additional security measures for these transports, such as adding a co-driver or an armed guard (when) values exceed approximately \$50,000," the IUMI cargo loss prevention committee reported. "There was almost an immediate response with losses sharply down for the clients who had applied these safety measures."

The Canadian Board of Marine Underwriters, however, is very skeptical about such measures. "Loss prevention is a much talked about subject, but experience shows that loss prevention recommendations are seldom taken seriously," the association said. "When a major loss occurs, meetings are hurriedly convened and a lot of loss prevention recommendations are made. A few months later, the recommendations are completely forgotten and business continues as usual."

There are many reasons for such apathy, the Canadian association notes.

Usually, the task of implementing loss prevention measures is delegated to "the wrong people." Loss prevention advice is often given by amateurs who do not have enough experience. And companies are not offered and not aware of various loss prevention methods and devices that are available.

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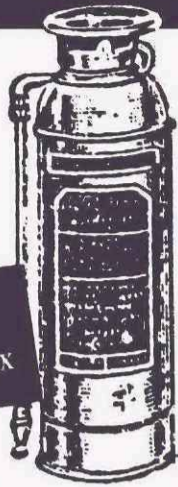
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Technology

Continued from page 2
ity of different parties in an insurance transaction to communicate with each other directly through computer networks may change the whole insurance landscape.

Paper files and telephone communication may be significantly reduced within two years because of technological advances that allow computers to talk with each other, pointed out Euclid Black, president of Black/White Associates in Oakland, Calif.

However, a completely electronic insurance industry is more than two years away, responded Robert Mendelsohn, chief executive officer of Royal Group Inc. in Charlotte, N.C.

Someday most insurers will have an Internet home page that will let buyers request bids electronically. Now, however, most of the home

pages serve as "a glorified capabilities brochure," Mr. Mendelsohn said.

As more companies use the technology, though, "there is at least a 20% chance that business is going to be fundamentally transacted in a different way," he said.

"The risk component is going to be separated out; some may be borne by the customer, some may be borne by securities firms, options exchanges, mutual funds, anybody who can pay the loss. Once this stuff goes on the Web, lots of people can look at it and lots of people can think about it," he said. "There's certainly a chance that the nature of the insurance product will change and will change dramatically."

Brokers will continue to be useful, even in an electronic marketplace, several experts predict.

"If a customer can go on the Internet and make a bid for its business and get some bid responses, is he or she really going to be questioning the quality of who is responding to this bid?" asked Charles L. Ruoff, executive vp of Sedgwick James Inc. in New York. One of the things that brokers do is "scrutinize the quality of the company that's responding" to bids, he explained.

"One of the concerns that we have is who can get on the Internet," Mr. Ruoff continued. "Does that alone bring them qualification to underwrite and accept risk?"

Furthermore, underwriters may end up looking to work with wholesalers because the sheer number of submissions they get will prevent them from responding to every one, Royal's Mr. Mendelsohn said.

If faced with thousands of submissions, an underwriter will think, "OK, this is a broker that we've been dealing with, we know the quality of what he does," Mr. Mendelsohn said. "The first cut is always people we never heard from. We're not even going to look at them. I mean, no carrier would."

Technology also could change insurance regulation fundamentally, several experts noted.

With insurance companies around the world posting home pages on the Internet that any consumer can access, "the regulator all of a sudden has lost control unless they, too, are on the Internet," said Mr. Mendelsohn.

"You could make an argument that it will be technology that ultimately settles the debate on federal versus state regulation, because the states simply technologically will not be able to cope with an electronic insurance industry," he said.

Technology does not necessarily threaten the job security of people in the surplus lines industry, the experts agree.

"If we don't find how to use the new tools, that will definitely reduce the hewers of wood and the haulers of water, but we've seen that throughout our economy," said Mr. Black of Black/White Associates. "Job security to some extent will be tied to the ability to use the best techniques and tools. There'll be plenty of jobs. In fact, there'll be a crying need for people that are really skilled at the use of computers and the Internet—and not just at using it, but at mining it."

However, some companies may not have the right corporate culture to become a very technologically dependent business, Sedgwick James' Mr. Ruoff pointed out. "Give real concern to your company, its culture and organization" before committing to doing business a completely different way, he advised.

Mr. Ruoff acknowledged that Sedgwick James has been slow to embrace technological change.

"In our organization, we haven't changed the process of how we do business" because of technology, Mr. Ruoff said. **BI**

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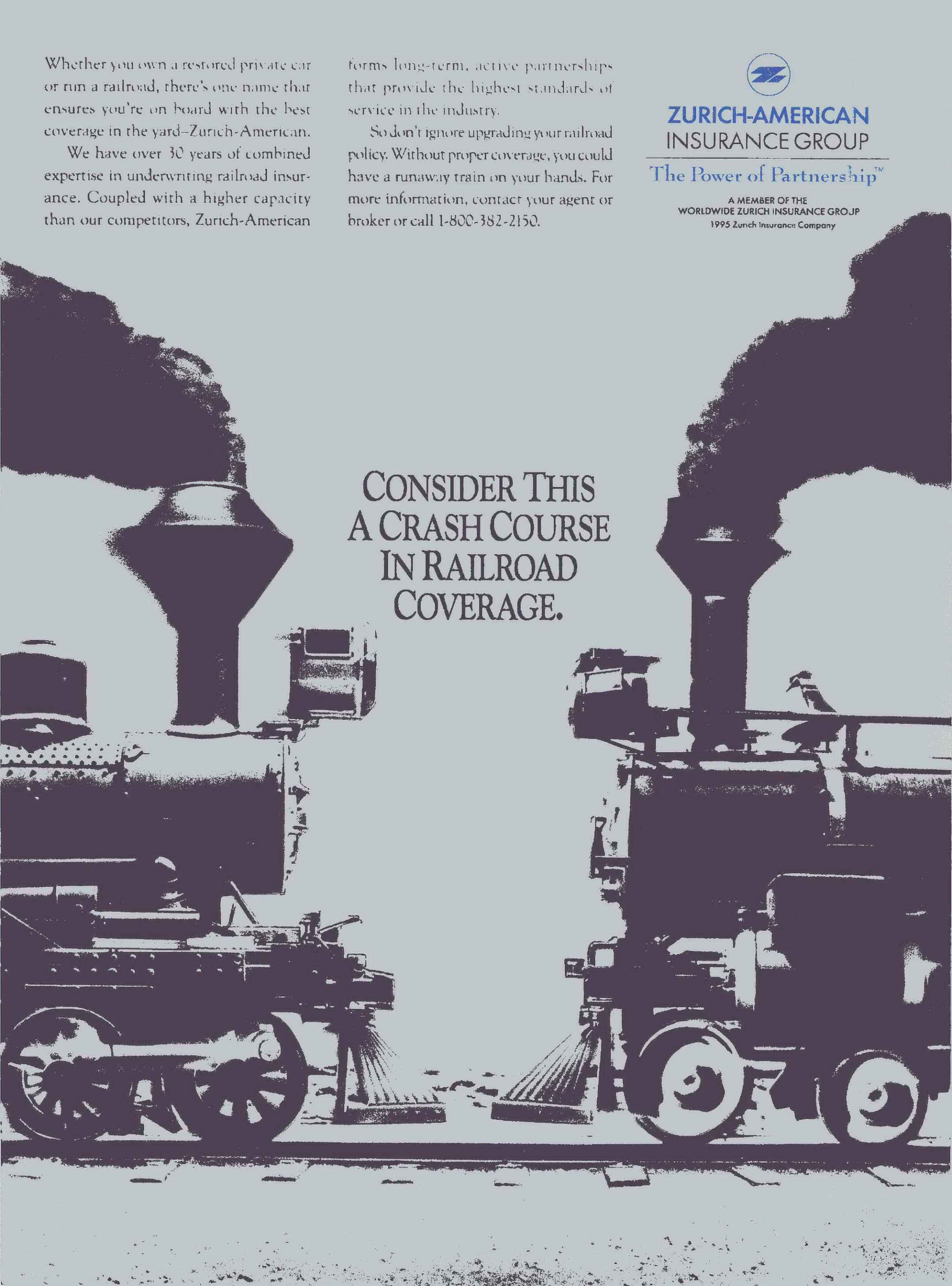
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Insurance fraud occurs by design

Con artists exploit industry's nature to get cash, NAPSLO panelists say

By DEBORAH SHALOWITZ COWANS

SAN DIEGO—International insurance fraud is rampant but could be curtailed if insurers, regulators and law enforcement officials would cooperate, experts say.

"We have actually designed an industry for the purpose of a con man," said Trevor H. Jones, chairman of Insurance Security Services Ltd., a London-based con-

sulting company.

"Ours is the only industry on earth where you can get great buckets full of real live money, and all you give in return is promises. Now that is designed for fraud."

Dishonest "people are moving from other industries into the insurance industry," noted Robert J. Boitmann, assistant U.S. attorney for the eastern district of Louisiana in New Orleans.

For example, Mr. Boitmann said some of the people now looking to defraud the insurance industry previously have been connected with organized crime or bank fraud.

"Insurance is becoming...the industry of opportunity" for fraudulent activity, he said earlier this month at a panel discussion at the annual convention of the National Assn. of Professional Surplus Lines Offices Ltd. held in San Diego.

While "there are hundreds of thousands of little people" committing fraud, according to Mr. Jones, there are probably 40 to 50 "professional, big-time thieves—guys that do it for decades, again and again."

"There are a cadre of really skilled people, and they will never get caught, never go to jail," Mr.

'Insurance is becoming...the industry of opportunity' for fraud, according to Robert Boitmann.

Jones said.

The international schemes they set up—with companies in different countries and the people who run them in other countries—are so complicated that nobody can figure out the tangled mess, Mr. Jones explained.

There are several warning signs of insurance fraud, the panelists agreed.

First and foremost, "the price is too good" to be true, Mr. Boitmann noted.

"The one factor that I'll say throughout is the price is too good. Why is this guy able to sell that line at so much less than anybody else?"

Also, "they've got too much money," Mr. Jones added.

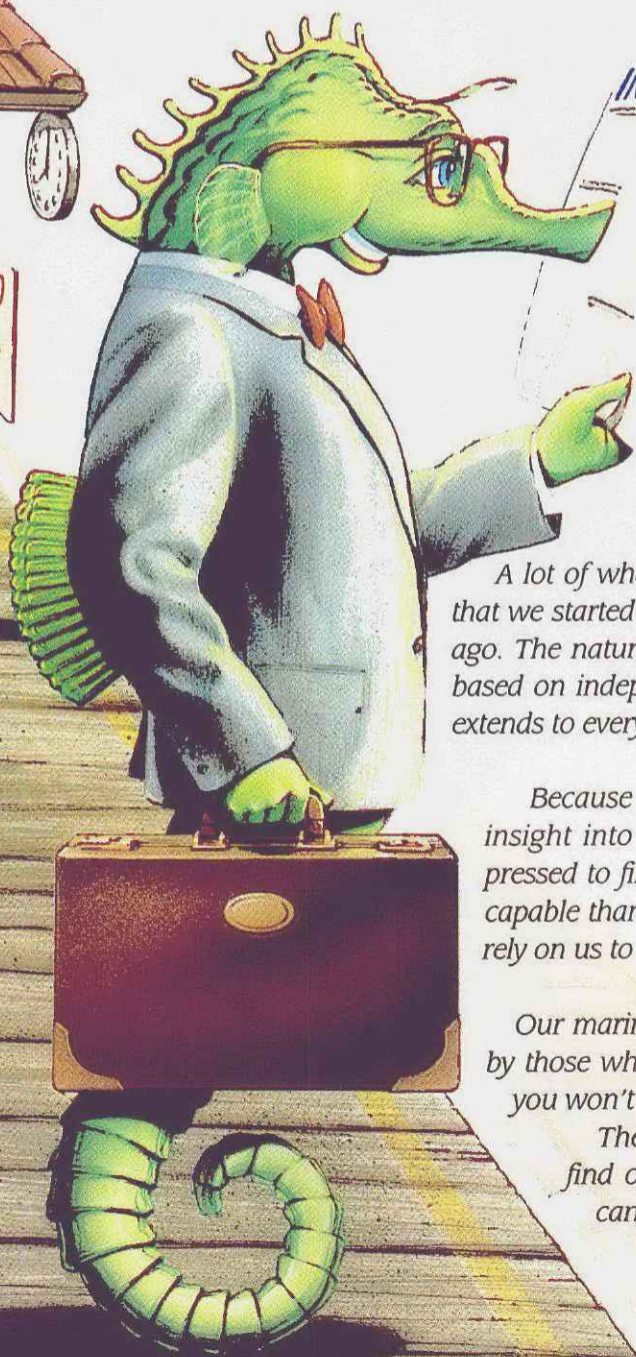
"That sounds crazy, but most of the bad insurance companies I've seen formed" start with hundreds of millions of dollars in capital," he said.

"They look so wonderfully secure... (yet) they almost always have unverifiable items, things you can't quite get your fingers on," he said.

And, "the stories keep changing. They'll say one thing one year, and because that thing proved to be not quite kosher, next year they say something totally different. But they say it with such assurance, it's as if they said it both years."

Frequently, fraudulent insurance companies "show great profits, particularly right before they See **Fraud** on page 26

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44RSA

Fraud

Continued from page 24

collapse," stated Jack Chesson, president of John B. Chesson & Associates, a Falls Church, Va., consultant who previously served as counsel to the subcommittee on oversight investigations of the House Commerce Committee.

Mr. Jones added that "very often you will find somewhere in the background there is one of our 40 or 50 skilled guys." Usually one of these big-time crooks is not operating the company directly, but instead is serving as a hidden adviser, he said.

While insurance fraud is rampant around the world, Mr. Jones said that with the exception of Bermuda, the Caribbean seems to be more of a haven for fraudulent activity than elsewhere.

"Most of the Caribbean islands,

I fear, do not regulate and do not wish to regulate," according to Mr. Jones.

"They do not want to frighten away" the capital generated by allowing insurers to form there.

Cooperation is the key to catching and controlling insurance fraud, the panelists agreed.

The problem is that "the industry doesn't talk to the regulators, the regulators don't talk to us," Mr. Boitmann said.

"I know what they do and now they commit the crimes," Mr. Boitmann said.

Unfortunately, "I can't figure out how to stop them, because so many of the ideas I come up with would be too much of an impact on legitimate business," Mr. Boitmann added.

People who work in the business must be a part of the process, he stated.

"Every day somebody comes in and gives us information," Mr. Boitmann continued.

"I don't see any reason why the insurance industry should be any different."

Also, the Federal Bureau of In-

'I can't figure out how to stop them, because so many' ideas would hurt legitimate business, says Robert Boitmann.

vestigation will accept information confidentially, Mr. Boitmann added.

But, things may be beginning to look up.

"I think things are better," Mr. Boitmann said. He pointed out that the FBI has held several training sessions teaching employees how to detect insurance fraud.

Also, there seems to be an increasing number of prosecutions around the country, Mr. Boitmann said.

And after a prosecutor has done one insurance fraud case, others become easier to handle.

Richard Bouhan, executive director of NAPSLO, moderated the discussion. **BI**

NAPSLO meeting draws 1,800

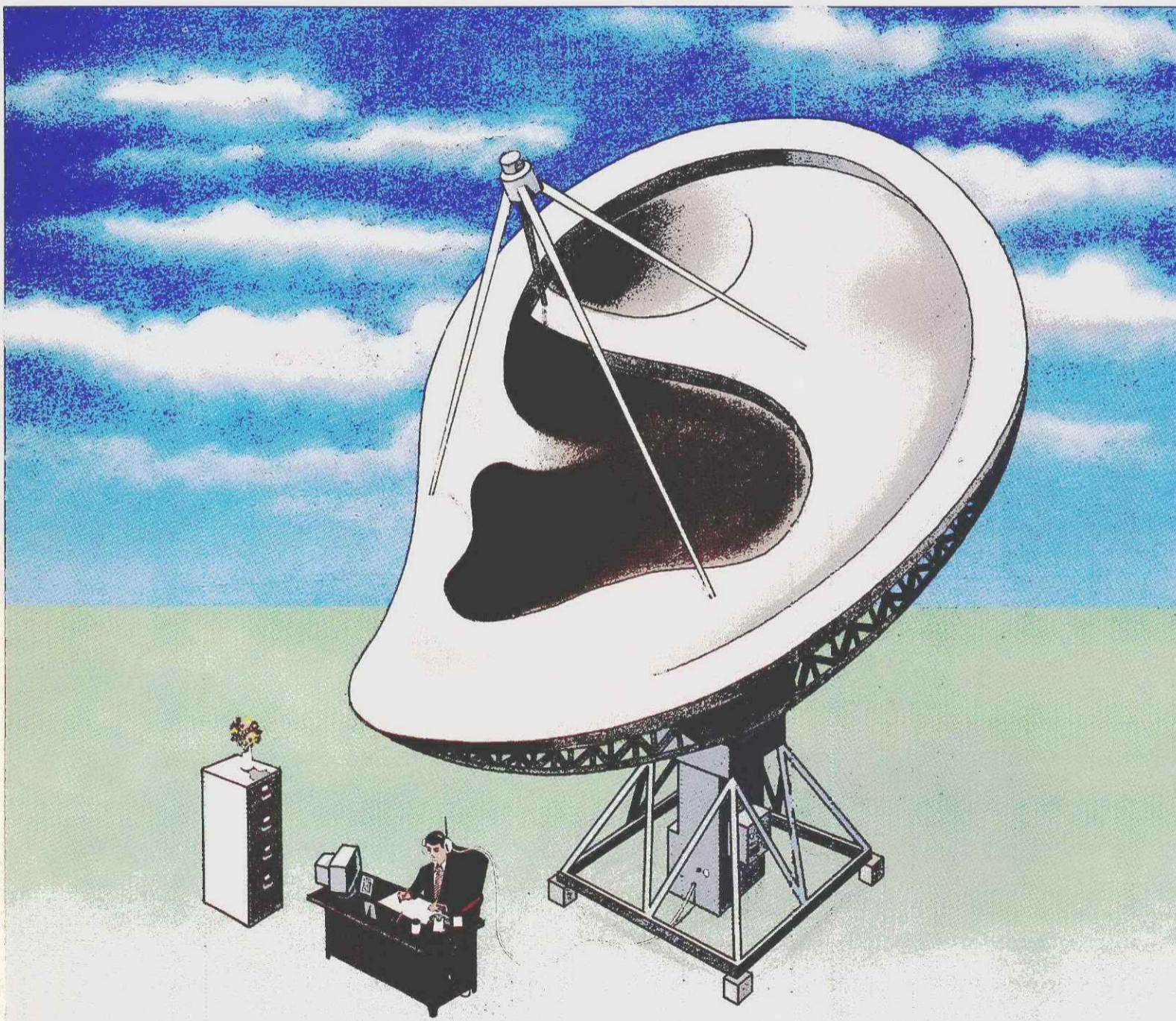
SAN DIEGO—One of the largest crowds ever—including 1,800 surplus lines underwriters and wholesalers and 300 spouses and guests—were on hand for the National Assn. of Professional Surplus Lines Offices Ltd.'s annual convention Sept. 13-18 in San Diego.

During the meeting, Maureen C. Caviston, managing vp of the New York office of Bryson Associates Inc., was elected president.

Also elected as NAPSLO officers were: Gary D. Westphalen, president of Westphalen, Bradley & James Inc., in Oklahoma City, who was elected vice president; Paul W. Springman, president of Evanston Insurance Co. in Evanston, Ill., elected secretary; and Warren S. Stanley, president and chief executive officer of Swett & Crawford Group in Los Angeles, elected treasurer.

NAPSLO's next annual convention will be Sept. 18-22, 1996, in Boston.

—By Deborah Shalowitz Cowans



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Disasters

Continued from page 2

search—also found that most businesses were faring well many months after the catastrophes were history.

The flooding in Des Moines was the worst in the city's history (BI, July 19, 1993; Aug. 2, 1993). A total of 1,079 business owners responded to the DRC's survey. Surprisingly, only 15% of that group reported

that their businesses were physically flooded and only about 35 respondents reported structural damage to their buildings.

However, 42% of the Des Moines survey group said the flood caused them to close their businesses, usually for about four days, but sometimes for much longer.

The reason for closure cited most frequently was lack of water. Eighty percent of businesses in Des Moines had their water supply cut off for as many as 12 days, while

the study reports that more than one third of businesses lost sewer and natural gas services for 12 days. Phone service and electricity, meanwhile, were absent for two days.

Conversely, for the 1,061 businesses that responded to questions about the Northridge earthquake, 56% said they had to shut down operations to clean up debris and make repairs to damaged property. But the median closure time was only two days.

More than 60% of survey respondents said the earthquake caused a shutdown in electricity for 24 hours, and 54% said they were without phones for only 24 hours. Water and gas were lost for 48 hours for about 20% of respondents.

"The two disasters produced very different business interruption patterns. In Des Moines, it was mostly a lifeline disaster, but in

L.A., physical damage was widespread," said Kathleen Tierney, co-director of the Disaster Research Center.

While the study found that many large firms had ample flood and earthquake insurance to respond to losses, smaller companies had very little coverage, if any.

Only 8% of the Des Moines respondents had flood insurance, while about 21% of the earthquake respondents were insured for property damage, Ms. Tierney said. About 20% of respondents both in Iowa and Southern California had proper business interruption insurance, she said.

With little coverage in place, Des Moines businesses turned mostly to loans through the Small Business Administration, which paid for about 50% of their losses. Beyond that, they turned mostly to personal savings to cover losses, said Ms. Tierney "Small companies are

reluctant to rely on insurance and aid. They'd rather use savings or absorb the loss. It could hurt them down the line."

But no matter how bad the disasters were, a fair number of businesses that responded to the survey are doing as well now or better than before catastrophe struck, the survey found. For example, in Des Moines, 70% of respondents said they were doing about the same nine months after the flooding. And, 18% said the flood improved business. Only 12% said they were doing worse.

In Los Angeles, 52% said they were doing the same, while 24% said they were better off, and 24% said they were faring worse.

Copies of the survey are available for \$50 from Susan Castelli at the Disaster Research Center at the University of Delaware, 302-831-6618.

Impact after catastrophe

Nine months after 1993 Des Moines flood

16 months after 1994 Northridge quake

70% said business unchanged	52% said business unchanged
18% said business improved	24% said business improved
12% said business worse	24% said business worse

Lifeline impact

	Des Moines flood	Northridge earthquake
Electricity cut off	35% for 48 hrs.	61% for 24 hours
Water cut off	80% for 12 days	19% for 48 hours
Phone service out	23% for 48 hours	54% for 24 hours
Sewer services out	34% for 12 days	4% for 4 days
Gas cut off	6% for 12 days	17% for 48 hours
Had insurance to respond to loss	8% had flood 21% had business interruption coverage	21% had quake 21% also had business interruption coverage

Source: Disaster Research Center, University of Delaware

GRAPHIC BY KIM ROME

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Issue of September 25

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Benchmark

Continued from page 1

herent in benchmarking. But, they do not believe the challenges that an ambitious benchmarking effort pose are unscalable obstacles.

Corporate America, as part of its TQM crusade, has been benchmarking for more than a decade. Some risk managers, mostly at Fortune 500 companies, have embraced the concept and its attendant rituals as dearly as their counterparts in the manufacturing or distribution areas of the corporation.

One of those rites is metrics benchmarking. That entails screening a variety of risk management costs and ratios at one or more other companies in an effort to find partners with similar risks and leading-edge risk management programs.

Fewer risk managers take the project to what many consultants call the logical second step: process benchmarking. That often lengthy effort involves identifying not just the state-of-art programs but also all of the elements—or process enablers—that make them work.

Many risk managers, though, have resisted benchmarking entirely, citing the uniqueness of their companies' risks and other difficulties, especially with metrics benchmarking.

And, a contingent of risk managers and consultants do not hold the concept in high regard.

Microsoft's Mr. Lange, for example, believes the effort even could be detrimental for a company.

"The key thing that most influences us on benchmarking and why I'm not really hot on it is that our company is the leading company in our industry. To get in front, you don't review what everybody else has done," he said.

Mr. Lange, though, does see a role for a much simpler form of benchmarking. He engages in "sanity checks" with risk managers at a group of companies that Microsoft's top management respects.

But, especially in areas where business is changing rapidly, like technology, he sees little value in the formal benchmarking process.

Even some benchmarking supporters believe those projects can become too cumbersome. "Some people make it too formal" by devising elaborate questionnaires and spending hours squeezing information from benchmarking partners, said Dan Knise, a senior vp and managing principal with Johnson & Higgins in Washington.

"Before benchmarking became popular, we called it networking," observed Richard C. Heydinger, director of risk management services for Hallmark Cards Inc. of Kansas City, Mo., who has conducted formal benchmarking projects.

"I think that part of it will continue on. Whether it will continue with the same fever and formality, I don't know," he said.

But, RHH's Mr. Roskopf said that risk managers get what they pay for. "There is no doubt that quality does not come cheaply," he said.

And risk managers who have benchmarked using the formal procedure point to concrete results.

For example, as part of a benchmarking project on computerized approaches to gathering property values, Mead Corp.'s risk manager discovered that his department was collecting far more information to obtain extra expense insurance than his benchmarking partners had to collect.

Terry Reiff, director of corporate risk management and insurance for Mead, pointed out this discrepancy to his property insurers, which relieved him of that task.

The result: The risk management department at the Dayton, Ohio-

based company trimmed its workload 3% to 5%, Mr. Reiff said.

Similar dividends are out there for other risk managers—if they pay their dues, several risk managers and consultants concur.

By far, the one area that trips up risk managers the most is the metrics benchmarking.

Risk managers often attempt to obtain those metrics through questionnaires, a tool that also can be used to elicit explanations about various processes. But if potential partners do not see how they will benefit from information that is being collected by others, few will complete a lengthy questionnaire.

"Don't expect to get a good and respectable response to a multi-question benchmarking survey that you've developed to answer questions that are specifically of interest to you," said Michael W. Bryant, director of insurance for Pittsburgh-based Westinghouse Electric Corp.

"Benchmarking to me is a win-win situation," said Arnold L. Davenport, vp-risk management at Marriott International Inc. of Washington. "Each side should have the opportunity to take something of value from the exercise."

That kind of give-and-take also is absent when, for example, a new risk manager at a company without a sophisticated risk management program is looking for best practices from other firms.

"I don't think that's benchmarking. I think that's tutoring," Mr. Davenport said.

That new risk manager may get better cooperation from his or her more senior peers by approaching them as a student rather than a benchmarking partner, he said.

Risk managers also have to be careful how they phrase questions. The wording can lead to "such a broad set of interpretations that they get answers to questions they weren't asking," Mr. Bryant said.

For example, a risk manager may ask his partners about their cost to insure assets, because he wants to compare property insurance costs. Some partners, though, may consider patents important assets and include their cost of coverage for defending against patent infringement suits, Mr. Bryant said.

Industry associations often can help risk managers design the questionnaires so they avoid those problems, Mr. Bryant said.

In California, for example, the Sacramento-based Californians for Compensation Reform, a 5,000-member business group, is even spearheading a 100-company metrics benchmarking project. The project is designed to gather apples-to-apples measures that will show legislators which of the state's 1993 workers comp reforms are helping employers control costs.

In trying to obtain this kind of information, though, risk managers may run into severe metrics-conformity problems.

For example, workers comp benchmarking is very popular, but companies that self-insure that exposure may measure their ultimate cost in one numerous ways with a range of actuarial confidence levels. Their retentions may vary widely, and location and use of captives may further complicate comparisons.

As a result, risk managers may have an extremely difficult time determining which companies have the best practices.

"People don't realize how much time it takes to collect and interpret the data," said RHH's Mr. Roskopf.

Compounding the problem is that top management often wants to see company-to-company comparisons of metrics before committing resources to the project.

Many risk managers complain that while brokers seem like an obvious

source for metrics benchmarking information, most are not equipped to provide that data.

"The biggest disappointment to me is that brokers aren't better prepared to deal with that," Hallmark's Mr. Heydinger said.

The difficulty that many brokers face in gathering the information is that their systems are not designed to compile in a single place all of the various pieces of data that risk managers seek.

For example, premium information is in brokers' billing systems, while data on policy attachment points are stored in policy administration systems, Mr. Knise said. And, until recently, brokers did not have the technology to gather that information.

But, risk managers soon may be able to count on their brokers to provide the metrics benchmarking they seek, according to Mr. Knise. "I think in the next 18 to 24 months we'll see some pretty dramatic breakthroughs in that regard," especially since many risk managers are less jittery about brokers breaking their confidentiality agreements, Mr. Knise said.

In addition, a voluntary cost-of-risk accounting standard that the Montvale, N.J.-based Institute of Management Accountants promulgated in 1993 could lead to far more consistent metrics if companies adopted it on a large scale, risk managers agree (*BI*, Dec. 6, 1993).

But, the standard—developed at the urging of the Risk & Insurance Management Society Inc.'s Risk Management Roundtable—has not been widely adopted, largely because it is voluntary, risk managers say.

There may be ways around the metrics problem, though, experts say.

One possibility is tapping companies with good reputations among other risk managers or consultants or that have received national recognition, such as a Malcolm Baldrige National Quality Award from the U.S. Commerce Department.

Another tack is turning to senior managers for a list of companies they admire. From there, risk managers should consult brokers and consultants about those companies' risk management efforts, Mr. Heydinger said.

Mr. Heydinger noted that he followed that course to select six companies for a benchmarking project, five of which turned out to be valuable partners.

Not all benchmarking projects, though, can be based on metrics comparisons, experts noted.

There were no metrics available to Aon Alliance of Nashville, Tenn., when the RHH subsidiary was helping a group of risk managers at health care-related companies figure out how to get clued in more quickly about their companies' mergers and acquisitions, which change their companies' exposure profile.

A review of the processes that the risk managers used showed that most turned to their legal departments, which were not on top of every deal. But, one risk manager relied on his company's tax department because it had to keep up-to-date information on all mergers for tax purposes, noted Corbette S. Doyle, chief executive officer of Aon Alliance.

After moving into the process benchmarking portion of the project, one of the most restricting problems that risk managers often face is their own creativity, several experts say. Many, for instance, refuse to benchmark with companies in other industries because their risks differ.

"People need to get out of the box more," J&H's Mr. Knise said. "Otherwise, you're sure not going to have made a quantum leap improvement."

"On closer inspection, you can find a lot more similarities than you would have thought," agreed Jim Noble, director of corporate risk management and insurance for Colgate-Palmolive Co. of New York.

One example is fire prevention, he said. Regardless of the industry, "as soon as you ignite a combustible, you have certain risks from fire and glass," he said. "It's just a matter of the degree of risk at that point."

In a workers comp benchmarking project, a risk manager certainly could pick up some valuable information on office- or warehouse-related risks from companies in another industry, Mr. Noble said.

Risk managers can be even more creative in benchmarking processes, according to Mr. Knise. Those searching for ideas to improve their automobile liability claims handling might consider reviewing how an insurer handles health care claims or how a manufacturer processes product warranty claims, he said.

Besides processes, risk managers also have to understand their partners' cultures.

For example, a risk manager at a company where management stringently controls how workers do their tasks should not expect to succeed with a program that a partner designed with employee empowerment in mind, Mr. Bryant noted.

Adopting or adapting processes from benchmarking partners also poses problems for risk managers.

"Implementation is always harder

than you thought it would be," Mr. Roskopf said. "Very, very few things you can implement over night."

A prime example is return-to-work programs for injured employees, because union employees and plant managers often are not receptive to them.

Some programs may have to run for a few years before showing a payback, which can be troubling for senior managers that look for gains quarterly, noted Steven H. Lawrence, a senior risk management consultant with Coopers & Lybrand L.L.P. in New York and the former director of risk management and insurance for PepsiCo. Inc.

The best tactic in that situation may be to implement the program only on a pilot basis, if the company is large enough, he said.

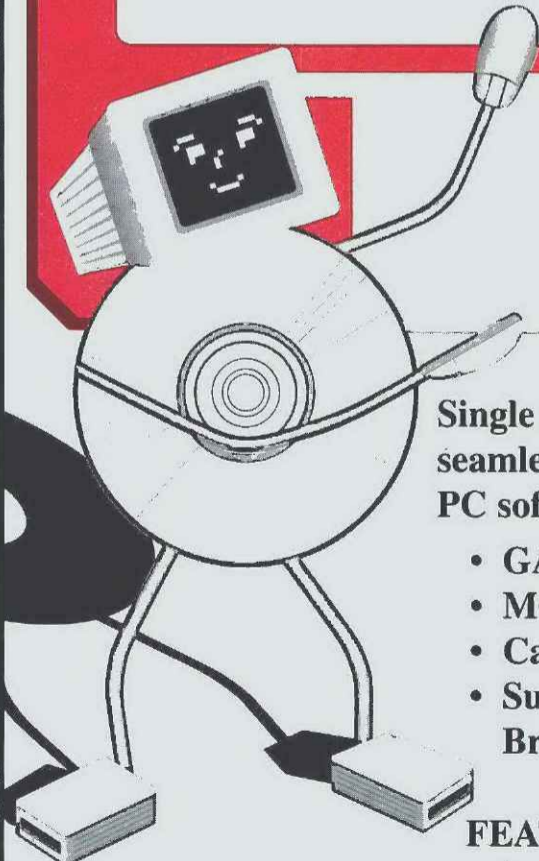
Risk managers may be able to pick up senior management support more easily by spelling out their expectations for the new program in a timeline that is somewhat flexible, Mr. Lawrence suggested. "Once you show it that way, they have a much better appreciation" of the program and its projected impact, he said.

Risk managers who have labored through benchmarking projects generally agree that the task was productive in the long run.

But they also sound a cautious note. "Don't go in with unrealistic expectations of what you're going to get out of it," Colgate's Mr. Noble advised. "It all comes down to continuous improvement." **BI**

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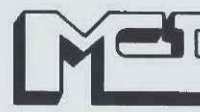


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Pharmacy duties to grow

Aetna explores counseling, diagnostic role

By ROBERT KAZEL

In a pilot project aimed at improving patient care and saving managed care plans money, Aetna Health Plans next year will assign some pharmacists a much greater role in counseling certain patients, monitoring their progress and doing diagnostic tests.

The Middletown, Conn.-based HMO is especially interested in recruiting pharmacists to give extra care to patients with certain conditions, such as high blood pressure, asthma, diabetes and some heart problems. Patients with these conditions must take medications regularly over a long period and can be monitored easily in the store.

Aetna, which plans to do its first pilot in southern New England next year, also tentatively plans to do pilots in the District of Columbia, Dallas, Ohio and possibly California, said Mark Petruzzi, a pharmacist and staff consultant to Aetna Pharmacy Management, the HMO's prescription benefit management unit in Middletown.

Under the program, a typical sufferer of hypertension might make regular appointments with a specially trained pharmacist to discuss the condition and medication, and to undergo a basic blood pressure check. The aim would not be to replace physician check-ups but to supplement them. The pharmacist would suggest medication changes to the HMO doctor as needed.

"These things are not pie in the sky, but there are not a lot of pharmacists doing them at this point,"

Mr. Petruzzi said.

In the pilot, pharmacies will receive money from Aetna for every patient counseled, even if outcomes fall short of expectations, he said. The amount of fees to be paid to pharmacies, the expected cost of the pilot and anticipated savings have not yet been determined.

The program could run in conjunction with Aetna's existing managed drug plans for HMOs.

A pharmacist working with Aetna as an outside consultant, Robert Tendler of Ridgefield, Conn., said managed care organizations can use pharmacies much more effectively to keep patients out of the hospital.

"Pharmacists have to come out from behind the counter and say, 'Look, you have this condition and we have to talk about it,'" he said. But more medical training will be needed for the pharmacists first. "The pharmacist has to be able to convince the physician he's got the clinical training to be part of the team."

Mr. Tendler, who hopes to coordinate Aetna's pilot in New England, already has lined up about 100 pharmacies, including both chain stores and independents, that are interested in the program.

He is working with the Connecticut Pharmacists Assn. to design at-home study courses, classroom sessions and open-book examinations that can be used to certify druggists throughout the state. Aetna has not yet decided if it will contract with him and the pharmacists' association, however, or construct a pilot on its own, Mr. Petruzzi said. **BI**

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INTERNATIONAL

Russia policy aims to improve security

By SARAH GODDARD

New package product designed to reassure multinationals in area plagued by unreliable, thinly financed local insurers

MOSCOW—Multinationals will have a new way to insure their Russian ventures after Johnson & Higgins Ltd. tomorrow introduces a new commercial package policy designed to comply with requirements to use Russian insurers and still offer the security of Western backing.

Under Russian law, insurance can be purchased only from Russian companies. And because the minimum capitalization is set at only 2 million rubles (\$450), many multinationals are concerned about local insurers' long-term solvency and claims-paying ability.

The new package policy, called RUSPAC, is underwritten by Russian American Insurance Co.—a joint venture between American International Group Inc. and Stolichny Bank for Savings & Company Garant-Invest-Moscow—and Rossiya Insurance Co., which is 10% owned by Colonia Insurance Co. of Germany.

"We have listened to the concerns and queries of our clients over the past three years to put this package together," said Paul Merlino, a senior vp and area coordinator for eastern Europe and the

former Soviet Union for J&H in London. "It is part of our strategy of coming up with new ideas and products aimed at solving risk managers' problems."

Although there are about 3,600 insurers registered in Russia, most are operating at minimum solvency requirements, frequently with insufficient backing to cover their liabilities. It is not unusual for insurers to declare bankruptcy to avoid paying claims and then almost immediately reorganize as a new company and begin operations with the minimum capital allowed.

This practice—combined with Russia's high crime rate and Western wariness of the local business environment—this has put many obstacles in the way of the corporate insurance buyer.

But with a population of 150 million and projected overseas investment of more than \$3 billion during this year, the Russian market is a powerful lure for North American and European multinationals.

An insurance law now being drafted in Russia would set mini-

mum requirements for insurers at European Currency Units 250,000 (\$314,750). But it is unclear when the law would take effect.

Mr. Merlino said he is confident that RUSPAC will make a real impact.

"It is going to change the way of doing business in Russia," he said.

J&H has already had experience of the Russian market with its cargo insurance program, RUS-FLEX, and other programs.

RUSPAC provides all-risks property/contents coverage up to a limit of \$500,000, combined with \$1 million in general liability coverage.

By requiring policyholders to provide a simple, yet detailed checklist of the premises and contents, the RUSPAC policy is "taking the hassle and time out of the process," said Mr. Merlino.

As a pre-underwritten package, potential policyholders can immediately receive an estimate of their premium. Premiums start at \$2,000 for up to \$100,000 coverage with a \$1,000 deductible, and range up to \$6,000 in premium for \$500,000 in coverage and a \$5,000

deductible. The actual rate is subject to review by the underwriters.

Turnaround time on approval will be four business days after the policy launch date. The company hopes to cut that in half by early 1996 through the use of new sys-

tems being installed.

A host of optional endorsements to the basic package policy include: personal contents; auto damage and liability; employers liability; and products liability. With the exception of products liability, rates are indicated on the policy itself.

Deductibles have deliberately

See Russia on next page



Foreign partnerships with local companies are offering a taste of Western security to multinational firms in Russia. Also on the menu are hard-to-get property/casualty coverages.

Swiss Life plans restructuring and expansion

Life insurer prepares for UBS deal, and conversion to stock company

ZURICH, Switzerland—Switzerland's oldest and largest life insurer, Swiss Life & Pension Co., is undergoing a major restructuring as part of plans to expand its foreign business.

Swiss Life plans to form a joint venture with Union Bank of Switzerland. Separately, the Zurich-based insurer plans to convert to a publicly traded stock company from a mutual insurer.

As part of the transaction, UBS will acquire 25% of Swiss Life. In turn, Swiss Life will acquire 50% of UBS life insurance subsidiary UBS Life A.G., which will operate as a joint venture insurer under the name UBS Swiss Life.

With a convertible loan of about 881.1 million Swiss francs (\$731.5 million) from UBS, Swiss Life and the bank hope UBS Swiss Life will secure a leading position in the European "Allfinanz" market, according to Swiss Life Deputy Co-President Karl Muehlbach, head of the international division.

The term Allfinanz describes the links between European banks and insurers, in which banks sell insurance products and insurers offer products like investment funds.

The conversion to a public company, which is expected to take place between mid-1996 and mid-1997, will give Swiss Life a "strong capital base for development of new markets," Mr. Muehlbach said.

The stock offering is expected to raise about 650 million Swiss francs (\$539.6 million), though the number of shares is still undetermined.

"Throughout Europe, the financial problems being encountered by state social insurance schemes are giving rise to growing need for private alternatives," said Mr. Muehlbach.

Swiss Life sees a growing demand for banking products that incorporate insurance components and for insurance products that combine investment, Mr. Muehlbach said. "We are combining strengths."

The bank assurance company will offer index-linked and unit-linked insurance products and initiate direct mail as a means of marketing its products.

Swiss Life wrote 10 billion Swiss francs (\$8.3 billion) in gross premiums in 1994.

—By Don Lewis Kirk

First-half results look up for Skandia, Trygg-Hansa

Major Swedish insurers report improved non-life results

By MARIA KIELMAS

STOCKHOLM, Sweden—An upturn in non-life underwriting results has boosted first-half returns for Swedish insurers Skandia Insurance Co. Ltd. and Trygg-Hansa Insurance Co. Ltd.

The two insurers also reported that they have settled outstanding disputes following the 1992 bankruptcy of credit insurer Svenska Kredit, in which both held 47% stakes.

Stockholm-based Skandia reported an overall profit of 947 million Swedish kronor (\$130.3 million) in the first half, compared with a loss of 435 million Swedish kronor (\$56.8 million) in the first six months of 1994. The improvement was due to better underwriting profits and a rise in the bond market, the company said.

Skandia's combined insurance operations posted underwriting profits of 1.2 billion Swedish kronor (\$165.1 million), up 72% from 699 million Swedish kronor (\$91.3 million) in the first half of 1994.

The results for non-life insurance and reinsurance nearly doubled to 739 million Swedish kronor (\$101.7 million) from 378 million kronor (\$49.4 million) in 1994, while life and annuity business made a profit of 461 million Swedish kronor (\$63.4 million), compared with 321 million kronor (\$41.9 million) in 1994.

The non-life insurance and reinsurance sector made some improvements, narrowing their technical underwriting loss to 490 million Swedish kronor (\$67.4 million) in the first half of 1995 from 800 million kronor (\$104.5 million) in the same period last

year. Technical underwriting results are premiums written minus claims and expenses.

The Skandia group's gross premiums fell 2% to 26.66 billion Swedish kronor (\$3.67 billion), compared with 27.32 billion Swedish kronor (\$3.57 billion) a year earlier. The drop was due to lower premium volume from foreign annuity business.

Premiums for direct non-life insurance rose to 11.45 billion kronor (\$1.58 billion) in the first half, up 7% from 10.71 billion kronor (\$1.40 billion) a year ago. Of this, business in the Scandinavian countries, written through unit Skandia Norden, accounted for 8.36 billion Swedish kronor (\$1.15 billion), a 10% rise from 7.62 billion (\$995.2 million).

Premium volume for non-life reinsurance fell 10% to 1.69 billion Swedish kronor (\$231.5 million) from 1.88 billion kronor (\$244.4 million) in 1994.

Life reinsurance premiums, written by Skandia International, rose 67% to 1.26 billion Swedish kronor (\$173.4 million) from 755 million kronor (\$98.6 million) last year. Premium volume for annuity business fell by 15% to 10.96 billion (\$1.5 billion) from 12.85 billion (\$1.67 billion) in 1994.

Skandia said in a statement that its overall premium volume was reduced by a premium tax that the Swedish government began levying this year.

Sweden placed a 7.5% tax on the gross premiums for annuity life policies issued by foreign insurers.

Although the Swedish government has levied a 15% tax on insurance premiums since January 1991, this year it began applying a

form of this tax to policies purchased from foreign insurance companies.

"In the U.K. and the U.S., which are Skandia's most important markets for (annuities), volume turned down," Skandia said.

The effect of this tax has been dramatic and it has become quite difficult to sell annuity life policies in Sweden, said Jan-Mikael Bexhed, Skandia's general counsel.

Premium volume from policies sold in Sweden by U.K.-based subsidiary Skandia Life Assurance Co. Ltd. fell 84% in first-half 1995 to 189 million Swedish kronor (\$25.9 million) from 1.16 billion kronor (\$151.9 million) a year earlier.

Skandia said the tax is discriminatory and inconsistent with European Union principles of free movement of services and capital. At the request of a Swedish policyholder who owns a Skandia Life policy, the group is seeking a ruling on the tax from the Court of Appeal in Stockholm and has petitioned that the appeal court procure a preliminary ruling from the European Court of Justice in hopes that the European high court will overturn the tax.

According to Mr. Bexhed, the Swedish government justified the new tax by declaring it necessary to close the competitive gap provided by the more lenient tax system in the United Kingdom.

"The Swedish tax authorities compared the taxes in the countries concern and concluded that the British life insurance companies were taxed more favorably. So the tax was levied so that there would be no competitive advantage."

See Swedes on next page

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INTERNATIONAL

Russia

Continued from previous page been kept low since generally office managers in Russia see any self-insurance as coming directly out of their bottom lines.

The auto insurance option was added because that line of coverage has proved difficult to purchase in a country with one of the highest theft records in the world. "This is the hardest insurance to get in Russia," said Mr. Merlino.

The Western-built vehicles favored by expatriates working in Russia have been a particular attraction to car thieves and rates have been increasing very quickly. Optional employers liability

RUS AIG covers the rest of the package. Paul Hill, vp of AIG's central Europe and CIS division in Warsaw, Poland, said, "Our intention is to provide secure cover for start-up firms in Russia. By teaming up with J&H and Rossiya we're able to provide a user-friendly package that offers some hard-to-get coverages."

Only expats can buy the personal contents cover, which has historically either been extremely expensive or impossible to buy in Russia because of high crime.

"To our knowledge, (RUS-PAC's) is the lowest rate available," commented Mr. Merlino.

In the past, it's been a fairly frequent occurrence that expat workers have had their apart-

By teaming up with J&H and Rossiya, RUS AIG is 'able to provide a user-friendly package that offers some hard-to-get coverages,' says AIG's Paul Hill.

coverage for Russian nationals has been added to the program at the request of multinational clients, particularly U.S. and U.K. companies that come from markets with well-developed workers compensation systems.

EL rates vary depending on the nature of the role of the employee—manual laborer, supervisor or manager—and there is a \$2 million annual limit.

Both the auto and employers' liability coverages are wholly underwritten by Rossiya.

ments robbed several times, and the policy gives preferential rates to people with 24-hour security. It also features a \$50,000 personal liability add-on option.

Products liability coverage is very rare in Russia, and has been added to RUSPAC in response to requests from U.S. clients.

Additionally, Mr. Merlino hopes to add travel and accident add-ons early next year. And as the business interests of J&H's clients grow, "we will grow with them," he said. **BI**

Swedes

Continued from previous page tages for the British companies," he said.

Skandia's first-half investment income rose to 786 million Swedish kronor (\$108.2 million) from 448 million Swedish kronor (\$58.5 million) last year, which was a decrease from 1993.

A rise in the bond market increased the value of bond holdings to 3.26 billion Swedish kronor (\$448.6 million) from 2.18 billion Swedish kronor (\$284.7 million) in 1994.

Stockholm-based Trygg-Hansa reported an operating profit of 284 million Swedish kronor (\$39.1 million), compared with 188 million kronor (\$24.6 million) in first-half 1994.

This includes capital gains from the sale of Swedish real estate holdings, which totaled 1.45 billion Swedish kronor (\$199.5 million), and a surplus of 26 million Swedish kronor (\$3.6 million) from life operations.

The company posted a non-life underwriting loss of 290 million kronor (\$39.9 million), about even with a loss of 292 million Swedish kronor (\$38.1 million) in the first half of 1994.

Trygg-Hansa's gross written premiums fell to 3.26 billion kronor (\$448.6 million) from 3.5 billion Swedish kronor (\$457.1 million) in 1994, due mainly to a decline in premiums written for the reinsurance runoff of Trygg-Hansa's holdings in The Home Insurance Co.

Total gross written premiums in the personal lines and commercial insurance divisions, which do not include premiums for industrial risks, were 3.17 billion Swedish kronor (\$434.3 million) compared with 2.93 billion kronor (\$380.9 million) in half-year 1994. Claims incurred fell to 2.37 billion

Swedish kronor (\$325.6 million) compared with 2.61 billion Swedish kronor (\$341.3 million) in 1994, and its gross loss ratio improved to 72.6% from 74.6% last year.

Investment income from the insurance operations rose to 574 million Swedish kronor (\$79 million) from 447 million kronor (\$58.4 million) because of higher interest rates.

In accordance with its agreement with the Zurich Insurance Group for the acquisition of Home Holdings Inc., Trygg-Hansa—Home's former majority shareholder—has provided a maximum balance sheet commitment of \$25 million to meet contin-

Trygg-Hansa says its \$25 million guarantee to meet certain liabilities of The Home is unlikely to be used.

gent liabilities.

But, Trygg-Hansa said the guarantee likely will not need to be utilized. Zurich acquired 84% of Home and under the agreement has an option to buy up the remaining shares (BI, Jan. 9). Trygg-Hansa said in a statement that its cooperation with Zurich in international industrial insurance is limited to the Home runoff.

Meanwhile, both Skandia and Trygg-Hansa reported that settlements were reached with bankrupt credit insurer Svenska Kredit, and its affiliate International Credit Insurance. Both Skandia and Trygg-Hansa were shareholders in Svenska Kredit and International Credit when they collapsed in 1992 (BI, Sept. 14, 1992).

This settlement did not influence the first-half results of either company as it was in line with earlier reserve allocations, according to both insurers. **BI**

NAIC

Continued from page 2

venues are expected to be almost even with 1995 income, though actual revenue this year is 9.4% less than originally projected.

Reasons for the slide include slower-than-anticipated receipt of database filing fees and security acquisition reports and a loss of interest income, the NAIC said.

"There are no increases proposed in state assessments or database fees in 1996," the NAIC said.

However, non-regulators' quarterly meeting registration fees are expected to increase by \$25 or \$50, depending upon when a reservation is made, to offset service charges for credit cards, which had not previously been accepted.

"This preliminary budget reflects some tough cuts," said NAIC President Lee Douglass of Arkansas. "If further large cuts are to be made, we will need to take a long, hard look at trimming or perhaps eliminating some services that our members and those we serve—industry and consumers alike—have come to expect and value."

While further cuts are expected before another public hearing Oct. 23 in Kansas City, Mo., it is unknown how deep they will go.

The NAIC's Strategic Framework Working Group is considering other budget-related issues as part of its assessment of NAIC operations.

Members heard an initial report on the feasibility of shifting to budgeting by program rather than on an overall basis, which would provide better definition of the organization's revenues and expenses for solvency, market regulation and other items.

The group expects to issue an interim report in December and a final report in March 1996.

The committee also discussed cross subsidization, which involves using revenue received from one source to pay for another type of activity.

A recent issue has been whether insurer database fees—which amount to about 45% of the NAIC's revenues—are being used for solvency-related expenses, as insurers wish, or for funding non-solvency programs.

Since 68% of the NAIC's expenses is funding solvency regulation, "No one can justify the argument that database fees pay for non-solvency related expenses," said Recording Secretary Josephine Musser of Wisconsin.

Former Illinois regulator James W. Schacht, who previously criticized the NAIC's closed budget-making process, said the NAIC's early release of the 1996 document reflects progress. "People are getting more time to look at the budget this year than last."

However, NAIC bylaws still should be changed to institutionalize the openness, said Mr. Schacht, who is director of insurance regulatory services for Coopers & Lybrand in Chicago.

State insurance legislators also have called for opening up the budget process, including revealing the salaries of the top five NAIC staff members. Those salaries will be made public by Jan. 1 (*BI*, Sept. 4).

In other action at the NAIC meeting:

- The Working Group Developing Standards for Risk Retention Groups Chartered as Captives refined its approach.

Working Group Chairman Robert Wilcox, the Utah commissioner, stated the group's objectives as identifying differences between risk retention groups and other traditional property/casualty insurers, and developing law and regulation standards for risk retention groups chartered as captives.

However, he pointed out that captives are not necessarily risk retention groups and have not been part of accreditation requirements.

Mr. Wilcox emphasized that the working group is not looking at just Vermont's regulation of risk retention group captives, but at the nature of risk retention group captives in general.

- The Executive Committee voted 11 to 5, with one absent, to ask next year's NAIC officers to require the Valuation of Securities Task Force to consider an alternative method for determining whether insurers' investments are appropriate.

The NAIC is currently drafting its first model investment law for insurers, though all states have their own rules for authorizing and regulating such investments.

That model currently proposes a "pigeonhole" approach to regulating investment choices, which calls for limits by category on the specific

types of investments an insurer makes.

However, several states use their individual version of a "prudent person" approach, which allows insurers to invest prudently in approved securities with fewer specific limits. Those states include Connecticut, Iowa, Massachusetts, Michigan, New York and Wisconsin, said Michigan Commissioner Joseph D. Olson.

"The various states reflect a wide mixture of the prudent person and pigeonholed approaches and have coordinated the various approaches by means of a requirement for 'substantial compliance' for insurers domiciled in other states," he added.

The unusual move of presenting an alternative at the Executive Committee level stemmed from the concern of some commissioners in states with the "prudent person" laws. They were concerned that an NAIC model investment law might eventually become an accreditation require-

ment, though it is not planned.

- The latest Illinois-prepared draft of an interstate compact for U.S. and non-U.S. insurers solves many previous problems by including U.S. reinsurers. However, the proposal still faces opposition from regulators who question the need for such a compact. Redrafting continues.

In addition, a new NAIC legal opinion on interstate compacts raises some questions about the general concept, including whether Congressional approval would be needed. It also raises several questions about some of the specific provisions of the Interstate Insurance Receivership Compact, including whether the receivership commission should have qualified immunity for its actions. "That provision counteracts the general rule that a compact commission does not enjoy the same immunity from suits that states enjoy," said NAIC Senior Counsel Ellen Wilcox.

Thus far, Illinois, Nebraska and

New Hampshire have signed the receivership compact into law and the California Legislature has passed a bill which is awaiting the governor's signature.

- The Special Committee on Blue Cross/Blue Shield Plans kicked off its inquiry into the impact of plan conversions and reorganizations to for-profit entities from non-profit entities.

The committee plans to develop a framework to help insurance departments analyze such proposed changes to ensure legality and fairness to subscribers, policyholders and all interested parties, said Committee Chairman Jack Ehnes of Colorado.

The issues include who owns, controls and benefits from the reserves and assets of existing plans, state and federal tax consequences of such transactions and the role and function of the national BC/BS organization. E

HINSHAW & CULBERTSON

SEVENTH ANNUAL INSURANCE SYMPOSIUM

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Wyndham Hamilton Hotel, Itasca, Illinois

A one-day program for insurers, risk managers, self-insureds, third-party administrators and claims analysts. The program features workshop sessions and panel discussions designed to give attendees the opportunity to address their concerns and focus on specific issues.

SPEAKER HIGHLIGHTS:

John B. Sullivan, President and CEO, Willis Corroon
Edward D. Murnane, President, Illinois Civil Justice League
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LECTURE TOPICS INCLUDE:

The Insurance Agents Role – Expanded Exposures in Current Markets
 Practical and Economic Management of Claims and Litigation Issues
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Lectures, Roundtables, Interactive Workshop Sessions which utilize hypotheticals for claims handling

BREAKOUT TOPIC HIGHLIGHTS:

- Errors and Omissions •
- Insurance Contract Interpretation •
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The Symposium is free of charge and includes materials, continental breakfast, lunch and a cocktail reception. For more information, contact Julie Cohen at (312) 704-3814. Deadline for registration is Friday, October 6, 1995.

The Professional Marketplace

RATES AND CLOSING TIME:

Rates: Display classified is \$142.00 per column inch, minimum of one inch. Straight classified is \$12.50 per line, minimum of 5 lines. Count 34 characters per line (include each space and punctuation as a character). Additional \$20.00 charge for all blind box ads. Only those responses which fit into a business size envelope will be forwarded. Responses are forwarded daily.

Closing: Published every Monday. Copy must be in typewritten form by 5:00 Tuesday, 6 days preceding publishing date. No verbal phone copy accepted. Prepayment required for all advertisements. Most major credit cards accepted. Mail ads to, Cheryl Butler, Classified Advertising, 740 N. Rush St. Chicago, IL. For more information call 312-649-5340. FAX 312-649-7799

LEGAL NOTICE

**IN THE SUPREME COURT OF BERMUDA COMPANIES (WINDING-UP) 1994: No. 401
IN THE MATTER OF THE INSURANCE ACT 1978
IN THE MATTER OF THE COMPANIES ACT 1981
AND IN THE MATTER OF MEDWAY BROKERAGE & INSURANCE LIMITED**
NOTICE TO CONTRIBUTORIES OF FIRST MEETING

(Under the Order for winding-up the above-named Company, dated the 25th day of November, 1994.)
NOTICE is hereby given that the first meeting of Contributories in the above matter will be held at the offices of Milligan-Whyte & Smith, Bermuda Commercial Bank Building, 44 Church Street, Hamilton, Bermuda at 10:30 o'clock in the fore-noon on the 5th day of October, 1995.
Forms of proof and of general and special proxies are enclosed with copies of this Notice sent by mail to Contributories. Proxies to be used at the meeting must be lodged with my attorneys, Messrs. Milligan-Whyte & Smith no later than 10:00 a.m. on the day.
Dated this 14th day of September, 1995.

Official Receiver
Government Administration Building
Parliament Street
Hamilton HM 12

(The Statement of the Company's affairs has been lodged and is enclosed with copies of this Notice sent by mail to Contributories.)

NOTE

At the first meetings of the Contributories they may amongst other things:

1. By resolution determine whether or not an application is to be made to the Court to appoint a Liquidator in place of the Official Receiver.
2. By resolution determine whether or not an application shall be made to the Court for the appointment of a Committee of Inspection to act with the Liquidator, and who are to be the members of the Committee is appointed.

NOTE: If a Liquidator is not appointed by the Court the Official Receiver will be the Liquidator.

LEGAL NOTICE

HELP WANTED

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DIRECTOR, CORPORATE RISK MANAGEMENT/SAFETY

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LEGAL NOTICE

IN THE CHANCERY COURT OF DAVIDSON COUNTY, TENNESSEE AT NASHVILLE

STATE OF TENNESSEE, ex. rel, DOUGLAS M. SIZEMORE, Commissioner of the Department of Commerce and Insurance for the State of Tennessee, Petitioner, vs. CHEROKEE INSURANCE COMPANY, Respondent.
Case No. 84-1460-III

NOTICE OF BAR DATE FOR FILING OF CLAIMS AND NOTICE OF PUBLIC SALE OF PROPERTY AND CASUALTY INSURANCE COMPANY

NOTICE IS HEREBY GIVEN that on August 22, 1995 an order was entered by the Chancery Court of Davidson County, Tennessee setting **January 20, 1996** as the bar date for the filing of claims of any type against Cherokee Insurance Company. **IF YOU HOLD A CLAIM YOU MUST FILE A PROOF OF CLAIM ON OR BEFORE THE BAR DATE. IF YOU DO NOT:**

- (a) YOUR CLAIM WILL BE DISALLOWED; AND
- (b) YOU WILL BE FOREVER BARRED FROM PARTICIPATING IN ANY MANNER IN THE DISTRIBUTION OF THE REMAINING ASSETS.

Also, it is proposed that the corporate charter and certificates of authority in nineteen (19) states be sold at a public sale to a qualified buyer. For further information and a bid package all inquiries should be sent to: David S. Weed, Special Deputy Commissioner, For the Rehabilitation of Cherokee Insurance Company, Weed, Hubbard, Berry and Doughty, Third National Financial Center, 424 Church Street, Suite 2900, Nashville, TN 37219. Telephone: 615-251-5464

HELP WANTED

UNDERWRITER

Immediate need for multi-line underwriter familiar with Oklahoma. Must have experience in commercial lines. Require bachelor's degree with two to four years experience, or four to ten years of underwriting experience. Send Resume to:

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INSURANCE COMPANY
Attn: Human Resources
P.O. Drawer 9
Chandler, OK 74834

LEGAL NOTICE

IN THE MATTER OF EASTPORT INSURANCE COMPANY LIMITED (IN CREDITORS' VOLUNTARY LIQUIDATION)

NOTICE TO CREDITORS OF LIQUIDATOR'S MEETING OF CREDITORS

NOTICE is here given that a Liquidator's Meeting of Creditors in the above matter will be held at the offices of KPMG Peat Marwick, Vallis Building, Par-la-Ville Road, Hamilton HM 11, Bermuda on Friday, the 29th day of September, 1995 at 10:00 a.m. in the fore-noon.

An Agenda for the meeting is enclosed with copies of this Notice sent out by mail to individual creditors.

DATED this 15th Day of September, 1995.

ROBERT D. STEINHOFF
LIQUIDATOR

LEGAL NOTICE

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS COUNTY DEPARTMENT, CHANCERY DIVISION

**IN THE MATTER OF THE LIQUIDATION OF)
CONTINENTAL FIRE AND CASUALTY) NO. 90 CH 1614
COMPANY, LTD., ET AL.)**

TO: ALL POLICYHOLDERS AND CREDITORS

On October 26, 1994, an Order of Liquidation was entered against CONTINENTAL FIRE AND CASUALTY COMPANY, LTD., FIDUCIARY INDEMNITY ASSURANCE GROUP, LTD., FIRST CHICAGO INSURANCE GROUP, INC. ROSEMONT PREMIUM FINANCE COMPANY, IN., AND INTERNATIONAL RISK INTERMEDIARIES SERVICE CORPORATION, INC. (the "Companies") in the Circuit Court of Cook County, Illinois. The Director of Insurance of the State of Illinois, in his capacity as Liquidator, was vested with the title to the property, business and affairs of the Companies.

The Director has determined that there are no assets available with which to pay the claims of policyholders and creditors. Further, because the Companies ("unauthorized insurers") did not have certificates of authority to transact insurance business in the State of Illinois, their policyholders are not protected by the Illinois Insurance Guaranty Fund (responsible for paying property & casualty covered claims). As a result, claims against the Companies cannot be paid by either the Liquidator or the Guaranty Fund.

On March 14, 1995, the Circuit Court of Cook County, Illinois entered an Order closing the estate of CONTINENTAL FIRE AND CASUALTY COMPANY, LTD., FIDUCIARY INDEMNITY ASSURANCE GROUP, LTD., FIRST CHICAGO INSURANCE GROUP, INC. ROSEMONT PREMIUM FINANCE COMPANY, INC., AND INTERNATIONAL RISK INTERMEDIARIES SERVICE CORPORATION, INC. This Order terminates the receivership proceedings and all activities related thereto. Please be advised that there will be no funds forthcoming from this estate.

Please be further advised that Section 121-4 of the Illinois Insurance Code (215 ILCS 5/121-4) provides, in pertinent part, that if any unauthorized insurer fails to pay any claim or loss under the contract, any person who assisted or in any manner aided directly or indirectly in the procurement of the insurance contract shall be liable to the insured for the full amount of the claim or loss.

Peter G. Gallanis
Special Deputy Receiver

Business Insurance

Circulation Breakdown Commercial Consumers

Administrative:

CEO's, Presidents, and Owners,1,866
Vice Presidents, General Managers and
Other Administrative Personnel 5,213

Financial:

Chief Financial Officers and Vice Presidents
of Finance3,180
Secretaries, Treasurers, controllers and
other Financial Personnel3,053

Risk/Employee Benefits:

Vice Presidents, Directors, Managers, and other
related department personnel of: insurance risk,
employee benefits, personnel, compensation,
pension, safety, security, industrial relations,
human resources and employee/
labor relations 6,931

Sub-total **30,243**

Associations 355
Government, Unions and
Educational Institutions 955

Commercial Consumers

Sub-total **3,553**
Insurance Agents and Brokers 8,658
Insurance Companies 7,857
Accountants, Actuaries,
Attorneys & Consultants 3,556
Adjusters, Appraisers, TPA's, Captive Managers
& Health Care Providers 1,935
Others Allied to the Field 960

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BPA Publisher's Statement

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LEGAL NOTICE

**IN THE SUPREME COURT OF BERMUDA COMPANIES (WINDING-UP) 1994: No. 400
IN THE MATTER OF THE INSURANCE ACT 1978
IN THE MATTER OF THE COMPANIES ACT 1981
AND IN THE MATTER OF ATLANTIC UNIVERSAL INSURANCE LIMITED (IN LIQUIDATION)**
NOTICE TO CREDITORS OF FIRST MEETING

(Under the Order for winding-up the above-named Company, dated the 25th day of November, 1994.)
NOTICE is hereby given that the first meeting of Creditors in the above matter will be held at the offices of Milligan-Whyte & Smith, Bermuda Commercial Bank Building, 44 Church Street, Hamilton, Bermuda at 10:00 o'clock in the fore-noon on the 5th day of October, 1995.

Forms of proof and of general and special proxies are enclosed with copies of this Notice sent out by mail to Creditors. Proxies to be used at the meeting must be lodged with my attorneys, Messrs. Milligan-Whyte & Smith no later than 9:30 a.m. on the day.

Dated this 14th day of September, 1995.

Official Receiver
Government Administration Building
Parliament Street
Hamilton HM 12

NOTE

At the first meetings of the Creditors they may amongst other things:

1. By resolution determine whether or not an application is to be made to the Court to appoint a Liquidator in place of the Official Receiver.
2. By resolution determine whether or not an application shall be made to the Court for the appointment of a Committee of Inspection to act with the Liquidator, and who are to be the members of the Committee is appointed.

NOTE: If a Liquidator is not appointed by the Court the Official Receiver will be the Liquidator.

LEGAL NOTICE

**IN THE SUPREME COURT OF BERMUDA COMPANIES (WINDING-UP) 1994: No. 401
IN THE MATTER OF THE INSURANCE ACT 1978
IN THE MATTER OF THE COMPANIES ACT 1981
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Dated this 14th day of September, 1995.

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Government Administration Building
Parliament Street
Hamilton HM 12

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Zurich

Continued from page 1

The acquisition of Kemper Corp. this year and of Centre Reinsurance (Bermuda) Ltd. last year were also part of the process of building Zurich's resources in this direction, Mr. Hueppi said.

But it was the takeover of The Home's profitable business that was the center of attention for insurers and policyholders this year.

The controversial acquisition of The Home's profitable business was sealed in June, despite criticism from several policyholders and competing insurance companies (BI, April 10).

Opponents of the deal argued that Zurich should not be allowed to "cherry pick" the profitable business of The Home, and instead should be required to take over the entire company or none of it.

Over the course of six months, Zurich gradually improved its offer and included a \$1.59 billion reinsurance program for The Home.

But Zurich would not hesitate to walk away if The Home's assets and the reinsurance program were insufficient to pay outstanding claims, Mr. Hueppi said.

"Certainly we would walk away. Absolutely certainly," he said.

However, he added, Zurich believes that existing funds will be adequate to meet The Home's liabilities. "We have quite a significant bet on the fact that there will be sufficient funds in The Home Insurance Co. to satisfy the liabilities over time. If that is the case, we have a potentially significant upside for us."

Under the deal to assume The Home's profitable business, Zurich has an option to take over The Home if the conditions are favorable (BI, Jan. 2).

The takeover of The Home has three significant benefits for Zurich, he said:

- It obtained a significant book of specialty lines and major-account business.

- It allowed Zurich to significantly expand its runoff management business.

- It allowed Zurich to expand its investment activities with the opportunity to invest The Home's funds.

The acquisition of The Home's profitable business was just one part of Zurich's strategy of becoming an insurer that can offer numerous solutions to meet different client needs, according to Mr. Hueppi.

"The corporate customer is not interested in whether he has a fire claim or a liability claim; he is interested in the fact that he has an impact on his profit and loss statement or his balance sheet. Our job is to help him come up with solutions given the capacity market, given derivative tools that are available, rather than saying that we have an insurance product for that," he said.

To ensure that Zurich is able to provide those services, it has been necessary to make acquisitions, Mr. Hueppi explained.

"When we do acquire a company, it would be because we would believe it to be more efficient and more effective to add specific companies and specific franchises to our system so that we can implement our strategy," he said.

The acquisitions usually bring new skills.

For example, Zurich's acquisition of Centre Reinsurance (Bermuda) Ltd. (BI, Jan. 10, 1994) gave Zurich specialized financial skills.

"These are generic competencies that we need, not just in one of our core businesses, but in more than one... Some of the moves you have seen us make are making sure that we have these core competencies in-house in our group," Mr. Hueppi said.

Once the companies are part of Zurich, they are left to develop as businesses in their own right. They are not integrated into a single Zurich corporate culture, he said.

The managers go through Zurich management training programs and have access to all of the insurer's resources, but they are allowed to act largely independently of the rest of the group, Mr. Hueppi said.

"The reason that is essential is that our CEOs of our business units have to be people that draw on the actual business for their knowledge and their feel of the strategic moves that they have to make for their customers. I don't believe in lots of holding company structures; I like flat management structures," he said.

The senior executives of the indi-

vidual businesses are held responsible for the profits, and their compensation is linked to their performance.

"They have an ownership type of feeling for the business that they run," Mr. Hueppi said.

The management even has the naming rights for the company. For example, Universal Underwriters Insurance Co., a Zurich unit in Kansas, chooses not to incorporate the Zurich name in its title, he said.

"Some say they want the name, but Universal is not a company that would like to have the Zurich name—and we don't force them to have it," Mr. Hueppi said.

In the future, insurance companies will need a variety of skills to take advantage of socio-economic changes in the world, he said.

These changes include an increase in individual responsibility and the gradual bankruptcy of many social security systems, Mr. Hueppi said.

"The demands of customers of product and service providers will be much more specific and much more individual. This will call for very different ways of addressing customer needs than the traditional product approach that the financial services industry has," he said.

This includes corporate customers as well as individuals, he said.

"We believe that our future products will satisfy customers' risk protection as well as their investment needs. But with much more clarity and much more professionalism than they are traditionally used to from an insurance organization," he said.

Insurers will need to protect and manage assets, Mr. Hueppi said.

The acquisition of Kemper Corp. strengthened Zurich's asset management capabilities, Mr. Hueppi said (BI, April 17).

Zurich remains interested in acquisitions, but it has its U.S. operations in place, he said.

Zurich only buys companies for strategic reasons, not for the sake of increased volume, he added.

"In the U.S., I think we are very well positioned in the businesses in which we want to be. I don't see the need for any major acquisitions," Mr. Hueppi said.

Outside the United States, there are still areas where Zurich might make more acquisitions over the next 12 months, he said. ■

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Tax bill would shut door on COLI borrowing

By MICHAEL SCHACHNER

WASHINGTON—If Congress eliminates the tax breaks on loans against corporate-owned life insurance policies, companies will have to find other ways to fund deferred compensation and other post-retirement benefit plans.

The tax bill approved last week by the House Ways and Means Committee would phase out over five years the long-standing ability of companies to deduct 100% of the interest on loans of up to

\$50,000 against life insurance policies they own.

Companies borrow billions of dollars this way and in the process generate huge tax deductions, an estimated \$7 billion over the next seven years. It is not clear how much of that money is put into employee benefit programs vs. other corporate purposes. Without the tax advantage, life insurance would be a far less attractive corporate finance tool.

The bill, which was drafted by Ways & Means Chairman Bill Ar-

cher, R-Texas, would reduce the deductions in 20% increments beginning in 1996. By 2000, no deductions could be taken on the interest.

The bill would not affect deductions related to policies written before 1986. Until the Tax Reform Act of 1986 put the \$50,000 cap in, there was no limit on the size of the loans that companies could use to generate tax deductions.

Momentum is strong in Congress to eliminate tax loopholes that favor businesses. Some bene-

fits experts say, though, that there may be an outside chance that the COLI provisions may be dropped from tax legislation that both houses ultimately approve, or that some deductions will be grandfathered in.

Under the Ways and Means bill, borrowing against—or “leveraging”—life insurance policies would no longer be an effective way to finance benefit programs.

“If this passes, it essentially makes broad-based leveraged

COLI an unviable option. And, while there are other ways to fund benefit programs, none have this sort of tax advantage,” said Steve Diamond, a principal with Buck Consultants Inc. in Secaucus, N.J.

Without that advantage, employers would have to seek other ways of generating funds or scale back current non-qualified deferred compensation plans or retiree medical benefit plans, said Philip Feick, a vp at Seabury & Smith, an insurance program management unit of Marsh & McLennan Cos. Inc. in New York.

“I can foresee a domino effect. Benefit funding options will be reduced, so the benefits will shrink. Companies will have to figure out what they can offer for less,” Mr. Feick said.

“This legislation will have a major effect on retiree benefits, especially medical benefits. Most companies have been putting the money they borrow in trusts for

‘I’m actually surprised it took Congress this long to fully eliminate it,’ says John Hickey of Kwasha Lipton.

retiree benefits, and the trusts only have a part of what is required,” said James Holden, a tax specialist with Steptoe & Johnson in Washington. “Companies will have two choices: They can find another source of funding or they will have to scale back or eliminate retiree benefits.”

Other experts were less pessimistic.

“I never believed that COLI was a true funding vehicle for post-retirement benefits. What it is is a tax-favorable investment. The assets from these programs weren’t segregated from other corporate assets in most cases. What we have here is an investment that provides returns that are just too good to be true. I’m actually surprised it took Congress this long to fully eliminate it,” said John Hickey, a partner at Kwasha Lipton L.L.C. in Fort Lee, N.J.

But he cautioned that the powerful life insurance lobby could persuade Congress to retain the tax break.

David Sugar, a consultant at Hewitt Associates L.L.P. in Lincolnshire, Ill., echoed Mr. Hickey’s opinion about the usage of COLI proceeds and why Congress has targeted the tax deductions.

“While these policies aren’t there only for netting big bucks, as Archer’s staff reported in quoting press reports, it is an investment that has been used for a multitude of purposes, benefits being one of them. With the deductions gone, companies will have to look to different sources of revenues,” Mr. Sugar said.

The deductions are “on their way to being history. The press on leveraged COLI has been slanted and the image that Congress has absorbed is that it’s an inappropriate tax break. There’s too much momentum to see it go away and too little support to leave it alone. I’m sure the IRS won’t be unhappy to see it go,” he said.

Earlier this summer, the Internal Revenue Service audited numerous large corporations with respect to their COLI-related tax deductions (BI, Aug. 14). Benefit experts predicted then that the IRS would urge Congress to do something about restricting the tax breaks on corporate-owned life insurance. **BI**

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Employers, employees likely to welcome bill

House tax bill would ease pension administration burden

By JERRY GEISEL

WASHINGTON—Aside from opening the door for employers to withdraw surplus plans assets, the House Ways and Means Committee's tax bill would affect pension plans in numerous other ways.

Primarily, the bill would make plans easier to administer by:

- Simplifying the general definition of "highly compensated employee" for non-discrimination testing purposes to those earning more than \$80,000 or owning at least 5% of a company. That threshold would be adjusted annually for inflation.

By contrast, current law contains numerous definitions of highly compensated employees including one that covers employees earning

more than \$66,000. This change would enable more employees—those in the \$66,000 to \$80,000 bracket—to make the maximum contribution to their 401(k) plan because they would be considered non-highly compensated for testing purposes.

Under Internal Revenue Service rules, non-highly compensated employees can contribute as much as they like to 401(k) plans—subject to any limits imposed by their employers and the annual IRS maximum 401(k) plan deferral, which is now \$9,240.

Highly compensated employees, though, often cannot make the maximum deferral because of other IRS rules that limit their contributions if rank-and-file employees make relatively small deferrals.

- Changing prior-year testing rules. Employers running the 401(k) plan non-discrimination test will compare deferrals made by lower-paid employees during the previous year to contributions made by high-paid employees during the current year.

IRS rules now require employers to compare current year contributions of the two groups, so employers have to constantly monitor them.

If lower-paid employees do not contribute as much as expected, employers in mid-year may have to go through the trouble of cutting back on contributions by high-paid employees or returning excess contributions to those workers.

By using prior year contributions by lower-paid employees, employers would know at the start of the plan year how much highly-paid employees could contribute without causing the plan to fail non-discrimination tests.

Benefit lobbyists, though, would like legislators to further modify the provision so employers would have the option of using either current or prior year contributions of non-highly compensated employees in running the non-discrimination test to determine how much highly compensated employees can defer.

- Creating safe harbors for 401(k) plans. Under the legislation, employers that beef up contributions to 401(k) plans would not have to run non-discrimination tests.

The required contributions, though, are so generous that few employers would take advantage of

them, consultants say. One safe harbor, for example, would require employers to match 100% of employees' contributions on the first 3% of compensation and match 50% of employees' contributions between 3% and 5% of compensation.

That is far more generous than the typical match: 50% of employees' deferrals up to 6% of pay.

Meanwhile, other pension provisions in the Ways and Means bill are designed more to make the pension system more equitable rather than to simplify plan administration. Those provisions would:

- Change the so-called corrective distribution rules, which deal with the return of excess contributions to highly compensated employees when a 401(k) plan fails the non-discrimination tests.

Currently, corrections are made by returning excess contributions to employees beginning with those who have deferred the highest percentage of pay.

That method, benefit experts note, has the effect of favoring the corporate elite: the most highly paid of the highly compensated employees.

For example, take the case of a middle-management employee earning \$67,000 who contributes \$5,000, which is 7.5% of pay. His contribution would be reduced before that of an executive earning \$150,000, who contributes \$9,000, which is 6% of pay.

The Ways and Means proposal would require excess contributions to be distributed first to those highly compensated employees who deferred the highest dollar amount for the year.

"I'd call this the middle-management relief provision because typically it is middle management that has the highest percentage of compensation contributed to the plan, but not the highest absolute dollar amounts," said Henry Saveth, a principal with A. Foster Higgins & Co. Inc. in New York.

- Repeal the family aggregation rule. That rule can reduce pension benefits and contributions of an employee who owns at least 5% of a company's stock, or is one of a company's 10 highest-paid employees and who has a family member, such as a spouse, who also works for the same company.

Under this rule, compensation of family members working for the same company is aggregated when determining pension benefits and contributions—even if only one of the individuals is in the 5% shareholder category or is one of the 10 highest-paid employees.

Take the case of a family where the husband earns \$50,000 a year and the wife earns \$150,000 and is one of the 10 highest-paid employees.

Under the aggregation rule, only \$150,000 of the couple's income—the maximum allowed under current law for an individual—would be considered in determining benefits and contributions. Without the rule, the wife's benefits would be based on her \$150,000 income and the husband's on his \$50,000 in income.

The Clinton administration earlier described that result as unfair and first suggested repeal of the family aggregation rule.

- Allow tax-exempt employers to establish 401(k) plans. This pro-

posal would undo a provision in the 1986 tax law, which bars tax-exempt employers, like trade associations, from establishing 401(k) plans.

- Alter the ownership of assets in Section 457 pension plans, which are owned by public entities such as state and local governments, assets. Compensation deferred to those plans would have to be held in trust for the exclusive benefit of plan participants.

As a result, amounts deferred to a 457 plan would no longer be potentially subject to the claims of an employer's creditors, nor could they be used by employers for their own purposes.

The Ways and Means tax bill

Tax bill

Continued from page 1

contributions to 401(k) plans, while another provision would retroactively extend through Dec. 31, 1997, a now expired section of the Tax Code, which had permitted employers to reimburse employees for up to \$5,250 in educational expenses without employees being taxed on those contributions.

But not all provisions will be welcomed by employers or employees.

For example, the measure would also phase out the tax advantages of corporate owned life insurance policies (see story, page 36), as well as eliminate five-year forward averaging, which is a practice employees can now use to reduce taxes on lump-sum pension distributions.

On balance, though, the measure's benefit provisions are pro-employer and pro-employee.

"All in all, this is quite a good bill. The employer-sponsored benefit system has come out quite well," said James Klein, president of the Assn. of Private Pension & Welfare Plans in Washington.

"In the aggregate, for employee benefit plans this is a very good piece of legislation," agreed Howard Golden, a principal with Kwasha Lipton L.L.C. in Fort Lee, N.J.

For employers with overfunded pension plans, the most significant provision is one that would give them the green light to remove surplus assets for any reason.

Companies would be free to use "reasonable" mortality assumptions and liberal interest assumptions in determining the funding level of their plans. About 22,000 defined benefit pension plans are at least 125% funded, according to the Pension Benefit Guaranty Corp.

Congressional committee staffers estimate that employers would—assuming the provision becomes law—withdraw more than \$40 billion in surplus assets from their plans over the next five years.

Based on regular income taxes—and after July 1996, a 6.5% excise tax—those withdrawals would generate about \$10 billion in new federal revenue, which is the principal reason the provision was included in the Ways and Means bill, said Rep. Ben Cardin, D-Md.

Benefit managers and employer groups strongly support the idea of asset reversions and anticipate that many companies will take advan-

also includes several pension provisions that would increase employers' costs and increase taxes on employees who receive lump-sum distributions from their pension plans. Under those provisions:

- Multiemployer pension plans would have to use the same fast vesting schedules—typically five-year cliff vesting for defined benefit plans and seven-year graded schedules for defined contribution plans—that single employer plans now use. Under current law, multiemployer plans can use a 10-year vesting schedule.

- Eliminate five-year forward averaging on lump-sum distributions. This special rule has the effect of slightly lowering the federal tax bite on lump-sum distributions.

In addition, the Ways and Means bill includes provisions to ease potential compliance problems with veterans legislation Congress enacted last year that allows employees who return to their former jobs after military service to make retroactive contributions to their

401(k) plans.

The problem with the legislation enacted last year is that it did not make needed Tax Code changes to accommodate requirements laid down by the veterans legislation.

Take the situation of a returning veteran who wants to make a retroactive contribution to his 401(k) plan as well as a contribution for the current year.

The combined contributions could easily exceed the maximum deferral—\$9,240—an employee can defer to a 401(k) plan in a given year. If the employer doesn't allow the employee to make a retroactive contribution, the employer would violate the veterans law. But if the employer permits the retroactive contribution, it would violate IRS rules and face the possibility that its 401(k) plan would be disqualified.

The tax bill deals with this dilemma by making it clear that retroactive contributions would not be applied against other limits on contributions and would be treated separately. **■**

tage of the provision.

"There would be a window of opportunity for employers to get the surplus for other business purposes. We should take advantage of this," because pension surpluses now are an inefficient use of capital, said Michael Pikelny, corporate actuary and benefits consultant at Hartmarx Corp. in Chicago.

"If employers can use the surplus assets to, for example, expand operations and hire new people, why shouldn't they be allowed to do so as long as they are not jeopardizing the plan? A 25% margin would seem to be a reasonable cushion to protect benefits," said Joe Worley, benefits manager at Countrymark Cooperative Inc. in Indianapolis.

Others say giving employers the ability to take out surplus assets would encourage better pension plan funding.

"To the extent that companies have the flexibility in the future to take asset reversions, they may be

wherever I am, dead or alive, and say: 'I told you,'" Rep. Gibbons said.

Whether the asset reversion provision survives in the tax legislation, though, is questionable.

The provision could trigger such a public outcry that legislators later strip the provision, predicted Henry Saveth, a principal with A. Foster Higgins & Co. Inc. in New York.

Under the bill's MSA provision, MSAs would be tied to a catastrophic health care plan. Such plans are defined as those with deductibles of at least \$1,500 for individual coverage and \$3,000 for family coverage.

Employers and employees could make tax-deductible contributions that would be the lesser of the catastrophic plan deductible, or \$2,500 for individual coverage and \$5,000 for family coverage.

Employer contributions would not be added to employees' taxable

'All in all, this is quite a good bill. The employer-sponsored benefit system has come out quite well,' says James Klein, president of the APPWP.

more willing to put in additional funds," said James Lockhart, a managing director at Smith Barney in New York and PBGC executive director during the Bush administration.

But current regulators warn of an impending disaster if employers can take asset reversions.

The legislation would open the door to corporate raids on pension assets that "threatens to do unprecedented damage to pension plans," said PBGC Executive Director Martin Slate. Mr. Slate warned that the removal of surplus assets, coupled with investment losses, could quickly turn overfunded plans into underfunded plans. Ultimately, if the employers sponsoring those plans went out of business, the PBGC would have to make good on the benefit promises.

Rep. Sam Gibbons, D-Fla., said that if the asset provision is passed, it could set the stage for a federal bailout of pension plans, similar to the savings and loan debacle of the mid 1980s.

"I hope I'm wrong, but as soon as these pension funds go belly-up...and we've started another S&L type crisis, I'm going to rise,

income, though investment income earned on employees' account balances would be included.

During the year, employees could withdraw funds from the MSA balances for uncovered medical expenses.

At the end of the year, account balances could be withdrawn for any purpose, though the amount would be subject to income taxes and a 10% excise tax. Account balances, though, could be rolled over at the end of the year to pay for future medical expenses.

MSA backers, such as J. Patrick Rooney, chairman of Golden Rule Insurance Co. in Indianapolis, see considerable employer interest in MSAs because of the cost savings potential.

Employees choose medical care services more wisely when they have a financial incentive—retaining funds in an MSA—than when a third-party pays for the services, he said.

But John Hickey, a principal with Kwasha Lipton, says MSAs would have little appeal for employers whose managed care programs are already holding down costs. **■**

Banc One explores easy 401(k) credit

By ROBERT KAZEL

COLUMBUS, Ohio—If a major bank's plans are realized next year, borrowing money from a 401(k) plan could be as easy as buying groceries with a credit card.

Columbus, Ohio-based Banc One Corp. is studying how it can implement its plan to link a credit card to 401(k) funds to let employees have access to their balances—easily, immediately and electronically—without the paperwork and restrictions of traditional 401(k) plan loan programs. The card could carry a balance of up to \$10,000.

As in standard loan programs, employees would repay their 401(k) accounts, with interest. But in this case, Banc One, as processor, would receive a still-undetermined portion of the interest.

The plan has received preliminary approval from the U.S. Department of Labor and the Internal Revenue Service, according to a Banc One spokesman.

But the bank now is conducting focus groups with benefit managers and employees in 401(k) plans to determine whether there is a market for its product.

It is also trying to iron out thorny technical problems, such as setting up the real-time interface between the bank's computer and the corporate payroll computers.

Both benefit managers and consultants criticize the proposal, saying that quick access would make it easy for employees to fritter away hard-earned retirement savings on non-essentials like vacations.

"I think it's a pretty crazy idea," said Ted Benna, president of the Langhorne, Penn.-based 401(k) Assn., an advocacy group representing about 900 benefits execu-

tives, 401(k) plan participants and others in the retirement investment field.

"I don't think it makes a whole lot of sense. I can't imagine employers are going to respond warmly to the idea," Mr. Benna said.

Ultimately, it will be the plan sponsors who decide whether their employees can apply for the Banc One card, according to Mr. Benna.

He said he believes most benefit managers will agree that "this totally flies in the face of what these loans are about."

Currently, about 81% of employers with 401(k) plans allow employees to take out loans against their account, according to Lincolnshire, Ill.-based Hewitt Associates.

In a 1995 study, Hewitt found that 38% of responding companies have changed their loan provisions in the past five years to make it easier to borrow from the 401(k) plan.

Although no government restrictions exist on what these loans can be used for, most plans are not issuing very small loans.

Hewitt found that 73% of respondents would not grant a general-purpose loan for amounts less than \$1,000.

The plan for easy 401(k) credit is troubling but could be successful, according to a 401(k) legal specialist.

"There is a dilemma here," said Henry Saveth, a principal in the consulting firm of A. Foster Higgins & Co. Inc. in New York. "Using 401(k) for impulses doesn't seem to pass the smell test. But then you look further and say, 'Why not?'"

The main advantage to employers is that a credit card arrangement could eliminate much of the paperwork that companies are re-

quired to do for 401(k) loans, Mr. Saveth said.

Another plus, Mr. Saveth said, is that younger employees with less of a stake in their company's 401(k) plan might be more inclined to build up their 401(k) accounts if their liquidity were increased.

Would the potential benefit of long-term investment by such employees be overshadowed by the risk of their waging frequent plastic attacks on their 401(k) funds? "I don't think anyone knows for sure," Mr. Saveth said.

Banc One holds an exclusive license to market the 401(k)-linked card, which was patented by Francis M. Vitagliano, a pension industry compliance officer at mutual fund company Scudder, Stevens & Clark in Boston, in partnership with Franco Modigliani, a Nobel Prize-winning economics professor at the Massachusetts Institute of Technology.

Mr. Vitagliano said 401(k) plan participants will benefit by being able to borrow from their retirement funds at a lower interest rate than is available from most credit cards.

Most adults could handle the responsibility of easier access to credit without gutting their 401(k) plan savings—especially with the \$10,000 limit in place, Mr. Vitagliano said.

Some benefits executives remain unconvinced.

"Most people look at a 401(k) plan as a retirement vehicle and not something that you would use for day-to-day living," said Deborah Brian, U.S. benefits manager for Intel Corp. in Santa Clara, Calif., where 70% of 26,000 domestic employees are enrolled in the 401(k) plan.

"I don't know how much demand there really would be on this," she added. **BI**

Updates

47 charged in claims scheme

NEW YORK—Nearly four dozen lawyers, claims adjusters and others are facing charges that they participated in a scheme to pay bribes to speed insurance settlements.

The Manhattan District Attorney last week announced the indictment of 47 people, including 21 lawyers, 16 insurance company claims adjusters and six "middlemen" who allegedly brokered the payment of bribes by the lawyers to the adjusters to settle claims.

During a three-year investigation, the DA's office found that the middlemen brokered more than \$39 million in settlements, \$19 million of which are covered by last week's indictment. Overall, the investigation uncovered more than \$300,000 in bribes paid to adjusters and more than \$500,000 paid to the middlemen.

Insurance companies that employed the indicted adjusters and that were victimized in the alleged scheme include American International Group Inc., GEICO Insurance Co., Fireman's Fund Insurance Co., Aetna Life & Casualty Co., State Farm Insurance Co. and General Accident Insurance Co.

A second indictment separately charged an AIG adjuster, a lawyer and two others with collecting more than \$800,000 in settlements of five totally fabricated personal injury claims.

Affiliated FM to appeal award

LOS ANGELES—Affiliated FM Insurance Co. says it will appeal a \$28.9 million compensatory award last week in a suit brought by the government of American Samoa over a claim for damage from Hurricane Val in 1991.

A Los Angeles Superior Court jury on Tuesday found the unit of Allendale Mutual Insurance Co. guilty of bad faith for paying \$6.1 million but not covering the rest of the government's \$35 million claim for damaged schools, utilities and other government facilities. The policyholder alleged that the insurer had stopped paying on the claim. Affiliated argued that it was still in the adjustment process when the suit was filed.

The two sides also disagreed on whether the property policy excluded damage caused by waves. Judge Henry W. Shatford struck down the exclusion for flood damage, holding that all damage caused by waves was covered. The insurer accused the judge of rewriting the policy by striking down the exclusions.

Affiliated also contends that the government of the U.S. territory in the South Pacific misrepresented its losses, said John J. Pomeroy, vp and general counsel.

The government had \$35 million of coverage above a \$10 million deductible, said William Shernoff, of Shernoff, Bidart & Darras in Claremont, Calif., who represented the government.

The jury was still deliberating Friday on punitive damages.

AIG is restructuring

NEW YORK—American International Group Inc. is restructuring its domestic general insurance operations into two sections: global risk and primary casualty/risk management.

The global risk section will provide primary casualty, risk financing and finite risk products for large corporations. The unit will coordinate coverage from a variety of AIG units. The new section will be headed by Tobey J. Russ, previously senior vp of American International Underwriters' risk management division.

The primary casualty/risk management section will combine the current operations of the AIG risk management division and American Home Assurance Co.'s casualty division. The president of the new section is Charles Dangelo, formerly an executive with CNA Insurance Cos. The unit will be organized around specific industry groups for non-global clients.

AIG also will create three national regions with senior executives to oversee the existing 10 regions in its domestic field operations. The executives will be: Vincent Masucci, senior executive-West in Los Angeles; Mark Willis, senior executive-Midwest in Chicago; and John Gantz, senior executive-East in New York.

Briefly noted

A 1994 Connecticut law that imposes surcharges on hospital bills is not pre-empted by the **Employee Retirement Income Security Act**, the 2nd U.S. Circuit Court of Appeals says. The U.S. Supreme Court previously ruled that states can impose surcharges on hospital bills without running afoul of ERISA (*BI*, May 1). . . . Three Lloyd's of London members in Los Angeles are **suing Lloyd's U.S. lawyers**, the firm of LeBoeuf, Lamb, Greene & MacRae, for millions of dollars in California Superior Court, alleging that as names they, too, were clients of the firm and should have been warned about potential losses. The members allege that LeBoeuf, Lamb knew in the early 1980s that Lloyd's would be crippled by asbestos and pollution losses. . . . New Jersey Gov. Christie Whitman said she will nominate Commissioner of Banking **Elizabeth Randall** to succeed Drew Karpinski as commissioner of the Department of Insurance. Mr. Karpinski resigned amid controversy over his agent's license (*BI*, Sept. 18). . . . The California Assembly has approved two **tort reform bills** that would cap punitive damages at three times compensatory damages and limit damages and lawsuits for wrongful termination. . . . New York-based **ITT Corp.** will be split into three distinct companies later this year after shareholders last week approved the move. The new publicly-traded companies will be: ITT Hartford Insurance; ITT Industries, consisting of manufacturing divisions; and ITT Corp., which will include Madison Square Garden and Sheraton Hotels. ITT assured retirees that their pension and medical benefits will remain the same. . . . The Occupational Safety and Health Administration has proposed **fining Samsung Guam Inc.** nearly \$8.3 million for 118 alleged willful violations of rules protecting workers from falls. **BI**

Reeve to succeed Willis Corroon's Elliott

John Reeve, managing director of London-based insurer Sun Life Corp. P.L.C., has been named Willis Corroon Group P.L.C.'s next

executive chairman-elect.

The announcement follows much speculation over who would replace current executive chairman **Roger Elliott**,



Mr. Reeve

who had previously announced his plan to retire at year's end (*BI*, July 17). It had been rumored that an outsider would be selected.

Mr. Reeve will assume his new post Nov. 1, but has already been appointed a non-executive director at Willis.

He will be appointed executive chairman on Dec. 1, when Mr. Elliott steps down.

Mr. Reeve will become a non-executive director of Sun Life, which he joined in 1988.

Also at Sun Life, **Les Owen**, currently chief general manager at Sun Life Assurance Society P.L.C., will become group managing director, and **Lord Duro** will become non-executive chairman.

Reinsurance

Paul J. Malvasio resigned as chief financial officer at NAC Re Corp. to take the same position at Risk Capital Holdings Inc., a Greenwich, Conn., reinsurance

Comings & Goings

concern that completed an initial public offering earlier this month (*BI*, Sept. 18). NAC Re named **John N. Adimari**—who is vp of operations at a NAC Re subsidiary, Greenwich Insurance Co. unit—acting chief financial officer, pending a search for a replacement.

Frank M. Johnson named vp-operations at Great Lakes American Reinsurance Co. in New York and **Gesela Brooks** named vp and underwriting manager.

Carol Franklin Engler, head of aviation department at Swiss Reinsurance Co. in Zurich, will become head of the human resources department on Oct. 1. Her successor is **Henry Buergi**, who recently rejoined Swiss Re from Winterthur Insurance Co., where he was head of the marine and aviation department.

Other suppliers

W. Benjamin Martin named senior vp/Eastern divisional manager of Lindsey Morden Claim Services Inc. in Atlanta. Also at Lindsey Morden: **Jim Girard** named vp-Pacific/Northwest divisional operations in Brea, Calif.; **Jerry Tilley** named vp-Central/Southwest divisional operations in Tyler, Texas.

James H. Scearcy named principal at Deloitte & Touche L.L.P. in Minneapolis. He will specialize in

providing actuarial consulting services to the health care industry.

Cathie G. Eitelberg named senior vp and director-government practice for The Segal Co. in Washington.

Dennis J. Fichtel joined Stone & Webster Management Consultants Inc. as director of consulting services with responsibilities for providing claims auditing services and safety program analysis in New York.

Robert L. Barrese named president and CEO of Boston Risk Management Corp., succeeding **Fred C. Church** who is now vice chairman. Previously, Mr. Barrese was senior vp and New England regional manager for Liberty Mutual Insurance Co.

David Ellender joined Alexander & Alexander Consulting Group as the health and welfare practice leader in Dallas. Previously, Mr. Ellender was the health and welfare practice leader at Watson Wyatt Worldwide.

Richard A. Goldman, former president and chief operating officer at Home Life Insurance Co. in New York, joined Tillinghast/Towers Perrin as a life and health practice consultant in New York.

Martin S. Cullen named vp and chief underwriter in the provider markets group division at Alden Risk Management Services in Miami. **BI**

Marilyn

Continued from page 1

age for businesses on the islands.

But "you cannot necessarily draw parallels," cautioned a PCS spokesman, adding that Hugo, which altogether caused an estimated \$4.2 billion in insured damage, was a stronger storm when it hit the Virgin Islands (BI, Oct. 2, 1989).

Mr. Chevres feared several clients' businesses—including supermarkets, shoe stores, hotels and a beverage supplier—were destroyed.

The strong category 2 hurricane unleashed 105 mph sustained winds on the U.S. Virgin Islands and part of Puerto Rico, with gusts up to 130 mph. St. Thomas had the most damage as the eye of the storm hovered over the island late Sept. 15, said a spokesman for the National Hurricane Center in Miami.

St. Thomas probably could be considered a total loss, the PCS spokesman said.

The Washington-based Federal Emergency Management Agency estimated that:

- On St. Thomas, 25% of the buildings were destroyed, 50% suffered major damage and the rest suffered minor damage.

- On St. John, 60% of the homes were roofless and 30% were destroyed.

- On St. Croix, 20% of the homes were destroyed.

- On the Puerto Rican island of Culebra, 100 homes were destroyed while 250 others suffered major damage.

"St. Thomas is very badly damaged, with up to 80% of all buildings, including substantial buildings, destroyed or very seriously damaged. The main deep water harbor of Charlotte Amalie has suffered very severe damage," said a report from London-based loss adjuster McLaren's. The scale of damage "is indicated by the 100-foot Coast Guard cutter which has been deposited in front of shops in the main street."

"I don't think anyone really knows the extent of the damage yet," said a loss adjuster with Toplis & Harding Inc. in Chicago. "Things were very chaotic after Hugo—this one was more of a direct hit," he said. "Some of the companies around when Hurricane Hugo hit are no longer players because of the damage."

Most of the Marilyn damage occurred on St. Thomas because development is concentrated and the storm built up strength, then basically stopped over the island for two hours, said Sedgwick's Mr. Chevres.

Insurers expected large claims but had few

details last week.

Lloyd's of London syndicates write about 23% of the property insurance on the U.S. Virgin Islands. Late last week, underwriters had no accurate damage estimate, a spokesman said.

Underwriters are setting up a reserve account at a Caribbean bank, though, said Jackie Hubbard, deputy underwriter Syndicate 1234, managed by Bankside Syndicate Management Ltd.

"It looks like it will be a lot worse than Hugo," said Luis A. Gomez, chairman and CEO of General Accident Insurance Co. Puerto Rico Ltd. in Rio Piedras.

Since Hugo, the insurer only offers structure insurance on private residences and has reduced the content and business interruption coverage it writes on the island, he said.

The company on Thursday was starting to use computer models to estimate claims but was unable to give an accurate estimate.

As a property insurer in the Caribbean, Mr. Gomez said his company is concerned by increased hurricane activity this year.

Another major property insurer in the region, Sun Alliance & London Insurance P.L.C., was not expecting "anything massive" from the active hurricane season, a spokesman said.

Though the increased activity has caught the attention of U.S. insurers (BI, July, 10), they may not be hit hard.

"I don't think it will have a direct immediate effect, because we have had a high number of hurricanes but a low number of landfalls," said Dean Flesner, vp of State Farm Fire & Casualty Co. in Bloomington, Ill.

The activity should serve as a warning to insurers that have experienced several decades in which the number of individual hurricanes has been relatively low, Mr. Flesner said.

It is too soon to tell how the storm activity will affect insurers, said the PCS spokesman.

PCS did not expect to release Marilyn damage estimates until this week but did assign a catastrophe number, meaning the storm was expected to generate at least \$5 million in insured damage and more than 1,000 claims.

Marilyn had threatened Puerto Rico, where insured risks are more prevalent, but instead followed a path similar to the one Hurricane Luis took earlier this month.



On St. Croix, one of the storm-wracked islands, a formerly poolside restaurant bore the brunt of Hurricane Marilyn.

"This one took a right turn and avoided us again, like Luis did. We have been very fortunate," said Mr. Chevres of Sedgwick.

Marilyn threatened San Juan at the same time that Typhoon Oscar was approaching Tokyo, and earthquakes struck near both Mexico City and Darwin, Australia, creating "potential for a significant situation" among catastrophe reinsurers, said Neil A. Currie, senior vp of Renaissance Re Ltd. in Hamilton, Bermuda.

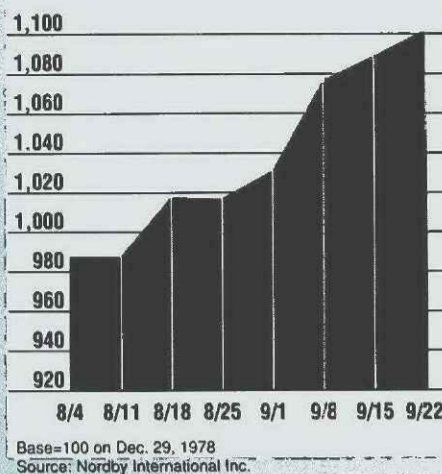
While the storms only brushed major cities, the busy hurricane season has served two purposes for cat reinsurers, said Mr. Currie. Psychologically, it reminds them of the prevalence of hurricanes and physically prepares them to deal with claims.

While Global Capital Reinsurance Ltd. has less exposure in the Caribbean than the coastal United States, "the very active season will be a very good reminder of the potential for a very big hurricane," said Larry Doyle, CEO of the Hamilton, Bermuda, company.

Despite the 13 recorded hurricanes this season, insurers can expect activity to continue through November, a National Hurricane Center spokesman said.

Sarah Goddard contributed to this report.

BI Insurance Index



Base=100 on Dec. 29, 1978
Source: Nordby International Inc.

Catastrophe insurance option call spreads

As of Sept. 15			As of Sept. 15		
Call spread	Rate bid/ask	Rate on line %	Call spread	Rate bid/ask	Rate on line %
Eastern September 1995			Western Annual 1995		
50/70	-1.7	-3.5	20p	5'	
150	-7.5	-10	50p	4'/-	
190	-0.8	-8	70p	5'/-	

Total volume: 56 Total open interest: 2,532
For quotes, call the CBOT trading floor at 312-341-3342. For general information, call 312-435-3674.

Source: Chicago Board of Trade

British Issues

Sept. 22	Price	P/E	Div.	Yield	1 week
Companies	pence		pence	%	high—low
Comm Union	609	12.2	33.0	5.4	617—609
Genl Accident	628	9.2	36.3	5.3	635—623
Gdn Royal Exch	228	N/M	10.3	4.4	229—226
Independent	350	9.7	11.9	3.4	350—34*
Royal	357	6.8	15.0	4.2	359—353
Sun Alliance	370	12.5	19.7	5.3	371—36*
Brokers					
Bradstock	45	5.0	7.1	15.6	49—45
Fenchurch	132	9.2	10.0	7.5	138—131
CE Heath	189	11.9	20.0	10.6	190—189
JIB Group	118	10.3	9.4	8.0	118—113
Lloyd Thompson	163	10.0	11.3	6.9	163—159
Lowndes Lmbt	154	8.6	10.3	6.7	157—154
Nelson Hurst	166	12.9	8.3	5.0	166—166
PWS Holdings	14	N/M	0.8	5.7	15—14
Sedgwick Grp	120	10.9	8.1	6.8	121—120
Steel Bri Jones	53	6.2	11.3	N/M	53—53
Willis Corroon	134	N/M	8.3	6.2	156—134

Source: Philip Olsen, London

BI Industry Stock Report SEPT. 18, 1995, THROUGH SEPT. 22, 1995

BROKERS	Price	Weekly % change	Year to date % change	Annual				P/E	Book value	Mkt/Bk value	Price	Weekly % change	Year to date % change	Annual				P/E	Book value	Mkt/Bk value					
				High	Low	Vol.(000)	\$ Div.							% Yield	High	Low	Vol.(000)				\$ Div.	% Yield			
Accordia Inc.	NYS	28	-1.32	-16.42	34.50	26.00	45	0.72	2.57	14	14.00	2.00	NAC Re Corp.	NDO	37	-1.99	10.45	39.00	24.25	73	0.2	0.54	15	18.23	2.33
Alexander & Alexander	NYS	24	-3.03	29.73	26.44	18.50	182	0.1	0.42	-11	19.17	1.25	National Re Corp.	NYS	33.875	-1.45	29.05	34.88	22.25	26	0.16	0.47	19	17.05	1.39
E.W. Blanch Holdings Inc.	NYS	19.625	1.29	-4.85	23.00	16.50	118	0.4	2.04	16	1.40	14.02	Navigators Group	NDO	16.75	10.74	15.52	19.75	12.75	80	0.00	0.00	120	10.21	1.34
Gallagher Arthur J. & Co.	NYS	35.5	0.71	10.94	38.00	29.63	43	1	2.82	15	6.4E	5.48	Nobel Insurance Ltd.	NDO	11.75	-1.05	42.42	12.13	8.00	20	0.2	1.70	5	6.84	1.12
Hib, Rogal & Hamilton	NYS	13.25	1.92	9.28	13.50	10.50	146	0.56	4.23	16	1.21	10.95	Ohio Casualty Corp	NDO	34.25	-0.72	21.24	35.00	27.00	269	1.52	4.44	14	23.64	1.45
Marsh & McLennan	NYS	88	4.61	11.04	88.00	71.50	1060	2.9	3.30	17	19.9E	4.41	O c Republic Int'l	NYS	29.25	1.30	37.65	29.75	18.88	112	0.52	1.78	11	25.79	1.13
Poe & Brown	NDO	24.25	-1.52	11.49	25.25	19.50	129	0.48	1.98	15	5.1E	4.71	Orion Capital Corp.	NYS	44.625	-1.11	26.60	45.25	28.13	36	0.92	2.06	10	26.00	1.12
BROKERS AVERAGE			0.4	7.3					2.5	12			Partner Re Ltd.	NDO	26	-2.80	25.30	28.38	18.50	1240	0.00	0.00	0	20.37	1.28
INSURERS/REINSURERS													Penn-America Group Inc.	NDO	10.875	-1.14	47.46	11.50	6.50	44	0.12	1.10	11	6.40	1.10
ACE Ltd	NYS	34.25	0.37	46.52	34.63	20.75	495	0.00	0.00	0	22.4E	1.53	Philadelphia Cons. Hold'ng	NDO	19.375	3.33	58.16	19.75	12.00	61	0.00	0.00	18	9.05	2.14
Acceptance Insurance Cos.	NYS	15.375	-8.21	2.50	18.00	12.63	479	0.00	0.00	11	10.7E	1.43	Phoenix RE Corp.	NDO	27.375	0.00	-3.10	29.75	21.00	273	0.6	2.19	5	21.27	1.39
AEGON N.V.	NYS	35.75	2.88	40.75	37.25	22.25	22	1.07	2.99	14	17.2E	2.07	Provident Life	NYS	27	-0.92	24.14	28.13	20.50	156	0.72	2.67	13	22.34	1.21
Aetna Life & Casualty	NYS	69.625	-1.24	47.75	71.63	43.13	2164	2.76	3.96	51	48.8E	1.43	Reliance Group Holding	NYS	7.25	-6.45	39.76	8.13	4.88	1113	0.32	4.41	11	3.42	2.12
AFLAC Inc.	NYS	41.125	2.49	28.52	44.75	31.63	1548	0.52	1.26	13	17.5E	2.34	Reliastar Financial Corp	NYS	40.625	-1.52	40.09	41.50	27.00	346	1	2.46	11	24.53	1.56
Allied Group Inc.	NDO	32.1875	-2.46	30.05	33.00	22.00	136	0.68	2.11	7	21.8*	1.48	Renaissance Re Holdings Ltd.	NDO	24.625	0.00	NA	25.38	20.72	213	0.00	0.00	0	NA	NA
Allmerica Prop. & Casualty	NYS	24.375	1.56	44.44	24.75	14.63	237	0.16	0.66	10	19.8E	1.23	R.I. Corp.	NYS	22.25	-0.56	35.67	23.63	16.00	27	0.52	2.34	11	20.51	1.38
Allstate Corp.	NYS	34.125	-5.21	43.68	37.25	22.63	5858	0.78	2.29	11	18.7E	1.82	S. Paul Companies	NYS	54.125	-1.59	20.95	56.25	39.38	1212	1.6	2.96	10	32.46	1.37
American Financial Group	NYS	30.75	-0.40	46.43	32.13	22.00	196	1	3.25	342	24.9E	1.23	SAFECO U.S. Corp.	NDO	64.125	-4.47	23.32	67.75	47.13	1214	2.12	3.31	12	44.95	1.43
American General	NYS	36.25	-5.54	28.32	38.88	25.63	1600	1.24	3.42	14	17.0E	2.13	SCOR U.S. Corp.	NYS	11.25	-3.23	34.33	11.75	7.50	14	0.2	1.78	14	13.60	0.33
American Heritage Life Ins.	NYS	20	0.00	5.26	21.50	16.25	19	0.72	3.60	11	12.5*	1.60	Seibels Bruce Group	NDO	0.8125	-18.75	-67.50	3.25	0.75	91	0.00	0.00	0	0.04	20.31
American Indemnity/Fin'l	NDO	11.5	9.52	13.58	12.75	9.00	10	0.3	2.61	7	15.9E	0.72	Selective Ins. Group	NDO	36.375	1.75	44.06	37.00	23.50	121	1.12	3.08	11	23.23	1.57
American International	NYS	84.25	0.75	-14.03	86.75	58.50	3074	0.34	0.40	17	34.6E	2.43	Spire Drake Holdings	NYS	18.25	0.00	31.53	19.13	10.75	47	0.00	0.00	0	13.86	1.32
American Re Corp.	NYS	41.25	-3.79	27.91	43.13	25.50	185	0.32	0.78	16	16.7E	2.46	T G Holdings	NYS	25.375	-6.69	35.33	27.00	17.00	446	0.2	0.79	20	16.62	1.53
Aon Corp.	NYS	39.625	-0.31	23.83	40.38	29.25	460	1.36	3.43	12	18.30	2.17	Titan Holdings, Inc.	NYS	15.75	5.00	61.54	15.75	8.25	53	0.3	1.90	12	9.04	1.74
Argonaut Group	NDO	30.125	-2.43	6.64	32.50	27.50	67	1.32	4.38	11	29.9*	1.01	Tokio Marine & Fire	NDO	53.25	-3.18	-12.35	62.25	49.88	36	0.4	0.75	47	57.72	0.92
AVEMCO Corp.	NYS	17.125	0.00	11.38	18.25	13.38	4	0.48	2.80	15	6.2E	2.73	Torchmark Corp.	NYS	41.125	-1.79	19.20	44.50	32.38	382	1.16	2.82	11	17.37	2.37
Baldwin & Lyons Inc.	NDO	14.875	-4.80	0.85	17.63	14.50	0	0.32	2.15	12	13.9E	1.07	Transatlantic Holdings	NYS	68.25	-0.73	22.15	70.38	47.75	204	0.4	0.59	13	33.30	2.35
Berkley W.R. Corp.	NDO	44.625	-4.93	19.00	47.00	32.50	676	0.48	1.08	21	34.4E	1.29	Transnational Re Corp.	NDO	23	-8.91	-2.13	26.38	18.75	206	0.00	0.00	7	18.84	1.22
Berkshire Hathaway Inc.	NYS	299.00	2.75	46.57	306.00	182.00	1	0.00	0.00	71	10089.1*	2.96	Travelers Corp.	NYS	50.25	-4.74	55.21	53.25	30.38	3911	0.8	1.59	12	24.77	2.33
Capital RE Corporation	NYS	29.75	2.59	8.68	30.00	20.50	25	0.2	0.67	11	22.30	1.33	Trenwick Group Inc.	NDO	51.8125	1.59	22.27	52.50	38.50	260	1.12	2.16	13	29.23	1.77
Capsure Holdings Corp.	NYS	13.625	0.00	-6.84	14.88	12.13	43	0.00	0.00	13	14.6	0.93	United Fire & Casualty	NDO	36.75										

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